

Consumer Finance

Inaugural Investment & Regulatory Symposium

Policy and professional responses to tighter credit conditions
and household indebtedness

Workshop 1: Green paper on Financial Services and Credit
Reform Issues

*Chapter 1: Mortgages, Mortgage Broking and Non-
deposit taking Institutions*

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The Australian Mortgage Market

n Mortgage market players:

- n Traditional lenders - ADIs (banks , credit unions, building societies) – funded by retail (deposits) and wholesale (securitisation)
- n Non-bank lenders – wholesale funding
- n Mortgage brokers – arrange mortgages by introducing possible borrowers to lenders

n Greatly increased competition in home loan market

- n home lending margins declined from around 4% to 1.5% over the 1990s

n Mortgage brokers

- n *“have made it easier for consumers to undertake price comparisons, and their advertising campaigns have raised consumer awareness about financing costs and the different sorts of home loan products available in the market.”* First Home Ownership Productivity Commission Inquiry Report No. 28, 31 March 2004

Increased competition in Mortgage Industry

n Structure of mortgage broking industry

- n > 2000 mortgage broker entities, only around 25% active (ie at least 3 loans in last quarter)
- n Top 5 mortgage brokers accounted for > half of industry
- n Top 100 mortgage brokers accounted for 93% of the originations
- n Brokers originated 29% loans (Market Intelligence Strategy Centre 2004)
- n By 2007 38% of mortgages were originated through brokers (Fujitsu 2008).

n Reasons for growth

- n Demand side
 - n Complexity of mortgage market for consumers
- n Supply side – growth in brokers as a distribution network due to:
 - n Non-bank lenders without branches
 - n Traditional lenders – supplement loan sales, for regional players to expand lending outside their traditional geographic footprints
 - n Fueled by supply of funds through growth in MBS market - Securitisation

Impact of the Credit Crisis

- n System housing growth has declined to 10.4% in January 2008 (Fujitsu 2008)
 - n Third party originations declined from 38% to 36%
 - n High cost of wholesale funds
 - n Declining settlement volumes from non-bank lenders
 - n Bank market share has increased
 - n Reduced competition in home loan market
 - n Some indications of increased mortgage stress
- n Increased cost of funds has reduced bank profitability
 - n Review of lending standards (credit rationing?)
 - n Restoration of pricing premiums
 - n Renegotiation of broker payment structure by banks
 - n Increased emphasis on mortgage value chain
- n Recognised need for regulatory reform

Need for regulatory reform

- n National market for credit but a patchwork of legislation across States and Territories producing:
 - n Gaps and omissions re some types of credit / credit providers - variable outcomes for consumers
 - n Slow legislative response to changing environment due to jurisdictional complexities
 - n Added costs for business

- n **The Productivity Commission estimates that regulatory reform of consumer credit would provide a net gain to the community of \$1.5bn to \$4.5bn pa.** (Productivity Commission Inquiry into Australia's Consumer Policy Framework 2008).

- n Mortgages comprise 86% of consumer credit

Green paper on Financial Services and Credit Reform Issues

n Option 1 – maintain the Status Quo

- n Continue with existing regulatory environment – introduction of NSW Draft National Finance Broking Bill.

n Option 2 – regulate all credit under national legislation

- n All consumer credit regulated by the C'wealth government

n Option 3 - regulate mortgages independent of other consumer credit products

- n Mortgages regulated nationally all other consumer credit to remain with current system ie. Credit cards, personal loans, microloans etc.

Summary

- n Recognised need for reform and national regulation of consumer credit
- n Reform should aim to deliver on key regulatory objectives (see below)
- n Evaluation of options in Green Paper

Regulatory objectives	1	2	3
Better consumer protection	X (1/2)	√	√
Standardisation	X	√	X (1/2)
Simplification	X	√	X
Level playing field	X	√	√
Efficiency and productivity	X	√	X