

Mortgage broker bonuses abolished

New changes in light of the Banking Royal Commission mean that banks have abolished mortgage brokers' bonus commissions that are based on the volume of loans sold. Volume based bonuses should have been abolished by December 2017 however, the level of contract amendments required meant that it was not achieved.

Mortgage brokers will still be paid through upfront and trailing commissions however, the amount will be based on the amount of funds drawn down, as opposed to the total amount of borrowing approved. The current system has encouraged borrowers to take out offset account balances beyond their means. The recent Productivity Commission's report into competition in the Australian Financial system has recommended the removal of these commissions, due to the conflict of interest they create.

New changes to incentives mean that banks will not be able to spend more than \$350 entertaining a broker at an event, in line with fringe benefit tax rules. This new rule was a response to ASIC's concerns that rewarding brokers based on their performance levels created a conflict of interest and encouraged customers to increase their borrowings.

These changes have been implemented by the Combined Industry Forum (**Forum**), which was created to address concerns raised in the ASIC report into broker incentives and Steven Sedgwick's review for the Australian Business Association (**ABA**) in 2017. The Forum has 35 members including the major banks, smaller banks, non-bank lenders, mortgage aggregators, CHOICE and industry associations including the ABA and AFIA.

The Forum set to create a new mortgage broking industry code of conduct by the end of this year and will also develop a new 'customer first duty' in response to the Productivity Commission's 'best interests duty' recommendation in its report on competition in the Australian financial industry.

Changes to incentives also include having a minimum 80% content relating to continually improving customer outcomes at all conferences, and eligibility for entertainment will no longer be based on the volume of loans written with one lender. The Forum will also remove "free aggregation discounts by the end of the year, which incentivise brokers to favour loans of particular banks.