Additional feedback - Draft report into personal banking FAMZ - consultation meeting Auckland (15 May 2024)

Online submissions - 30 May 2024

We suggested that lenders come together and invest in technology to allow simpler application processes and better resource their business to support mortgage advisers.

A large share of business - over 60% - comes from introduced loans via mortgage advisers and this will grow quickly with better tech.

Banks have reduced costs by employing and training less staff as mortgage specialists in house.

These savings should be directed into better online application portals and more efficient, better resourced support for mortgage advisers with their loan applications.

During the conference session I noted that most of the bank representatives wrote down notes on this point and I spoke about this issue at length. NZ has been trying to get a common application form for many years and banks don't seem to be able to agree on what it contains, yet all the information is the same from a consumer's perspective.

I suggested the next step is online submissions as is done in Australia. We are talking about AI and technology and yet mortgage applications are emailed and heavily reliant on phone calls chasing lenders etc. It is very inefficient and NZ banking is so far behind the rest of the world in this area. This results in poor consumer outcomes and buyers at times missing out on opportunities due to slow processing and approval timeframes.

Clawbacks

When a customer calls for a payout on their loan - if the bank sees the loan was introduced by a mortgage adviser - they should tell the customer to check with their adviser to see if there's any other fees for early repayment or clawback of commission.

Disclosure process was discussed by Jeff Royle (Mortgage Adviser and FAMNZ member) and an example given of a clawback charged to his client who incurred legal fees and cost her $5k due to paying a loan out with an inheritance just one month before the clawback period finished. The bank representatives in the room seemed to listen to this point and agreed that was a poor consumer outcome.

The general response from the banks/lenders was this seems to be a fair request and something that could be easily done so for the sake of good customer outcomes. Suggested to add this into the process of loan payout requests. We support and encourage this change to be adopted by all lenders.

ASIC

A couple of points that worried me was when the facilitator mentioned ASIC several times as they have been looking at what happens in Australia. I spoke about our regime being principles based and ASIC has very prescribed practices and legislation that we do not want to bring to NZ.

We are very new in this regime and no harm or cases have been brought up as examples to demonstrate the new regulations are not working as they should. We need to give this some time and Com Com was not across this at all. However FMA have been working closely with the sector on Licensing and compliance and standards they expect to see on monitoring visits.

The FMA Monitoring report released 30 May 2024, is so timely and shows there are no systemic issues with Mortgage Advisers who have been monitored by FMA in the first round of visits.

Key points from this report have been copied below acknowledging good feedback around Mortgage Advisers in several areas. This brings me back to my point about why we are even looking to fix something that is not broken and looking to ASIC for best practice.

(Source: FMA monitoring report on the new financial advice regime for FAP's 30 May 2024)

Mortgages
We observed instances of advisers recommending clients obtain less lending than approved, to support affordable loan repayments in line with their budget or risk appetite. This **clearly demonstrated advisers favouring the client's interests over those of the adviser,** who may earn more commission for a higher amount of lending.

In our engagements with the sector, some **mortgage advisers told us the new regulatory regime was an opportunity to go beyond being a broker'**11 **between the product provider and the client.** Some are sharing more of their expertise and knowledge with their clients, to help them navigate the complexity of obtaining a loan. **The result is advice the client can understand.** The Code has been instrumental in encouraging more of this value proposition.

We observed many advisers disclosing their commissions in an easy-to-understand table that clearly showed when the commission would be given, who would pay and receive it, and the value. Where approximations or percentages were given in the early stage of the advice process, the final amount was later disclosed. Providing it in this form made it easy for clients to understand, and allowed advisers to demonstrate how they met the obligation to disclose this information.

We also saw **mortgage advisers take a considered approach to their CPD**. Advisers' competency was often supported by keeping their knowledge on the economic situation current, to help navigate an ever-changing environment of rising interest rates, increasing house prices, and the slowdown of some industries as a result of the pandemic. Having this up-to-date understanding **allowed their clients to have accurate information during a time of uncertainty, and to make informed decisions**.

Duties and obligations for FAP's and Mortgage Advisers
This point is a reminder that Mortgage advisers who provide personal advice to retail consumers operate under a Financial Advice Provider license regulated by the Financial Markets Authority.
Mortgage advisers have to meet regulatory obligations under the Financial Markets Conduct Act 431I, 431K, 431L & 431M.
They have specific requirements to meet under the Financial Markets Conduct (Regulated Financial Advice Disclosure) Amendment regulations of 2020.
Mortgage advisers they also have regulatory obligations under the Code of Financial Conduct for Financial Advisers and in particular adherence to Code Standard 3 to 'give financial advice that is suitable' and that 'A person who gives financial advice must ensure that the financial advice is suitable for the client, having regard to the nature and scope of the financial advice.'

Accreditations with lenders

This subject was spoken at length to understand what choices consumers have when they see a mortgage adviser. Com Com gave an example of some advisers only having 1 or 2 providers on their panel.

This is a very rare case and not the usual model and we provided more examples around this process on the day. Lender panels in NZ are lengthy and have all the four main lenders and a multitude of other non-bank lending alternatives to offer solutions to clients needs.

Interest Rates

This was another topic that was discussed at length as Com Com was surprised that this was not the number one reason customers go to a particular bank or lender.

A few good examples were provided by Sarah Curtis (Mortgage Adviser and FAMNZ member) about how a number of factors play into the final outcome and what bank or lender is recommended.

For example, lending policy plays a huge part in which bank an adviser knows they can take an application to. How much money customers can borrow, the LVR restrictions at the time and finally the structure of the loan and interest rates. Offset accounts and other benefits all are taken into account in the advice process and getting the right outcomes for each individual customer.

Advertised special rates that the banks publish are not often what the customer ends up with, but it brings them into talk to a mortgage adviser as a starting point and then the true advice process begins.

Banks are very quick to compete on interest rates and match their competitors in NZ. So interest rates are not seen as a driving reason to recommend one provider over another. There are only a limited number of banks and non bank lenders in our market and it is much smaller than Australia for example therefore the behaviour around competition is not the same.

Final comments

These are the key points from the hour-long meeting. It could have been much longer with more time allowed due to clear further misunderstandings of how mortgage advisers operate and adhere to new legislation and regulations. Which results in good consumer outcomes, more choice for consumers and advice to assist them to get into their own homes or build their property portfolios.

I spoke to the Commissioner - John Small before and after the session and he thanked me for my contribution in the meeting and the work done prior with our online team meetings to get to this point. He acknowledged that he had a much better understanding of our sector and now how to make some changes to help us work better with lenders going forward. I felt this was a very positive engagement process and I appreciated the opportunity to speak on behalf of FAMNZ members and the sector as a trusted adviser.

If there is anything further you would like to ask me on behalf of our members and the Association I am more than happy to assist Com Com with the final report outcomes.

Leigh Hodgetts

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FAMNZ