SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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Unintended Consequences...

The findings in the Interim Report raise concerns over the upfront and trail commission paid to Mortgage Brokers.

The commission paid by the banks is a commercial transaction between the bank and an introducer, and is not paid by the client. Rather than pay the full amount at the time of drawdown, a commercial decision was made years ago to pay a portion of the agreed commission upfront, and trailing commission was introduced to ensure the loan stayed with the lender for as long as possible. This is a win-win-win for the bank, broker and the client.

Do you really think the banks would reduce their interest rates by 0.20% if they stopped paying trail to the introducer?

Via stealth, the banks gradually increase the interest rate for clients over the period of the loan, and keep advertising cheaper rates for new clients. There is not another business in the world that does this! If the banks stopped paying trail, brokers would not worry about doing annual reviews and keeping their clients on a competitive interest rate, they would find a cheaper solution for the client and refinance to another bank. This means loans would be refinanced every couple of years. This is not in anybody's interest.

The mortgage broking model works. The banks have a variable cost model and do not pay anything unless they get business from mortgage brokers. All lenders have a mortgage channel within the bank where salaried staff writes mortgage business for them, however, 9 out of 10 mortgage brokers would have a lot more experience and knowledge than these staff.

Mortgage brokers get the more complex deals.

Mortgage brokers get the larger loans.

Mortgage brokers understand the benefit of interest only loans and maintaining potential deductible debt.

To mess with the current model would have huge unintended consequences and the major banks would continue to act like pigs at the trough!