Submission on Commerce Commission Personal banking services market study – Draft Report

Feeback from: Karen Renwick, Financial Adviser – mortgages, Mortgage Link Albany

I am a qualified financial adviser specialising in lending/mortgages. I have been an adviser since 2015.

I was very pleased to participate in the meeting held between Financial Advice New Zealand and the Commerce Commission on 17 April 2024. I am writing in my capacity as a financial adviser.

I am concerned that some of the information in the report referring to the activity and practices of mortgage advisers in the report, from page 107 onwards in the original released draft, is inaccurate and should be amended.

In my feedback, when I refer to "we", I am referring to myself and my colleagues/peers who provide financial advice in lending.

Below are some observations/comments/feedback for your consideration:

<u>In the Executive Summary</u>
Page 2
We are encouraged by most lenders to direct the clients to their online banking/app to refix their lending. Banks supposedly pass on discounted rates to their clients.

We have no access to information to confirm the bank is selective in providing better rates to certain clients.

What evidence is there of less price-sensitive clients having higher rates? Is this referring to a Low Equity Margin being applied to clients with low equity?

<u>In the full report:</u>
4.133 There are no stats on lender policy and products. Lender appetite and policy are often the most significant factors in determining which lender is suitable for the client. This changes all the time.

An example of policy differences would be, until recently, Bank A has not allowed boarder income to be included in the affordability assessment when lending is >80% LVR. If the client intends to have a boarder, it would have been likely another lender would be able to provide a higher level of lending than Bank A.

An example of products impacting lender choice: Bank B is one of 3 lenders who offer an Offset loan product. In my opinion, theirs is the most flexible of the 3. Despite Bank B scoring low in stats, if this flexible Offset product is a priority for the client/meets the clients' needs, this may be where their application would be directed.

Each application is assessed on that clients' circumstances and requirements, and against lender policy at that time.

An example of policy changing would be that, as mentioned above, until recently Bank A did not allow for boarder income to be taken into consideration when assessing affordability of lending >80% LVR. An application that previously produced the strongest result/highest level of lending with, say, Bank C, may now have a stronger result/allow a higher level of lending with Bank A as a result of their recent policy change. Advisers continually keep up to date with policy updates from their lenders and apply that knowledge when completing calculations, providing advice and progressing applications for their clients.

Apart from changes to lending policy, the bank can show its appetite for lending by changing the servicing requirements to secure lending. By requiring a higher pass mark on the affordability assessment, the bank can decrease the lending they provide for various LVRs/scenarios.

I would suggest the lender policy and their appetite are the biggest factors over where business is placed rather than the lender systems and pricing. In my experience, advisers are highly responsive to change in lender policy.

Advisers operate in a competitive environment, and they compete on service and expertise. It is a competitive advantage to know and respond to lender policies in order to effectively secure clients lending that meets their specific circumstances.

4.134-4.136 The report states the variances are hard to reconcile and suggests that they may be reflective of a poorly functioning channel and that advisers may be making recommendations to customers on poor quality information, habit or other incentives. I do not believe this is a reasonable assumption.

The stats focus on processes and systems, and rates. There is no focus on lender policy which, as I have already stated, is often the most significant factor in determining which lender is suitable for the client.

Lender policy is subject to change at any time and can vary significantly from lender to lender. The clients' circumstances are also a significant factor which will determine which lenders are suitable for their application.

Lender appetite will also determine where an application is placed, for example, two lenders have been closed to pre-approval applications for clients who do not currently bank with them. If a client requires pre-approval, this would mean another lender would need to be considered at this time, nothing to do with the bank's policy, processes or any remuneration received.

4.138 The main banks ask advisers to direct their clients to refix their lending online. The banks tell the adviser channel that the clients will receive the best available rates online.

There have been occasions when this does not happen, and we find out by chance from colleagues that a better rate may be achievable. In these cases, if we do contact the lender on behalf of the client, it may be possible to get improved rates. This is very frustrating as an adviser. We always want our clients to receive the lowest pricing available. The main banks tell us the best rates will be provided, but then on occasion this does not happen. This is not fair on the client and presents the adviser in a poor light.

It would be helpful if the banks could make their pricing consistent to all clients and across both the direct channel and the adviser channel, as well as making this information readily available to the advisers to allow them to efficiently work with their clients.

4.140-4.141 Mortgage advisers follow an advice process that ensures recommendations are made on the basis of the clients' individual goals and circumstances.

Advisers complete regular training and learning relevant to their advice, which may include training on managing conflicts of interest and have a regular review of their advice process completed by their Financial Advice Provider.

Mortgage advisers have a requirement under Section 431K of the Financial Markets Conduct Act 2013 to give priority to their clients' interests (among a number of other obligations). All aggregators are required to have an internal audit program and seek regular external audits to ensure that they comply with all financial advice obligations.

The alternative (for a customer with low knowledge of the industry) to using an adviser is to seek lending only from the customer's own bank, ensuring that no professional inquiry into the most suitable lending options happens. A bank will not advise a customer directly as to whether they are the most suitable lender for them, while an adviser is required to do so.

Advisers are required to provide their clients with a written record of advice which documents their rationale for recommending a particular lender, ensuring that advisers can be held accountable for their recommendations. Again, accountability is an important incentive when advisers rely on their quality service, reputation, and word-of-mouth referrals.

4.146 The table in the report does not present the full information.
One bank's trail commission is paid from month 13 after the loan has been drawdown, whereas others' trail income is paid from the month following draw down.

Commission for lending structured with a revolving credit facility, or an offset loan facility may be paid at a lower level compared to the lending if it were fixed or in a floating/variable loan facility.

4.147.1 – 4.147.2 Whilst I do appreciate that hypothetically, commission paid may impact an adviser, personally I have never decided on where to place my clients' business based on remuneration I may or may not receive. I have never encouraged a client to secure more lending than they require or wished to borrow in order to increase my remuneration.

To that point, when I became accredited to secure lending with Bank D, I found their lender policy suitable for a number of my clients. I utilised them for lending due to their lending policy, their unique ability to reserve an interest rate before the loan application had been approved and, in some cases, also due to the fact they were a NZ-owned lender which made them a suitable bank for my clients' needs. At that time, Bank D paid the lowest commission payment from the lenders I had access to. The commission level did not deter me from using them.

Similarly, I have secured much lending with Bank B over the years. I find their products flexible and suitable for a lot of my clients. They pay an upfront and trail commission model; however, their trail commission does not start until month 13, compared to month 1 with other trail paying banks. If I were influenced by the commission, I would not place business with Bank B.

In the current lending environment, as part of the lending applications, we have to define the purpose of the lending. Additional funds may be required to provide the clients with a cashflow buffer or for future home improvements, for example. Funds are not borrowed to inflate the mortgage adviser's remuneration.

4.148 The adviser provides advice and solutions for their clients. They work for the client. The adviser is also an ambassador of the lender and has a duty to relay relevant and required information for the bank to make an informed decision when considering applications.

4.149 The percentage of overall lending that is being generated by advisers is growing. This is, in part, due to the banks closing a number of physical branches, and the fact that it is more difficult for clients to seek advice direct from the bank.

The banks are reducing operating costs by closing branches. Any costs associated with remunerating advisers is part of the banks operating costs and makes up part of their overall cost model.

I believe that if the client were to have to pay the adviser for their service, less clients would use advisers and receive financial advice. The majority of clients do not have 'spare' funds available to pay the adviser.

4.150 I feel these items are missing a large part of what advisers provide to their clients. The text indicates it is "just" about getting a "better home loan offer" than had they not used an adviser. There is so much more to the service advisers provide their clients in addition to securing them suitable lending to meet their needs.

I am sure all advisers will have similar messages they could share from their clients. Only this week, I received an email from a prospective client, someone I spent over 30 minutes with on the phone discussing their position, my service and what options they would have, and followed that up with a detailed email for them to refer back to. They were most grateful, responding with the following:

Thank you for your detailed explanation by email, this is really helpful for us to understand more about first home buying process and lending

And some examples of other client feedback I have recently received:

> *We are extremely grateful for Karen's outstanding service as our mortgage advisor in making our dream of owning our first home a reality. Karen's commitment and excellent communication skills made the entire experience smooth and stress-free. We felt supported and informed throughout the process, and Karen's attention to detail was truly commendable. If you're looking for a mortgage advisor who combines expertise with a personal touch, I recommend Karen!*
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> *I just wanted to thank you for your incredible amount of time in securing this big step in our lives. Your patience and regular correspondence to make sure you got it right has been amazing and thorough. We appreciate all your amazing mahi and would most definitely recommend you to any of our friends and family looking to seek advice or refinance. Your professionalism is excellent!*
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> *Karen has been amazing. I have been buying property for over 20 years and am an experienced property investor. In these tough times for borrowers Karen has managed to organise lending… She is knowledgeable, professional, responsive and genuine and has spent hours working for us in her own time, I am a client for life and couldn't recommend her more.*
>
> *Karen was an incredible help through the whole process, she was very thorough, patient, and knowledgeable. She worked hard to challenge the lenders and ensure we got the best possible rate; I don't know where we would have been without her!*

It is my opinion that using an adviser is a real win-win-win scenario. The client receives support and advice from the adviser, the bank receives the business, the adviser is remunerated for their service.

4.151 As noted above, Bank B's trail commissions starts from month 13

4.152-4.154 Under the current regulations, an adviser has to state why a client is being refinanced from one lender to another.

When an existing client needs assistance to restructure their existing lending, this may take many hours of the adviser's time, however there would be no payment received from the lender as there is no new lending. Where a lender pays trial, it means that the adviser receives ongoing income which allows them to dedicate time to this activity. If they did not receive trail income, alternatives would be that they charge the client a fee for their time to complete the restructure, or they direct the client to work directly with the bank. Clients often prefer not to work directly with the bank due to the level of service they receive, personal preference and the relationship they have established with their adviser.

Trail commission is unlikely to deter an adviser from refinancing a client to another bank should this be something the client requires/wants to do. The adviser would be remunerated for the work associated in securing the lending with the new bank, whether that is with an upfront payment or upfront and trail model.

4.155-4.157 As well as the adviser possibly charging the client a fee if the lending is repaid within a certain period of time, the bank would also look to take back some or all of the cash contribution payment they would have made to the client when the lending was originally taken.

In most cases, to refinance from one bank to another will incur the clients legal fees. This is also a deterrent to them switching banks for their lending.

An adviser is required by law to disclose all relevant fees that will be payable, to give advice that is suitable, and to give priority to clients' interests. An adviser is therefore not able to recommend that a client refinance if the culmination of fees and cash contribution would lead to a negative outcome for the client.

4.159 It would be very helpful if banks could inform the adviser as soon as they are aware the client may be repaying the lending.

At the moment, advisers may not be aware that the client is repaying their lending until they receive a commission clawback request from the bank.

If the bank were to communicate with the advisers earlier, the adviser would be able to make the clients aware of any costs they may incur, from both the bank and the adviser, which may alter their course of action.

I am aware of clients who have repaid lending without discussing this with their adviser and have incurred penalties in doing so. Had they had a discussion with their adviser, a change in their timing would have avoided penalties they incurred from breaking their fixed loan, a cash contribution clawback and an adviser fee.

It would be in the clients' best interest for the banks to let advisers know if the loan is going to be repaid.

4.162 Knowing a client's existing bank is very relevant to

1) establish client preferences
   Most lenders would require clients to move their day-to-day banking when securing a home loan with them. If the client has an aversion to moving their accounts, this would be taken into account when considering lenders
2) To determine where they would be considered an 'existing customer' from a lending point of view. As mentioned above, some banks are not accepting applications from clients unless they are an 'existing customer'

   If the lenders did not require clients to move their day-to-day banking to them when securing a home loan, this would increase competition as clients would not be deterred from securing lending with a different bank due to the time and effort involved in moving their bank accounts.

4.166-4.168 Under current regulations, advisers inform their clients as to why they have approached a particular lender and why they recommend them for the lending.

Under current regulations, advisers disclose to clients the remuneration they would receive from different lenders expressed as a range of percentages.

Advisers also disclose the exact commission they will receive from the lender being used once lending is approved/the loan amount is confirmed.

4.170-4.171 The word "historically" in 4.170 is very relevant. In the past, this may have been the case. After hearing feedback from my peers and industry representatives, you are now aware that the industry has recently been through a significant period of change.

Financial advice is now provided under a licence. Full licences have been in place since 16th March 2023, and prior to that the industry had a 2-year period of operating under transitional licences while changes to processes were being made.

Financial advisers are now bound by strict regulations and monitoring to ensure current compliance requirements are adhered to.

Draft recommendation 14 – the Financial Markets Authority should produce guidance and monitor mortgage advisors' compliance with their duties under the Financial Markets Conduct Act

I will not comment on this recommendation as I believe the FMA will address this in full

In my time as a financial adviser, I have worked tirelessly for my clients, always putting their best interests above my own.

As an industry, we have worked through significant process changes to embrace the current legislation and regulatory requirements.

We have worked diligently to help our clients through incredibly challenging times of COVID, CCCFA changes and now with the high interest rate environment and high cost of living environment. Most advisers are self-employed. We too, as individuals, experience the same pressures that our clients face. A lot of advisers work for their clients with no remuneration directly linked to the task at hand.   We put our clients' interests first.

I am concerned that the inaccuracies in the report have had a negative impact on the industry. There was an article published on interest.co.nz which quoted the draft report. This further spread the inaccuracies and generated ill-feeling towards the industry by others who did not seem aware of the current regulation and compliance requirements we all now work to.

I would ask that the report be updated to reflect more accurate information and that a formal apology be published to the industry as a whole.