smartline
personal mortgage advisers

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RE: Smartline Homeloans Pty Ltd submission in response to ASIC mortgage broker remuneration report

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Please find below the reponse of Smartline Home Loans Pty Ltd to the ASIC Review of mortgage broker remuneration (report 516), dated March 2017.

Summary

- We recognise and appreciate the in depth analysis undertaken by ASIC in this remuneration review
- We note from the report that there no findings or evidence of brokers driving poor consumer outcomes
- We also note that there is extensive evidence that brokers have been a powerful force for positive consumer outcomes in the mortgage lending space, driving competition to deliver lower interest rates and providing consumers with a much broader array of lending options, delivering an improved consumer experience through advice, choice and managing the process
- One point of concern is the references to the ABA Sedgewick Report. In our view the ASIC report was in depth, comprehensive, fair and balanced. It concerns us that the ASIC report references the ABA report, which in our view was manifestly inadequate, lacking in substantive evidence to support recommendations, while being commissioned by a representative group with significant vested interests
- Below are our responses and input to each of the 6 proposals documented in the report

Proposal 1: Improving the standard commission model

- We recognise that this proposal relates more to a risk of brokers placing consumers in to larger loans due to the standard commission model structure (rather than any finding or evidence of this occurring).
- Aligning commission to loan size does make sense from a lender value chain perspective (a higher loan size creates greater economic value for a lender)
- Larger loan sizes (compared to lender branches and other direct channels) are evident, however our view is that it would be inaccurate to attribute this to commission structures. These higher loan sizes (in comparison to other channels) are actually driven by consumer centric reasons including:
    - In general the mortgage broker channel provides clients with a greater level of knowledge and professionalism than that offered by bank branches, which lends itself to a higher level of sophisticated loan structuring (and generally therefore a higher average loan size).
    - A significant portion of the lending completed by bank branches relates to existing clients, with a high portion of this consisting of loan restructuring, maintenance and top-ups. The

majority of lending through broker channel is new lending. This naturally leads to a much higher average loan size through the broker channel.

    - Interest rates charged are generally loan size related (the higher the loan amount, the greater the interest rate discount offered). Therefore brokers may actively seek to obtain a higher loan amount to achieve the required discount hurdle (for example, if client needs $400K but has capacity to borrow more, an option for client is to borrow $500K to qualify for a much higher interest rate discount, and then park the $100K in offset). Primary driver in this circumstance is a better outcome for the consumer, rather than commissions.

- We also note under the Australian Credit Licence regime that there are significant protections in place to ensure consumer needs are understood and taken in to account, that any lending is not unsuitable (ability to repay), and to ensure that consumer expenses and capacity to repay loans are taken in to account with any transaction. This regime provides a level of protection against any perceived risks from commission structures encouraging higher loan amounts that may jeopardise consumer best interests)
- A move to linking commissions to other factors, such as LVR, may be viewed as decreasing the perceived risk of commissions being linked to loan size. However currently commissions are largely uniform across the industry, and therefore relatively easy to explain in simple terms to consumers. A move to linking commissions to LVR or other factors may reduce simplicity and transparency for consumers, making it more difficult to clearly explain remuneration of brokers to consumers, and may even create greater divergence in commission structures, which could create an increased risk of commissions influencing consumer outcomes.
- A move to link utilisation of a loan to upfront commission may make sense – such as linking the utilisation of a loan over the first 6 – 12 months (for example, if client borrows $500K and deposits $100K in offset for this period, this is deducted from the upfront commission). This may be appropriate as it maintains a direct link between the value created for the lender and the remuneration for the broker.

Proposal 2: Moving away from bonus commissions and bonus payments

- Agree with proposed move away from bonus commissions and bonus payments
- Smartline has had a long standing policy that we do not participate in these kinds of programs, and any payments received (while relatively minor) are linked directly to professional development and training, and are not passed through to the individual broker so as not to create a perception or a reality of them influencing consumer outcomes

Proposal 3: Moving away from soft dollar benefits

- Agree with proposal to move away from soft dollar benefits.

Proposal 4: Clearer disclosure of ownership structures

- Agree with proposal to ensure much clearer disclosure of ownership to consumers

Proposal 5: A new public reporting regime

- Conceptually support this proposal. Uncertain of the end benefit to consumers that this will create, but if can be achieved without creating a major cost burden on the industry, or compromising the commercial confidence of our brokers, then Smartline would be happy to support and participate.

Proposal 6: Governance and oversight

- Support the proposal for a greater requirement on lenders to report on outcomes for their consumers introduced by brokers – this is all ready in place with some lenders but not all, and not in a consistent manner
- We also support the need for aggregators to actively monitor and report on the consumer outcomes being achieved by their brokers – this is in place with Smartline and would be a positive if adopted on a broader scale across the industry

Overall we are supportive of the ASIC report and the overall findings and proposals. We look forward to engaging with ASIC and the industry on the above to ensure that consumer outcomes, and thank you for the opportunity to provide our responses.

We would welcome the opportunity to discuss this response in more detail as required.

Regards

Joe Sirianni
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Smartline