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Mr Neil Grummitt
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority

Delivery: Email mortgagelending@apra.gov.au

Dear Neil,

Please find my commentary on the Draft Prudential Practice Guide 223 Residential Mortgage Lending document released by APRA on 26 May 2014 herewith. I refer in particular Section 18 which effectively says that in Australia it is standard market practice to pay brokers either an upfront or trailing commission, or both, and experience has shown that commissions paid upfront tend to encourage less rigorous attention to loan application quality and that trailing commissions are more likely to provide incentives for brokers to retain and monitor customers.

You can of course imagine our reaction to these claims.

Over the last decade and even more so since the GFC, I have lobbied government to consider how vital competition in banking is to the broader economy.

As part of these conversations, I have suggested that our government would achieve far better outcomes if it engaged with all of the industry's major participants not just the four largest stakeholders. I believe strongly that if our politicians and bureaucrats had a strong understanding of this point, then not only the Australian financial services industry, but the country more broadly would be far better off.

The APRA statement is by no means reflective of the real market.

If APRA had looked closely at the issue, they would have consulted with parties such as AFG, who as you know now represents 20-25% of the market, and around 12% of Australia's entire mortgage volume.

We would have then pointed out the following:

1. Brokers have a 100% clawback of all their commission over 18 to 24 months.
2. All broker deals undergo heavy scrutiny where credit is done up front, it's a simple fact that tardy deals don't get settled.
3. Banks will look to disaccredit brokers with low conversion rates.
4. Brokers are regulated by ASIC and cannot burn and churn.
5. AFG's loan book at $90B and is going through its lowest run off in our 20 year history.
6. Brokers by and large are now a very professional body and understand the value of client retention.
7. AFG has spent tens of millions on a highly successful client retention strategy with our membership strongly supporting it.
8. We would have also highlighted that the Government is trying to enable consumers to switch loans more readily and has legislated, albeit poorly, to try to enable this. All the government achieved by this action was a less competitive marketplace.
9. Brokers who are new to the industry need upfront commission. Does APRA have any interest in supporting competition in banking? If so then it needs to support brokers as most of our smaller banks would struggle without brokers.

The good piece of news from the document is that APRA is acknowledging that trail payments are a beneficial incentive and on that note they are being more positive than some of AFG's competitors in the market.

I welcome any request for consultation.

Regards,

Brett McKeon
AFG Managing Director

Reply to:
Carly Willcox
Marketing Communications Specialist