

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS - FINANCIAL ADVICE SECTOR

Australian Finance Group Ltd (AFG)

AFG03QON

Mr FALINSKI: Do you have examples where people have gone and got mortgages without the benefit of a broker or adviser and when they have come to see you, what sort of savings or what sort of benefits have arisen through getting expert advice?

Mr Hewitt: Yes, we would have examples of that, that we gathered during the Royal Commission that we could share if required.

Mr FALINSKI: Well, I think it would be very beneficial to the committee if they were actually shared because it is the other side of the story, is it not?

Mr Bailey: That is correct. I was talking to a broker who, as an example, two weeks ago, when COVID struck, started working through his customer and client list and generated annual savings of about \$60,000, \$70,000 for those customers through just negotiating a better rate with the customer, based on what was available in the marketplace. There are lots of stories about that, so we are happy to try to send those to you.

Answer:

A sample of this type of information was collected from AFG's mortgage brokers to fulfil a request from the Productivity Commission for their 2018 *Competition in the Australian Financial System Inquiry*. The document, AFG03.1QON, is attached. In more recent times, the support brokers provide to their clients has never been better illustrated than during the COVID-19 pandemic. This period has seen brokers experience a significant influx of requests for assistance to help their customers find savings on their home mortgage repayments. Our data has shown refinancing activity as a percentage of our business has increased from 27% in the December quarter to 36% last month, as brokers helped borrowers strengthen their positions. In addition, banks closing branches due to the pandemic and redirecting call centre staff towards dealing with hardship cases has meant that brokers have been spending considerable time working through the options for clients affected by job losses or wage reductions.

Thank you for the opportunity to provide further information about the positive consumer outcomes mortgage brokers deliver. The sample below is simply a small snapshot of some of the work that is being done by brokers to assist their clients. It is AFG’s contention that mortgage broking promotes competition by playing a valuable role in providing a distribution channel for lenders, particularly smaller lenders, and exerting downward pressure on home loan pricing. The benefits to consumers is evidenced by the below examples.

Customer, lender and broker names have been redacted, however AFG and our brokers can provide many further examples if required and invite the Productivity Commission to speak with any of the brokers who have provided the evidence below.

Broker commentary provided to AFG March 2018.

I have two part time staff (both ex bank staff) working though interest rate reviews on all clients.

Clients have no idea we are doing this work until we send them the interest rate review results. No bank will ever review a client’s interest rate, it clearly is not in their interest.

It is very clearly in our interest to do this for our clients. We want all clients to be on the cheapest rate as possible and we want clients talking about us and what we are doing. We are proactive and not reactive.

We clearly get paid a trailing commission and you know I’m a very big believer that we need to do this ongoing work for all clients.

Extract from email to client:

The table below provides details of the new reduced rates and the estimated interest savings you will make as a result (based on last available balance).

Lender	Account Number	Existing Rate	New Rate	Estimated Interest Savings
		5.16%	5.07%	Zero balance
		5.26%	5.07%	\$1648.35 per annum or \$137.35 per month
		5.26%	5.07%	\$3444.90 per annum or \$287.10 per month

Your total interest savings are \$5093.25 per annum or \$424.45 per month.

The new rates will be applied to your loans within 10 working days. You will receive a letter in the mail from [lender] within 15 working days to confirm this. Once you have this letter, please telephone our office or email a copy of the letter to us so that we can confirm the new rates are correct.

This interest rate reduction is a result of the regular interest rate reviews we conduct on your loans and the contact we made with your lender as a result. Looking for opportunities to help you save on interest is an important part of our ongoing service to you.

Status/event: Unconditional Approval
Loan Amount: \$740,000.00

This was formally approved at 4.24% down from advertised rate of 4.54% with their Package. We requested online pricing and advised couldn't get better. Due to being on webinars with the lender of late and knowing of extra discounts I continued to have the conversation about obtaining a better rate and we will now be able to get 3.94%. This will be applied after settlement, so the client will be delighted that this will be even lower than what they anticipated.

Example of a loan having a significant win for the client from not only a cost perspective but also getting his life back on track with his own home.

Purchase price: \$800K
Loan total: \$760K
LVR: 95%
MI waived: \$38K savings to client

Loan finalised:
\$120K P&I repayments 2 years: 15%
\$640K IO reverting to P&I being 80% portion of the proposal

Client was at the time finalising a divorce and had the 5% deposit plus stamp duty but didn't have the MI fee of \$38K.

This client had a strong income and serviceability being very strong resulting in this proposed structure being approved by the credit department. At the time I also managed to obtain a 1% discount off the standard rate.

Client was new to Bank and was advised that funders do not offer loans without Mortgage Insurance from his normal Bank by the Banks' lending staff.

Savings summary

We have worked with 435 clients over the past 2 years with a total saving per annum of \$232,385. This has been through our pro-active approach with our clients (this is not including any refinances).

Month and Year	Number of priced accounts	Approximate Savings
Jan-16	28	\$ 18,042.16
Feb-16	10	\$ 4,290.91
Mar-16	30	\$ 19,247.78
Apr-16	29	\$ 24,358.82
May-16	17	\$ 16,827.06
Jun-16	30	\$ 17,848.35
Jul-16	35	\$ 16,993.60
Aug-16	15	\$ 14,738.28
Sep-16	23	\$ 9,610.73
Oct-16	18	\$ 3,524.66
Nov-16	10	\$ 8,968.88
Dec-16	37	\$ 8,666.55
Jan-17	18	\$ 10,560.00
Feb-17	15	\$ 3,294.00
Mar-17	15	\$ 1,439.00
Apr-17	10	\$ 4,681.00
May-17	13	\$ 4,751.58
Jun-17	6	\$ 11,706.02
Jul-17	15	\$ 1,768.45
Aug-17	17	\$ 7,770.17
Sep-17	8	\$ 2,744.20
Oct-17	13	\$ 3,933.30
Nov-17	17	\$ 11,782.83
Dec-17	6	\$ 4,837.37

Examples of emails from broker to clients:

There was an opportunity to secure a 1.38% discount with [lender] for your existing accounts. This will provide you a current effective variable rate of 3.97% on your Owner-Occupied Loan. Kindly note that 1.38% will be applied on account [number] upon fixed term expiry on [date].

The improved rate will save you approximately \$4,921 every year based on your current debt balance of \$1,704,929.

We wished to share with you the great news that we have identified an opportunity to improve your interest rate with [lender].

For reference, we have prepared a spreadsheet below that displays the improvements made on your accounts.

Current loan balance	Previous rate	Current rate	Approximate savings (p.a.)
\$322,942.13	4.22%	4.02%	\$645.88
\$425,150.00	4.42%	4.02%	\$1,700.60
\$323,938.00	4.07%	4.02%	\$161.97
Total Approximate Savings (p.a.)		\$2,508.45	

Current loan balance	Previous rate	Current rate	Approximate savings (p.a.)
\$427,827.47	5.24%	5.03%	\$898.44
\$160,995.28	4.77%	4.56%	\$338.09
\$170,367.44	4.22%	4.01%	\$357.77
\$183,100.94	4.22%	4.01%	\$384.51
\$364,749.08	4.77%	4.56%	\$765.97
Total Approximate Savings (p.a.)		\$2,744.78	

Examples of savings achieved by brokers

Refinance & Purchase – total loan size \$1,684,000

1. Refi: they were paying 5.16% on \$822K of investment lending with [lender]. We obtained rate of 4.19% saving roughly \$7,000 of interest p.a.
2. On the purchase side of the deal we manage to obtain a 1.50% discount, which was 0.80% more than the advertised interest rate from [lender]. This meant a savings of over \$5,000p.a. in interest (4.52%-3.72%).

Purchase – Loan size \$413,900

1. Utilised the medico policy allowing him to purchase his OO home with no LMI – estimated saving of \$7,900 in LMI.
2. Obtained pricing of 1.25% which equated to a saving of approximately \$2,500p.a. in interest (4.62%-3.97%).

1. [Customer], saved them \$7K in LMI. Existing [lender] clients couldn't do a pre-approval for an investment purchase there, given deal was over 80%, took it to [lender] as they had quick turnaround times at the time, asked the clients to negotiate a longer settlement at auction, they did and I had time to look at other lenders, do a new valuation and save the client \$7K in LMI.
2. [Customer] was able to secure a very big discount for them, normally 0.7% we were able to secure 1.45%

[Customer] – \$555K loan – refinance from 4.69% to 3.64%

[Customer] – FHB – purchase – \$330K loan – 1.30% off the SVR rather than 0.80% that is normally offered

[Customer] – Relocation loan – \$785K loan – 1.40% off SVR off the purchase + did relocation loan so he doesn't have to pay LMI as that is what [lender] had suggested to do

[Customer] – Purchase - \$589K loan – 92% LCR – 1.40% off SVR + 0.21% off fixed loan

[Customer] – Purchase + Refi – \$600K total loan – 1.41% off SVR

[Customer] – Purchase – FHB – \$325K loan – 1.36% off SVR + 0.35% off fixed loan

[Customer] – Bridging loan – \$400K loan – 1.40% off SVR

[Customer] – Purchase – \$330K loan – 1.36% off SVR & 0.35% off fixed loan

[Customer] – Purchase – \$347,500 – 1.35% off SVR

LMI Waiver

[Customer] – Medico waiver at [lender]

Comments

Negotiated additional loan application rebate at lender for \$300 off the carded loan application fee.

Home Loan \$270,000, rate approved 3.89% (0.45% better than carded) Investment Loan Interest Only \$285,000 Rate approved 4.75% (0.65% better than carded) Investment Loan Interest Only \$235,000 Rate approved 4.75% (0.65% better than carded).

Investment Loan P&I, \$1,898,000 Rate Approved 4.24% (0.65% better than carded).

Home Loan P&I, \$325,000 Rate Approved 3.84% (0.60% better than carded).

Clients have been mistreated by local branch lending manager and real estate agent. Nearly lost \$25,000 deposit after declined by local branch and were struggling to find deposit to build. Helped clients settle the property by restructure of their finance and avoid unnecessary LMI up to \$15,000. Rates are far more competitive compared with previous lender.

Got him 1.48% off SVR and no LMI up to 90%. Was long time [lender] client but moving everything to [lender].

Obtained a pre-approval of \$855,000 to purchase a property of \$950,000 (90% LVR) from [lender] without LMI as the male applicant is an accountant with an annual salary of \$150,000. A saving of \$24,453 for the customers.

Obtained an interest rate discount of 1.41% for a total lending of \$520,000 from [lender].

Existing customer I called to touch base, found how [lender] jacked his interest rate from 4.78% to 6.2% submitted for pricing and got it lowered to 4.54% IO. Good win - saving him a \$8K a year (loan size \$800K).

Second one refi from [lender] waving package fee and negotiated lower rate from 4.1% to 3.84%.

[Lender] got package fee waived and \$600 cash back for the customer which wasn't advertised, but I got it due to how painful the [lender] process is.

Instead of NO discount (customers rate of 6.26%) I have managed to get a MASSIVE discount of 1.7%, bringing rate down to 4.56%, loan amount is \$2,780,000 representing \$4,726 discount for the customer per annum.

Instead of 3.79% (1.41% discount I have managed to get discount of 1.47 bringing rate down to 3.73%) a loan amount \$1,177,000 which will save customer additional \$706 every year.

Got this one discounted by 52bps.

1% discount.

1.3% discount.

Client purchased off the plan property on 17-12-2015 for \$1,160,000.00+ \$21,000.00 (Variation). He came to my office on 6-01-2017 with approval from [lender] where he was paying approx. \$30K LMI on 90% LVR. He was looking for a better option. I ordered Valuation from [lender] and Valuation came in at \$1,250,000.00 which was \$69,000.00 higher than original contract price. I have submitted loan with [lender] with new LVR and client paid new LMI of \$14,912.90 where client saved approx. \$15,000.00.

Negotiated 1.41% discount.

1.37% discount.

1.3% discount.

1.41% discount, (additional 0.51) on investment lending.

1.21% and 1.3% discount.

1.22 and 1.28% discount (numerous apps).

1.4% discount.

1.17% discount.

1.26% discount.

1.1% discount.

1.3% discount.

Special pricing concession of 1.21% off the SVR (5.20%) for \$695K loan ([lender] advertised discount .90% off SVR over \$500K). Resulted in customer getting rate of 3.99% Variable, rather than 4.30%.

Specific examples from brokers

Clients have been existing long-term clients of [lender] for both their residential and commercial debt needs. They were purchasing a new commercial block of land and when they initially approached us for assistance in obtaining funding, they believed that [lender] was the path of least resistance and importantly that [lender] would also honour their loyalty by providing attractive rates and terms. As part of the investigation into their existing facilities, it was plainly evident that [lender] had been charging rates well in excess of what should have been easily achievable if they were "new to bank" clients, instead the lender apathy around the relationship had them being charged approximately \$4k p.a. in fees across all of their facilities. As part of our broking service we were able to renegotiate all existing interest rates (without refinancing any of the debt - i.e. incurring no financial benefit to our company - no upfront or trail), renegotiate the existing fees to the tune of a reduction of \$2400 p.a., and secure a new loan on much more attractive terms than [lender] initially offered us when we made preliminary inquiries for the debt. The entire loan package was offered to [lender] who have extremely attractive commercial and residential rates/fees and they were able to conditionally approve the loan on a package that would have saved the borrowers approximately \$35K (rates at [lender] were on average 0.4% cheaper than [lender] across \$2.3M in total exposure) over a 5 year period. The alternate offer from [lender] is what was used to create leverage with [lender] to have them offer significantly more attractive terms to retain the business. As is generally the case with most borrowers, price is not always the primary driver of their decision and convenience is always high on their list of priorities. By having the market intel to offer the cheaper [lender] product and then use this to the borrowers advantage by having [lender] sharpen their pricing, even though more expensive in the long term than [lender], the borrowers chose to stay with [lender], which was also our recommendation in light of the convenience attached to other commercial trading facilities that were in place. As a business, it would have been a significantly more attractive option, from a commission perspective, to have refinanced all existing debt across to the new lender plus place the new loan with that

provider. Instead we were integral in applying unwanted pressure to the long held relationship at [lender] (which created animosity at the bank as we were squeezing their margins) that ended up reducing existing rates at the bank of an average of 0.3% on ongoing debts plus the above stated fee savings.

3/26/2018 9:35 AM

Reducing the interest rate by 1.15% a saving of \$284 per month. The client is following my advice and is paying the \$284 additionally into her mortgage. She will save approximately 6 years on her mortgage.

3/25/2018 2:41 PM

HARDSHIP ASSISTANCE AND RATE RENEGOTIATION WITH EXISTING LENDER: the client experienced medical issues resulting in financial hardship. I met with the clients, helped them break down their living expenses and prepare the information to liaise with the bank on their behalf. Due to the client's particular health issues she found initial conversations with the bank overwhelming and requested that I be authorised to conduct all dealings with the bank on her behalf to negotiate a repayment holiday to allow her to recover. The process of securing the initial relief took 3 to 4 phone calls of between 30 minutes and an hour each including hold and wait times while the bank worked through information. We also had to provide a high volume of information, breakdowns, and budget calculations. The arrangement had to be revisited every 6 weeks, requiring more of my time to provide the information required by the bank. At the end of the relief period, I spent a significant amount of time negotiating the bank's somewhat unreasonable expectations of how quickly the client could get up to date into a more manageable arrangement. The bank's process was cumbersome and, in many instances, not particularly compassionate. I shielded the client from as much of this as possible allowing her the space to recover without the risk of losing her home. Please note that during the time of the negotiated "repayment holiday" my trail commissions were suspended and were not paid back to me once the loan was back on normal terms, so it cost me both in time and lost income to assist the client in achieving a good outcome. Subsequent to this period of assistance, I at annual reviews renegotiated the client's interest rates with the bank increasing their discount from the original discount of 0.75% (taken out during a period in 2012 where banks were not competing hard on price) to a discount of 1.15% saving the client approx. \$1,629 per year.

3/23/2018 3:46 PM

ANNUAL REVIEW - FURTHER SAVINGS NEGOTIATED WITH EXISTING LENDER: Annual review for existing client. Helped them understand the changes to investment lending and IO loan pricing. Calculated repayments if they switched now vs at the end of IO term along with savings of switching to P&I. Helped them work out how much extra would need to be allowed for beyond current IO payments each month. Helped them check which offset accounts were linked to which loans to ensure they didn't have any offset balances in excess of the loan balance. Negotiated retention pricing for them, and extra discount of 10bps negotiated which

saves them a further \$820 per year whether they switch to P&I or not. Based on calculations provided, client confirmed they were happy with the cashflow impact of switching to P&I and by doing so we were able to help them save a further \$3740 per year. Total savings to client going forward per year are \$4560. This is on top or higher than advertised discounts negotiated for the client when the loans were taken out 3 years ago of 1.25% of SVR vs advertised 0.7% off SVR. This has saved the clients approx. \$4669 per year for 3 years. Historical saving \$14,008 (3yrs) excluding further savings negotiated in 2018. Note - no upfront was payable to us for this, it was done as part of our ongoing service paid for by trail on the loans.

3/23/2018 3:42 PM

Client was an existing [lender] customer and were not receiving sufficient discount. I applied for pricing discount and saved the customer \$3K p.a. in interest. There was no payment to me, and the client was happy as he did not have to switch lenders.

3/23/2018 3:40 PM

Recently reviewed the clients existing loan Pt Folio at his current bank and advised based on the current changes in the market relating to Interest only loans and Investment we could look at fixed rate options and Principal & Interest repayment's as an option to help reduce current rates, improve cash flow, and reduce debt quicker. After reviewing his current loans and opting to look at fixed rates with a P&I Conversion estimated savings forecast are approx. \$12,000 per annum! Great client outcome with fee free service by broker. I went to his workplace to review and discuss, and no fees' or charges were incurred by the client by me as the broker for this service.

3/23/2018 2:58 PM

I recently negotiated 81 bps off the [lender]'s carded Investment IO Variable Home Loan Rate (xxxxx Package) where the advertised offering was 5.40%. As such, the variable interest rate that the clients will pay is now only 4.59%. These clients are existing customers of [lender] but they saw the value in engaging a broker to complete these negotiations and submit this new debt. Additionally, I renegotiated their existing IO loans to better interest rates as they were rolling out of fixed terms. Instead of rolling to the advertised offering of 5.40%, these other three loans now enjoy the same interest rate of 4.59% that was obtained for the new loan. It's worth noting that there is no payment to myself for this latter task. This is purely servicing my client and obtaining the best outcome I can for them, whilst recommending remaining at their existing bank.

3/23/2018 2:00 PM

If the goal of the Productivity Commission is to ensure consumers are protected and receive better outcomes, then the below Credit Industry Ombudsman statistics confirm that is the case with Mortgage Brokers. <https://www.brokernews.com.au/news/breaking-news/we-dont-get-a-lot-of-broker-complaints-cio-241256.aspx> Specifically, the CIO reports that there are 760% more complaints about residential lenders than about mortgage brokers. I can personally state that in 25,986 loan applications by my business from 2002 to today, we have never been found at fault in a CIO complaint. This is despite us providing all our clients with their CIO complaint options with every application. I am our Internal Complaints Resolution Officer. Only around 6% of complaints sent to the Credit & Investments Ombudsman (CIO) relate to brokers and aggregators with disputes much more likely to stem from residential lenders. "Funnily enough, we don't get huge amounts of broker complaints. In respect to statistics, it's probably on a much lesser end," said Danielle Gewerc, CIO senior manager of dispute resolution, during a mortgage broker Q&A session at the CIO's Dispute Resolution Conference 2017 in Sydney on Tuesday (12 September). In comparison, 46% of CIO complaints are about residential lenders, she said. This figure is even more surprising given that mortgage brokers have to deal with residential lenders in order to provide their service, meaning that mortgage brokers are often included in complaints due to the errors of residential lenders. The rate is lower because we regularly identify and resolve lender errors ourselves because we are directly accountable to our clients.

3/23/2018 12:18 PM

Negotiated a better deal for a customer by refinancing from a big four bank to a regional bank. The rate was 1.5% better with interest saving of \$3,825 in first year.

3/23/2018 7:40 AM

New client: on 4.65% variable rate IO loan with [lender]. On advice of financial advisor - going to switch to P&I repayments on an IP loan and fix for 2 years (due to lower rates for P&I and volatile pricing in the market for IP loans). [lender] had a good P&I 2year fixed rate of 3.89% (lower than the rest of the market by at least 0.20%) however, valuation came in \$50K too low to refinance without LMI costs. Therefore, went back to [lender] and negotiated a decrease in customer rate to switch to P&I repayments. Obtained a rate of 4.33% - [lender]'s advertised rate is 4.81%. Discount of 0.32% off her current rate (and 0.48% off [lender's] advertised rate).

3/23/2018 6:59 AM

Client has an established relationship for the past 7 years with my office and purchases property investments regularly, the most recent with other family members in September 2017. During the whole 7 years, there has been 6 properties funded and communications constant during that time for structure, product specifications, area reports, income vs expense reports, asset growth reports via RP data/price finder, not to mention generic questions which require time given the complex nature of the client's lending. Without the trail income, there is no way to compensate the cost of time to research for the clients, the emails and

phone conversations, the use of internet charges/phone charges and stationery charges to recoup costs. Should also mention, that as they have sold property, I have been claw backed upfront income without compensation and lost 100% of what was paid for the loan initially - the ongoing trail accommodates the service cost to these clients and clients on my loan book.

3/22/2018 3:27 PM

Clients were paying over 5%'s for their owner-occupied loans with [lender], all set at interest only, so nothing was being paid off the balance. I negotiated a deal with [lender] that allowed the client to pay exactly the same in repayments to [lender] as they had to [lender], but with half of their \$420K mortgage now on P&I repayments. On top of this, all three splits that the client requested were priced sub 3.8%'s. Massive saving for the client.

3/22/2018 7:54 AM

Client had lending facilities of >\$750,000 with a major bank. The facilities were interest only variable rate of 5.60%. I discussed the impact of I/O loans and assisted comparison with P&I facilities. His current lender told him he could not switch loan products until the end of his I/O period (another 8 months). This was untrue. I assisted with loan variation and switch to P&I facility and negotiated a discount rate of a further 0.25% under their advertised rate. The end result for the client was an interest saving of around \$9,700 per annum and loan facilities where the principal is now being paid down.

3/22/2018 7:48 AM

[Customer] were recently contacted by their mortgage broker as the fixed interest rate on their home loan was due to expire. During their conversation [customer] mentioned that the new interest rate being offered by their bank was 4.26% p.a. Their mortgage broker informed them that 4.26% was not low enough as the same bank was offering even lower rates to new clients. Our clients were happy for their broker to negotiate with the bank on their behalf, and they were absolutely thrilled when their broker informed them their home loan interest rate had been reduced from 4.26% p.a. to 3.75% p.a., which saved them an additional \$2,682.00 p.a. (i.e. \$223.00 per month).

Q: How much did this cost?

A: Nil \$

Q: Did [customer] need to refinance their home loan to a new bank?

A: No

Q: How?

A: Their mortgage broker proactively assisted [customer] and the costs for the hours of work incurred by the broker were covered by the trailing commission. Please note that 40% - 60% of working hours each week relate to the ongoing support and guidance for existing clients for which the sole source of remuneration to cover the mortgage broker for the costs of these services are the trailing commission. On many occasions the cost involved with servicing a client will exceed the trailing income derived from that client's loan facility, however this shortfall is covered by the trailing commission derived from other clients whose ongoing servicing requirements do not exceed the trailing commission derived from their loan facility. Without trailing commission, the mortgage broker would be forced to pass on the significant costs of the ongoing service and guidance to the their clients on a "user pays" basis which would result in the vast majority of borrowers not seeking ongoing support and guidance from their mortgage broker. Without low cost access to this "professional support" borrowers would undoubtedly incur higher interest rates and not have access to guidance from an experienced finance professional who can assist them with the appropriate loan facility plus lending structure plus interest rates to accommodate their specific circumstances and requirements.

Negotiated a discount of an additional .40% of the standard discount from [lender] under their Professional Package on an existing loan established several years ago, with no further borrowings, NO Commission received, this was just one of my annual reviews. This is the reason I get paid trail.

3/22/2018 7:59 AM