From: Fred Alam
Sent: Monday, 27 August 2018 2:02 PM
To: John Sidoti
Subject: Broker Trail Payments

Hi John,

Thank you very much for your time yesterday.

I thought it would be best to outline my concerns regarding the recent media release by Matt Kean regarding the moves to remove the ability for Mortgage Brokers to earn trail payments.

He was quoted as saying the following:

1. Brokers do nothing for the trail payments
2. It increases the cost to the consumer
3. It entices brokers to not move clients

I wanted to clear up a few of these concerns:

1. Brokers make their living via clients, they need to remain close to their clients. In many instances, borrowers receive settlement gifts, birthday cards, anniversary cards, monthly emails, quarterly magazines and 6 monthly loan "health checks". All these come at a cost and paid for by trailing commissions.

2. It's cheaper for institutions to provide loans by brokers as they carry no overheads, the overheads are borne by the broker. The rates offered by brokers in fact can be cheaper than those offered by actual branches as we can negotiate on behalf of the client and chose an appropriate lender.

3. The media release mention loans lasted 25 years, instead the average life of a loan with the 1 institution is below 4 years, hence the brokers are doing their jobs properly. Furthermore, it makes financial sense for a broker to revisit client loans every 18-24months i.e. they generally receive 0.15%pa in trail but receive between 0.50% & 0.65% in upfront payments, so mathematically they can earn up to 4 years trail upfront by moving a client and still earn 0.15% trail from the new lender.

I would also like to introduce some maybe unconsidered facts:

1. Currently Banks have between 18 months & 24 months to "clawback" commissions from a broker should the client decide to refinance or sell the security property – so a broker can earn commission today yet may have to repay it for up to 24 months after. What other occupation, do you complete a task and be unsure whether you will retain the payment for up to 24 months.

2. Currently over 50% of all mortgages are provided by Mortgage Brokers, by reducing their ability to earn stable income, it will play into the Banks hands. Should Brokers decline the Banks will monopolise the business. They are very unlikely to move clients to better rates or products, in fact historically they have increased their back book rates with regular monotony.

3. Most "Non Bank" lending is provided by Mortgage Brokers.

Besbest regards

Fred Alam