SUBMISSION 60

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Helping People through Finance

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Standing Committee on Economics

Mr Craig Thomson MP
Chair
Standing Committee on Economics
PO Box 6021
House of Representatives
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Mr Thomson,

Inquiry into competition in the banking and non-banking sectors

I have seen the standard letter being sent to a whole range of members but I thought I would add my voice as perhaps one of the more qualified mortgage brokers operating than the standard letter.

Mortgage brokers do play a critical role in maintaining a competitive mortgage market. I would have thought it obvious that the major banks in particular do not have the interests of their clients in front of mind, they are focused on shareholders and executive management interests. The US sub-prime crisis is a classic case in point, it has been the lenders with all their resources and knowledge that have put global financial markets at risk. Perhaps the Senate enquiry will show that it was lenders who offered NINJA loans, who did not do their due diligence and chased the volumes. I understand that some mortgage brokers are complicit in this as they were the medium for some of the loans written but brokers do not develop the products or the lending policies.

In the Australian market, the major banks have taken the opportunity to raise interest rates above the RBA cash rate on the basis of inter-bank lending margins increasing. Do they also highlight they also benefit from these themselves and that record profits are being generated? It is the non-bank lenders that borrow from the majors that are being forced out and competition eroded. It is not a major leap of logic to see lower competition resulting in more predatory bank behaviours.

I think it is beneficial that the Federal Government regulate the mortgage broking industry to enhance consumer confidence and not undermine competition between broker services and both bank and non-bank lenders offering their own branded products direct to borrowers.

Borrowers from either bank or non-bank lenders will benefit from an efficient, competitively neutral mortgage broking regulation regime which provides them with appropriate consumer protection without adding unnecessary costs to brokers and, ultimately, to borrowers.

Brokers can and should offer a service of comparisons whereas bank branch loan officers only offer their own banks products. Trying to reduce or eliminate brokers reduces competition on lenders to offer competitive products. I well know in the one of the two markets I operate in, banks do not offer a competitive product and it is a significant cost to the consumer. I help seniors and the level of knowledge required is significant and a normal bank staff member just does not have this. Seniors who take on a reverse mortgage from a bank branch are severely penalised through the higher costs. I also understand most brokers do not have sufficient knowledge either which is a separate issue.

The main issue I see is requiring brokers to determine a clients borrowing capacity. We just do not have the capacity or the resources to do that nor can we check credit files for privacy reasons etc. Each lender has their own criteria for assessment. We, as brokers, cannot be expected to run capacity against each lender. I agree that we should review documentation to make sure it is consistent and not fraudulent to the

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best of our ability but we get paid a small sum for the work we do. The lenders are reducing brokers' commissions yet requiring us to do more of their work. I see this push as lenders further passing the buck (and potential blame and litigation costs) to brokers if a loan falls over. In terms of lender versus broker responsibility, reflect on the issue of credit cards and increases. These come unsolicited from lenders without any check on repayment capacity. Where is the responsibility?

People who need low doc loans, like small business operators and families relying on part-time and casual employment, or for my second target market, investors, they would be denied the services of a broker to help them choose the best loan amongst competing products if we had to assess capacity. I think you need to understand the market and research the facts. My understanding from presentations by mortgage insurers, there is a much lower risk of investors who use low doc loans of defaulting than the normal mortgage market. Lenders and mortgage insurers are much better placed to understand the products they offer and price the perceived risks accordingly and assess the clients' capacity.

The provision to give borrowers the right to seek a stay of enforcement of their mortgage against the lender if the borrower has a dispute with their broker is subject to abuse by somewhat unethical lawyers chasing business. This interference with lenders' security will increase the risk premium required by lenders resulting in higher interest rates, increase the premiums on Lenders Mortgage Insurance paid by first home buyers and increase Professional Indemnity Insurance premiums paid by brokers thereby increasing the cost of broking services.

The third defect is the substantial increase in documentation that must be produced by a broker. This would provide little of value to homebuyers but significantly add to their costs. It is important not to repeat the mistakes with Financial Services Regulation that added so much to costs that many people were priced out of the market for advice from financial planners.

I believe that regulation is desirable to ensure high standards of service to borrowers and to provide a mechanism to remove from the industry any operator who is incompetent or dishonest.

An effective and efficient regulatory regime should require brokers to:

- be registered;
- have appropriate qualifications and experience, such as a Certificate IV in Financial Services (Finance/Mortgage Broking) or equivalent;
- enter a written contract to act on behalf of the borrower, specifying the type of loan sought and setting out the broker's remuneration and show the panel of lenders used;
- hold adequate professional indemnity insurance; and
- be a member of an external dispute resolution scheme to give borrowers access to an inexpensive and efficient mechanism for resolving complaints.

It is critical that mortgage broking regulation not add unnecessarily to costs as that would reduce the competitiveness of lending arranged by brokers and allow the banks to increase their margins on direct lending.

Yours faithfully

Greg Reid
Director
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