MEDIA RELEASE

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CBA PROPOSALS FOCUSED ON PROFIT, NOT CUSTOMERS

The Mortgage & Finance Association of Australia (MFAA) responded today to the comments made by Commonwealth Bank of Australia (CBA) CEO Matt Comyn during yesterday's Royal Commission hearings.

CBA's position – that consumers should pay a new fee of several thousand dollars for access to a home loan - clearly demonstrates that CBA's priority is shareholder returns.

Consumer Fee for Service
MFAA CEO Mike Felton said the CBA's position was not surprising, but was entirely self-serving, in that it is designed to destroy competition and reduce the bank's reliance on the broker channel.

"CBA's model is anti-competitive and designed to drive consumers back into their branch network, which is the largest branch network of the major lenders," Mr Felton said.

"Mr Comyn's solution for better customer outcomes is a new fee of several thousand dollars to be paid by consumers to CBA for the privilege of becoming a CBA customer.

"Cutting what brokers earn by two-thirds would save CBA $197 million, which is good for CBA's shareholders. However, it would destroy competition, leaving millions of customers without access to credit outside of major lenders.

"In addition, as has been highlighted by both the Productivity Commission and Treasury, consumers are simply not willing to pay significant up-front fees for access to a home loan."

Netherlands Model
CBA advocated during yesterday's hearings that Australia should adopt the Netherlands' model, under which consumers pay the same fee whether they use a broker or a branch, to ensure channel parity.

"The proposal to adopt the Netherlands strategy is designed to maximise lender revenue. Under this model, broker customers pay the broker's costs – instead of the bank – or branch customers pay a new fee that will substantially add to the bank's revenue line and add thousands of dollars to the cost of getting a home loan from a lender directly," Mr Felton said.

"This is a fantastic win-win for CBA but a massive lose-lose for consumers regardless of whether or not they use a mortgage broker. CBA either acquires a new customer with zero acquisition cost, or it receives a new fee and massively decreased competition, so it can return to the days of four lenders in Australia. It's a great deal for the bank."

"Any suggestion that this profit will be passed back to customers in the form of lower interest rates is fanciful."

Earning Parity Between Branch and Broker
Mr Felton also questioned the idea that brokers should earn the same as an in-house branch lender, whose overheads are paid by the bank.

“Brokers are small business owners. They are not employees offering one product to customers. They pay rent, and staff, and electricity bills. They have to find every dollar they earn through servicing customers well and developing a strong reputation and referral network,” Mr Felton said.

“And, according to Deloitte Access Economics, brokers have an average of 13.8 years’ industry experience, which they draw on to offer a customer a wide choice of lenders and products that meet their needs and objectives. Will CBA commit to its branch staff having this level of expertise and choice for customers?

“The average broker earns $86,400 per year before tax. If you reduce those earnings by two-thirds, as CBA has evidently considered, and force consumers to pay for brokers’ services, the broker channel would be annihilated. Customers will be left with bank branches as their only option, the impact of which will be more acute in rural and regional Australia.

The Productivity Commission also outlined the importance of brokers to smaller lenders, stating: “… non-bank lenders and foreign banks operating in Australia rely on brokers for over 90% of their loan book. We calculated that, on average, each smaller lender would have needed to open 118 new branches to generate the equivalent market share achieved through use of brokers”.

Competition and Reform
The MFAA challenges the statements by CBA that brokers are causing systemic issues in the home lending market - and that it should be a lender who is tasked with ensuring good consumer outcomes for the entire Australian home lending market.

“ASIC’s extensive, data-driven review of mortgage broker remuneration concluded that there was no finding of systemic harm caused by the broker channel,” Mr Felton said.
“Additionally, as noted by Treasury in its background paper to the Royal Commission in July 2018: ‘Following a comprehensive report by ASIC in 2017 on mortgage broker remuneration, the industry is progressing reforms that could address the most significant misconduct with the current remuneration model’.”

“Frankly, we were surprised that it is being suggested that one of the major lenders should be tasked with reforming Australia’s home lending market, given the revelations of the past 12 months.

“The Productivity Commission found that: ‘Fixed fees paid by customers rather than commission structures have been proposed, and would eliminate conflicts, but the cost to competition would be high. Consumers would desert brokers, and smaller lenders (and regional communities with few or no bank branches) would suffer much more than larger lenders, if customers were required to pay for broker advice’.”

The MFAA will continue to advocate for the reforms already being implemented by the Combined Industry Forum, which directly address the key issues raised by the ASIC Review of Mortgage Broker Remuneration, and the ABA’s Sedgwick Review.

As stated by the Combined Industry Forum: ‘The mortgage broking industry is committed to taking action to further improve customer outcomes and standards of conduct and culture, while preserving and promoting a vibrant and competitive mortgage broking industry that encourages consumer choice’.

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The Mortgage & Finance Association of Australia (MFAA) is the peak national body representing finance brokers, mortgage managers, lenders, aggregator/broking groups and other industry participants, to assist them to develop, foster, and promote the mortgage and finance industry in Australia.