Re: EXPOSURE DRAFT BILL -
NCCP AMENDMENT (MTGE BROKERS BILL 2019)
-MORTGAGE BROKER BEST INTEREST POLICY
-MORTGAGE BROKER REMUNERATION

My name is Salvatore Sapienza and I own a Finance Brokers Business "Sapienza Finance" based at 17 Lyall Street South Perth.

I commenced business in 1998 after spending 26 years in Westpac and a further 4 years as State Manager of an Italian Merchant Bank called Monte Paschi Australia in a Perth office. This is over 30 years in banking before going into the Broking industry.

I am aged 69 years and still love and enjoy my work despite the difficult conditions in our industry at present time.
I enjoy working with clients young and old and passing on my experienced thoughts and recommendations to people seeking my services.
I take a lot of pride in what I do and have achieved, and pass on to my staff the importance of looking after customers in the best possible way.
I manage my present clients in the same way that I did whilst working for the Bank.

Obviously, there are some unscrupulous Brokers who should never have been allowed in the industry.
The "Introducer" saga with NAB was a disaster which encouraged many rogue persons to be engaged in finance without any qualification to do so.
Brokers have to be Licenced, pay fees, hold P/I insurance, be members of various organizations (AFCA, FBAA) etc .etc. but the NAB "introducer" did not have to comply with any rules or outlay any money yet received commission from the bank simply by passing on names and possibly false details of prospective customers to the bank.
They may not have been subjected to "clawbacks".

If some of your recommendations are applied you will be destroying a "Great Industry" which at least provides some competition for the banks.

The reduction in Upfront Fees paid to Brokers if all loan funds are not drawn at settlement only penalise the Brokers and has nothing to do with achieving "Better Customer Outcomes". It only helps the banks to reduce our hard-earned income while at the same time being seen to fulfil their responsibilities in answer to the "Royal commission into Banking".

An example is a recent loan we obtained for a client for $368,000.
Clients transferred own funds into offset account to allow the bank to draw additional funds to complete settlement. They had $4,278.88 left in the offset account, so the bank deducted this amount from the total loan amount and paid commission due to us on the balance. This only amounted to $30.00 + GST (approx.) Should there be some give and take or a minimum amount?
It all seems so ridiculous – what benefit does customer get from this action.
Do we need to inform clients not to leave any surplus funds left in their account?

Due to this new rule by the banks, they are now delaying paying commission due to us by up to two weeks so that they can make sure they don't pay us for that extra little amount left in

offset account, irrespective of where those funds come from. It must cost them a fortune to investigate this area.
Why don't the Banks investigate Clawbacks in commission payments in the same way?

In fact, customers are often appalled when we try to explain to them the methods the banks use to pay us.
These methods will drive good, solid and honest Brokers out of the industry.

On many occasions, applicants have borrowed extra funds to renovate/extend a house after they purchase it. Sometimes this is done before they move in, other times after they move; depending on the circumstances. If the funds are not drawn at settlement or a couple of days after, the banks new introduced rules reduce our fee, if customers have money left over in an account, and without any investigation into the reason why. In many instances, customers deposit more than necessary to cover the funds required to settle and maybe to also cover the first payment, if possible.
Obviously, it needs to be investigated further. I feel confident that 99.9% of experienced brokers do the right thing and yet their income is reduced.

It has proven irrelevant by my experience to give clients more and more options/choices.
Many clients become confused by the unlimited types of loans available. We discuss many options before we offer 3 of the best solutions available <u>at the time of application</u> which suit their particular circumstance.
Maybe streamlining of banks' products and limiting types of loans would give them an easier option to make a decision, with the help of an experienced broker.
Their decision may not always be the cheaper rate offered by some banks as those loans don't always have a lot of "bells and whistles" plus their circumstances may not meet the criteria for approval of a cheaper rate. i.e. depending on loan Ratio.

<u>CLAWBACK OF UPFRONT PAYMENTS BY BANKS TO BROKERS</u>

As you may be aware, we are in business to earn a living.
The "Royal commission into Banking Industry" has only given a substantial benefit to "The banks" while crucifying Brokers unnecessarily.
Clients' best outcome is to get the best deal at the time of applying for a loan.
Very often they tell us which product and bank they prefer, after we provide them with options.
We explain the "claw back" conditions in detail and they sign an authority to enable us to be reimbursed by them if it becomes necessary.
Who else works in an industry that has their income at risk for up to 2 years, after they have completed their initial work and have fulfilled all of their obligations?

What if the customers are very lucky and receive some inheritance or win Lotto and receive $100,000.00 or more – obviously most people put those funds into the loan or their offset account.
However, the Broker is penalised if such deposit is done within 12 months of drawdown.

WHY? is it our fault for their good fortune?

These actions will only serve to encourage other bad behaviours by some Brokers which may not achieve "Better Customer Outcome" i.e.

- Not opening an offset account.
- Have repayments taken out from another bank account that the Lender cannot see
-Advise customers not to place funds into a loan or offset for a period of time etc. etc.

The reasons behind the necessity of claw backs should be investigated by the banks before passing these on to brokers e.g. ask – why was the loan repaid? – Divorce, unemployment, death, Lotto win.
Unsuitability for changing plans on usage i.e.
We have seen many times where a client purchases a block with an old home thereon to build their own home on this large block. Later discussing with their Builder/Friends they decide that they can actually build 2 or even 3 units for resale.
The bank/institution initially chosen for the best rate may not be able to approve a new loan for the new purpose and therefore loan requires to be refinanced before 12 months or 2 years and we receive a clawback.
Who is at fault for the loan being paid out?

It most likely is not the broker unless the bank can prove that we have failed to provide ongoing assistance to the client throughout the process of choosing or recommending a suitable loan.
If the bank investigates case like these, and a Broker is found to be "churning" his customers, then clawback should be applied.
If a decision to payout/reduce loan is not the Broker's fault/initiative, then clawback should never be applied.

On rare occasions we have collected the clawback amount from clients who understand our position, but sometimes we do not even ask, depending on the clients' circumstance.
Our business may be in a position to cope with this additional financial burden, but a young Broker starting out in the industry now, may not.
It means this Legislation could drive good young people out of the industry/encourage more bad behaviour from some Brokers and will not provide better outcome for Consumers.

Some banks offer up to $2,000 per security property to clients to refinance loans from another lender, as an incentive to win customers business.
At a recent Brokers seminar, we put the question to the banks if they clawback those incentives from the customers who later pay out their loans well before 1 or 2 years?
Their response was "no".
Why then is it that only the broker is always penalised?

I do not wish to sound like I'm bashing the banks as they provide us with good service. However, from a Broker's point of view they are certainly getting the benefit from the Royal Commission at the expense of the Broker.
Imagine if all Brokers decide to close their business what impact this would have on banks – they cannot service the clients with their current skeleton staffing.

The commission paid to Brokers from the banks more than offsets the employment costs/add-ons that would have been paid to their employees.
In fact, for many years we have been told that the banks benefit cost wise from Brokers' presence.

We hope that careful consideration is given to all submissions from our industry before making changes to Legislation that will only profit banks more and have no benefit to the "Consumers best interest outcome".

Brokers should be supported by Legislation to recover our clawback from the clients.
Many clients understand this and will compensate us.

To get the best outcome for the customers, you must look after the people who can deliver the best outcome.
An aerial review on this matter by the people not involved at ground level, would not achieve a good result for any Participant within the industry. Better Customers outcome will not be achieved.

You have the people like myself, and many other of my vintage, within the industry. **ASK US FOR OUR ASSISTANCE. We all be more than happy to share our knowledge and know how.**

It must be a partnership to share the responsibilities and the benefits.

I am ready, and willing to discuss this further to protect the future of this industry for the young and enthusiastic who will follow.

Yours sincerely

Salvatore Sapienza.