

AFG warns homebuyers will pay more if competition in home loan market is eroded

Australian Finance Group Ltd (AFG) said the Federal Government's public acknowledgement of the importance of competition in the home loan sector directly recognises the benefits mortgage brokers bring to consumers.

AFG welcomes the Government's support for the industry and the need to protect competition in Australia's home lending market.

In its response to the final report of the Banking Royal Commission, the Government highlighted the contribution the mortgage broking sector makes in lowering borrowing costs and broadening choice for consumers.

Following the Royal Commission recommendations the Government has proposed ending the payment of trail commissions from lenders to mortgage brokers and aggregators on any loans taken out from 1 July 2020. Importantly, Treasurer Josh Frydenberg said the Government had not endorsed the Commission's recommendation for upfront payment of mortgage broking fees by the consumer to be introduced immediately, instead pointing to a three-year review period to examine the impact of any changes to competition in the sector. AFG welcomes the announcement of a set timeframe for the industry to demonstrate the clear benefits the mortgage broking industry provides consumers so that information can be shared and the industry can define its effectiveness across the market.

AFG chief executive David Bailey said: "Both the Government and Opposition yesterday highlighted the need for any changes to the mortgage sector to be introduced in a phased and considered manner. At a time when navigating the complexity of the Australian mortgage market is more difficult than ever for consumers there is a danger the proposed changes, if not handled properly, could place assistance out of reach for some customers. Those hardest hit will be low-income earners and the changes could deliver pricing power and higher margins back to the major banks.

"That is why AFG and the broader mortgage broking industry will work closely and constructively with policymakers in coming months. We need a considered regulatory response that understands the home lending market and implications for all parts of the economy.

AFG was disappointed by the emphasis the Royal Commission placed on comments by the CBA about mortgage broker remuneration models as the major bank's positioning was clearly self-serving and designed to win market share from the smaller banks.

AFG also noted the Royal Commission recommendations relating to campaign and volume-based commission have largely been implemented through the Combined Industry Forum.

The Government outlined an extensive consultation process involving the Council of Financial Regulators and the ACCC to review the impact of the recommendations and the implications for competition. AFG will work with industry bodies to ensure any recommendations are implemented in a way that improves outcomes for customers and changes work in the best interests of customers.

Mr Bailey said the full market and economic impact must be considered.

“With market share for the mortgage broking sector at an all-time high, customers clearly trust mortgage brokers. This fact should be front and centre in the minds of policymakers.

“The Royal Commission has created an opportunity to restore trust in the broader financial services sector. It is crucial that the transition to a new policy and regulatory landscape is a considered process to ensure any changes deliver better outcomes for customers. Leaving consumers and the economy worse off, which is a real danger if we don’t get this right, would undermine the whole Royal Commission process.

“Our response will be framed by a commitment to shareholder value and ensuring a competitive mortgage sector. Without competition, homebuyers will be left with less choice and higher costs of borrowing.”

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