

# SUBMISSION 11



Australasian  
**Compliance**  
Institute

July 24, 2007

Andrew McGowan  
Inquiry Secretary  
House of Representatives Standing Committee on  
Economics, Finance and Public Administration  
Parliament House  
CANBERRA ACT 2600

## INQUIRY INTO HOME LOAN LENDING PRACTICES AND PROCESSES

Firstly, on behalf of the members of the Australasian Compliance Institute (ACI) let me thank the Committee for extending an invitation to ACI to participate in the Round Table due to take place on August 10, 2007 at Parliament House.

ACI is a professional body recognised as one of the global leaders in the promotion of compliance, ethics and good governance. Our members span the spectrum of regulators, corporations, professionals and academics. We operate across all compliance issues from Securities, Consumer Protection, Finance, Tax, Occupational Health & Safety and the Environment. At present we have approximately 2,000 members with some 60% coming from the financial services industry.

ACI has been requested to provide a brief overview of the key points it would like to raise during the course of the round table should time not permit all participants to fully express their views during the day.

Our key points are as follows;

- ACI believes an anomaly exists between those individuals who are permitted to provide financial services advice within the context of the financial planning, wealth management and insurance broking professions and those engaged in the provision of credit to consumers in their role as either mortgage or finance brokers.
- This anomaly exists because under the current financial services legislation (see regulation 7.1.06 for the definition of a credit facility), the provision of credit is not treated as a financial product and as a consequence those people engaged in the supply of credit to consumers are not governed by the same licensing and education requirements as those who are covered by ASIC PS146.
- As a result, anecdotal evidence has suggested those who could not or would not meet the requirements established by PS146 have moved from financial planning and insurance broking into mortgage and finance broking.
- In addition, a proliferation of mortgage brokers have entered the market and promoted mortgage broking as a franchise opportunity for those wishing to start their own business. Not all who have taken up this opportunity come from a financial services background.

## Foundation Members



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Level 2, 50 Clarence Street, Sydney NSW 2000 | GPO Box 4117, Sydney NSW 2001 | Ph 02 9290 1788 | Fax 02 9262 3311 | [www.compliance.org.au](http://www.compliance.org.au)



- As the number of mortgage broking firms have increased, the only way they have been able to obtain or protect their market share and meet promises made to new franchisees is to write more new home loan business. Anecdotally, ACI believes that market share has become a higher consideration for some mortgage brokers than customer affordability, and therefore there is a link between the increase in the number of new loans being written and a reduction in the rigours surrounding previous lending criteria.
- ACI also believes that in recent years there has been an increase in the numbers of providers of sub-prime lending, especially around the purchase of automobiles and other significant household items. Once again, ACI is of the opinion that the exclusion of credit as a financial product has led to this development and this also poses a risk to the ability of financially vulnerable households to service financial debt.
- If we place the impact both superannuation and home lending has upon total household income it is very surprising to see how tight the restrictions are for those who provide financial planning advice versus those who provide home loans. That is, in order to provide financial services advice of a personal nature, a financial planner must be PS146 accredited, however for the average Australian, superannuation only accounts for approximately 9% of their total income. However, based upon recently released research, mortgage repayments can account for between 30 to 40% of total household income, however no such training or education requirements exist for those who provide or sell mortgages.
- Finally, while not a central focus of this enquiry, ACI would like to draw to the attention of the Committee a relatively new development within the context of home lending; that being the Reverse Mortgage. As Australia's population continues to age and Australians find themselves asset rich and cash poor, the temptation to draw upon the equity in their homes will increase as they strive to maintain their current lifestyle. Especially for those Australians who have not had a full working lifetime to accumulate the superannuation they require to retire on. ACI believes it is essential for the Government to address this issue now by placing proper controls on those individuals and firms who are able to advise homeowners about making use of these products.

If the Committee would like any further information about ACI and its members or any clarification on any of the issues raised in this submission, please feel free to contact our office on (02) 9290 1788.

We look forward to making future contributions on this significant issue.

Sincerely,

A handwritten signature in blue ink, appearing to read 'M. Tolar', is positioned above the printed name.

Martin Tolar

Chief Executive Officer