

# SUBMISSION 53



The

# Money Tree

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Mr Craig Thomson MP  
Chair  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600



Dear Mr Thomson

## RE; competition in the banking, broker & non-banking sectors

Mortgage brokers play a critical role in maintaining a competitive mortgage market because they subject every loan they originate with either a bank or non-bank lender to independent price scrutiny and comparison with competing products.

This process continuously puts pressure on lenders to offer homebuyers competitive rates and loan features on new lending. It is therefore critical that the Federal Government, for the sake of the Australian consumer, do not undermine fair competition between brokers and bank.

As a finance and mortgage broker in WA my business is to help people scour the market and find a competitive loan that suits their needs. I have been doing this for ten years, so I do speak from a knowledgeable point of view.

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

The Broking regulation proposed will require brokers to disclose the fees and commissions they receive for broking a loan. To have a fair and competitive market, bank staff arranging loans direct with a borrower should be required to disclose their income and any incentive based remuneration they will receive from selling a mortgage or other financial products related to the mortgage.

It is critical to maintain that level playing field for the sake of the Australian consumer. Any proposed regulation or legislation Must apply to ALL participants evenly and not just to broker. Otherwise it is legislating a competitive advantage to banks.

Loans originated directly by either a bank branch or a non-bank mortgage provider are not subjected to a process of independent comparison. In those circumstances the loans officer should be required to inform the loan applicant that they act for the lender and not the borrower, and are not able to provide independent advice about whether the loan is appropriate for the borrower relative to other available competing products.

The States have agreed to transfer their powers to regulate mortgage broking to the Commonwealth. Why Not use the Western Australian model. It is up and running, tried and tested. It represents a No – Risk option for the legislators.

There are major defects in the proposed regulation, the first being that brokers would be required to independently determine a borrower's capacity to make repayments. That function is properly the role of the lender. Brokers are agents for the borrower





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The US sub-prime crisis demonstrated the folly of lenders not being responsible for adequate credit checks. Requiring brokers to duplicate credit checks would result in significant additional costs to homebuyers and make it Hugely unfair for Brokers, and to the competitive advantage of the Banks. Under the draft legislation banks are exempt from this requirement. This effectively grants banks an monopoly right to offer low doc loan product.

This will be to the Huge disadvantage of consumers, brokers and the non-bank lenders. People who need low doc loans, like small business operators and families relying on part-time and casual employment, would be denied the services of a broker to help them choose the best loan amongst competing products. Instead, borrowers will only be able to deal with a bank selling their own products and not acting to empower the borrower as a broker does.

The second defect is 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. This interference with lenders' security will: increase the risk premium required by lenders resulting in higher interest rates. This is a quintessential lose - lose. Please reconsider this.

The third defect is the substantial increase in documentation that must be produced by a broker. This adds significantly to the cost which must be passed onto the consumer, but offer little value to homebuyers. That added cost means the consumer loses. The very people who most need the service are literally disenfranchised.

Like most people who work in the mortgage broking industry, I believe that regulation and significant education standards are desirable to ensure high standards of service and integrity to the consumer.

An effective and efficient regulatory regime should require brokers to:

- be licensed and regulated;
- have appropriate qualifications and experience, such as a *Diploma in Financial Services* (Finance/Mortgage Broking) or equivalent;
- enter a written contract to act as agents for the borrower, specifying the type of loan sought and setting out the broker's remuneration;
- hold adequate professional indemnity insurance;

Mortgage lending is a highly competitive industry with many brokers operating across State boundaries. Even small regulatory differences between States interfere with the efficient delivery of mortgage finance and increase costs to borrowers. For this reason the regulation of mortgage broking should be a Federal Government responsibility.

For the sake of the Australian consumer, it is critical that mortgage broking regulation not add unnecessarily to costs, or reduce the competitiveness of lending arranged by brokers and allow the banks to increase their margins on direct lending.

Yours faithfully