Creating a more dynamic and resilient economy inquiry

Questionnaire response 54

Name: Mortgage and Finance Association of Australia

Submission date: 6/06/2025

1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

• Australia's consumer protection framework is strong, with responsible lending obligations and accessible dispute resolution mechanisms that ensure fair treatment, promote consumer confidence, and support trust in the financial system.
• Brokers operate in a highly regulated environment, not only under the National Consumer Credit Protection Act, but also through legislation introduced following the Banking Royal Commission—such as the Best Interest Duty, Design and Distribution Obligations and the Compensation Scheme of Last Resort—some of which requires review and refinement (see our 2025–26 Pre-budget submission to Treasury).
• Further regulation is not warranted. Additional obligations would add complexity and reduce broker productivity.
• The current payroll tax framework is unclear, inconsistent across states, and does not incentivise growth. For mortgage and finance brokers operating nationally, this has created barriers to investment and added unnecessary compliance burdens. A national conversation on payroll tax reform is essential to improve efficiency and support economic expansion (see our submission to the NSW Payroll Tax Inquiry).

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

• The impermanent nature of the Instant Asset Write-off deters long-term investment.
• We recommend an increase to the measure and make the measure permanent to give small businesses the certainty they need to invest and grow.
• Payroll tax acts as a tax on employment and productivity, discouraging businesses from scaling by adding staff. Its inconsistent application across states adds compliance burden and deters national investment.
• CEDA's report on the construction industry highlights payroll tax as a barrier to growth and efficiency. These same inefficiencies are evident in the mortgage and finance broking sector, where payroll tax creates barriers to scaling.
• This has broader consequences for housing supply, accessibility and affordability, as brokers play a critical role in helping consumers navigate the lending system.
• A national review of payroll tax laws is needed to align incentives with growth, employment, and investment across sectors.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

• We support COSBOA's proposal to reduce the small business tax rate from 25% to 20% for firms with turnover under $20 million.
• This change could help small business keep prices stable, employ more staff and invest in innovation.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

• Consumer credit laws such as Best Interests Duty and Responsible Lending Obligations provide clear rules that protect consumers and build trust in mortgage broking. (See Deloitte Value of Mortgage and Finance Broking 2025 report.)
• ASIC's digital initiatives, including e-lodgement and registry improvements, have reduced some administrative burden. We encourage more investment in this space.
• Investment in Open Banking and CDR, particularly for home lending use cases, supports innovation and enables more tailored credit solutions for consumers.
• Better regulatory coordination improves efficiency. For example, as brokers adopt CDR and integrated ID verification, straight-through processing rates are improving. This reduces delays in loan approvals and improves outcomes for consumers and lenders.
• Inconsistent requirements for witnessing and wet ink signatures across states create avoidable costs and delays. Allowing for standardised electronic signing would reduce transaction friction and improve customer experience. (See our August 2021 submission to the Deregulation Taskforce.)

2. How has your regulatory burden changed over time?

• The regulatory burden on mortgage brokers has increased steadily since the introduction of Responsible Lending obligations in 2009.
• Major reforms following the 2017 Banking Royal Commission added further complexity, including Best Interests Duty, Design and Distribution Obligations, and expanded breach reporting complemented by industry self-regulation.
• As noted in Q1, parts of the current framework require refinement, and no further obligations should be introduced that further reduce broker productivity or business viability.
• The Regulatory Initiatives Grid is a helpful tool that improves visibility of upcoming changes and assists with planning.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

• We would like to focus our response on state-based payroll tax laws.
• Mortgage brokers are subject to federal licensing under the National Consumer Credit Protection Act, which interacts problematically with state-based payroll tax laws.
• This interaction often results in brokers being deemed "relevant contractors" for payroll tax purposes, despite their role being regulated federally.

• Inconsistent interpretation and application across states creates compliance inefficiencies and distorts national operating decisions. (See MFAA submission to the NSW Inquiry into Contractor Provisions.)

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?

• State revenue offices (particularly NSW and Victoria have shown limited understanding of modern structures in financial services, particularly in relation to mortgage broking and aggregation models. This has contributed to unclear and inconsistency in the interpretation of payroll tax is unclear and inconsistent across jurisdictions, creating unnecessary complexity and administrative burden.

• Limited coordination across Treasury teams increases the burden on small industry associations. For example, simultaneous consultations on credit, Consumer Data Right, and broader regulatory reforms require engagement with multiple teams, often without sufficient lead time or alignment.

• ASIC's engagement on the development of the Best Interests Duty is a positive example of good collaboration with industry, with the regulator providing early consultation, practical guidance, and adequate implementation lead time. This helped industry prepare and comply effectively.

• As noted we support tools like the Regulatory Initiatives Grid and recommend consistent use across all departments and regulators to improve visibility and reduce duplication.

Cover sheet: Supporting document #1

MORTGAGE AND FINANCE ASSOCIATION OF AUSTRALIA

Submission: Inquiry into the Contractor Provisions of the Payroll Tax Act 2007

7 February 2025

7 February 2025

The Chair
Portfolio Committee 1 – Premier and Finance
Parliament of New South Wales

Dear Chair and Committee Members,

INQUIRY INTO THE CONTRACTOR PROVISIONS OF THE PAYROLL TAX ACT 2007

The Mortgage and Finance Association of Australia (**MFAA**) is Australia's peak body for the mortgage and finance broking industry, representing over 15,500 members nationally. This includes circa 15,000 mortgage brokers (over 7,000 in NSW alone), all 11 major aggregators[1] as well as lenders of all sizes, both banks and non-banks. On behalf of the MFAA and our members, I welcome the opportunity to contribute to the Committee's inquiry into the contractor and employment agent provisions within the *Payroll Tax Act (NSW) 2007* (**the Act**) (**the Inquiry**).

This Inquiry is both timely and overdue. It is also the first of its kind and we commend the Committee Members for being bold and instigating this Inquiry.

For nearly a decade, the mortgage broking industry has grappled with uncertainty surrounding the payroll tax law, particularly the application of the contractor provisions in Division 7 Part 3 of the Act (**Contractor Provisions**).[2] Despite repeated engagement with the NSW Government, there has been little support for the industry.[3]

With brokers facilitating nearly 75% of all mortgages in Australia,[4] they are vital to home ownership in NSW, fostering competition for the benefit of all borrowers. It is no secret that the state is also in a housing affordability and cost-of-living crisis, with NSW borrowers bearing higher than the average Australian mortgage.[5] In this environment, brokers are focused on supporting their clients. The application of payroll tax, especially retrospectively, risks placing unsustainable financial strain on the smallest of small broker businesses, threatening their operations and their ability to assist NSW borrowers. Without brokers, NSW home buyers will have fewer choices and face higher mortgage costs, further exacerbating the housing affordability crisis in NSW.

Key issues for the Committee to consider

- The Contractor Provisions are poorly drafted and outdated, causing significant challenges for several industries including the broking industry. The lack of clarity allows for the Contractor Provisions to be interpreted, not just to capture *bona fide* contractor relationships, but in ways that do not reflect modern day business practices. Acknowledging this lack of clarity, in 2022 Revenue NSW agreed to pause new audits on mortgage aggregators pending the outcome of ongoing litigation.[6]

[1] Australian Finance Group (AFG), Connective, REA Group (Mortgage Choice), Loan Market Group (LMG), National Mortgage Brokers (NmB), Outsource, Specialist Finance Group (SFG), Yellow Brick Road (YBR), Finsure, Lendi Group (Aussie Home Loans), Astute Financial.
[2] In this submission, when we refer to the Contractor Provisions, we are referring specifically to section 32 of the Act.
[3] See Appendix 1 for a chronology of engagement with the NSW Government.
[4] MFAA media release, *Mortgage broker market share remains strong in June quarter*, 9 September 2024, <https://www.mfaa.com.au/news/mortgage-broker-market-share-remains-strong-in-june-quarter>.
[5] Data for average home loan size from the Australian Bureau of Statistics Lending Indicators September 2024 shows the average mortgage in NSW is $779, 000 compared to the national average of $642, 000, <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>.
[6] MFAA media release, *MFAA secures stop action from Revenue NSW*, 27 March 2023, <https://www.mfaa.com.au/news/mfaa-secures-stop-action-from-revenue-nsw>.

- Today, small businesses use platform services and technology to scale operations and connect with customers more efficiently. Mortgage brokers, for instance, operate independently, sourcing their own clients while relying on aggregators' technology platforms to support their business activities. Under federal law, mortgage brokers are required either to be licensed or be credit representatives of a licensee—a service typically provided by aggregators. As evident in CPN 016,[7] Revenue NSW interprets the obligations that flow from these federal licensing requirements as creating taxable contractor relationships between brokers and aggregators, resulting in an illogical state tax obligation arising from federal legislation.
- The impact of outdated Contractor Provisions and Revenue NSW's enforcement practices on our members has been severe. The ambiguity has resulted in significant compliance costs, disruptive audits, and protracted litigation, placing an unnecessary burden on businesses and impeding their ability to grow and thrive.

Recommendations

1	A consultation of the Contractor Provisions is conducted by NSW Treasury, the purpose of which is: • To amend the law to reflect its original intent as anti-avoidance provisions designed <u>not</u> to capture *bona fide* contractor relationships. • It should then follow that Revenue NSW should apply the law as intended, targeting anti-avoidance rather than genuine business arrangements.
2	Following from the outcome of the review of the Contractor Provisions, to require Revenue NSW to conduct a review of CPN 016 in comprehensive consultation with mortgage broking industry stakeholders.
3	In the interim, immediate relief be provided to the broking industry by implementing an amnesty on audit and enforcement actions and ensuring no retrospective application of the current law is applied.
4	That a national dialogue commences across states and territories to seek true harmonisation of payroll tax laws with a clear focus on reducing unnecessary red tape and administrative burden on national businesses.

Conclusion

The NSW Government has a unique opportunity to lead by clarifying payroll tax law and modernising its administration. Doing so will reduce uncertainty, promote fair competition, and encourage business investment. If payroll tax challenges remain unaddressed, it will reduce competition in lending, increase costs for already stretched NSW borrowers, continue to restrict the hopes of prospective first home buyers from ever owning a home, and threaten businesses vital to home ownership in NSW.

We therefore urge the Committee to deliver recommendations that provide clarity, fairness, and certainty for mortgage broking businesses across NSW.

Yours sincerely,

Anja Pannek

[7] See Commissioner Practice Note: Payroll Tax Act -Relevant Contracts – Australian Financial Services Licences and Australian Credit Licences (CPN 016), <https://www.revenue.nsw.gov.au/news-media-releases/cpn-016-payroll-tax-relevant-contracts#:~:text=The%20purpose%20of%20this%20CPN, financial%20services%20and%20credit%20services>.

CEO
Mortgage & Finance Association of Australia

Our submission

This submission addresses key aspects of the inquiry's terms of reference, with a particular focus on the application of the contractor provisions in Division 7 Part 3 of the Payroll Tax Act (**the Act**) (**the Contractor Provisions**).

Industry background

The mortgage broking industry operates through three key entities: brokers, aggregators and lenders.

Mortgage brokers are predominantly small independent businesses with business models ranging from sole traders, private companies, trusts and partnerships. According to MFAA data, approximately 41% of brokers in the industry operate as single broker businesses. For this reason, the Contractor Provisions disproportionately impacts on the broking industry. We explain the reasons for this under Recommendation 1 below.

Brokers maintain their own premises, bear the costs of their business operations, employ or contract administrative and support staff as needed and acquire their own clients. Brokers are responsible for directly managing client relationships and providing tailored services to their clients. They do so by placing loans with lenders on behalf of their clients and receive a commission by lenders in return. Aggregators facilitate these commission payments from lenders to brokers through commission platforms. Importantly also, brokers must be directly accredited with lenders to enable them to offer and distribute those products to their clients.

Brokers invest in their own marketing, technology and compliance requirements including through engaging the services of aggregators.

A pictorial overview of the industry structure and key facts is provided in **Appendix 2 – Mortgage Broking Industry Overview**.

The regulatory framework required by brokers to comply with to provide services to their clients

Mortgage brokers assist consumers in finding and securing suitable home loans (otherwise known as credit assistance under national law).

To provide credit assistance to their clients, brokers must either be licensed or operate under a license (the license is called an Australian Credit License or 'ACL'). This federal licensing regime was established under the Credit Act which commenced in 2010 to regulate credit activities across Australia.

In effect, these licensing requirements require broker businesses either to hold their own ACL or have their businesses operate as a 'credit representative' under another entity's (i.e. an aggregator's) ACL.

The role of aggregators as service providers to brokers and lenders

Aggregators serve as intermediary service providers between brokers and lenders, offering brokers compliance services (including licensing services, as described earlier), business development support, and commission processing. Aggregators provide brokers with access to lender panels, a service that includes conducting due diligence on lenders, aggregating lender product information, and facilitating streamlined access to a diverse range of lender product options.

In the early days of the broking industry, mortgage brokers referred clients' loans directly to lenders. However, as the industry expanded and technology advanced, brokers began leveraging technology platforms to efficiently review multiple lender products, capture client information, and submit loan applications. These platforms were developed and provided by aggregators, who as noted above, also introduced systems to streamline the payment of broker commissions across multiple lenders. This innovation enabled scale for lenders and brokers alike.

To further support this growth, lenders and aggregators established commercial relationships that facilitated commission payments,[8] compliance oversight and data management. It is worth emphasising that aggregators emerged primarily because lenders wanted to avoid the administrative burden of administering payments to individual brokers. Instead, they preferred paying a lump sum to the aggregator, which then distributed payments to individual brokers based on the lender's instructions. In essence, similar to platform service providers such as Uber, aggregators act as a payment collection agent, collecting payments from lenders and remitting those payments to brokers.[9]

Over time, additional services for lenders and brokers were added to this core function.

There are different aggregation models, including retail and wholesale models both which offer a diversity of service offerings including varying levels of support, technology, compliance services and service fee structures. The important point here is that brokers, as independent businesses, choose the aggregator model that best suits their needs, selecting and paying for only the services that align with their business strategy. It is important to also note that brokers have the flexibility to switch aggregators at any time.[10] **Appendix 3** provides a summary of the various aggregation models and their characteristics.

Today, aggregators are integral to the operational efficiency of the broking industry for the services they provide to brokers as described above.

Following the introduction of the Credit Act and additional regulatory demands stemming from the Banking Royal Commission, aggregators have expanded their services to help brokers meet their compliance obligations efficiently, including through technology-driven solutions for record-keeping and reporting. While some larger broking businesses may have an in-house compliance function, this is rare. The majority of small brokers, particularly sole operators, rely on an aggregator's service provision or, engage third-party compliance service providers to manage compliance obligations. Given the complexity and cost of managing compliance independently, the services provided by aggregators are crucial in ensuring brokers can operate efficiently and continue providing services to their clients.

In effect, the broking industry's efforts to comply with national licensing laws have resulted in the relationships between aggregators and brokers being treated as relevant contracts under the Contractor Provisions.[11] This is demonstrated in the case study below.

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[8] Lenders remit the commissions earned by brokers from settled loans to aggregators, who then distribute the payments to brokers. In some cases, aggregators deduct their service fees before transferring the remaining commission. In other instances, the full commission is passed to the broker, who subsequently pays the aggregator's service fee. In both cases, the process occurs strictly under the instruction and direction of the broker.

[9] The model is similar to that articulated at paragraph 178 - 181 of Uber Australia Pty Ltd v Chief Commissioner of State Revenue [2024] NSWSC 1124.

[10] From our estimates, between 4-5% of brokers switch aggregators on an annual basis.

[11] See CPN 016 and the Loan Market Case.

Case Study 1: The impact of Credit Act compliance on payroll tax

Blue Broking is a small sole proprietor business run by John, an experienced mortgage broker who sources and services his own clients. Blue Broking needs to either be licensed or to be a representative of a licensee to be able to help its clients secure home loans. John decides that it is easier for Blue Broking to become a credit representative under the ACL of Aggregator Z.

Aggregator Z provides services to John's business such as access to lender product information, compliance and record keeping tools, and technology platforms, which help streamline his operations. The technology provided by Aggregator Z also enables record keeping for John allowing him to meet regulatory requirements efficiently while focusing on serving his clients. John pays Aggregator Z for these services.

Commission is collected by Aggregator Z from lenders on John's behalf and then is paid to John on a monthly basis.

Revenue NSW views John's relationship with Aggregator Z as constituting a relevant contractor arrangement for payroll tax purposes. As a result, Aggregator Z incurs a payroll tax liability for John's business that includes retrospective fines and penalties. Aggregator Z operates, as an intermediary, on very low margins of 5% and its business model cannot absorb the cost of payroll tax when passing through commissions as a service to brokers. As such, Aggregator Z passes on the cost of that payroll tax liability to Blue Broking through an increase in service fees.

For John, the additional payroll tax liability including retrospective taxes and penalties could jeopardise his business, forcing him to reduce expenses like marketing and professional development, or even consider exiting the industry.

The case of Blue Broking highlights the unintended consequences of applying payroll tax laws to a federally regulated industry. It demonstrates the urgent need for clarity and reform to ensure the broking industry can continue to operate effectively and support NSW borrowers.

Key recommendations

In light of the above, we set out our key recommendations below, including amending the Contractor Provisions to align with its original anti-avoidance intent.

RECOMMENDATION 1

A consultation of the Contractor Provisions is conducted by NSW Treasury, the purpose of which is:

- To amend the law to reflect its original intent as anti-avoidance provisions designed not to capture *bona fide* contractor relationships.
- It should then follow that Revenue NSW should apply the law as intended, targeting anti-avoidance rather than genuine business arrangements.

Overview of the relevant contract provisions

The Contractor Provisions were introduced in 1987 as an anti-avoidance measure and have remained largely unchanged despite significant shifts in the nature of work and modern contracting arrangements. The Contractor Provisions were originally designed to address the misclassification of employees as independent contractors, ensuring payroll tax applied to arrangements resembling employment, particularly where contractors worked exclusively or primarily for a single entity.[12] As we understand, the Contractor Provisions were not intended to capture *bona fide* contractors.

Section 32(1) operates by deeming a contract as a "relevant contract" for payroll tax purposes if services are provided under that contract during a financial year and wages are paid "*for or in relation to the performance of work*." Section 32(2) then provides exemptions intended to exclude "*bona fide*" contracts from payroll tax liability. These exemptions aim to distinguish genuine business relationships from employment-like arrangements.[13]

Due to the broad drafting aimed at targeting tax avoidance, the Contractor Provisions unintentionally now capture genuine independent contractor arrangements. For example, this broad drafting has led to the considerable uncertainty in industries such as mortgage broking.

This issue has been repeatedly identified and highlighted by experts.

For instance, in 2018, the Law Society of NSW, in its submission to the NSW Treasury review of payroll tax administration,[14] noted the challenges posed by poor legislative drafting and the resulting compliance difficulties for taxpayers. Similarly, payroll tax expert Mr. Jack Aquilina, Managing Associate at Dentons and Senior Fellow at Melbourne Law School, in his paper titled *Payroll Tax & Relevant Contractors* further elaborated on these challenges, emphasising the impact on businesses navigating these complex provisions:

> "*Both the approach being taken by revenue authorities and the uncertainty creates a very difficult environment for businesses of all sizes to operate in. It builds into what are usually low margin business models further imbedded cost and risk and, in the author's respectful opinion, extends the role of payroll tax far beyond its stated and legitimate function within the State taxation scheme. Either the line will be drawn by the Courts in interpreting and applying the law as currently drafted or Governments across Australia will need to work together to enact sensible reform.*"[15]

Our members' experience is reflective of these observations - that the drafting of the law has repeatedly required interpretation by the courts, resulting in a significant impost both financially and in terms of taxpayer time. This is evident in the Loan Market Case, where Revenue NSW audits began in 2015, the case was heard in 2023, and a final ruling was received in 2024 — marking nearly a decade without clarity.

Overview of recent case law

Recent case law has highlighted the challenges for industries across NSW with the Relevant Contract Provisions, these include:

- In the Loan Market case, where the Supreme Court of New South Wales in its ruling that commissions paid by a mortgage aggregator to brokers fell under the "relevant contract" provisions, noted the law's application as "harsh" suggesting that legislative reform was needed.[16]

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[12] See footnote 6 for reference.

[13] One of these exemptions is in section 32(c) of the Act and colloquially named the 2+ rule. The 2+ rule exemption allows businesses with fewer than two employees to be exempt from payroll tax obligations. The "2+ rule" exemption does not apply to the arrangements between aggregators and sole proprietor broking businesses, meaning they are not exempt and are captured within the aggregator's payroll tax net. This places the payroll tax liability on aggregators for commissions paid to solo brokers.

[14] The Law Society of NSW submission to the Review of Payroll Tax Administration dated 6 July 2018, https://www.treasury.nsw.gov.au/sites/default/files/2018-11/Review%20of%20Payroll%20Tax%20Administration%20Submission%20-%20Law%20Society%20of%20NSW.pdf.

[15] See *Payroll Tax & Relevant Contractors presented to the Vic Tax Forum,* 21-22 March 2024 by Jack Nathan Aquilina pg 36.

[16] Loan Market Case paragraph 207.

- The NSW Supreme Court ruled in *Uber Australia Pty Ltd v Chief Commissioner of State Revenue* that payments to Uber drivers were not subject to payroll tax. This case is subject to appeal. However, the case highlights the uncertainty of the provisions being applied to technology platform providers and intermediaries, potentially highlighting disparate results under the current law and creating an unlevel playing field between industries using bona fide contracting arrangements.
- In *Thomas and Naaz Pty Ltd v Chief Commissioner of State Revenue [2023] NSWCA 40*, the New South Wales Court of Appeal upheld that payments from a medical practice to its doctors are subject to payroll tax. This decision led to state governments across Australia legislating exemptions for General Practitioners (GPs) from the application of payroll tax, including the NSW Government.

Exemptions disadvantage vulnerable small businesses

Because the current exemptions only exempt larger contractors (that is contractors that have two or more people involved in the service delivery and/or operate for more than 90 days a year),[17] the law disproportionately impacts single person small businesses.

This is because single person businesses fall outside the scope of the exemptions where they are operated by one individual for more than 90 days and there is a deemed service flow between the individual (whether a natural person or company) and the intermediary service provider. This has the obscure result of imposing significant costs on the smallest of small businesses that do enter into bona fide independent contractor relationships with service providers. The added cost to their business puts them at greater risk of failure and creates significant hurdles, putting them artificially at a competitive disadvantage in the marketplace. This is despite that fact that the current law does not appear to have a principled policy justification for this anomalous outcome for small business.

Proposed solution

The NSW Government must determine whether the objective of payroll tax legislation is to impose tax obligations on bona fide independent contractors. We believe that this was never the original intent of the law. Instead, Section 32 was designed to prevent payroll tax avoidance by businesses that deliberately misclassify employees as contractors to circumvent their tax obligations. Over time, the broad application of this provision has led to unintended consequences, capturing genuine independent contractor arrangements that should not fall within the scope of payroll tax.

To restore Section 32 to its original intent, we recommend reforming the provision to ensure it only captures employment-like contractor relationships by removing the concept of services from its definition. Instead, we propose aligning the provision with the well-established common law definition of employee to capture contractor relationships that are identical in character to employment relationships. [18]

[17] These exemptions are in ss32(b)(iii) and (c) of the Act.
[18] See 'Workpac Pty Ltd v Skene, Workpac Pty Ltd v Rossato and Ors, CFMEU v Personnel Contracting Pty Ltd and ZG Operations Australia Pty Ltd v Jamsek

Additionally, we propose the introduction of two key exemptions to modernise the Relevant Contractor provisions and to ensure it does not capture genuine independent business arrangements:

- First, an exemption for bona fide contractors should be introduced to reflect the original intent of the Contractor Provisions.
- Second, an exemption for intermediary service providers should be introduced to reflect modern business models such as aggregation services.

These changes would not only introduce clarity into the law, it would reduce the risk of the Relevant Contractor Provisions being applied beyond its original intended purpose.

We support the recommendations made by Dentons in their submission to the Inquiry.

RECOMMENDATION 2

Following from the outcome of the review of the Contractor Provisions, to require Revenue NSW to conduct a review of CPN 016 in comprehensive consultation with mortgage broking industry stakeholders.

Payroll tax administration in NSW was the subject of a NSW Treasury consultation in 2018 with all recommendations made by the NSW Commissioner for Productivity in its final report accepted by the NSW Government. A critical recommendation included a requirement for Revenue NSW Commissioner to produce practice notes to support greater clarity on core questions to assist with compliance.[19]

First introduced in 2021 and later updated in June 2022, CPN 016 outlines Revenue NSW's guidance on the application of the 'relevant contracts' provisions under Section 32 of the Act to both financial services under an Australian Financial Services License (**AFSL**) (in effect financial planners) and credit services under an ACL (in effect mortgage brokers).

As a key resource for the industry, CPN 016 should be able to be relied upon heavily to provide clarity and direction regarding the application of payroll tax in complex contractual arrangements between aggregators, lenders and brokers.

Our members have highlighted that CPN 016 was issued without adequate consultation, leading to defective guidance for industry. In our view, the current CPN fails in ways that includes but is not limited to the following:

- It mis-describes mortgage brokers as agents of aggregators rather than as agents of consumers in line with findings from the Banking Royal Commission.
- Brokers often engage directly with "off-panel" lenders that are not part of an aggregator's standard lender product information. The CPN does not clarify how these arrangements affect the existence of a "relevant contract."

[19] See Review of payroll tax administration in New South Wales Final Report Recommendation 6 page 20, https://www.treasury.nsw.gov.au/sites/default/files/2018-11/NSW%20PC%20to%20Treasurer%20-%20Review%20of%20payroll%20tax%20administration.pdf.

- Situations where trail commissions are sold by one broker to another or transferred between aggregators are common. The CPN does not include guidance on how these are treated for the purposes of calculating payroll tax.
- Brokers are often required to engage mentors during their first two years as a requirement of lenders or industry bodies. The CPN does not clarify or contemplate these engagements in providing guidance on the criteria for the "two or more persons" exemption.
- Aggregators provide critical services to brokers, such as access to loan writing platforms and consumer credit assessments. The CPN does not address how these services are viewed in the context of the "two or more persons" exemption.
- The CPN needs to provide clearer guidance on the "de minimis" threshold, including qualitative and quantitative factors, to ensure consistent application of the exemption.
- The CPN does not clarify whether aggregators need to maintain records for the life of a loan (which could be up to 30 years) including what records are required to be kept demonstrating the reliance on exemptions.

It is important also that the CPN should reflect the range of structural models employed by aggregation groups with respect to arrangements with brokers as noted above as these can vary significantly in terms of service offerings, contractual arrangements, and the level of services provided to brokers.

The CPN was re-issued in 2021, however did not remediate these deficiencies and was issued without any notice to the industry to which it was related.

It is essential that any legislative reform is accompanied by a review and update of the CPN. In our experience, the ATO and federal regulators take a more collaborative approach to consultation, offering greater opportunities for early engagement with industry. This clear and constructive consultation process, coupled with reasoned decisions communicated to affected parties, has resulted in better compliance outcomes for industries.

We see a valuable opportunity for Revenue NSW to adopt similar consultation practices to those of its federal counterparts, fostering greater clarity and support for businesses in meeting their obligations.

RECOMMENDATION 3
In the interim, immediate relief be provided to the broking industry by implementing an amnesty on audit and enforcement actions and ensuring no retrospective application of the current law is applied.

The mortgage broking industry operates within a highly regulated environment and is committed to compliance, however, to do so it needs certainty and clarity.

There are approximately 11 aggregation groups in the industry, all are MFAA members and almost every single one has or will be impacted by the lack of clarity in the law.[20]

[20] Australian Finance Group (AFG), Connective, REA Group (Mortgage Choice), Loan Market Group (LMG), National Mortgage Brokers (NmB), Outsource, Specialist Finance Group (SFG), Yellow Brick Road (YBR), Finsure, Lendi Group (Aussie Home Loans), Astute Financial.

As a result of the finding in the Loan Market Case, many aggregation groups have commenced look-back self-assessment exercises, placing significant administrative burden and strain on our members to produce evidence for exemptions. For example, the record-keeping obligations tied to exemptions are extraordinarily onerous. If, for instance, with respect to trail commission payments on loans that could extend up to 30 years, aggregators would need to retain records for the entire duration to prove the exemption applied at the time the loan was established.

Additionally, the obligation for aggregators to self-assess exemptions is fraught with issues. Aggregators must obtain sensitive information from brokers, who are independent third parties, to confirm eligibility for exemptions. However, aggregators have no legal right to require this information, and brokers may hesitate or refuse to provide it due to privacy or confidentiality concerns. Further to this, the aggregator is ultimately liable for any errors made by the broker, despite having no control over the accuracy or completeness of the information provided. Conversely, requiring broking businesses to produce employee-like records imposes an unreasonable burden on these businesses as such record-keeping was never designed or contemplated for their independent operations.

We note that some aggregator members are still responding to Revenue NSW (RNSW) audits and assessment activities, with one aggregator currently engaged in litigation. Our members' experiences with RNSW audits align with concerns raised in the NSW Law Society submission, which highlighted that "*Revenue NSW audit teams adopt a bureaucratic approach to both undertaking their audits and imposing penalties*," resulting in "*high compliance costs to the business and displacement of day-to-day operations*."[21] Members have also expressed frustration that audit teams often rely on minimal analysis to issue assessments, leaving businesses with no choice but to allocate significant resources to object.

Furthermore, our aggregator members report that the anticipated legal costs of seeking judicial review often far exceed the amounts of tax in dispute.

Cost of payroll tax on broker businesses

The retrospective application of payroll tax, combined with fines and penalties, could result in significant costs for broking businesses. The MFAA estimates that the five-year retrospective application of payroll tax could cost a single broker $68,408—nearly 38% of the average annual gross earnings for a single broker business.[22] This financial burden would threaten the viability of many brokers, particularly small operators, forcing closures and reducing the industry's capacity to serve borrowers. The flow-on effects would be profound: reduced competition in the lending market, higher borrowing costs, and diminished access to credit for first-home buyers, and families.

Case Study 2: ABC Broking – A Sole Operator Facing the Payroll Tax Challenge
ABC Broking is a sole proprietorship run by Sarah, an experienced and highly regarded mortgage broker based in regional NSW. For over a decade, Sarah has helped local first-home buyers and families secure tailored loan solutions. Known for her personalised service and commitment to her community, Sarah has built a loyal client base through hard work and dedication. The closest bank branch to the town in which she has her business is 50 kilometres away so she is integral to her community in providing them with access to finance.

[21] See page 5 of The Law Society of NSW submission to the Review of Payroll Tax Administration dated 6 July 2018, https://www.treasury.nsw.gov.au/sites/default/files/2018-11/Review%20of%20Payroll%20Tax%20Administration%20Submission%20-%20Law%20Society%20of%20NSW.pdf.

[22] The payroll tax rate is 5.45%. Aggregator revenue after costs typically run at 5% which is less than the payroll tax rate which means commercially aggregators are unable to absorb the tax and will have to pass wholesale amounts on to broking businesses.

Recently, Sarah received news that her aggregator, subject to payroll tax, has passed on the cost to its brokers. This additional expense, combined with the retrospective application of payroll tax, could cost Sarah more than $60,000 with five years of back taxes and penalties—nearly 38% of her average annual gross earnings.[23]

Sarah has already made difficult sacrifices, cutting back on marketing and professional development, which are critical to growing her business and staying competitive. Despite her efforts, she believes these measures won't be enough to keep her business afloat.

The closure of ABC Broking would not only be a personal loss for Sarah but also a significant blow to her community. Many of her clients rely on her expertise to navigate the complex lending landscape, particularly first-home buyers who depend on her to find competitive loan solutions.

Sarah's story highlights the unsustainable burden that retrospective payroll tax and aggregator pass-through costs will place on sole proprietary businesses.

Impact on NSW homeowners

Independent brokers, who facilitate nearly 75% of home loans in Australia, operate as small businesses and are critical to ensuring a competitive and accessible lending market. By helping borrowers navigate the lending process, brokers provide access to a wide range of credit products and secure competitive interest rates, reducing the average cost of a mortgage.

In New South Wales, where land values and mortgage costs are higher than the national average, brokers play a vital role in supporting homeownership and reducing the financial burden for borrowers.

If brokers were to leave the industry in significant numbers, the cost of an average mortgage accessed through a broker in NSW would increase by an estimated $273 per month, or $98,280 over the life of the loan. The resulting contraction in the broking industry would not only harm individual borrowers but also weaken the housing market and impede the state's bipartisan policy of improving housing affordability and boosting supply.

It is therefore essential for the government to consider the long-term impacts of payroll tax on brokers and on Australian homeowners, and ensure that policies support, rather than hinder, the critical role brokers play in New South Wales economy.

Given the inherent uncertainties and significant ongoing costs, implementing a moratorium on enforcement and ensuring no retrospective application of payroll tax is a practical and sensible approach. This would provide much-needed clarity and relief to the industry while allowing time for the inquiry to go through its processes.

RECOMMENDATION 4

That a national dialogue is commenced across states and territories to seek true harmonisation of payroll tax with a clear focus on reducing unnecessary red tape and administrative burden on national businesses.

This inquiry is an important first step in addressing the significant challenges posed by payroll tax inconsistencies across Australian states and territories. However, broader reform is essential to resolve the systemic issues caused by the fragmented and inefficient system. Despite efforts toward harmonisation, discrepancies remain with respect to payroll tax thresholds. A table of the thresholds and rates is at **Appendix 4**. Further to this, various state payroll tax acts and their application across jurisdictions also vary significantly.[24]

These inconsistencies create significant compliance costs and administrative burdens for national businesses, particularly in industries like mortgage broking and aggregators that operate across multiple states.

The current patchwork approach diverts resources away from productive activities and discourages investment in workforce expansion, further undermining Australia's productivity. As highlighted by the Business Council of Australia, payroll tax effectively penalises businesses for employing workers and hinders growth.[25] A nationally consistent approach to payroll tax rules is required to reduce inefficiencies, streamline compliance, and encourage economic growth.

While this inquiry is a welcome step, the federal government must take a leadership role in driving reform. Only a coordinated national approach can address the underlying challenges, simplify the system, and deliver the productivity benefits that businesses and the Australian economy need.

[24] For example, as noted above, the exemption in 32(c) of the NSW Payroll Tax Act being the 2+ rule does not exist in the ACT Payroll Tax Act.

[25] See Business Council of Australia media release dated 29 November 2024: https://www.bca.com.au/business_council_releases_payroll_tax_scorecard_and_calls_for_better_business_conditions_to_drive_investment

Appendices

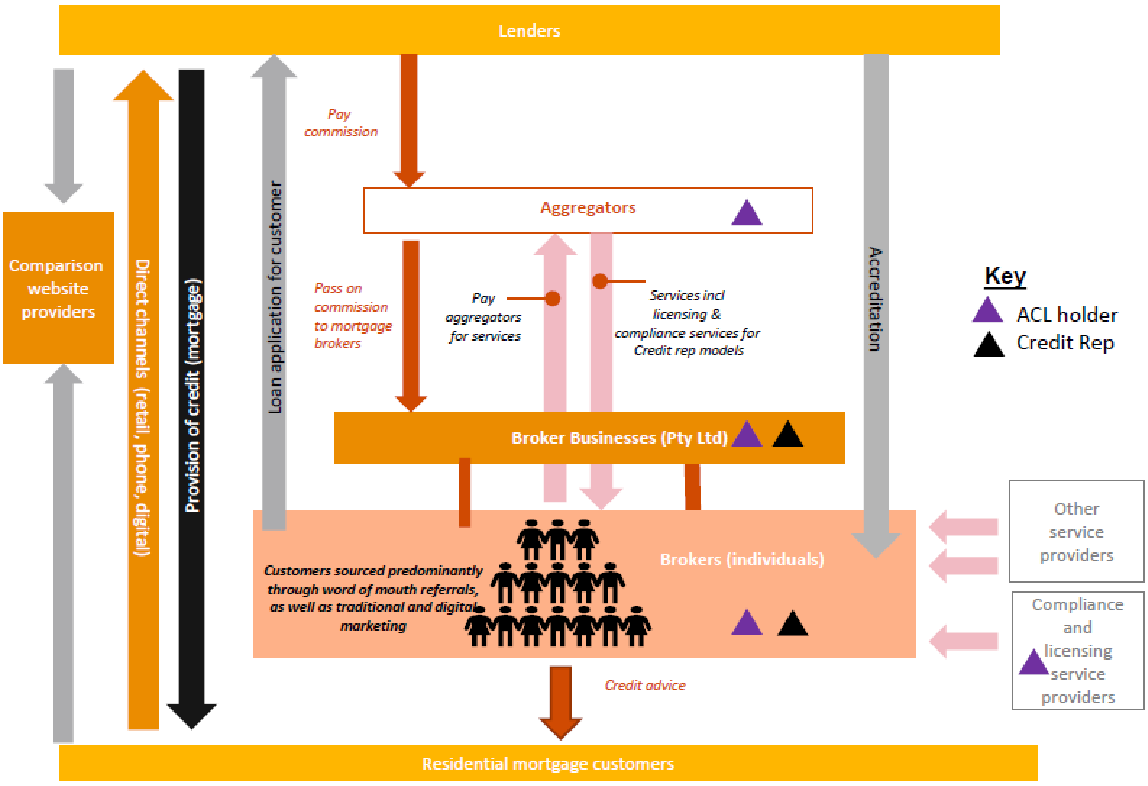
1. Summary of MFAA engagement with NSW Government on Payroll Tax
2. Mortgage broking industry overview
3. Aggregation models and characteristics
4. Payroll tax thresholds and rates across states

Appendix 1 – Summary of MFAA engagement with NSW Government on Payroll Tax

Date	Description
7 February 2025	MFAA lodges submission to Inquiry
26 November 2024	NSW Portfolio Committee 1 (Premier and Finance) launch inquiry into payroll tax legislation
11 November 2024	Meeting with NSW Opposition Leader Mark Speakman, and NSW Shadow Treasurer Damien Tudehope
6 November 2024	MFAA media release - NSW Government must change payroll tax law
8 October 2024	MFAA media release - Associations join forces against payroll tax
24 July 2024	Joint MFAA, COSBOA, CAFBA letter to the NSW Government
18 July 2024	Meeting with the NSW Shadow Treasurer Hon Damian Tudehope
6 May 2024	Letter to Revenue NSW
6 May 2024	Letter to NSW Finance Minister Hon Courtney Houssos
1 May 2024	Letter to NSW Finance Minister Hon Courtney Houssos
15 April 2024	Media Release - Payroll tax ruling highlights legislation is flawed - 15 April 20204 (responding to Supreme Court 12 April 2024 LMG ruling
8 February 2024	Letter to NSW Finance Minister Hon Courtney Houssos
31 January 2024	Meeting with NSW Finance Minister Hon Courtney Houssos
29 January 2024	MFAA (federal) pre-budget submission calls for Payroll Tax reform
13 December 2023	Follow up email to NSW Finance Minister Courtney Houssos
26 October 2023	Meeting with the NSW Shadow Treasurer Hon Damian Tudehope
27 September 2023	Meeting with NSW Treasurer the Hon Damien Tudehope
25 August 2023	Letter to NSW Finance Minister Hon Courtney Houssos
26 July 2023	Meeting with NSW Finance Minister Hon Courtney Houssos

Date	Description
26 July 2023	Letters to NSW Finance Minister Courtney Houssos and Revenue NSW
12 May 2023	Letter to Revenue NSW
1 May 2023	Letter to NSW Small Business Minister Steve Kamper
1 May 2023	Letter to NSW Finance Minister Hon Courtney Houssos
26 April 2023	Letter to Opposition Leader Chris Minns and Shadow Treasurer Daniel Mookhey
27 March 2023	Media Release - MFAA secures stop action from Revenue NSW 27 March 2023
23 March 2023	Meeting with Revenue NSW
6 March 2023	Media Release - MFAA launches NSW payroll tax campaign - 6 March 2023
22 February 2023	Follow up letter to Shadow Finance Minister Anoulack Chantivong
20 February 2023	Correspondence to Revenue NSW
20 February 2023	Correspondence to NSW Premier, Treasurer and Minister for Small Business (Labor)
20 February 2023	Letter to NSW Opposition Ministers

Appendix 2 – Mortgage broking industry overview



Key points:

- Traditionally lenders have sold products through direct channels including branches, call centres and their websites.
- Increasingly, borrowers have sought to obtain residential mortgages through third parties – mortgage brokers are now typically a lender's main third-party distribution channel.
- Mortgage brokers are individuals who are licensed to write loans for borrowers. Unlike the offering from direct channels, brokers can offer a range of products from multiple lenders
- Mortgage brokers operate as standalone businesses, earning income from each loan that they write. They generally receive an upfront commission and an ongoing trail for the life of the loan.
- In order for a mortgage broker to access a wide range of lenders for their customers to choose from, they generally align to an aggregator. Aggregators facilitate the relationship between lenders and brokers, enabling them to do business in an efficient way.
- There are a number of aggregation models - brokers who wish to operate under their own brand will choose "Wholesale Aggregation model", while those who wish to align with a brand can choose "Retail Aggregation model".

Appendix 3 – Aggregation Models and Characteristics

Model	Is there an employment contract?	Does the broker work from the aggregator's premises?	Does the broker use aggregator-provided equipment?	Does the broker have their own insurances?	Does the broker use the aggregator's brand?	Does the broker get client leads through the aggregator?	Does the broker follow the aggregator's business hours?	Can the broker end their agreement with the aggregator at any time (with required notice)?	Does the broker keep clients after ending the agreement with the aggregator?
Retail	No	No	No	Yes	Yes	Yes, as a service, noting the use of self-generated referrals as well	No	Yes	Subject to the broker's service agreement with the aggregator
Wholesale	No	No	No	Yes	No	No	No	Yes	Yes
Salaried	Yes	Yes	Yes	No	No - employee	Yes	Yes	Yes – by resignation	No

Appendix 4 – Payroll tax thresholds and rates across states

State/Territory	Annual Threshold	Tax Rate (above threshold)	Notes
New South Wales	$1.2 million	5.45%	Reduced rate for regional employers.
Victoria	$900,000	4.85% (metro), 1.2125% (regional)	Regional employers pay a lower rate.
Queensland	$1.3 million	4.75%	Rate decreases to 4.5% for wages above $6.5 million.
South Australia	$1.5 million	4.95%	No regional variations.
Western Australia	$1 million	5.5% - 6.5%	Graduated rate depending on total wages.
Tasmania	$1.25 million	4% - 6.1%	Graduated rate depending on total wages.
Australian Capital Territory (ACT)	$2 million	6.85%	No regional variations.
Northern Territory	$1.5 million	5.5%	No regional variations.

1. Thresholds: The threshold is the amount of annual wages an employer can pay before being liable for payroll tax.
2. Rates: Rates apply to wages above the threshold. Some states have graduated rates or reduced rates for regional employers.
3. Exemptions: Certain wages (e.g., for apprentices or trainees) may be exempt or subject to concessions.
4. Grouping Rules: Businesses under common ownership or control may be grouped, and their wages combined for threshold purposes.

MORTGAGE AND FINANCE ASSOCIATION OF AUSTRALIA

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Cover sheet: Supporting document #2

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The Value of Mortgage and Finance Broking 2025

Final Report | Mortgage & Finance Association of Australia

11 February 2025

MAKING AN IMPACT THAT MATTERS since 1845

Foreword

Deloitte Access Economics consulted the Mortgage & Finance Association of Australia (MFAA) for this report. We also worked closely with industry partners through an established Mortgage & Finance Broking Industry Steering Group. Deloitte Access Economics would like to thank the Steering Group for their feedback and contributions to this report.

Other organisations contributed through this research through participation in an industry consultation or through their promotion of our broker survey. A full list of these organisations is included in the Appendices.

Contents

List of acronyms

Acronym	Full name
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACL	Australian credit licence
AFCA	Australian Financial Complaints Authority
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CAFBA	Commercial and Asset Finance Brokers Association
CDR	Consumer data right
CRM	Customer relationship management
EDR	External dispute resolution
ESG	Environmental, social and governance
FBAA	Finance Brokers Association of Australia
FTE	Full-time equivalent
FY	Financial Year
GDP	Gross domestic product
GOS	Gross operating surplus
GVA	Gross value added
IIS	Industry Intelligence Services
MFAA	Mortgage & Finance Association of Australia
NIMs	Net interest margins
RBA	Reserve Bank Australia
SME	Small-to-medium enterprise
SMSF	Self-managed super funds

Snapshot of the mortgage and finance broking industry

Repeat customers (44%) and **referrals (28%)** are the key leads for generating broker business

22,031 brokers operating at the end of March 2024

Surveyed brokers were accredited with 23 lenders on average in 2023-24

75% of all new residential loans in Australia are arranged by mortgage brokers.

13% of surveyed brokers are commercial lending focussed, writing **25%** or more commercial loans

Economic contribution of the mortgage and finance broking industry

37,349 direct and indirect jobs supported through broking activity

$3.3 billion in direct Value Added and **$800 million** in indirect Value Added

The **growth of mortgage brokers** is correlated with reductions in mortgage interest rates for borrowers

$4.1 billion in economic activity to the Australian economy in FY23

Key benefits of the mortgage and finance broking industry

45% of brokers' owner occupier customers are first home buyers, compared to **30%** in the market

0.35% average reduction in interest rates achieved for those who are successfully repriced

Brokers **expand lender market reach** and help new players to enter the market

Brokers spend **11% of time educating** customers for mortgage applications

86% hold qualifications equal to or above a Diploma in Mortgage Broking Management Services

Executive Summary

The mortgage and finance broking industry plays a pivotal role in Australia's economy, linking consumers and businesses to lenders. By facilitating access to residential and commercial loans, financial products and services, brokers support millions of Australians to secure homes, gain access to finance for their businesses and achieve their financial goals. In doing so, the broking industry makes a significant contribution to economic growth and stability and ensures a competitive marketplace.

This report
Deloitte has been engaged to produce a report that provides an evidence base about the role of the mortgage and finance broking industry and its value to the Australian economy. This research provides an update and expansion to the previous Value of Mortgage Broking Report, published by the industry in 2018.

Six key changes set this report apart from previous analysis:

- **The introduction of Best Interests Duty in January 2021 has assisted in continuing to raise industry professionalism** and maintaining strong consumer protections by requiring brokers to act in the best interests of their customers when providing credit assistance. Brokers have embraced changes, with 56% of respondents reporting the changes have improved trust in the sector- ten times more than reported negative impacts.
- **Mortgage brokers have increased their role in the market,** with 75% of all new Australian residential loans arranged by brokers in 2024, up 18 percentage points from 2017.[1] This corresponds with rising interest rates and cost of living pressures, with borrowers seeking the best deal possible.
- **The mortgage broking industry has grown.** By March 2024, the number of mortgage brokers had reached 22,031 according to latest Industry Intelligence Survey data.[2] There were 17,040 brokers in 2018, representing an increase of 29%.[3]
- **Economic analysis** developed for this report finds that the growth of mortgage brokers is correlated with reductions in mortgage interest rates for borrowers and enabled more competition in the banking sector, along with other factors.
- **Commercial and asset finance broking remain emerging growth areas for the profession.** Specialist brokers serving the financing needs of small to medium sized businesses have grown since the last report, expanding out the role of brokers in the community to service a more diverse range of financing needs in addition to residential mortgages.
- **The broker role is evolving, enabled by technological adoption.** Brokers are using technology to streamline their operational tasks, resulting in more time being spent with their clients on upfront education and ongoing proactive assessment of best mortgage terms for their clients. Surveyed brokers reported a **0.35% average reduction in interest rates** achieved for those who are successfully repriced.

Sources informing this research

The report is based on a variety of public and commercial data sources and specific information collected for this report, including a nationally representative survey of 454 individual mortgage brokers and 393 mortgage broking businesses, and twelve one-to-one consultations with key industry participants.

The Value of Mortgage and Finance Broking 2025

GROWTH WITHIN THE MORTGAGE AND FINANCE BROKING INDUSTRY

Increased role in mortgage market
75% of all new residential loans in Australia are arranged by mortgage brokers.

Number of brokers
22,031 brokers operating at the end of March 2024, according to latest Industry Intelligence Survey data.

Key leads
Repeat customers (44%) and referrals (28%) are the key leads for generating broker business.

Consumer choice
Surveyed brokers were accredited with 23 lenders on average in 2023-24.

Regulatory changes
Brokers are 10 x more likely to report a positive impact to their business than negative from the introduction of Best Interests Duty.

Executive Summary continued

Enhancing competition and choice

Mortgage brokers play a crucial role in enhancing competition and choice by offering consumers access to diverse loan products across multiple lenders, empowering them to secure the best terms tailored to their unique needs.

In 2023-24, surveyed mortgage brokers reported that, on average, they are accredited with **23** different lenders through their aggregator and settled loans with 8 different lenders. Beyond this, brokers can access up to 65 lenders through their aggregator panels.[4] Brokers present **three options** on average to each customer, aligned to their customers' best interests.

Brokers are also pro-actively assessing whether consumers are receiving competitive rates. Survey respondents reported a **0.35% average reduction in interest rates** achieved for customers who are successfully repriced.

In the long term, growth in mortgage broker-arranged loans has helped facilitate a more competitive banking sector. Since the early 1990s, major banks' Net Interest Margins (NIMs) have more than halved, falling by nearly 3 percentage points to below 2%.

Lenders have continued to be profitable by becoming more efficient, using technology, and using the mortgage broker channel to grow the loan market overall. Analysis for this report suggests that, alongside other factors such as digitisation, changes to regulation and wholesale funding, and more players in the market, mortgage brokers have helped to facilitate greater competition.

Economic contribution of the mortgage broking industry

Mortgage and finance broking is a significant industry, contributing **$4.1 billion in gross value added to the Australian economy each year** and supporting the employment of over 37,349 employees.

The industry directly employed an estimated 31,899 people across Australia at the end of March 2024, and indirectly supports the employment of a further 5,450 workers in other Australian businesses through broking activities.

Unlocking benefits for lenders

The broking industry is helping to realise important benefits for lenders by enabling new players to enter the market, expanding their market reach and connecting them with a broader pool of prospective customers. Brokers also benefit larger lenders by improving their ability to make costs more variable, invest in technology that can be used at scale by brokers and customers alike and improve qualification of applications.

Driving improved outcomes for Australian consumers

A healthy mortgage broking industry drives significant benefits for lenders and consumers by promoting competition between lenders, expanding choice for consumers and providing them with the knowledge and expertise to navigate a complex marketplace.

Mortgage brokers are driving benefits for different consumer segments such as first home buyers and customers in regional areas. Our survey finds 45% of brokers' owner occupier customers are first home buyers, compared to 30% in the overall market. Brokers also make a significant contribution across Australia's regional areas. 1 in 4 mortgages arranged by brokers are for customers located in regional and rural areas, reflective of the national population distribution (27% in regional and remote).

Mortgage brokers help consumers to navigate a complex loan market, delivering important **efficiency and equity benefits for Australian consumers**. This role is more important than ever as cost of living pressures continue to impact consumers.

ECONOMIC CONTRIBUTION OF THE MORTGAGE AND FINANCE BROKING INDUSTRY

Economic contribution

$4.1 billion in economic activity to the Australian economy in FY23.

Value Added

$3.3 billion in direct Value Added and **$800 million** in indirect Value Added.

Total workforce

37,349 jobs supported including 31,899 direct and 5,450 indirect through broking activities.

Driving competition

0.35% average reduction in interest rates achieved for those who are successfully repriced.

Consumer benefits

The growth of mortgage brokers is correlated with reductions in mortgage interest rates for borrowers.

Executive Summary continued

In addition to traditional broking services, brokers provide important education support, spending approximately **11% of their time educating and preparing each customer** for mortgage applications. In doing so, brokers are helping Australians to overcome barriers to access and boost low financial literacy levels, with brokers reporting that 41% of their customers had lower perceived financial literacy. Australia is ranked in the top 10 countries for financial literacy, yet 8.5 million or 45% of adults were estimated to have low financial literacy levels in 2020.[5]

The strong retention of existing customers demonstrates the valuable role brokers play in serving their clients. Repeat customers (44%) and referrals from customers (28%) are the key leads for generating new business, according to surveyed brokers.

Commercial and asset finance

Residential lending continues to be the core business of most broker portfolios for businesses surveyed, yet the industry has observed trends towards commercial and asset lending.

Commercial lending refers to financial products provided to businesses for purposes such as property acquisition, development, and operational financing. Based on our survey, 13% of brokers are commercial lending focussed, writing 25% or more of their settlements as commercial loans in FY23/24, however this remains an emerging growth areas for the profession.

Extending mortgage broking services to include asset finance and commercial lending provides broader benefits to broker customers across a more diverse range of financing needs. This is particularly noticeable within the Small and Medium Enterprise (SME) segment where there are residential and business financing needs.

Where to next for the industry?

The future of the mortgage and finance industry in Australia is expected to be shaped by evolving customer expectations, technological adoption and regulatory changes.

Mortgage brokers have **experienced rapid change in technological adoption,** with digital platforms such as Artificial Intelligence (AI) and data analytics streamlining processes and enabling brokers to offer more personalised and efficient services. Brokers now conduct **three times more communication on a digital platform** during the broking process since the 2018 report, enabling them to reach a wider customer base. Staying up to date with these trends will be crucial for maintaining a competitive edge.

Economic factors including shifting interest rates, rising cost of living and the impacts of constrained housing supply will continue to impact consumers and drive demand for broker services. Brokers must remain responsive to these changes to effectively meet client needs. A strong commitment to ongoing professional development will be essential to maintaining quality of service, building customer relationships and attracting a strong and diverse pipeline of brokers into the workforce.

By focusing on offering a professional and personalised service, leveraging emerging technologies and keeping step with regulatory changes, mortgage and finance brokers can harness the opportunities ahead and continue to support Australians on their home ownership and business financing journeys.

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KEY BENEFITS OF THE MORTGAGE AND FINANCE BROKING INDUSTRY

Consumer benefits
45% of brokers' owner occupier customers are first home buyers, compared to 30% in the market.

Commercial lending
13% of surveyed brokers are commercial lending focussed, writing 25% or more commercial loans.

Lender benefits
Brokers expand lender market reach and help new players to enter the market.

Guiding consumers
In addition to traditional broking services, brokers spend 11% of time educating customers for mortgage applications.

Education and regulation
86% hold qualifications equal to or above a Diploma in Mortgage Broking Management Services.

Introduction

Introduction

The mortgage and finance broking industry plays a pivotal role in Australia's economy, acting as a crucial link between consumers, businesses and lenders. By facilitating access to residential and commercial products and services, brokers support millions of Australians to secure homes and achieve their financial goals. In doing so, the broking industry makes a significant contribution to economic growth and stability.

A healthy mortgage and finance broking industry drives significant benefits for lenders, consumers and business owners through providing greater transparency, promoting competition between lenders, expanding choice for borrowers and providing them with the knowledge and expertise to navigate an increasingly complex marketplace.

The industry is growing, having reached 22,031 brokers at the end of March 2024.1 The industry's growth has been driven by a combination of a strong customer value proposition, strong demand for housing and business finance, evolving customer needs and an increasingly competitive financial services sector.

The financial services sector and mortgage and finance broking industry are closely regulated by the Australian Securities and Investment Commission (ASIC) and other regulatory bodies. The industry has experienced significant regulatory changes, including the introduction of the Best Interests Duty in January 2021 which gives statutory recognition to consumer protections and requires brokers to act in the best interests of their consumers when providing credit assistance.

Brokers have responded well to regulatory changes, with 56% of brokers reporting that the changes have improved trust in the sector - **ten times as many as reported a negative impact to their business.**

More recently in March 2022, the Council of Financial Regulators and the Australian Competition and Consumer Commission (ACCC) announced a review into mortgage broker remuneration was no longer required due to a lack of evidence of consumer harm or broker misconduct from the current remuneration structure.

Deloitte has been engaged to produce a report that provides an evidence base about the role of the mortgage and finance broking industry and its value to the Australian economy. This research provides an update and expansion of the previous Value of Mortgage Broking Report, published in 2018.[2]

This edition explores the impact of current and emerging trends including the rising prominence of Environmental, Social and Governance (ESG) considerations, shifts in technological adoption for consumers and brokers, the changing face of the broker industry and evolving consumer needs in response to challenging economic circumstances.

About this report

The report demonstrates the importance of the mortgage and finance broking industry to the Australian economy and the value of brokers to Australian consumers and small businesses.

This analysis is informed by a range of quantitative and qualitative evidence including:

- Economic Contribution modelling of the contribution of the mortgage and finance broking industry to the economy in terms of Value Added, and employment;
- Analysis of Australian Financial Complaints Authority data;
- Publicly available and industry data on workforce composition;
- Survey and consultation evidence collected on the services mortgage and finance brokers provide;
- Analysis of the relationships between broker market share and net interest margins (recognising that brokers are just one of the forces impacting competition in recent decades).

A bespoke survey was conducted with responses received from a nationally representative sample of 443 individual mortgage brokers and 393 mortgage broking businesses, as well as 7 aggregators and sub-aggregators. Appendix A contains further information related to the survey methodology.

Introduction continued

Beyond the quantitative survey insights, assessment of the value provided by mortgage brokers is supported by insights compiled from in depth consultations with brokers, aggregators, lenders, MFAA and CAFBA. Appendix B contains a full list of organisations consulted as part of this research.

The remainder of this report is structured as follows:

Chapter 1 provides information on the evolution of the mortgage and finance broking industry in Australia including key descriptive statistics, regulatory context, background on the broking ecosystem and key participants. It sets out the roles and responsibility of industry participants, including information on training, educational and professional qualifications, geographic coverage, years of experience, gender composition and average income.

Chapter 2 explores the economic contribution of the mortgage and finance broking industry to the Australian economy in terms of direct and indirect Value Added and employment.

Chapter 3 examines the outcomes and benefits brokers provide to consumers including through their role in improving education and financial literacy, technology adoption and their contribution to sustainability.

Chapter 4 explains the value proposition brokers provide to lenders through reducing distribution costs, driving innovation and improving accessibility for smaller and digital only lenders, as well as considering the role of aggregators.

Chapter 5 analyses the role of brokers in enhancing competition and choice through examining the growth in broker market share, as well as examining the role of brokers in enabling new lenders to enter the market.

Chapter 6 examines key trends across the commercial and asset finance broking sector of the lending market including trends in commercial transactions, key differences between mortgage and finance brokers and priority areas for future growth.

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

1

The mortgage and finance broking industry in Australia

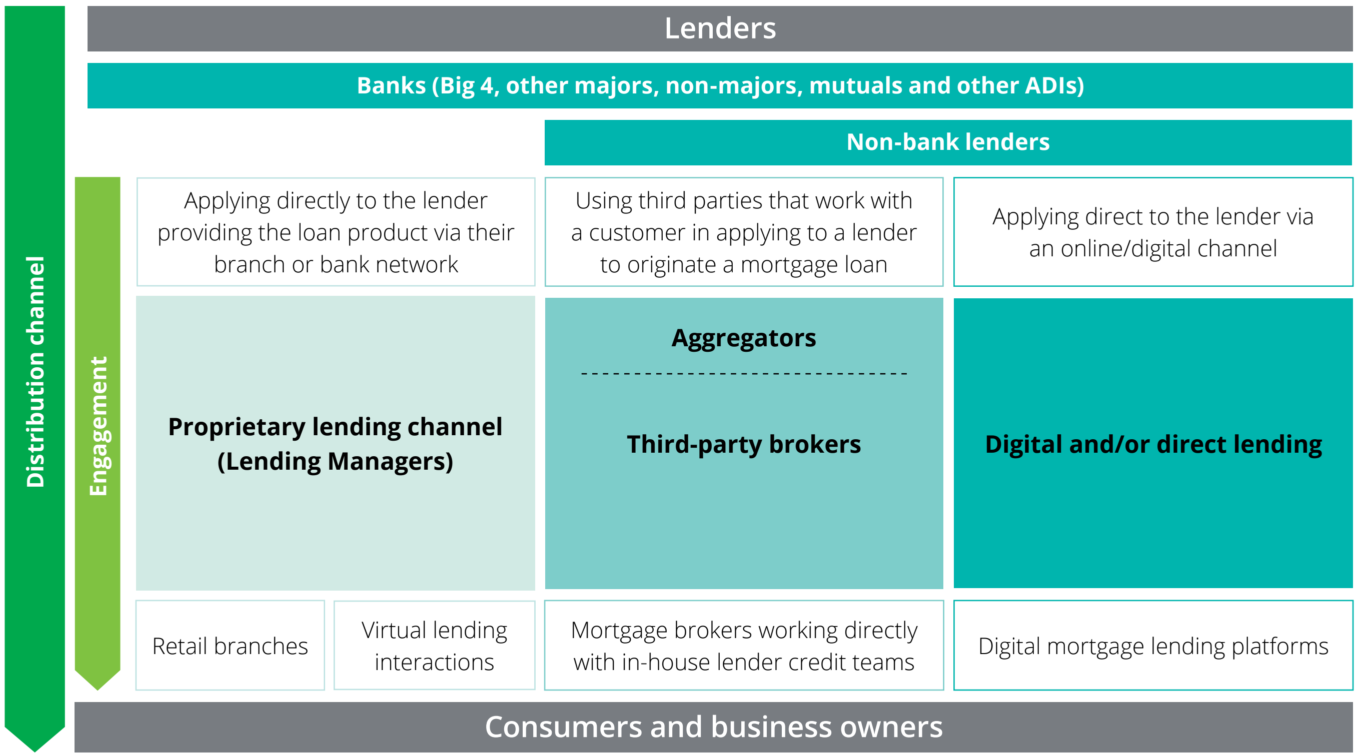
The mortgage broking ecosystem in Australia

Brokers are increasingly playing a larger role in the distribution of credit products to consumers and business owners.

The broking ecosystem

Brokers play a critical role in connecting consumers to a variety of different lenders. Lenders can distribute their products directly to the end borrower or via a broker. The presence of brokers in the Australian lending market has made it possible for new lenders to build presence without the need to establish a retail branch network.

Figure 1.1 Consumer access to lender finance via different channels



Key participants in the broking ecosystem

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, international banks, credit unions and non-bank lenders.

Lending managers are employed by lenders and sell home loans on behalf of a particular organisation. They only have access to their lender's products.

Mortgage brokers work as sole traders or within multi-broker businesses to facilitate access to residential mortgages and/or other financial services credit products (e.g. asset finance, commercial loans).

Aggregators act as an intermediary between lenders and mortgage brokers and may also hold an Australian Credit License (ACL) under which mortgage brokers can seek authorisation as credit representatives.

Other notable participants

Referrers are individuals or businesses that collect details of consumers and refer them to brokerage businesses or to lenders. Unlike brokers, referrers are unlicensed so cannot provide credit services to consumers or assist them in applying for a loan.

Comparison websites contain information on loan interest rates and product attributes to generate sales for lenders. Website owners are remunerated by lenders based on the number of click-throughs by consumers to the lender's website.

Evolution of the mortgage and finance broking workforce in Australia

Finance and mortgage brokerages have undergone significant change over the last seven years driven by regulatory changes, technological advancement and shifts in consumer expectations.

Our analysis of industry and publicly available data highlights changes in the industry workforce over the past seven years:

Key insights

Key insights	2017/18	2023/24	Change
The mortgage and finance broking industry is **growing.**	In 2018, there were **17,040** mortgage brokers.	In 2024, there are **22,031** mortgage brokers.[1]	+29%
	In 2018, there were **8,126** mortgage broking businesses.	In 2024, there are **10,635** mortgage broking businesses.[2]	+31%
	In the six months prior to Sep 2018, **12%** of total brokers were recruited and **11%** left the business.	In the six months prior to March 2024, **9%** of total brokers were recruited and **8%** left the business.[1]	-3%
Industry is marked by a **high level of experience.**	In 2018, **38%** of brokers had 5+ years' experience. **13%** had <1.year.	In 2024, **56%** of brokers had more than 5 years' experience. **11%** had <1 year.[1]	+18%
Mortgage brokers settle a **higher share of residential loans than in 2017**	As at Sept 2017, mortgage brokers settled **56%** of all residential loans.	As at Sept 2024, mortgage brokers settled **74.6%** of all residential loans.[1]	+16%
Gender diversity remains consistent at 27%.	In 2018, female brokers represented **27%** of the workforce.	In 2024, female brokers represented **27%** of the workforce.[1]	+0%
Average total value of new loans is increasing.	In 2018, average total monthly value of new home loans settled was **$1m** per broker.	In 2024, the average total monthly value of home loans settled was **$1.4m** per broker.[1]	+42%

[1] Of responding brokers, according to latest IIS data (2024)
[2] According to latest IbisWorld data

Evolution of the mortgage and finance broking industry in Australia

Finance and mortgage brokers have changed in terms of their growing role and increasing professionalisation.

Role of mortgage and finance brokers

Mortgage and finance brokers help lenders without physical retail branches and help lending markets operate more efficiently. They act as intermediaries to provide consumers and businesses with information and assist them to apply for credit products. For lenders, brokers provide an additional channel to consumers and businesses, allowing less established lenders to reach new customer segments.

Brokers who deal predominantly in commercial finance and asset finance are referred to as commercial and asset finance brokers.

Mortgage brokers provide their credit services to customers under the National Consumer Credit Protection Act 2009 (National Credit Act). This Act regulates the activities of institutions that engage in credit activities, including providing credit assistance to consumers and acting as an intermediary.

Mortgage brokers can hold their own credit licence or be authorised as a representative of another's credit licence, often their aggregator. All mortgage brokers must go through competence assessments and periodic conduct reviews.

Commercial finance brokers help clients secure commercial and asset finance solutions tailored to the needs of small businesses and consumers.

Mortgage brokers help clients secure consumer credit, predominantly home loans.

Education and standards

Broker education and training

Mortgage brokers that engage in lending regulated by the National Credit Act must have, as a minimum, a Certificate IV in Finance and Mortgage Broking.[4] Industry bodies such as the MFAA also require mortgage brokers to have a Diploma in Finance and Mortgage Broking Management.

By statutory requirement, mortgage brokers are required to spend a minimum of 20 hours per year in continuing professional development (CPD) activities. The MFAA also requires a minimum of 30 hours.[5] As part of accreditation processes, many lenders and aggregators also require membership of an industry body.

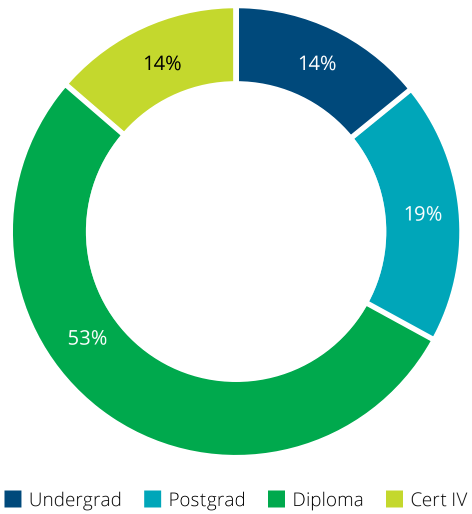
For commercial brokers, requirements are generally more specific to the skillset required to deal with commercial customer needs. Often this requires direct commercial lender accreditation and/or aggregator group specific training for such brokers. Many are members of the industry association Commercial and Asset Finance Brokers Association (CAFBA).

Most brokers have a diploma as their highest qualification (53%), however our survey found that 86% of brokers hold qualifications equal to or above a diploma in Mortgage Broking Management Services, as shown in Chart 1.1. Within this cohort, over one third of responding brokers held an Undergraduate or a Postgraduate degree qualification, meaning brokers represent a highly qualified industry.

Key insights:

- **86% of surveyed brokers hold qualifications equal to or above a Diploma** in Mortgage Broking Management Services. One third of brokers hold an Undergraduate or Postgraduate degree (33%).

Chart 1.1: Share of brokers with the following as their highest qualification



Note: Cert IV and Diploma refer to qualifications in Finance and Mortgage Broking Management

Source: Deloitte Broker Survey

Broker remuneration and business models

Mortgage broker remuneration is aligned with securing of finance for their customers.

A commission-based model

Mortgage brokers are remunerated by lenders once a customer has their finance needs fullfilled and a loan is entered into. The broker remuneration model comprises three key components:

- an **upfront commission –** which is a percentage of the drawn loan amount and net of any offset account, paid to the broker (via their aggregator) at the time of settlement;
- a **trail commission –** an ongoing payment calculated as a percentage of the outstanding drawn loan balance monthly over the life of loan (or shorter if stipulated by the lender); and
- **clawback provisions –** which allow lenders to reclaim part or all of the upfront commission if the loan is repaid, refinanced, or discharged within a specified period, typically up to two years.

Whilst the Banking Royal Commission also recommended changes to mortgage broker remuneration - specifically shifting from lender-paid commissions to a consumer-pays model, this proposal was not implemented due to concerns that it could reduce competition in the lending market and limit borrower choice.

A proposed review by the Council of Financial Regulators and the Australian Competition and Consumer Commission into broker remuneration was subsequently cancelled, with the Federal Government citing sufficient progress in addressing conflicts of interest through existing reforms, such as the introduction of the Best Interests Duty and to a lack of evidence of broker misconduct and consumer harm from the current remuneration structure.[6]

Broker incomes

Analysis of our bespoke broker survey identified the following key dimensions and facts about broker remuneration:

- Within our survey sample, sole trading brokers had an average revenue (before business expenses), of $182,040 after weighting for experience.
- This represents 11.5% growth in real terms on levels reported in the 2018 report- increasing from $163,200, when adjusted for inflation.

More experienced brokers, who tend to have higher revenues, were overrepresented in the survey, with 77% of surveyed brokers having 5 or more years experience compared to 56% overall. Just 5% of respondents had fewer than 2 years, compared to 15% overall. We have normalized for this in our average revenue calculation above.

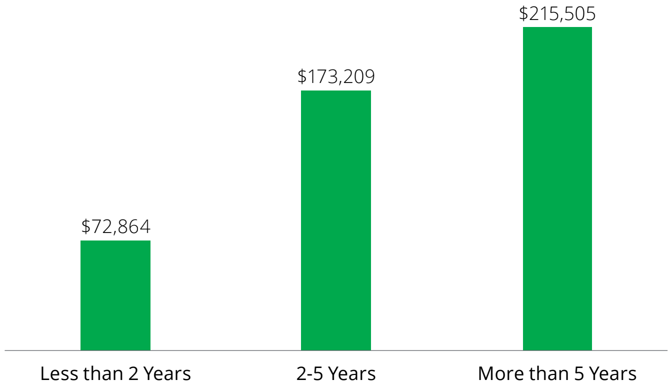
For the period April 2023 to September 2023, the MFAA estimates that average gross annual commission (prior to costs) is around $192,354.[7] Out of these gross commission figures, brokers pay fixed costs for their business including premises, service fees paid to aggregators, marketing and communications expenses, support staff salaries and wages, and other costs.

Increases in broker remuneration can be associated with increases in the national average dwelling price and the average value of owner occupier loans, as well as productivity improvements.

Key insights:

- Average revenue (before expenses) for sole traders in our survey with two to five years of experience is **$173,209,**
- For surveyed brokers with more than five years experience, the average revenue before expenses is **$215,505**.
- This is consistent with average income reported in Industry Intelligence Survey 17.

Chart 1.2: Average revenue (before expenses), by broker experience



Source: Deloitte Broker Survey (2024)

Growth of the mortgage and finance broking industry in Australia

Mortgage and finance brokers are responding to meet the evolving needs of clients and the dynamic financial landscape.

Industry snapshot

- **22,031** mortgage brokers in 2024
- **56%** of brokers have 5+ years' experience
- **27%** of brokers are female
- **2** brokers per average business

Growth of mortgage broking

The role of mortgage brokers are continuing to evolve in response to customer needs. Initially, brokers provided price comparison services and prepared applications for loans. Now, brokers are increasingly investing in upfront education of consumers, helping them to navigate lending policy and requirements, as well as ongoing optimisation based on changing customer needs.

Shifting first and third-party channels – Together with larger banks reducing their proprietary channel footprints, particularly in regional areas, brokers provide a critical service to enable lending choice for these customers. Brokers provide smaller and specialised lenders the ability to meet specific customer needs that would be a struggle to do so directly.

Mortgage brokers now account for 75% of all residential loans written in Australia, up 18 percentage points from 2017.[8] Mortgage brokers arranged an estimated $353 billion of new residential home loans in Australia for the year to March 2024.[9]

Brokers are adapting to new regulations, embracing digital tools, expanding their services, facing increased competition, and pursuing more personalised guidance and product recommendations to better serve the best interests of their customers.

Changing face of the broker workforce

As the role of an Australian broker has evolved, so to has its workforce. The industry has reached new heights with 22,031 brokers in 2024, following strong growth in both the share of loans written by brokers and recruitment into the industry.[10]

This report analyses both the shape and composition of the industry:

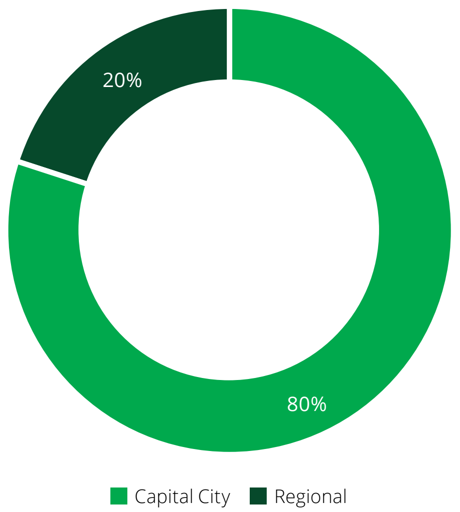
- **Growth of brokers across regions** – One fifth (20%) of brokers are located now outside of Australian capital cities (Chart 1.3).
- **Gender diversity has remained low with 27% of brokers being women, the same level as in 2017.** Efforts to improve gender diversity are ongoing. When contextualised against the broader finance industry, the broker workforce performs similarly.

Our survey asked brokers which strategies they believe are the most effective for promoting increased diversity and inclusion in the industry. Brokers selected training, mentorship and leadership development programs first and foremost (24%), followed by remote working options (23%) and flexible working (15%). The MFAA acknowledges the need to improve workforce diversity and continues to advocate and champion strategies for Diversity, Equity and Inclusion.

Key insights:

- One fifth (20%) of brokers are located **outside of capital cities,** slightly lower than the proportion of Australia's population that live in regional areas (26%)
- Gender diversity remains low with mortgage brokers identifying **training, mentorship and leadership development programs** as the most effective strategy to promote diversity and inclusion in the industry.

Chart 1.3: Location of Brokers



Source: Deloitte Broker Survey (2024)

Regulatory reform context

Regulatory reform was codified by legislation introduced following the Banking Royal Commission.

The regulatory environment prior to this report is highlighted in the 2018 report. This section discusses key regulatory updates in the period since the previous report.

Regulatory reform context

Mortgage brokers in Australia operate within a stringent regulatory environment designed to ensure customer protection and market integrity. Brokers are required to adhere to ongoing compliance requirements, responsible lending obligations, training standards and report any breaches to ASIC. This is particularly the case following the Royal Commission into the Banking, Superannuation and Financial Services industry in 2017 (Banking Royal Commission), which identified compliance issues resulting in poor customer outcomes across the financial services sector.

In 2017, the Combined Industry Forum (CIF) implemented key self-regulatory reform initiatives in response to the ASIC Report 516 Review of Mortgage Broker Remuneration to improve customer outcomes, reduce conflicts of interest, and strengthen governance within the mortgage broking industry.

These initiatives included changing the commission structure to "net of offset" or utilisation-based payments and banning volume-based and campaign-based incentive payments. The CIF addressed soft dollar benefits and volume-based incentives, recommending education-focused conferences and restricting entertainment benefits.

Further reforms included clearer disclosure of ownership structures, introducing a public reporting regime on customer outcomes and competition, and enhancing governance frameworks with regular reviews, broker monitoring, and customer feedback mechanisms.

The majority of these self-regulatory initiatives were codified by legislation introduced as a result of the Banking Royal Commission, as set out in Table 1.1 and below.

Design and distribution obligation rules intended to help consumers obtain appropriate financial products by requiring issuers and distributors to have a consumer-centric approach to designing and distributing products,[11] noting that only record keeping and notification obligations will apply to mortgage brokers.[12]

Established role of industry bodies through existing association codes of practice and membership requirements relating to learning and development.

Changes to Consumer Data Right (CDR) saw mortgage brokers listed as 'trusted advisers,' enhancing data access for brokers, while providing customers with improved, personalised advice and greater data control.

The expansion of the reference checking protocol now allows mortgage aggregators to share references about brokers, enhancing due diligence.

Establishment of ASIC's **Regulatory Guide 271: Internal Dispute Resolution (IDR)** outlines mandatory reporting requirements for brokers and aggregators to submit bi-annual complaints data to ASIC, including information on volumes, types, resolution timeframes, and outcomes.

Table 1.1: Key reforms codified by the Banking Royal Commission

Key reform	Description
Best Interests Duty (BID) and Conflict Priority Rule	Brokers must act in the best interests of their clients and in the case of a conflict prioritise the interests of their clients over their own.
Net of Offset Commission Structure	Upfront commissions are based on the drawn-down loan amount, net of offset balances, to discourage brokers from recommending unnecessarily large loans.
Clawback Provisions	Brokers are prohibited from passing clawback costs to customers, holding brokers accountable for loans repaid or refinanced within a set period.
Ban on Volume-Based and Campaign-Based Payments	Volume-based bonuses and campaign incentives were eliminated to reduce conflicts of interest and ensure brokers focus on achieving good customer outcomes.
Restrictions on Soft Dollar Benefits	Educational and business-focused requirements for conferences, hospitality, and gifts were introduced, along with caps on entertainment and benefit values, to minimise undue influence.
Reference Checking Protocol	A formal reference checking system was introduced for mortgage brokers, requiring licensees to share key information about broker conduct to prevent individuals with poor records from moving unchecked within the industry.

Source: The MFAA (2024)

Regulatory reform context

Regulatory reforms over the last 6 years have assisted in maintaining strong protections for consumers.

What does this mean for consumers?

- **Improved service quality** with a focus on ensuring customers' needs are prioritised.
- **Consumer confidence.** Changes to conflicted remuneration mean greater confidence that brokers are providing unbiased assistance, free from incentives that may compromise the quality or suitability of products.
- **Data shared more easily.** For customers, the Consumer Data Right means greater control over their financial information, enabling them to securely share data with brokers as trusted advisers for more personalised services.

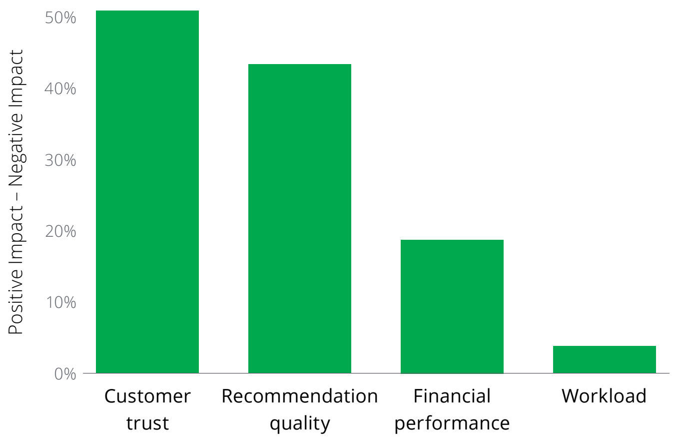
What does this mean for brokers?

- **Obligation to consumers.** Brokers have a legal obligation to act in the best interests of the customer. This is a powerful marketing vehicle and customer value proposition as best interests duty applies to brokers, and not banks or lenders.
- **Reinforced commission-based remuneration model,** having removed volume bonus and 'soft dollar' payments to address risks associated with conflicts of interest.
- **Increased compliance costs.** Evidence of compliance with the best interests obligations will come mainly from broker records.10 Brokers are required to report breaches to ASIC.
- **Changing business models** to be able to meet ongoing professionalism and compliance requirements, encouraging more broking businesses rather than sole practitioners and encouraging greater leveraging of data and technology.
- **Industry professionalisation.** There has been a push to improve the professional standards and education requirements within the industry, with most aggregators and lenders requiring association with MFAA, FBAA or CAFBA.

The impact on brokers

The industry is responding well to regulatory changes, supporting a better broking industry. Our survey found the Best Interests Duty has improved trust and quality in the industry, without harming financial performance or workload (Chart 1.4).

Chart 1.4: Impact of regulatory changes on brokers' businesses



Source: Deloitte Broker Survey (2024)

Figure 1.2: Key regulatory changes for mortgage brokers since 2017

- **14 December 2017** Royal Commission into the Banking, Superannuation and Financial Services Industry
- **1 February 2019** Final Report of the Financial Services Royal Commission tabled in Parliament
- **24 June 2020** ASIC publishes new regulatory guidance (RG 273) for mortgage brokers to assist in the application of the new best interests duty
- **17 December 2020** Omnibus Act includes reference checking, breach report and remediation requirements
- **1 January 2021** Best interests duty and addressing conflicted remuneration for mortgage brokers legislated by Parliament through the National Credit Act.[11]
- **9 March 2021** MFAA Code of Practice & Disciplinary Rules reauthorised by ACCC
- **5 October 2021** Design and Distribution Obligation laws commence/RG271 Internal Dispute Resolution effective
- **February 2022** Brokers as Trusted Advisers can access Consumer Data Right (CDR) data
- **March 2022** Council of Financial Regulators and ACCC announce cancellation of mortgage broker remuneration review
- **July 2024** Expansion of reference checking protocol

Source: Deloitte (2024)

2 Contribution to the Australian economy

Economic contribution of the mortgage and finance broking industry

The mortgage and finance broking industry makes a substantial contribution to the Australian economy.

Contribution to the Australian economy

The mortgage broking industry contributed an estimated $4.1 billion to the Australian economy in 2023/24 and supported the employment of 37,349 workers.

This includes **$3.3 billion** in direct Gross Value Added (GVA) and 31,899 employees in direct employment, including brokers and support staff. The mortgage broking industry indirectly supported Australian businesses in other industries in the economy, contributing **$801 million** in indirect Gross Value Added and employing **5,450 workers,** as shown in Table 2.1.

This section summarises the results of the economic contribution analysis, with detailed methodology presented in Appendix C.

What does this mean for brokers?

The direct economic contribution of mortgage broking comprises of 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:

- Revenue per broker (prior to costs) across the industry is equal to $192,000, as per the MFAA IIS data (17th Edition).[1]
- The shares of revenue allocated to wages, non-wage costs and profits reported in our survey are representative of the entire industry;
- The ratio of FTE support staff to FTE brokers is 0.44 to 1.

Based on our survey and latest IIS data, direct employment in the mortgage and finance broking industry is estimated to be 31,899. This includes 22,031 brokers (8,963 sole traders and 13,068 brokers working in a business) and 9,868 support staff.

The **direct economic contribution** of the mortgage broking industry in 2023-24 is estimated to be $3.3 billion.

Indirect economic 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.

The **indirect economic contribution** of the mortgage broking industry is estimated to be $801 million in Gross Value Added and 5,450 indirect jobs supported in the broader supply chain.

Our estimates assume:

- the structure of broking businesses' non-wage costs in our survey is representative of all mortgage broking businesses;
- Expenditure by mortgage brokers is spent as per the ABS IO industry 'Auxiliary Finance and Insurance Services'.[2]

Chart 2.2 on the following page shows the share of expenditures of this industry as per the ABS I-O table (2021-22). Share of expenditures data provides valuable insights into the flow-on industries which are supported by the mortgage and finance industry, through the purchase of goods and services.

What is economic contribution?

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 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).

Table 2.1: Total economic contribution of the mortgage broking industry, 2023-24

	Direct	Indirect	Total 2023/24	Total 2016/17*
Gross Value Added ($m) (GVA)	$3,304	$801	**$4,104**	$3,472
Employment	31,899	5,450	**37,349**	27,144

* 2024 dollars.

Source: Deloitte Broker Survey, ABS IO tables 2021-22, IIS (2024)

Economic contribution of the broking industry

The broking industry makes a substantial contribution to the Australian economy.

Total contribution

The total annual economic contribution of the mortgage broking industry is $4.1 billion in Gross Value Added, with $3.3 billion of this is being direct Value Added. The industry supported 37,349 total jobs in 2023-24 including direct employees such as aggregators, sole traders, brokers working in a business and support staff, as well as indirect jobs supported through broking activities.

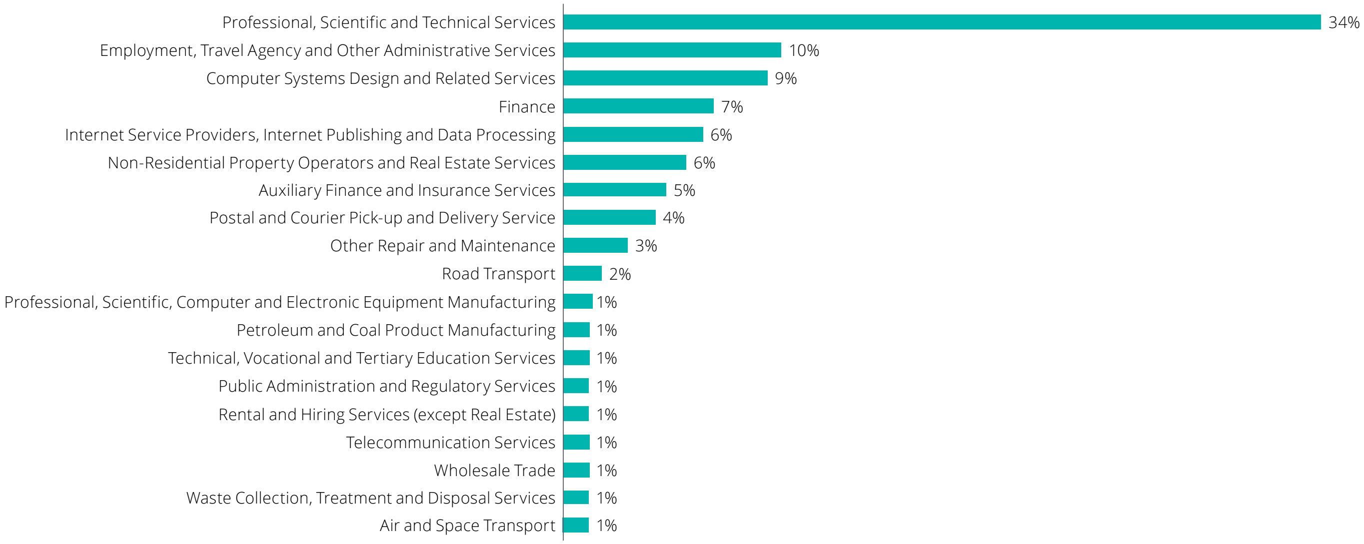
This represents an 18% increase in total contribution since 2016-17, when adjusted for inflation. This can be attributed partially to workforce growth, expanding market share and loan values.

Broader social benefits

The mortgage and finance broking industry also generates substantial social benefits beyond its quantified economic contribution. The industry creates high-value job opportunities in rural and remote communities across Australia, as well as supporting increased home ownership for first time buyers or other vulnerable consumer segments.3 Many brokers also have social responsibility strategies in place to give back to their respective communities.

Brokers work with their customers to enhance their financial literacy levels and improve understanding of the consumer credit and mortgage market, protecting vulnerable customers against the risk of fraud. These benefits are discussed further in Section 3.

Chart 2.2: Share of goods and services purchased by the Auxiliary Finance and Insurance Service industry, 2021-22.



Source: ABS Input-Output tables, 2021-22, Deloitte analysis (2024)

The Value of Mortgage and Finance Broking 2025

KEY FIGURES FOR THE ECONOMIC CONTRIBUTION OF THE BROKING SECTOR

Economic contribution
$4.1 billion in economic activity to the Australian economy in FY23.

Direct contribution
$3.3 billion in direct contribution to the Australian economy.

Indirect contribution
$801 million in indirect contribution supported through broking activities.

Workforce
37,349 total jobs supported in 2024 including **31,899** direct employees (brokers and support staff) and **5,450** indirect jobs.

3

Consumer value proposition

Value proposition for consumers

Brokers are delivering value to consumers in the face of evolving customer needs and challenging economic circumstances

Evolving customer needs

Customers are increasingly seeking out more personalised financial solutions, driven by a desire for tailored mortgage products. There is a strong preference for digital convenience, personalised service, coupled with clear communication about loan terms and fees. Customers expect brokers to act in their interests, provide proactive guidance and offer ongoing support to ensure mortgages remain competitive.

Navigating challenging economic times

In the past several years, challenging economic circumstances have put pressure on household incomes and driven increased demand for brokers' expertise. With fluctuating interest rates, mortgage stress, stricter lending criteria and heightened market uncertainty, brokers are now more crucial than ever in guiding clients through complex financial decisions. In response to these challenges, brokers have adapted to help clients navigate refinancing options and manage financial risks.

Key outcomes for consumers

Strong retention of existing customers: Most brokers receive the bulk of their business through repeat customers and referrals. Consumers that use mortgage brokers value the personal relationships and support offered throughout the life of the loan.

Our survey finds **72% of a broker's business comes from existing customers or referrals** from a customer, demonstrating high levels of customer satisfaction (Chart 3.1).

Brokers are simplifying a complex marketplace and improving consumer choice. By leveraging their expertise and understanding of individual needs, mortgage brokers provide clients with tailored advice to guide them in identifying the best solution for them.

Mortgage brokers reduce the time, effort and resources involved in finding the right loan for customers by helping them compare deals across lenders. This is especially valuable for time-poor clients, helping them navigate the complexities of expanded choices. Brokers play a crucial role in educating clients on the process, empowering them to make informed financial decisions. Brokers present three options on average to each customer.

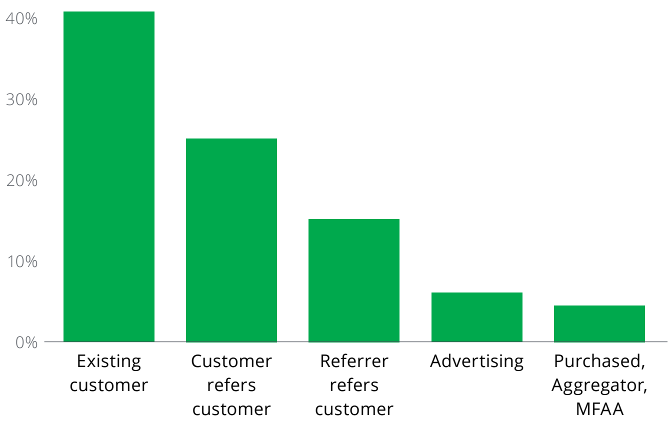
Mortgage brokers provide access to a wider range of products across multiple lenders, ensuring that the clients view the most competitive options for their circumstances. In 2023-24, surveyed mortgage brokers reported that, on average, they are accredited with 23 different lenders through their aggregator and settled loans with 8 different lenders. Beyond this, brokers can access up to 65 lenders through their aggregator panels.[1] Aggregators are the key source of brokers' relationships with lenders. While most brokers are not accredited with lenders outside their aggregator panel, off panel relationships can exist.

Brokers are pro-actively assessing whether consumers are receiving the best rates. Brokers have an informed understanding of the level of competition between lenders and are thus able to provide guidance on better deals available in the market. Survey respondents reported a 0.35% average reduction in interest rates achieved for customers who successfully repriced.

Key insights:

- Strong retention of existing customers and referrals from existing customers demonstrates the ongoing value customers associate with their broker relationships.

Chart 3.1: Repeat customers and referrals from customers are the most common sources of leads for brokers



Source: Deloitte Broker Survey (2024)

Value proposition for consumers

Rapid technological adoption is enabling increased broker efficiency and driving improved consumer outcomes.

Technology as a key industry enabler

Mortgage brokers have experienced rapid change in technological adoption. Brokers are now able to offer faster, more efficient services, providing customers with quicker access to tailored mortgage options. Digital platforms have streamlined loan applications and increased competition, while consumer demand for personalised services has led brokers to diversify offerings.

The top tools currently being used by brokers are typically admin-focused technologies, including digital signing services (84% of brokers), CRM (77%) and cybersecurity (70%). Brokers are planning to implement more advanced technologies in the future, with Open Banking/Consumer Data Right being the most planned for technology (34% of brokers). Generative AI (32%) and mobile apps (31%) were also heavily planned for.

Brokers report that new technologies have sped up the borrowing capacity assessment and client identification stages of the broking process the most (Chart 3.2). These stages typically require manual effort, so technologies such as digital identification verification **reduce application processing times and increase accuracy.**

In another example, CRM software streamlines the broking process by automating and organising customer data into one central place, allowing brokers to more efficiently manage clients and enhance their service offerings.

By reducing the time needed for administrative tasks, brokers can spend more time providing **personalised support** to improve the customer experience.

Generative AI has also been leveraged by brokers to record client meetings, generate marketing, and to assist with client communications.

Mortgage brokers are increasingly using multiple digital communication channels to provide their services, enabling them to reach a wider customer base than previously before. Brokers conduct **three times more communication on a digital platform** than face to face during the broking process.

Digitising the broking process particularly benefits regional and rural customers, as it allows brokers to offer more accessible and timely support, regardless of location.

Future of technology

The broking industry will likely continue to embrace technology as a way to create a more efficient and customer-centric mortgage broking experiences

Brokers have indicated that opportunities for more digital information sharing to allow for consistency in data access between brokers and lenders will assist with offering faster, more accurate loan solutions to customers.

Brokers must remain responsive to changes in technological adoption to remain competitive and effectively meet client needs. A strong commitment to ongoing professional development and digitisation will be essential for maintaining quality of service and strong customer relationships.

Chart 3.2: Areas of broking process most impacted by technology

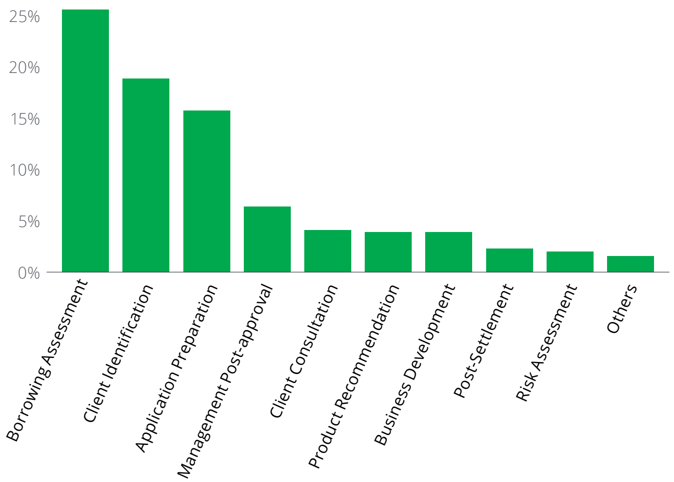
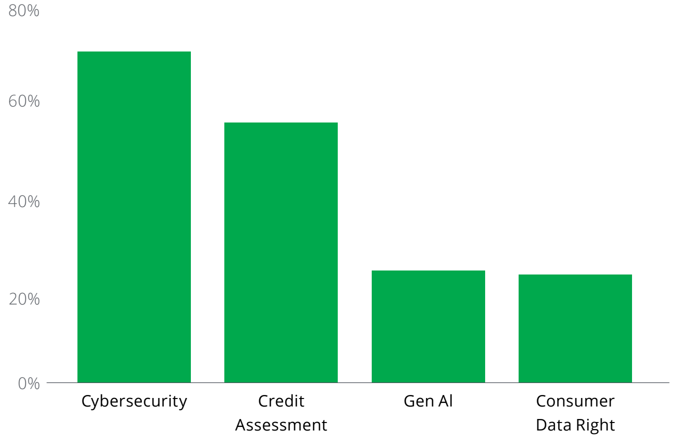


Chart 3.3: Proportion of brokers using key technologies



Source: Deloitte Broker Survey (2024)

Value proposition for consumers

Brokers play a critical role in educating consumers and enabling access to finance

Supporting improved financial literacy

Mortgage brokers play a valuable role in helping consumers to navigate a complex loan market. Customers benefit significantly from the additional support and education provided by brokers, helping them to navigate financial decisions more effectively. Mortgage brokers tailor processes to equip customers with a better understanding of the home buying process.

Brokers are investing more time upfront educating consumers and seeing efficiencies in the latter stages of managing process to settlement and post settlement contact. In addition to traditional broking services, surveyed brokers reporting spending 11% of their time educating and preparing each customer for mortgage applications, empowering them to make more informed and confident financial decisions long term. One third of broker time is spent on assisting a client before they commit to finding a loan (Chart 3.4).

In facilitating greater home ownership, brokers help to achieve a higher standard of living across a wide range of communities.

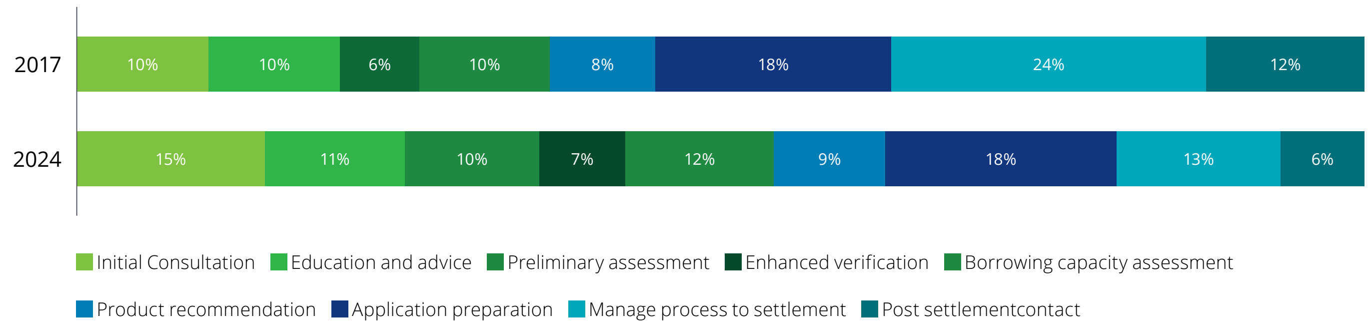
Increased home ownership has been linked to social benefits, including mental and physical health outcomes, stronger family cohesion, and increased civic engagement.[2] Many of these benefits have positive spillover effects in Australian neighbourhoods.[3]

Reducing access barriers

Mortgage brokers help **reduce barriers to entry for customers** that face unique challenges in accessing the housing market, such as first home buyers, regional customers or customers with unconventional lending history. Many have affordability concerns in a competitive market and are less able to access finance alone.

First home buyers represent 45% of mortgage brokers' owner occupier clients (Chart 3.5), compared to 30% in the overall market. As property prices rise, mortgage brokers provide guidance on available grants and loan options to help them with securing a loan.

Chart 3.4: Share of time spent on each stage of the broking process, 2017 vs 2024

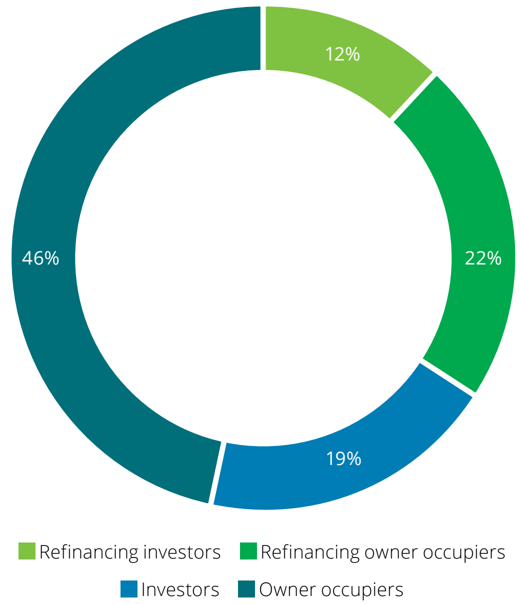


Source: Deloitte Broker Survey (2024)

Regional customers can face similar housing affordability challenges, coupled with fewer bank branches, meaning limited lender choice. Mortgage brokers help to increase access to a greater range of mortgage products. **More than 1 in 4** mortgages arranged by brokers are for customers in regional and rural areas (26%).

For these consumer segments, brokers offer access to an expanded lender panel for the most appropriate option, and work to expedite mortgage approval within tight timeframes.

Chart 3.5: Breakdown of customer base



Source: Deloitte Broker Survey (2024)

Brokers are receiving low levels of complaints

Brokers attract a small number of complaints in proportion to banking and finance, indicating a higher quality of customer experience and greater value delivered to consumers.

Delivering customer satisfaction

Brokers historically have attracted a small number of external dispute resolution (EDR) complaints and despite the growing role of brokers in the lending market, the number of complaints has experienced a steady decline. This suggests broker customers are having a more positive experience compared to customers seeking mortgages through other channels.

Data from EDR body, Australia Financial Complaints Authority (AFCA), suggest changes since the Banking Royal Commission may be improving customer satisfaction for broker businesses. The number of complaints regarding mortgage businesses and brokers shows a reduction in total complaints and proportion of AFCA complaints overall since the Banking Royal Commission.

Chart 3.6 shows the number of complaints from FY20 to FY24 received against mortgage brokers and aggregators (likely reflecting complaints against brokers who operate as credit representatives under aggregator ACLs) is trending downwards. Despite the continued increase in home loans facilitated by brokers, complaints against mortgage brokers and aggregators continue to represent less that 1% of banking and finance complaints.

Complaints against mortgage broking businesses have reduced on average faster than all banking and finance businesses combined. Notwithstanding year-on-year volatility, total complaints relating to mortgage broking businesses dropped 19% between FY20 and FY23. In the period, overall total complaints dropped by 4%.[4]

Key insights:

Customers coming through third party channel are having a positive experience. In FY24, mortgage brokers attracted **less than 4 complaints per 1,000 brokers.**

Mortgage brokers and aggregators consistently represent **less than 1%** of all complaints relating to banking and finance, every year from FY20 to FY24 inclusive.

From FY20 to FY24 **total complaints about mortgage brokers and aggregators reduced by 40%,** recognising the small sample sizes for comparison purposes (Chart 3.6). Over the same period, complaints regarding banks fell 2%.

Complaints regarding housing finance across institutions have **decreased,** from 24% of all banking and finance complaints in FY20 to 19% of complaints in FY23 (Chart 3.7).

Over the same period, the number of complaints relating to banking and finance more generally have fallen by 5% (Chart 3.7).

Chart 3.6: AFCA complaints for brokers and aggregators by FY

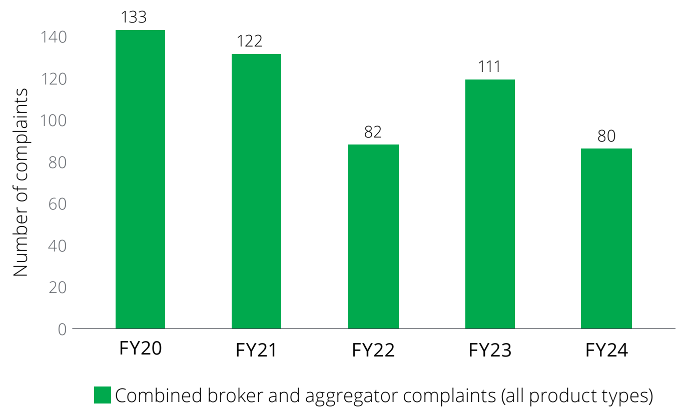
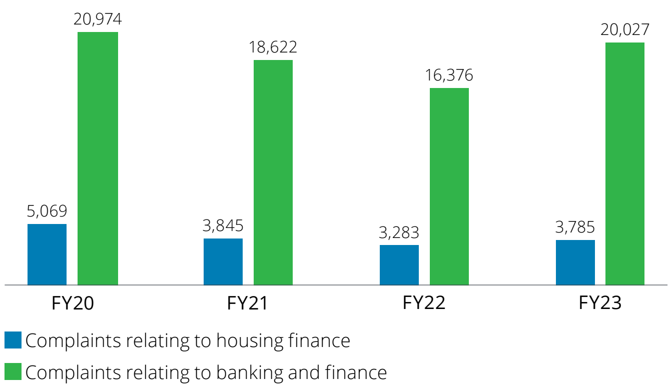


Chart 3.7: Total AFCA complaints for banking and finance entities by FY



Source: AFCA (2024)

Contribution to sustainability

Brokers are linking customers to sustainable lenders and/or finance products that align with their values.

Contribution to sustainability

Recent years have seen strong growth in consumer interest in Environmental, Social and Governance (ESG) factors, demonstrated by a rapid increase in the number of Google searches for ESG (Chart 3.8). ESG is an investing principle that considers the broader impacts of an investment on the environment and social outcomes as well as its financial performance. For example, many investors choose not to invest in fossil fuels or weapons companies.

The rise of ESG is impacting the mortgage market as well, with some borrowers choosing to use lenders that align with their personal values. Aiming to attract these borrowers, many lenders make sustainability and social responsibility a central component of their advertising campaigns and branding.

Chart 3.8: Google Searches related to ESG, 2004-2024. 2023=100

Source: Google Trends (2024)

With many sources of ESG information, brokers play a key role in ensuring that their customers are well informed and able to access a loan from a lender that meets their standards.

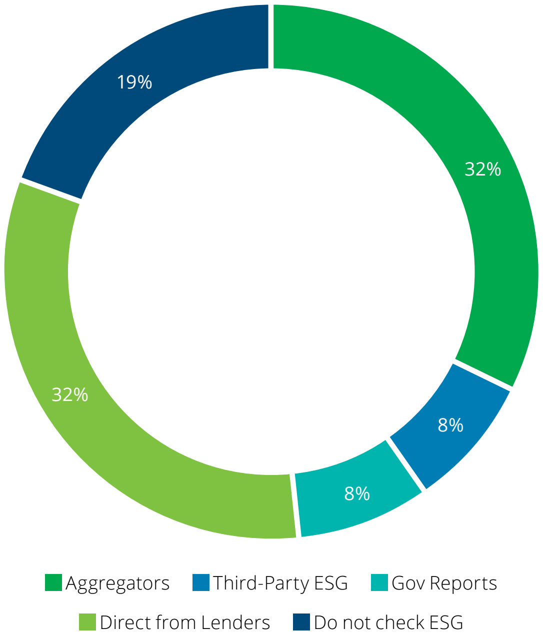
Brokers leverage their relationships with lenders and aggregators to gather information about ESG performance- with **32% of brokers nominating these as their main sources of ESG information (Chart 3.9).** A further 8% used each of government reports and third-party ESG analytics services. Only 19% of brokers reported never checking ESG performance.

The broker survey revealed that ESG remains a small consideration for most customers, with **just 3.5% of customers asking their broker about potential lenders' ESG performance.** While this is a relatively small share of the total market, the large size of the Australian mortgage market means that ESG-concerned customers represent more than $600 million of borrowing each month.

For some brokers, ESG-concerned customers are a significantly greater part of their customer base, with **20% of brokers reporting more than 5% of their clients asked about ESG** and 5% of brokers reporting more than 20%.

As sustainability and social responsibility continue to grow in prominence in the finance industry, brokers will play an important role in simplifying complex information and educating customers. Australian mortgage products that are linked to key sustainability goals may be in high demand over the coming years as consumers seek to align their financial decisions with their values. **Green loans** are an emerging focus, offering consumers with financing options for upgrades to make homes more energy-efficient.[5]

Chart 3.9: Aggregators and lenders are the most common sources of ESG information for brokers



Source: Deloitte Broker Survey (2024)

4

Lender value proposition

Lender value proposition

Brokers offer lenders support in distribution of their products, educating and qualifying customers and broadening market reach.

Brand Presence

In Australia, there are a **total of 138 Authorised Deposit-Taking Institutions (ADIs),** comprising of 98 banks and 40 credit unions and building societies.[1] There are also many more non-ADI financial institutions in Australia.[2] The big 4 banks (CBA, NAB, ANZ, Westpac) and other major lenders (such as Macquarie) are well known due to their market share, however, often smaller lenders are lesser known and not necessarily household names. This presents a gap in public awareness and knowledge of these smaller lenders by the general public.

Per chart 4.1, **brokers, on average, are accredited with 23 lenders through their aggregator.** Without brokers, customers could face reduced choice as they are likely to have less ability to directly access such a range of lenders. They may also be unaware of alternative lenders or lack the confidence to trust them.

Brokers play a crucial role in providing a fair playing field for smaller lenders and supporting their sustainability and growth by improving their awareness with customers. While brokers are accredited with the big 4 banks, the average surveyed broker is accredited with 19 other lenders.

Chart 4.1: Average Broker Lender Panel (Number of Lenders)

Source: Deloitte survey (2024)

Accessibility

For smaller and non-bank lenders, brokers play a key role in introducing customers to their brand propositions and product offerings, while expanding their distribution footprint. By improving awareness of lesser-known lenders, trusted brokers enhance such lenders credibility in the eyes of consumers.

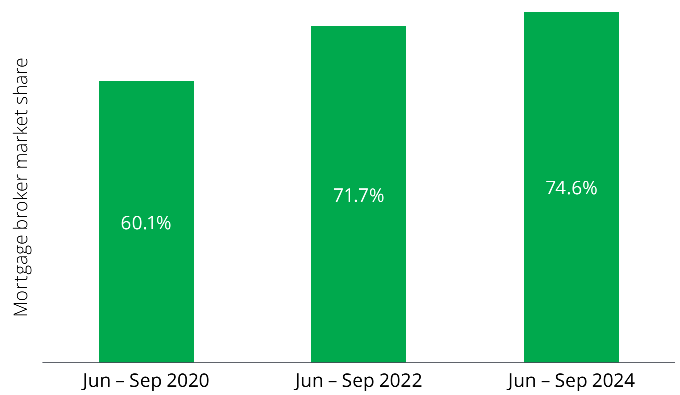
Chart 4.2 demonstrates that, in the September quarter of 2024, **mortgage brokers wrote 75% of all new home loans**[3] illustrating the importance of the broker channel for all lenders. This is especially for non-major lenders where a greater proportion of their loans are typically sold through brokers, although smaller lenders still need the systems to provide services and support to the broker channel.

Brokers are also important for major lenders for many reasons, including that they are versatile and mobile, enabling them to assist customers in accessing finance with major lenders outside of standard branch and bank business hours and in areas where lenders may not have branches due to a lack of economic viability.

Technology has enabled accessibility improvements, with brokers experiencing rapid change in technological adoption. This has been most noticeable for brokers in their Customer Relationship Management systems, their ability to communicate with customers remotely and digital collation and verification of identification and customer information.

Brokers provide an additional line of defence and oversight when evaluating customer documents, for instance being the first screen for detection of fraud and assessing customer borrowing capacity.

Chart 4.2: Quarterly mortgage broker market share



Source: MFAA media release (2024)

Lender value proposition

Brokers provide a flexible sales channel for lenders, promoting innovation and relationships

Variable Cost Model and Flexibility

The broking channel provides lenders with a model for offering loans which can be scaled up or down, without significant additional effort on the lender's part. This channel does not require the same degree of fixed overhead costs as proprietary channels, such as office space and salaries, and is directly proportional to the size of loans written by the brokers.

After taking into account corporate overheads and fixed costs for permanent staff, premises and systems, for many lenders it may be as or more cost efficient for lenders to write loans through brokers. For example, smaller lenders do not have access to a large revenue and capital base to weather periods of low originations, and may not be able to support a fixed cost base in these circumstances. Using the broker channel can circumvent this issue and still allow fast upscaling when sales increase again.

Brokers streamline the borrowing application process, ultimately directing a customer to apply with a single lender instead of individuals going through the application process with multiple lenders (and incurring cost for such multiple lenders).

The broker channel is a convenient lever to pull when a lender's priorities change in terms of product offerings and target sales volumes. This is done on the basis of improved value for consumers with the lender's offering, as opposed to any form of remuneration-based incentive following regulatory reforms.

Innovation

Brokers encourage lenders to be more innovative by promoting competition, providing feedback on pain points in the application process, adopting emerging technology in how they interact with their customers and giving lenders valuable feedback on lender's products and features.

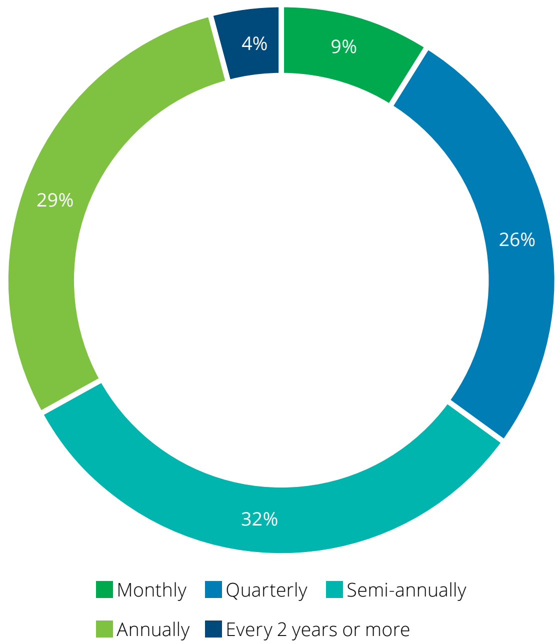
The increased adoption of technology by brokers has not only enabled brokers to reach a wider customer base and communicate with customers more efficiently but also given lenders the confidence to invest in their technology improvements to be used by brokers and customers. This can range from customer submission of information and other exchanges with the lender being digitally managed, through to customers having the confidence to use digital platforms for future servicing needs on their loan and other self-service interactions with the lender.

Support lender relations with customers

Brokers recommend lenders to a customer on an informed basis, aligning the customer's needs and objectives with the right lenders in terms of the lenders' product offerings, systems and services. This **supports improved outcomes for the customer** (a more targeted and suitable lender and loan product) and **improved outcomes for the lender** (a customer that has been pre-qualified and educated around the lender's product and processes). This results in a positive engagement at commencement of the loan for the lender with the customer.

Brokers also maintain regular ongoing contact with their customers, with 96% reporting being in contact with their customers annually or more frequently post settlement, with most being in contact semi annually (Chart 4.3). This contact supports engagement of the customer with their lender, as their experience with the loan product and lender is proactive. Brokers, customers and lenders then have an opportunity to directly address any concerns around ongoing suitability, pricing or service levels rather than the customer potentially looking to alternative lenders.

Chart 4.3: Frequency of contacting customers post-settlement



Source: Deloitte Broker Survey (2024)

Lender value proposition

Aggregators serve as a critical link between lenders and brokers

Lenders access brokers via aggregators

Aggregators and sub-aggregators connect lenders to brokers and vice versa. They provide services that include supplying the information, tools and platforms that help brokers to assess their clients' needs and match them to the best product for them, and they provide lenders with a single interaction source to access many brokers rather than having to have individual relationships with all brokers across the industry.

The average aggregator has **45 lenders on its panel, including 18 non-Big 4 banks and 23 non-bank lenders.** Aggregators facilitate brokers to become accredited with these lenders. In particular, aggregators provide a connection to brokers for smaller lenders and new entrants to the market.

It is far easier for a new lender, such as an overseas-based bank, to join an aggregator's panel and build relationships with brokers, than it is to build a physical branch network and build a brand and awareness with consumers.

Operationally, lenders also find it more efficient and scalable to use aggregators to pay the commission owing to individual brokers rather than having to pay all of them individually.

Aggregators enhance the broker service

The services that aggregators offer for brokers support the broker in their interactions with the end customer, as well as assist the brokers to be better business operators.

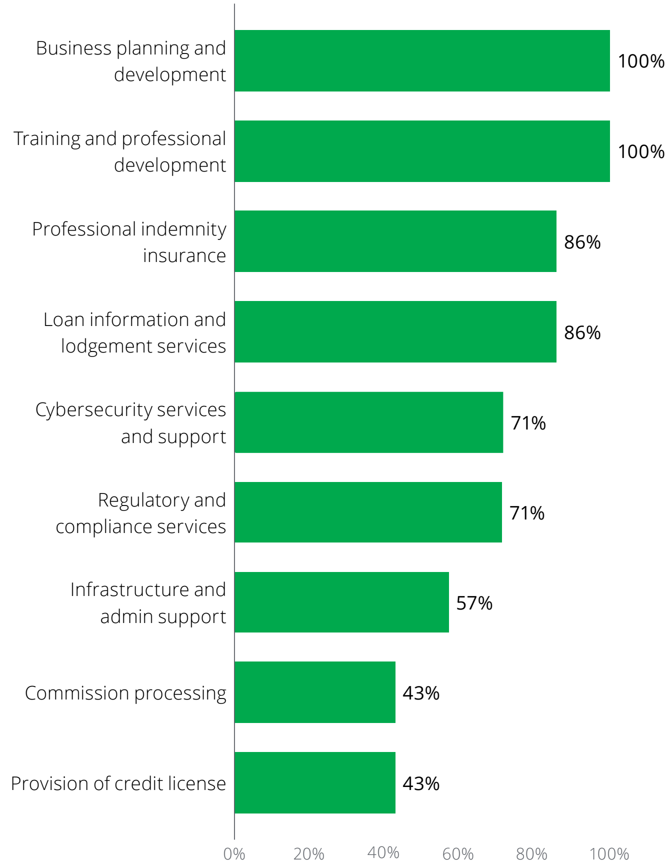
Aggregators provide technology and services to brokers to enhance the customer experience, with **96% of brokers reporting using technology tools provided by aggregators.**

This can range from education collateral to share with customers at the start of their home financing journey, right through to advanced digital and AI tools to collect information from the customer required by lenders (e.g. expenditure analysis tools).

Other commonly provided services to brokers by aggregators include ongoing training and professional development, business planning and development, and administration support services (especially to sole brokers). Many aggregators also provide marketing and lead generation systems to support their broker's business growth and customer access, depending on the aggregator business model and services provided.

Aggregators also support brokers and lenders, and ultimately customers, by their various compliance and conduct monitoring tools and increasingly of late, cyber security services to protect their broker's clients' confidential information.

Chart 4.4: Services provided by aggregators (beyond standard technology tools)



Source: Deloitte Broker Survey (2024)

5

Enhancing competition and choice

Mortgage Brokers in Australia

Brokers have become the primary distribution channel for most Australians when applying for a residential mortgage

Broking over time

Since their emergence in the early 1990s, mortgage brokers have grown rapidly, now writing almost 75% of new residential loans in Australia. The late 1990s and early 2000s was when brokers truly established themselves, and more banks began to use broker-arranged loans. For example, Westpac first began using brokers in 1998.[1]

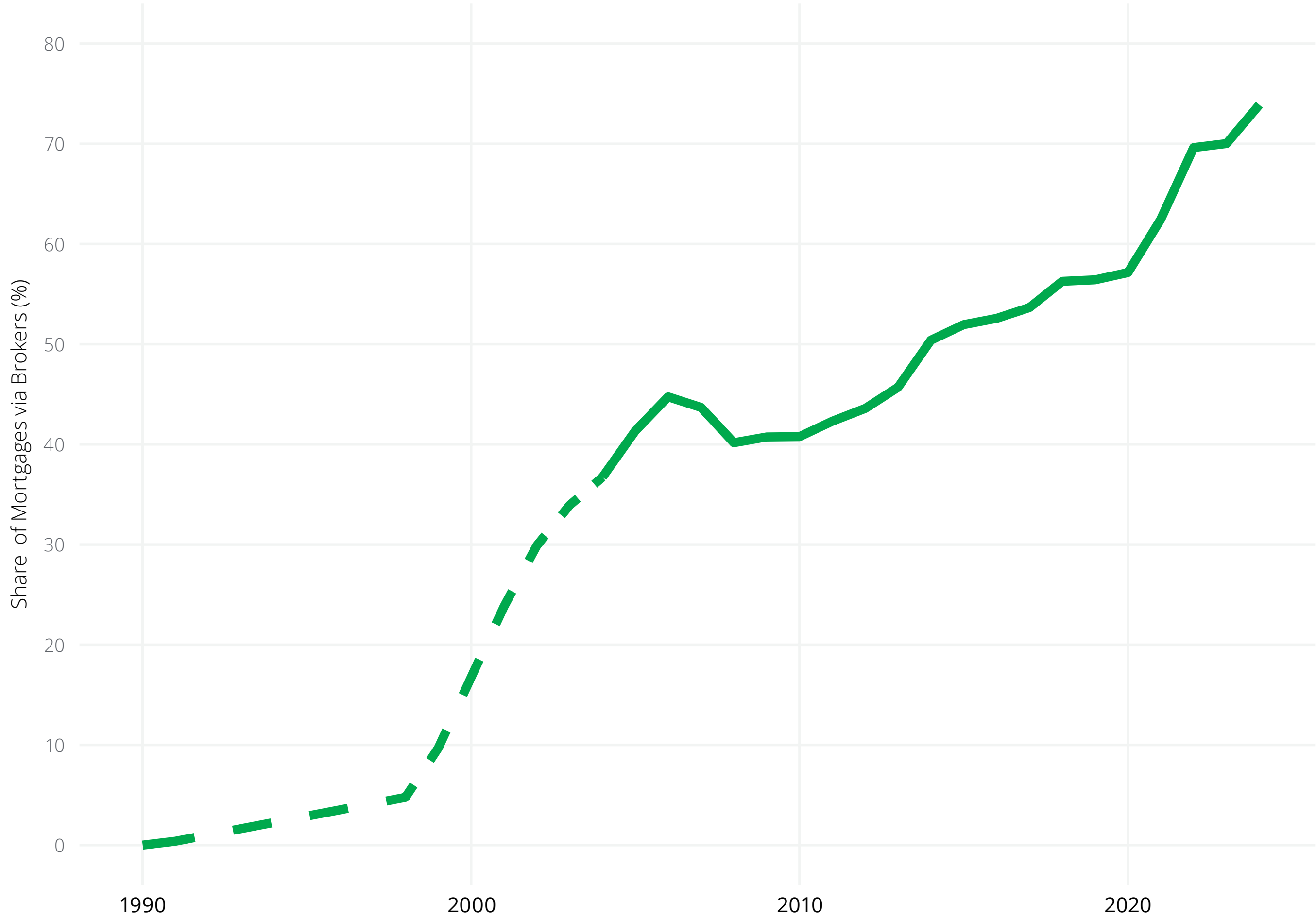
Following a period of stagnation in the late 2000s, broking grew strongly through the 2010s, continuing in the 2020s as brokers' market share hit record highs.

As has been highlighted throughout this report, reforms to the industry prior to and following the Banking Royal Commission have driven increased confidence in the sector. It is likely that this increased trust has contributed to the strong growth in recent years.

Chart 5.1 shows the trajectory of new mortgages arranged by mortgage brokers over time. It has been collated by Deloitte drawing on a range of historical datasets. It is important to note that broker market share may be defined differently across different datasets although where there were overlaps, figures appeared broadly consistent.

By improving competition in the overall lending market, brokers can reduce the cost of loans made through a direct channel, encourage lenders to find new efficiencies as well as encourage innovation in non-price features of banking services. This chapter examines how the rise of brokers has interacted with broader trends in the mortgage market to contribute to improved competition and better outcomes for borrowers.

Chart 5.1: Share of new mortgages written by brokers, 1990-2024



Source: Deloitte analysis of Corelogic, Fujitsu Consulting, MISC and other data.

Note: Data is annual averages, dotted line represents that pre-2004 estimates are highly uncertain and should be interpreted as indicative only.

Major trends in the Australian mortgage market

Brokers are contributing to increased competition in the Australian mortgage market

Facilitating greater competition

Recent decades have seen several factors combine to increase competition in the Australian mortgage market, including changes to technology, regulation and financial markets. The rise of mortgage brokers is another significant factor over this period, interacting with broader trends to further facilitate greater competition and better outcomes for borrowers.

Mortgage brokers play a critical role in helping new and smaller lenders to enter the market, as well as supporting existing lenders to reach new customer segments:

- Broker-written loans are more likely to be with non-Big 4 banks than direct approach loans. **38% of brokers' loan portfolios are with banks outside of the Big 4 and their sub-brands,**[2] despite the Big 4 representing 75% of the market.[3]
- **The number of banks active in Australia has almost doubled since 2004, from 50 to almost 100,**[4] following significant changes to banking regulation which eased legal barriers to new banks entering the market.

New technologies such as online banking and comparison websites have reduced the need for physical branches, making it easier for customers to find information about lending products and helping new lenders (either start-up ADIs, international banks or non-bank lenders) to expand in Australia.

Brokers are a key channel for new entrants to the mortgage market to establish themselves and compete with established lenders. It may be easier for a new lender to attract customers by offering competitive rates on a broker's panel than by establishing physical branches.

Equipping borrowers with information

Today, borrowers are more easily able to compare products from different lenders. Equipped with more information, borrowers are in a better position to choose the product that best suits their needs, rather than just the product from a lender with a local branch. With more information available than ever, brokers play a valuable role in helping to identify and explain mortgage options in line with consumers' unique circumstances, needs and preferences.

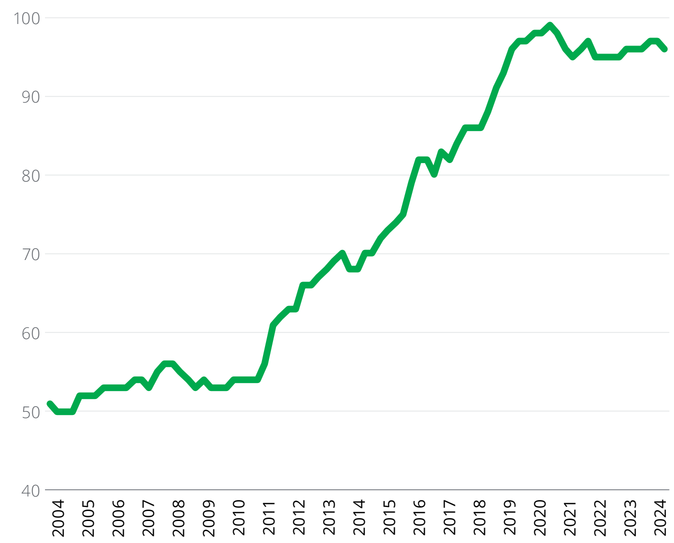
Brokers encourage competition in the Australian mortgage market by facilitating comparison, switching, repricing and refinancing of loans for consumers. By shopping around for the best deal for their clients, both at the outset and during the term of the loan, brokers can drive better outcomes for borrowers.

Improving lender efficiency

Technology adoption and changes to lender business models have substantially reduced operational costs. Recent decades have seen banks reduce operational expenditure per dollar of their loan book by more than half, through branch network changes and automation of loan management processes.[5]

Industry consultation revealed that brokers have played a key role in smoothing the transition from in-person bank branches, particularly in regional and rural areas. By enabling lenders to quickly scale up or down, brokers can lower fixed operating costs and drive efficiency. For example, ING Australia spent less on advertising and physical premises in 2023 than it did in 2011, despite holding almost twice as many assets.[6]

Chart 5.2: Number of Banks, 2004-2024



Source: APRA (2024)

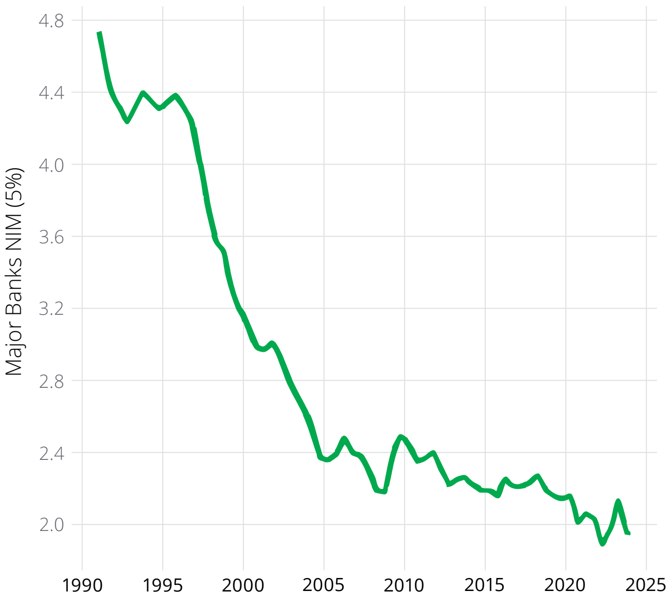
Major trends in the Australian Mortgage Market

Net Interest Margins have reduced, benefitting consumers, while bank returns on capital have remained above 10%

Benefits for borrowers

One way that the increased competition mortgage brokers have brought to the lending market has benefited borrowers is through lower net interest margins (NIMs). A bank's NIM is the average difference between interest charged on loans and the interest paid on bank funding sources. Since 1990, NIMs for major banks have fallen by almost 3% (Chart 5.2), representing substantial savings for borrowers.

Chart 5.2: Major banks' net interest margin (NIM), 1990-2024



Source: Reserve Bank of Australia (2024)

Changes in banks' funding sources have also significantly impacted banks' costs. Throughout the 1980s and 90s, banks became less reliant on domestic deposits to fund loans and increasingly were able to raise funds more cheaply through wholesale markets, including from overseas. For example, the Commonwealth Bank saw deposits fall from 76% of liabilities in 1980 to 51% in 2007. Following the GFC and changes to regulation, this has since largely reversed, with CBA's deposits rising to 75% of its liabilities in 2024.[7]

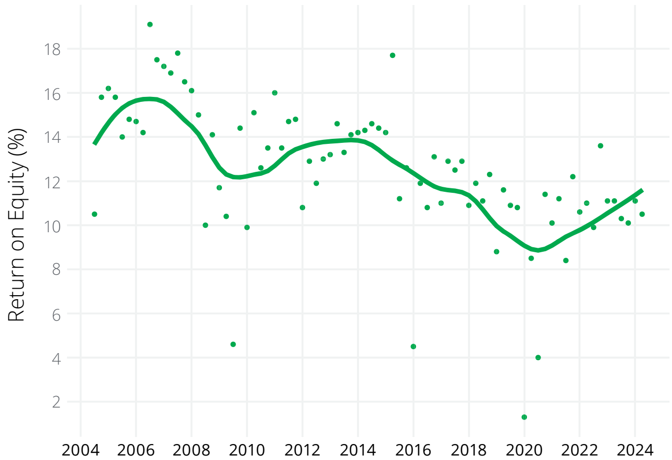
Bank return on capital

Increased competition in the banking sector and lower NIMs has reduced return on equity, a key measure of profitability, for Authorised Deposit-taking Institutions (ADIs). It declined from an average of around 15% in the early 2000s to around 11% today (Chart 5.3). However, as a result of cost savings and improved efficiency, the impact has been more muted than otherwise, and helped banks recover from downturns such as during the GFC. By international standards, Australian banks' return on equity remains high.[8]

Over this period, capital ratios for banks have substantially increased, with tier 1 capital ratios increasing from less than 8% of risk-weighted assets for most of the 2000s to now sit at around 14% - further weighing on returns.[9]

Overall, this suggests that although increased competition has contributed to somewhat lower profitability for banks, Australian banks remain in a strong position, with robust profitability and substantial capital funding, by international standards.

Chart 5.3: ADIs Return on Equity (after tax), 2004-2024



Note: Points represent quarterly data, line is LOESS smoothed curve.

Source: APRA

6

Commercial and asset finance broking

Commercial and asset finance landscape

Brokers are expanding into commercial lending and asset finance broking to support broader customer needs

Commercial lending

Commercial lending refers to financial products provided to businesses for purposes such as **property acquisition, development, and operational financing.** This focuses primarily on property and business financial needs, including:

- Commercial Mortgages: Loans for commercial real estate. This may include mortgages to self managed super funds (SMSFs).
- Business Financing: Funding for business operations, such as cash flow, working capital, and other non-asset related needs.
- Construction and Development: Loans specifically for property-related construction and development projects, generally larger value loans.

Asset finance

Asset finance involves funding for the acquisition of physical assets needed by businesses or individuals. This encompasses a wide range of items, including:

- Consumer asset finance: a range of personal assets, from vehicles to boats.
- Business asset finance: including motor vehicles for business use, trucks, and other vehicles; yellow goods such as heavy machinery (eg forklifts) and business-related equipment, from coffee machines to office fit-outs.

Commercial finance broking growth

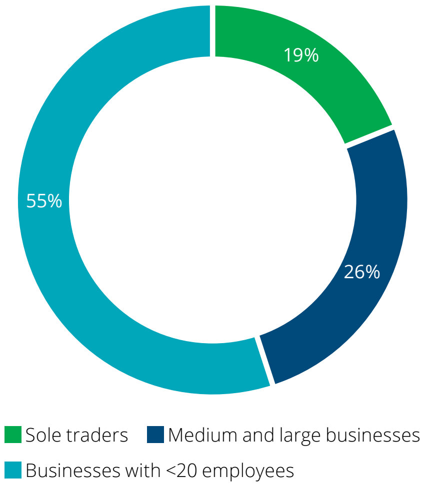
There has been **increasing interest in commercial and asset finance broking** in recent years. Brokers have identified the opportunity to holistically support customers who have an increasingly diverse and complex set of needs.

For example, residential mortgage clients may be small business owners with some form of commercial lending or asset finance need.

The range of business customers spans sole traders all the way through to larger businesses. The majority however are businesses with up to 20 employees. The commercial broker is the intermediary between lenders and business customers, understanding the specific business needs and the various finance options available, e.g. cashflow financing, financing for premises fit-out, acquisition financing.

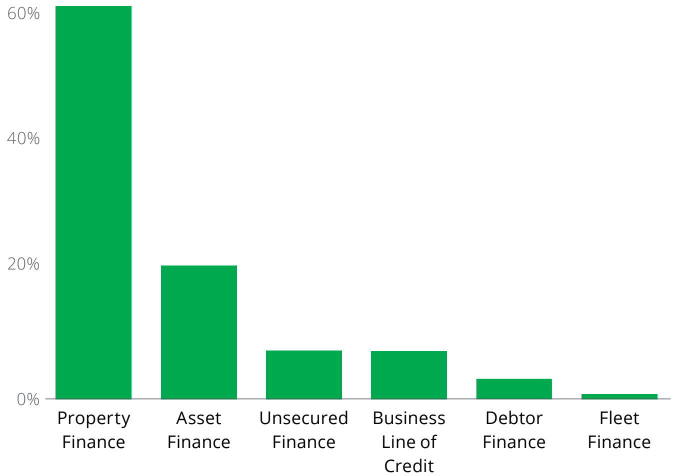
The mix of commercial broker lending through the Deloitte Broker Survey showed the majority is property finance, per Chart 6.2. However, there is range of other specialised lending services, such as business line of credit and debtor finance, where brokers also assist commercial clients.

Chart 6.1: Types of commercial loan broking customers



Source: Deloitte Broker Survey (2024)

Chart 6.2: Proportion of commercial loans in each category



Source: Deloitte Broker Survey (2024)

Commercial Broker Participation

There are limited published statistics to measure broker participation in commercial and asset finance lending. However, based on industry consultations, major aggregators noted year on year growth in their commercial broking volumes of 20% or more. Aggregators' total commercial loan volumes are lower than residential loans, at generally 10% of residential settlements by loan value. Based on our broker survey, **13% of brokers are commercially active, writing 25% or more of their settlements as commercial loans in FY23/24.** However, there is strong support from industry bodies and aggregators for brokers seeking to grow in this area in future.

Commercial and asset finance landscape

Commercial broking is more specialised than residential broking, requiring higher education to address the diverse needs of clients and the complexity of products involved.

Broker pathways

Most commercial and asset finance brokers come from a business banking background. Through our industry consultations, it was **noted by brokers, aggregators and lenders that commercial and asset finance broking requires a specialised focus** due to the nature and complexity of commercial broking, such as the need to understand business cashflows, tax implications and company structuring. Currently, the most traditional pathway for commercial brokers therefore is to move across from business banking, leveraging their prior experience and knowledge from the banking sector.

In terms of driving reasons for commercial brokers to commit to the sector, from our survey as seen in Chart 6.3, 59% of brokers working in this space stated their personal interest as the key reason. This underscores brokers' passion for understanding and supporting their clients' complex needs. Other reasons for commercial broking focus included the opportunity to diversify income streams and the growth potential of commercial lending.

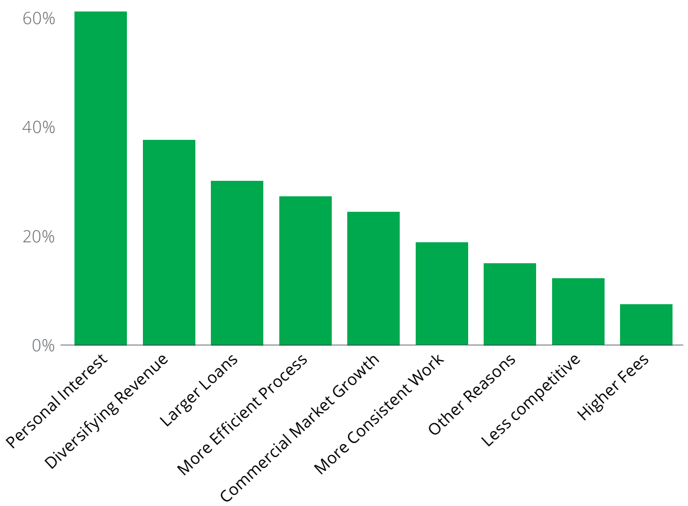
Industry consultations affirmed the generally more complex nature of commercial and asset finance lending. It was observed that customers often require more bespoke solutions given specific business needs, and it is onerous for the broker to stay abreast of the range of specific products available, and the services and rates offered by different lenders.

As a result, brokers tend to focus on chosen lending areas as opposed to offering products across all of residential, commercial and asset finance.

An emerging pathway for new commercial brokers to enter the industry is directly from university, working with specialised commercial and asset finance brokers to build the required knowledge and experience to become accredited. Recruits from universities often have relevant financial training which provides a foundation to learn from more experienced brokers.

Few brokers are currently transitioning from residential broking into commercial and asset finance due to the differences in skills and knowledge required. While some are successfully making the transition, this is mainly doing smaller scale commercial property lending rather than broader commercial financing.

Chart 6.3: Reasons for commercial broking focus



Source: Deloitte Broker Survey (2024)

For broader needs, such brokers are often using referrals to specialist commercial or asset finance brokers to ensure customers are appropriately supported.

A middle ground which has become apparent is **consumer asset finance**. As an adjacent area, the industry is seeing residential brokers exploring asset finance by first offering and arranging consumer asset finance, such as vehicle finance options, to their residential mortgage customers. They may also facilitate commercial loans at the smaller end of commercial lending sizes to customers who own small businesses, where the process is more familiar with that of a residential mortgage. This familiarity allows brokers to leverage their existing skills whilst expanding their service offering to meet the needs of their clients.

As brokers become comfortable facilitating applications for wider lending areas, it provides a pathway to expand their knowledge of lending products and what they can offer to their customers.

Accreditation process

Although brokers may be associated with a particular industry body, lenders typically have their own standards for commercial and asset finance broker accreditation which, in some cases, is stricter than an industry body association. For example, commercial brokers may be required to demonstrate competency and years of experience in commercial finance broking before they can be accredited with the lender. This sets an entry bar for residential brokers interested in moving into commercial and asset finance broking.

Commercial and asset finance landscape

Industry participants are working together to address current growth constraints driven by technology and size of broker pool

The role of aggregators, lenders and industry bodies

Aggregators, lenders and industry bodies are working together to improve and expand the commercial and asset finance broker offering. They each have specialist requirements and support for their brokers looking to facilitate commercial and asset finance loans. However, all acknowledge that it is a journey for brokers to gain the required specialisation in these areas, and it takes particular focus from a broker to transition across.

Specialised lenders often require specific accreditation for brokers looking to arrange commercial and asset finance loans given the knowledge required to confidently offer products in these areas. Some lenders specifically require CAFBA membership to gain confidence that the broker has appropriate training in the commercial and asset finance areas, as well as aggregator group accreditation for commercial lending.

Product offerings can vary widely by lender, ranging from lower size commercial loans offered by specialised lenders, which follow a similar broking process to residential mortgages, to complex business financing loans by large banks which require specialist broker knowledge to facilitate. This provides a range of areas for brokers to support their customers, some which may be reasonable for a broker to service directly, and others where a broker may need to refer to a specialised broking partner.

Industry bodies (MFAA, FBAA and CAFBA) provide brokers with training, education and mentorship programs which can support them in building knowledge and experience in the commercial and asset finance areas.

Aggregators also provide a range of support, education and training for brokers in the commercial and asset finance spaces.

Aggregators support brokers looking to move into these areas by offering specialist referral models and accreditation pathways. In some cases, aggregators are recruiting specialised teams to service customers in commercial and asset finance areas. However, there are still a number of aggregators which are not offering commercial and asset finance loans, presenting an opportunity for them to support their brokers in expanding into these growth areas.

Some aggregators offer referral models to allow brokers to support their customers' holistic needs and potentially support the upskill into a new broking area. This is achieved by referring their customers to other specialist brokers associated with the aggregator where it is not currently an area the broker services.

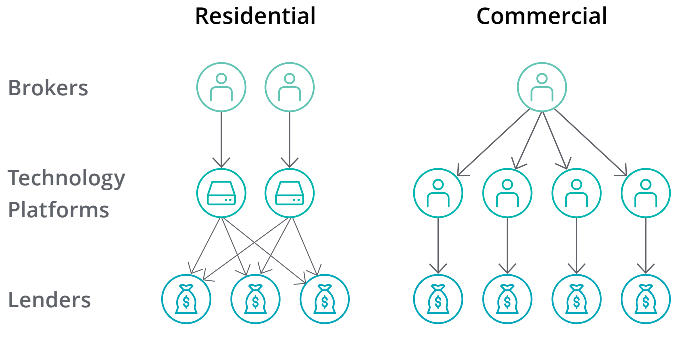
Accreditation pathways include shadowing and mentorship programs, where a broker can work closely with another specialised broker to build sufficient skills and knowledge in an area to gain accreditation. This ensures they can confidently offer loans to customers in that area which meet customer needs.

Technology improvements

Technology platforms used by commercial and asset finance brokers, offered by aggregators and lenders, are not as standardised as those used in residential broking. This is due to bespoke technology and product offerings by different lenders, the wide range of products available, and a requirement for more complex customer information to be assessed and stored, such as business cashflows.

Aggregators are working with lenders to improve and standardise their commercial and asset finance technology offerings, which will improve efficiencies for brokers in future and allow faster loan approvals for customers.

Figure 6.1: Ecosystem of broker technology platforms



Source: Deloitte (2024)

Case Study – Smartmove Professional Mortgage Advisors

Smartmove merged with Viridian Financial Group to offer its customers more holistic lending and investment advice in one place.

The specialist lending service of

Introduction and background

This case study demonstrates a residential mortgage broking business that has successfully diversified into commercial and asset finance broking. It has faced into the challenges we have highlighted in doing so, such as the need for further education and lender accreditations, by partnering with specialised brokers and uplifting its broker education programs.

Founded over two decades ago, Smartmove has established itself in the Australian broking industry, specialising in broking for various financial products including home loans, investment properties, car finance, and commercial loans to name a few. It currently has close to 100 employees in the lending team servicing approximately 8000 clients with a total book size of close to $4 billion.

Business structure

Predominantly a residential mortgage broking business, Smartmove merged with Viridian Financial Group in 2023 to become the specialist lending service of the Viridian Financial Group. This coming together has created a genuine diversified financial services business at scale across Australia. Smartmove was strategic in selecting its partner, working to ensure there was cultural alignment between the two entities, and saw it as an opportunity to further build trust with its customers.

The merger provided Smartmove brokers with access to a broader range of clients, including those with commercial and asset finance borrowing needs which Smartmove brokers did not historically focus on. By combining financial planning and brokering in one offering, it identified opportunities for expansion of its offering to ensure the dual benefits of improved customer servicing and business growth.

To support its growth in commercial and asset finance broking, it used two channels – the first being expanding the capability of the residential brokers through training programs and bringing in a technology solution to help write the commercial lending; the second being to identify a reliable partner Smartmove's brokers can make referrals to in the asset finance space. This has seen good results for their clients when dealing with a dedicated professional.

Smartmove has been successful in its first year of efforts to ensure that, if a mortgage broker or financial advisor across the group can identify a need for the client, the ability to assist exists within the team. This can further improve as the technology platforms make it more seamless to work together for the good of the client.

Innovations

Salaried model. The compensation structure is one where brokers receive a fixed salary plus a monthly bonus rather than earning straight commissions based on the loans they originate. As one of the largest independent broker groups in Australia to use this model, it enables team members to focus on client outcomes and work together as a team. Smartmove allows employees to purchase shares in the overall Viridian group, which unites the team approach and the aim to grow a sustainable and profitable business and offer valuable long-term service to customers.

Staff education (Broker Academy). This is a fully paid 26-week training program to train new employees and provide better services to customers. The majority of students in the broker academy are new to the industry and come from a diverse range of cultural backgrounds, providing a pathway for diversity improvements in the broking community. This also enables Smartmove to engage and service a larger proportion of the market.

International Support. Overseas resources improve efficiency, reducing processing times for loan applications. Smartmove owns its own facilities in Nepal and the Philippines which support the brokers.

Appendices

Appendix A: Survey methodology and findings

Industry participants are working together to address current growth constraints driven by technology and size of broker pool

Approach
Qualtrics was used to field the survey and collect data, which was then analysed by Deloitte Access Economics. Data was collected via an online portal and took respondents approximately 30 minutes to complete. The survey was in field from early October to early November 2024, with 842 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 and finance brokers and mortgage broking businesses with more than one staff member.

Sample population
The survey included a random sample of 454 individual sole trading mortgage broking businesses and 393 mortgage broking businesses with more than one staff member, covering a total of 842 brokers (Table A.1).

This should be compared with a national population of 10,635 mortgage broking businesses1 and 22,031 mortgage brokers.[2]

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.

Table A.1: Sample Coverage

	Number of broking businesses	Number of sole trader brokers
Sample total	393	454
Population	13,068	8,963

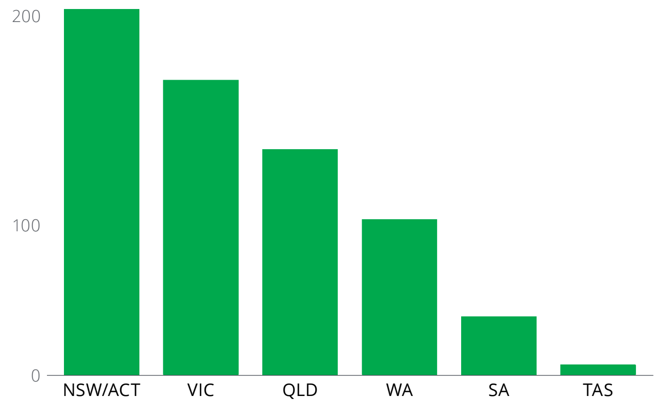
Source: Deloitte analysis (2024)

Summary of survey findings
Survey analysis findings are included throughout this report and were presented as a standalone deliverable to the MFAA and aggregator representatives in the interim stages. 17 key survey findings were identified through analysis of survey responses, grouped across six key focus areas.

Figure A.1 includes a summary of key survey headlines derived from our bespoke broker survey. Survey findings were iterated in collaboration with the MFAA and informed quantitative components of this report.

Surveyed brokers are similarly distributed to Australia's population, as shown in Chart A.1.

Chart A.1: State distribution of surveyed brokers



Source: Deloitte analysis (2024)

Appendix A: Survey methodology and findings

Figure A.1: Survey headlines

Consumer benefits

1. **Strong retention of existing customers** demonstrates the value brokers bring their customers. Repeat customers (45%) and referrals from customers (27%) are the key leads.
2. Mortgage brokers play a valuable role in helping consumers to **navigate a complex loan market**. 41% report that their customers have low levels of financial literacy.
3. In addition to traditional broking services, brokers spend **11% of time educating and preparing customers** for mortgage applications. One third of time is committed before a guaranteed fee.

Promoting competition

4. The average broker is **accredited with 23 lenders,** including 12 non-big 4 banks and 7 non-bank lenders- a reduction of 10 since the previous survey. Brokers wrote loans with **8 lenders** on average, consistent with the previous survey.
5. Brokers present **three options** on average to each customer, exceeding regulatory requirements.
6. Brokers are pro-actively assessing whether consumers are receiving the best rates. Survey respondents reported a **0.35% average reduction in interest rates** achieved for customers who are successfully repriced.

Commercial and SME lending

7. **Residential remains the core business of most brokers.** Currently just 13% of brokers are commercially focused, writing 25% or more commercial loans in FY23/24.
8. However commercial lending is identified as a growth opportunity. Over half of commercially-focussed brokers have **experienced growth in commercial loans over the last three years (52%)**.
9. **Commercial loans are larger** than residential, averaging $750,000 among commercially-focused brokers, compared to the average residential loan of $507,180.

Use of technology

10. Mortgage brokers have **experienced rapid change in technological adoption**. Digital signing services are most common, followed by Customer Relationship Management (CRM) and cybersecurity tools.
11. Technology has assisted brokers to communicate with their customers more efficiently. Brokers conduct **three times more communication on a digital platform** than face to face during the broking process, enabling them to reach a wider customer base.

Diversity of brokers and consumers

12. Mortgage brokers are providing important support for first home buyers. **45% of broker's owner occupier purchases are first home buyers,** compared to 30% in the overall market.
13. Mortgage brokers advocate for **training, mentorship and leadership development programs** as the most effective strategy to promote diversity and inclusion in the industry.
14. 22% of brokers are located **outside of major cities. 1 in 4** mortgages arranged by brokers are for customers located in regional and rural areas (26%).

Education and regulation

15. **86% of brokers hold qualifications equal to or above a Diploma** in Mortgage Broking Management Services. One third of brokers hold an Undergraduate or Postgraduate degree (33%).
16. 46% of brokers report that the 2020 ASIC guidance has **positively impacted** every single area of their business, from customer trust to financial performance.

Appendix B: Stakeholders consulted

Approach
Deloitte conducted 12 one-to-one consultations with industry stakeholders including a combination of individual brokers, broker groups, major lenders, industry associations and non-bank lenders. Stakeholder consultations were semi-structured lasting approximately 60 minutes in duration.

In designing the methodology approach for this research project, the purpose of industry consultations was to provide nuanced understanding of key issues, challenges and opportunities facing the mortgage and finance broking sector.

One lesson from the previous report is that one-on-one consultations provided the greatest opportunities for businesses to discuss sensitive issues. This learning informed our approach to consultation, which focused on select one-on-one interviews, as opposed to broader industry workshops.

Information collected from the consultations informed the qualitative evidence supporting our analysis.

In these consultations, 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. There were also insightful discussions about the growth of commercial lending and the impediments to growth.

Consultation coverage
Lines of questioning were broadly based around the below key themes, based on consultation guides and data collection instruments designed in collaboration with the MFAA:

- Introduction and context of the MFAA/Deloitte report.
- Stakeholder's history in the mortgage and finance broking industry.
- Background on stakeholder's organisation including business set up, optimal team structure, ongoing learning and training; and challenges such as managing compliance burden.
- Perspectives on the key value proposition of brokers to customers and lenders.
- Perspectives on key opportunities over the coming 3-5 years for brokers including emerging technologies; shifts in customer behaviour and expectations and commercial and asset finance lending trends.

Broader stakeholder input
In addition to participation in an industry consultation, other organisations contributed to this research through their promotion of our broker survey, or other related activities.

These organisations include the MFAA, AFG, Astute Financial Management, Connective, Finsure, Lendi Group, Loan Market Group, Moneyquest, Mortgage Choice (REA Group), NAB, National Mortgage Brokers, NextGen, Outsource, Pepper Money, Specialist Finance Group, Teachers Mutual Bank and Yellow Brick Road.

Table B.1: Stakeholders consulted as part of this research

Stakeholder	Date
Individual brokers	
Individual broker	October 2024
Smartmove	October 2024
Broker groups	
AFG Ltd	September 2024
Connective	October 2024
REA Group	October 2024
Resolve Finance	September 2024
Loan Market Group (LMG)	September 2024
COG Finance	October 2024
Major lenders	
NAB	October 2024
Macquarie Bank	November 2024
Industry association	
CAFBA	October 2024
MFAA	Throughout project duration
Non-bank lenders	
Pepper Money	October 2024

Appendix C: Economic contribution analysis

Approach

The total economic contribution of the mortgage broking industry is based on direct and indirect value add derived from survey results and 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 total economic contribution of $4.1 billion in 2023-24, including a direct economic contribution of $3.3 billion and an indirect contribution of $800 million. The mortgage broking industry also supports the employment of 37,459, which includes 31,899 FTEs directly employed by the industry and 5,450 FTEs indirectly supported in other Australian businesses.

Methodology overview

Data for this survey is drawn from the MFAA's Industry Intelligence Service Report published in 2024, supplemented with data from the bespoke survey of brokers.

The central data point is taken from the IIS survey, which reveals that, for the period April 2023 to September 2023, the MFAA estimates that average gross annual commission (prior to costs) is around $192,354.[1] This overall average was attributed between sole trading brokers and broking businesses based on their share of loan value written in the latest IIS data.

Out of these gross commission figures, brokers pay the costs of their business including premises, service fees paid to aggregators, marketing and communications expenses, support staff salaries and wages, and other costs.

According to the MFAA, there are 22,031 mortgage brokers in Australia as of March 2024, of which 8,963 are sole traders and 13,068 are in a business. Expenditure and revenue figures were scaled to these levels.

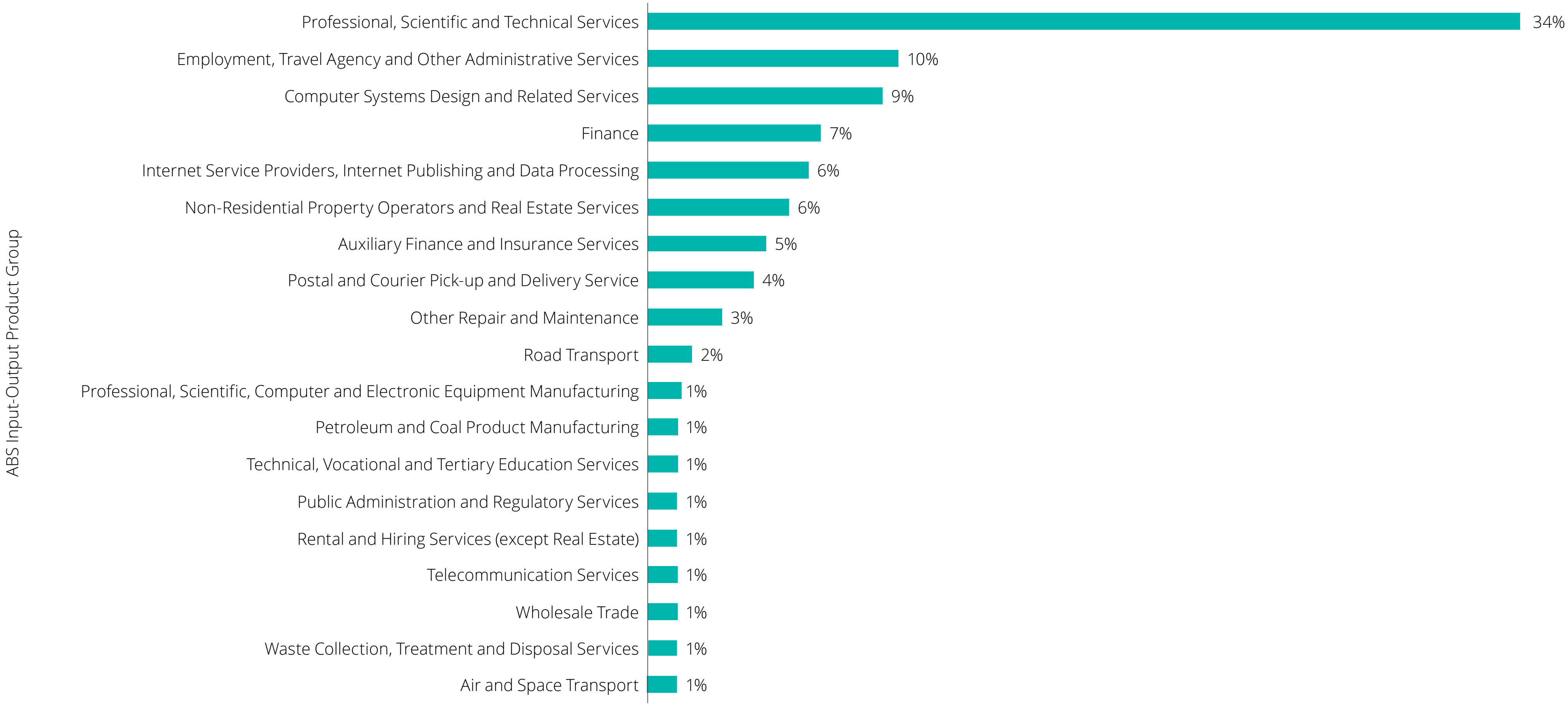
Indirect contribution

The indirect contribution was calculated based on brokers' reported average expenditure on goods and services. Applying a similar approach as in the direct contribution calculation to extrapolate to the full population of brokers, we estimate the total expenditure for the mortgage broking industry to be $1.2 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 assumed share of expenditures of the mortgage and finance industry based on the ABS I-O table (2021-22). This expenditure was input into Deloitte Access Economics' Regional Input-Output model to calculate the indirect contribution.

Appendix C: Economic contribution analysis

Chart C.1: Share of goods and services purchased by the Auxiliary Finance and Insurance Service industry, 2021-22.



Source: ABS I-O tables 2021-22, Deloitte analysis (2024)

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Appendix A: Survey Methodology

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Appendix C: Economic Contribution

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Notes

Notes

General use restriction

This report is prepared solely for the use of the Mortgage & Finance Broking 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 set out in our work order. You should not refer to or use our name or the advice for any other purpose.

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Cover sheet: Supporting document #3

MFAA SUBMISSION – INQUIRY INTO THE FINANCIAL REGULATORY FRAMEWORK AND HOME OWNERSHIP

MFAA
MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA

30 September 2024

Letter from the MFAA CEO

Committee Secretariat
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

30 September 2024

By email: economics.sen@aph.gov.au

Dear Committee Secretariat,

INQUIRY INTO FINANCIAL REGULATORY FRAMEWORK AND HOME OWNERSHIP

The Mortgage and Finance Association of Australia (**MFAA**) appreciates the opportunity to provide a submission to the Inquiry into the Financial Regulatory Framework and Home Ownership (**the Inquiry**). The MFAA is Australia's peak industry body for the mortgage and finance broking industry with over 15,500 members. Our members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage and finance broking industry.

Mortgage brokers facilitate nearly 75 percent of all home loans in Australia, making the mortgage broking industry not just systemically important to the Australian economy, but also instrumental in facilitating consumer choice and competition in the home lending sector.

Home ownership remains an important goal for many Australians, representing a source of long-term financial security. However, in the past two decades the percentage of Australian households that own their own home with or without a mortgage has decreased from 71 percent to 66 percent.[1] With the cost of a mortgage now at its highest level as a percentage of disposable income since the Global Financial Crisis in 2007,[2] the path to home ownership has become increasingly challenging, highlighting the need for targeted policy measures to support Australians seeking to enter the housing market.

Acknowledging that the lack of housing supply is a significant factor affecting housing affordability,[3] our submission focuses on the demand side of Australia's housing affordability challenge specifically in relation to the accessibility of finance to support homeownership.

Our submission is in two parts. **Part A** provides an overview of the mortgage broking industry, including the important role mortgage brokers play in supporting home loan borrowers to access finance. **Part B** reflects the views and coal-face insights of our members assisting home loan borrowers every day. In this part we present eight recommendations to help improve the prospects of aspiring home buyers entering the market, a brief summary is as follows:

Priority area 1: Financial regulation

- Recommendation 1: Review the constraints under the Credit Act to offering non-traditional forms of credit.
- Recommendation 2: A review of the APRA standards is needed.

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[3] National Housing Supply and Affordability Council 2024, *State of the Housing System 2024,* Australian Government, page 66, viewed 2 September 2024, <https://nhsac.gov.au/reports-and-submissions/state-housing-system-2024>.

Priority area 2: Government-backed home ownership schemes

- Recommendation 3: Simplify government backed homebuyer schemes, and partner with the mortgage broking industry to raise awareness of schemes.

Priority area 3: Competition and innovation in the mortgage market

- Recommendation 4: Support development of housing affordability products through a regulatory sandbox.
- Recommendation 5: Continue to support the development of the Consumer Data Right (CDR) and to progress broker use cases.
- Recommendation 6: Institute a faster, smoother discharge process.
- Recommendation 7: Adjusting or waiving HECS debt for first home buyers.

Priority area 4: Financial literacy

- Recommendation 8: Recognise the role of brokers in supporting home ownership and promote consulting with a mortgage broker to all first home buyers.

CLOSING COMMENTS

We extend our thanks to our broker members who have supported our submission through their feedback, coalface insights and case studies and acknowledge our aggregator members AFG, Astute, Connective, Finsure, Lendi Group, REA Group, Specialist Finance Group and YBR in their contributions to this submission.

We also extend our appreciation to the Senate Standing Committee on Economics for the opportunity to provide this submission. If you wish to discuss this submission or require further information, please contact me at anja.pannek@mfaa.com.au or Naveen Ahluwalia at naveen.ahluwalia@mfaa.com.au.

Yours sincerely,

Anja Pannek
CEO
Mortgage & Finance Association of Australia

Part A: The role of mortgage brokers in the home lending market

Mortgage brokers play a critical role in home lending, providing access to credit and promoting choice for prospective and existing homeowners under a comprehensive regulatory framework

Mortgage brokers operate under a comprehensive regulatory framework that provides consumer protections

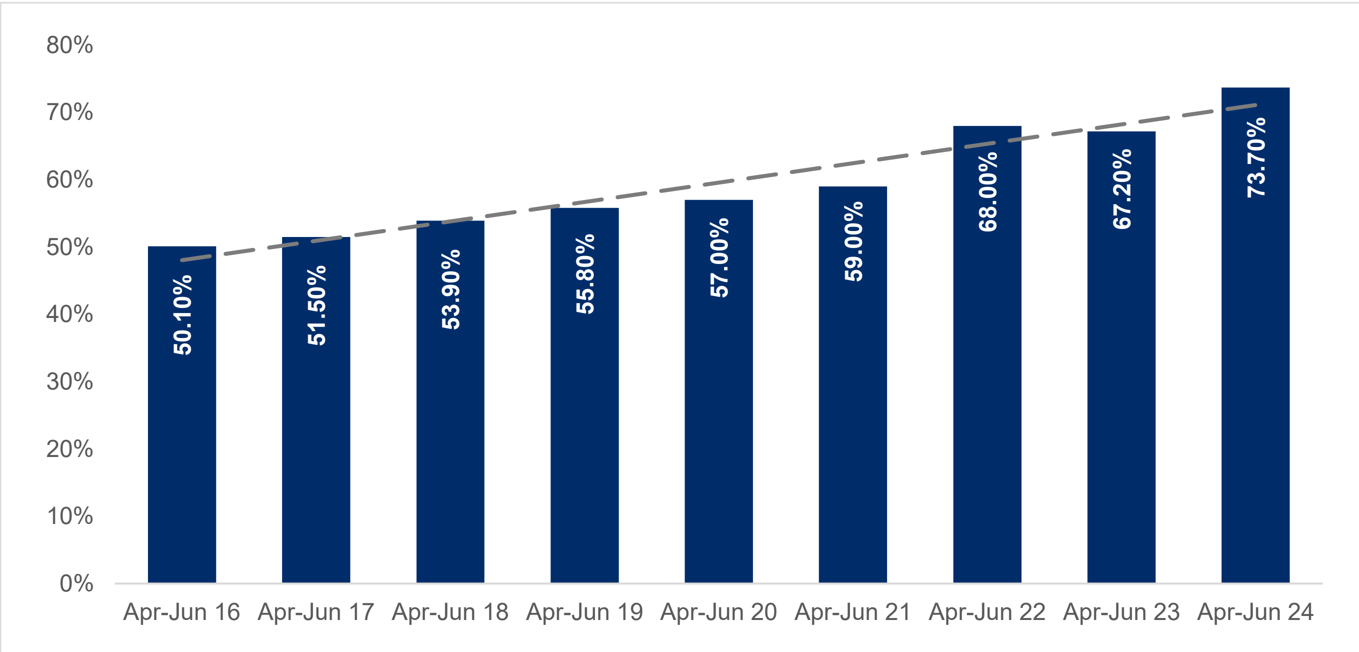
The mortgage broking industry has evolved significantly since the mid-1980s and has transformed to become a critical part of the finance sector that affords borrowers protection through responsible lending laws and the mortgage broker best interests duty.

Mortgage brokers operate under a comprehensive framework of regulation and self-regulation. Operating under a strict licensing regime includes not just a requirement to comply with the mortgage broker best interests duty and a requirement to prioritise the interests of their customers over theirs, but it also includes prohibitions on volume-based and soft-dollar incentives and the passing on of the cost of clawback onto clients.[4] These regulations require a higher standard of conduct for mortgage brokers compared to lending staff within banks that deal directly with borrowers.

Mortgage brokers play a critical role in home lending, providing access to credit and promoting choice for prospective and existing homeowners

As at September 2023 there were 19,872 mortgage brokers in Australia, who facilitated in the 12 months to that date $350 billion in home lending for Australian borrowers.[5] In addition to facilitating nearly 75percent[6] of all home loans in Australia, mortgage brokers also facilitate approximately 78percent of home loans under federal first home buyer schemes.[7] The increased use of mortgage brokers[8] reflects the unique value proposition of mortgage brokers in offering consumers choice, expertise, convenience and consumer protection – see below.

Chart 1: Quarterly survey of brokers: Market share of new residential home loans settled by mortgage brokers as percent of ABS Housing Finance Commitments/Lending to households



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[4] Includes the National Consumer Credit Protection Act 2009 (NCCP Act – includes the National Credit Code, best interests duty and responsible lending obligations) and ASIC Regulatory Guides: RG273 Mortgage brokers: Best interests duty and RG209 Credit licensing: Responsible lending conduct.

[5] MFAA, *Industry Intelligence Service 17th Edition for the six-month period 1 April 2023 to 30 September 2023,* <https://cdn.sanity.io/files/t0x3ukgp/production/86ad362f54c8e7ac23ca67a27c6e2bb3c75a0866.pdf>.

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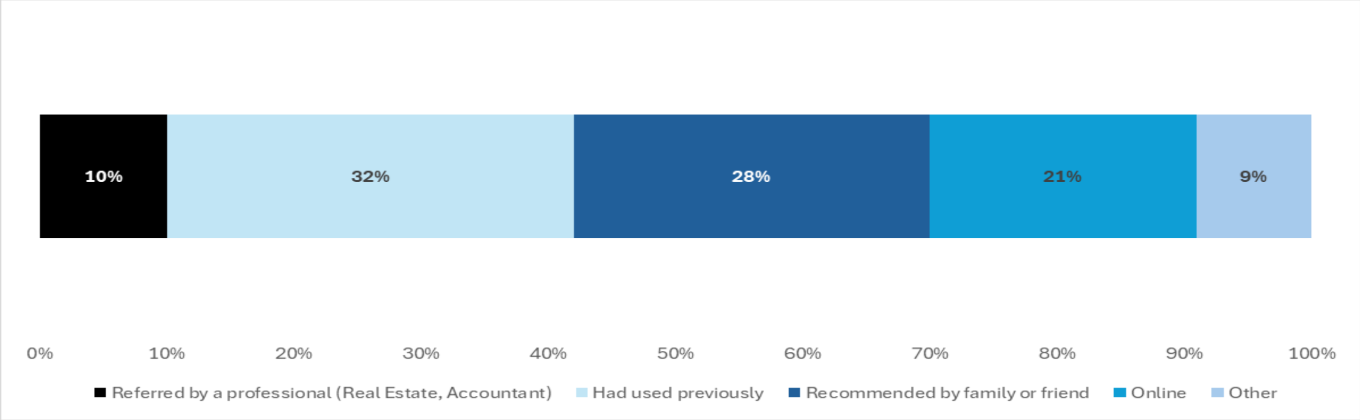
[7] Housing Australia (via email), September 2024.

[8] Comparator compiles quarterly broker statistics for the MFAA by calculating the value of loans settled by 15 of the leading brokers and aggregators as a percentage of ABS Housing Finance commitments. The MFAA releases these statistics each quarter. This data can only be used publicly by referencing the MFAA as the owner of the data and its use in communications.

The growth in mortgage broker market share highlights the continued growing trust Australian borrowers have in their mortgage broker. Mortgage brokers receive the majority of their business from repeat clients or referrals from those clients to their family and friends, as shown below.[9]

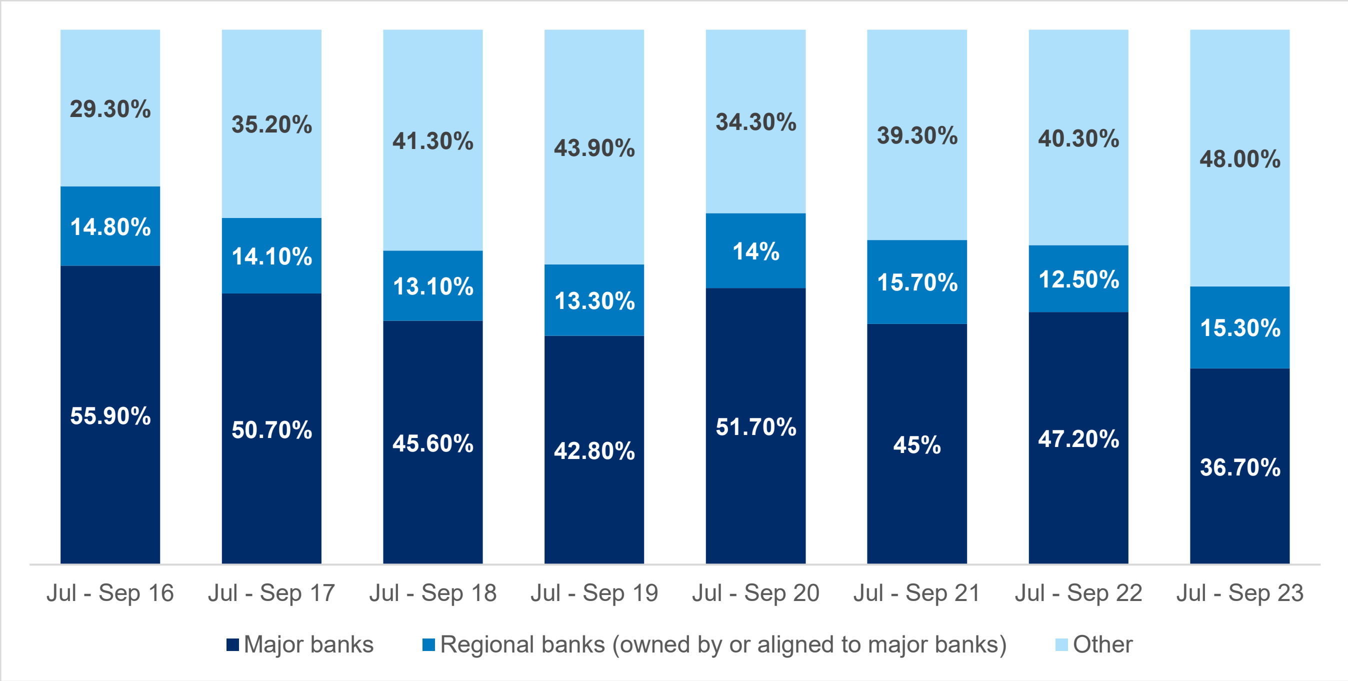
Chart 2: How did you choose your current mortgage broker, 2024 results



Mortgage brokers provide access to a wide range of lenders for the benefit of consumers, driving competition

Mortgage brokers create competitive tension between lenders by providing borrowers access to a wide range of options, including smaller (non-major) banks and lenders without physical branches. This transparency of available lender offers best suited to the needs of the individual client has fostered continued innovation and improvements to lender service levels, pricing, and product features.[10] Industry research also demonstrates this competitiveness as shown below with the share of broker-originated lending settled with each lender segment.[11]

Chart 3: Share of broker-originated lending settled with each lender segment



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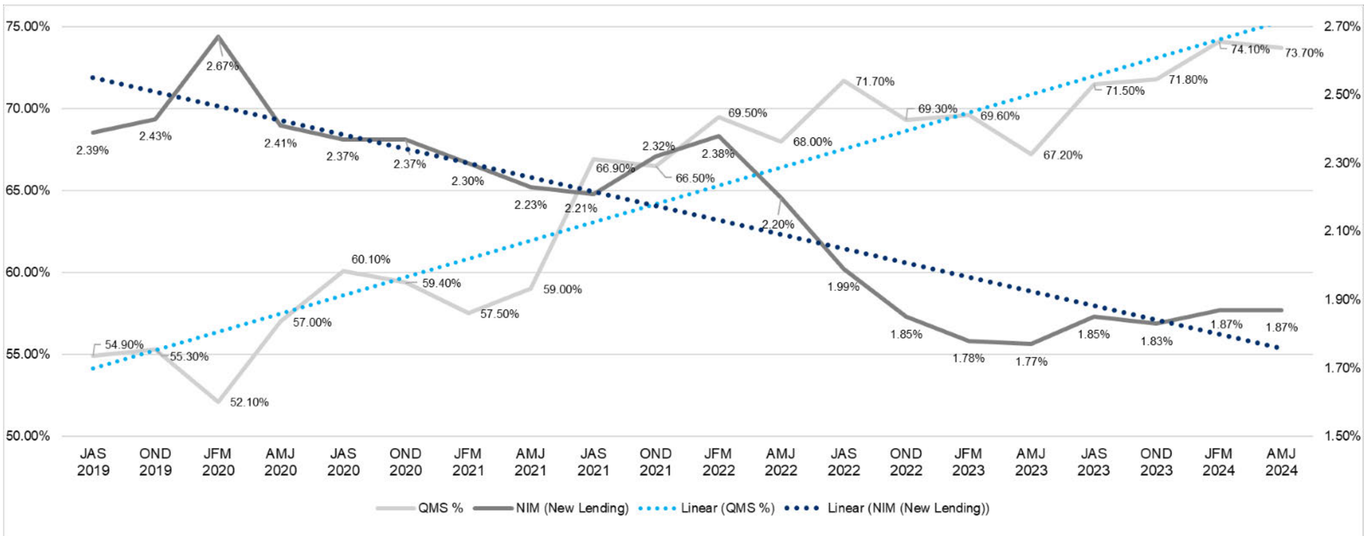
The competition mortgage brokers have driven has benefited Australian borrowers

A further benefit of the competition mortgage brokers bring is that as mortgage broker market share has risen, lender net interest margins (NIM) have fallen. Variable interest rate levels across all lender types have dropped as a result of decreases in bank NIMs. As can be seen below,[12] in the four and a half years to June 2024, NIM for new lending has fallen by 0.52percent, saving the average homeowner $2664 annually on their mortgage repayments.[13]

Chart 4: Mortgage broker market share and net interest margin



Mortgage brokers support almost four out of five 'first time' and 'first home' buyers

The terms "first-time buyer" and "first home buyer" are often used interchangeably, but they carry distinct meanings. A first-time buyer refers to anyone purchasing property for the first time, regardless of its purpose, while a first home buyer generally refers to someone buying a home to live in. The difference is important, particularly for policy targeting, where first home buyer incentives are often aimed at encouraging residential home ownership.

Mortgage brokers typically deal with a higher proportion of first time and first home buyers than the direct lending channel, providing essential guidance and support. A survey conducted by Helia in 2023 noted that despite the variety of options that exist in the marketplace, a third of respondents had not heard of alternative ownership strategies and overall, that 79 percent of first home buyer respondents said they would use a mortgage broker to support them in buying their first property.[14]

There is a multitude of options available to a first home buyer, including, but not limited to, accessing state and/or Commonwealth grants, parental guarantees, or utilising lender's mortgage insurance. Increasingly aspirational first home buyers also see entry into the housing market through opting to purchase an investment property whilst themselves renting ("rent vesting"), as this is more financially viable. Navigating this range of options as well as different lenders' products and service offerings is complex, which is where mortgage brokers guide and assist their clients. Before facilitating finance for a home purchase, mortgage brokers more often than not play a pivotal role in enhancing financial literacy among first-time and first home buyers. This is particularly important when customers have a goal of home ownership but are not yet finance-ready.

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[12] Source: MFAA quarterly market share data and NIM calculated from RBA data (Owner occupied, lending rates for new credit with P&I repayment type (FLRHOFP), less cash rate).

[13] Assumptions: Based on ABS data for July 2024 where national average mortgage for owner-occupied dwelling was $640,998 and a borrower saves an average of 0.52percent by refinancing from variable rate of 7percent to a variable rate of 6.48percent, on a 30-year loan term, with no monthly fees.

[14] Helia 2023, *Home Buyer Sentiment Report,* viewed 20 September 2024, <https://helia.com.au/media/owxjq0kv/helia-home-buyer-sentiment-report-2023-final.pdf>. Helia is a leading provider of lenders mortgage insurance (LMI) in Australia, <helia.com.au>.

Resolve Finance, an MFAA member, works extensively with prospective home buyers so they better understand how to budget to be in the best possible position to save a deposit and be financially ready to manage a mortgage when the time comes to purchase their home. The following Case Study profiles *My Home Plan*, a program offered by Resolve Finance that connects clients with a finance coach in order to create a personalised plan that works to support the client's goals and objectives, including getting them finance-ready for a property purchase.

CASE STUDY - My Home Plan by Resolve Finance

What is My Home Plan?

My Home Plan is a tailored program built around your real-world income and expenses. You'll work directly with one of our finance coaches to create a unique plan that works for you.

They'll help track your spending and savings as you work towards achievable goals – like getting into your first home. With access to our easy-to-use mobile app and online platform, you can view your money, and monitor your spending, savings and debt reduction strategies, anywhere, any time – all in one spot.

How does it work?

You'll partner with a personal finance coach, who will guide you through your savings journey with all the support and motivation you need to achieve your goals.

Firstly, we will analyse your current situation and plans. Your coach will undertake a full financial analysis and prepare an achievable budget. Our My Home Plan technology then allows you to not only set and track your saving goals, but also integrate your bank account information so that you can view all your finances in one place.

You can choose to access it all online, or download our easy-to-use mobile app. You will have a mentor throughout the entire journey and when you are ready to purchase your new home, we'll help you find the right loan.

What clients say

- "I really liked the way they took the time to discuss our circumstances and listened to what we would like to achieve. Then, with all our information, they came up with a plan that worked." George
- "I loved that My Home Plan put us in control of our finances." Lorraine
- "Thanks for keeping our dream real - of making a house a home. The simple communication made life easier and of course the help I need was always just one phone call away." Jami

https://www.resolvefinance.com.au/home-loans/my-home-plan/

By offering personalised support and education and acting in their client's best interests, mortgage brokers empower prospective home buyers to make informed financial decisions, understand their borrowing options, and select the most suitable products for their needs. This includes considerations as to whether to buy a home to live in or buy a dwelling to invest to build wealth for the future.

Payroll tax implications on small broking businesses

As brokers play a critical role in providing competition in the home loan market, which helps keep costs lower for borrowers, it is significantly important that broker aggregator arrangements be relieved from the imposition of state-based payroll tax.[15] The unjust imposition of payroll tax on these arrangements would not only increase the cost of doing business for brokers but also erode the competitive advantage they offer to borrowers.[16]

[15] *Loan Market Group Pty ltd v Chief Commissioner of State Revenue* [2024] NSWSC 390
[16] See here for more information*: https://www.accountingtimes.com.au/tax/loan-market-decision-a-national-payroll-tax-issue-warns-mfaa*

Part B: MFAA recommendations

INTRODUCTION

While home ownership is desirable, ensuring affordable and suitable shelter for all should remain a critical focus in housing policy. This includes appropriate regulatory and tax settings to encourage investment in housing as a means to long term financial stability and well-being.

While the Federal Government is developing a National Housing and Homelessness Plan in collaboration with state and territory governments,[17] we believe more can be done to support a nationally coordinated approach to housing. Home ownership is an important societal goal of many Australians, however according to Australian Housing and Urban Research Institute (AHURI,) there is currently no federal housing act or strategy that enshrines the right to adequate housing or a suitable monitoring framework.[18]

The challenges Australians face around home ownership cannot be addressed by the Federal Government in isolation. With a wide array of housing policy levers available across Commonwealth, state, territory, and local governments, there is an opportunity for coordinated policy-making through the National Cabinet.

This collaboration could focus on key areas such as housing affordability, accessibility, supply, and finance, ensuring a more unified and effective approach. One such example is land taxes. The Productivity Commission recommended improving access to housing by removing stamp duty,[19] noting that addressing stamp duties on residential property can lead to an increase in housing mobility generating greater housing stock[20] allowing for earlier entry into the housing market for first home buyers. There is an opportunity for the Federal Government to take a leadership role in bringing consistency and clarity to state-based land taxes such as stamp duty in favour of a broad-based land tax.

1. FINANCIAL REGULATION

The key regulators of Australia's financial system have prescribed mandates – APRA to ensure resilience of the financial system, ASIC to monitor consumer protections, and the RBA to achieve economic stability and growth. Our observation is that these mandates may operate at cross purposes when it comes to Australia's societal goals of home ownership, notwithstanding financial and economic stability and consumer protections are important to the Australian economy and confidence in the lending market.

We see opportunities through the Council of Financial Regulators to effect more co-ordinated policy making across these agencies in relation to housing and housing affordability, and to evolve and adapt the application of regulation to encourage home ownership without causing detriment to the lending market and consumer protections.

Recommendation 1: Review the constraints under the Credit Act to offering non-traditional forms of credit

The responsible lending obligations set out in the Credit Act are designed to be flexible, scalable, and principles based. These obligations require credit providers and credit assistance providers (i.e. mortgage brokers) to take 'reasonable steps' to ensure responsible lending. This non-prescriptive approach allows lenders and mortgage brokers to tailor their policies to the specific circumstances of each borrower, considering factors such as the complexity of the credit product, the benefits it offers to the consumer, and the potential risks involved.

ASIC Regulatory Guide 209 (RG 209)[21] further reinforces this flexible approach by emphasising scalability. It specifies that the extent of inquiry and verification that is reasonable for a credit provider to undertake should be proportionate to the complexity of the product and the associated risks. This principles-based framework ensures

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[17] Department of Social Services, *Housing Support,* Australian Government, viewed 25 September 2024, <https://www.dss.gov.au/housing-support-programs-services-housing/developing-the-national-housing-and-homelessness-plan>.

[18] Australian Housing and Urban Research Institute 2024, *What does 'Housing as a human right' mean in Australia?,* viewed 22 September 2024, <https://www.ahuri.edu.au/analysis/brief/what-does-housing-human-right-mean-australia#:~:text=Whilepercent20thepercent20Federalpercent20Governmentpercent20is,establishespercent20apercent20suitablepercent20monitoringpercent20framework>.

[19] Productivity Commission 2018, *Better functioning towns and cities,* Australian Government, viewed 24 September 2024, <https://www.pc.gov.au/media-speeches/articles/better-functioning-towns-cities>.

[20] National Housing Finance and Investment Corporation 2021, *Stamp Duty Reform: Benefits and challenges,* viewed 25 September 2024, <https://www.housingaustralia.gov.au/sites/default/files/2022-10/stamp-duty-reform-benefits-challenges.pdf>.

[21] ASIC Regulatory Guide RG209 *Credit licensing: Responsible lending conduct*.

that lending practices can adapt to the diverse needs of consumers and the varied nature of financial products, fostering an environment where in our view, consumer protection and access to credit are balanced effectively.

Therefore, in our view, the Credit Act in general, and specifically the responsible lending obligations are fit for purpose.

In saying that, there are aspects of the Credit Act that should be reviewed in the current environment. The Credit Act generally contemplates only traditional forms of credit – that is, credit with interest payable, and regular repayments required. However, Australia is seeing many entrants to the finance market who wish to offer non-traditional types of credit that may better suit some consumers. For example, equity share type of arrangements where a loan is made, no regular repayments are required, but the customer may pay a fee on termination of the loan that reflects the capital growth of the property during the term of the loan are growing in popularity and are attractive alternatives to traditional finance for some borrowers.

However, these products can be difficult to implement as they risk being classified as a reverse mortgage (for example, if interest capitalises for a period of time) or the fee payable on termination is not permitted without ASIC approval due to the ban on termination fees.[22] Some providers of these products will therefore structure the products so that they are not credit (and therefore the Credit Act does not apply) which may result in customers not receiving the protections that the Credit Act provides. Further, unless classified as credit, such products usually cannot be sold by mortgage brokers who may be prohibited from either selling them because they do not hold an Australian Financial Services License (if the product is a financial product).

By allowing non-traditional forms of credit under the Credit Act, mortgage brokers will be better able to comply with their best interest duty obligations as they will have a wider array of product types to choose from, and customers will receive the protections that the Credit Act offers.

Consultation with ASIC and industry around the best way to bring alternative products within the Credit Act while not compromising consumer protections would help to deliver fit-for-purpose regulation.

Recommendation 2: A review of APRA standards is needed

In our view, a review of the standards for serviceability buffer and capital weighting requirements could help improve access to finance by first homebuyers without disproportionately increasing the risk for banks, especially if coupled with prudent regulatory oversight to manage systemic risks.

Serviceability buffer

The APRA mortgage serviceability buffer is prescriptive[23] and lacks a framework to provide flexibility and scalability. APRA first introduced its serviceability guidance in December 2014 requiring banks to apply a minimum interest rate floor of 7percent regardless of product. As the environment evolved over time, APRA updated its guidance in 2019,[24] allowing banks to review and set their own minimum interest rate floor and utilise a buffer of 2.5 percent over the interest rate of the product being assessed. The buffer increased to 3 percent in late 2021[25] and has remained in place since.

The serviceability buffer is applied uniformly across all ADIs, without sufficient consideration for the nuances that might differentiate one borrower segment or product from another, especially over time.[26] While this approach may ensure a consistent baseline of prudential oversight, it can also result in a lack of flexibility that may inhibit access to credit, particularly in situations where a more tailored approach would be appropriate.

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[22] ASIC Regulatory Guide RG 220 *Early termination fees for residential loans: Unconscionable fees and unfair contract terms*.

[23] APRA Prudential Practice Guide, *APG 223 Residential mortgage lending June 2022,* paragraph 32.

[24] APRA consultation July 2019, Prudential Practice Guide AGP 223 Residential Mortgage Lending *Revisions to the buffer and floor rates in APG 223,* viewed 20 September 2024, <https://www.apra.gov.au/prudential-practice-guide-apg-223-residential-mortgage-lending>.

[25] APRA, *Update on APRA's macroprudential policy settings,* 27 February 2023, <https://www.apra.gov.au/update-on-aprapercentE2percent80percent99s-macroprudential-policy-settings>.

[26] Reserve Bank of Australia, *Bulletin March 2023,* Australian Government, viewed 24 Septemberf 2024, <https://www.rba.gov.au/publications/bulletin/2023/mar/pdf/bulletin-2023-03.pdf>.

For instance, our members have cited the rigid application of serviceability buffers under APRA's standards as the number one barrier to refinancing for many borrowers, especially in the context of rising interest rates.[27] For first homeowners, it has made it more difficult to qualify for loans.[28] MFAA data show the conversion rate of home loan applications to settlements has seen a decline, indicating that serviceability challenges are taking a toll on prospective homebuyers seeking finance. For the six-month period to 30 September 2023, conversion rates[29] recorded a second consecutive six-month period of decline, experiencing a 9.2 percentage point dip year-on-year and falling below 80 percent for the first time since 2021.[30]

Serviceability buffers, while critical in managing systemic risk, do not always accommodate for individual circumstances of borrowers, leading to a scenario where some become "mortgage prisoners" unable to refinance even when it would be in their best financial interest to do so. In line with APRA guidance, some banks have set out exception processes to support borrowers that may be experiencing challenges.[31] Our members have reported the reduction of the serviceability buffer by APRA regulated lenders who offer this as an option had been instrumental in assisting their clients to refinance and secure more competitive loan options.[32] This demonstrates the value of flexible serviceability measures in alleviating some of the refinancing pressures borrowers face, particularly in a rising interest rate environment, and highlights the importance of embedding flexibility to support borrower outcomes.[33]

Further to this, banks are required to report lending to borrowers when the 1 percent buffer is utilised, as an exception to APRA guidance,[34] potentially acting as a deterrent for these lenders in instituting the more flexible mortgage serviceability buffer.

We recognise the importance of financial stability and credit risk management, however to ensure continued access to credit, we propose a dynamic buffer that adjusts with interest rates— shifting up when interest rates decrease or down when interest rates increase.

Capital risk weightings

Currently, ADIs are required to hold a certain amount of regulatory capital against loans secured by property based on the risk profile of the borrower with a higher risk weighting and capital requirement for higher loan to property value borrowers. [35] Many first-time buyers will have higher loan-to-value ratios (LVR) given they typically have lower deposits.

Reducing the capital weighting required for banks to lend to first-time buyers could help ease access to the housing market for this demographic. Currently, an ADI may seek to reduce its regulatory capital by using lenders mortgage insurance (LMI) or other eligible credit risk mitigation techniques. An example is by participating in a government-backed first home owner scheme the result of which means that scheme borrowers benefit from the ADI’s ability to offer them better interest rate pricing.

We suggest there is an opportunity for APRA, in its guidance in relation to capital risk weightings, to identify and recognise a greater range of products (for example developed by the private sector such as low deposit type products) that mitigate credit risk, thereby providing more opportunities for reducing capital requirements. An alternative would be to rebalance risk weightings to advantage younger borrowers (with a potential longer term

[27] MFAA media release, *Serviceability barriers reduce, cost of living pressures climb for home loan borrowers,* 4 September 2024, <https://www.mfaa.com.au/news/serviceability-barriers-reduce-cost-of-living-pressures-climb-for-home-loan-borrowers>.
[28] Australian Institute of Health and Welfare, *Housing assistance in Australia 2024,* Australian Government, <https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/housing-assistance>.
[29] The conversion rate is calculated based on the number of home loans settled as a proportion of the number of home loan applications lodged.
[30] MFAA, *Industry Intelligence Service 17th Edition for the six month period 1 April 2023 to 30 September 2023,* <https://cdn.sanity.io/files/t0x3ukgp/production/86ad362f54c8e7ac23ca67a27c6e2bb3c75a0866.pdf>.
[31] APRA letter to Authorised Deposit Taking Institutions, 9 June 2023, <https://www.apra.gov.au/housing-lending-standards-reinforcing-guidance-on-exceptions>.
[32] MFAA, *Mortgage broker insights: Refinancing and Mortgage Stress August 2024,* <https://cdn.sanity.io/files/t0x3ukgp/production/80118149b6e4e16b8c23dee798753d6cf86009aa.pdf>.
[33] More than half of respondents reported that the 1percent serviceability buffer was of use to their clients, helping them access a better deal with another lender. See MFAA media release, *Serviceability barriers reduce, cost of living pressures climb for home loan borrowers,* 4 September 2024, <https://www.mfaa.com.au/news/serviceability-barriers-reduce-cost-of-living-pressures-climb-for-home-loan-borrowers>.
[34] APRA letter to Authorised Deposit Taking Institutions, 9 June 2023, <https://www.apra.gov.au/housing-lending-standards-reinforcing-guidance-on-exceptions>.
[35] APRA Prudential Standard, *APS 112 Capital Adequacy: Standardised Approach to Credit Risk January 2023,* Attachment A Table 1.

earning potential) to enter the market. This would assist ADIs to lower capital costs associated with lending to first-time buyers, making it easier for them to innovate their products and offer competitive mortgage rates and terms.

GOVERNMENT-BACKED HOME OWNERSHIP SCHEMES

Recommendation 3: Simplify government backed homebuyer schemes, and partner with the mortgage broking industry to raise awareness of schemes

Our members report that while government-backed homebuyer schemes can provide valuable support for first home buyers, they are often hindered by complexities arising from the stop-start nature of the schemes, duplicative state and federal initiatives, as well as schemes administered by different government departments both at the state and federal level.

Our members recommend consolidating and simplifying these schemes across all levels of government, consider schemes that are more permanent or longer term in nature (as opposed to time bound), and administering them through a central federal body, such as Housing Australia, to improve their effectiveness.

It is important to ensure an appropriate level of mortgage broking industry engagement as schemes are refined or new ones developed to ensure these can be accessed by potential first home buyers who use the services of a mortgage broker, given this is where most first-time buyers and first home buyers seek guidance from.

Our members also report a significant lack of awareness about the availability of government backed home buyer schemes including the First Home Super Saver Scheme,[36] which can be a useful tool for saving a deposit. Research by Resolve Finance show that the awareness and intention to access a government incentive or scheme was highest amongst buyers under 25 years (43 percent) and lowest amongst those between 45–54 years old.[37]

In its most recent Annual Report, Housing Australia provides a case study of first home buyers accessing the Regional First Home Buyer Guarantee, with the first home buyer commenting "*I'd heard about the Home Guarantee Scheme but I did not know a lot about it until I spoke to my broker who gave me all the information about how it could help.*"[38]

Partnering with the mortgage broking industry to raise awareness and improve understanding of these schemes would better equip potential buyers to leverage available resources, ultimately leading to more informed financial decisions and greater access to the housing market.

COMPETITION AND INNOVATION IN THE MORTGAGE MARKET

Recommendation 4: Support development of housing affordability products through regulatory sandbox

A dynamic, diverse, and resilient Australian mortgage lending sector benefits consumers by offering more choice and flexibility. The MFAA believes that a market with multiple lender options, coupled with strong consumer protections, is essential for competition as well as ongoing innovation. There are over 100 lenders offering mortgages in the Australian market. Innovative new lenders coming into the market typically opt to distribute their products through the mortgage broker channel, without the need to establish branch networks or direct sales teams.

It is important that the Australian lending and credit landscape remains innovative.

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[36] Australian Taxation Office 2024, *First home super saver scheme,* Australian Government, <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/early-access-to-super/first-home-super-saver-scheme>.

[37] Kane, A 2024, 'Lack of awareness of government grants holding back FHBs: Resolve', *The Adviser,* 8 July 2024, viewed 20 September 2024, <https://www.theadviser.com.au/borrower/45908-lack-of-awareness-of-government-grants-holding-back-fhbs-resolve>.

[38] National Housing Finance and Investment Corporation Annual Report, page 46, <https://www.housingaustralia.gov.au/reports-and-publications>.

The housing affordability solutions landscape is evolving as innovative products emerge to address the growing challenges faced by prospective homebuyers.[39] These solutions aim to provide alternative pathways to homeownership, offering options such as shared equity schemes, co-ownership options, deposit assistance, and other creative financing models. There are other opportunities that could be considered, for example models that allow for a gradual selling down or buying into property (e.g. self-funded retiree landlord to tenant over time).

Fostering competition and innovation in the home lending market in Australia is crucial to improving consumer choice, reducing costs, and driving better financial products. Mortgage brokers play a vital role in supporting this competition by providing borrowers with access to a wide range of lenders and loan options, ensuring that customers can compare rates and find the best deals suited to their needs.

However, given the complexity and regulatory implications of these products, a sandbox environment could be instrumental in fostering innovation while ensuring proper consumer protections. A regulatory sandbox would allow developers to test new affordability-focused solutions under regulatory oversight, promoting both innovation and stability in the housing market. It can also help regulatory bodies to evolve their regulatory frameworks and keep pace with developments.

Expanding Australia's enhanced regulatory sandbox to include innovative lending products[40] will help foster innovation by the private sector and enable a more agile response to housing affordability challenges, while ensuring that new products meet regulatory standards and deliver real value to prospective home buyers.

Recommendation 5: Continue to support the development of the Consumer Data Right (CDR) and to progress broker use cases

The ability for lenders and brokers to easily and securely access comprehensive customer financial data is crucial for mortgage brokers to meet their responsible lending and best interest duty obligations, to make informed recommendations to their clients on competitive home loan options. The Government's continued support for the CDR is essential, as it offers a safer and more transparent way to collect customer information compared to digital data capture (screen-scraping) technologies.

However, the transition from screen-scraping must be seamless to avoid disrupting current processes, which have proven efficient in the mortgage broking industry. Ensuring that CDR data meets industry needs, including broader data coverage and improved integration, will enable a smooth shift while maintaining the trust and functionality that brokers and consumers rely on.[41]

Recommendation 6: Institute a faster, smoother discharge process

Mortgage brokers are saving Australian borrowers an average of $2976 per annum through repricing or refinancing their home loan to a better deal.[42] Our members have told us that the process to refinance and discharge a home loan when switching lenders can cause confusion and delays and overall it creates unnecessary barriers for borrowers seeking to refinance or access better loan terms, resulting in higher costs and financial stress.[43]

The ACCC Home Loan Price Inquiry Final Report[44] made recommendations to improve the home loan discharge to which Government responded by announcing they will help Australians by making it easier to switch loans by

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[39] Examples include Cooperty, Deposit Power, and Home Affordability Solutions. We also note state-government backed programs such as Keystart and Homestart which have been instrumental in supporting homeowners into the market.

[40] ASIC, *INFO 248 Enhanced regulatory sandbox*, Australian Government, viewed 25 September 2024, <https://asic.gov.au/for-business/innovation-hub/enhanced-regulatory-sandbox-ers/info-248-enhanced-regulatory-sandbox/#how-to-determine-if-you-are-an-eligible-person-who-is-able-to-rely-on-the-ers-exemption>.

[41] MFAA submissions to consultations, *Screen-Scraping – Policy and regulatory implications,* November 2023, *Consumer Data Right Rules – Expansion into non-bank lending sector,* October 2023, *Consumer Data Right Rules – Consent and operational enhancement amendments,* September 2024, <https://www.mfaa.com.au/advocacy/submissions>.

[42] Assumptions: A borrower saves an average of 0.60percent by refinancing from a variable rate of 7percent to a variable rate of 6.4percent, on a 30-year loan term, with no monthly fees, and incurs an average delay of 20 days.

[43] MFAA, *Towards a faster, smoother home loan discharge: benefits for borrowers*, March 2024, <d2d474a289df05c4d9e7a64aa99aec4a919e0006.pdf (sanity.io)>.

[44] ACCC, *Home loan price inquiry – final report,* 5 December 2020, <https://www.accc.gov.au/about-us/publications/home-loan-price-inquiry-final-report>.

ensuring customers have direct and easy access to the forms needed to exit a mortgage.[45] Key now is ensuring the implementation is prompt, smooth and encourages lenders to become more transparent in their discharge processes and in particular, allow mortgage brokers to act for a customer in the discharge process if the consumer provides consent.

Reducing unnecessary barriers and bottlenecks to refinancing will support a more competitive lending market that benefits both borrowers and the broader economy. A streamlined and efficient discharge process enhances consumer choice, empowering borrowers to make better switching decisions – a powerful combination that delivers better consumer outcomes, including savings on their home loans.

Recommendation 7: Adjusting or waiving HECS debt for first home buyers

Our members tell us that Higher Education Contribution Scheme (HECS) debt is a significant barrier for many aspiring homeowners. While education loans provide essential access to higher education, they also reduce borrowing capacity when individuals seek to enter the housing market. Average HECS debts have increased over the decade to 2021–22 from $15,200 to $24,800.[46] This can delay or limit the ability of young Australians to purchase their first home as the higher loan debt generally increases the period over which repayments will be required, thereby reducing disposable incomes in future years.

APRA guidance to ADIs clarified HECS is to be treated as debt, and any amount owing forms part of a borrower's total liabilities.[47] Compulsory repayment of HECS debt commences by the Australian Tax Office (ATO) once the individual's income reaches the minimum required amount, and repayment rates increase as income increases.[48] If treated as credit, it would seem reasonable then to expect that the value of the debt (or principle) remains as the value when incurred, and not subject to indexation.

While the Government's announcement for a fairer *HELP indexation credit* is welcomed,[49] our members suggest that more can be done to review the impact of HECS debt on a borrower's ability to afford a mortgage. This includes in certain circumstances to remove the requirements for HECS debt to be included in serviceability assessments, and for RG 209 to be updated accordingly.

FINANCIAL LITERACY

Recommendation 8: Recognise the role of mortgage brokers in supporting home ownership and promote consulting with a mortgage broker to all first home buyers

High financial literacy rates promote personal financial wellbeing, a more resilient financial system and leads to a more efficient allocation of resources within the Australian economy.[50]

The increase in the cost of living and household credit stress has raised concerns that more Australians will resort to high-cost credit from fringe lenders[51] amidst declining financial literacy rates.[52] Borrowers with older home loans

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[45] Treasury, *Helping Australians get a better deal on banking products*, 15 June 2024, Australian Government, viewed 22 September 2024, <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/helping-australians-get-better-deal-banking-products>.

[46] Ey, C 2023, *HELP debt – the evolution of higher education contributions, Parliament of Australia*, 9 June 2023, viewed 23 September 2024,<https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/Research/FlagPost/2023/June/HELP-debt#:~:text=Itpercent20comespercent20aspercent20averagepercent20loan,disposablepercent20incomespercent20inpercent20futurepercent20years.>.

[47] APRA, *Letter to ADIs: Macroprudential policy credit measures 14 June 2022,* viewed 20 September 2024, <https://www.apra.gov.au/macroprudential-policy-credit-measures>.

[48] ATO 2024, *Study and training loan repayment thresholds and rates,* Australian Government 28 June 2024, <https://www.ato.gov.au/tax-rates-and-codes/study-and-training-support-loans-rates-and-repayment-thresholds#HELPandTSLrepaymentthresholdsandrates201>.

[49] Parliament of Australia, *Universities Accord (Student Support and Other Measures) Bill 2024*, September 2024, <https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd2425/25bd008>.

[50] RBA, *The Importance of Financial Literacy*, August 2008, viewed 23 September 2024, <https://www.rba.gov.au/publications/bulletin/2008/sep/pdf/bu-0908-3.pdf>.

[51] ASIC media release, *ASIC sharpens focus on credit and debt management,* 11 May 2023 <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-122mr-asic-sharpens-focus-on-credit-and-debt-management/>.

[52] University of Western Australia, *Financial Literacy in Australia: Insights from HILDA*, viewed 5 September 2024, <https://api.research-repository.uwa.edu.au/ws/portalfiles/portal/73668586/Financial_Literacy_in_Australia.pdf>.

continue to pay interest rates significantly higher than those available for new borrowers, indicating that borrowers may lack an understanding and awareness of the significant savings available to them within the home loan market.[53]

For Australians living in remote and regional areas, accessing and managing money continues to be one of the biggest challenges and as bank branches continue to close. In those areas in particular, the role of mortgage brokers has become increasingly vital.[54] Mortgage brokers are stepping in to fill the void left by these closures, offering essential financial services and support to communities that might otherwise be underserved. Their local presence and expertise not only maintain access to credit but also enhances competition by providing consumers with a broader range of lending options. This increased reliance on mortgage brokers helps ensure that consumers can still access competitive and suitable mortgage products despite the decline in physical bank branches.[55]

Mortgage brokers educate consumers around critical financial concepts from budgeting to navigating the home loan process to product features and benefits. Programs like those run by Resolve Finance[56] demonstrate the positive impact such education can have in empowering buyers in particular to make informed decisions.

We continue to encourage the Federal Government to deliver on initiatives such as financial literacy programs, investment in financial counselling centres and continuing investment in the development and promotion of the MoneySmart (moneysmart.gov.au) and CreditSmart (creditsmart.org.au) websites.

Mortgage brokers are systemically important to the Australian economy, and we encourage government backing, whether through funding or collaborative frameworks for example by partnering with the MFAA to deliver financial literacy initiatives through our members.

This includes promoting that all first home buyers should see a mortgage broker in all instances. To do so will ensure more Australians are equipped with the knowledge and confidence needed to understand their options to enter the housing market and achieve financial security.

[53] ACCC, *Home loan price inquiry – final report,* 5 December 2020, page 17, <https://www.accc.gov.au/about-us/publications/home-loan-price-inquiry-final-report>.

[54] Deloitte Access Economics 2018, *The value of mortgage broking,* page 25.

[55] APRA, *Authorised deposit-taking institutions' points of presence* statistics 18 October 2023 report a decline of branch level service from 5,694 in June 2017 to 3,588 by 2023.

[56] See Case Study earlier in this paper.

MFAA
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Cover sheet: Supporting document #4

MORTGAGE AND
FINANCE ASSOCIATION
OF AUSTRALIA

2025-26 Federal Pre-Budget Submission

30 January 2025

Letter from the MFAA CEO

30 January 2025

Hon Stephen Jones MP
Assistant Treasurer and Minister for Financial Services
Parliament House
Canberra ACT 2600

By email: prebudgetsubmissions@treasury.gov.au

Dear Assistant Treasurer,

2025-26 PRE-BUDGET SUBMISSION

The Mortgage & Finance Association of Australia (**MFAA**) appreciates the opportunity to make a submission regarding the priorities for the 2025-26 Federal Budget. The key priorities that we consider critical for the 2025-26 Budget are:

1. Competition in the home lending sector.
2. Continuing funding initiatives to combat scams, mitigate cybersecurity risks for small business and supporting Australians in their transition to the digital economy.
3. Prioritising fit for purpose regulation and policy settings for the mortgage and finance broking sector.
4. Co-investing with the broking industry on environment sustainability and social impact initiatives.

ABOUT THE MFAA

The MFAA is Australia's peak industry body for the mortgage and finance broking industry with over 15,500 members. Our members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage and finance broking industry.

The MFAA's role, as an industry association, is to provide leadership and to represent its members' views. We do this through engagement with governments, financial regulators and other key stakeholders on issues that are important to our members and their customers. This includes advocating for balanced legislation, policy and regulation, encouraging policies that drive competition, and improving access to credit products and credit assistance for all Australians.[1]

EXECUTIVE SUMMARY

Mortgage and finance brokers play a critical role in lending, providing access to credit and promoting choice in both consumer and business finance. In addition to facilitating nearly 75%[2] of all home loans in Australia, mortgage and finance brokers also facilitate approximately 78% of home loans under federal first home buyer schemes[3] and facilitate at least 4 in 10 small business loans.[4] This highlights the mortgage and finance broking industry is not just systemically important to the Australian economy, but also instrumental in facilitating choice and competition in the lending sector.

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[1] For more information about the MFAA, see mfaa.com.au.
[2] MFAA media release, *Mortgage broker market share remains strong in June quarter*, 9 September 2024, <https://www.mfaa.com.au/news/ mortgage-broker-market-share-remains-strong-in-june-quarter>.
[3] Housing Australia (via email), September 2024.
[4] The Productivity Commission, *Small business access to finance: The evolving lending market – Research paper*, September 2021, Australian Government, page 44.

The economic challenges that dominated in 2024 will continue in 2025 – particularly housing affordability and the persistent cost of living pressures attributed to higher interest rates and persistent underlying inflation. [5] Against this backdrop, the RBA maintained the cash rate at 4.35% for the entirety of 2024. Despite the continued strength of the labour market[6] and wage growth of 3.5% over the year, up 0.8% in the September quarter, GDP growth was modest at 1.2% in 2024 with predictions by the International Monetary Fund that it will pick up gradually to 2.1% in 2025.[7]

We consider 2025 will be a similarly challenging year. Interest rates, sustained cost-of-living pressures[8] and the impacts of constrained housing supply will continue to impact consumers and businesses, and drive demand for broker services. Our research indicates the risk of increased financial stress amongst households with mortgages remains, with nearly 3 out of 4 borrowers worried about meeting their loan repayments.[9]

Notwithstanding 2025 is a federal election year, the 2025-26 Federal Budget should continue to focus on assisting Australian borrowers – both consumers and small businesses – to weather challenging economic conditions through enhancing competition in the home loan sector and ensuring they have access to credit. In tandem, the Federal Budget should also focus on mitigating the risk of cybersecurity and continuing to enhance Australia's environmental sustainability, while supporting Australians in their transition to the digital economy.

Our key recommendations are:

Priority Area	Recommendations
Preserving and enhancing competition in the home lending sector for the benefit of consumers	1. Simplify government backed homebuyer schemes, and partner with the mortgage broking industry to raise awareness of these schemes 2. Review APRA prudential settings, including the serviceability buffer to ensure they do not impose unnecessary barriers for new borrowers or those seeking to refinance 3. Institute a faster, smoother home loan discharge process 4. Continue to enhance the Consumer Data Right 5. Promote consulting with a mortgage broker to all first home buyers
Mitigating cybersecurity risks for small business and supporting all Australians in their transition to the digital economy	6. Work with industry to educate and empower small business - continue investment in ASBFEO, COSBOA and additional AI Adopt Centres to support service-based industries 7. Ensure a consistent approach to Digital ID and expand use cases
Ensure policy and regulatory settings are fit for purpose for the	8. Take a leadership role in bringing consistency and clarity to state and territory-based payroll tax legislation

[5] Reserve Bank of Australia, *Minutes of the Monetary Policy Meeting of the Reserve Bank Board,* December 2024, <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2024/2024-12-10.html>, viewed 15 January 2025.

[6] Unemployment remains stable at 4% with a decrease in underemployment and the number of employed people continuing to increase. Australian Bureau of Statistics, *Labour Force, Australia*, 16 January 2025, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release>, viewed 17 January 2025.

[7] International Monetary Fund, *IMF Concluding statement 2024 Article IV Consultation with Australia*, 23 December 2024, <https://www.imf.org/en/News/Articles/2024/12/18/pr-24482-australia-imf-executive-board-concludes-2024-aivconsultation#:~:text=IMF%20Executive%20Board%20Concludes%202024%20Article%20IV%20Consultation%20with%20Australia,December%2023%2C%202024&text=Washington%2C%20DC%3A%20The%20Executive%20Board,lapse%2Dof%2Dtime%20basis.>, viewed 13 January 2025.

[8] The Senate, Select Committee on the Cost of living, *Paying the Price: The Cost of a Crisis on Australian's Standards of Living – Final report*, November 2024, Chapter 3, <https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Cost_of_Living/costofliving/Report/Chapter_3_-_Key_areas_of_stress_for_Australians_Updates_since_the_Second_Interim_Report>, viewed 15 January 2025.

[9] MFAA, *Mortgage broker insights: Refinance and mortgage stress,* August 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/80118149b6e4e16b8c23dee798753d6cf86009aa.pdf>.

Priority Area	Recommendations
mortgage and finance broking industry	9. Ensure all privacy-related changes are reflected in the Regulatory Implementation Grid (RIG) – this includes establishing a clear timeline for removing the small business exemption from the Privacy Act 10. CSLR levies must be proportionate and fit for purpose 11. Introduce permanency to the instant asset write-off scheme 12. Update ASIC Regulatory Guide 206 Credit licensing: Competence and training 13. Continue to remediate Financial Services Royal Commission Legislation
Co-invest with the broking industry on environment sustainability and social impact initiatives	14. Invest in small business ESG education 15. Facilitate the decarbonisation of Australian residential property through brokers 16. Continue to develop initiatives that deliver greater levels of financial literacy for Australians, including continued investment in the National Debt Helpline

Our detailed policy recommendations are below.

CLOSING COMMENTS

We extend our thanks to Treasury for the opportunity to provide this submission. If you wish to discuss this submission or require further information, please contact me at anja.pannek@mfaa.com.au or Naveen Ahluwalia at naveen.ahluwalia@mfaa.com.au.

Yours sincerely,

Anja Pannek
CEO
Mortgage & Finance Association of Australia

Policy recommendations

Priority 1 – Competition in the home lending sector

A key focus of the 2025 – 2026 Federal Budget should be to preserve and enhance the competitiveness of the home lending sector, especially given the ongoing challenges of housing supply nationwide and the critical role access to finance plays in achieving home ownership.

The deteriorating trend in the house price-to-income ratio from 2019 to 2024,[10] is adding pressure to household financial conditions – with serviceability and affordability constraints weighing heavily on household budgets.

The results of the MFAA's latest member sentiment survey reports cost-of-living concerns as a growing cause of financial concern for mortgage broker clients, with over one quarter of survey respondents viewing it as the most likely reason for financial stress.[11]

Home ownership is an important societal goal of many Australians and boosting housing supply must remain a priority for the Federal Government. While the Federal Government is developing a National Housing and Homelessness Plan in collaboration with state and territory governments,[12] we believe more can be done to support a nationally coordinated approach to housing. We note the passage of the Help to Buy Bill[13] designed to help eligible home buyers get into the market sooner and we look forward to working with Housing Australia on educating brokers and their prospective homebuyers on how to access this scheme.[14]

While we support initiatives that address housing pressures,[15] our members are particularly impacted by the challenges on the demand side. In our submission[16] to the recent Inquiry into the Financial Regulatory Framework and Home Ownership (the **Inquiry**), we outlined several recommendations for how to address demand-side issues. These are below.

Recommendation 1: Simplify government-backed homebuyer schemes, and partner with the mortgage broking industry to raise awareness of schemes

Our members report that while government-backed homebuyer schemes can provide valuable support for first home buyers, they are often hindered by complexities arising from the stop-start nature of the schemes, duplicative state and federal initiatives, as well as schemes administered by different government departments both at the state and federal level. In the Appendix is a list of state and federal schemes. Our observations are that these schemes are numerous in nature and have diverse application criteria, making it challenging for home buyers to navigate.

Our members recommend consolidating and simplifying these schemes across all levels of government, consider schemes that are more permanent or longer term in nature (as opposed to time bound), and administering them through a central federal body, such as Housing Australia, to

[10] Statista, *Australian house price to income ratio 2024*, <https://www.statista.com/statistics/591796/house-price-to-income-ratio-australia/>, viewed 13 January 2025.

[11] MFAA media release, *Serviceability barriers reduce, cost of living pressures climb for home loan borrowers,* 4 September 2024, <https://www.mfaa.com.au/news/serviceability-barriers-reduce-cost-of-living-pressures-climb-for-home-loan-borrowers>.

[12] Department of Social Services*, Housing Support,* Australian Government, <https://www.dss.gov.au/housing-support-programs-services-housing/developing-the-national-housing-and-homelessness-plan>, viewed 25 September 2024.

[13] Treasury, *Help to Buy Bill 2023,* Australian Government, <https://www.aph.gov.au/Parliamentary_Business/Bills_LEGislation/Bills_Search_Results/Result?bId=r7123>, viewed 10 January 2025.

[14] MFAA submission, *Help to Buy Program Directions*, 21 May 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/9b33059b285efc5bb0aa7935b0210234c890d4cb.pdf>.

[15] See Federal Budget 2024-25 Help to build, rent and buy, which includes further investment through the National Housing Accord, Housing Australia Future Fund and Social Housing Accelerator, and Housing Support Program, <https://budget.gov.au/content/02-building-homes.htm>, viewed 10 January 2025.

[16] MFAA submission, *Inquiry into the financial and regulatory framework and home ownership,* 30 September 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/24e5d5dcb1f488d4b76a5990814970b106968c43.pdf>.

improve their effectiveness.

Our members also report a significant lack of awareness amongst first home buyers of federal and state-based schemes, including the First Home Super Saver Scheme,[17] which can be a useful tool for saving a deposit. In its most recent Annual Report, Housing Australia provides a case study of first home buyers accessing the Regional First Home Buyer Guarantee, with the first home buyer commenting "*I'd heard about the Home Guarantee Scheme, but I did not know a lot about it until I spoke to my broker who gave me all the information about how it could help.*[18]

Partnering with the mortgage broking industry to raise awareness and improve understanding of these schemes would better equip potential buyers to leverage available resources, ultimately leading to more informed financial decisions and greater access to the housing market.

Recommendation 2: Review APRA prudential settings, including the serviceability buffer to ensure they do not impose unnecessary barriers for new borrowers or those seeking to refinance

A dynamic, diverse, and resilient Australian mortgage lending sector benefits consumers by fostering greater choice, flexibility, and innovation, which are essential for reducing costs and delivering better credit products. Mortgage brokers play a key role by connecting borrowers with multiple lenders and loan options, helping them compare terms and secure a product that is in their best interests.

Our members have cited the rigid application of serviceability buffers under APRA's standards as the number one barrier to refinancing for many borrowers, especially in the context of rising interest rates.[19] For first home owners, it has made it more difficult to qualify for loans.[20] MFAA data shows the conversion rate of home loan applications to settlements declined, indicating that serviceability challenges are taking a toll on prospective homebuyers seeking finance. For the six-month period to 30 September 2023, conversion rates[21] recorded a second consecutive six-month period of decline, experiencing a 9.2 percentage point dip year-on-year and falling below 80% for the first time since 2021.[22]

Serviceability buffers, while critical in managing systemic risk, do not always accommodate for individual circumstances of borrowers, leading to a scenario where some become "mortgage prisoners", unable to refinance even when it would be in their best financial interest to do so. In line with APRA guidance, some banks have set out exception processes to support borrowers that may be experiencing challenges.[23] Our members have reported the reduction of the serviceability buffer by APRA-regulated lenders who offer this as an option had been instrumental in assisting their clients to refinance and secure more competitive loan options.[24] This demonstrates the value of

[17] Australian Taxation Office 2024, *First home super saver scheme,* Australian Government, <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/early-access-to-super/first-home-super-saver-scheme>, viewed 15 January 2025.

[18] Housing Australia, *National Housing Finance and Investment Corporation Annual Report 2022 - 2023*, Australian Government, page 46, <https://www.housingaustralia.gov.au/reports-and-publications>, viewed 15 January 2025.

[19] MFAA media release, *Serviceability barriers reduce, cost of living pressures climb for home loan borrowers*, 4 September 2024, <https://www.mfaa.com.au/news/serviceability-barriers-reduce-cost-of-living-pressures-climb-for-home-loan-borrowers>.

[20] Australian Institute of Health and Welfare, *Housing assistance in Australia 2024*, Australian Government, <https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/housing-assistance>, viewed 15 January 2025.

[21] Conversion rate calculated as: the number of home loans settled as a proportion of the number of home loan applications lodged.

[22] MFAA, *Industry Intelligence Service 17th Edition for the six-month period 1 April 2023 to 30 September 2023*, <https://cdn.sanity.io/files/t0x3ukgp/production/86ad362f54c8e7ac23ca67a27c6e2bb3c75a0866.pdf>.

[23] Australian Prudential Regulation Authority (APRA), letter to Authorised Deposit Taking Institutions, 9 June 2023, <https://www.apra.gov.au/housing-lending-standards-reinforcingguidance-on-exceptions>, viewed 15 January 2025.

[24] MFAA, *Mortgage broker insights: Refinance and mortgage stress,* August 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/80118149b6e4e16b8c23dee798753d6cf86009aa.pdf>.

flexible serviceability measures in alleviating some of the refinancing pressures borrowers face, particularly in a rising interest rate environment, and highlights the importance of embedding flexibility to support borrower outcomes.[25]

However, as we noted in our submission to the Inquiry, the APRA mortgage serviceability buffer is prescriptive[26] and lacks a framework to provide flexibility and scalability. APRA first introduced its serviceability guidance in December 2014 requiring banks to apply a minimum interest rate floor of 7% regardless of product. As the environment evolved over time, APRA updated its guidance in 2019,[27] allowing banks to review and set their own minimum interest rate floor and utilise a buffer of 2.5% over the interest rate of the product being assessed. The buffer increased to 3% in late 2021[28] and has remained in place since. The serviceability buffer is applied uniformly across all ADIs without sufficient consideration for the nuances that might differentiate one borrower segment or product from another, especially over time.[29] While this approach may ensure a consistent baseline of prudential oversight, it can also result in a lack of flexibility that may inhibit access to credit, particularly in situations where a more tailored approach would be appropriate (such as for first homebuyers or those seeking to refinance to a lower rate).

Further to this, banks are required to report to APRA on lending to borrowers when the 1% buffer is utilised, as an exception to APRA guidance,[30] potentially acting as a deterrent for these lenders in instituting the more flexible mortgage serviceability buffer.

We recognise the importance of financial stability and credit risk management, however, to ensure continued access to credit, we propose a dynamic buffer that adjusts with interest rates— shifting up when interest rates decrease or down when interest rates increase.

Recommendation 3: Institute a faster, smoother home loan discharge process

In the current economic environment, it is imperative that borrowers can switch lenders easily. Australian home loan borrowers have been waiting five years to see any benefits from the recommendations made in the 2020 ACCC Home Loan Price Inquiry[31] (**Price Inquiry**). For a competitive and efficient home lending sector, it is important that friction for a borrower is minimised, whether obtaining a home loan or refinancing it.

In 2024, refinancing activity continued to be a focal point for our members and their clients facing cost of living pressures, with 98% of our members reporting having assisted clients with refinancing to a new lender.[32] Mortgage brokers are saving Australian borrowers an average of $2,976 per annum through repricing or refinancing their home loan.[33] Our members have told us that the process to refinance and discharge a home loan when switching lenders can cause confusion and delays

[25] More than half of respondents reported that the 1 percent serviceability buffer was of use to their clients, helping them access a better deal with another lender. See MFAA media release*, Serviceability barriers reduce, cost of living pressures climb for home loan borrowers*, 4 September 2024, <https://www.mfaa.com.au/news/serviceability-barriers-reduce-cost-of-living-pressures-climb-for-home-loan-borrowers>.

[26] APRA Prudential Practice Guide, *APG 223 Residential Mortgage Lending,* June 2022, paragraph 32, <https://handbook.apra.gov.au /ppg/apg-223>, viewed 14 January 2025.

[27] APRA consultation July 2019, *Prudential Practice Guide AGP 223 Residential Mortgage Lending-Revisions to the buffer & floor rates in APG 223*, <https://www.apra.gov.au/prudential-practice-guide-apg-223-residential-mortgage-lending>, viewed 15 January 2025.

[28] APRA media release, *APRA publishes assessment of macroprudential settings,* 27 February 2023, <https://www.apra.gov.au/news-and-publications/apra-publishes-assessment-of-macroprudential-settings>, viewed, 20 January 2025.

[29] Reserve Bank of Australia, *Bulletin March 2023*, <https://www.rba.gov.au/publications/bulletin/2023/mar/pdf/bulletin-2023-03.pdf>, viewed 24 September 2024.

[30] APRA, letter to Authorised Deposit Taking Institutions, *Housing lending standards: Reinforcing guidance on exceptions,* 9 June 2023, <https://www.apra.gov.au/housing-lending-standards-reinforcing-guidance-on-exceptions>, viewed 15 January 2025.

[31] Australian Competition & Consumer Commission, *Home loan price inquiry 2019-20 – Final Report,* December 2020, <https://www.accc.gov.au/inquiries-and-consultations/finalised-inquiries/home-loan-price-inquiry-2019-20>, viewed 15 January 2025.

[32] MFAA, *Mortgage broker insights: Refinance and mortgage stress,* August 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/80118149b6e4e16b8c23dee798753d6cf86009aa.pdf>.

[33] Assumptions: A borrower saves an average of 0.60% by refinancing from a variable rate of 7& to a variable rate of 6.4% on a 30-year loan term, with no monthly fees, and incurs an average delay of 20 days.

and overall it creates unnecessary barriers for borrowers seeking to refinance or access better loan terms, resulting in higher costs and financial stress.[34]

In 2025, current predictions are for the RBA to begin easing the cash rate. Given the mounting cost-of-living pressures that home-borrowers are experiencing, we anticipate a declining rate environment will drive increased refinancing activity as it contributes to easing serviceability pressures allowing more borrowers the option to switch to a better deal.

While the MFAA was pleased that the Government responded[35] to the recommendations of the Price Inquiry in December 2023, we continue to await updates on Treasury's progress on:

- investigations for how prompts can be used to encourage consumers to switch to a cheaper home loan, and
- ensuring consumers have direct and easy access to discharge forms.

The Regulatory Initiatives Grid[36] includes these initiatives, however Treasury has not published any plans in relation to it.

Without definitive progress on this front, consumers will end up paying more for their mortgage for longer.[37]

Consumers deserve a faster, more seamless discharge process. We strongly urge Treasury to act promptly on the Government's response while also recommending that the Federal Government go further by fully supporting the original recommendations of the Inquiry, including to implement a maximum timeframe of 10 business days for existing lenders to discharge requests. We also recommend:

- In all cases, brokers should be able to act for a client in the discharge process if the client has provided consent.
- Lenders should be required to offer their best repricing offer upfront, eliminating the need for retention activity once a discharge form is lodged.
- Automate and digitise the discharge process as much as possible.

More information about these recommendations can be found in the MFAA whitepaper titled '*Towards a faster, smoother home loan discharge: benefits for borrowers*'.[38]

Reducing unnecessary barriers to refinancing fosters a more competitive lending market, benefiting borrowers and the economy. A streamlined discharge process enhances consumer choice, empowering borrowers to switch effectively and achieve better outcomes, including savings on their home loans.

Recommendation 4: Continue to enhance the Consumer Data Right

The MFAA continues to support the progress of the Consumer Data Right (**CDR**), recognising its potential to significantly enhance the availability and accuracy of consumer data, thereby improving credit decisioning and consumer outcomes.

The expansion of CDR to include non-bank lending will enhance consumer outcomes by enabling brokers to access more comprehensive data sets, allowing them to deliver more tailored and personalised recommendations to their

[34] MFAA whitepaper, *Towards a faster, smoother home loan discharge: benefits for borrowers*, April 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/d2d474a289df05c4d9e7a64aa99aec4a919e0006.pdf>.

[35] Treasurer Jim Chalmers media release, *Helping Australians get a better deal on banking products,* 15 June 2024, <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/helping-australians-get-better-deal-banking-products>, viewed 17 January 2025.

[36] Treasury, *Regulatory Initiatives Grid – Edition 1*, December 2024, <https://treasury.gov.au/sites/default/files/2024-12/rig-report-2024.pdf>, page 13, viewed 2 January 2025.

[37] MFAA whitepaper, *Towards a faster, smoother home loan discharge: benefits for borrowers*, April 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/d2d474a289df05c4d9e7a64aa99aec4a919e0006.pdf>.

[38] https://www.mfaa.com.au/news/the-home-loan-discharge-process-must-be-improved-mfaa

customers.[39] Comprehensive and accurate consumer data is essential for mortgage brokers, as trusted advisers, to help borrowers explore their options, optimise household budgets, and secure tailored solutions, including refinancing and repricing opportunities.

Lending, credit and broking use cases have emerged as the leading use cases for CDR, proving the value of the CDR to consumers through mortgage brokers as trusted advisers.[40] Consumer finance and borrowing is among the three highest priority-use cases for the CDR.[41]

Pleasingly, we are seeing a continued increase in adoption of CDR-powered products by brokers, with these products continuously being enhanced and integrated into existing systems. For example, NextGen's ApplyOnline platform[42] has observed significant growth in the adoption and usage of its integrated Open Banking service among brokers.[43] The MFAA is encouraged by this momentum and encourages the Federal Government to continue its investment in expanding the CDR framework for the benefit it brings to competition in the lending landscape. This includes ensuring that the scope of products covered by the CDR is not unduly restricted. For further details, refer to our recent submission on the CDR rules on non-bank lending and banking data scope.[44]

(a) Screen-scraping

Whilst usage of CDR is increasing, mortgage brokers continue to rely on screen-scraping products to meet regulatory requirements. For context, mortgage brokers are required by law to comply with both responsible lending and best interests duty obligations. What this means is that mortgage brokers need to collect information about their customers for the purposes of assessing their customers' requirements, objectives, and financial position to both enable them to meet their regulatory obligations and to provide their customer with the most suitable loan which is in their best interest.

The industry urges the government to enhance transparency and provide clear guidance to support a smooth transition from screen scraping to CDR. This includes publishing the outcomes of Treasury's discussion paper, '*Screen Scraping – Policy and Regulatory Implications*,' along with any findings or investigations related to the proposed ban[45] on screen scraping.

(b) Finance brokers as trusted advisers

In the same way as mortgage brokers, finance brokers support and assist their customers to obtain access to a range of finance options including, for example, personal loans and vehicle finance. Like mortgage brokers, finance brokers hold Australian Credit Licences (ACLs) or are credit

[39] MFAA submission, *Consumer Data Right (CDR) Rules – Non-bank lending and banking data scope,* December 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/101bae6858b7bb7e55ae22c473ad40e891ba26ea.pdf>.

[40] FinTech Australia, January 2025, *Australian Open Banking ecosystem map and report, 5th edition*, <https://www.openbankingecosystemmap.com/australia-open-banking-ecosystem-map-fifth-edition>, viewed 17 January 2025.

[41] Assistant Treasurer Stephen Jones' speech to CEDA, 9 August 2024, *Putting consumers first in the Consumer Data Right,* <https://www.ceda.com.au/newsandresources/news/technology-innovation/assistant-treasurer-stephen-jones-speech-to-ceda>, viewed 15 January 2025.

[42] ApplyOnline is the platform used by more than 60 lenders and 97% of the mortgage broking industry to facilitate electronic lodgement for lending related to property transactions.

[43] NextGen have told the MFAA that from July to November, the number of unique brokers utilising the ApplyOnline Open Banking service increased by 60%, while invitations sent to consumers to leverage the Open Banking service rose by 125%. Additionally, successfully completed Open Banking requests initiated by mortgage brokers increased by 114% during the same period.

[44] MFAA submission, *Consumer Data Right (CDR) Rules – Non-bank lending and banking data scope,* December 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/101bae6858b7bb7e55ae22c473ad40e891ba26ea.pdf>.

[45] Assistant Treasurer Stephen Jones' speech to CEDA, 9 August 2024, *Putting consumers first in the Consumer Data Right, "I have asked Treasury to advise me over the next 12 months on a way forward for a full and formal ban of screen scraping."* <https://www.ceda.com.au/newsandresources/news/technology-innovation/assistant-treasurer-stephen-jones-speech-to-ceda>, viewed 15 January 2025.

representatives of ACL holders and therefore subject to strict legislative requirements.[46] Therefore we see no reason for the trusted adviser status to be restricted to mortgage brokers.

In line with the Federal Government's commitment to make it easier, through CDR, for small businesses to access finance,[47] we also recommend consideration be given to expanding the CDR to commercial brokers. We encourage the Federal Government to request Treasury to commence a consultation as to the benefits of doing so.

Recommendation 5: Promote consulting with a mortgage broker to all first home buyers

Mortgage brokers typically deal with a higher proportion of first time and first home buyers than the direct lending channel, providing essential guidance and support. A survey conducted by Helia in 2023 noted that despite the variety of options that exist in the marketplace, a third of respondents had not heard of alternative ownership strategies and overall, that 79% of first home buyer respondents said they would use a mortgage broker to support them in buying their first property.[48]

There is a multitude of options available to a first home buyer, including, but not limited to, accessing state and/or Commonwealth grants, parental guarantees, or utilising lender's mortgage insurance. Increasingly aspirational first home buyers also see entry into the housing market through opting to purchase an investment property whilst themselves renting ("rent vesting"), as this is more financially viable. Navigating this range of options as well as different lenders' products and service offerings is complex, which is where mortgage brokers guide and assist their clients. Before facilitating finance for a home purchase, mortgage brokers often play a pivotal role in enhancing financial literacy among first-time and first home buyers. This is particularly important when customers have a goal of home ownership but are not yet finance-ready.

A practical solution would be to include information about the benefits of consulting a mortgage broker in the 'prompts' initiative that Treasury has been tasked with, as referenced above.

Priority 2 – Mitigating cybersecurity risks for small business and continuing support for transitioning to the digital economy

Digital technology and the digitisation of the economy is a priority for the Australian Government[49] and cyber resilience is an important contributor to its safety. Through its 2023-2030 Australian Cyber Security Strategy, the Australian Government has a vision to become a world leader

[46] The Productivity Commission, *Small business access to finance: The evolving lending market – Research paper*, September 2021, Australian Government.

[47] Treasury joint media release, Senator Jane Hume and Treasurer Josh Frydenberg, *Consumers to benefit from expansion of Consumer Data Right, 14 December 2021,* <https://ministers.treasury.gov.au/ministers/jane-hume-2020/media-releases/consumers-benefit-expansion-consumer-data-right>, viewed 15 January 2025.

[48] Helia 2023, *Home Buyer Sentiment Report,* <https://helia.com.au/media/owxjq0kv/helia-home-buyer-sentiment-report-2023-final.pdf>, viewed 20 September 2024. Helia is a leading provider of lenders mortgage insurance (LMI) in Australia, helia.com.au.

[49] Department of Foreign Affairs and Trade, *Innovating Australia's Digital Economy,* April 2021, Australian Government, <https://www.dfat.gov.au/about-us/publications/trade-and-investment/business-envoy-april-2021-digital-trade-edition/innovating-australias-digital-economy>, viewed 15 January 2025.

in cybersecurity by 2030[50], yet cybercrime is a persistent threat. In FY2023-24, business email compromise and fraud were among the top self-reported cybercrimes for businesses and individuals in Australia.[51] Mitigating cybersecurity risk for small businesses reduces the risk of data breaches resulting in identity theft and fraud, and by extension, reduces the risk of scams and helps to protect Australian consumers and small businesses.

We note the Government initiatives that support the digital economy and foster cyber resilience for small businesses includes continued support for Council of Small Business Organisation of Australia's (**COSBOA**) Cyber Wardens[52] training program, the passing of the Digital ID Act[53] and Cyber Security Act[54] , the introduction of a Voluntary Artificial Intelligence (**AI**) safety standard[55], the launch of the small business cyber resilience service[56] established off the back of the government's cyberhealth check program[57], and the introduction of the Scams Prevention Framework.[58]

Cyber awareness and risk mitigation are critical for brokers because they handle sensitive client data, including personal and financial information. The MFAA continues to focus on supporting its small business members to bolster their cyber capabilities. Key initiatives launched by the MFAA in the past 12 months include:

- providing our members with resources to bolster their cyber capabilities, including access to the aforementioned Cyber Wardens program[59]
- hosting several webinars focused on cyber resilience in the mortgage broking industry, including where AI tools are used[60]
- publishing guidance on the safe and ethical use of AI in the mortgage and finance broking industry.[61]

Recommendation 6: Work with industry to educate and empower small business - continue investment in ASBFEO, COSBOA and additional AI Adopt Centres to support service-based industries

While the financial services sector is considered a key opportunity for the digital economy,[62] we remain concerned that time-poor small businesses are unaware of the tools and resources available to them to participate in the digital economy and strengthen their cyber resilience. In its survey about cybersecurity and Australian small

[50] Department of Home Affairs, *2023-2030 Australian Cyber Security Strategy,* 22 November 2023, Australian Government, <https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/strategy/2023-2030-australian-cyber-security-strategy>, viewed 15 January 2025.

[51] Australian Signals Directorate, *Annual Cyber Threat Report 2023-2024,* 20 November 2024, <https://www.cyber.gov.au/about-us/view-all-content/reports-and-statistics/annual-cyber-threat-report-2023-2024>, viewed 15 January 2025.

[52] Cyber Wardens, cyberwardens.com.au.

[53] Australian Government, *Digital ID Act 2024,* December 2024, <https://www.digitalidsystem.gov.au/what-is-digital-id/digital-id-act-2024>, viewed 15 January 2025.

[54] Department of Home Affairs, *Cyber Security Act,* November 2024, Australian Government, <https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/cyber-security-act>, viewed 15 January 2025.

[55] Department of Industry, Science and Resources, *Voluntary AI Safety Standard,* 5 September 2024, Australian Government, <https://www.industry.gov.au/publications/voluntary-ai-safety-standard>, viewed 15 January 2025.

[56] Business.gov.au, *Small Business Cyber Resilience Service*, December 2024, Australian Government, <https://business.gov.au/expertise-and-advice/small-business-cyber-resilience-service>, viewed 15 January 2025.

[57] Treasury media release, *Small businesses to receive cyber security boost*, 20 November 2023, Australian Government, <https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/small-businesses-receive-cyber-security-boost>, viewed 15 January 2025.

[58] Treasury, *Scams Prevention Framework Bill 2024,* <https://www.aph.gov.au/Parliamentary_Business/Bills_LEGislation/Bills_Search_Results/Result?bId=r7275>, viewed 15 January 2025.

[59] MFAA news, *Don't let your personal devices be a back door into your business*, 1 October 2024, <https://www.mfaa.com.au/news/don-t-let-your-personal-devices-be-a-backdoor-into-your-business>.

[60] Recordings of webinars are retained and made available on the MFAA Learning Hub for member access at any time, mfaa.com.au.

[61] MFAA discussion paper, *Towards a faster, smoother home loan discharge: benefits for borrowers*, July 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/f5158ade0a0dca2bbbd105f06988abd41b29f792.pdf>.

[62] International Trade Administration, *Australia – Country Commercial Guide*, September 2024, United States of America, <https://www.trade.gov/country-commercial-guides/australia-digital-economy>, viewed 15 January 2025.

businesses, the Australian Cyber Security Centre found that almost half of small and medium sized businesses rated their cybersecurity understanding as 'average' or 'below average' and had poor cybersecurity practices.[63] Anecdotal evidence from small businesses who have experienced a cyberattack indicates that such an event creates significant stress and anxiety which can adversely impact the mental health of small business operators, particularly in the context of the short-time frames in which to deal with such an event and prevent the collapse of the business operation.

As a member of COSBOA, we support their view that education should be the key driver when managing cybersecurity in the small business arena. As the subordinate legislation[64] to the Cyber Security Act is developed, we encourage Government to provide small businesses the education and support to help strengthen their cyber resilience. This includes clear and concise guidance (i.e. through a checklist and tailored helpline assistance) to ensure small businesses do not breach their obligations.

Leveraging peak industry bodies such as the Australian Small Business and Family Enterprise Ombudsman (**ASBFEO**), COSBOA and the MFAA to deliver educational material to small business members will help address this challenge. Delivering tools and resources to educate small businesses will be increasingly important as the enabling legislation for the recently passed Cyber Security Act is developed and implemented.

Recommendation 7: Ensure a consistent approach to Digital ID and expand use cases

Brokers play a crucial role in verifying customer identities as part of their role in providing credit assistance. This process ensures that loans and other credit products are provided to legitimate individuals, safeguarding against fraud and financial crime. Brokers support lenders with their obligations under anti-money laundering (**AML**), know-your-customer (**KYC**) and verification of identity (**VOI**) regulations in e-conveyancing transactions, which are designed to protect both consumers and the integrity of system. Given the sensitive nature of the information brokers handle, it is essential they are equipped with secure, efficient, and reliable tools to verify customers.

Digital verification systems, such as biometric authentication (face recognition, fingerprints) or two-factor authentication, make it significantly harder for fraudsters to impersonate buyers. Providing brokers with these tools not only enhances compliance and reduces the risk of fraud but also strengthens customer trust and ensures a seamless borrowing experience. The recent introduction of Australia's Digital ID system to provide Australians with a secure and safe way to verify their ID. As the Digital ID ecosystem develops beyond its current use for government services, it's important to engage with industry so that effective use-cases are developed to support consumers in the digital economy, including for home or business lending and e-conveyancing purposes.

Further to this, with the recent passage of the Anti-Money Laundering and Counter-Terrorism Financing (**AML/CTF**) Amendment Bill 2024[65],

[63] Australian Signals Directorate, Cyber Security and Australian Small Businesses – Results from the Australian Cyber Security Centre Small Business Survey, 2023, Australian Government, <https://www.cyber.gov.au/sites/default/files/2023-03/2023_ACSC_Cyber%20Security%20and%20Australian%20Small%20Businesses%20Survey%20Results_D1.pdf>, viewed 15 January 2025.

[64] Department of Home Affairs, *Cyber Security Legislative Package – Consultation on Subordinate legislation to the Cyber Security Act and Security of Critical Infrastructure Act 2018 (SOCI Act)*, 16 December 2024, <https://www.homeaffairs.gov.au/reports-and-publications/submissions-and-discussion-papers/consultation-on-subordinate-cyber-security-legislation>, viewed 16 January 2025.

[65] Attorney-General, *Anti-Money Laundering and Counter-Terrorism Financing Amendment Bill 2024,* Australian Government <https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r7243>, viewed 15 January 2025.

which emphasises outcomes-focused obligations, it is essential to maintain consistency between AML/CTF laws and state-based VOI requirements for e-conveyancing. For more information, see our submission to the Australian Registrars' National Electronic Conveyancing Council's consultation into the security-related obligations under the electronic conveyancing regulatory framework.[66]

Priority 3 – Fit-for-purpose regulation and policy settings for the mortgage and finance broking industry

Fit-for-purpose regulation and policy settings are important to preserving competition, innovation, and consumer choice. It is particularly critical to preserving the viability of the mortgage and finance broking industry.

To that end, we welcomed the passing of several Bills, including the Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024[67] and the Competition and Consumer Amendment (Fair Go for Consumers and Small Business) Bill 2024,[68] the release of the updated ASIC Reference Checking Protocol[69] as a result of the passing of the Treasury Laws Amendment (Modernising Business Communications and Other Measures) Bill in 2023 and the implementation of the Regulatory Initiatives Grid[70] (the **RIG**). The RIG, if comprehensive will not just provide the Government with the opportunity to avoid duplication but will also enable the mortgage and finance broking industry to better anticipate and respond to regulatory and policy changes in a more coordinated manner.

Continuing to improve policy settings, including to refine those that support competition, and innovation must be a core focus for the Federal Government in 2025. We also encourage a continued commitment to reducing red tape and compliance impacts on small businesses.[71] To that end we make the recommendations below.

Recommendation 8:
Take a leadership role in bringing consistency and clarity to state and territory-based payroll tax legislation

While we understand payroll tax is a state and territory tax, it is imperative the Federal Government take a leadership role to work with state and territory governments to provide consistency and clarity to businesses with respect to payroll tax legislation. State and territory governments rely heavily on payroll taxes for revenue, yet and as noted by the Australian Chamber of Commerce and Industry, the payroll tax regime is inefficient and places a high administrative burden on small businesses.[72]

The nature of payroll tax interpretation lacks clarity, which has particularly been the cause of

[66] MFAA submission, *Security-related obligations under the electronic conveyancing regulatory framework*, 13 December 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/ce3936888529a873887d96774fc036a03b4eb1b5.pdf>.

[67] MFAA submission, Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024, 28 June 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/3f6c2836b82b19efb0c5258e061e69af88351f69.pdf>.

[68] MFAA submissions, *Designated Complaints Determination,* 11 April 2024 and *Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Bill 2023 [Provisions],* 26 October 2023, <https://www.mfaa.com.au/advocacy/submissions>.

[69] MFAA media release, *MFAA supports changes to reference checking*, 19 August 2024, <https://www.mfaa.com.au/news/mfaa-supports-changes-to-reference-checking>.

[70] Treasury, *Regulatory Initiatives Grid*, December 2024, Australian Government, <https://treasury.gov.au/policy-topics/banking-and-finance/rig#:~:text=The%20purpose%20of%20the%20RIG,the%20sector%2C%20Government%20and%20regulators>, viewed 15 January 2025.

[71] Department of the Prime Minister and Cabinet, *Small business,* May 2024, Australian Government, <https://oia.pmc.gov.au/sites/default/files/2024-05/small-business.pdf>, viewed 15 January 2025.

[72] See Australian Chamber of Commerce and Industry Pre-Budget Submission 2022-23, <https://treasury.gov.au/sites/default/files/2022-03/258735_australian_chamber_of_commerce_and_industry.pdf>, viewed 20 January 2025.

significant contention across several industries[73],[74] including the mortgage and finance broking industry. Section 32 of the New South Wales Payroll Tax Act provides that payments made to contracts will, in certain circumstances, be taken to be wages for the purposes of payroll tax. These provisions are necessary to prevent the avoidance of payroll tax by disguising an employment relationship as a contractor relationship.[75] However, and as we have consistently raised with the NSW Government,[76] brokers are independent businesses, and therefore arrangements between mortgage aggregators and mortgage or finance brokers do not amount to a '*relevant contract'* within the Payroll Tax Act.

We are deeply concerned that as a consequence of state budget deficits, state and territory revenue departments are undertaking enforcement activity to apply these provisions in a way that was never intended – i.e. to revenue received by small independent broking businesses in an environment where small business insolvencies continue to increase.

To that end, the MFAA welcomed the announcement by the NSW Government to establish an inquiry[77] into the application of the contractor and employment agent provisions in the Payroll Tax Act 2007 as a good first step toward a national conversation on the efficiency of Australia's payroll tax framework.

Recommendation 9: Ensure all privacy-related changes are reflected in the Regulatory Implementation Grid (RIG) - this includes establishing a clear timeline for removing the small business exemption from the Privacy Act

In our submission to the Commonwealth Department of Attorney General's Privacy Act Review[78], we supported the recommendation to remove the privacy act exemption for small businesses. While many small broking businesses are currently exempt, the MFAA has always recommended that members comply with the Privacy Act as if it applies to them due to the high standards expected in the finance industry, the extensive personal information brokers handle, and public expectations for robust privacy protections.

Further, most (if not all) brokers who use the services of an aggregator will be contractually obliged to comply with the Privacy Act. We also note that mortgage brokers have been included as 'trusted adviser' under the CDR regime, and therefore protection of personal information in this context is also important.

There is a continued lack of clarity on the assessment that is being conducted by the Attorney General's Department on the removal of the small business exemption, including the timing of the removal. This information is essential to

[73] Brownlee, M, *Payroll tax ruling 'financially devastating', dentists warn,* Accountants Daily, 18 October 2023, <https://www.accountantsdaily.com.au/tax-compliance/19181-payroll-tax-ruling-financially-devastating-dentists-warn#:~:text=Under%20the%20Revenue%20Office%20ruling,for%20practice%20operators%2C%20ADA%20said.>, viewed 15 January 2025.

[74] Banks, L, *Doctors warn GP tax pause only 'kicks can' of clinic closures, fee hikes along the road,* Sydney Morning Herald, 24 August 2023, <https://www.smh.com.au/politics/nsw/doctors-warn-gp-tax-pause-only-kicks-can-of-clinic-closures-fee-hikes-along-the-road-20230823-p5dys0.html>, viewed 15 January 2025.

[75] Parliament of New South Wales, Legislative Council Hansard, 24 August 2023, <https://www.parliament.nsw.gov.au/Hansard/Pages/HansardFull.aspx#/DateDisplay/HANSARD-1820781676-92938/HANSARD-1820781676-92980>, see comments made by the Hon Damien Tudehope, NSW Shadow Treasurer, viewed 15 January 2025.

[76] Hutchinson, S, *Mortgage brokers threaten war against NSW government over payroll tax,* Australian Financial Review, 28 February 2023, < https://www.afr.com/politics/mortgage-brokers-threaten-war-against-nsw-government-over-payroll-tax-20230228-p5co6e>, viewed 15 January 2025.

[77] Parliament of New South Wales, Inquiry, *Application of the contractor and employment agent provisions in the Payroll Tax Act 2007,* 27 November 2024, <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=3083#tab-termsofreference>, viewed 15 January 2025.

[78] MFAA submission, Privacy Act Review, 31 March 2023, <https://cdn.sanity.io/files/t0x3ukgp/production/b2534e282fd3d6edbcc1a1c8b5a4ce5ed625e93d.pdf>.

enable our members to adequately prepare. [79]

We also recommend the RIG be expanded to include initiatives and policy priorities of the Privacy Commissioner and The Office of the Australian Information Commissioner (**OAIC**).

Recommendation 10: CSLR levies must be proportionate and fit for purpose

The MFAA supports a regulatory cost structure for the broking industry that is proportionate and fit for purpose. The credit intermediary sub-sector is predominantly made up of small broking businesses with 80% having 10 or fewer brokers, while 41% are sole operators.[80] As small businesses, their ability to absorb additional regulatory costs is limited.

While the MFAA supports the Compensation Scheme of Last Resort (**CSLR**) as a consumer protection mechanism, its funding must be fairly distributed across the sub-sectors that participate in the scheme.[81] The mortgage and finance broking sector has a markedly low reliance on the CSLR, with minimal claims and complaint volumes.[82] As such, we believe it is crucial that any adjustments to the CSLR with respect to a special levy do not inadvertently impose a greater financial or regulatory burden on sub-sectors with minimal claims on the CSLR, including small broking businesses.

Placing a disproportionate financial burden on a sector with minimal claim activity not only challenges the principles of equitable treatment but also risks creating incentives that allow higher-risk sectors to rely on cross-subsidisation rather than addressing risk exposures within that sub-sector.

Recommendation 11: Increase and introduce permanency to the instant asset write-off scheme

The MFAA was pleased to see the Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024[83] passed into law, giving effect to the $20,000 instant asset write-off to businesses for FY25. In saying this, the passing of the Bill midway through the term of the initiative may challenge small business in their ability to use the instant asset write-off with certainty and confidence, recognising inflationary pressures have also impacted the cost of equipment and other cost of goods.

Despite an uptick in business insolvencies, 94% of SMEs are focused on investing in their businesses, seeking new capital to support their plans.[84]

Small businesses need certainty so they can plan for the long term. We support the Commercial and Asset Finance Brokers of Australia (**CAFBA**) and COSBOA in their recommendation for the instant asset write-off to be increased and be made permanent.

Recommendation 12: Update ASIC Regulatory Guide 206 Credit licensing: Competence and training

We note ASIC's intention to update certain regulatory guides, including Regulatory Guide 234:

[79] See page 6 of the Government Response to the Privacy Act Review Report, <https://www.ag.gov.au/sites/default/files/2023-09/government-response-privacy-act-review-report.PDF>, viewed 22 January 2025.

[80] MFAA, *Industry Intelligence Service, 17th Edition, 1 April 2023 to 30 September 2023*, <https://www.mfaa.com.au/professional-development/research/industry-intelligence-service-report>.

[81] MFAA submission, *Inquiry into wealth management companies*, 5 November 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/b2534e282fd3d6edbcc1a1c8b5a4ce5ed625e93d.pdf

[82] AFCA Datacube, for period 1 July 2023 to 30 June 2024, reported 126 complaints for Finance or Mortgage Brokers, or 0.57% of total banking and finance complaints progressed, <https://data.afca.org.au/banking-and-finance>, viewed 14 January 2025.

[83] Treasury, *Treasury Laws Amendment (Responsible Buy Now Pay Later and Other Measures) Bill 2024,* Australian Government, <https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r7199>, viewed 14 January 2025.

[84] ScotPac Business Finance, *SME Growth Index: October 2024,* <https://www.scotpac.com.au/research/>, viewed 14 January 2025.

Advertising financial products and services (including credit). We strongly encourage ASIC to extend this review to other outdated regulatory guides relevant to the financial services and credit sector in particular Regulatory Guide 206 Credit licensing: Competence and training (**RG 206**).

Introduced in 2011, RG 206 set the minimum educational requirement for credit representatives[85] at a Certificate IV in Finance and Mortgage. This requirement has not been updated in over a decade, despite the evolving complexity and professionalism of the industry.

It is time to elevate the minimum standard to reflect current expectations and practices. The Diploma in Finance and Mortgage Broking is now widely recognised as the industry benchmark.

We encourage ASIC to review and update RG 206 to adopt the Diploma in Finance and Mortgage Broking as the minimum educational requirement as a matter of priority. This update would better reflect the education, training, and professionalism of brokers and align regulatory expectations with the realities of running a broking business in today's environment.

Recommendation 13: Continue to remediate Financial Services Royal Commission Legislation

As noted above, we welcome the passing of legislation and requisite ASIC guidance to improve on the mortgage broker reference checking protocol implemented as part of the Government response to the Financial Services Royal Commission recommendations. However, there are still several aspects of the legislation that continue to require improvement. These include:

a. To expand the reportable situations regime to include aggregators who are not licensees of mortgage brokers. Whilst licensees are required to report a breach to ASIC, they are not required to share the report with their aggregator in circumstances where the aggregator is not the licensee. Like our recommendations with respect to reference checking, we believe there is an opportunity to strengthen the legislation to ensure that aggregators have greater visibility of breaches reported to ASIC on brokers that hold their own licences. For transparency we also believe it is important to share breach reports made about a broker with that broker if the sharing of that report will not jeopardise an ongoing investigation,[86] and

b. To confirm that mortgage brokers are subject only to streamlined obligations with respect to the design and distribution obligations (**DDO**). In August 2021, Treasury confirmed that brokers who distribute products after relying on the best interests duty meet the test of excluded conduct and are subject to modified obligations under the DDO regime.[87] We believe that there is an opportunity for the Corporations Act to be amended to explicitly state that brokers who are subject to the best interests duty are entitled to rely on the reduced requirements which apply to distributors who provide personal advice (in accordance with Treasury's position). This includes the exemption from the requirement to assess whether a client is within the target market.

Priority 4 – Environmental sustainability and social impact

Access to good quality, affordable housing is fundamental to wellbeing. It can help reduce

[85] RG 206.7.

[86] For more information, please see MFAA submissions on the reportable situations regime: 8 April 2021, 3 June 2021 and 21 October 2022, <https://www.mfaa.com.au/advocacy/submissions>.

[87] See Treasury policy statement update on the Design and Distribution Obligations (DDO) regime, <https://treasury.gov.au/consultation/c2019-t408904/update-ddo-regime>, viewed 14 January 2025.

poverty and enhance equality of opportunity, social inclusion and mobility.[88] The MFAA is committed to responsible practices that contribute to a positive, sustainable and equitable future, including supporting community initiatives that focus on education, financial literacy, and local causes that make a positive impact on Australian society.

Digital and financial literacy go hand in hand, and we note the Government's investment in digital literacy programs to improve access to digital tools and services and address the needs of vulnerable populations.[89]

In our most recent member survey on refinance and mortgage stress, our members have told us that the cost of living is a growing financial stressor for their clients and consistently have been assisting to negotiate a better rate with a borrower's current lender before seeking to assist clients with refinancing to a new lender.[90] In addition, data from Financial Counselling Australia shows the current cost-of-living crisis is having a major impact on so many people.[91] In strengthening consumers' financial wellbeing, it is important to invest in those channels that they trust for guidance and support. High financial literacy rates promote personal financial wellbeing, a more resilient financial system and leads to a more efficient allocation of resources within the Australian economy.[92]

Environmental, social and governance (**ESG**) considerations are inextricably linked to the way we do business with research from KPMG finding 80% of customers prefer to engage with brands that align with their values. The key challenge for small and medium businesses becomes understanding the expectations of their customers and implementing a strategy to meet them. We make the following recommendations.

Recommendation 14: Invest in small business ESG education

The Australian Parliament has prioritised the introduction of climate-related financial disclosures, introducing sustainability reporting requirements under the *Corporations Act 2001* (**Corporations Act**) effective from 1 January 2025. Whilst small businesses which fall below the relevant size thresholds are exempt, there is still risk that small businesses are captured and required to report on Scope 3 emissions when considered as part of a larger entity's supply chain. The guidance provided by ASIC in its new regulatory guide *Sustainability reporting*[93] will be important and we seek clarity on obligations.

While we support the intent to address environmental sustainability and achieve Australia's net-zero carbon emission goals[94], it is important that government intervention does not inadvertently impede small businesses seeking to operate more sustainably by introducing onerous or complex reporting obligations. As we have noted above, small business members are disproportionately burdened by regulation, and this can be somewhat overwhelming for small businesses in terms of compliance. We therefore

[88] Australian Institute of Health and Welfare, *Housing affordability,* 12 July 2024, Australian Government, <https://www.aihw.gov.au/reports/australias-welfare/housing-affordability>, viewed 14 January 2025.

[89] Department of Home Affairs, *2023-2030 Australian Cyber Security Strategy,* 22 November 2023, Australian Government, <https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/strategy/2023-2030-australian-cyber-security-strategy>, viewed 14 January 2025.

[90] MFAA, *Mortgage broker insights: Refinance and mortgage stress,* August 2024, <https://cdn.sanity.io/files/t0x3ukgp/production/80118149b6e4e16b8c23dee798753d6cf86009aa.pdf>.

[91] Financial Counselling Australia media release, *Big increase in calls to free debt helplines from people in financial hardship*, 3 April 2024, <https://www.financialcounsellingaustralia.org.au/big-increase-in-calls-to-free-debt-helplines-from-people-in-financial-hardship/>, viewed 8 January 2025.

[92] RBA publication, *The Importance of Financial Literacy,* 25 August 2008, <https://www.rba.gov.au/publications/bulletin/2008/sep/pdf/bu-0908-3.pdf>, viewed 3 January 2025.

[93] ASIC Consultation Paper 380 Sustainability reporting, 7 November 2024, < https://asic.gov.au/regulatory-resources/find-a-document/consultations/cp-380-sustainability-reporting/>, viewed 22 January 2025.

[94] Australian Government, *Future Made in Australia*, <https://futuremadeinaustralia.gov.au/?utm_source=google&utm_medium=CPC&utm_campaign=Generic_Net_Zero&utm_content=FMIA&gad_source=1&gclid=EAIaIQobChMI--6YjMHqigMVoKVmAh0WYwqaEAAYASAAEgJ6KPD_BwE&gclsrc=aw.ds#views-container>, viewed 3 January 2025.

support the recommendations made by the ASBFEO:[95]

- for clear, consistent and industry appropriate standards for environmentally sustainable activities. Such standards will help small businesses better understand what activities are considered sustainable, and in turn, reduce the risk of them making misleading and deceptive claims, or greenwashing, and
- foster collaboration between government agencies, industry bodies and small business associations to promote sustainable best practices.

To that end, we support funding for the ASBFEO to develop useful resources for small businesses in understanding their ESG obligations and look forward to working with the ASBFEO to deploy those resources to our small business members.

Recommendation 15: Facilitate the decarbonisation of Australian residential property through brokers

We note the Australian Government remains committed to supporting investment in Australia's transition to a net zero economy[96] and a key part of the transition is addressing the energy performance of existing dwellings by introducing policies to deliver cost-effective energy efficiency improvements to homes and businesses.[97]

A key strategic priority of the MFAA is to support the sustainable and timely transition to net-zero emissions through advocating for industry initiatives and commitments that encourage green finance. To that end, the MFAA is pleased to have representation on the Residential Energy Efficiency Disclosure Initiative Governance Forum, established by the Department of Environment, Energy, Climate and Water. More than 80% of Australia's houses have less than half the energy efficiency rating of the latest building codes, and the disclosure regime will spur demand by homeowners and prospective homebuyers to access programs and initiatives to make improvements.[98]

We see mortgage and finance brokers playing a critical role in the economic transition to net zero, and in particular in regional and remote Australia. Australia's Clean Energy Finance Corporation (**CEFC**) established the Household Energy Upgrades Fund™ whose goal is to provide low-cost finance for best practice energy performance initiatives. To do this entails working with co-financiers to create tailored and discounted green finance products which are easy for households to access.[99] Also critical will be that those products developed to access the Household Energy Upgrades Fund, as well as the CEFC's asset finance programs for commercial purposes, take into account their availability to consumers and small businesses who choose to use a mortgage or finance broker.

Mortgage and finance brokers are well placed to support consumers and business owners with the nation's commitment to reducing greenhouse gas emissions – this is through having conversations with their clients about available green products in market when assisting them with finance options. Resources to explain clearly how an efficient home saves a homeowner money will be important.

[95] ASBFEO submission, Regulating greenwashing and the specific needs of small businesses, 21 June 2023, <https://www.asbfeo.gov.au/sites/default/files/2023-10/SB%20-%20Regulating%20%27Greenwashing%27%20and%20the%20specific%20needs%20of%20small%20business.pdf>, viewed 21 January 2025.

[96] Australian Government, *Future Made in Australia*, <https://futuremadeinaustralia.gov.au/?utm_source=google&utm_medium=CPC&utm_campaign=Generic_Net_Zero&utm_content=FMIA&gad_source=1&gclid=EAIaIQobChMI--6YjMHqigMVoKVmAh0WYwqaEAAYASAAEgJ6KPD_BwE&gclsrc=aw.ds#views-container>, viewed 3 January 2025.

[97] Department of Climate Change, Energy, the Environment and Water, *Trajectory for Low Energy Buildings*, <https://www.dcceew.gov.au/energy/energy-efficiency/buildings/trajectory-low-energy-buildings>, viewed 3 January 2025.

[98] Bleby, M, *Older, 'cheaper' houses hide costs that bit owners,* Australian Financial Review, 10 December 2024.

[99] Clean Energy Finance Corporation, *Household Energy Upgrades Fund*, <https://www.cefc.com.au/where-we-invest/special-investment-programs/household-energy-upgrades-fund/>, viewed 3 January 2025.

Recommendation 16:
Continue to develop initiatives that deliver greater levels of financial literacy for Australians, including continued investment in national debt help lines and the ASBFEO

Mortgage and finance are making a difference by educating their clients on how they can achieve their financial goals. This is particularly important as innovation and regulatory changes continue to occur in the industry. For example, in 2025 we expect to see buy now pay later (**BNPL**) products regulated, non-bank lending data begin to be included in the Consumer Data Right Open Banking, and the development of Scams Prevention Framework across multiple sectors of the economy.

Brokers are distributed around the country in about the same proportion as the general population. By the very nature of their roles, brokers help educate clients on credit-related matters, thereby contributing to developing financial literacy in the communities in which they operate. Brokers have access to resources the MFAA makes available to support financial literacy education within their communities.

Small businesses too, seek support from various sources, including that of the ASBFEO. As a small business organisation, we have found immense value in engaging with the ASBFEO, using their data and research, resources and insights[100] and connections within Government. The ASBFEO has been instrumental in supporting us to advocate on behalf of our members. We note the recent Government review of the ASBFEO and strongly encourage the Government to use the review to spotlight the importance of the work done by the ASBFEO. As a result, we strongly encourage the ASBFEO be sufficiently funded and resourced to meet the demands of small and family business owners across the country.

We continue to encourage the Federal Government to deliver on initiatives such as financial literacy programs, investment in financial counselling centres (for both consumers and small businesses) and the development and promotion of the MoneySmart (moneysmart.gov.au) and CreditSmart (creditsmart.org.au) websites. We support a multi-pronged approach to helping to educate Australians, including migrant and vulnerable communities, and welcome collaborative frameworks that allow partnering with the MFAA to deliver financial literacy initiatives through our members.

[100] For example, ASBFEO's *Small Business Matters Report*, the *Small Business Pulse*, and the *Small Business Data Portal*, <https://www.asbfeo.gov.au/>, viewed 3 January 2025.

Appendix

Summary of saving and buying programs, schemes and concessions available to homebuyers across Australia.

January 2025

Savings scheme

First Home Super Saver Scheme[101]
Available nationally and administered by the Australian Tax Office (ATO), this scheme allows first home buyers to make personal voluntary contributions into their superfund to help save for a deposit. This scheme enables the withdrawal of voluntary contributions from the superfund to use for a home deposit, provided eligibility criteria is met. When ready, if the voluntary contributions are sufficient, an application can be made to release up to $50,000, plus any associated earnings.

The scheme encourages saving while getting some advantage from the difference between the tax on superannuation earnings and personal earnings.

Buying schemes

State/Territory	First Home Grant	Stamp Duty Relief Program	Other Program(s)
NSW	$10,000[102]	First Home Buyers Assistance Scheme	
VIC	$10,000[103]	Off the plan Stamp duty concession	
QLD	$15,000 or $30,000[104]	First home concession	Palm Island Home Ownership Scheme[105]
WA	$10,000[106]	First home owner concessional rate	
SA	Up to $15,000[107]	Stamp duty relief	

[101] ATO, *First home super saver scheme*, <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/early-access-to-super/first-home-super-saver-scheme>, viewed 20 January 2025.
[102] Revenue NSW, First Home Buyer, <https://www.revenue.nsw.gov.au/grants-schemes/first-home-buyer>, viewed 20 January 2025.
[103] Victoria State Revenue Office, First Home Owner, <https://www.sro.vic.gov.au/first-home-owner>, viewed 20 January 2025.
[104] Queensland Revenue Office, First Home Owner Grant, <https://qro.qld.gov.au/property-concessions-grants/first-home-grant/>, viewed 20 January 2025.
[105] Queensland Government, *A fresh start for Queensland: Unlockng home ownership in Indigenous communities,* 22 January 2025, <https://statements.qld.gov.au/statements/101875>, viewed 23 January 2025.
[106] West Australia, About the first home owner grant, <https://www.wa.gov.au/government/publications/about-the-first-home-owner-grant>, viewed 20 January 2025.
[107] Revenue South Australia, Home buying grant, <https://www.revenuesa.sa.gov.au/search?collection=RevenueSA&query=home+buying+grant>, viewed 20 January 2025.

State/Territory	First Home Grant	Stamp Duty Relief Program	Other Program(s)
TAS	$10,000[108]	Stamping Out Stamp Duty policy[109]	
ACT	Not Available[110]	First Home Owners Concessional Scheme	
NT	Up to $50,000[111] until 30 Sept 2025	Not Available	HomeBuild, FreshStart Hew Home Grant[112]

Commonwealth	Applicants Considered	Program Notes
First Home Guarantee[113] & Regional First Home Buyer Guarantee[114]	Owner occupiers who have not owned property in past decade	35,000 places for FY2025 (FHG) 10,000 places for FY2025 (RFHBG)
Family Home Guarantee[115]	Approved single parents or single legal guardians	5,000 places for FY2025
Indigenous Home Ownership	Indigenous Australians	Low deposit, low priced home loans for Indigenous Australians who face barriers to accessing mainstream finance

[108] Tasmania State Revenue Office, First Home Owner Grant, <https://www.sro.tas.gov.au/first-home-owner/eligibility>, viewed 20 January 2025.
[109] Ferguson, M, Tasmanian Liberal Government Treasurer, *Stamp duty stamped out*, 19 June 2024, <https://www.premier.tas.gov.au/latest-news/2024/june/stamp-duty-stamped-out>, viewed 20 January 2025.
[110] ACT Revenue Office, First Home Owner Grant, <https://www.revenue.act.gov.au/home-buyer-assistance/home-buyer-concession-scheme/first-home-owner-grant>, viewed 20 January 2025.
[111] Northern Territory (NT) Government, First Home Owner Grant <https://nt.gov.au/property/home-owner-assistance/first-home-owners/first-home-owner-grant?a=692242> and HomeGrown Territory Grant <https://nt.gov.au/property/home-owner-assistance/buy-build-new-home>, viewed 20 January 2025.
[112] NT Government, Low-deposit home loans, HomeGrown Territory Grant, <https://nt.gov.au/property/home-owner-assistance/low-deposit-home loans#:~:text=The%20aim%20of%20HomeBuild%20Access,and %20build%20your%20own%20home.>, and FreshStart New Home, <https://nt.gov.au/property/home-owner-assistance/existing-home-owners>, viewed 20 January 2025.
[113] Housing Australia, First Home Guarantee, <https://www.housingaustralia.gov.au/support-buy-home/first-home-guarantee>, viewed 20 January 2025.
[114] Housing Australia, Regional First Home Buyer Guarantee, <https://www.housingaustralia.gov.au/support-buy-home/regional-first-home-buyer-guarantee>, viewed 20 January 2025.
[115] Housing Australia, Family Home Guarantee Scheme, <https://www.housingaustralia.gov.au/support-buy-home/family-home-guarantee>, viewed 20 January 2025.

Program[116]		
Defence Home Ownership Assistance Scheme[117]	Australian Defence Force members and veterans	Assists current and former Australian Defence Force (ADF) members and their families to achieve home ownership. DHOAS is administered by the Department of Veterans' Affairs on behalf of the Department of Defence. – available nationally. Loans are subsidised.

Shared Equity Schemes

State or Territory	Program Name	Program Notes (if applicable)	Availability through broker channel
Federal	Help to Buy Program[118]	Requires states & territories to pass enabling legislation. At 31 December 2024, Queensland the only state to pass this.	Yes
NSW	Shared Equity Home Buyer Helper[119]	Program closed June 2024	Not Applicable
VIC	Homebuyer Fund[120]		No
QLD	Pathways Shared Equity Loan[121]	For government housing tenants	Unclear
WA	Keystart Program[122]		Yes

116 Indigenous Business Australia, About IBA home loans, <https://iba.gov.au/home-ownership/about-iba-home-loans/>, viewed 20 January 2025.
117 Department of Defence, Department of Veteran Affairs, Australian Government, The Defence Home Ownership Assistance Scheme, <https://www.dhoas.gov.au/>, viewed 20 January 2025.
118 Treasury, Australian Government, Supporting people into home ownership, <https://treasury.gov.au/policy-topics/housing/home-ownership-support>, viewed 23 January 2025.
119 New South Wales Government, Shared Equity Home Buyer Helper <https://www.nsw.gov.au/housing-and-construction/home-buying-assistance/previous-programs/shared-equity>, viewed 20 January 2025.
120 Victoria State Revenue Office, Homebuyer Fund, <https://www.sro.vic.gov.au/homebuyer>, viewed 20 January 2025.
121 Queensland Government, Pathways Shared Equity Loan, <https://www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/pathways-shared-equity-loan>, viewed 20 January 2025.
122 Keystart, Low Deposit Home Loans, <https://www.keystart.com.au/>, viewed 20 January 2025.

SA	HomeStart Program[123]		Yes
TAS	MyHome[124]		No
ACT	The Shared Equity Scheme[125]	For public housing tenants	No
NT	Shared Equity Home Ownership Scheme[126]		Unclear

[123] HomeStart, <https://www.homestart.com.au/>, viewed 20 January 2025.
[124] Homes Tasmania, MyHome, <https://www.homestasmania.com.au/Buying-a-Home/MyHome>, viewed 20 January 2025.
[125] Australian Capital Territory, Shared Equity Scheme, <https://www.act.gov.au/__data/assets/pdf_file/0011/2395910/Shared-Equity-Scheme-factsheet.pdf>, viewed 20 January 2025.
[126] Northern Territory, Shared Equity Home Ownership Scheme, <https://dpsc.nt.gov.au/arts-culture-libraries/library-and-archives-nt/cabinet-records/1987/shared-equity-home-ownership-scheme>, viewed 20 January 2025.

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Cover sheet: Supporting document #5

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Deregulation Taskforce – MDE Consultations
Department of Prime Minister and Cabinet
PO Box 6500
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Australia

8 August 2021

By electronic upload
Attention: Amy Auster

Dear Ms Auster

MODERNISING DOCUMENT EXECUTION – DEEDS AND STATUTORY DECLARATIONS

The Mortgage and Finance Association of Australia (MFAA) welcomed the opportunity to participate in the stakeholder session held on 29 September 2021 and to make a submission on this important initiative.

As context to this submission, the MFAA is Australia's leading professional association for the mortgage and finance broking industry with almost 14, 000 members. Our members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage broking industry.

The MFAA's role, as an industry association, is to provide leadership and to represent its members' views. We do this through engagement with governments, financial regulators and other key stakeholders on issues that are important to our members and their customers. This includes advocating for balanced legislation, policy and regulation and encouraging policies that improve access to financial products and services for all Australians.

OUR SUBMISSION

The MFAA welcomes the Deregulation Taskforce initiatives to facilitate digital execution of documents. As a modern industry, mortgage and finance brokers support reforms to modernise digital execution of documents that have the potential to reduce regulatory barriers, decrease business costs and reflect the way Australian consumers and businesses prefer to manage their financial affairs today. We particularly welcome the Taskforce's whole-of-economy approach by partnering with the states and territories to establish a nationally consistent regulatory framework for the signing of deeds and statutory declarations.

We have not responded to the consultation specific questions, but instead make the key recommendations below to support the Taskforce with its work.

Recommendation 1: Make the requirements for electronic execution and witnessing requirements for deeds and statutory declarations permanent and consistent

Brokers play an important role in intermediated lending, providing access to and promoting choice in both consumer and business finance. Brokers facilitate more than half of all new residential home loans[1] and just under half of small business loans[2] in Australia. As intermediaries, our members regularly facilitate the procurement of witnessing requirements and arrangement of 'wet ink' document execution from customers for lenders for critical financing transactions, for example the financing of a first home. We note that physical documents are often required for finance transactions, especially land transactions.

Feedback from our members is that requirements for 'wet ink' signing and inconsistent and confusing witnessing requirements adds unnecessary cost and complexity to transactions, creating frustration and an inferior customer experience. Further feedback from our members (many of whom operate national businesses) is that the different regimes between the jurisdictions is confusing, complex and has resulted in avoidable costs and error.

We note during the COVID-19 pandemic, emergency e-transaction reforms undertaken by all levels of government ensured essential business transactions could continue to occur. The success of these reforms supported economic activity in a safe and modern way and demonstrated the clear benefits of digital transacting. These benefits include:

- cost reduction
- the reduction in risk of fraud and forgery
- the reduction of error and reworks (for example incorrect or incomplete signing)
- improvements in time efficiencies (for example decrease reliance on the postal system)
- reduction in e-waste (i.e. paper waste)
- reduction in storage costs of hardcopy documents, and
- facilitating better experiences for consumers who lack access to technology such as printers and scanners.

Anecdotal feedback from MFAA member Dentons, a leading national law firm that provides, amongst other things, conveyancing services, suggests that the move from paper-based to electronic methods of execution of documents during the pandemic supported by appropriate identity verification systems have significantly reduced instances of fraud and forgery.

We therefore believe that there is a clear opportunity for those benefits to extend in a permanent, nationally consistent and uniform way to the execution and witnessing requirements for deeds and statutory declarations.

Recommendation 2: Implement a technology neutral approach to the execution of deeds and statutory declarations

For the reasons we set out above, for many Australians, transacting electronically presents significant benefits to current paper-based methods. Unfortunately, however this experience is unequal across the community, with vulnerable individuals and communities with low levels of financial and digital literacy or access to technology being at risk of being marginalised or excluded from financial services if choice is limited to purely digital or electronic methods of witnessing and execution.

Mortgage and finance brokers are trusted advisors to their customers and within the communities in which they operate. We note mortgage brokers arrange more than six out of every ten residential

[1] MFAA Industry Intelligence Service Report 12th Edition pg 4

[2] Productivity Commission research paper Small business access to finance: The evolving lending market pg 44

home loans in Australia, with three out of every ten of those home loans are arranged for customers in regional and rural areas[3].

Significant to the value of brokers is the understanding and awareness of limitations to customer access to technology. Anecdotal feedback from our members suggests that, particularly in those rural and regional areas as well as culturally and linguistically diverse communities, there may be a lack of technology and/or a preference for paper-based methods of transaction and it is often the case that brokers attend homes to assist customers in those circumstances. We therefore support the Deregulation Taskforce's technology neutral approach, which we believe will provide flexibility and choice to financial services providers to develop fit-for-purpose customer centric processes and mitigate the risk of financial exclusion.

Recommendation 3: Broaden the scope of the reform

We understand that this consultation is limited to a review of the legal requirements for making statutory declarations and deeds. We believe that there is significant opportunity to broaden the scope of reform to reduce regulatory barriers and make it simpler and easier for businesses to transact, examples of where reform is needed include:

- Real estate conveyancing i.e. the system developed the regime established by ARNECC continues to cause problems because the requirements of jurisdictions that have adopted the system are not uniform, especially when it comes to digital execution.
- Reviewing the need to distinguish between deeds and agreements (the import of a document is unchanged in consumers' minds by being called a deed or an agreement). We also suggest that to the extent that broader reform is not possible, we support nationally uniform change to allow deeds and statutory declarations to be signed digitally without the need for a witness.
- Making consistent the execution requirements for a broader range of documents such as wills, powers of attorney and affidavits (as well as deeds and statutory declarations).
- Remove the requirement for all land and security dealings to proceed in paper.
- Reconsider the need for witnessing in general – we consider that witnessing does not add to the utility or veracity of documents and that electronic execution with appropriate identity verification is more reliable and efficient and presents a lesser risk of fraud.

We suggest that the inconsistent state and territory framework as well as the interim nature of the emergency COVID-19 e-transaction reforms have contributed to hesitancy at least by financial firms in implementing fully digital processes. A whole-of-economy approach and a permanent solution will provide the confidence needed to businesses to implement digital solutions and help realise the economic benefits of the Government's Digital Economy reform agenda.

The MFAA extends its thanks to the Deregulation Taskforce for the opportunity to provide this submission. If you require further information, please do not hesitate to contact me on 0472 879 598 or (02) 8905 1301 or by emailing mike.felton@mfaa.com.au.

Yours sincerely

Mike Felton
Chief Executive Officer
Mortgage & Finance Association of Australia

[3] Deloitte Access Economics Report - The Value of Mortgage Broking pg vii