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The Value of Mortgage Broking

July 2018

Deloitte Access Economics consulted the Mortgage Broking Industry Group (MBIG) for this report. The MBIG consists of: AFG, Astute Financial, Aussie, Choice Aggregation, Connective, FAST, Finance Brokers Association of Australia, Loan Market, Mortgage & Finance Association of Australia, Mortgage Choice, National Mortgage Brokers, PLAN Australia and Smartline

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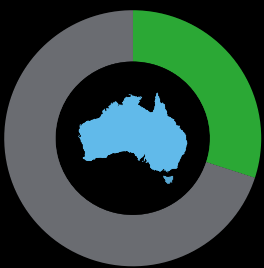
List of acronyms

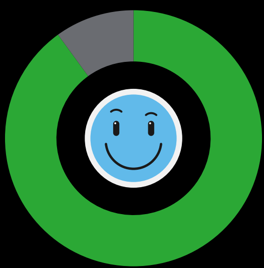
Acronym	Full name
ABS	Australian Bureau of Statistics
ACL	Australian Credit Licence
ADI	Authorised Deposit-taking Institution
AFG	Australian Finance Group
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CBA	Commonwealth Bank of Australia
CIF	Combined Industry Forum
CPD	Continuing Professional Development
CRM	Customer Relationship Management
DAE	Deloitte Access Economics
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FBAA	Finance Brokers Association of Australia
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GOS	Gross Operating Surplus
GVA	Gross Value Added
IIS	MFAA Industry Intelligence Service
IO	Interest Only
LTV	Loan-To-Value
MBIG	Mortgage Broking Industry Group
MFAA	Mortgage & Finance Association of Australia
NAB	National Australia Bank
NIM	Net Interest Margin
PC	Productivity Commission
NCCP	National Consumer Credit Protection Act 2009 (Cth)
RBA	Reserve Bank of Australia
RG	Regulatory Guide
RMBS	Residential Mortgage-Backed Securities

55.7% of residential loans were settled by mortgage brokers in the September quarter 2017

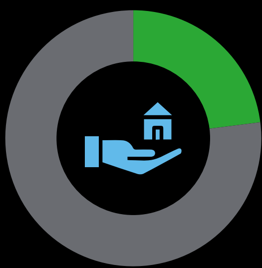
of which



3 out of 10
arranged for people in regional and rural areas



9 out of 10
customers satisfied with services provided



23%
are first home buyers

27.9%
arranged through lenders other than the four major banks and their affiliates, providing competition and more choice for consumers

The mortgage broking industry

Provides distribution for small lenders equivalent to **118** branches

Supported more than **27,100 FTE** workers in **2016-17**

Contributed **$2.9** billion to Australian economy in **2016-17**

On average, have **34** lenders on panel and use **10**. It is this additional choice that adds competition in the market.

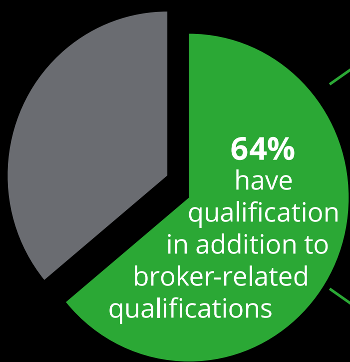
Contributed to the fall in Net Interest Margins by over **3%** points over the past **30** years.

Mortgage brokers

Women

Have an average **13.8** years experience in the industry

Men



36% have diploma certificate qualification

40% have advance diploma or bachelor degree

24% have post graduate studies

Executive summary

Overall, mortgage brokers make mortgage markets work better. They are intermediaries that provide consumers with information about the mortgage products available and the process to follow in applying for a mortgage. Mortgage brokers also provide lenders with an additional channel to arrange loans. Mortgage brokers increase choice and competition between lenders, leading to better service levels and competitive mortgage pricing. Mortgage broking is also an industry in its own right, providing direct employment opportunities and supporting employment in other industries.

The financial sector has been under greater scrutiny from regulators in recent times. Mortgage brokers arrange more than half of all residential home loans, so mortgage broking has been the subject of the *Review of mortgage broker remuneration* by the Australian Securities and Investments Commission; included in the Productivity Commission *Review of competition in Australia's financial system*; and in the Royal Commission into *Misconduct in the Banking, Superannuation and Financial Services Industry*. The Mortgage Broking Industry Group (MBIG) sees an opportunity for better understanding of the role of mortgage brokers in the market and the value of the services that they provide to their customers, lenders and the broader economy.[1]

1 The MBIG consists of: AFG, Astute Financial, Aussie, Choise Aggregation, Connective, FAST, Finance Brokers Association of Australia, Loan Market, Mortgage & Finance Association of Australia, Mortgage Choice, National Mortgage Brokers, PLAN Australia and Smartline.

Deloitte Access Economics has been engaged to produce a report that provides an up to date body of information about the industry and its role in the economy, to inform the public debate. It is based on an analysis of publicly available information, data collected through a nationally representative survey of 717 mortgage brokers working independently and 275 mortgage broking businesses (covering a total of 1,635 mortgage brokers), a focus group workshop with mortgage brokers, and consultations with industry participants (National Australia Bank, Heritage Bank, Liberty Financial, AFG, Connective and Pink Finance).

Consumers and competition

Since the mid-1980s, the mortgage broking industry has changed and grown to be a critical part of the finance sector. Mortgage brokers now arrange more loans than lenders directly.[2] Brokers' share of new home loan residential settlements is estimated to have reached 55.7%, by value in the September quarter 2017.[3] Over 90% of mortgage broker customers were satisfied with the service provided.[4]

The growth in the number of mortgage brokers, in conjunction with deregulation, has led to more suppliers entering the market, especially smaller domestic and foreign lenders. Participants have devised new product features and service offerings to compete with incumbents. Variable interest rate levels across all lender types have dropped substantially from the early 1990s. Net interest margins (NIM) for banks fell by over three percentage points over the past three decades.[5]

2 MFAA (2017b), p.15.
3 The estimate is based on a CoreLogic survey of the largest brokers and aggregators that account for around 95% of broker-introduced loans.
4 Deloitte (2016), p.5.
5 RBA (2017a), p.14.

In 2016-17, the average mortgage broker had access to loan products from 34 different lenders and used an average of 10 lenders on their panel to settle loans based on a customer's choice, financial circumstances, needs and preferences.

While competition and access to finance in the mortgage market has increased, residential mortgages have remained a safe asset class for Australian banks with non-performing housing loans remaining at less than 1% of total housing loans over the past dozen years.[6]

Access to finance has increased – first-home buyers made up 23% of the average mortgage broker's customers and the ABS estimated that FHBs accounted for 18% of all Australian housing finance in November 2017.[7] These developments have generated significant social and economic benefits for the Australian economy.

Dimensions of the mortgage broking industry

Mortgage broking is a significant industry in its own right, contributing $2.9 billion in gross value added (GVA) to the Australian economy each year and supporting the employment of more than 27,100 full-time equivalent (FTE) workers.

6 RBA (2018) Financial stability review, April 2018. Refers to those past-due loans that are 90+ days in arrears and well secured or impaired loans that are in arrears or otherwise doubtful and not well secured.
7 ABS Cat no 5609.0 Table 9a and Table 11.

The mortgage broking industry directly employed an estimated 22,215 people, full time and part time, in Australia at the end of September 2017, servicing all parts of Australia. This included approximately 14,230 active brokers and 7,985 support staff (including 870 employed by aggregators) The mortgage broking industry directly employs 20,297 FTE workers and indirectly supports the employment of 6,847 FTE workers in other Australian businesses.[8]

Other key dimensions and facts about the industry are:

- about 3 in 10 mortgages arranged by brokers are for customers in regional and rural areas;[9]
- about 27% of mortgage brokers are women;[10]
- Mortgage brokers, on average, have 13.8 years of experience in the industry;[11]
- a single broker working independently as an individual sole trader earned an average revenue (before cost and taxes) of $129,846, a median revenue of $103,000, and an average income before tax (revenue less costs) of $86,417 (with a median income before tax of $67,500) in 2016-17;[12]
- broking businesses with more than one broker earned an average revenue (before cost and taxes) of $356,952 and a median revenue of $267,400 with an average income before tax (revenue less costs) of $119,838 (and a median income before tax of $77,611) in 2016-17;[13]
- 64% of brokers have qualifications in addition to broker-related qualifications;[14]
- 70% of a broker's business comes directly or indirectly from existing customers demonstrating high levels of customer satisfaction;[15] and
- brokers provide repricing and refinancing services for consumers, and this accounts for roughly 18% of loan volumes handled.[16]

8 Assumes two-part-time employees work equivalent hours to one full-time employee.
9 Deloitte (2017b).
10 MFAA (2017b), p.26.
11 Deloitte (2017b).
12 Numbers reported are the average generated by a single broker working independently as a business entity, and do not take account of whether the broker was working part-time or full-time. Deloitte (2017b).
13 Numbers reported are the average revenue and income less costs and before tax generated by a mortgage broking business as a business entity and does not take account of the number of brokers that work in that entity. Deloitte (2017b).
14 Deloitte (2017b).

Benefits for lenders

Mortgage brokers provide lenders with another distribution channel beyond their branch networks, broadening customer reach, increasing market footprint, diversifying credit and portfolio risk and raising market awareness. They help smaller lenders compete with larger banks that have a larger and more extensive physical branch network. By value of lending, around 28% of home loans arranged by mortgage brokers in the September quarter 2017 were for lenders other than the four major banks and their affiliates.[17]

While it is difficult to compare channel costs, a few observations can be made. Transaction costs are higher for the broker channel, due to commission payments; processing costs are similar for broking and banks' direct channels; but lenders can make significant savings on branch infrastructure and operating costs by accrediting brokers to distribute their products. The Productivity Commission found that: *"…distributing loans through brokers has, on average, increased smaller lenders' market shares by 1.55% points. If mortgage broker services were not available, these [smaller] lenders would, on average, need to have an additional 118 branches each in order to maintain their current market shares in the home loan market."*[18]

15 Deloitte (2017b).
16 IBISWorld (2017), p.12.
17 MFAA (2017b), p.20
18 PC (2018), p. 219.

Where to next for the industry?

The growth of mortgage broking has shown that an increasing portion of customers prefer to use a broker. However, perceptions about the services mortgage brokers provide within broader public debate are not all positive. The industry is working with regulators to address issues around broker remuneration structure, transparency in reporting of relationships between lenders and brokers, disclosure and governance in the sector, and the accuracy of loan applications through the broker channel. A continually improving mortgage broking sector will be good for consumers, lenders and the economy. Along with changing technology, consumer preferences and broader finance industry changes, regulation and self-regulation/co-regulation, will shape the future of an industry that has evolved considerably over a number of decades since its emergence in Australia.

Deloitte Access Economics

1 Introduction

Overall, mortgage brokers make mortgage markets work better. They provide consumers with information about the mortgage products available and the process to follow in applying for a mortgage, allowing borrowers to make better decisions. Mortgage brokers also increase competition between lenders, leading to better service levels, competitive mortgage pricing, and greater choice for borrowers.

The financial sector has been under greater scrutiny from regulators in recent times because of concerns about remuneration structure, transparency and governance in the sector. For mortgage broking, this has meant being the subject of the *Review of mortgage broker remuneration* by the Australia Securities and Investment Commission (ASIC); inclusion in the Productivity Commission (PC) *Review of competition in Australia's financial system*, the Royal Commission into *Misconduct in the Banking, Superannuation and Financial Services Industry* and the Sedgwick *Retail Banking Remuneration Review*. The industry has responded to the issues and potential risks that have been identified by working with regulators to develop and implement a package of reforms (Appendix D).

The MBIG has also recognised an opportunity for better understanding of the role of mortgage brokers in the market and the value of the services that they provide to their customers, lenders and the broader economy.[1] To this end, Deloitte Access Economics has been engaged to produce a report that provides an up to date body of information about the industry and its role in the economy in order to inform the public debate.

1.1. About this report

Uncertainty about the important function the mortgage industry plays in the residential and commercial property market may inadvertently reduce the effectiveness of the broking channel to connect lenders and consumers and the role mortgage brokers have in enhancing functioning of the consumer credit sector overall.

This report seeks to clarify the industry's function, by updating and expanding public information on mortgage broking, including:

1. the value that mortgage brokers provide to consumers through better customer service and guidance, lower search costs, supporting competition and diversity of choice;
2. the impact the mortgage broking industry has had on the Australian economy through enhancing competition in the credit sector, lowering interest rates and reducing costs for borrowers;
3. the important role mortgage brokers have played in facilitating increased competition in the mortgage market providing lenders, in particular smaller lenders, with an effective and flexible distribution channel for credit, and to some extent other financial products; and
4. the economic impact the industry has as a collection of small businesses providing direct employment opportunities and supporting employment indirectly in businesses in other related industries in Australia.

This analysis is supported by a pool of qualitative and quantitative evidence, including: public data on the economic impacts of the industry; information from industry bodies; government reviews by the Australian Securities and Investments Commission and the Productivity Commission and others; and survey and interview evidence collected on the services mortgage brokers provide to customers and lenders.

A bespoke survey was conducted with complete responses received from a nationally representative sample of 717 mortgage brokers and 275 mortgage broking businesses (covering a total of 1,635 mortgage brokers) to extract information on operational characteristics, economic contributions, professional training and qualifications, service offerings and customer value propositions. An explanation of the survey methodology can be found in Appendix A.

Beyond the quantitative survey insights, assessment of the value provided by mortgage brokers is supported by insights compiled from discussions and workshops with brokers, lenders and industry peak bodies.

1 The MBIG consists of: AFG, Astute Financial, Aussie, Choise Aggregation, Connective, FAST, Finance Brokers Association of Australia, Loan Market, Mortgage & Finance Association of Australia, Mortgage Choice, National Mortgage Brokers, PLAN Australia and Smartline.

The remainder of this report is structured as follows:

- **Chapter 2** provides descriptive statistics on the economic dimensions of the mortgage broking industry, including the key industry players. It profiles the participants in the industry, including information on training and the level of educational and professional qualification, geographic coverage, years of professional service, gender composition and average income.
- **Chapter 3** explores the value that the mortgage broking industry has provided to the broader economy. This includes the economic contribution of the industry and the role mortgage brokers have played in the Australian residential (and commercial) home loan market.
- **Chapter 4** examines the outcomes and benefits mortgage brokers provide to consumers by tracing through steps in the broker service lifecycle to understand the services brokers provide and why consumers choose brokers.
- **Chapter 5** explains the value proposition mortgage brokers provide to lenders by assessing the role mortgage brokers play for different lenders and the implications of this for the Australian financial market as a whole, and how the broking channel supports the business strategy of lenders.

Appendices present the survey methodology, further detail on the economic contribution analysis, selected regulatory initiatives and information on industry participants consulted as part of this work.

2 The mortgage broking industry in Australia

The mortgage broking industry is evolving and growing. This chapter provides an overview of the industry, including describing the nature, dimensions and key drivers of that evolution and growth. Industry participants are introduced; their roles and how they are rewarded is explained. The chapter concludes with a discussion of how regulation is shaping the industry.

2.1. Evolution of mortgage broking in Australia

The mortgage broking industry has changed a lot from its beginnings in the 1980s. Initially, mortgage brokers provided price comparison services primarily and took applications for loans. Brokers were mainly used by regional banks and non-bank lenders to help expand their market share and geographic diversification.

In 1992, the mortgage manager Aussie Home Loans changed the dynamic of the home lending market, offering *"obligation-free home visits by professional loan consultants"*, and very competitive lending rates.[1] This, together with the establishment of mortgage broking companies over the next few years, caused a shift in distribution channels used by lenders from branch networks to brokers.

1 Aussie website https://www.aussie.com.au/corporate-careers/our-history.html.

A decade later, mortgage brokers were helping consumers select a home loan, prepare the paperwork for the loan application and assist with negotiations with the lender. However, most brokers did not have a continuing relationship with the consumer after the loan was approved.[2]

International banks also played a part in the growth of mortgage broking:

> "... the wider acceptance on the part of customers of applying for loans over the internet and the use of the broker network has increased the ability of these banks to reach new borrowers without establishing a costly branch network."3

With major banks also using mortgage brokers, there was a long period of growth in the broker channel until the Global Financial Crisis (GFC). After 2008, non-bank lenders were forced to pull back when securitisation market funding dried up. International banks pulled out of the Australian market, repatriating funds to their core businesses in Europe and the US.

2 ASIC (2017).

3 Debelle (2010).

Since the GFC, increased regulatory scrutiny and digital disruption have continued to drive the evolution of mortgage broking. Mortgage brokers adapted and the industry grew again. Mortgage brokers now provide credit advice to consumers, which in most cases continues after loan approval, and as such, are obliged to ensure that consumers receive loans that suit their needs and objectives. Meanwhile, technology is making the mortgage lending process more efficient, by replacing some of the simple tasks that were previously undertaken by mortgage brokers.

> "For over a quarter of a century mortgage brokers have been driving competition in Australian home lending. Aussie started this revolution and together with new entrants, we've created a mortgage market that's more competitive than I've ever seen. Borrowers today have superior choice, service and education."[4]

4 John Symond, Chairman, Aussie (2018).

The impact of brokers on the mortgage market place, the financial system and the broader economy is presented in more detail in Chapter 3.

2.2. Growth of mortgage broking

Mortgage brokers sell more loans than lenders' own distribution channels (e.g. through branches, mobile lenders, and over the telephone).[5] **Brokers' share of new residential home loan settlements is estimated to have reached 55.7%, by value in the September Quarter, 2017.** The estimate is based on a survey of the largest brokers and aggregators that account for around 95% of broker loans.[6]

2.2.1. Value of residential home loans

Mortgage brokers arranged an estimated $197 billion of new residential home loans in Australia for the year to September 2017, excluding small brokers and aggregators not in the survey.[7] Total housing finance for owner occupiers and investors was $396 billion over this period.[8]

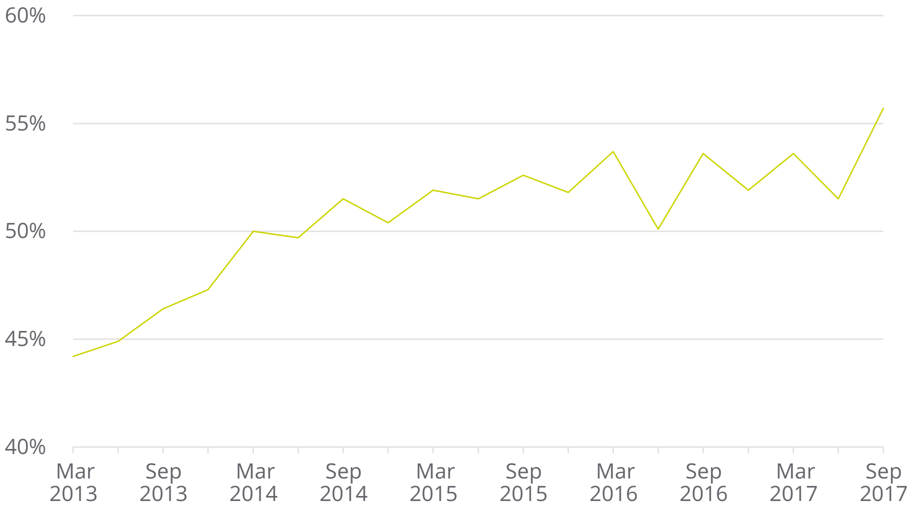
2.2.2. Share of residential loans

Mortgage brokers' share of new residential property loans has grown strongly over the years. Although there are no official statistics published, estimates from a range of sources indicate the progress:

- in the early 1990s, the share was *"in the teens at best"*;[9]
- ernst & Young estimated mortgage brokers accounted for around 25% of business flow in 2003;[10]
- in 2010, the RBA estimated *"Mortgage brokers' share of total mortgage settlements is about one-third of all loans"*;[11] and
- industry surveys indicate the share was 44% in 2012 and has risen over the past five years to reach 55.7% in the September Quarter, 2017 (Chart 2.1).[12]

5 MFAA (2017b) p. 15.
6 CoreLogic survey of the largest 19 brokers and aggregators in the mortgage broking industry.
7 Ibid.
8 ABS 5609.0 Housing Finance http://www.abs.gov.au/ausstats/abs@.nsf/mf/5609.0.
9 Dalton (2017).
10 ASIC (2017), p. 49.
11 Debelle (2010).
12 MFAA. (2017b). p, 15.

Chart 2.1: Mortgage broker share of new home loans settled, 2013-17



Source: CoreLogic (2018)

The continued growth of mortgage brokers' share of new residential property lending demonstrates the value that consumers and lenders perceive of the mortgage broker channel. The reasons for the increasing consumer demand for mortgage brokers' services are discussed in Chapter 4.

2.3. The role of mortgage brokers

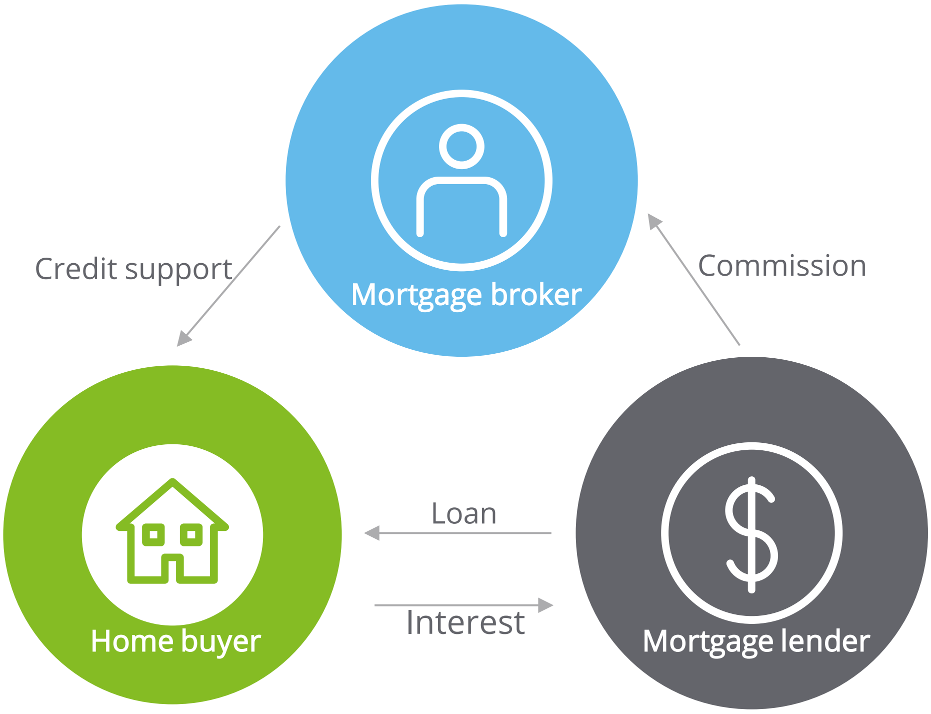
Mortgage brokers are intermediaries whose main role is to match prospective borrowers and lenders in the residential home loan market (Figure 2.1). Intermediaries are common in markets in which the customer infrequently buys goods or services and, hence, may not have a good understanding of the products and how that market works (for example, real estate agents advising on buying a house or accountants advising on tax). Mortgage brokers, as intermediaries, are valuable because they have the expertise and a network of lenders that prospective borrowers don't have.

When looking for a home loan, prospective borrowers can speak to a lender directly, go through a broker, or use online services to compare loan products.[13] Mortgage brokers work directly with consumers and can act on the consumer's behalf to negotiate with banks, credit unions and other lenders to obtain an appropriate product that matches the consumer's needs at a competitive price.

Mortgage brokers generally have access to loan products from a range of lenders, and endeavour to find one or more appropriate loan products for their client based on their client's income, needs and lifestyle plans. While the use of online services is growing, these service providers are unable to match the personalised end-to-end service from initial interview to application through to settlement that brokers provide across a variety of loan products.

13 These online services include a lender's own website or other comparison websites.

Figure 2.1: The role of the mortgage broker



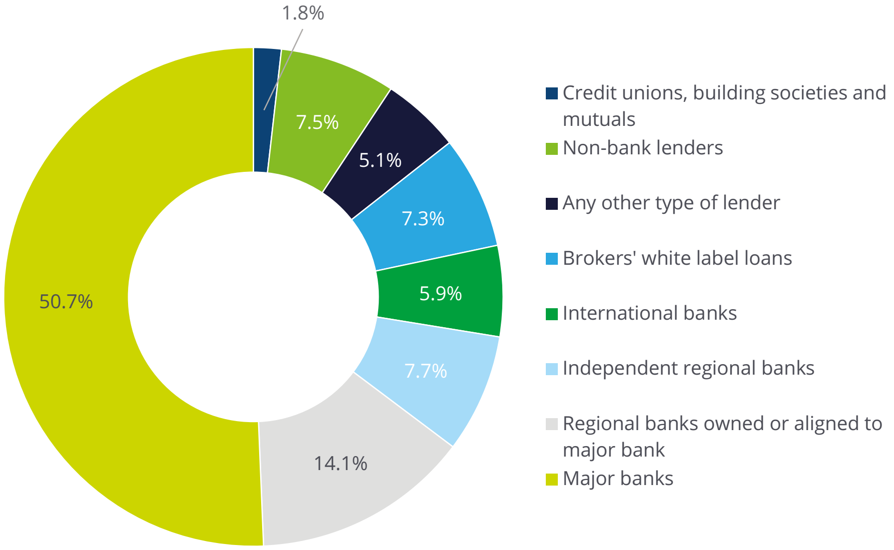
Source: Deloitte Access Economics

2.4. Why lenders use mortgage brokers

Lenders use mortgage brokers because many of their customers prefer to use brokers. Moreover, mortgage brokers help lenders to extend their potential customer base beyond the limits of their physical branch network, providing a variable and scalable distribution channel. Brokers also help lenders to diversify their risks away from being too concentrated in a particular part of the housing market. Consequently, all categories of lenders use brokers even if they have well established bricks-and-mortar networks. Total broker-arranged lending is split almost evenly between the (four) major banks and other lenders (Chart 2.2).

The broking channel is indispensable for many regional banks, smaller lenders and mortgage providers that lack a branch network.

Chart 2.2: Value of new lending arranged by brokers, by lender segment, September Quarter 2017



Source: MFAA (2017 d) IIS Fifth Edition

The PC found that:

"... distributing loans through brokers has, on average, increased smaller lenders' market shares by 1.55% points. **If mortgage broker services were not available, these [smaller] lenders would, on average, need to have an additional 118 branches each in order to maintain their current market shares** in the home loan market."14

At the same time, mortgage brokers provide large lenders with access to customers that they would not otherwise see. Anthony Waldron, Executive General Manager of Broker Partnerships, NAB, said:

"The broker channel provides NAB access to customers that wouldn't typically be accessible or may not have chosen NAB otherwise".

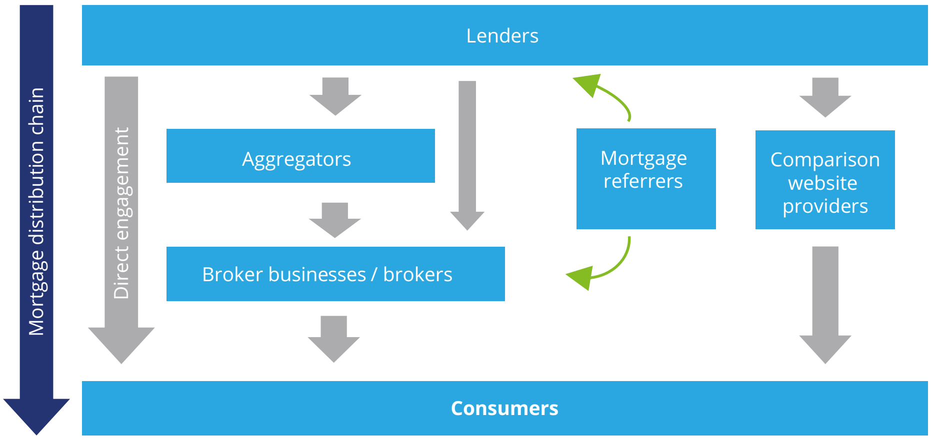
The lender value proposition is explained in more detail in Chapter 5.

14 PC (2018). p219

2.5. The mortgage ecosystem

Mortgages are distributed from lenders to consumers via a number of channels. The distribution ecosystem is illustrated in Figure 2.2 and the roles of the participants are described briefly below. Mortgage referrers are part of the ecosystem, however, they do not distribute mortgages.

Figure 2.2: The mortgage distribution ecosystem



Source: Deloitte Access Economics

2.5.1. Lenders

Lenders provide finance to borrowers seeking to buy a home. The Australian home loan market has a range of active lenders, including:

- the four major banks;
- a mix of mid-tier banks, some owned by the major banks;
- international banks;
- customer-owned banking institutions (e.g. credit unions); and
- non-bank lenders.

Together, the banks and customer-owned banking institutions (also known as authorised deposit-taking institutions (ADI)), held around 93% of total home loans in Australia as at the end of September 2017.[15]

15 ABS Cat No. 5609.0 Housing Finance, Australia, September 2017. Table 12.

Non-ADI lending institutions including securitisation vehicles, money market corporations and other finance companies hold the balance. Typically, non-ADIs are privately owned and rely on access to wholesale markets for funding, and then provide loans to households and small-to medium-sized businesses.[16]

Lenders have several options for distributing their loan products, including:

- direct to customers through branch networks, mobile sales teams, call centres and online;
- indirect distribution via the mortgage broking channel; and
- online comparison websites.

In addition, mortgage referrers also help lenders and brokers with customer acquisition (Figure 2.2).

16 RBA (2006), p. 59.

2.5.2. Aggregators

Aggregators connect lenders with mortgage brokers. Aggregators generally have a large number of mortgage brokers aligned to their business through a range of offerings:

- **a panel of lenders –** Aggregators have a panel of lenders, that provides mortgage brokers with access to a diversified range of products to suit consumer preferences;
- **infrastructure and administrative support –** Competition has meant that aggregators have to invest in systems and technology to improve the efficiency of mortgage brokers' business operations, and provide marketing and promotional support to attract and retain brokers. This includes product recommendation software to enable brokers to quickly compare product features and pricing and be aware of information about lenders' credit risk policies;
- **training and professional development programs –** Aggregators provide regulatory training and professional development programs for brokers;
- **licencing –** Enabling some mortgage brokers to operate under the aggregators licence as representatives;
- **administrative services –** Regulatory and compliance services, loan information and lodgement services, and commission processing portals; and
- **business planning and development** – Customer relationship management (CRM) software for brokers to track sales leads and follow up with customers post loan settlement. They also, often provide an interface for customers to update information and track the progress of their loan application.

Aggregators charge a fee for the service they provide to mortgage brokers.

Contracting directly with aggregators is an efficient way for lenders to gain access to a pool of mortgage brokers (the 'aggregate') and to be assured that loan applications generated meet the compliance standards required (Chapter 5).

2.5.3. Mortgage brokers

Mortgage brokers provide credit assistance to consumers. They help consumers select an appropriate loan that meets their needs, arrange documentation for the loan application, assist in negotiation with lenders and provide consumers with guidance and support throughout the life of the loan. Mortgage brokers are paid by lenders for the services they provide to consumers.

Mortgage broking businesses can operate in a number of business models depending on their contracting arrangement with aggregators and broker staff, including; franchise, independent contracting, fee for service and commission-based models.

2.5.4. Referrers

Mortgage referrers are individuals or businesses that collect details of consumers and, with the consumer's consent, refer them to mortgage broking businesses or to lenders. Unlike mortgage brokers, mortgage referrers are unlicensed so cannot provide credit services to consumers, or assist them in applying for a loan.

2.5.5. Comparison websites

Comparison websites contain information on home loan interest rates and product attributes. These websites have steadily grown in presence as a free service to consumers. The existence of these comparison websites has improved market transparency for consumers and enables consumers to verify information that has been given to them by a lender or a mortgage broker. Comparison websites also serve as a sales lead generation tool for lenders. They are generally remunerated in the form of payment from lenders based on the number of click-throughs by consumers to the lender's website.[17]

17 ASIC (2017), p57.

2.5.6. Consumers

Different consumers use mortgage brokers for different needs and purposes. Consumers may be investors or owner-occupiers interested in obtaining finance to buy a home or a commercial property, construct a new home, or refinance an existing property loan. They may also be using their existing property as a security to take out or refinance a loan for another purpose. The financial circumstances of different consumers also affects the types of loans that are suitable for them; for example, loans with offset facilities, interest-only (IO) home loans, reverse mortgages, and loans for those who are self-employed.

2.6. Dimensions of the broking industry

We estimate the **mortgage broking industry employed directly 22,215 people** in Australia at the end of September, 2017, servicing all parts of Australia. The breakdown of employment in the industry is described below.

There were an estimated **16,940 mortgage brokers in Australia at the end of September 2017**.[18] This represents a 22.4% increase in the two years since September, 2015.[19] This rate of growth is much faster than the growth in mortgage lending or in the labour force more generally and is expected to slow to a sustainable pace in the future.

At any given time, some qualified brokers are inactive, e.g. working in another job or taking time off to care for children, and not actively engaged in mortgage broking. About 16% of brokers did not settle a loan in the six months to September 2017.[20] This indicates **an active broker population of about 14,230.**

18 MFAA (2017b), p. 8
19 MFAA (2017b), p. 8.
20 MFAA (2017b), p. 28.

The majority of brokers work for one of approximately 6,850 mortgage broking enterprises. Most of these are small businesses; our survey showed the majority comprise one or two brokers and a support staff (Chart 2.3). The number of businesses has grown by an annual rate of 3.8% over the five years to 2016-17, coinciding with strong housing market conditions.[21] The industry is expected to grow at a more moderate rate in coming years in alignment with housing market conditions. Tapering in the residential real estate industry began in 2015-16 due to tighter credit conditions.

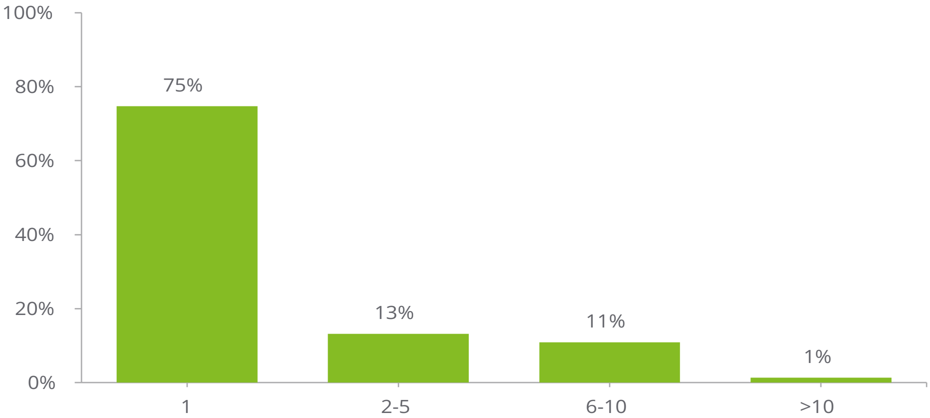
Our survey indicates **that there are 0.5 support staff for each broker, indicating there are approximately 7,115 people employed in supporting roles in mortgage broking businesses.**

There are 47 aggregators; the 14 largest aggregators are responsible for around 95% of total broker arranged loans.[22] AFG, the largest aggregator, has approximately 23% share of the market and employs about 200 people.[23] Assuming the AFG staff to market share ratio is representative of the whole industry, we estimate **aggregators as a group employ about 870 people.** Combining supporting roles in mortgage broking businesses and aggregators gives a total support staff of 7,985.

The largest participants in the aggregator market are AFG, Connective, Aussie Home Loans, Mortgage Choice, Choice Aggregation and Loan Market Group.[24]

21 IBISWorld (2017), p. 30.
22 MFAA and FBAA provided membership data
23 IBISWorld (2017), AFG (2017a).
24 IBISWorld (2017).

Chart 2.3: Number of brokers per broking business



Source: Deloitte Access Economics survey (2017)

Mortgage brokers, on average, have 13.8 years of experience in the industry.[25] Many mortgage brokers started their career in banking, financial services or the property industry. This gives them an understanding of the types of issues that determine a borrower's capacity to pay a loan, the types of loan products available that would be likely to meet a consumer's needs and the types of financing issues that a consumer may encounter in purchasing, constructing or refinancing a residential or commercial property.

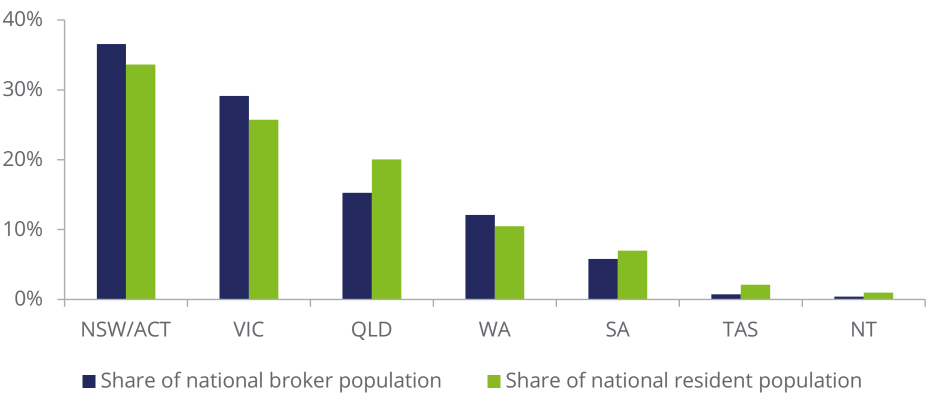
The number of female brokers is increasing steadily, to 3,871 as at September, 2017. **The proportion of women brokers is estimated to be 27.3%**[26].

Mortgage brokers provide services to all parts of Australia, including in regional areas where residents have restricted access to lenders. **Three in ten mortgages arranged by mortgage brokers are for customers in regional and rural areas.**

Brokers are distributed around the country in about the same proportion as the general population (Chart 2.4).

- the relative proportions of brokers and residents may differ in states where the housing market has been especially strong or unusually weak;
- local networks are important for brokers and take time to build. This suggests brokers may tolerate being less active when the market cools; rather than moving from one strong market to another.

Chart 2.4: Mortgage broker and resident population, by state



Source: Deloitte Access Economics, ABS

25 Deloitte Access Economic survey (2018).
26 IIS (2018).

2.7. Loans settled by the broker channel

Home loans account for 87% of the products and services mortgage brokers provide, by value.[27]

Many mortgage brokers also have the statutory required professional qualification and credit licences to operate as finance brokers for a range of other products. The types of products mortgage brokers generally arrange include:

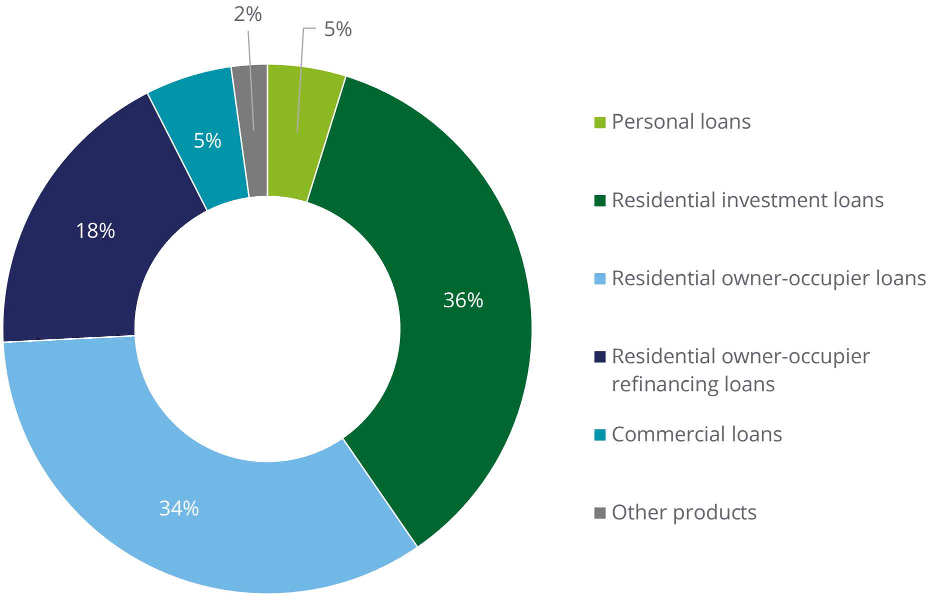
- owner-occupier home loans;
- residential investment loans (also known as investor home loans);
- property and loan-packaged insurance products;
- commercial loans;
- personal loans;
- credit cards packaged in home loans;
- reverse mortgages; and
- home construction loans.

Post settlement, brokers provide repricing and refinancing services for consumers, and this accounts for roughly 18% of loan volumes handled.

In addition, some mortgage broking businesses provide an integrated approach to support customers who need to make financial planning and wealth management decisions. For example, mortgage broking businesses may also work in partnership with financial planners, property lawyers, property management professionals, accountants, real estate agents and property valuers.[28]

27 IBISWorld (2017), p. 12.
28 For example, Successful Ways is a mortgage broking business that also provides financial planning, real estate agent, property management and legal service to customers.

Chart 2.5: Value of loans arranged by mortgage brokers, by segment, 2016-17



Source: IBISWorld (2017)

2.8. Mortgage broker education and training

Mortgage brokers must meet minimum education and product knowledge requirements, and undertake ongoing professional development to continue to practice.

2.8.1. Education requirements

Mortgage brokers that engage in lending regulated by the NCCP Act, including home lending, must have, as a minimum, a Certificate IV in Finance and Mortgage Broking to continue to practice.[29] Some industry bodies, lenders and aggregators require brokers to have a Diploma in Finance and Mortgage Broking Management in addition to the statutory minimum.

Our survey found that **64% of brokers have qualifications in addition to broker-related qualifications.** Of these:

- 36% have completed another diploma or certificate qualifications;
- 40% have attained an advanced diploma or bachelor degree; and
- 24% have gone on to complete post graduate studies.

29 ASIC (2014), p. 21.

2.8.2. Training and professional development

Training and support programs are available to brokers to support their daily operations. Broking businesses generally provide training and support to their staff in the form of counselling and mentoring programs. Formal training is provided to brokers through aggregators and industry associations. Lenders can also deliver training programs to their accredited brokers, however, generally these training programs are delivered through aggregators.

The types of professional development programs hosted by aggregators, lenders and industry associations can include: webinars, technical updates, bulletins, compliance-focused workshops, professional development events, conferences and ongoing training.[30] Although not all training events are compulsory, aggregators do encourage broker attendance as part of good practice. Attendance can be compulsory for those brokers identified as not meeting their performance standards.[31]

30 ASIC (2017) pp. 197-198.
31 The CIF has a focus on education of brokers (Appendix D).

There are also a number of industry professional training requirements that mortgage brokers need to comply with to maintain active industry memberships. By statutory requirement, brokers are required to spend a minimum of 20 hours per year in continuing professional development (CPD) activities. Industry bodies require up to an additional 10 hours of CPD-related activities in addition to the 20 hours statutory requirement, as part of industry good practice.[32] Activities that qualify towards broker CPD hours include, amongst others, lender professional development days, aggregator training seminars and workshops on lender accreditation processes, presentations and conferences on industry trends and business strategies for diversifying service offerings and improving customer outcomes.

It is the role of lenders to ensure that brokers accredited to recommend their products have the appropriate product knowledge and understanding of the lender's specific requirements around loan documentation.

32 Based on MFAA and FBAA continuing professional development requirements for members.

2.9. Mortgage broker remuneration

Mortgage brokers earn slightly more than the average/median wage. Our survey indicated that in 2016-17:

- a single broker working independently as an individual sole trader generates an average revenue (before cost and taxes) of $129,846 (mostly in commissions);
- broking businesses with more than one broker generate an average revenue of $356,952 in (mostly) commissions;
- a single broker working independently as an individual sole trader reported average earnings before tax of $86,417 and a broker business with more than one broker reported average earnings before tax of $119,838;[33] and
- three out of four brokers working in mortgage businesses work full-time (73% according to our survey).[34]

2.9.1. The commission model

Typically, brokers are engaged on a pay-as-you-go basis and receive a commission for each home loan they settle. Most brokers are remunerated purely based on commission income, even if they own the business.

> "Over 85% of owner/direct brokers receive a commission payment for each home loan they sell and approximately 90% were remunerated wholly based on commission (as owner/director brokers do not usually receive a salary)".[35]

33 Earnings before tax is equal to revenue less cost. This definition is applied consistently hereafter in this report.
34 Note that in accordance with ABS definition, full-time workers are defined as those staff usually working 35 hours or more a week, and part-time staff are defined as those usually working less than 35 hours a week. Casual staff are those staff without paid leave entitlements. An employee can be full-time and casual, or part-time and casual. ABS Cat no. 6202.0 and 6105.0.
35 ASIC (2017), p. 106.

The standard commission model comprises two components:

- **an upfront commission**, usually calculated as a percentage of the loan amount; and
- **a trail commission**, that is substantially lower than the upfront commission and is calculated as a percentage of the outstanding loan balance.

Generally, lenders pay aggregators the commission and the aggregator collects and then distributes commission to the brokers. ASIC calculates that in 2015, **aggregators received an average upfront and trail commission rate of 0.62% and 0.18% from lenders**, respectively. ASIC estimates that **aggregators then pass to brokers an average of 0.54% for upfront commission and 0.14% for trail commission**.[36]

The commission received by brokers varies between lenders and can be affected by a range of factors:

- the type of home loan chosen;
- the credit limit of the loan;
- the loan to value ratio;
- the borrower's credit risk;
- whether the loan is for owner-occupier or investment purpose; and
- the loan payment type (e.g. principal and interest or interest only).

However, industry participants say the reality is that for most types of loans the differences are minor.

36 It is not clear if ASIC included 'clawback' in these estimates. Brokers are often required to pay back some or all of the commission they receive if the loan is paid off or refinanced within a certain time period (PC (2017) p385).

Under the current commission arrangements, an aggregator or mortgage broker does not earn the trail commission if the loan has been found to involve fraud or if any of the following occurs, including that the customer:

- decides to refinance the loan with another lender;
- pays out the loan;
- doesn't make a loan repayment after a period of time; or
- defaults on the loan.

Some lenders determine the amount of commission they will pay to aggregators based on the quality of home loan application submitted. Such arrangements help lenders to evaluate a broker's quality standards and ensure the quality of home loans that they arrange.

For those referred loans that result in settlement, brokers often pass on a portion of their commission to referrers.

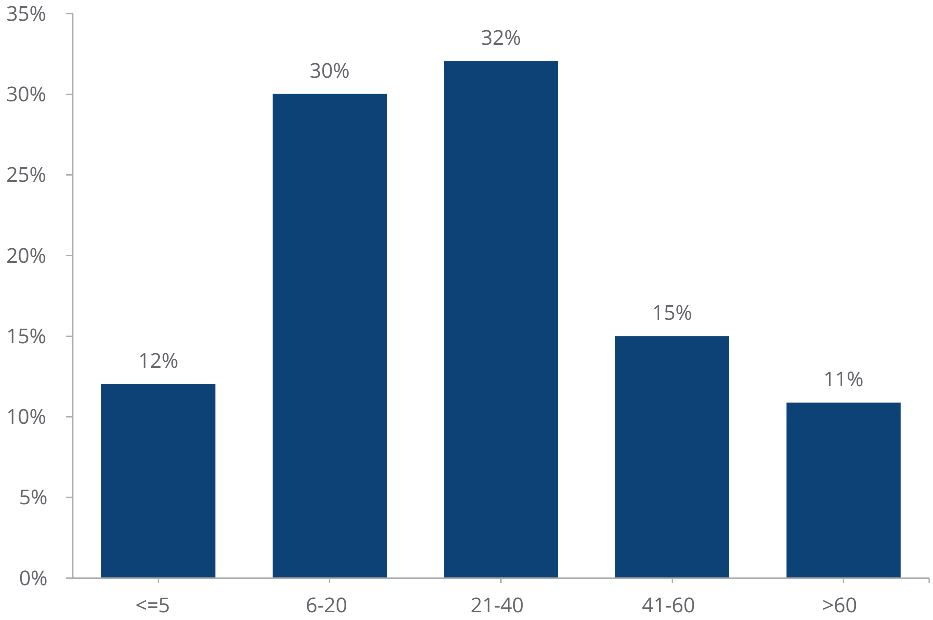
2.9.2. Conversion of opportunities into remuneration

Not all the efforts invested by brokers to assist customers are remunerated through commission payments. An MFAA member survey showed that on average, **for the six-month period to September 2017, around eight out of ten applications lodged by brokers resulted in settlement.**[37]

Mortgage brokers each settled 30 residential home loans, on average, in 2016-17, although this varies considerably by broker (Chart 2.6). For example, 42% of mortgage brokers settled 20 or fewer residential home loans in 2016-17, while 10.9% settled more than 60 loans.

37 MFAA (2017b), p. 33.

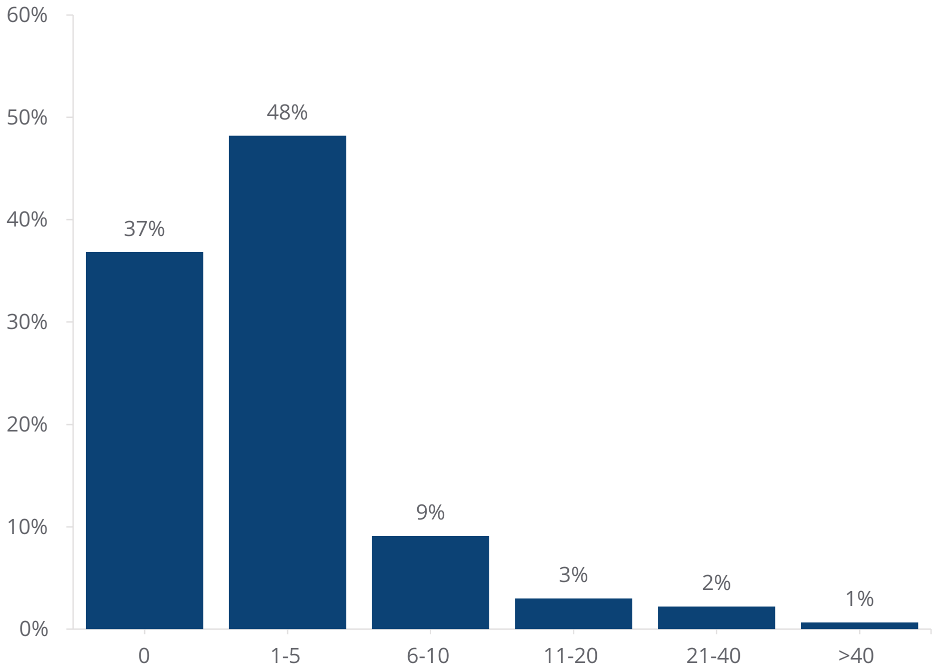
Chart 2.6: Distribution of home loans settled per mortgage broker, 2016-17



Source: Deloitte Access Economics survey (2017)

Some mortgage brokers also arrange commercial loans. On average, **a mortgage broker that arranges commercial loans settled 3 loans in 2016-17** (Chart 2.7). For example, 85% of mortgage brokers settled fewer than six commercial loans in 2016-17, while 2.9% settled more than 20 loans.

Chart 2.7: Distribution of commercial loans settled per mortgage broker, 2016-17



Source: Deloitte Access Economics survey (2017)

2.9.3. Mortgage broker earnings

To illustrate broker's earnings, based on ASIC's estimates of 0.54% for upfront commission and 0.14% for trail commission on the amortising scheduled loan balance:

- A broker would receive an upfront commission of $2,700 from a $500,000 home loan. If this loan lasts for four years, which is on average the life of an Australian home loan, then before the term is up or it is refinanced, brokers could potentially receive an annual trail payment of up to $700 or a maximum trail of $2,800 spread over four years for an-interest only loan and less than $2,800 where principal is repaid.[38]
- If the loan is $371,000, which is the average size of a loan settled in the year to October 2017 reported by the ABS (for owner-occupier loans), and principal is repaid, then the actual commission received by a broker will be less than these amounts.[39] That is, the upfront commission would be about $2,003 and the trail commission generally would be less than $2,077 over four years.

Our survey indicated that, in 2016-17, a sole-trader mortgage broker generated an average income of $86,417 before taxes.

ASIC reported, in 2015, that lenders paid a total of $2.404 billion in commissions to aggregators for third party arranged residential property loans, comprising $1.42 billion in upfront commission and $0.98 billion in trail commission.[40]

38 This estimate assumes refinancing of loans or switching in lender as initiation of a new home loan. See Mortgage Choice (2017), p. 61.
39 ABS 5609.0 Housing Finance, Australia. Tables 10 and 13c.
40 ASIC (2017), p. 9.

Our survey shows that commission income accounts for most of what brokers earn from arranging residential mortgages, at around 95%. Historically, brokers may also have sometimes received other payments: bonus commissions on top of the standard commission payment, and other non-commission related remuneration (also known as 'soft dollar' benefits) based on sales volumes that may have included hospitality and travel, free attendance to courses and conferences, and other rewards and recognitions. However, the mortgage broking industry is implementing changes to remove these types of incentives (Section 2.10 and Appendix D).

2.9.4. Mortgage brokers' costs

Mortgage brokers must cover a range of business costs out of revenue, including:

- staff costs;
- general business operating costs (rent, utility, office supplies, fees paid to aggregators);
- other training and development costs;
- referral fees to referrers; and
- taxes and any interest payments.

2.10. Licensing and accreditation of mortgage brokers

A number of legislative and institutional arrangements exist to govern the professional conduct of mortgage brokers. The professional and ethical conduct expected of mortgage brokers is set out in the NCCP Act and the National Credit Code. Industry bodies also prescribe Codes of Practice to which members agree to adhere.

2.10.1. Licensing

Mortgage brokers provide their credit services to customers under an Australian Credit Licence (ACL) with the conditions of a licence established by ASIC under the *National Consumer Credit Protection (NCCP) Act 2009* (National Credit Act). This Act, administered by ASIC, regulates the activities of persons or institutions that engage in credit activities, including providing credit assistance to consumers and acting as an intermediary between consumer and lender.

A mortgage broker can either hold their own credit licence, or act as a representative of a credit licensee, often their aggregator. A broker must go through a series of competence assessment processes, meet ongoing conduct obligations and be subject to periodic conduct reviews to maintain licence eligibility. Our survey shows that **around 30% of individuals hold their own ACL and around 70% operate as a credit representative** of an aggregator or a larger mortgage broking business.

Chapter 3 of the NCCP Act sets out responsible lending obligations that apply to the licensee when credit assistance is provided to a consumer in relation to a credit contract. Licensees must conduct their business in an efficient, honest and fair manner[41], with the overarching obligation from this chapter being:

"credit licensees must not enter into a credit contract with a consumer, suggest a credit contract to a consumer or assist a consumer to apply for a credit contract if the credit contract is unsuitable for the consumer."[42]

41 ASIC (2017), p.39.
42 ASIC website, see; https://asic.gov.au/regulatory-resources/credit/responsible-lending/.

ASIC's Regulatory Guide (RG) 209 sets out three compliance steps for licensees in relation to regulated lending required by the NCCP Act. Licensees must:

1. make reasonable inquiries about the consumer's financial situation, and their requirements and objectives;
2. take reasonable steps to verify the consumer's financial situation; and
3. make a preliminary assessment (if the licensee is providing credit assistance) or a final assessment (if the licensee is a credit provider) about whether a credit contract is 'not suitable' for the consumer based on the inquiries and information obtained in the first two steps.

2.10.2. Accreditation

Aggregators will register a broker under their ACL and issue a credit representative number if the broker is not licensed. As part of the aggregator onboarding process some require compulsory industry association membership (i.e. FBAA or MFAA). They will then notify lenders on their panel. According to Mark Hewitt, AFG's General Manager – Residential and Broker:

> "Ensuring that AFG's accreditation process is of a high standard is essential in maintaining the quality of its brokers and therefore the quality of customer outcomes."

Brokers have to comply with the lenders' individual accreditation requirements. This involves a series of steps and checks to ensure the mortgage broker is appropriately qualified to talk about that lender's products with a customer. Brokers are only able to recommend a lender's product to a consumer and arrange for a home loan application on behalf of the consumer to the lender if they are accredited by that lender for the specific product.

Lenders and aggregators can use a mixture of financial and non-financial sanctions, such as warnings and counselling processes, through to termination of accreditation, to address poor compliance or poor consumer outcomes.[43]

It is the role of the aggregator to perform due diligence on the mortgage broker and conduct credit checks, police checks, credit ombudsman checks and other checks. As a result, aggregators are predominantly the contracting partner that lenders deal with. The aggregator has the obligation under legislation to ensure that a broker operating as their credit representative, excluding own-licence holders, complies with the National Credit Act.

43 ASIC (2017), pp. 195-196.

2.11. The evolving regulatory landscape

Mortgage broking, like other forms of intermediation, can have a significant influence on consumer and market outcomes. The comprehensive Financial System Inquiry in 2014 noted that there was a clear need to improve consumer outcomes across the financial services sector. Moreover, since the GFC, regulators have been working to reduce risk in the financial system. Given that mortgage brokers originate more than half of all mortgages in Australia, it was inevitable that regulators would also examine the mortgage broking industry.

The industry has been criticised in some quarters, for example, around broker remuneration, remuneration structure, transparency in reporting of relationships between lenders and brokers, disclosure and governance in the sector, and the accuracy of loan applications through the broker channel. The mortgage broking industry and independent commentators have disputed the accuracy of some of these claims, while acknowledging there are areas for improvement, and the industry has been working with regulators and consumer groups and put forward a comprehensive reform package to address the regulator's concerns.

2.11.1. Transparency in ownership structures

An aggregator's role between brokers and lenders can create potential conflicts of interest. Lenders, such as National Australia Bank, Commonwealth Bank of Australia and Macquarie Bank, have ownership stakes in one or more aggregators.[44]

Aggregators may also sell 'white label' home loans, where the identity of the funder of the loan sometimes may not be clear to the consumer. The value of white label loans issued through mortgage brokers has steadily increased in recent years. ASIC estimates that, *"In 2015, white label loans accounted for almost 5.7% of the home loans sold by brokers, up from around 4.4% in 2012."*[45]

As part of ASIC's review into broker remuneration, it was recommended that ownership structures within the home loan market be more clearly disclosed to better inform customers and improve competition in the industry.

2.11.2. Reviews of the commission model

The commission model of mortgage broker remuneration has been the subject of a number of reviews.

44 PC (2018), p. 214.

45 ASIC (2017), pp. 64-65.

ASIC's review of the current commission model did not recommend its removal. Specifically, ASIC considered that:

> "changes could be made to the standard commission model to reduce the risk of brokers seeking to inappropriately maximise their commissions. [We] recommend that a further review is conducted in three to four years to determine whether further (and more fundamental) changes to the standard model are required."[46]

On the payment of trail commission, ASIC stated that it:

> *provides an incentive for brokers and aggregators to put forward higher quality loans where consumers are less likely to default on their obligations;"*[47]

and

> "...although a broker can earn another upfront commission if they do refinance a consumer with an existing home loan from one lender to another, they will lose their trail commission."[48]

46 ASIC (2017), p.11. ASIC (2017), p. 84.

47 ASIC (2017), p. 84.

48 ASIC (2017), p. 85..

The PC has requested information from public submissions to better understand the likely effect on consumer outcomes from a change from the current commission model to one where the consumer pays the mortgage broker directly for their guidance.[49]

2.11.3. Phasing out bonus commissions and soft dollar payments

In ASIC's review of broker remuneration, it was found that volume-based bonus commissions and campaign-based commissions paid by lenders and aggregators present potential conflicts of interest and may put good customer outcomes at risk.

In addition, ASIC recommended a move away from soft dollar benefits which increase the risk of poor customer outcomes and can undermine competition.

The CIF recognised ASIC's expectation that the industry moves away from these commission and payment structures and provided guidance that these should cease by 31 December 2017 which the industry says it has effected.

49 PC (2017), p. 36.

2.11.4. The way forward

The ASIC review of mortgage broker remuneration proposed a number of measures to improve customer outcomes and competition in the home loan market whilst affirming the key role mortgage brokers play in the mortgage market. In the words of ASIC Chairman, Greg Medcraft:

"One thing I want to underline on that report is that we have had some findings that are available to the public, we've got some proposals, but what the bottom line is, is that brokers deliver great consumer outcomes, they deliver competition, and yes, there's some fine tuning, but generally – the result, I believe is very positive."[50]

50 Kane (2017) as reported for The Adviser.

ASIC considered the industry should be given enough time - three to four years - to embed proposed changes, before reviewing it again. The CIF's response to the ASIC review was released in December 2017, containing measures to address ASIC's recommendations.[51] The group released a package of reforms to *"ensure better consumer outcomes and improved standards of conduct and culture, while preserving competition in mortgage broking."*

The mortgage broking industry's combined industry approach to responding to the ASIC recommendations is outlined in Appendix D.

51 The CIF includes lenders, aggregators, brokers, the Australian Banking Association (ABA), MFAA, FBAA, Customer Owned Banking Association (COBA), and the Australian Finance Industry Association (AFIA)

3 Mortgage broking and the economy

The emergence of mortgage brokers since the deregulation of the Australian banking system in the early- to- mid 1980s has enabled the entrance of new players into the Australian home loan market, heightening competitive tension and driving choice and innovation, to the benefit of consumers.

In this chapter we look at how mortgage brokers have facilitated competition, choice and innovation. We estimate how much the mortgage broking industry contributes to economic growth (gross domestic product, or GDP) and employment. The chapter concludes with a summary of the social benefits of increased access to home ownership that is facilitated by mortgage brokers

3.1. Competition, choice, and innovation

The mortgage broking industry is made up of a cross-section of businesses active in the home loan market, including aggregators, broking businesses and individual brokers, operating a variety of business models and remuneration arrangements and with different licensing structures. What the businesses have in common is that, via choice and innovation, they promote competition in the mortgage market, which can result in cost savings for borrowers and lenders.

3.1.1. Competition

The emergence of the mortgage broking channel (in conjunction with deregulation) led to competing suppliers entering the mortgage market. Before the introduction of mortgage broking, there were fewer lenders to choose from and the offering of mortgage products was relatively homogenous. However, the advent of aggregators and brokers increased the diversity of access to credit, especially from smaller domestic and foreign lenders, and forced incumbents in the market to introduce new product features and service offerings in order to compete. Chart 3.1 shows mortgage broker origination for ADIs in 2016-17.

Around 26% of Australian home loans are not originated by the (four) major banks.[1] By value, about half of broker arranged home loans are placed with the non-major banks and non-ADIs.[2] Assistant Treasurer, Kelly O'Dwyer, said:

1 APRA. (2017). Quarterly ADI property exposures statistics, September 2017 Quarter. MFAA's Quarterly Survey of leading mortgage brokers and aggregators (produced by comparator which is a CoreLogic company) for July, August and September 2017.

2 MFAA's Quarterly Survey of leading mortgage brokers and aggregators (produced by comparator which is a CoreLogic company) for July, August and September 2017.

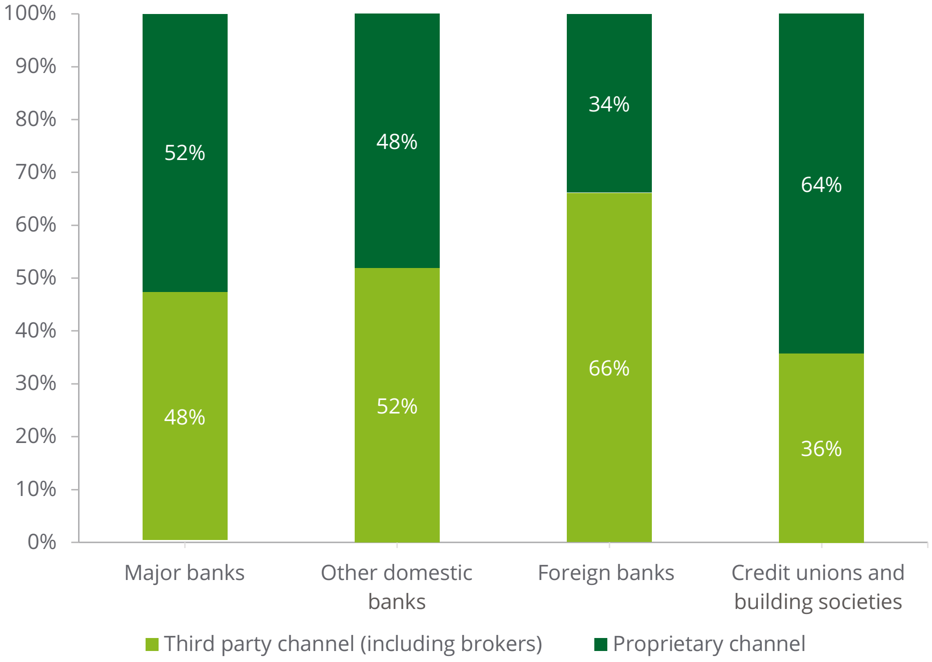
"The Government recognises that mortgage brokers play an important role with more than half of all home loans originated by brokers and 26% of these loans written to non-major lenders, compared to only 12% of loans written outside the broker channel."[3]

Mortgage brokers bring competition to the mortgage industry by facilitating access to lenders other than the four major banks and their affiliates. This share of mortgage broker originated home loans has increased from 21.4% in 2013 to 27.9% in 2017.[4]

3 Media Release, 29 August 2017

4 MFAA (2017c), p.5

Chart 3.1: Origination channel for residential loan approvals for ADIs, 2016-17



Source: APRA, Deloitte Access Economics

As more and more mortgage originators entered the market, lenders were forced to compete more strongly with each other for business. This put downward pressure on home loan interest rates and bank net interest margins.[5]

Mortgage brokers provide market discipline by facilitating price and fee discovery. Their guidance enables borrowers (and lenders) to have greater visibility of which lender is, for example, offering a lower mortgage interest rate or better product features. This drives competition.

5 Australian Parliament (2011), p. 61.

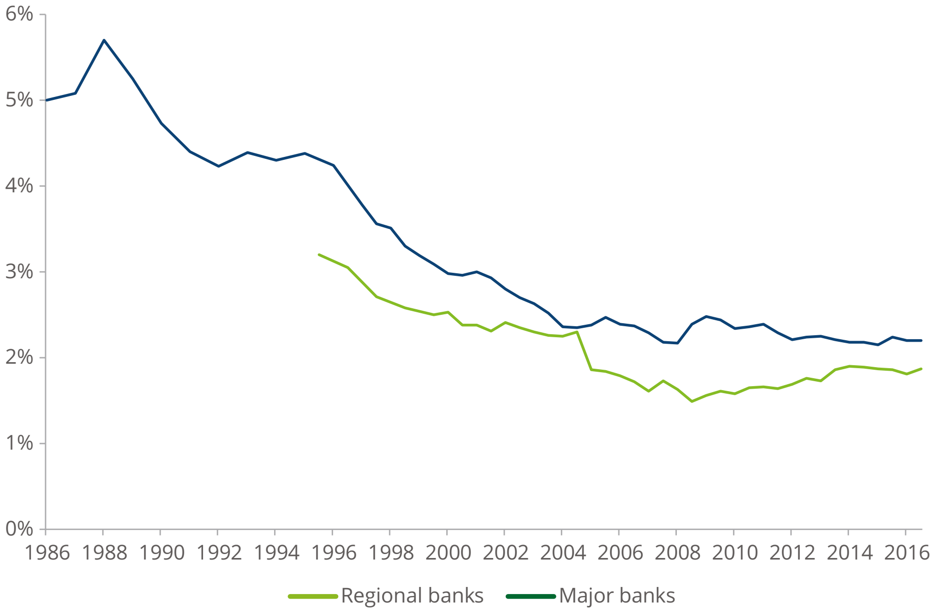
The market discipline provided by mortgage brokers continues to this day:

"Even though there have been no new major entrants [to the mortgage market since the GFC], a narrowing of funding cost differentials, increased use of brokers and consolidation among smaller institutions appear to have boosted competitive pressures more recently."[6]

6 RBA (2017a), p. 2.

Variable interest rate levels across all lender types have dropped substantially from the early 1990s in conjunction with the increase in the number of participants in the mortgage market. That said, the net interest margin is a more accurate indicator of price pressures than interest rate levels because it better controls for movements in the economic cycle. The growing level of competition in the mortgage market, combined with new sources of funding (e.g. residential mortgage backed securities, or RMBS), and financial market deregulation, saw net interest margins for banks fall by over three percentage points over the past three decades (as shown in Chart 3.2 below). This has generated significant social and economic benefits for the Australian economy.

Chart 3.2: Net interest margins, major and regional banks



Source: Reserve Bank of Australia
Note: AGAAP to 2006 then IFRS; yearly to 1998 (2001) for majors (regionals) then half-yearly; majors include St George Bank from 1993 and Bankwest from 2009.

This is a saving in costs to consumers, but the total cost of a home loan from banks to consumers can be more complicated. Other dynamics affect mortgage interest rates too, including changes in bank and other financial institution business models.[7]

The PC's Review of Competition in the Australian Financial System noted that home loans arranged by mortgage brokers are just slightly lower in interest rates than those originated through direct lender channels. This suggests that lenders do not discriminate between direct and broker channels. The PC did not consider, however, what average home loan interest rates across both channels would be without mortgage brokers providing market discipline.

7 For example, home loan exit fees were abolished in 2011. See; Australian Government (2010). Competitive and Sustainable Banking System, December 2010, p. 7.

Since the GFC, there has been increased focus on stability in the financial system. Competition in the mortgage market has increased, yet residential mortgages have remained a safe asset class for Australian banks with non-performing housing loans remaining at less than 1% of total housing loans over the past two decades.[8] This suggests that although there has been a gradual increase in the share of residential loans arranged through the mortgage broker channel, to date it has not affected the overall quality of Australian housing loans.

8 RBA (2017b), p. 20.

3.1.2. Choice

Mortgage brokers facilitate choice by allowing consumers to search and compare the market more efficiently and transparently. Increased choice helps reduce credit rationing; it gives particular customer segments greater opportunity to find a lender that will accommodate their financial circumstances. Consequently, there has been an increase in the number of mortgage products that better satisfy the needs of particular customer groups, including interest-only loans for investors, high loan-to-value (LTV) loans for borrowers with high incomes but lower savings and alternatively documented and verified loans for self-employed customers with limited financial documentation.

International evidence

The benefits of choice and competition in mortgage markets have been the subject of international studies.

There are clear quantifiable benefits associated with increased choice. A study undertaken in Europe has shown that **a borrower who shops for five mortgage offers is able to save, on average, at least €7,078 over the life of the mortgage.**[9]

However, fully realising the benefits of choice requires considerable judgement and knowledge. Choice can impose costs on the customer, including investment of time and regret from making the wrong decision.[10] The service provided by a broker can help to mitigate these problems and costs. Brokers give specialised advice to individuals and assist them in making better financial decisions, thereby reducing the risk of consumers taking on inappropriate mortgage products. By providing face-to-face interaction and improved financial literacy to a borrower, mortgage broker involvement has been shown to improve the performance of a mortgage and reduce the level of ex post default (i.e. the risk that borrowers will not repay their loans after settlement).[11]

A London Economics study analysed the costs and benefits from the integration of the different European mortgage credit markets into one. They wanted to understand what would be the result of the same, broader range of mortgage products becoming available in all countries. This would then lead to the development of a more sophisticated mortgage market due to innovation and better access for consumers to access appropriate products that meet their needs and thereby reduce their risks. On a whole-of-economy level, this would then increase consumer's demand for mortgages and housing, thereby stimulating consumption and overall GDP. Mortgage brokers were identified as a possible distribution channel for lenders looking to access other European countries.

9 Damen & Buyst (2016), p. 1.
10 Loewenstein (2000), p. 3.
11 Conklin (2014)

After 10 years, the **increased availability and choice of mortgage products would add up to 0.6% to GDP** and **gains from interest rate spread convergence would amount to an additional 0.1% increase to GDP**. After 10 years, t**he cumulative net benefits were estimated to be €90-99 billion** (based on 2005 price levels).[12]

3.1.3. Innovation

The introduction of the mortgage broking channel challenged the traditional way of delivering credit services through a physical branch network by **offering credit assistance at a time and place of the consumer's choosing**. Mortgage brokers have become known for providing services outside business hours and at a location that is more convenient for the customer, including at home or in the broker's professional office(s).

Brokers have contributed to the development of **digital innovations that have improved the efficiency of lending processes**, especially in the application stages of a loan. Brokers typically use software platforms provided to them by aggregators. In response to broker demand for more efficient and customer-friendly application processes, aggregators have over time developed customer relationship management (CRM) software platforms that often allow brokers to not only better manage the application and post-settlement process, but also allows customers to follow up on the progress of their application through a client portal.

In addition, lenders have also improved the efficiency of their processes to better compete for broker customers. The growth of mortgage brokers as a distribution channel has required lenders to invest in new systems that better accommodate the sale of products through the broking channel. This has resulted in **significant changes in areas such as electronic loan submissions, automated valuations, and adoption of digital channels to transmit data and engage with customers.**

12 London Economics (2005), pp. 5-9.

3.2. Contribution to the Australian economy

The mortgage broking industry contributed an estimated $2.872 billion to the Australian economy in 2017 and supported the employment of 27,144 full-time equivalent (FTE) workers.

The mortgage broking industry directly generated $1.83 billion in wages and profits (gross operating surplus or GOS) and directly employed 20,297 FTE workers. Mortgage broking indirectly supported Australian businesses in other industries in the economy, contributing $1.04 billion in wages and profits and employing 6,847 FTE workers (Table 3.1).

Table 3.1: Total economic contribution of the mortgage broking industry, 2016-17

	Direct	Indirect	Total
Wages ($m)	$1,487	$428	$1,916
Gross operating surplus ($m)	$346	$610	$956
Value added ($ m)	$1,833	$1,039	$2,872
Employment (FTE)	20,297	6,847	27,144

Source: Deloitte Access Economics analysis

This section summarises the results of the economic contribution analysis, with detailed methodology and approach presented in Appendix C.[13]

13 The economic contribution of the mortgage broking industry is measured in terms of the gross value added (GVA) to the economy and the number of FTE workers the industry employs. GVA is the difference between the value of the inputs (i.e. labour, capital) into the mortgage broking industry and the value of the outputs (i.e. the services they provide). The sum of GVA across all entities in the economy equals gross domestic product (GDP).

3.2.1. Direct economic contribution

The direct economic contribution of mortgage broking comprises the wages (the income earned by individual brokers and support staff) and profits (gross operating surplus (GOS)) of mortgage broking businesses, plus taxes.
To calculate the direct economic contribution of the mortgage broking industry, we made the following assumptions:

- average broker commissions reported in our survey are representative of the entire industry. Wages paid to support staff in broking businesses and aggregators in our survey are representative of the entire industry;
- the ratio of FTE support staff to FTE brokers is 0.5 to 1;
- 90% of the sole-trading brokers are working full time;
- the shares of revenue allocated to wages, non-wage costs and profits (EBITDA or GOS) in our survey are representative of the entire industry; and
- the ratio of aggregator commissions to broker commissions is based on ASIC's reported commission rates for 2015. The ratio for upfront commissions is 0.62 to 0.54.

Wages paid comprise commissions paid to brokers as well as wages paid to support staff in broking businesses. However, as many brokers are sole traders engaged by broking businesses (as distinct from employees of those businesses), the Australian Bureau of Statistics (ABS) treats their earnings differently to wages (i.e. as 'GOS and mixed income'). Our estimate of wages is $346 million, which excludes commissions paid to sole traders.

The **profits** (GOS) of the mortgage broking industry includes the estimated profits for broking businesses ($327 million) and sole-trader brokers ($825 million).[14]

For Aggregators, we have estimated the total value added (i.e. sum of wages and profits) to be $335 million. There is not a reliable measure on the split between wage and profit for aggregators due to lack of responses to the survey.

Based on our survey, **FTE employment** in mortgage broking is estimated to be 20,297. This includes 13,040 FTE brokers (8,246 FTE sole trading brokers and 4,794 FTE brokers in broking businesses) and 7,257 FTE support staff (including 737 in aggregator businesses).

The **direct economic contribution** of the mortgage broking industry in 2016-17 is estimated to be $1.83 billion, made up of $1.49 billion in GOS and $346 million in wages.

3.2.2. Indirect contribution

The indirect economic contribution of mortgage broking is the economic activity and jobs created in service industries supplying inputs to the mortgage broking industry.

Our estimates assume:

- the structure of broking businesses' non-wage costs in our survey is representative of all mortgage broking businesses; and
- the ABS includes mortgage brokers in the Auxiliary Finance and Insurance Services industry category and our estimates assume mortgage brokers have the same expenditure profile as the wider group. Chart 3.3 shows the share of expenditures of this industry from the ABS database.

14 GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation and amortisation (EBITDA).

The indirect economic contribution of the mortgage broking industry is estimated to be $1.04 billion in value added ($428 million GOS and $610 million wages) and 6,847 FTE jobs in 2016-17.

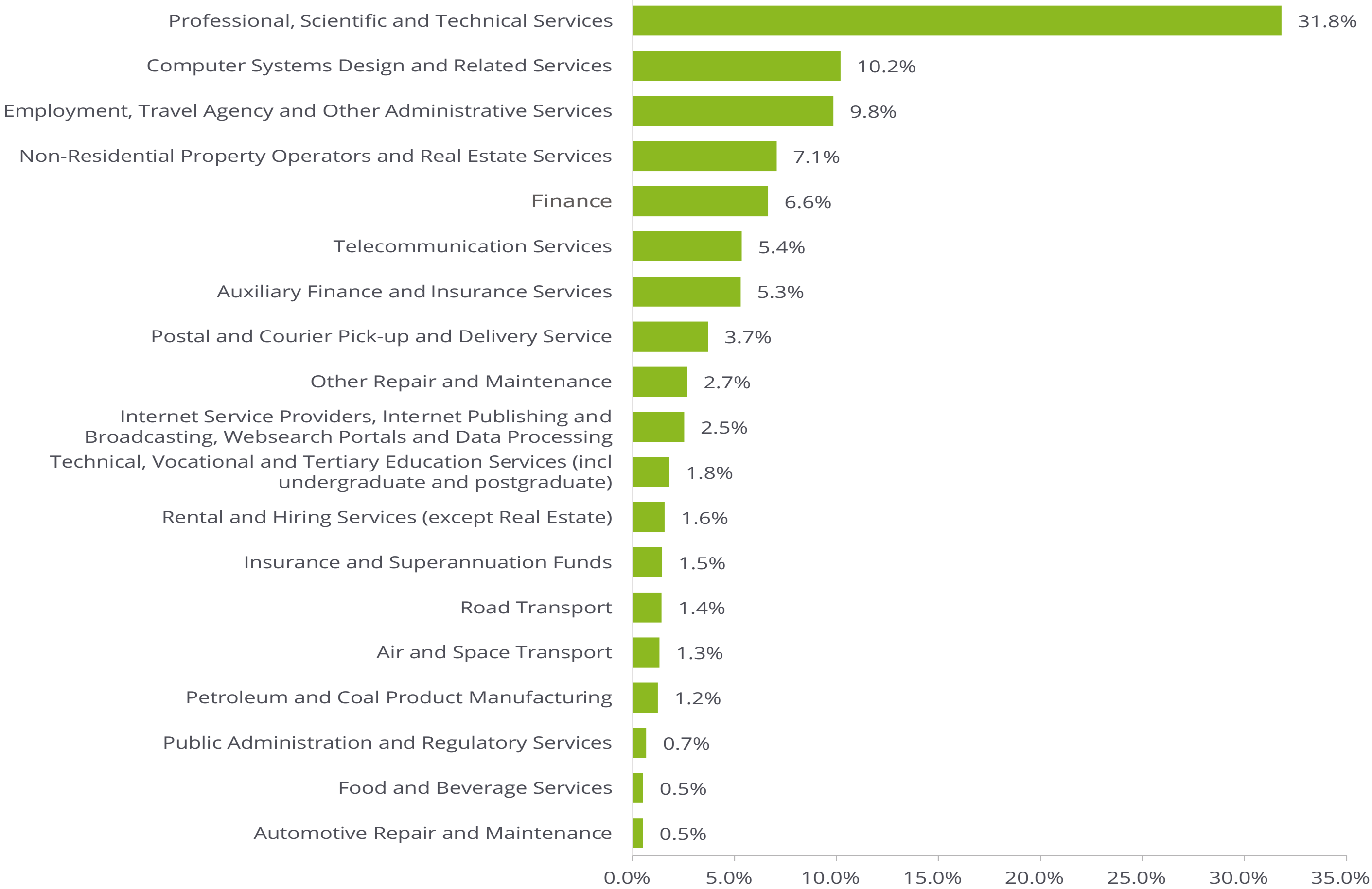
3.2.3. Total contribution

The total annual economic contribution of the mortgage broking industry is $2.872 billion in GVA and 27,144 FTE jobs in 2016-17, as shown above in Table 3.1 (p. 32).

By way of comparison, the economic contribution of mortgage broking is of a similar size to:

- cement, lime and ready-mixed concrete manufacturing ($2.80 billion), dairy product manufacturing ($2.70 billion) and motion picture and sound recording ($2.64 billion) industries in GVA; and
- the waste collection, treatment and disposal services (25,100 FTE), electricity generation (25,800 FTE) and iron and steel manufacturing (27,500 FTE) industries in employment.

Chart 3.3: Share of goods and services purchased by the Auxiliary Finance and Insurance Service industry



Source: ABS I-O tables 2014-15, Deloitte Access Economics analysis

3.3. Social benefits of increased home ownership

Mortgage brokers have assisted a wider range of borrowers to better and more readily access finance for home ownership, including first-home buyers and the self-employed. Our survey found that **around 23% of broker customers were first-home buyers and the ABS estimated that FHBs accounted for 18% of all Australian housing finance** in November 2017.[15]

15 ABS Cat no. 5609.0 Housing Finance, Australia, November 2017, Table 9a and Table 1.

Increased access to home ownership provides significant social benefits compared to renting.

- Communities with a higher share of homeowners are likely to be stronger and better cared for because the value of properties are tied to the quality of the community. Additionally, home ownership gives people more incentive to be involved politically and make political choices that favour the long-term health of their community.[16]
- Children of homeowners are more likely to stay in school longer than children of renters, particularly for low-income households. Children of homeowners are 9% less likely to drop out of school than children of comparable renters.[17]

16 Glaeser & Shapiro (2002); Fichtner & Feldman (2014).
17 Green & White (1997).

- Home ownership enables older people to afford more of the costs of older age, including for aged care. The health benefits of residential care afforded to people living at home compared to institutional care are well established and recognised.[18]

By assisting in the process of home ownership, mortgage brokers assist government in delivering a higher, more equitable standard of living across different communities.

18 Victorian Government Department of Human Services (2003).

4 Consumer value proposition

Mortgage brokers educate and help consumers navigate the complexities of the mortgage market. They help consumers obtain a mortgage product that meets their financial circumstances and needs appropriately. This is especially important for time-poor consumers and those customer segments whose financial circumstances make it more difficult to secure a loan.

This chapter explains the value that mortgage brokers deliver to consumers through the lifecycle of a loan arrangement, and outlines the benefit they provide in terms of educating customers, accessing finance, time and financial savings, and customer service. The analysis draws on data from public sources, data from our survey of brokers and interviews with industry professionals.

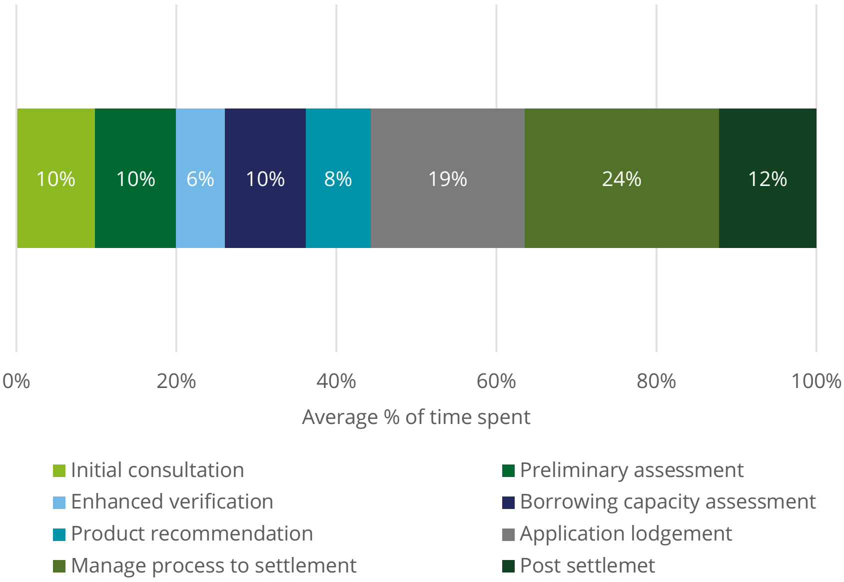
4.1. Life cycle of broker's involvement

Mortgage brokers support Australians throughout the mortgage application process. Mortgage brokers invest time and effort advising customers at each stage of the application process, from the initial consultation to the loan settlement and then post-loan settlement.

Most brokers receive the bulk of their business through referrals from existing customers and word of mouth (i.e. recommendations by family and friends). Consumers that go through mortgage brokers value the personal relationship and the support offered by brokers throughout the life of the loan. Based on our survey, 70% of a broker's business comes directly or indirectly from existing customers demonstrating high levels of customer satisfaction.

The time spent on each successful mortgage application varies considerably. On average, based on our survey, lodging the application and managing the process to settlement are the most time-intensive tasks. Around 45% of the process occurs before the application is lodged (Chart 4.1).

Chart 4.1: Share of time spent per stage of mortgage application process



Source: Deloitte Access Economics survey (2017)

The **initial consultation, preliminary assessment** and **enhanced (customer) verification** are undertaken to ensure correct and required financial information regarding all customers is collected and the customers are appropriately identified for a risk assessment. About a quarter of the approval process is spent in these pre-application stages on consultation and risk assessments for each mortgage application (Chart 4.1).

After this, a mortgage broker has a more informed and complete understanding of the consumer's financial circumstances, needs and plans. This information is used to **assess the customer's borrowing capacity** based on the lender's specified credit requirements for different products. Brokers typically invest a significant amount of time and effort in pre-screening applications and matching customers to lenders and their products, commonly resulting in applications that are more likely to be approved by a lender.[1]

1 Deloitte (2017c).

In the consultation to **recommend the appropriate products**, a mortgage broker explains the products available and guides the consumer to compare the product and price offering of shortlisted products. Upon the customer's decision on the preferred product, the mortgage broker explains to the customer the required steps to prepare the loan application and how they will help the customer manage the application process. The broker then collects the required documentation to prepare the loan application and **lodges the application** on behalf of the customer. The broker then **manages the loan approval process to settlement**. A broker, Nicole Cannon, owner of Pink Finance, recently said:

"Loans are only written for those that meet the lender prescribed application criteria and those that they believe contain genuine financial information and reflect the loan applicant's financial circumstance.[2]"

Post-loan settlement, mortgage brokers usually follow up on the client to ensure their current mortgage configurations still meet their needs. Our survey suggests that almost all (99%) mortgage brokers follow up their customer in some form, whether via email, newsletter, social media or direct contact.

Notably, the steps outlined above do not include time spent on acquiring customers, general marketing and running a business or on applications that do not proceed. The broker is only reimbursed for their effort if an application leads to a loan settlement.

2 Nicole Cannon, owner, Pink Finance (2017).

4.2. Education and advice

Increased choice has made the task of choosing a mortgage product more challenging for consumers. Mortgage brokers can assist consumers by providing informed guidance through the range of mortgage products available to them. This helps prospective borrowers to make better decisions when choosing a mortgage product, either from the lenders on the shortlist provided by the broker or directly from their lender of choice.

In today's **increasingly complex** mortgage market, information is not fully transparent and easy to digest. Consumers need the time and financial literacy to understand the range of possible mortgage products available and how the differences in product and price offerings between lenders affect them. Mortgage brokers reduce search and matching costs for consumers by helping them compare deals across lenders.[3] This **helps those consumers that are information- and time-poor** to avoid the costs associated with expanded choices. Brokers are there to educate and advise customers on this process.

"From a consumer outcomes perspective, in a well-performing market, brokers can help match the needs of the consumer with the right home loan product and lender; navigate the [complex] home loan application process which can be daunting for many consumers; and improve consumer understanding of home loans and financial literacy."[4]

3 RBA (2017a) pp. 23-24.
4 ASIC (2017) p. 8.

The personal financial information that a broker collects from a customer puts them in a good position to advise their customers on the suitability of particular mortgage products. A mortgage broker can use this information to **analyse a customer's financial situation and gauge a customer's risk tolerance** to certain mortgage configurations.[5]

In some cases, the advice offered by a broker to secure finance can assist customers to meet their objective in using their mortgage(s) to create wealth or to reduce the amount of interest paid over the life of a loan.

By educating consumers, mortgage brokers make it **easier the next time** a customer needs to go through the loan application process. Twenty seven percent of broker customers said that they would consider doing the entire application process online in future after having had a broker educate them about mortgage options, considerations and the potential implications of their mortgage configuration on their financial position.[6]

5 IBISWorld (2017) p.8
6 Deloitte (2016)

4.3. Access to finance

Mortgage brokers provide consumers access to **a diverse range of lenders and products**. If prospective borrowers go directly to a lender, they will only have access to that lender's mortgage products. Moreover, access to some lenders is only available to customers through mortgage brokers, for example, ING, Liberty and Pepper either only or predominantly distribute their loan products through brokers. There are also those lenders that, due to geographic reasons, predominantly distribute products through brokers outside of their home base, for example, Heritage Bank, Suncorp and Bankwest.

Having a diverse range of products available makes it more likely that the needs and financial circumstances of individual customers are more appropriately accommodated. The mortgage broking channel has also **improved access for those customer segments with unusual or complex financial circumstances** that may not align well with traditional lending criteria, such as investors and self-employed applicants. The mortgage broking channel **connects these consumer segments with lenders** that are more willing to accommodate different financial circumstances.

Using an aggregator's systems and software, mortgage brokers can search through a range of products available from a panel of bank and non-bank lenders. In 2016-17, mortgage brokers, on average, **could offer products from 34 different lenders** through their lender accreditation (Chart 4.2). Of these, **mortgage brokers used an average of 10 different lenders from their panel** to settle loans based on prospective borrower's financial circumstances, needs and preferences.

Chart 4.2: Broker usage of lending panel, 2016-17

Source: Deloitte Access Economics survey (2017)

Mortgage brokers typically deal with a **higher proportion of first-home buyers and investors** than the direct lending channel. In our survey, mortgage brokers indicated that:

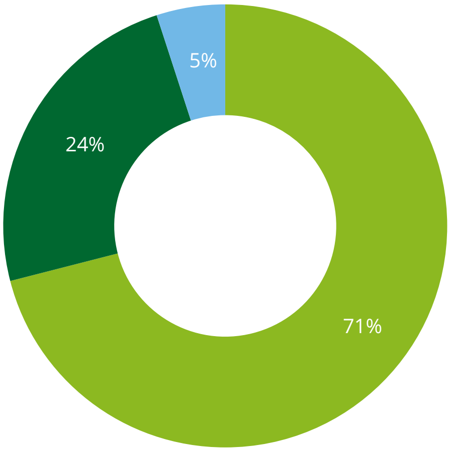
- 23% of their customer base were described as first-home buyers and the ABS estimated that FHBs accounted for 18% of all Australian housing finance in November 2017;[7] and
- 33.5% of their customer base were residential investors, 57.3% were residential owner-occupiers and 9.2% were commercial and business customers.

7 ABS Cat no 5609.0 Table 9a and Table 11.

In addition to enabling a wider range of consumer segments to access finance, mortgage brokers have helped to expand the geographic reach of the mortgage industry. Consumers in regional and rural markets had a relatively limited choice of the number of lenders before the emergence of the mortgage broking channel. The cost of establishing a physical branch network in these areas was a major hurdle for lenders seeking regional and rural presence. Mortgage brokers in these areas have **increased regional and rural residents' access to a greater range of mortgage products.**

Through improving access to finance, brokers have also improved the likelihood of customers being matched with lenders that will accept their loan application. Brokers have assisted prospective borrowers to be aware of the range of lenders that is available in Australia, especially of those lenders that may not have a strong branch presence in their regional and local market. **In 2016-17, 29% of mortgage broker customers were located in regional and rural areas** (Chart 4.3). For rural customers in particular, the mortgage broking channel has improved access to lenders that have an appetite for agricultural lending.

Chart 4.3: Location of mortgage broker customers



Source: Deloitte Access Economics survey (2017)

Brokers have enabled some borrowers to access home ownership that would have had their applications refused if they went through the branch channel.[8] In its review, ASIC found there was a **similar level of risk for consumers that use brokers compared to direct-to-lenders:**

- the profile of consumers that use brokers differed from those that go directly to lenders and *were more likely to have gone into arrears by both 30 days and 90 days than proprietary loans;*[9]
- consumers who used brokers *"tended to have higher loans, hold properties of lower value, have a higher loan-to-value ratio, be more likely to take out interest-only loans, and have a higher loan-to-income ratio";*[10]
- however, when ASIC controlled for differences in borrower and loan characteristics between the two distribution channels, the likelihood of going into arrears for broker arranged loans was *reduced and for some lenders no longer apparent.*[11]

8 Deloitte (2017c).
9 ASIC (2017), p. 16.
10 ASIC (2017), p. 154.
11 ASIC (2017), p. 16.

4.4. Savings on mortgage loans

A broker's understanding of the mortgage market can, in some circumstances, lead to increased bargaining power for the consumer when it comes to negotiating with lenders. This can result in cost savings for borrowers. A consumer can also use the advice of a broker and then negotiate directly with a lender. In that situation, the broker would usually receive no compensation for the time they invested.

It is important to note that broker customers do not necessarily consistently get greater discounts on their loans than those customers that go directly to lenders. ASIC did not find broker arranged loans were either more or less expensive, on average, compared to other lender distribution channels.[12] The PC found that brokers obtain slightly lower interest rates for the home loans they arranged compared with home loans originated through direct channels.[13] The main saving for broker customers comes from the broker knowing the market and being able to negotiate with lender(s) to provide a better deal and one that is appropriate for the customer's circumstances. This depends on the loan size and the lender's offerings. Lenders provide different discounts on standard variable rate loans. Brokers typically have a more informed understanding of the level of competition between lenders and are thus able to provide guidance on the better deals that are available in the market.

12 ASIC (2017), p. 15.
13 PC (2018), p. 35.

Mortgage brokers typically try to reprice a mortgage with the existing lender before suggesting their customer considers switching lenders or refinancing.[14] IBISWorld estimates that 18.3% of what brokers do, by value, is provide repricing and refinancing services for consumers post-loan settlement.[15] This is particularly beneficial for customers that are loyal to their current lender or unwilling to invest the time and effort to switch lenders. Only one in four mortgage holders who have refinanced their loan in the last three years have switched lenders.[16]

4.5. Customer service and quality of advice

Price is not all that is important to those consumers that go through mortgage brokers. The service and quality of advice offered by a mortgage broker has clear value for consumers.

Consumers who go through the mortgage broking channel value the relationship that comes from the personalised service offered by a broker and the convenience, flexibility, accessibility, guidance and advice they receive from a broker. Consumers that choose to go through mortgage brokers look to the mortgage broker as a trusted adviser who can help them feel confident in getting a suitable product and price.[17]

The advance of technology has also meant that mortgage brokers are increasingly using multiple physical and digital communication channels to provide their service. That said, customers still value the personalised service that brokers offer with 62% of broker interactions conducted through physical channels such as face-to-face, phone and mail. Face-to-face interaction is especially important to customers, with only 5% of existing customers saying they would in future use neither a broker nor direct to lender channel but instead do it themselves directly via online services.[18]

14 Deloitte Access Economics broker focus group (2017).
15 IBISWorld (2017), p. 12.
16 RFi Group (2018).
17 Deloitte (2016), p. 9.
18 Deloitte (2016), p. 5.

Brokers have an incentive to provide good customer service and quality of advice. Building a strong positive relationship and reputation with existing customers is good for their business. Our survey indicates that, for a typical broker, **four in ten leads come from repeat business with existing customers and three in ten leads come from referral by existing customers**. It has been shown that face-to-face interaction between brokers and borrowers can improve the performance of a mortgage and lower default rates.[19]

Mortgage brokers can also act as referrers of additional services to customers, such as financial planning and wealth management services. In response to growing demand from customers, many businesses that traditionally only offered mortgage broking now provide other financial services. Mark Stevenson, Managing Director, Bell Partners Finance, said:

> "with 90% of business coming from referrals, the mortgage broking channel has been essential in generating business for the accounting and consulting streams of the business".

19 Conklin (2014).

Similarly, Nicole Cannon, owner and operator of Pink Finance, a small broking business, said that:

> "[Pink Finance] not only settles mortgage loans, they in addition help customers with more complex needs; for example, looking to purchase land for construction, fly-in fly-out workers, permanent residents who are not citizens, small businesses seeking cash flow loans to meet tax payments or owner occupiers who get paid irregularly."

4.6. Improving customer outcomes in the future

In ASIC's review of broker remuneration, it was recommended that the broker industry focus on improving customer outcomes by establishing a new, customer-centric public reporting regime.[20]

The CIF, which brings together industry and consumer representatives, proposed defining a 'good customer outcome' as:

> "The customer has obtained a loan which is appropriate (in terms of size and structure), is affordable, applied for in a compliant manner and meets the customer's set of objectives at the time of seeking the loan."[21]

With this proposed definition as the goal, the CIF has proposed specific reforms to improve transparency and customer outcomes into the future including a range of disclosure and public reporting requirements to be put in place by the end of 2018 (Appendix D).

20 ASIC (2017), p. 23.
21 CIF (2017).

5 Lender value proposition

Mortgage brokers provide lenders with another distribution channel beyond their branch networks. Lenders benefit from mortgage brokers:

- broadening their customer reach; and
- reducing their risk of being too concentrated on a particular segment or geography.

The value proposition is relatively greater for smaller lenders and non-ADIs that compete with larger banks that have a more extensive physical branch network.

This chapter explains how mortgage brokers serve as an effective, flexible, variable and scalable distribution channel for different types of lenders. The analysis draws on industry data and insights from senior industry participants. The chapter also discusses differences in channel costs.

5.1. Wider distribution channel

Mortgage brokers provide lenders with a distribution channel that complements existing branch networks or stands in for them where none exist.

5.1.1. Broader consumer reach

In some circumstances, brokers are more geographically dispersed and have access to a wider range of consumer markets than the direct lender channel. Greater utilisation of the broker channel has expanded lenders' reach into new consumer markets. Moreover, as many consumers have demonstrated a preference for the broker channel over branches, lenders need to use brokers to access this sector of the market.

5.1.2. Market sensing

In those areas where a lender has a relatively limited physical presence, lenders can use feedback from brokers to inform future decisions around product and service offerings. Mortgage brokers can be an independent source to inform competitor analysis and market trends. As a result, mortgage brokers have been an impetus for the offering of a number of mortgage product features that we see today such as: lines of credit, redraw facilities, offset accounts and split loan accounts and the introduction of house and land packages for construction loans. James Boyle, Chief Executive Officer at Liberty Financial, said:

"We value feedback from brokers and they are reliable in letting us know which group of customers are in need of help or require different solutions."

5.1.3. Lender segments

Mortgage brokers are the main distribution channel for smaller lenders, including regional banks and non-ADIs with limited branch networks. Without mortgage brokers, smaller lenders would have to incur the cost of establishing additional branches to distribute their products outside their local market or face the prospect of withdrawing from the market. Having a large branch network helps build customer loyalty and maintain the relationship with existing customers. The four major banks in Australia are backed by their large branch networks. However, the cost of a branch exists regardless of its success. The advantage of having access to the broker channel is that it is more flexible and more readily scalable than the direct channel for distribution, especially in the event of changed economic conditions. Michael Trencher, Head of Broker Distribution, Heritage Bank, said:

"The key benefits of the mortgage broker channel [to lenders] are scale, distribution, broadening service and providing access to other areas of key banking services."[1]

1 Michael Trencher, Head of Broker Distribution, Heritage Bank, 2017

All types of lenders use mortgage brokers, including: major banks, regional banks, international banks and other smaller lenders. However, brokers are relatively more important for smaller lenders, as shown by the gradual increase in the share of new lending arranged by brokers for lenders other than the four major banks and their affiliates (Chart 5.1). **By value of lending, around 28% of home loans arranged by mortgage brokers in the September quarter 2017** were for lenders other than the four major banks and their affiliates and 7% were broker's 'white label' products.

5.2. Diversification of risk

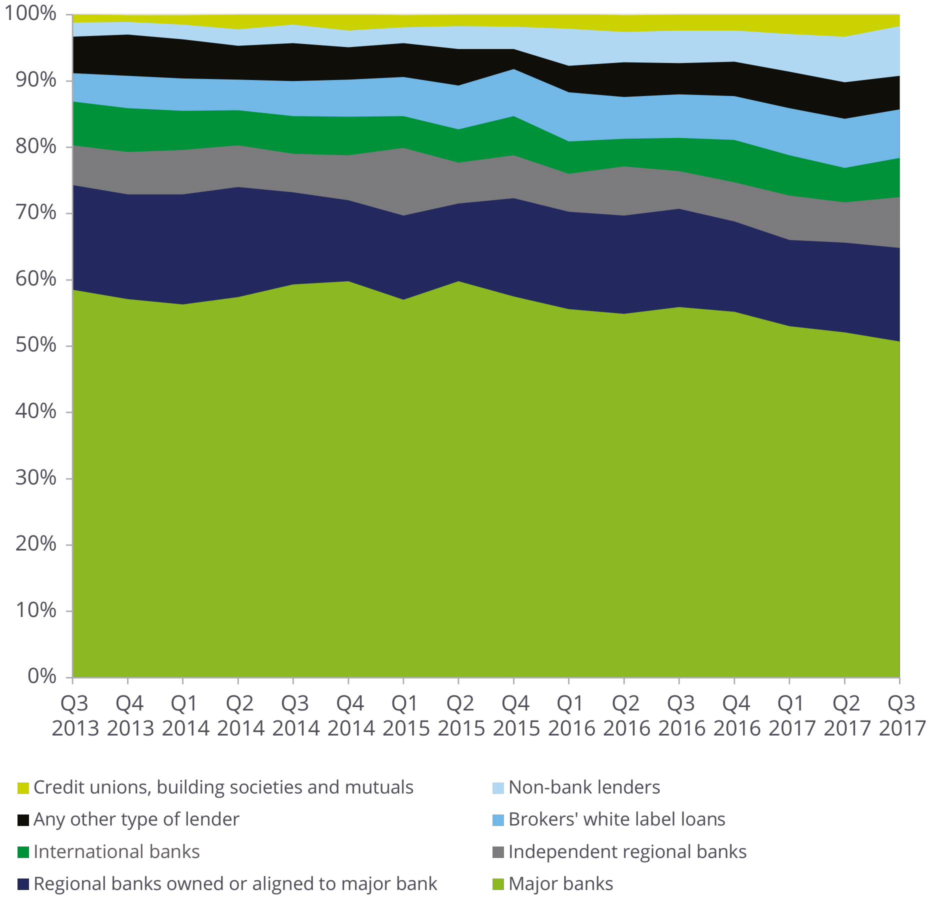
Mortgage brokers can also play a role in diversifying the level of risk on a lender's mortgage book. For example, the National Australia Bank uses the broker channel to diversify the types of borrowers they have on their mortgage books, leading to a more balanced loan portfolio.[2]

For smaller ADI lenders, especially if regionally based, concentration of their mortgage exposures in a specific geographic region is a risk. Mortgage brokers provide them with an opportunity to diversify outside of their home territory, including interstate. This makes them less vulnerable to shocks that hit a specific region, such as the downturns in regional Western Australia and Queensland after the mining boom.

For lenders that use the residential mortgage-backed security (RMBS) wholesale market for funding, access to broker regional networks also reduces their cost of capital. Investors demand lower returns from less risky investments, so reducing the risk of a mortgage portfolio via diversification translates into lower cost of funds to the lender.

2 Based on comments provided by Anthony Waldron, NAB, 2017.

Chart 5.1: Share of new lending arranged by brokers, by lender segment, 2013-17



Source: MFAA

5.3. Comparing channel costs

Information on the relative costs of different distribution channels is not readily available – for example, the PC was unable to obtain a good evidence base on costs for its review.[3] However, a comparison of the costs to lenders of distributing through mortgage brokers with the costs of distributing through their own proprietary channel, over the life of a home loan, would include consideration of:

- distributing through mortgage brokers which has a higher **transaction cost** due to the payment of the upfront commission in the first year of a home loan, and trailing commissions in later years of the loan. These costs are variable and dependent on the size of the loan and other features of the loan;
- the **cost of processing** the loan which is likely to be similar between the two distribution channels. Once a customer decides on a mortgage product, there are common costs to a mortgage broker and branch staff to prepare a home loan, process documentation and manage the loan approval process to settlement; and
- distributing through branch networks which, however, incurs **overhead and infrastructure** costs that are not incurred by the lender when using the broking channel.

3 PC 2018, p. 35.

5.3.1. Overhead and infrastructure costs

Lenders can reduce acquisition and distribution costs through mortgage brokers in certain circumstances. Branches have fixed costs, in the sense that they are incurred even if no new loans are settled. These costs include premises lease and rentals, electricity, computer equipment and software, advertising and marketing costs, and staff employment, compliance and training costs.

Lenders can gain a considerable amount of market exposure by accrediting mortgage brokers to distribute their products. Mortgage brokers often aggressively market themselves to generate leads and improve brand perception.[4] In many cases, this creates a direct cost saving for lenders in the form of **advertising and marketing** because mortgage brokers act as an additional channel for product awareness.

4 IBISWorld (2017), p. 18.

For most big retail banks, **renting, equipping and staffing** branches can easily account for 40-60% of total operating costs.[5] Given these costs, lenders can typically make a significant capital and operational saving from utilising the mortgage broker channel. The broking channel saves a lender the fixed salary and compliance and training costs involved with employing a full-time loan writer.

The costs associated with staff compliance and training costs can be significant on a per loan basis. Aggregators train and mentor their mortgage brokers, and enforce compliance. Connective, for example, estimated it spent around $2.7 million on educational events for brokers in 2017, on top of providing mentoring and business structure planning. In essence, Mark Haron, Chief Executive Officer, Connective, said:

> "lenders are getting access to a network of vetted brokers".[6]

5 The Economist (2012).

6 Mark Haron, Chief Executive Officer, Connective (2017).

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Appendix A Survey

Approach

Qualtrics was commissioned to field the survey and collect data which was then analysed by Deloitte Access Economics. Data were collected via an online portal and took respondents approximately 20-30 minutes to complete. The survey was in field from mid-November to early December 2017, with 996 responses collected in total.

The survey questionnaire was developed by Deloitte Access Economics in consultation with mortgage broking industry stakeholders. The survey asked a series of questions about the way mortgage broking businesses operate, the types of customers they serve, the services they provide and financial information on the operation of their business (such as loan sizes, upfront payment margin, trail commission margin, operating costs, wages, and other information). The questions were specifically tailored for aggregators, individual sole trading mortgage brokers and mortgage broking businesses with more than one staff member.

Sample population

The survey included a random sample of 717 individual sole trading mortgage broking businesses and 275 mortgage broking businesses with more than one staff member, covering a total of 1,635 brokers. This should be compared with a national population of 6,850 mortgage broking businesses and 16,940 mortgage brokers.[1,2]

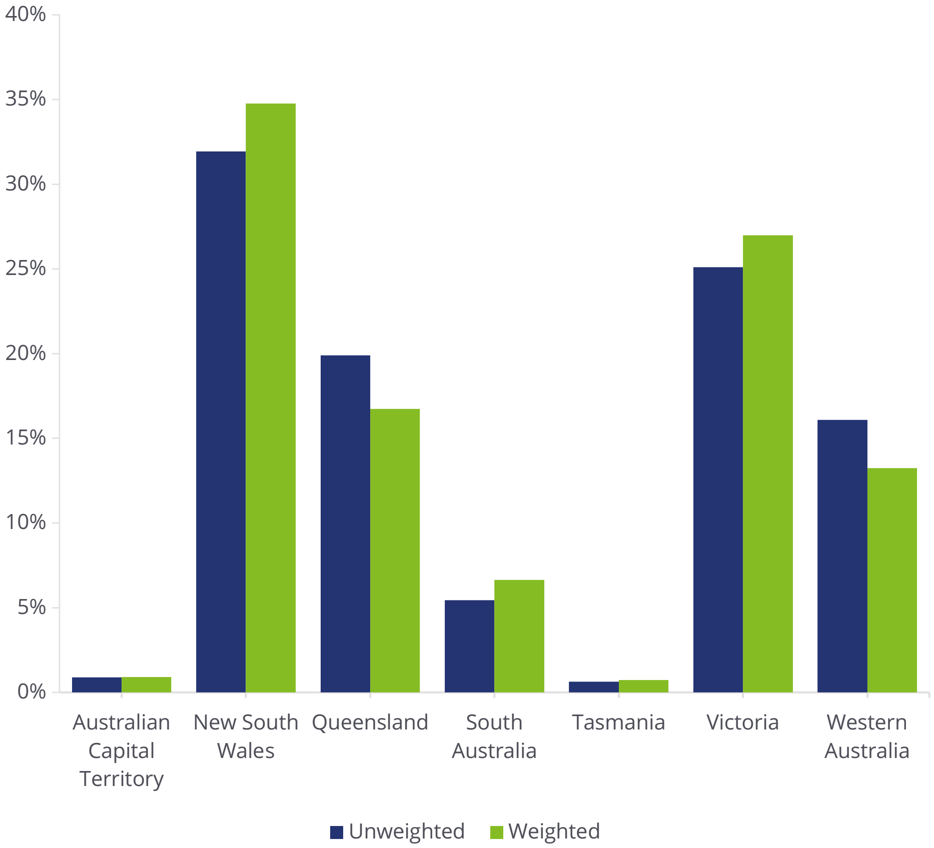
Table A.1: Sample coverage

	Number of mortgage broking business	Total number of mortgage brokers
Sample total	992	1,635
Population	6,850	16,940
Sample coverage	14.5%	9.65%

For statistical rigour, the survey was weighted to align with the geographic profile of broker population by state and territory, available from the MFAA Industry Intelligence Service report. Responses were received from all states and territories, except the Northern Territory. Specifically, we have used iterative post-stratification to match the marginal distribution of brokers by states from the survey sample to the population margins reported by the MFAA. Chart A.1 compares the distribution of brokers in different states for the weighted and unweighted sample. Accordingly, the difference between the blue and green bars for a state measure the over- or under-representation of brokers from the corresponding state in the sample. This is to ensure the weighted sample would more accurately reflect the population distribution.

1 IBISWorld (2017)
2 Non-published MFAA data.

Chart A.1: Weighted vs un-weighted distribution of brokers by states



Source: MFAA (2017b), Deloitte Access Economic analysis.

Definition of survey participants

For the purpose of this survey, the survey participants are defined as follows to avoid double counting and to extract a good cross-sectional representation of the mortgage broking industry:

- individual sole trading mortgage broking business – a mortgage broker providing service to customers as a sole trading business, owns and operates the business and does not employ or contract other staff to work for the business;
- mortgage broking business with more than one staff member – a mortgage broking business that has more than one staff member working for the business and can include mortgage brokers and administrative and support staff; and
- aggregator – a party that has more than one individual mortgage broker and/or mortgage broking business aligned to its service.[3]

3 Due to lack of responses from aggregators, calculation of the share of total economic contribution of the industry from aggregators was based on margin reported by ASIC (2017), see Appendix C.

Appendix B Consultations, case studies, workshop

Deloitte Access Economics consulted with a combination of six lenders and brokers (National Australia Bank, Liberty Bank, Connective, AFG, Heritage Bank, Pink Finance) and facilitated a focus group workshop with 14 mortgage brokers of different size and business offerings to analyse the value of mortgage broking to consumers, lenders and the broader Australian economy. Specifically, we talked to the following people from these organisations:

- Anthony Waldron (National Australia Bank);
- James Boyle (Liberty Bank);
- Mark Haron (Connective);
- Mark Hewitt (AFG);
- Michael Trencher (Heritage Bank); and
- Nicole Cannon (Pink Finance).

In these consultations and the workshop, stakeholders shared their ideas and insights on the role of mortgage brokers, the services that mortgage brokers provide and how that has changed over time, and how the services that mortgage brokers provide are of importance and value to lenders and customers.

Information collected from the consultation and focus group workshop formed the qualitative evidence supporting our analysis. Details of the feedback provided by the stakeholders are presented below.

Figure B.1: National Australia Bank

National Australia Bank

National Australia Bank is one of the four major banks in Australia. In addition to its direct distribution channel, NAB provides a specialised digital lending channel through UBank as well as a range of white-label products through Advantedge.

NAB owns 3 aggregation businesses (Choice, PLAN and FAST) and has over 4,600 brokers that aggregate through these businesses. These brokers can be part of very large sub-aggregations (150-200 brokers) or a single broker working out of their home.

In 2016-17, over 40% of new NAB loans were arranged by brokers. By June 2017, just over a third of all existing NAB loans were arranged by brokers. NAB's Executive General Manager of Broker Partnerships, Anthony Waldron, says that NAB is increasingly using the broker channel because "the reality is that this is where customers are going".

Greater utilisation of the broker channel has expanded NAB's reach into new customer markets, with around 70% of customers using brokers being new-to-bank. Anthony Waldron believes that "the broker channel provides NAB access to customers that wouldn't typically be accessible or may not have chosen NAB otherwise."

NAB also acknowledges the contribution of mortgage brokers to competition in the market and the pace of product innovation. In particular, brokers have been important in improving work flows, especially in the area of electronic lodgements. Notably, brokers will regularly provide informal feedback straight to aggregators and NAB on what products are successful and what products are still needed in the market.

"Brokers have allowed product differentiation and innovations to occur at a quicker rate." **– A. Waldron**

Figure B.2: Liberty Financial

Liberty Financial

Liberty Financial (Liberty) is a non-bank lender and has operated for 20 years in the Australian mortgage market. Liberty offers a range of loan, insurance and investment products, including commercial, vehicle and personal loans. Liberty has grown alongside the mortgage broking industry and values its relationships with brokers that allows it to reach many segments of the market.

James Boyle, Chief Executive Officer at Liberty, says that "All the major non-ADIs have a significant part of their business flowing from mortgage brokers." Historically, Liberty has sourced nearly 90% of its home loan business from the mortgage broker channel with a large majority of broker oriented customers coming as new customers to Liberty.

As the first provider of specialty-lending in Australia, Liberty offers bespoke lending products for customers with unique financial circumstances and relies on the broking channel to understand and solve customer needs. James Boyle says that "we value feedback from brokers and they are reliable in letting us know which group of customers are in need of help or require different solutions." Liberty also finds mortgage brokers to be a cost effective and efficient channel for making their products available across all geographical areas.

For compliance purposes, Liberty has a multi-tiered system of ensuring that the quality of loans coming from the broker channel is high. This system involves time invested in training brokers on the company's range of products as well as active oversight of application processes to ensure that customer's needs are understood and appropriate products are offered.

"We are very confident that consumers are significantly better off because of mortgage brokers. Consumers are getting better choice and value which is why brokers are fast approaching 60% of the market today." **– J. Boyle**

Figure B.3: Connective

Connective

Connective is an aggregator that has 56 lenders on its panel, and more than 3,000 individual brokers and 1,800 mortgage broking businesses aligned to its business.

A range of lender products is offered through Connective, primarily residential mortgages but a significant level of agribusiness and commercial products are also available. Connective provides lenders access to vetted brokers and withdraws accreditation from brokers who do not maintain standards, however, acknowledges that disclosure and transparency is not as robust as it could be and welcomes the CIF initiative in this area (see Appendix D).

Connective provides mentors and business-planning for new brokers. A range of software infrastructure and administrative support services is available to its brokers, including: a CRM model to allow brokers to interact with customers during the application process and post-settlement; a customer-facing portal to allow broker customers to track the progress of their loan application; property market reports for broker customers; marketing support to brokers; monthly newsletters on market updates and industry conditions; and an Asian broker support channel. Connective also provides compliance support and client arrears reports and data security. Connective has a significant education programme for brokers. The business spent $2.7 million on 243 education events (conferences, professional development events, webinars, breakfast events, etc.) in 2017.

While Connective receives commission income from lenders (and subsequently passes down a percentage to brokers), the majority of income is received from a flat-fee for service model collected on a monthly/annual basis from its brokers.

"Through brokers, lenders get access to a network of vetted brokers". **– M. Haron**

Figure B.4: AFG

AFG

AFG is an aggregator that has 45 lenders on its panel and 2,900 brokers aligned to its business nationally. About 80% of the business conducted by AFG is accounted for by residential mortgages, with around 10,000 applications going through the broker platform each month. AFG's white label product stream has also grown strongly in recent years.

AFG provides a large range of services to mortgage brokers. Most significantly, the platform it provides enables mortgage brokers to run their business. This platform offers an all-of-business system which allows brokers to process applications directly with lenders through a single system instead of having to separately access each lender's portal or website. In addition, AFG allows brokers to operate under its credit licence as a credit representative. To support the locality differences between brokers, AFG has established a lender panel which caters for the nuances for what it estimates to be the 20 or so distinct housing markets in Australia.

Brokers who are accredited by AFG are required to meet a number of due diligence criteria. In particular, brokers must pass police and credit checks and have the appropriate educational qualifications and professional licences to operate in the industry. According to Mark Hewitt, AFG's General Manager – Residential and Broker, "Ensuring that AFG's accreditation process is of a high standard is essential in maintaining the quality of its brokers and therefore the quality of customer outcomes." Enforcing these criteria also ensures that AFG maintains a transparent and trusted relationship with lenders on their panel and remains an aggregator of choice for lenders.

AFG uses a commission sharing model. A large percentage of its share of commissions is invested back into broker platforms, education, broker support initiatives and compliance.

> "Ensuring that AFG's accreditation process is of a high standard is essential in maintaining the quality of its brokers and therefore the quality of customer outcomes."

Figure B.5: Heritage Bank

Heritage Bank

Heritage Bank is a customer-owned mutual bank with 60 branches in southern Queensland. Heritage Bank has been involved in the broker channel for 20 years with over half of its mortgage volumes now originating through the broker channel. It relies heavily on the broker channel to distribute products nationally and raise customer awareness in markets that were traditionally less cost-effective to operate in through a branch network.

According to Michael Trencher, Heritage Bank's Head of Broker Distribution, "broker channels in different regions are very important and fulfil a need that is missing in the market".

Heritage Bank has traditionally been strong in mortgage lending but the use of the broker channel has helped in driving growth in other products as well, including insurance and deposit products. Brokers have enabled Heritage Bank to better compete with other banks without having to expand its product offering, cross-sell products and invest heavily in marketing.

Heritage Bank believes that the positive feedback received from customers about the level of service provided by mortgage brokers stems from the professionalism of the broking channel. In particular, the level of compliance surrounding the industry and the tendency for brokers to regularly touch base with their customers is a key driver of customers having confidence in mortgage brokers

> "The key benefits of the mortgage broker channel are scale, distribution, broadening service and providing access to other areas of key banking services." **– M. Trencher**

Figure B.6: Pink Finance

Pink Finance

Pink Finance is a mortgage broking business, owned and operated by Nicole Cannon, who holds an ACL. Nicole has practised as a licensed mortgage broker for more than 15 years. There are two administration staff: one is responsible for daily administration of the business and the other ensures all required documentation has been supplied by customers and uploaded to aggregator software to meet lender process requirements and compliance requirements under the National Credit Act.

Through aligning to an aggregator, Pink Finance has access to 45 lenders of which Nicole has used 22 in the last 12 months. The aggregator provides software and digital platforms to do self-Fact-Find across a range of products, pull together the required documentation for a lender's product, and make sure the application has been completed in compliance with the required processes.

Pink Finance receives an average of 5 to 10 leads per week and follows up an average of 5 or 6 opportunities each week, including referrals from a number of small sized referral partners. On average, 25% of leads will go all the way to settlement. A lot of time is devoted to marketing and following up leads that may not result in a settlement. While the initial phone call, interview, research and report, documentation and liaising with lenders may take 1 to 2 days in total, for some applications, the time from pre-approval to settlement may last for up to 15 months or more. Pink Finance contacts customers up to 19 times a year, via email, newsletters, and phone calls, with a formal catch-up about twice a year.

Pink Finance not only settles 'vanilla' loans, they in addition help customers with more complex needs; for example, looking to purchase land for construction, fly-in fly-out workers, permanent residents who are not citizens, small businesses seeking cash flow loans to meet tax payments or owner occupiers who get paid irregularly. Knowing how treatment of expenses and income from different sources varies across lenders, and the appetite lenders have for different types of customers allows Pink Finance to help customers reach settlement for a high proportion of applications – you cannot 'blackbox' them. Nicole also needs to be sensitive to customers becoming emotional prior to auctions, and cultural preferences for specific street numbers.

Through the aggregator, Pink Finance has access to a range of training and professional development courses, including: lender professional development activities, education seminars and conferences. These training programs help Pink Finance stay informed of industry developments and the implications of changing credit conditions on industry good practice.

"Loans are only written for those that meet the lender prescribed application criteria and those that they believe contain genuine financial information and reflect the loan applicant's financial circumstance." **– N. Cannon**

The following people attended the focus group workshop. Deloitte Access Economics would like to thank them for their participation:

- Aaron Christie-David (Atelier Wealth)
- Adrian Fisher (Loan Market)
- Anthony Landahl (Equilibria Finance)
- Brian Smith (MCD Debt Solutions)
- Dhaval Thakkar (Get Simple Loans)
- Jeff Schembri (Schembri Financial Consulting)
- Keegan Rezek (The Lending Alliance)
- Liz Wilson (Wilson Financial)
- Madhu Chauduri (Finance and Mortgage Solutions)
- Mark Moenting (DPN)
- Mark Stevenson (Bell Partners Finance)
- Matthew Trad (ZT Finance)
- Mhairi MacLeod (Astute Ability Finance Group)
- Naina Gill (Arrange Capital)

Appendix C Economic contribution analysis

The total economic contribution of the mortgage broking industry is based on direct and indirect value add derived from survey results and publicly available data from ASIC, IBISWorld and the MFAA. The estimations are based on the following ABS definitions:

- economic contribution is value added to the economy and jobs created by mortgage broking;
- direct contribution is wages (which is reflective of the income earned by individual brokers and support staff) and profits (gross operating surplus or GOS) of broking businesses, plus taxes; and
- indirect contribution is economic activity and jobs created in service industries supplying inputs to the mortgage broking industry, derived from broking businesses' non-wage costs.

Based on our estimation, the mortgage broking industry is associated with a direct economic contribution of $1.83 billion and an indirect contribution of $1.04 billion in 2016-17. The mortgage broking industry also supports the employment of 27,144 FTE, which includes 20,297 FTEs directly employed by the industry and 6,847 FTEs indirectly supported in other Australian businesses.

Methodology overview

Our approach is based primarily on the collected income and expenditure data from the Deloitte Access Economics survey, which covers 9.7% of the mortgage brokers in the market (Appendix A). Additionally, we have derived the income of aggregators using the publicly available information from ASIC's review of mortgage broker remuneration in 2017. The resulting estimates have informed the calculation of a point estimate for direct economic contribution which is used to inform a reasonable point estimate for the indirect economic contribution of the industry. Together, this gives the total economic contribution of the mortgage broking industry.

According to our survey, the average revenue before cost and tax is $129,846 for sole trading brokers and $356,952 for a mortgage broking business with more than one broker. As a point of reference, the MFAA estimates that average gross earnings per broker is around $132,800.[1] According to the MFAA, there are 16,940 mortgage brokers in Australia as of March 2017, among which 2,710 people have not lodged a new loan application in the past 6 months. This implies that 84% of mortgage brokers can be considered "active".

1 MFAA (2017d)

Direct contribution

After taking into account cost, we find the average direct contribution (i.e. wage and profit) in the survey to be $100,039 per FTE for single brokers working independently as individual sole traders and $135,328 for mortgage broking businesses with more than one staff member. This can be applied to the population FTE figures of 8,246[2] sole trading brokers and 4,794 brokers in mortgage broking businesses.[3] After adjusting for depreciation and amortisation,[4] this amounts to **$1.49 billion**.

We assume that 95% of the loans introduced by mortgage brokers will pass through an aggregator. This implies a total commission of $2.6 million paid to aggregators, consistent with the reported figure from ASIC (2017). We also assume a direct contribution (i.e. wage and profit) margin of 13% based on the difference between the reported margins collected by aggregators and brokers from ASIC (2017). The resulted total direct contribution from aggregators is **$0.34 billion**.

2 It is assumed that 90% of the sole-trading brokers are working full-time.

3 Based on 61% sole-trading brokers and 39% business brokers in the total population of 14,230 active brokers with 73% of business brokers and 90% of sole-trading brokers working full time and the remaining working part-time.

4 Depreciation and amortisation are part of direct economic contribution.

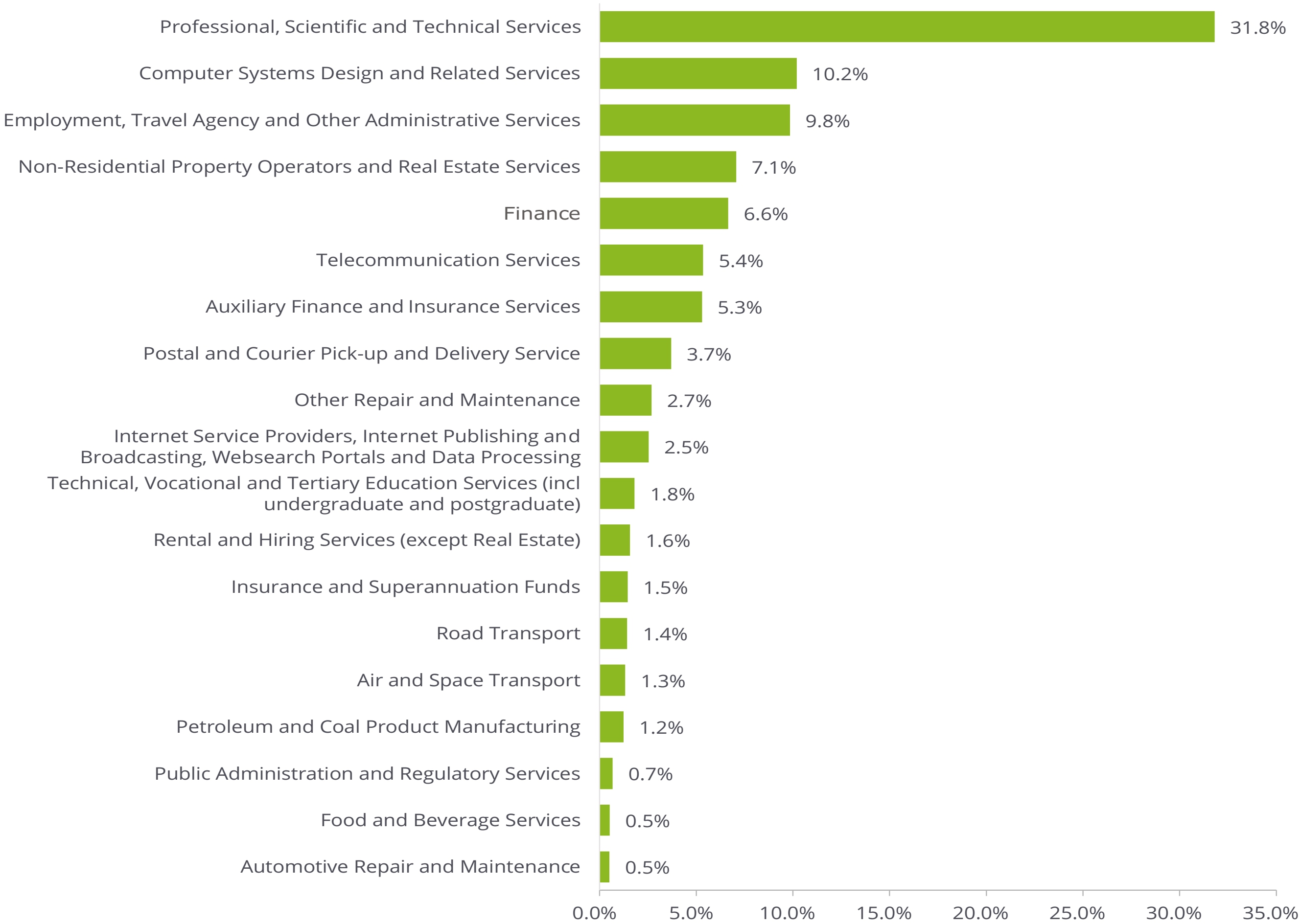
Together, this gives a total direct economic contribution for the industry of **$1.83 billion** for 2016-17.

Indirect contribution

The indirect contribution was calculated based on brokers' average expenditure on intermediate inputs. The expenditure amount per FTE is found to be $48,236 for sole trading brokers and $42,860 for broking businesses. Taking into account the expenditure for aggregators using similar approach as in the direct contribution calculation, we estimate the total expenditure for the mortgage broking industry to be $1.14 billion.

Input-Output tables were used to approximate the types of goods and services, such as office supplies and utilities, typically purchased by brokers. It was assumed that the brokers' expenditure profile mimics the wider *Auxiliary Finance and Insurance Services* industry. This industry covers *Financial Asset Broking Services* as well as other auxiliary services such as *Stock exchange operation, executor service* and *finance consultant service.* Fig C.1 shows the share of expenditures of this industry from the ABS I-O table (2014-15). Chart C.1 shows the estimated indirect economic contribution for the mortgage broking industry from our I-O modelling. The total indirect value added is **$1.04 billion**. This is very close to the total expenditure of $1.14 billion, indicating that the majority of the expenditure items from the industry are produced domestically in Australia.

Chart C.1: Share of goods and services purchased by the Auxiliary Finance and Insurance Service industry



Source: ABS I-O tables 2014-15, Deloitte Access Economics analysis

Table C.1: Total indirect economic contribution

Gross Operating surplus and mixed income ($m)	$428
Labour Income ($m)	$610
Total value added ($m)	**1,039**
Employment (FTE)	6,847

Source: ABS I-O tables 2014-15, Deloitte Access Economics analysis

Appendix D
CIF proposals

The Combined Industry Forum (CIF) was established by the mortgage broking industry in response to ASIC's Report 516: Review of mortgage broker remuneration and third- party recommendations of the Sedgwick Review. The CIF consists of representatives from bank and non-bank lenders, aggregators and brokers, consumer groups (represented through CHOICE), the Australian Bankers' Association (ABA), the Mortgage & Finance Association of Australia (MFAA), the Finance Brokers Association of Australia (FBAA), the Customer Owned Banking Association (COBA) and the Australian Finance Industry Association (AFIA).

The reform package was developed by the CIF and is designed to respond to the proposals made by ASIC. The purpose of the reforms is to drive better customer outcomes through improved reporting and governance, remuneration practices in mortgage broking and to ensure the sustainability of the mortgage broking industry.

In order to ensure the ongoing viability of the reforms, they will be captured in an industry code that enables enforcement, applies across the industry, and includes new participants over time.

The CIF has recently established a working group to commence work on the required code, which includes the consideration of a number of approaches, including potentially working with ASIC on establishing an ASIC-approved code for all participants in the mortgage industry, and / or repurposing current industry codes to include these reforms, and to incorporate the appropriate monitoring and compliance functions.

The CIF Report can be found at: https://www.mfaa.com.au/sites/default/files/users/user130/CIF_Report_Submitted_281117_0.pdf

Limitation of our work

The Mortgage & Finance Association of Australia (MFAA) is part of the Mortgage Broking Industry Group (MBIG), which consists of: AFG, Astute Financial, Aussie, Choise Aggregation, Connective, FAST, Finance Brokers Association of Australia (FBAA), Loan Market, MFAA, Mortgage Choice, National Mortgage Brokers, PLAN Australia and Smartline. The MBIG steering committee, which consists of: AFG, Astute Financial, FBAA, MFAA, National Mortgage Brokers and Smartline, nominated the MFAA as its representative to engage Deloitte Access Economics to undertake this report to analyse the value of mortgage broking.

This report is prepared solely for the use of the Mortgage & Finance Association of Australia (MFAA). This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of informing policy makers and the broader community about the role mortgage brokers play in the mortgage market and the economic contribution of the mortgage broking industry in Australia. You should not refer to or use our name (Deloitte Access Economics) or the advice for any other purpose.