



ASIC

Australian Securities &
Investments Commission

REPORT 628

Looking for a mortgage: Consumer experiences and expectations in getting a home loan

August 2019

About this report

This report is for lenders, mortgage brokers, consumer advocates, industry associations and other participants.

It sets out the findings from consumer research commissioned by ASIC to better understand consumer experiences and expectations when taking out home loans.

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Executive summary

- 1 In March 2017, ASIC published the findings of our review into the effect of remuneration structures in the mortgage broking market on the quality of consumer outcomes: see [Report 516 Review of mortgage broker remuneration](#) (REP 516). We found that current remuneration practices create conflicts of interest that may contribute to poor consumer outcomes. In light of our findings we set out six proposals to improve consumer and market outcomes.
- 2 More recently, the conduct of mortgage brokers (including the effect of remuneration practices) and home lending has been examined by other government bodies and inquiries. These include:
 - (a) the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission);
 - (b) the Residential Mortgage Price Inquiry by the Australian Competition and Consumer Commission (ACCC); and
 - (c) the Productivity Commission's Inquiry into Competition in the Australian Financial System.
- 3 These inquiries have also resulted in a number of recommendations to better align the interests of consumers and mortgage brokers and improve competition in the home loan industry.

Note: See Royal Commission, [Final report](#), 1 February 2019; ACCC, [Residential mortgage price inquiry: Final report](#), 11 December 2018; and Productivity Commission, [Competition in the Australian financial system](#), 29 June 2018.
- 4 In REP 516 we foreshadowed undertaking further work examining the practices of mortgage brokers. We commissioned consumer research to examine the actual experience and expectations of consumers taking out home loans. This consumer research provides further insights and strengthens support to existing proposed and planned reforms.
- 5 The consumer research involved:
 - (a) *qualitative research*—we followed over 300 consumers in the process of taking out a home loan; and
 - (b) *quantitative research*—we surveyed over 2,000 consumers who either had recently taken out a home loan or were in the process of doing so.
- 6 This review was not focused on compliance with the law, but on better understanding consumer expectations and experiences when taking out a home loan.

What we did

- 7 In January 2018, ASIC commissioned Colmar Brunton Pty Ltd to undertake consumer research for our review, being the qualitative research and survey. We canvassed a range of borrowers: first home buyers, refinancers, and consumers who had taken out a home loan previously (non-first home buyers).
- 8 For the qualitative research component, over 300 consumers were interviewed with 118 of these completing their home loan journey. This included:
 - (a) 97 consumers who obtained final approval on a home loan and may have progressed to settlement; and
 - (b) 21 consumers who intentionally chose to conclude their journey without taking out a home loan.

Note: See Appendix 1 of this report for further details of the methodology.
- 9 The findings in this report are presented from the consumer's perspective as we sought to better understand consumer experiences with home lending, including their recollections and perceptions of dealing with a lender or broker.
- 10 In the qualitative research we followed consumers through the process of taking out a home loan rather than only interviewing consumers after they had taken out a loan. We believed this approach would yield the most insightful and accurate information about the consumer's views at a point in time in their home loan journey.
- 11 In this report, where we have included verbatim quotes from consumers who participated in the qualitative research we have noted for each quote the type of consumer and the channel they used to take out their loan (where applicable).

The home loan journey: A snapshot

- 12 Whether consumers are buying their first home or investing in residential property, the commitment to take out a home loan is one of the biggest financial decisions they will make.
- 13 What we learned through the consumer research is that the home loan journey is complex, multifaceted and nonlinear.
- 14 Certain milestones were generally evident across each consumer's journey:
 - (a) choosing whether to take out a loan direct with a lender or through a broker, often involving initial research and 'shopping around';
 - (b) engaging with the lender or broker; and
 - (c) deciding on a loan, including pre-approval, approval and settlement.

- 15 We found that consumers usually follow multiple pathways through their journey and at each milestone they may stop, regress or progress depending on their individual circumstances.
- 16 The decision whether to take out a loan direct or through a broker was often influenced by past experience, what the consumer considered would be ‘easier’ for them and who they thought could deliver them the most suitable home loan.
- 17 Across the journey, we also saw that recommendations and advice from family and friends heavily influenced consumer decision-making.
- 18 Consumers who already had a good idea about the home loan they were after and valued the convenience of staying with their existing lender tended to take out their loan direct with a lender. These consumers usually made their loan decision after comparing only a few offers.
- 19 Consumers who were less sure about which home loan would be right for them, or who were keen to access a range of home loan options without having to do the ‘shopping around’ themselves, were more likely to engage a broker. How these consumers reached a decision on the loan they would take out varied and usually depended on the consumer’s own confidence and knowledge about home loans.
- 20 Unsurprisingly, the journey for first home buyers was distinct from that of other borrowers as they did not have previous experience to call on.

Key findings

Finding 1: Consumers expected brokers to find them the ‘best’ loan

- 21 When consumers started looking for a home loan, most of them indicated in some way that they wanted to get the ‘best’ home loan, which usually referred to the price or rate.

I want the best price, lowest interest rate. **(First home buyer, broker)**
 ...just a matter of going through this process and getting the best rate... **(Refinancer, broker)**

- 22 We found that while consumers engaged brokers for different reasons, such as broker expertise or the fact that the broker would ‘do the work for you’, generally they were in fact all expecting the broker to deliver the same result—to get the ‘best’ home loan for them. This view often appeared grounded in consumers’ general understanding that a key difference between brokers and lenders is that a broker has access to a range of lenders and loans.

To use a broker at least first off, not to go straight to a bank, they've done all the groundwork and comparison for you, they can get you the best rate. **(Non-first home buyer, broker)**

I felt confident that we were going to get a good deal—instead of having to approach each lender we could see the most, in the least amount of time. **(First home buyer, broker)**

- 23 These findings were also supported by the survey. Consumers who believed they ended up with close to the best rate they could get on their home loan and who used a mortgage broker were more likely to trust that the broker had found them the ‘best’ rate than to believe it was because they had shopped around themselves.

Finding 2: Consumers were most likely to take out their loan with a lender they had an existing relationship with

- 24 In the survey, we found that 60% of consumers took out a home loan with a lender they had an existing relationship with. Consumers who went direct to a lender were more likely to take out their loan with a lender they had an existing relationship with (69%) than consumers who took out their loan through a broker (49%).
- 25 By far the strongest factor influencing consumers to stay with a lender they had an existing relationship with was convenience. Consumers often mentioned in the qualitative research that their lender already had all their financial information, that they wished to keep their finances and banking in one spot and that staying with their existing lender would take less effort than switching.

I wanted to go with the bank I was already with. I've got all my banking with them, they've got all my details there, I thought it would be easier for them to assess my situation...I want the process to be really easy. **(Non-first home buyer, direct)**

... but loyalty was not always rewarded

- 26 Even though consumers were likely to stay with a lender they had an existing relationship with, consistently across the qualitative research consumers indicated that they were disappointed that their lender (typically a bank) did not offer any rewards for an existing relationship. If consumers wanted a lower interest rate on their home loan, they had to ask for it and this was often met with mixed results.

Finding 3: Consumers who used brokers were different to consumers who went direct to a lender

- 27 In REP 516, we found there were clear differences between the types of consumers going to brokers and those going direct to lenders. For example, consumers going through a broker tended to:
- (a) be younger by about two years; and
 - (b) have incomes that were around \$6,000 lower.
- 28 In this review, we also identified that differences exist between the types of consumers who took their home loan out through a mortgage broker and those who went direct to lenders. Based on the survey, we found that consumers going through a broker were more likely to:
- (a) be a first home buyer;
 - (b) have less knowledge about the loan than they would like; and
 - (c) have done less research.
- 29 In the qualitative research, consumers who took their loan out through a broker tended to be more uncertain of the process that lay ahead. This type of consumer appeared to be looking for someone who could help bridge their knowledge gap and support and advise them throughout the home lending process.

Hoping that the broker would be able to guide us, do all the work to find us the perfect one—we had no idea what was best. **(First home buyer, broker)**

Finding 4: How brokers presented loan options to consumers was inconsistent

- 30 Based on the survey, 58% of consumers received two or less loan options from brokers.
- 31 In the qualitative research, how brokers presented consumers with loan options varied. While most consumers were provided with multiple loan options, some consumers (often first home buyers and consumers with circumstances that might have limited their ability to get a loan) tended to be given only one loan recommendation.
- Broker only presented one option and I felt compelled to proceed with that one. **(First home buyer, broker)**
- 32 If consumers received options from a broker, some consumers considered the options themselves and some were guided by the broker, depending on how the options were presented.

- 33 It was not always clear that brokers had presented a loan recommendation or options in a way that enabled consumers to understand the objective criteria behind the recommendation of the specific loan(s).

My broker hasn't suggested any other options because I think he's very confident going with the [non-major bank]—he said this is your best bet—so I said we'll give them a go. **(Refinancer, broker)**

Finding 5: Consumers had a mixed understanding of how brokers are paid

- 34 In the qualitative research, we found that consumers' understanding and perception of how mortgage brokers were paid varied considerably. Most consumers appeared to be aware that a broker was paid by a lender through a commission payment. However, it was not always clear that the consumers understood that a broker is likely to receive different commission payments based on the lender selected and that this presented a conflict of interest.

I know they get commission in the background but I didn't pay it, but I know the provider I chose did. **(Non-first home buyer, broker)**

I asked if he charged me commission, but he said no commission charged from me, but charging commission from the bank I go with. So fine with me, no money from me. **(Refinancer, broker)**

- 35 We also identified some instances where consumers felt brokers may have been 'pushing' a certain product (or loan amount) that may not have been in their interest or consistent with their objectives.

Finding 6: The importance of finding a good rate seemed to decrease throughout the journey

- 36 Taking out a home loan is a complex and often overwhelming experience.

- 37 When consumers started looking for a home loan, they were focused on getting the 'best' or a 'low' interest rate. Consumers rarely articulated why getting a low interest rate was important to them; presumably, they wanted to find a loan that would cost them the least amount of money.

- 38 In the qualitative research, we found that as consumers progressed along the home loan journey, the importance of finding a good rate seemed to decrease for some consumers and they became more influenced by other factors such as the convenience of staying with an existing lender (or a lender they had an existing relationship with) and home loan features such as offset accounts.

The interest rate wasn't the best, but it was good. Offset account and frequent flyers [were] good—also have another loan with [non-major bank] and already have their interface [online] setup, so it would be easy in this respect. **(Non-first home buyer, broker)**

- 39 In general, consumers compared only a few offers. While most consumers who compared multiple loan options appeared to make decisions based on certain criteria (e.g. the lowest interest rate, low or no fees, ability to have an offset account), few consumers systematically compared loan options and quantified which loan would be the most cost-effective for them in the long run.
- 40 Based on the survey, of those consumers who had recently taken out a loan:
- (a) 19% took their loan out direct with a lender they had an existing relationship with and did not engage any other provider (lender or broker) to obtain an alternative quote; and
 - (b) 21% believed they could have got a better interest rate or were not sure whether they got a good rate.
- 41 Also, some consumers said that they found it challenging to navigate online resources such as comparison websites. This may have contributed to consumers becoming less engaged in trying to find a loan that offered the ‘best’ rate because they found it difficult to identify an accurate and readily accessible point of comparison.

Finding 7: One in 10 consumers (in the survey) said they were struggling to meet their repayments

- 42 In the qualitative research we did not follow consumers beyond the point of taking out a home loan. However, in the survey we asked those consumers who had taken out a loan in the last 12 months how they felt they were managing meeting the repayments on their home loan.
- 43 We found that approximately 1 in 10 consumers who had recently taken out a home loan and had started making repayments:
- (a) were struggling to meet their repayments (9%); or
 - (b) had missed at least one repayment (1.5%).
- 44 Most of these consumers (i.e. those consumers who said they were struggling to meet their repayments or had missed at least one repayment) thought that they would have to change their spending habits, either a little (20%) or a lot (50%), before taking out a loan.
- 45 While we acknowledge the limitations of the survey (e.g. what constitutes ‘struggling to meet repayments’ may be defined differently by each consumer, and the accuracy of a consumer indicating that they have in fact missed at least one repayment has not been assessed), one in 10 consumers appears to be a relatively high proportion of consumers self-perceiving a level of financial pressure within 12 months of entering into a new home loan.

- 46 Further, these findings possibly suggest that even though consumers were aware that they may need to tighten their spending habits when taking out a loan, they may have underestimated the changes they need to make.

Current developments

- 47 In May 2017, the mortgage broking industry, including lenders, established the Combined Industry Forum to develop a package of reforms to respond to our proposals in REP 516 to improve consumer and market outcomes, and the third-party recommendations in the Retail Banking Remuneration Review.

Note: The Retail Banking Remuneration Review was commissioned by the Australian Banking Association (ABA) and conducted by Stephen Sedgwick. The [final report](#) was released on 19 April 2017.

- 48 In addition to the industry response to ASIC's proposals in REP 516, mortgage brokers and the home lending industry have been examined by other government bodies and inquiries, resulting in a number of recommendations to better align the interests of consumers and mortgage brokers and improve competition in the home loan industry. The findings from our consumer research highlight the importance of these reforms.

Introducing a 'best interests' duty for mortgage brokers

This research confirms that consumers who use mortgage brokers expect brokers to act in the consumers' interests.

The Royal Commission recommended that the law should be amended to provide that, when acting in connection with home lending, mortgage brokers must act in the best interests of the intending borrower.

On 19 August 2019 the Government announced that a best interests duty for mortgage brokers will be introduced by the end of 2019. Importantly, the implementation of this duty will align the role of brokers with the expectations of consumers.

Improving price transparency and competition

Based on the findings of this research, we believe that some consumers are likely taking out loans when cheaper alternatives exist, suggesting there is a need for greater price transparency in relation to home loans to help consumers make informed decisions.

In 2018, the Productivity Commission's Inquiry into Competition in the Australian Financial System recommended the development of a home loan interest rate tool, to be published by ASIC, which would enable consumers to compare their interest rate with the median market rate paid by borrowers similar to them. ASIC is currently working with other regulators to develop a

tool that provides consumers with improved information on 'actual' interest rates offered. This is expected to be delivered during 2020.

We also anticipate that the introduction of a consumer data right in Australia's banking industry ('open banking') will, over time, facilitate innovations designed to improve consumers' ability to compare and switch between products and services and encourage competition between service providers, which may lead to better prices for customers.

Note: Under open banking, consumers will be able to access a variety of product information and safely consent to the transfer of their banking data to trusted parties. Open banking will be introduced in phases, with basic product information available from 1 July 2019, and consumer data for mortgage accounts, credit and debit cards, and deposit and transaction accounts to be made available by 1 February 2020.

Further actions

- 49 As identified above, this report offers insights and findings to add to the discussion in areas already identified for reform. We have also identified the following areas where we consider further work is required.

Action 1: Industry participants should consider the findings in this report to improve consumer outcomes

Industry participants (including lenders, brokers and aggregators) should consider how they can use the findings and insights from this research to provide better outcomes for consumers. This should include developing or improving information that will help consumers to make informed decisions:

- when looking for or considering a home loan; and
- while they retain their mortgage with a lender or remain a current customer of a mortgage broker.

Action 2: Industry participants should provide consumers with greater transparency about the home loan recommendation(s) presented to them

Further consideration should be given by industry participants (including lenders, brokers and aggregators) as to how brokers can demonstrate that they are meeting consumers' expectations and presenting them with the 'best value' home loan option(s). This evidence should be provided with the consumer in mind so they can:

- better understand the basis on which a broker has selected a home loan option presented to them; and
- meaningfully compare home loan options (e.g. based on potential savings).

A Choosing a home loan channel

Key points

Nearly all consumers did some form of research before engaging with a lender or a broker.

How consumers chose which channel to use for their home loan was fluid over time.

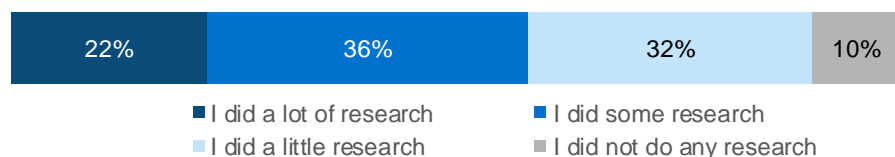
Consumers who chose to take out their loan direct with a lender often valued the convenience of staying with an existing lender.

Consumers who chose to take out their loan through a broker tended to value the knowledge and expertise a broker can provide and preferred the broker to 'do the work' for them in finding a home loan.

Getting started

- 50 Before deciding whether to take out a loan with a lender or through a broker, most consumers did some initial research in preparation for 'shopping around'.
- 51 In the survey, 90% of respondents said they had undertaken some form of research before engaging a lender or broker and taking out a home loan: see Figure 1.

Figure 1: Research conducted before approaching a lender or broker



Question: Which of the following best describes the amount of research you conducted about home loans prior to contacting a mortgage broker or lender? Single response only.

Base: Consumers who have taken out a home loan in the last 12 months (n=945).

Note: See Table 7 for the data shown in this figure (accessible version).

- 52 We also asked consumers who were planning to take out a home loan in the next 12 months and had started to do some of their own research:
- (a) what information were they keen to find (see Figure 2); and
 - (b) what information could they not find (see Figure 3).

- 53 We found that for consumers planning to take out a home loan, the information that was most sought after was actually the most difficult to find, specifically:
- (a) who could provide the best home loan deal; and
 - (b) what was a good/competitive interest rate.

Figure 2: Information consumers were *keen to find* when conducting home loan research

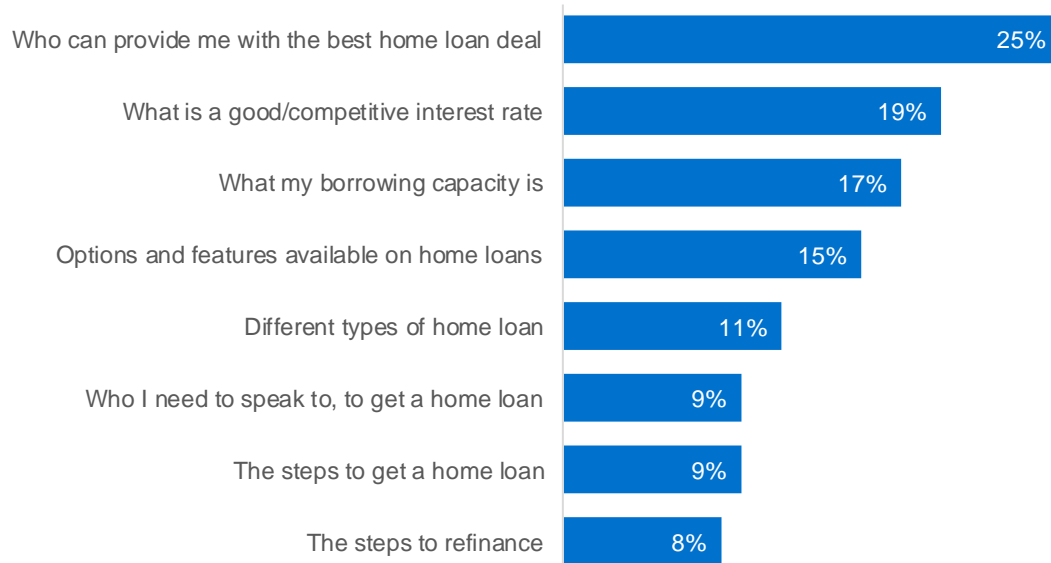


Question: And when researching, what information are you hoping to find? Multiple responses allowed.

Base: Consumers who were planning to take out a home loan in the next 12 months, excluding consumers who selected 'I haven't done any research yet' (n=567).

Note: See Table 8 for the data shown in this figure (accessible version).

Figure 3: Information consumers found *difficult to find* when conducting home loan research



Question: And when researching, what information haven't you been able to find or what is missing? Multiple responses allowed.

Base: Consumers who were planning to take out a home loan in the next 12 months, excluding consumers who selected 'I haven't done any research yet' (n=567).

Note: See Table 9 for the data shown in this figure (accessible version).

- 54 In the qualitative research, nearly all consumers did some type of research about home loans before engaging with lenders or brokers. The most common online resources used for research were:
- (a) bank websites;
 - (b) comparison websites; and
 - (c) real estate websites.
- 55 Other resources consumers used to research information about home loans included social media, books and government websites (e.g. ASIC's MoneySmart website). Consumers also usually sought advice from family and friends.
- 56 Most consumers said they conducted initial research to better understand their borrowing capacity and/or help them get a better sense of what is currently on offer. Their experiences of online resources were mixed: see Table 1.

Table 1: Consumer experiences with online research

Response	Example
Consumers appeared to have a positive experience	<p>I just did a google search and found a few comparison websites and saw what was in the market. Then once had a look around I narrowed it down to 5–6 potential loans that might be suitable. (Refinancer, direct)</p> <p>We found it handy to compare on websites and play with the calculator to find out what we needed, and what we could realistically look at. (First home buyer, unfinished journey)</p> <p>Been on a few comparison websites, concluded that I'm on an ok rate. (Refinancer, completed journey (did not take out a loan))</p>
Consumers appeared overwhelmed	<p>I find them—percentage rates, calculators—a lot of it doesn't make sense in real-life situations. Looking at bank website[s] or comparison websites I feel you need a financial degree to understand what those pages are telling you. I tried but there's too many to try and compare and it was overwhelming. (First home buyer, broker)</p>
Consumers appeared to not find online resources useful	<p>Did internet searches on comparison sites, didn't find this particularly useful at all to be honest so I approached a couple of different brokers. (Non-first home buyer, direct)</p> <p>But because our situation is quite unique, and we only have one year of financials, we couldn't use the online sites. (Non-first home buyer, broker)</p> <p>...we used loan calculators to work things out. We kept getting very different answers and we weren't sure if they were giving the right answers. Then we spoke to a broker and that was different again. It's difficult to know who to trust. (First home buyer, unfinished journey)</p> <p>More online comparison sites, trouble with those is the rates they have on there are mainly for owner-occupiers, it's hard to actually find investor loan interest rates. (Refinancer, direct)</p>

Response	Example
	<p>Frustrating—you think you can borrow more than you actually can—online calculators on the bank website says you can get x amount but then you go into the branch and it's much less—false advertising in a way. (Non-first home buyer, direct)</p> <p>...once we decided to seriously purchase a house I was looking at going on [major bank], [major bank], [non-major bank], [major bank], then I looked at [major bank], [building society], and I was looking at their calculators and populating them with exactly the same info—and the range of values in terms of what I can borrow literally went from half a million to 2 million which made it ridiculously confusing to know where we were in that range, which was part of the reason we went to a broker. (Non-first home buyer, broker)</p>
57	<p>Some consumers suggested it was challenging for them to navigate interest rates promoted by lenders.</p> <p>...no complete view...banks especially—often the advertised rate isn't the actual rate that they're offering you. Mortgage broker is saying to you 'bank is offering this rate, but I can do it at this rate'—it's who can get what deal. (Non-first home buyer, direct)</p> <p>...we do have secure jobs and things like that but there are different considerations, not really knowing how the different institutions kind of determine what the best rate is for different people, that's something we don't really know much about. (First home buyer, broker)</p>
58	<p>At best, research appeared to enable consumers to obtain a range or an overview of what a 'good rate' could look like. Typically, if consumers wanted to know what they could in fact be offered, they had to engage a lender or broker (and often provide financial information).</p> <p>Been to a bank and a broker we have been to before—trying to get the best home loan rate—want to get an investment property and see the rates they can get...sent them all of my pay cheques etc. They are doing their bit now and will come back with what they can offer. (Non-first home buyer, broker)</p>

Finding the 'best' deal

- 59 In the qualitative research, we learned that consumers took time to decide whether they would obtain their loan direct with a lender or through a broker.
- 60 Key factors in the decision were a desire for the 'best' loan and the amount of 'shopping around' consumers were prepared to do to find this deal.

- 61 If consumers had quickly decided which channel they would use, this was likely due to a personal recommendation that influenced them heavily or a strong belief that they should stay with their existing lender.
- 62 Most consumers typically started their home loan journey undecided about the channel they would use or tentatively leaning towards one channel rather than another:

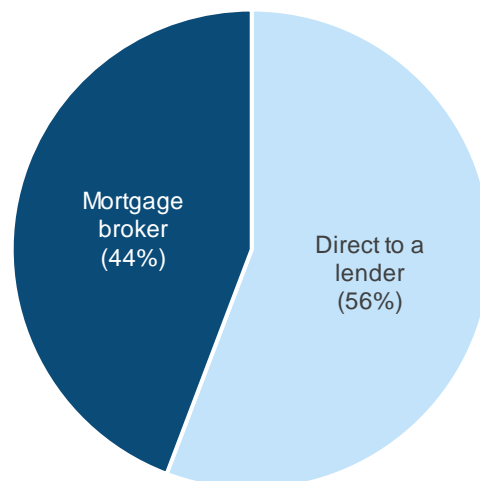
No, we haven't decided one way or the other. We'll go to our existing banks and see what they have to offer and if it's not competitive then we will approach a broker. **(Refinancer, direct)**

Been speaking with banks, but might look into brokers as well. Not leaning towards one or the other. **(Non-first home buyer, unfinished journey)**

Still tossing up. Would like to stick with the bank, but if better deal from broker, but have to take into account commission fee as well. **(First home buyer, direct)**

- 63 Based on the survey, 56% of consumers who had taken out a loan in the previous 12 months went direct with a lender and 44% of consumers went through a mortgage broker: see Figure 4.

Figure 4: Proportion of consumers who took out their loan direct with a lender or through a broker

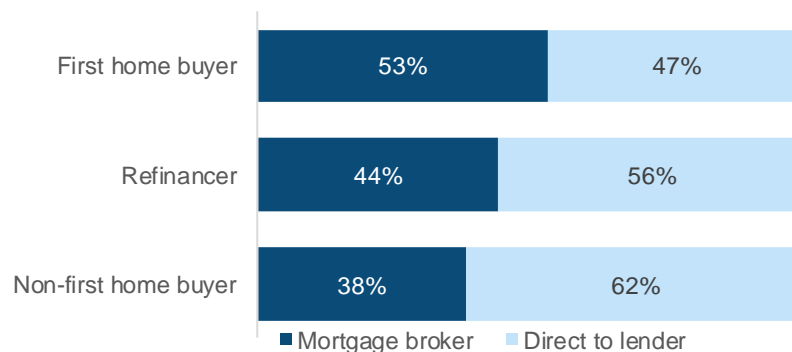


Question: In the end, did you get your loan through a mortgage broker or did you go direct to a lender? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945).

Note: See Table 10 for the data shown in this figure (accessible version).

- 64 First home buyers were significantly more likely to take out their loan through a broker: see Figure 5.

Figure 5: Consumers who recently took out/refinanced a loan, by channel and borrower type

Question: In the end, did you get your loan through a mortgage broker or did you go direct to a lender? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945).

Note: See Table 11 for the data shown in this figure (accessible version).

A desire to get the 'best' loan

65 Regardless of the channel, a key focus for consumers at the start of their journey was finding the 'best' loan, usually with reference to low or competitive interest rates.

Making sure we've got the best rate, or best scenario that suits us. **(Refinancer, direct)**

What I want is a low interest rate. **(Refinancer, unfinished journey)**

...something that's a competitive rate...interest rates are a big thing and flexibility to pay the loan off. **(First home buyer, direct)**

Whatever has got the lowest interest rate with the lowest repayment really. **(Refinancer, broker)**

66 To get a better idea of what getting the 'best' loan means to consumers, we asked all consumers in the survey to give us their definition of 'best' loan.

What does finding the 'best' loan mean?

When we asked consumers in the survey to tell us *in their own words* what finding the 'best' loan or 'right' loan meant to them, approximately two-thirds of responses referred to low or competitive interest rates and/or the cost of a loan:

- 'Is the cheapest'
- 'The loan with the lowest interest rates'
- 'The best interest rate'
- 'Flexible with a low interest rate'
- 'Low fees and low interest with no strings attached'
- 'I can pay off quickly with low rates'

The remaining responses varied with many related to flexible features or suiting a consumer's needs:

- 'Offers flexibility of redraw and extra repayments'
- 'Suits my particular needs'.

67 Based on these responses, while most consumers valued the cost of a home loan as the most important feature, other factors such as flexibility were also important for some consumers. Therefore, for the purposes of this report, when we refer to the 'best' home loan, we are generally referring to a home loan that offers the consumer the *best value* taking into consideration what a consumer desires in a home loan.

68 In the qualitative research, consumers who engaged brokers were generally seeking the same result from the broker—to get them the 'best' home loan—even if they gave different reasons for engaging a broker (e.g. knowledge and expertise and that they will 'do the work for you'). This view often appeared grounded in consumers' general understanding that brokers have access to a range of lenders and loans.

...there are many features on different mortgages, so the broker can help clarify what all these things mean and help choose the best product for my situation...The lender has one product to offer, whereas the broker has 40–50 different lenders at their fingertips.

(First home buyer, broker)

Leaning towards broker. Because I think that will be easier—I think they would know more about what's out there in the market than me. Sometimes different institutions have different deals going on—I'd expect them to lead me to the right position straight away rather than me having to do loads of shopping around. **(Refinancer, broker)**

It was good to see what I was looking for without having to go and see nine or 10 individual lenders. **(Non-first home buyer, unfinished journey)**

Brokers also have access to different banks and loans, so you are able to see what the best deal is for your personal circumstances—banks only offer you the products they have. **(Non-first home buyer, unfinished journey)**

69 However, the relationship a consumer had with a mortgage broker was not just based on these expectations; usually consumers only progressed to using the services of a mortgage broker they trusted.

We trust him, and he knows what he is talking about, so we go with what he is saying will work. **(First home buyer, broker)**

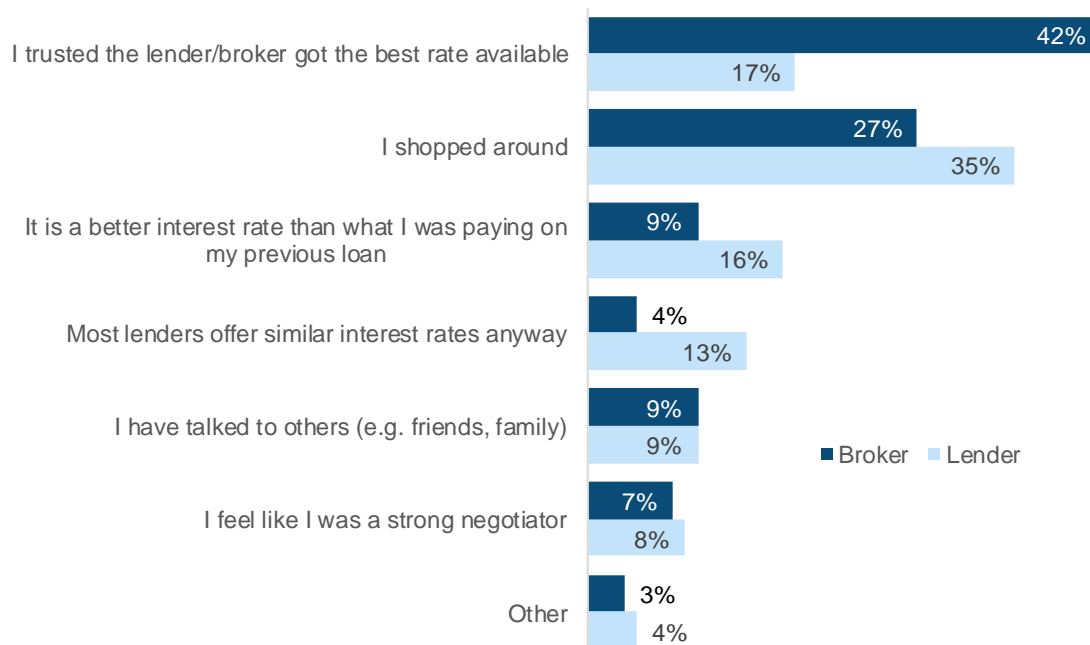
I can trust him [broker]—some had good deals but there are lots of fees etc. associated with them. He is honest and is looking out for the best option. **(Non-first home buyer, broker)**

Broker was a lot more beneficial, you can just tell that they are working for you, whereas the bank I don't get that feeling when I'm talking to the bank—much prefer to talk to the broker, feel like he is on my side. **(Refinancer, unfinished journey)**

The only reservation I have about a broker is that they're working on some sort of commission structure so in that respect I have a slight concern that maybe the broker isn't offering me the best solution for me, it might be the best loan for him. But the broker has met with me and built that trust and he has explained things really well—he seems very transparent. **(First home buyer, broker)**

- 70 To test the notion that consumers trust brokers to get them the best value loan, in the survey we asked consumers who had recently taken out a loan whether they believed they had received close to the best interest rate they could: 74% of respondents thought they had. When we asked these consumers why they thought this was so, we found that consumers who took out their loan through a broker were more likely to trust the broker to find them the best rate (42%) compared to shopping around themselves (27%); see Figure 6.
- 71 Consumers going through a mortgage broker were also more than twice as likely to believe that the broker got them the best interest rate available (42%) compared to consumers who took their loan out direct with a lender (17%).

Figure 6: Reasons consumers believed they got the best interest rate, by channel



Question: Why do you think it is close to the best rate you could get? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and who selected that they believed they got close to the best rate they could get (n=700). Percentages shown in the figure are rounded to the nearest unit. This means the sum of individual values shown may not equal 100% because of rounding.

Note: See Table 12 for the data shown in this figure (accessible version).

- 72 Consumers who went direct to a lender also talked about getting the ‘best’ deal. However, these consumers seemed to take more control and accountability for what they deemed to be the ‘best’ rate. There appeared to be less of an expectation that their lender would simply offer them the best rate and more of an understanding that this would be up to them to determine.

[Major bank] offering best rate, have been online and in to see someone at the bank...[I] work in finance, know what's best out there. **(Non-first home buyer, direct)**

My current bank was able to match the other best products and rates that I found out in the market. **(Refinancer, direct)**

Try and get as much info as possible and try and narrow it down to your individual circumstances, make the best decision for yourself. **(Refinancer, direct)**

‘Shopping around’

- 73 While finding the ‘best’ loan was the key driver for consumers to ‘shop around’, the following reasons were also factors:

- (a) finding the right service provider (lender or broker) they wanted to establish a relationship with; and
- (b) not being able to get a loan or the amount they were after.

- 74 The qualitative research highlighted three common pathways:

- (a) *Consumers who only engaged one provider*—These consumers usually stayed with their existing lender and typically conducted some research to gain a level of comfort that they were getting, in their mind, a good offer (see Case study 1-A).
- (b) *Consumers who engaged two providers*—These consumers also tended to stay with their existing lender, but they typically sought one other quote from a lender or broker to test their current offer (see Case study 1-B). If the offer wasn’t as good, some consumers negotiated with their existing lender, some consumers left, and some consumers stayed with their existing lender even if the interest rate was a little higher.
- (c) *Consumers who engaged multiple providers*—Consumers who engaged multiple providers were usually driven to get the ‘best’ loan they could. Some consumers engaged a mix of brokers and lenders (see Case study 1-C).

Case study 1: Shopping around by consumers

A. Some consumers engaged only one provider

Rani and her husband were interested in buying an investment property. Previously, when they had got their first loan, they had gone through a broker, but now they felt comfortable in getting a home loan by themselves.

Case study 1: Shopping around by consumers (cont.)

They decided to see what their existing lender (a major bank) could offer. They wanted a 'good rate—something that we can afford'. They also wanted a fixed rate home loan. They were happy with the offer from their existing lender and decided to get pre-approval in case they found a property quickly.

Three months later, Rani and her husband successfully bought an investment property. They already had pre-approval with their existing lender and decided they would stick with them. Rani said that the features of the home loan were 'quite good' and the 'rate didn't sway me, it was more the features and getting what I wanted'. She also said that the 'main four big banks' interest rates are much of a muchness'.

In reflecting on her home loan journey, Rani stated that she would not have done anything differently; she and her husband were happy to stay with their bank 'because everything was already there'.

B. Some consumers engaged two providers

Tim and his wife already owned an investment property which they believed had gone up in value. They were keen to 'free up' some money to invest elsewhere and refinance their investment loan. Tim wanted to stay with his current lender (a building society). He thought that the process was going to be 'easy' because the lender had 'all of our paperwork'.

Tim decided he would go to a broker first because 'they can tell me which loan would be the cheapest and then I could see if my lender will match that'.

The broker told Tim that, based on his financial situation, he wouldn't be able to borrow enough for another investment property. However, the broker also found Tim a home loan with a different lender at a lower interest rate. Tim asked his current lender if they would match the broker's offer and they did, resulting in a rate reduction of 0.2% on his existing loan.

C. Some consumers engaged multiple providers

Huy wanted to refinance his existing home loan because he thought he could achieve a better rate (his current loan was with a major bank). He also wanted to borrow more money to buy a new car.

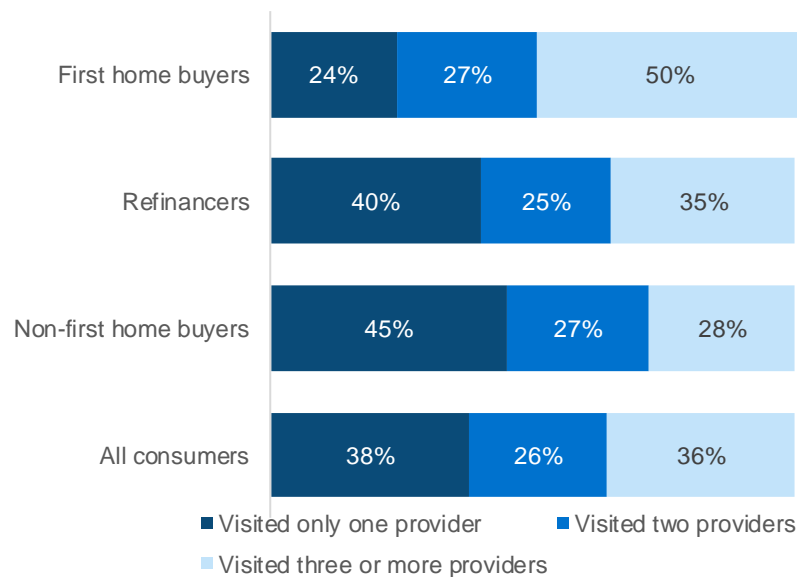
Huy did a lot of research; in fact, he said he set himself a target of looking at four lenders each week. If he couldn't find enough information on their website, he would call or email them.

Huy narrowed down his list of potential lenders to three lenders based on the lowest interest rate. He noted that 'some of them were prepared to offer lower interest rates than advertised because I had a good credit history'.

Huy also remarked that there were 'squillions' of lenders and that he 'didn't realise there were that many non-bank lenders in the market' until he did his research. Huy eventually chose to take out a home loan with a credit union based on the 'best interest rate' and the fact that 'there are no fees attached'.

- 75 Based on the survey, overall 60% of consumers took out a home loan with a lender they had an existing relationship with. Consumers who went direct to a lender were more likely to take out their loan with a lender they had an existing relationship with (69%) than consumers who took out their loan through a broker (49%).
- 76 In relation to the ‘pathway’ consumers took, most consumers visited two or less providers and first home buyers visited more providers than any other borrower type: see Figure 7.

Figure 7: ‘Shopping around’ with providers (lenders and brokers)



Question: How many of the following did you contact in relation to your home loan [brokers, lenders]? Single response only for each.

Base: Consumers who had taken out a home loan in the last 12 months (n=945). Percentages shown in the figure are rounded to the nearest unit. This means the sum of individual values shown may not equal 100% because of rounding.

Note: See Table 13 for the data shown in this figure (accessible version).

- 77 Additional findings from the survey about how consumers ‘shopped around’ include:
- (a) 19% of consumers took their loan out direct with a lender they had an existing relationship with and did not engage any other provider (lender or broker) to obtain an alternative quote; and
 - (b) the more consumers engaged multiple providers, the more likely they were to switch lenders.
- 78 We note that for consumers in the qualitative research who did considerable shopping around and engaged several providers, the process often appeared long and uncomfortable.

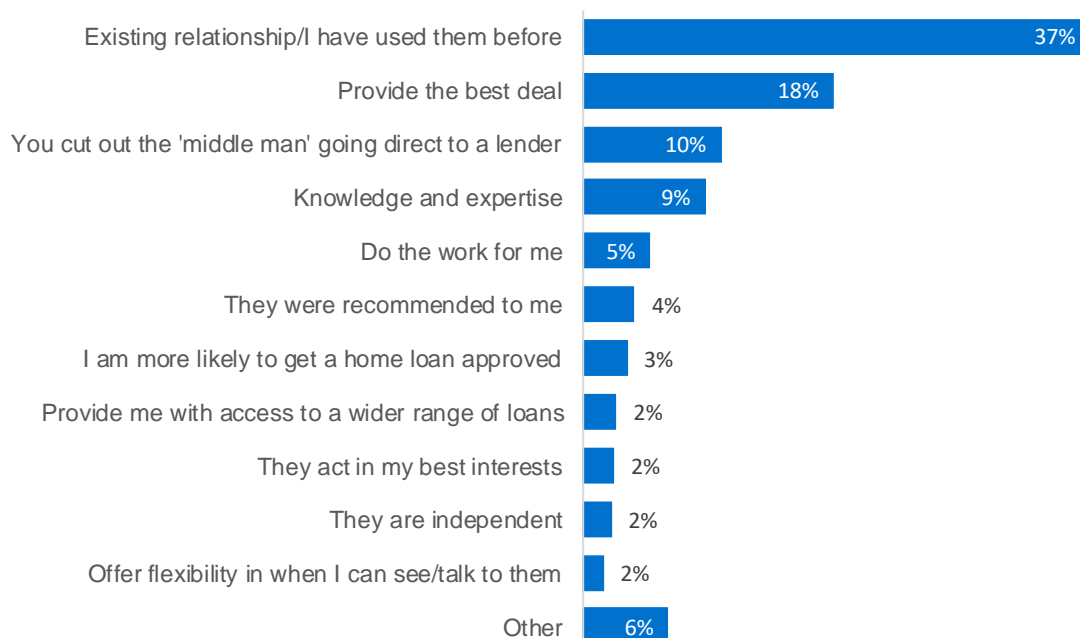
Share too many financial details with bank and the broker, sometimes at the back of your mind you're not comfortable, they just ask about each and everything, now they probably know my financial status more than me. That's the part I was a bit nervous about, but we have to do that. **(Refinancer, direct)**

One of the frustrating things for me is if you buy a car you can negotiate a deal with them without buying from them—they'll tell you price. But with a bank they want you to sign the whole application form before you get serious and then you're kind of locked in with them really. **(Refinancer, direct)**

Common reasons for choosing to go direct to a lender

- 79 In the survey, we asked consumers who had recently taken out a mortgage direct with a lender to tell us their 'main' reason for taking out their home loan with a lender.
- 80 As Figure 8 illustrates, the most common reasons consumers took out loans direct with a lender were:
- (a) they had an existing relationship with the lender (37%);
 - (b) they believed the lender would provide the best deal (18%); and
 - (c) they wished to cut out the 'middle man' (10%).

Figure 8: Main reasons consumers took out their loan with a lender



Question: What is the *main* reason you got your loan through a lender directly? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and those who went direct to a lender (n=527).

Note: See Table 14 for the data shown in this figure (accessible version).

Existing relationship

81 Consistent with the findings of the survey, in the qualitative research we found that the main reason consumers took out their loan direct with a lender was due to an existing relationship. Although some consumers valued the reputation or security of their current lender, convenience appeared to be the most common driver for consumers staying with their existing lender.

82 In the qualitative research, convenience was described in several different ways but often the consumer referred to one or more of these factors:

- (a) their existing lender already had their financial information;
- (b) changing providers would involve effort/work; and
- (c) the consumer valued keeping their banking/finance in one place.

Because we are already with them they can see everything. Convenience of staying with the same bank—we have [online banking], can see all accounts when we log in—see everything on one screen. **(Refinancer, direct)**

Know bank, have an existing relationship, this is the easier option, don't know about broker. Would only move if something didn't work out with current bank. **(Non-first home buyer, direct)**

I thought I would be on a 12-month journey of brokers and all sorts of things, so we've taken the easier option—this bank doesn't seem as bad as it was before, so let's just stick with them. **(Refinancer, direct)**

83 If consumers had an established relationship with a lender, they generally expected that their loyalty would be rewarded. Some consumers described the expected reward in general terms such as 'being looked after' or 'treated well'. Other consumers were more specific in what they expected, including being:

- (a) entitled to a better/lower rate; and
- (b) eligible for discounts and/or fee waivers.

84 In the qualitative research, consumers rarely said that they received any benefits for loyalty.

I feel that if I've been with my previous bank for six or seven years, and paying it every month, that doesn't give an advantage to you. **(Refinancer, direct)**

85 In fact, one consumer mentioned that they would have valued their lender proactively reaching out to them about 'better offers' available.

Only thing that could have been improved is if the lender was a bit more on the front foot or a bit more proactive in looking out for you and getting the best deal. Sometimes I feel with some of the banks and some telcos they ring you up and say they want to review your current product with us—it would have been nice if my current bank

was proactive and did—and said you're a customer and we want you to get the best deal, if they had initiated that. **(Refinancer, direct)**

- 86 If consumers were seeking a lower rate of interest on their home loan from their existing lender, they had to ask for it.

It is pretty annoying that they can offer a lower rate but they needed to be prompted by me phoning them. **(Non-first home buyer, unfinished journey)**

- 87 Consumers had mixed experiences in negotiating a better rate with their lender. Those consumers who could not do so were very dissatisfied, particularly as many of them were aware that their lender was offering new customers lower rates.

- 88 Dissatisfaction with an existing lender shaped consumer journeys in different ways: see Table 2.

Table 2: Lender loyalty in home loans

Type of consumer	Consumer comments	Outcome
Refinancer	There's not been much love from our existing bank [major bank], which was surprising. I asked them initially if we could get a better rate, and they haven't been forthcoming...I thought they would like to retain my business and would offer a better rate—they're advertising a better rate to new customers!	The consumer refinanced their loan with a new lender (using a broker).
Refinancer	We went to our current lender [major bank] and said this is the rate we've been offered, what can you do, and they can't even match it let alone beat it—surprised me that they didn't even try to keep our business.	The current lender dropped the rate by 0.1 percentage point. The consumer decided to stay in their loan with their current lender.
First home buyer	I've been with [major bank] since I was four, have loyalty for them, they should reward that. If not, I won't go with them.	The consumer financed their loan with their existing bank, despite acknowledging that they 'didn't get anything for being a loyal customer, which was disappointing'.

Previous reviews and findings

- 89 Other reviews have also highlighted findings about consumer reluctance to change lenders.

- 90 In REP 516 we found that lenders were offering new borrowers better discounts than existing borrowers and we raised concerns that consumers with existing home loans:
- (a) may not be fully aware that they might benefit from refinancing their home loans; or
 - (b) even if they were aware, may be reluctant to refinance due to cost, time and the inconvenience involved.
- 91 The ACCC's report of the Residential Mortgage Pricing Inquiry commented:
- One factor that appears to contribute to consumer inertia is the packaging of residential mortgage products with other financial products and services. Both the Inquiry Banks and Other Banks seem to be aware of evidence indicating that customers who hold multiple products are less likely to switch. During the review period, one Other Bank undertook research into switching behaviour, with findings indicating that borrowers who had an active transaction account and/or insurance product with the bank were significantly less likely to refinance away from the bank.
- Note: ACCC, [Residential mortgage price inquiry: Final report](#), December 2018, p. 66.

Cutting out the 'middle man'

- 92 Not all consumers who took out their loan direct with a lender were driven simply by an existing relationship. Some consumers preferred to take out their loan direct with a lender because they did not see value in seeking the services of an intermediary to effectively do something they felt they could do themselves.
- 93 Based on the qualitative research, these consumers generally appeared comfortable to 'control' the process and do the 'shopping around' themselves. Some consumers also considered that the process would be easier or quicker if they did not need to deal with a 'middle man'.
- Just want to satisfy myself, that I understand everything, that I'm not relying on a broker who might be missing out on something or not telling me. **(Refinancer, direct)**

...when you have a broker, they are kind of the middle men—it's easier if you can deal directly with the bank, they can understand your actual financial position—it cuts out a bit of time. **(Non-first home buyer, direct)**

I just figure that if you can get a rate with a broker, you should be able to get that same rate with the bank directly. **(Refinancer, direct)**

I feel I have no need for a broker because I usually go straight to a bank—nothing against broker, I just don't feel the need. **(Refinancer, unfinished journey)**

Common reasons for choosing a broker

- 94 In the survey, we asked consumers who had recently taken out a mortgage through a broker to tell us their ‘main’ reason for doing so. The responses were much more varied than the reasons consumers selected for going to a lender: see Figure 9.

Figure 9: Main reasons consumers took out their loan through a broker



Question: What is the *main* reason you decided to get your loan through a mortgage broker? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and those who went through a mortgage broker (n=418).

Note: See Table 15 for the data shown in this figure (accessible version).

Knowledge and expertise

- 95 In the qualitative research, consumers often explained that they sought out a broker for the following reasons:

- (a) they provide guidance;

Having a broker, it was unknown territory for us...he could guide us which was really helpful. **(First home buyer, broker)**

- (b) they are home loan experts/specialists;

They're the expert and they can offer you options which are suitable. **(First home buyer, broker)**

They're the experts in the field, their knowledge of industry and the banks, they will compare. **(Non-first home buyer, broker)**

- (c) they are knowledgeable;

His knowledge is great, and I'll be guided by him...I'll just leave everything up to him. **(Non-first home buyer, broker)**

(d) they provide advice; and

I just really wanted their independent calculations as to whether I would meet the criteria for repaying it, and they gave me some advice on a couple of good products in the market and I looked into those, and I think I also mentioned before I'm divorced now, so first time I've done it on my own—having someone else's qualified opinion made it easier for me to do what I was doing. **(Refinancer, direct)**

(e) they have access to more information (than the consumer) / they know the market.

...you can get market knowledge from them [brokers]—they will give more knowledge from the market and best place to buy—whereas a bank will not provide you with this knowledge, they are just trying to sell you their product, whether it is good or bad. **(Non-first home buyer, unfinished journey)**

96 Across all consumer types, it was common for consumers to remark that they would go to a broker for their knowledge and expertise. However, we observed this most consistently with first home buyers who tended to have less understanding of the process that lay ahead of them and at times appeared confused and overwhelmed.

Went in with a blank slate, absolutely no idea how it works. **(First home buyer, broker)**

Slightly overwhelming, dealing with such large numbers, never had to do anything like that before. **(First home buyer, broker)**

97 First home buyers appeared to be looking for someone who could not only help bridge their knowledge gap but also support and advise them throughout the home lending process—they considered a mortgage broker would be best placed to do this.

Probably go with broker—they know a lot, very helpful, explain everything to us. **(First home buyer, broker)**

...expect them [broker] to always know what to do next—guide me through the whole thing—it's a new process. **(First home buyer, broker)**

98 Some first home buyers' journeys were almost entirely reliant on the broker's advice: see Case study 2.

Case study 2: First home buyer who went through a broker

Serena was renting and looking to buy her first home to live in.

She initially consulted online calculators to gauge her potential borrowing capacity. After attending a few house inspections, a real estate agent recommended a mortgage broker to help with a home loan.

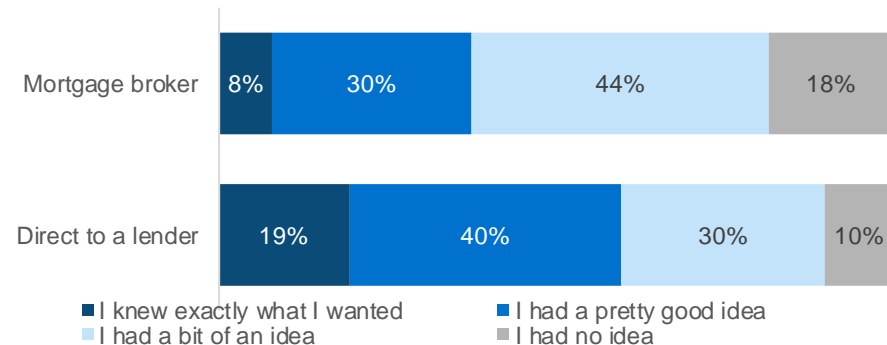
Serena met with the recommended broker because she felt ‘it’s just nice to have someone who knows all of this—I don’t know much about the features that suit me or anything—they can explain the pros and cons’.

While Serena did approach a lender directly, she ultimately decided to take out her loan through the broker because of the support and guidance they offered. For example, Serena said that the broker ‘went through the process of the loan and how to buy a house—he gave me a folder with a step-by-step guide and including little things—like building inspections and when things happen—it was really good’.

When Serena reflected on the home loan process, she said that possibly she should have done more research but ‘once I dealt with the broker I kind of left it all in his hands...was an easy process to do it that way...I didn’t mind in the end, regardless.’

99 In the survey, we found that consumers who used a mortgage broker were less likely to know what home loan they wanted, compared to consumers who went direct to a lender. Of consumers who took out their loan direct with a lender, 59% ‘knew exactly’ or had a ‘pretty good idea’ of the home loan they wanted, compared to 38% of consumers who used a mortgage broker: see Figure 10.

Figure 10: Consumer understanding of the home loan they wanted, by channel



Question: Prior to contacting your mortgage broker or lender, to what extent did you know or have an idea of the home loan you would like? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945). Percentages shown in the figure are rounded to the nearest unit. This means the sum of individual values shown may not equal 100% because of rounding.

Note: See Table 16 for the data shown in this figure (accessible version).

Brokers can ‘do the work for you’ and have wider access to home loans

100 In the qualitative research, across all consumer groups, a common reason for going to a broker was to access a wide range of home loans—and therefore the broker could ‘do the work from them’ by shopping around: see paragraph 68.

101 A further example of this was that in the qualitative research, for those consumers who had unsuccessfully attempted to refinance direct with a lender (typically their existing lender), their next step was usually to engage a broker. Their reason for doing this tended to be because they expected the broker to have access to a wide range of loans that would help them to successfully refinance.

We fell behind on some repayments—if that's going to negatively impact us, the broker is going to have a wider range of loans that will help us to find the loan that we are looking for. So it was one option versus 10 or 15 options so that is why I went with the broker...Using a broker took a lot of the confusion out of it. I trusted him to find the best options for me. I tried shopping around and it just fried my brain—the broker really simplified the process... [without using the broker] I don't think we would have got approval.
(Refinancer, broker)

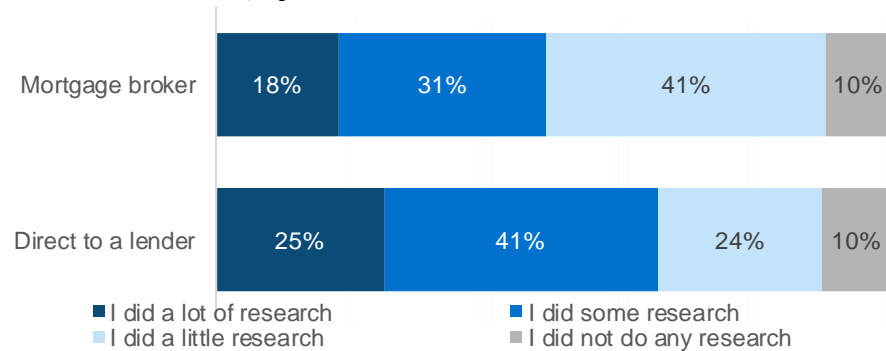
102 Beyond ‘shopping around’, some consumers also referred to brokers doing other work for them such as helping them with the ‘paperwork’ or engaging with the lender on their behalf.

If we went to the bank, would have to do most of the stuff ourselves, broker made it easier. (First home buyer, broker)

The relationship with the broker is very important—even with the bank—he can make you look good to the bank and know what to do. (Non-first home buyer, broker)

It would be nice to cut out the middle person, but he has been highlighting stuff we haven't thought about...half my salary is tax-free and the banks don't understand these benefits, it is nice having the broker dealing with the banks for this. (First home buyer, unfinished journey)

103 Supporting this finding, in the survey we found that consumers who took out their loan through a broker were less likely to have conducted ‘a lot’ or ‘some’ of their own research about home loans before engaging with a broker (when compared to those consumers going direct to a lender): see Figure 11.

Figure 11: Extent of research conducted before approaching a lender or broker, by channel

Question: Which of the following best describes the amount of research you conducted about home loans prior to contacting a mortgage broker or lender? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945).

Note: See Table 17 for the data shown in this figure (accessible version).

Personal recommendation

104

In the qualitative research, we found that consumers placed very high value on referrals and recommendations from family and friends when it came to choosing a broker.

Both of my sisters had had a few mortgages through him [broker]...they highly recommended using him. **(First home buyer, broker)**

Did it with the same broker, been with him for a year, not sure what company he is from, a friend recommended him, don't remember the company, know him personally now. **(First home buyer, broker)**

...we're pretty time poor, this guy was highly recommended to us, and we thought it would just be better to go to someone who knows more about what we're doing than what we do. **(First home buyer, broker)**

I'm very happy with my broker, this is one my colleague recommended—the loan I got through the broker—not through the bank directly... **(Non-first home buyer, broker)**

Other reasons for choosing a lender or a broker

First impressions

105

First impressions were important, particularly where a consumer was meeting a broker or lender for the first time. If a broker or lender presented themselves well in the eyes of the consumer, the consumer was inclined to stay (and the opposite, in the case of poor first impressions).

They [customer-owned bank] were really good. It was explained why we had to jump through hoops and what the purpose of it all was. I'd call it a friendly interrogation...we felt quite comfortable with them. **(First home buyer, unfinished journey)**

The main reason behind choosing him [broker], he was very confident, gave us lots of information, explained everything really well and gave very personalised advice, rather than being on autopilot. **(First home buyer, broker)**

Going to the bank itself is a waste of time because they know as little as I do about the home loan product. **(Refinancer, broker)**

Did speak to a broker—but wasn't overly impressed with her, she explained things well but there [were] lots of red flags from her, you'd give her information and then she'd ask for information two days later—very disorganised. **(First home buyer, direct)**

Customer service

106

Consumers valued providers (lenders or brokers) that could offer good customer service, in particular the ability to meet them outside standard 'work hours'.

Having a baby under one, I particularly like the mobile lenders. **(Non-first home buyer, unfinished journey)**

They come to you, so you are at home and relaxed. You don't have to rush into a bank, which is hard for me because I work in the city and the bank is out in the suburbs. **(Refinancer, broker)**

Banks, you physically have to go in there and take time off work because they have limited opening hours. Brokers, you can send them an email and contact at any time and they make things happen very quickly which is important for this generation—we're time poor. **(Non-first home buyer, unfinished journey)**

B Engaging with the lender or broker

Key points

Typical points of discussion with a lender or broker included the purpose and features of the loan, the amount they wanted to borrow and the consumer's financial situation.

First home buyers had less of an idea about different types of loan features and this appeared to restrict the discussion of certain loan features.

Most consumers had considered the affordability of a loan and usually expressed a desire to not extend themselves too much when it came to expenditure on a loan.

When it came to consumers who used brokers:

- they usually had some understanding that brokers were remunerated by commissions (but thoughts in relation to how a commission may impact the transaction varied greatly); and
- in some instances, they felt brokers may have been 'pushing' a certain product (or loan amount) that may not have been in their interest or aligned to their objectives.

Overview

107 In the qualitative research, we explored with consumers the discussions they had with lenders and mortgage brokers as part of the home lending process. Where consumers engaged multiple providers, we generally focused on their engagement with the provider they ultimately took out their loan with. Even though some consumers did not complete their home loan journey, we have included their reflections where relevant.

108 Based on what consumers said, a lender or broker would often start their engagement with the consumer by going through a set of questions. With lenders, these questions often appeared to focus on a consumer's financial situation. With brokers, the questions appeared not only to relate to a consumer's financial situation but also to be more 'goal' oriented in relation to what the consumer was looking to achieve with their loan and any preferences they had (such as type of lender).

Lots of things like a questionnaire—what our overall plan was, what was important to us, interest rates, fixed, variable. **(First home buyer, broker)**

He [broker] had a pre-meeting with us—online thing explaining what we wanted, needs, wants etc.—went through this—clarified the responses we had given. **(Refinancer, broker)**

What [am I] trying to achieve? What [do I] want to do? Do [I have] any preferences? What features [do I] want? Bank preference?
(Refinancer, broker)

...wanted to know short and long term goals—general lifestyle and future investments—any circumstances that will change in the future...future expenses like kids' schooling, a full plan of where we are headed...Took the time to consider our personal circumstances and what we are trying to achieve as a family—many say here is a product, take it—he [broker] wanted a long chat that focused on our goals. (Refinancer, unfinished journey)

They wanted to know my wage, assets, need to know that I can afford the loan—if I can pay it back—wage over the past two to three months. (Non-first home buyer, direct)

Lender wanted to know marital situation, salaries, expenses and whether we had children, where we lived, how long we've been in employment. Broker—all of this plus more, they were more thorough—he was very knowledgeable about the area we lived in—they do their own evaluation, Centrelink entitlements—more in-depth questions. (Refinancer, unfinished journey)

- 109 More generally, the typical needs or loan features that a consumer recalled discussing with a lender or broker included:
- (a) the purpose and type of loan (including features such as 'flexibility' and offset accounts);
 - (b) the size of the loan (i.e. what they could afford); and
 - (c) their financial situation (including expenses).
- 110 While getting a 'good' or 'low' interest rate was a focus for consumers, this did not appear to be discussed at length with the lender or broker—it appeared to be more of an expectation that a consumer would be provided with the 'best' options available. If they already had a quote, they expected it to be matched or beaten.
- 111 In the qualitative research, we observed that the more consumers knew what they wanted in a home loan, the more likely they were to instruct the lender or broker and give them a description of what they desired. First home buyers generally had less of an idea about different types of loans and features and this appeared to restrict the discussion of these types of features.

Purpose, type of loan and lender

- 112 In the qualitative research, we found that consumers almost always engaged a lender or broker knowing the purpose of the loan they were after (investment or owner-occupier). In most cases, if consumers knew about

interest-only loans, they also had an idea of which type of loan they wanted (principal-and-interest or interest-only).

Note: For a further discussion of interest-only loans, see paragraphs 117–119.

113 In the consumer survey:

- (a) 78% of consumers took out principal-and-interest loans and 22% took out interest-only loans; and
- (b) 61% took out owner-occupier loans, 32% took out investment loans and 7% took out both.

114 In terms of the type of loan a consumer was seeking, we observed that a consumer's expectations rarely changed after their engagement with a lender or broker. If this did happen, it was usually due to the consumer realising that they could not get what they were after and then adapting their course of action to pursue something that was more feasible: see Case study 3.

Case study 3: Changing intentions on a home loan

Ellie had one investment property and was keen to buy a property to live in. Her existing investment home loan was with a major bank, which she said was 'making me sway towards using them'.

Ellie wanted to borrow about \$600,000 to get the property she was after, but her existing lender told her that she could only borrow \$480,000.

She visited a broker who indicated that they were likely to be able to get her a loan of about \$490,000.

Ellie concluded that she would need to change her strategy because 'what I was looking at is not affordable'. She decided to look for an investment property in a different area.

Ellie ended up taking out an interest-only loan for an investment property with her existing bank. Both the broker and bank offered her the same rate on this type of loan, but her bank could let her borrow a little bit more and so she stayed with them.

Fixed or variable loans

115 In the qualitative research, nearly all consumers indicated that they understood the difference between fixed rate and variable rate loans.

116 While some consumers had made up their mind about whether they wanted a fixed rate or a variable rate loan before seeing a lender or broker, consumers often sought guidance in this area, specifically whether they would be better off taking out a fixed rate home loan or a variable rate home loan. The type of guidance consumers received varied from being told to go one way or another, or to split their loan, to suggestions that it was up to the consumer to decide.

He [broker] said at the moment, it was best to keep it as variable, and for the investment property, it was best to keep it as an interest-only loan. **(Refinancer, broker)**

The broker went through the options of going variable and fixed and then suggested going variable to suit their needs. **(First home buyer, broker)**

He said things like interest rates fluctuate. I know [it's been] relatively stable recently but in three years you never know. If you have variable and it goes up to 8% all of a sudden, your repayments are a lot more and harder to budget for. Whereas if you have fixed, you know, it could go the other way where it drops. Up to you whether you want to hope for that or not. **(First home buyer, direct)**

She said that a fixed rate would be good for the first few years—she said two or three-year fixed rate to ensure we can get those first payments off easily. **(First home buyer, broker)**

Before I was about to go with a variable rate and interest-only option...my broker advised me saying major banks and lenders that they are bringing up the interest [rate] or they are going to bring it up... my broker told me it's going to happen—better off going with a fixed rate option...Eventually I went for three-year fixed interest rate and paying principal and interest. **(Refinancer, broker)**

He said at the moment the fixed [rate] offer is quite good. **(Refinancer, direct)**

Interest-only loans

- 117 We found that most consumers who took out an interest-only loan (or knew they wanted this type of loan) did so for investment purposes and understood how this type of loan operated along with its benefits and drawbacks.

...you are just paying back the interest and no principal and that goes for a certain timeframe, once that timeframe is reached it will revert to a principal and interest. We had an investment property which we refinanced, and we had that type of loan prior. Before we got the original loan, we talked to [an] accountant and he said that was a good option for us at the time, from a tax purpose because...the repayments would help our tax scenario so that's why it was suggested. **(Refinancer, broker)**

- 118 While most consumers appeared to understand why an interest-only loan may be beneficial to them, comments by some refinancers suggested potentially poor engagement with a lender or broker when they took out an interest-only loan for the first time. These comments indicated that the consumer:

- (a) had not fully understood or considered the implications of taking out an interest-only loan; or

- (b) were not aware that their interest-only loan reverted to a principal-and-interest loan once the interest-only loan term expired.

We're treading water, not paying anything off our existing home loan...The interest rate on both of them has gone up over time, and I think the penny dropped and we went: what! If interest-only, we'll never pay anything off. **(Refinancer, broker)**

I owe \$225,000 on current loan. I'm on interest-only at the moment, so want to get out of that too...You don't get anywhere with it, it's a lot cheaper, but I haven't been paying much of original loan. Sort of like renting. I got that loan originally because that was all my wages would get me. **(Refinancer, broker)**

...when they [major bank] automatically say we're changing to interest-and-principal from interest-only and said this was your new repayments—I was actually quite shocked, people who don't take much notice of it could be stuffed. Didn't think it was good customer service from my bank just a letter in the mail...changing to interest-and-principal because the loan term was up. I thought because it was originally interest-only loan it would stay as an interest-only loan. **(Refinancer, broker)**

Once the interest-only expired on current loans [major bank] just put us on 'P&I' without notifying. Was really not happy with them when they did this. **(Refinancer, direct)**

- 119 We did see a couple of instances in the qualitative research where consumers were still unclear of the loan term for an interest-only loan.

Investment property loan is interest only—we are just paying the interest payments—so in theory it will never be ours unless we sell it, unless we win the lotto, we're just paying the interest not the amount owing to the bank...I don't think there is a term on it—it's never ending. **(Refinancer, direct)**

- 120 Consumers who were keen to take out an interest-only loan were usually aware that the interest rates for these loans were higher than for principal-and-interest loans. This deterred some consumers.

Yeah, got principal and interest in the end—for a lower interest rate. Paying interest-only you have to pay 0.2% more in interest. I don't know if I want to sell my investment property in the next five years so it's better off to save some money on interest repayments. **(Refinancer, broker)**

Loan features that offer 'flexibility'

- 121 When it came to loan features, consumers often talked about the desire to have 'flexibility'. This was particularly the case for consumers who had

taken out a loan previously and who spoke positively about features such as offset accounts and redraw facilities.

I really like offset accounts, we use it all the time—the way we structure—the way we spend—all through our finances is based on keeping as much as our monthly wage in the offset account to offset our mortgage—so I've found that a really useful tool. So, going forward, I'd like to have an offset account—I need to make sure the package price isn't going to cost more in offsetting my interest.
(Refinancer, unfinished journey)

The only real main requirement is an offset account—we currently have this. **(Non-first home buyer, unfinished journey)**

An offset account would be beneficial; we've found this in the past.
(Non-first home buyer, broker)

As far as the features, I've got a redraw and offset facilities as well as variable—they were some of the main things I wanted in my loan over the others. **(Non-first home buyer, broker)**

We want an offset account so the investment strategy we are looking at works. It is designed for tax benefits—I don't really understand it all. But one of the accounts pays this off so I know this is the key. **(Non-first home buyer, unfinished journey)**

122 First home buyers were less likely to know about or understand 'flexible' features such as offset accounts.

I got confused with offset accounts in general—didn't even know that was a thing, not something they tell me—they tell you, you can put money into an offset account which offsets your loan—I wasn't even aware that was something you can do. **(First home buyer, direct)**

I really only found out what an offset account is yesterday—things like that they don't really explain they expect you to know. **(First home buyer, direct)**

123 Consumers usually discussed their desire for flexibility with the lender or broker. These discussions appeared to vary, from consumers giving instructions about what they wanted, to the lender or broker suggesting what they thought might be suitable for the consumer.

I asked the broker to tell me more about offset accounts and cash-back systems. **(Non-first home buyer, unfinished journey)**

He suggested having an offset account, and that if we had a credit card linked to the loan, that we should make sure it gets paid off in full each month. Which we knew, but it was good that he said that.
(Refinancer, broker)

The features were suggested by the lender but that's because we had that sort of structure with our previous home loan, so we wanted to keep the same structure. **(Non-first home buyer, direct)**

...he [broker] said, look, in order to offset the amount, the \$300 or whatever fees you have to pay to get an offset account, you would need to have \$10,000 in your offset account at all times, this much sitting in there to offset it—[the broker] wouldn't recommend getting it unless you have \$10,000 sitting in it all year round—so he was really helpful in that aspect by not selling us a product we didn't need. **(First home buyer, broker)**

Borrowing capacity, loan amount and expenses

Borrowing capacity

124 Some consumers, particularly first home buyers, were interested in a lender or broker confirming their borrowing capacity (based on some discussion about a consumer's financial situation: see paragraphs 126–131). Depending on the situation and what consumers were told, some consumers had to readjust their expectations about the property they could buy. Also, some consumers stopped their journey to save more money for their deposit: see Case study 4.

They [major bank] just gave me a rough idea of the loan amount I was looking at. It meant I would probably be looking for a two-bedroom townhouse, or a one-bedroom apartment. It really narrowed down what I could buy. **(Non-first home buyer, direct)**

Borrowing \$477k. It's a little bit less [than expected] actually—we were looking at purchase prices up to \$550k so it's going to be less than we anticipated. We had to unexpectedly pay off some debts to get the loan we wanted so we did have to reduce our range a little bit. **(First home buyer, broker)**

Case study 4: Unsuccessful first home buyer

Naveed was a first home buyer. He found an apartment he was interested in buying, which required a home loan of approximately \$320,000.

Naveed had saved a \$20,000 deposit. He went to the major bank he already did his banking with and completed an application form for a home loan.

Naveed's home loan application was declined. He was told that this was due to the bank tightening their lending criteria and that he had a personal loan that affected the assessment. He needed a larger deposit.

Naveed was frustrated as he said that he would be paying less on a mortgage than his current rental payments. Naveed decided he would just keep renting.

Loan amount and affordability

125 In the qualitative research, most consumers had generally thought about whether they could afford the loan and, based on their comments, appeared to want to avoid taking on too much debt.

Working out budget in regards to what we can afford to repay for the loan, without over-extending budget. **(Refinancer, direct)**

We knew we were never going to go over \$550k—it was always going to be around the \$520k, because when we looked at it we wanted to stay conservative so that we weren't paying above our means and what we could afford, and this is comfortable—it's only \$700 repayments more per month compared to rent, so it's quite comfortable and we can still do things to the house. **(First home buyer, broker)**

We really wanted a payment around the same as our rent. We wanted to know that if my husband lost his job then we would be okay still. **(First home buyer, broker)**

Looking around \$500k mark, that's roughly what we think we'd be able to afford and service. That's the ballpark we're looking at with properties around—block of land for \$300k and invest \$200k into developing. **(Non-first home buyer, direct)**

What I give them is our expenses, genuine expenses—to me, I don't want the bank telling me what I can lend [borrow]—I know what I've got the capacity to repay because I know how much I spend each month. **(Non-first home buyer, direct)**

Financial situation and expenses

126 In the qualitative research, all consumers reported having some type of discussion with their lender or broker about their financial situation, including providing information such as payslips and account statements.

Collected the necessary material, completed the forms and scanned and emailed them back. Had to provide, last two pay slips, bank statements and statements of liability that we had and our super balances. **(First home buyer, broker)**

Broker asked me to bring payslips and employment history when I went in. **(Non-first home buyer, unfinished journey)**

Initially, it was just our income, investments, and debts, but once we had chosen a loan and had to make the application it was very detailed (e.g. three months of banking statements, payment summaries for the last three years, proof of assets, every fund and every bank account that you own and the transactions to them), you had to lay your life out for them. **(Non-first home buyer, broker)**

- 127 The extent to which a consumer's financial situation was discussed, and at what stage this occurred, varied. Some consumers had an in-depth discussion about their financial situation with a lender or broker early on (e.g. to help inform the amount they could borrow), while for other consumers a more detailed discussion or provision of documents occurred later.
- 128 While consumers commonly reported discussing or providing information about their assets, liabilities and income, in this report we have focused on information consumers provided about their expenses, as this is often the most variable component of a consumer's financial situation.

Details of expenses

- 129 In the qualitative research, consumers' responses about the type of information the lender or broker asked them to provide about their expenses generally fell into two categories: a general estimate of expenses and detailed information about expenses: see Table 3.

Note: Our observations about the type of information consumers said they provided are subjective as they are based on how a consumer presented this information to us.

Table 3: Information about expenses provided by consumers

Extent of information	Consumer comments
General estimate of expenses	<p>Asked me to fill out an expenses sort of form and the rest I think was the same as what the other broker asked for—credit card limits and stuff, normal loan repayments. (Refinancer, broker)</p> <p>Give my expense details—how much you spend on the house, the car, do you have any loans etc. he asked for that info after the meeting to send all the copies. (Non-first home buyer, broker)</p> <p>Had to provide all IDs and payslips and what our expenditure is. It was just verbally, they filled it out on a computer. I think it was just what we spend on food, any other things we have i.e. credit cards, anything else under finance, bills, and all that sort of stuff to help with affordability to the loan. (Non-first home buyer, direct)</p> <p>All expenses, credit card details, and she asked us verbally—filled it out when we were there. Somethings we didn't have to give evidence. Said what are your expenses—and we said roughly. Didn't have to provide proof because of 20 plus years good record with them. Took our word for it. (Non-first home buyer, direct)</p>

Extent of information	Consumer comments
Detailed information about expenses	<p data-bbox="488 309 1406 432">He [broker] asked me all about my lifestyle and spending habits. Surprised me—questions about how much do you spend personally on healthcare and something else, entertainment, it was a very in-depth look at me to be honest. (Refinancer, unfinished journey)</p> <p data-bbox="488 454 1406 611">Relatively easy, but lengthy would be a good way to describe it—a lot of information that they [broker] required but relatively straightforward. Especially the budget side of things, getting all that data. Your daily living expenses, outgoing bills, rates—going through my records and put it all in a spreadsheet. (Refinancer, unfinished journey)</p> <p data-bbox="488 633 1406 857">[Lenders] have [brought] in all these rules which didn't exist before—before they didn't worry too much about all your expense per fortnight but the last one they were very detailed in your expenses—they wanted to know what your expenses were in every possible area whereas before they didn't worry you too much and didn't have too many questions—so that [Royal] Commission thing has made a big impression on the banks. (Refinancer, unfinished journey)</p> <p data-bbox="488 880 1406 1104">[Lender] asked us to provide list of monthly expenses they came back querying some of the amounts that we put down—cause they have access to our account they can see what we're doing—some of the kids expenses we forget to list—they can see all that—which organisation is taking money from us...I was expecting them to ask about expenses but wasn't expecting them to go through [it] with a fine-tooth comb... (Refinancer, direct)</p> <p data-bbox="488 1126 1406 1283">It's what do you spend [on] entertainment, clothes, in ways it was an eye-opening thing to look at expenditure, but when you actually drill down, well hold on we do spend a bit more than we thought. I don't think previously people looked at things like going out for dinner, it was more how much are the bills that you pay. (First home buyer, direct)</p> <p data-bbox="488 1305 1406 1395">But then they wanted a rundown of how much it costs to send our five-year-old to school—that makes no sense. (First home buyer, broker)</p> <p data-bbox="488 1417 1406 1641">They started nutting down on small one-off expenses—\$50—didn't feel it was necessary. Saying I can see a \$40 purchase at Bunnings—you said that your expenses on the home would be approximately that much—is that an ongoing or a one-off purchase. Can't even remember what it was just a one-off \$40 purchase. Felt like every time I use my card I was going to be scrutinised. (Non-first home buyer, direct)</p>
130	When we asked consumers to tell us about their discussions with a lender or broker about their expenses, some consumers said they believed lenders were tightening their lending standards and that this had led to a greater scrutiny of their expenses.
131	Some consumers thought this was the case based on an awareness of current events, including the Royal Commission. These observations were most commonly made by refinancers and non-first home buyers when comparing their previous experiences.

This time I was on the phone for two-and-a-half hours, two nights in a row discussing my current borrowing capacity—I can't remember doing that the first time. Banks are cracking down on who they're giving money to and the amounts, they're under the spotlight at the moment so that will have something to do with it, you've got the Royal Commission and that sort of thing—that would be the reason.

(Non-first home buyer, direct)

They wanted more info than they asked for initially. I got the impression they were scared to death by the Royal Commission and what the government wanted them to do—being absolutely paranoid, it was ridiculous what they wanted from me. I was really very annoyed and frustrated. **(Refinancer, direct)**

They said because of the Royal Commission they are really looking at—to make sure people are aware of what they can afford...What do you spend a month—about \$1000, then when looked at it closer, \$1500...They specifically stated the Royal Commission. He knew—when you go for the actual loan when finalised that they go back through all of that information and they'll probably want evidence of Foxtel, gas bills, but cross that when we get to it. **(First home buyer, direct)**

We did look at what was on offer from other providers but in the end, it would have been harder to get from another—particularly with what is going on with the banking commission—all our living expenses and income was through that bank, they know precisely what our costs of living are and that kind of stuff, much easier in that way. Better off just going with someone we knew and have an established relationship with. **(Non-first home buyer, direct)**

Broker remuneration

- 132 As set out in REP 516, mortgage brokers typically do not earn a salary and generally do not charge fees directly to consumers. Therefore, most brokers' entire income is derived from commissions. In REP 516 we identified that the standard commission model of upfront and trail commissions has the potential to cause conflicts between the interests of the consumer and the interests of the broker.
- 133 Specifically, there are two primary ways in which these conflicts may manifest themselves:
- (a) a broker could recommend a loan that is larger than the consumer needs or can afford, to maximise their commission payment; and
 - (b) a broker could have an incentive to recommend a loan from a particular lender because they will receive a higher commission, even though that loan may not be the best loan for the consumer.
- 134 In the qualitative research, we discussed with consumers their understanding of how mortgage brokers are paid, including their recollection of any discussions about this with a broker (for those that visited a broker).

- 135 We found that consumer understanding and perception of commissions varied considerably. Even where consumers were aware that a broker received a commission payment, it was not always clear that they understood that a broker is likely to receive different commission payments based on the lender selected, and that this presented a conflict of interest.

Most consumers had some understanding that brokers are remunerated by commission

- 136 In the qualitative research, most consumers had some understanding that a broker is paid by commission.

It will be very easy, I'll just leave everything up to him [broker]—it doesn't cost me a cent and he obviously gets a commission from somewhere. **(Non-first home buyer, broker)**

Quite helpful, felt he was professional, he said he did get paid a commission, we had to sign a form to look into loans, and at the bottom there was an explanation of how much he would earn. **(Refinancer, broker)**

But I'm sure I'm paying for it somewhere, I know that brokers have fees and commissions...one was forthcoming about getting commissions, and explained how that worked, the other wasn't. **(Refinancer, broker)**

The broker has been clear that he makes a proportion off your loan every year, forthcoming, this is the information that he had to give me, had to declare he earned a commission, not shonky. **(Non-first home buyer, broker)**

We asked how he obtains his fees, what comes out of our pocket? Nothing comes from us, it's the banks that pay him. **(First home buyer, unfinished journey)**

- 137 However, some consumers who took out a loan through a broker appeared to not understand the practical application of commissions or simply did not know how brokers are in fact paid.

The broker firm I'm with [broker], doesn't take a commission...they sort it out with the bank, so the bank pays them. It doesn't cost me anything, so that's good. **(Refinancer, broker)**

He said his fee is incorporated into the overall rate somehow—I didn't fully understand that. **(First home buyer, broker)**

Didn't mention anything about that [commission], didn't see anything written. **(First home buyer, broker)**

He [broker] told me there would be some locking for one year if I sell the house or change within one year, and then I have to pay some compensation or something like that, which I did last time. **(Non-first home buyer, completed journey (did not take out a loan))**

138 Some consumers thought that loans may be cheaper if they went direct to a lender rather than a broker because it removed the payment of commission.

They're obviously getting a commission and your interest rates can be higher because of that. But for myself, because it made the process easier I didn't mind in the end regardless. **(First home buyer, broker)**

A lot of institutions like mortgage brokers if they refer a customer to an institution they pay a percentage—there's a percentage that monthly or annually that the mortgage broker will get back and that's throughout a lot of policies. If it affects my interest rate because it's higher to compensate for that. I don't know where it comes from—where they get that from, whether it's a flush fund that the banks have that they pay out or whether it affects each individual borrower or investor. **(Refinancer, direct)**

Even with the commission it was still going to cost me a lot less going with him compared to the banks, so I didn't feel like I was losing money, I felt like it was still a good deal. **(Refinancer, broker)**

The broker gets commission, so if you go direct they don't have to pay the broker then your loan is cheaper, may or may not come off your loan. Broker is supposed to give you a deal based on your circumstances and has access to more products than just one bank, the theory is that they will be across more products than just the bank. **(Non-first home buyer, broker)**

... broker gets a cut, whereas banks don't have to pay the broker so they might offer a cheaper rate. No benefits for broker. **(Non-first home buyer, direct)**

139 Some consumers thought that the broker would work harder for them because they are paid commissions.

...bank asked for over-the-top information—so made it the broker's problem, he had to sort everything out if he wanted his commission—middle man gives more oomph—the broker wants it—wouldn't have the courage to do that to the bank directly. **(Non-first home buyer, broker)**

I think if we get a broker—they'll do the legwork and that's why they get their commission. **(First home buyer, broker)**

It doesn't cost me anything to use the broker, so it's in their best interest to make it work and then they'll get paid. **(Refinancer, completed journey (did not take out a loan))**

140 Some consumers appeared to think that a broker was paid the same commission regardless of the lender—however, in REP 516 we found significant variability in the value of commissions paid by different lenders.

I was confident in his [broker's] answers and that he knew what he was talking about, I liked the fact he was upfront about how these things work for him—he gets remunerated—so that gave me comfort in that he is not steering me to...anyone in particular. The fact he was upfront about it and called out remuneration isn't more for one than another—gave me comfort that he isn't pushing me down the path where he is going to get the most commission.
(Refinancer, unfinished journey)

The broker said he gets the same commission regardless of who I go with. **(First home buyer, broker)**

- 141 Where consumer comments reflected a sound understanding of commissions and the potential for conflicts, some consumers appeared unperturbed by this (and expected that brokers would be acting in their interests anyway), while others cited this as a reason to go direct to a lender.

I know they probably get commission and stuff but I really don't really care about that. The two brokers that I've been recommended to aren't really affiliated with one particular institution, so I don't care because they have to make a salary somehow and as long as I feel like they've got my best interests then I wouldn't mind. If I felt like they were trying to push me somewhere—if I said a redraw facility was important and they were pushing me somewhere that doesn't have it then I would be suss. But I would hope that they would put me with the right institution regardless of commission. **(Refinancer, broker)**

Haven't used a broker—like having control—brokers work on commission so might not suggest a loan from a particular bank if they won't give them commission, they are skewed... **(Non-first home buyer, direct)**

...basically, I feel like they're not really acting in my best interests all the time—they've got preferential products—I'm always concerned that they're getting ongoing trailing commissions—they need to earn a living and I don't begrudge that, but the reality is I don't want something trickling out of my pocket and into theirs. **(First home buyer, completed journey (did not take out a loan))**

Broker behaviour that may be driven by commissions

Preferred lenders

- 142 In REP 516, we found that despite broker businesses having access to a range of lenders, in practice broker businesses tended to recommend loans from a much smaller number of lenders.
- 143 Unprompted comments from some consumers suggested they were aware that a broker had preferred lenders (based on past or current experience), often with reference to a sense that a broker was 'pushing' a certain product.

Did deal briefly with [broker] and I felt that they pushed their own products, the products they had in mind, rather than something that suited us. **(First home buyer, unfinished journey)**

I thought she [broker] would be more helpful, but maybe her commission from [major bank] is higher than anyone else. She always said it is easier with [major bank] if you are self-employed because [major bank] isn't as strict as the other banks about that, but I'm not sure how true that is. **(Refinancer, unfinished journey)**

I'm always a bit cockeyed about it, because you think to yourself, is the broker just offering you their preferred lenders? Some people are really blatant. One broker in the past gave me only [non-major bank] options, and then gave me a [non-major bank] pen to sign the contract with! **(Non-first home buyer, direct)**

I went and did an online buying power calculator tool, put in details and then the broker gave me a call. He worked for one of the mortgage companies...he was pushing me to go with one over the other. He wanted me to go with a company that wouldn't offer me an offset account. **(Non-first home buyer, unfinished journey)**

Borrowing capacity

144 There were instances where some consumers said that they felt the broker had encouraged them to borrow more than they needed or had suggested a strategy they were not comfortable with.

Slightly sales-y which was a bit disappointing but then again that's what you're doing. Kind of pushed a little bit in a direction where I should buy for a slightly higher amount to borrow as opposed to where we had our sight sets initially. We had 4 to 5 hundred [thousand], [the broker] recommended 607 [thousand]. Understand why he did that because he makes a better commission and what not. He suggested a different area to buy in. **(First home buyer, unfinished journey)**

We found that basically he [broker] was pushing certain things on us. We found it like going to see a sales person...trying to extend the amount we were going to borrow, not taking our personal circumstances into play...he said, for example, we have some other rental income, but we didn't want to stretch ourselves but he was keen on increasing the loan amount further and further. Was way beyond what we were comfortable with. **(Non-first home buyer, unfinished journey)**

It was with [non-bank lender] and [non-major bank]—two online banks which I think are the same bank just rebranded. Offering everyone the lower rates, and he was really trying to push that on me...He then tried to throw information down our throats and pushed us in a direction—he wanted me to refinance current and then put it into one single name so both would be both through him which didn't leave much protection. **(Refinancer, unfinished journey)**

Retention

145 We also identified one instance where a consumer found a broker's behaviour particularly problematic in relation to refinancing a loan using a new broker. Specifically, the consumer had moved interstate and decided to refinance their loan and use a broker closer to them rather than their previous broker who had initially secured them the loan.

He [previous broker] didn't cooperate with the new broker down here—wouldn't cooperate, wouldn't hand over the information...ignored our phone calls, ignored our requests, very unprofessional...he won't let any of his staff deal with us, he won't deal with us directly, won't give any info to his staff to answer questions, he is like the gatekeeper.

He didn't want to release the loans to someone else because he would lose the income that he makes off that...we can't work it out—and he was only losing one of the loans, he wasn't losing all of them, we just can't make sense of it at all.

C Deciding on a home loan

Key points

How consumers reached a loan decision varied.

Some consumers who went to a broker were only provided with a single loan recommendation and unless the consumer actively asked to be presented with alternatives or continued 'shopping around', the home loan decision was predominantly influenced by the broker.

Some consumers took control of the decision—these consumers were likely to go direct to a lender to take out their home loan. But consumers who went to a broker commonly weighed up loan options presented to them as well.

Where consumers had home loan options to compare, we found that they rarely compared options in any formal, methodical way. While consumers appeared to consider aspects of the loan (e.g. interest rates, fees, features), they were less likely to compare potential savings between options.

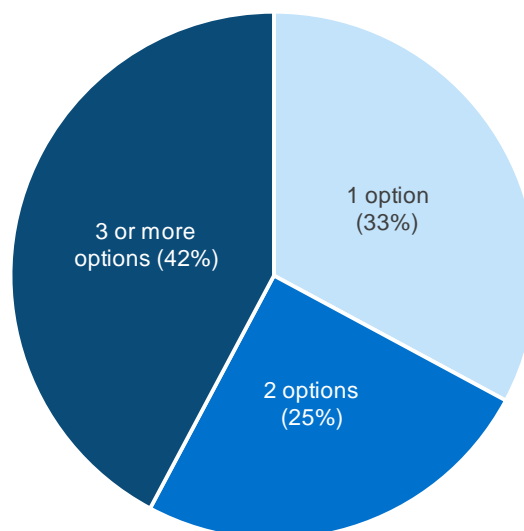
Note: In this section, 'loan options' generally refers to loans from different lenders for consumers who took out a loan through a broker compared to different types of loans (e.g. a variable or fixed-rate home loan) for consumers who went direct to a lender.

Loan options (mortgage brokers)

146

In the survey, most consumers (58%) who took out their home loan through a broker said they were provided with one or two home loan options: see Figure 12.

Figure 12: Number of loan options provided by brokers



Question: How many home loans were presented by the broker? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months, who took out a loan through a mortgage broker and selected more than 0 options (n=417).

Note: See Table 18 for the data shown in this figure (accessible version).

- 147 In the qualitative research, consumers were provided with anywhere from one to six home loan options by a mortgage broker. How home loan options were presented varied greatly, as did the consumer's decision-making process.

One loan recommendation

- 148 In the qualitative research, consumers provided with a single loan recommendation from a broker were usually first home buyers or consumers with potentially restrictive or unusual circumstances that might have limited their ability to get a loan.

First home buyers

- 149 When a first home buyer was presented with only one loan recommendation from a broker, there were mixed reactions.

[The broker] didn't really show us products I guess—he said to us what's the most important—and we said we need a good interest rate—his goal was to not overwhelm us with 15 different options just get us the best one which fitted what we needed. **(First home buyer, broker)**

So, the approval that's currently underway, I don't really know the details of it at this point. Don't know anything, bank, rate etc...The broker didn't give us a choice—initially she asked what we wanted, I wanted a fixed loan for two years and wanted to be able to pay more than the repayments and not be penalised. So, I wanted something that could do both and basically this was the only one which came back with those conditions. But when it came to signing for the loan, we didn't have a choice and we sort of [gave] our blessing to do what she needed to get it done. **(First home buyer, broker)**

The broker went through options and how much money I could borrow and my income and expenses and what he could lend and recommended [credit union] and put an application in for pre-approval. **(First home buyer, broker)**

- 150 In some instances, first home buyers expressed doubt about the loan recommendation. However, they proceeded with the loan anyway, possibly due to a desire to secure a loan (some consumers even indicating that they may refinance later).

Never really given an option because this was our only option. Did a bit of online—googling—to google this bank because I've never heard of them before—and the review[s] online were not positive and I said to the broker, they don't have good reviews but he said yeah, but this is the bank that is happy to proceed with your home loan. **(First home buyer, broker)**

[T]hought let's just get this going with what is presented to me, potentially down the track would change. **(First home buyer, broker)**

- 151 More than any other type of consumer, first home buyers were most likely to mention that in hindsight they could have asked more questions of the broker about the home loan products available.

I guess that I should have asked more questions about who we could go with and got a bit more of a range of options rather than just the one real option we were provided. **(First home buyer, broker)**

...but I probably didn't go into the nitty gritty as much with what products will be available and that sort of thing and why to choose one product over another. **(First home buyer, broker)**

Consumers with circumstances that might limit the ability to get a loan

- 152 Consumers who had restrictive or unusual circumstances that might have limited their ability to get a loan (e.g. casual or short-term employment) tended to only be provided with a single loan recommendation. The loan recommendation was often presented to the consumer as the only available option (or similar).

[The broker] has access to heaps of options and said this is our only chance so I'm really just trusting her on that. **(Refinancer, broker)**

Pretty much just this one [loan option]. Impression I got from the broker—when he did the research—he said this was the bank that was happy to proceed with our loan. A lot of the other banks were not keen on the idea of being interstate. **(First home buyer, broker)**

She [broker] only had the one option. With their criteria they're the only bank that will take the amount of time that I've been in my casual job. **(Refinancer, broker)**

[The broker] went through all of the scenarios for me. Because I have a unique scenario, I was only provided with the one option. **(First home buyer, broker)**

- 153 In nearly all cases, this type of consumer appeared to simply take out the loan that was presented to them and put full trust in the accuracy of the representations made to them: see Case study 5.

Case study 5: Unusual circumstances and getting a loan (broker)

Alex and his wife, Sumi, were both teachers and they had three kids. They wanted to refinance their home loan to borrow more money for renovations.

They contacted a mortgage broker because they thought a 'broker would have more of your best interest at heart'. The broker visited them at their home, 'crunched' their numbers, and detected a 'hiccup'.

Case study 5: Unusual circumstances and getting a loan (broker) (cont.)

Alex explained that Sumi's job was 'not what you could consider a proper job'—she does tutoring here and there'. The broker told them they would need a 'return to work letter' from Sumi's school and that 'their choices will be limited'.

Alex said that they didn't ask the broker too many questions; they were just keen to know 'is it possible to do what we want to do?'

After further work, the broker came back to them and advised them that they should get their loan with a major bank because this was 'the only viable option'. The couple refinanced their loan with the major bank recommended by the broker.

Multiple loan options

154 Where consumers were presented with multiple loan options, the approach they took to decide which loan they would take out varied. Sometimes it appeared that the consumer made their decision on their own; at other times their decision appeared to be influenced by the broker: see Table 4.

Table 4: Home loan options and making a decision

Type of consumer	How options were presented	Decision the consumer made
First home buyer	...he mentioned there are two options [Lender A (major bank)] and [Lender B (major bank)]. But based on our circumstances he put forward [Lender B (major bank)]. He didn't communicate much about the second option.	...he [broker] said [Lender B] was a better option for us. [Lender B] has an offset account and a good interest rate.
First home buyer	He showed us the five lender options, [Lender A (non-major bank)], [Lender B (building society)] husband bank[s] with them, [Lender C (major bank)], [Lender D (non-major bank)], [Lender E (non-major bank)].	...based on the numbers, [we] decided to pursue [Lender B], had good redrawing facilities and there was no establishment cost and it had a really competitive interest rate, cheapest out of all—it and [Lender D] were very similar but [Lender D] had higher establishment costs.
Refinancer	We were able to choose from four options...	But there was one option that the broker said would be a lot better, it's not one of the big 4 banks, it's a small bank, we were told they are really flexible, interest rate is a little bit lower than Big 4 is offering.

Type of consumer	How options were presented	Decision the consumer made
Non-first home buyer	Around three options...he said these are the options we've got.	I went back home and told my husband—because we already deal with [Lender A (major bank)]—and their fees are a lot better—annual fee of \$365—because we have a lot of loans with them they waive a lot of fees for us—so that was another thing that made us choose [Lender A].
Non-first home buyer	He put three [options] in front of me including the one I went with...he knows where the market is but I asked him even though he knows the market, I wanted him to check other banks and lenders—current home loan is with [Lender A (major bank)].	On the spot in his office—know the broker and have used him before ...knew he was tough in doing all the right things and making sure he covered everything so I was confident that he provided the best choices. [Lender A] would give me the most so went with them in the end.
Non-first home buyer	[Broker] recommended [Lender A (non-major bank)] to me. They also recommended [Lender B (non-major bank)] and [Lender C (non-major bank)]. Usually they say they don't like to overwhelm you.	And out of the three, I picked [Lender A]. The rates were fairly equal across the board, take a tiny 1/10ths of a coin. Not one that needs to go to a counter, so I don't mind an online bank. A couple of friends had recently used them. They had offset accounts. Everything I wanted.

Other insights about loan decision-making and mortgage brokers

- 155 In a small number of cases, while some consumers said they were provided with options from their broker, in fact it appeared that some or all of the options were from the same lender.
- He had three options that he recommended, all three of which were with [non-major bank]. One was interest-only, one was 'P&I', one was something else about two investment loans...I asked him why he had just offered all [non-major bank] options. He just said because they were the best. **(Non-first home buyer, broker)**
- 156 In some cases, it seemed that consumers did not fully understand or could not explain why a broker had recommended a certain loan or loan options.
- He had a laptop out and it had pages and pages—he provided us with the top three basic and the top three with an offset account.

I'm not sure how they were calculated—whether they were the most popular. **(First home buyer, broker)**

- 157 A small number of consumers were unhappy with the loan options presented to them and asked the broker to provide them with options they considered would be more suitable: see Case study 6.

Case study 6: Consumers who asked a broker for more options

Tracy and Francis were buying their first home. They decided to use a broker because 'it would just be better to go to someone who knows more about what we're doing than what we do'.

Tracy and Francis wanted a loan with a 'competitive rate'.

They visited a broker who was recommended to them by Tracy's sister. The broker suggested that they take out their loan with a non-major bank (Lender A)—a loan with an offset account that had an interest rate of 4.91%. Tracy and Francis found it odd that the broker only recommended one loan and concluded that it was because 'that's the one he usually recommends for whatever reason'.

Tracy and Francis told the broker that they currently do their banking with another lender, a non-major bank (Lender B), and that they would like the broker to 'suss out' that lender. The broker came back and told them he could get them a loan with Lender B at 3.78% (the broker was also able to negotiate the loan with the other lender they had recommended to 3.99%).

The broker told them that while Lender B had a better rate, they would 'need to check their short-term policy as well' because Francis had recently changed jobs. Tracy and Francis also thought that this may have been a reason why the broker had suggested Lender A: 'he [broker] might've been able to get approval quicker with [Lender A] because he is more familiar with their short-term employment policy'.

Tracy and Francis took their loan out with Lender B.

How consumers evaluate home loan options

- 158 As with consumers who took out their loan through a broker, consumers who engaged directly with a lender may have been provided with different home loan options (e.g. a variable or fixed loan, a 'basic' loan or a 'package').
- 159 However, in comparison with loan options provided by a broker, all options were from that lender—this appeared to be well understood by consumers.

I went with [credit union]—I saw their ad, did a bit of research, found them quite easy to deal with so I just went with them...They had around three or four variable products, and a couple of fixed products as well, they gave me all the options and I chose to have a split arrangement. **(Refinancer, direct)**

- 160 In the qualitative research, only some consumer journeys involved weighing up two or more home loan options (i.e. two or more quotes consumers had obtained directly themselves or from a broker).
- 161 Where consumers had two or more home loan options to compare, they typically weighed up their options in a very general sense, comparing features of the loan such as interest rates and fees: see Table 4.
- 162 In the qualitative research, most consumers who weighed up home loan options (regardless of channel) opted for the home loan with the lowest interest rate, but this was not always the case. We found that some consumers chose a home loan with a higher interest rate because they valued factors such as:
- (a) the convenience of staying with their existing lender; and
 - (b) features such as offset accounts and packages.
- 163 Where consumers were taking out a loan and were aware that they could in fact obtain a loan with a lower interest rate, rarely did we see consumers compare loans systematically and quantify potentially cheaper alternatives: see Case study 7.

Case study 7: Refinancer who took out a home loan with a higher interest rate

Terry wanted to buy an investment property. He had been with a major bank lender for many years, having had two previous loans with them.

At the start of his home loan journey, Terry said:

- he will shop around to 'haggle the best deal'; and
- he was not 'totally attached to them [current lender]—I was after the best deal'.

Terry said that 'he likes having control' and therefore decided not to use a broker.

Terry approached one other lender before settling on a home loan with his current lender. He received an offer of 3.6 'something' from the other lender. But Terry decided that while the rate was a lot lower than his current lender's rate, the offer 'wasn't nearly as good'. There was over one percentage point difference between the two home loan offers.

Terry decided to take out the loan with the higher interest rate because of the 'package deal' and because he can keep 'redrawing off it as much as I want and not be charged any fees'.

Terry did not make any attempt to quantify whether he would in fact save money if he took out the loan with a lower interest rate. He reflected that 'I'm pleased because I sorta shopped around and came to the conclusion of which one is the best one, I feel relatively content'.

164 Also, in some instances, consumers had some awareness that they could perhaps get a better interest rate on a home loan, but simply wanted to finish the process.

He [broker] is getting me the interest rate of 3.66%. Recently I started looking at some ads and some of the smaller banks...they were offering 3.64%. I'm thinking I might check how much I can get with them as well. I'm more inclined just sticking with my broker and leaving all the information for him...instead of going to a new bank or a lender and doing the whole process again. I have had enough, it's too much time off work already. **(First home buyer, broker)**

Broker only presented one option and I felt compelled to proceed with that one. I was also quite complacent about the interest rate—I'm of the understanding that it isn't the best...let's just get it and we can change it further down the track. **(First home buyer, broker)**

Do consumers think they got the 'best' interest rate?

165 Based on the findings noted above, not all consumers take out a home loan and feel they have obtained a loan that offers the 'best' interest rate. This is in contrast to the way many consumers started their journey, by seeking a loan that had a 'low' or 'competitive' interest rate.

166 In the qualitative research, we found that as consumers progressed along the home loan journey, they became more influenced by other factors such as the convenience of staying with an existing lender (or a lender they had an existing banking relationship with), home loan features such as offset accounts and simply a desire to secure a loan.

167 For those consumers in the qualitative research who completed their home loan journey, some struggled to even recall the interest rate of their new home loan.

Don't know what it [interest rate] is. I think it changes when it gets approved. **(First home buyer, broker)**

Don't really want to think about how much interest we're paying—but it's something obscene but I can't remember. **(First home buyer, broker)**

Can't really remember interest rate, four point something. **(Non-first home buyer, broker)**

168 Further, in the survey, when we asked consumers to specify the interest rate of their new loan, 34% said that they didn't know it.

169 We also asked consumers in the survey to tell us how they felt about the interest rate they ultimately obtained on their loan. Only 74% of consumers felt they received ‘close to the best rate’ they could get, while 26% of consumers were either unsure whether they had received a good interest rate or felt they could have got a better rate: see Figure 13.

Figure 13: Consumer responses about interest rates



Question: Which statement best describes how you feel about the interest rate you ended up with? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945).

Note: See

Table 19 for the data shown in this figure (accessible version).

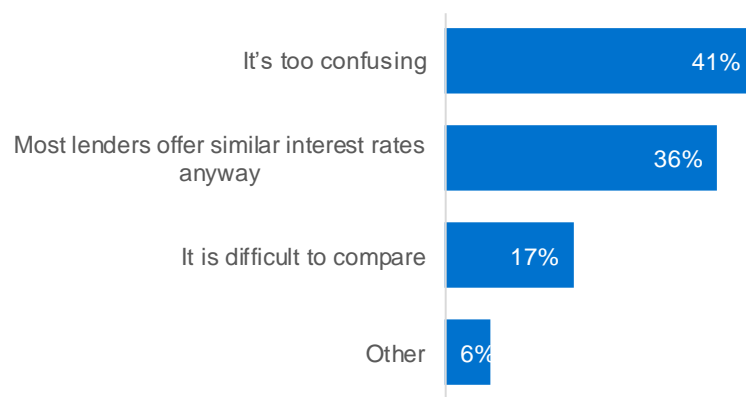
170 We also asked consumers to tell us more about the reasons why they felt the way they did about their home loan interest rate.

I think it is close to the best rate I could get

171 The responses consumers selected for believing they received close to the best rate they could get are set out in Figure 6 in Section A. In summary, we found that consumers who went through a mortgage broker were more than twice as likely to believe that the broker got them the best interest rate available (42%) compared to consumers who took out their loan direct with a lender (17%).

I am not sure whether it is a good rate

172 Most consumers who were not sure whether they got a good rate said that this was due to it being ‘too confusing’ to know: see Figure 14.

Figure 14: Why consumers were unsure whether they got a good rate

Question: Why are you not sure whether it is a good rate? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and who selected that they were unsure whether they got a good rate (n=78).

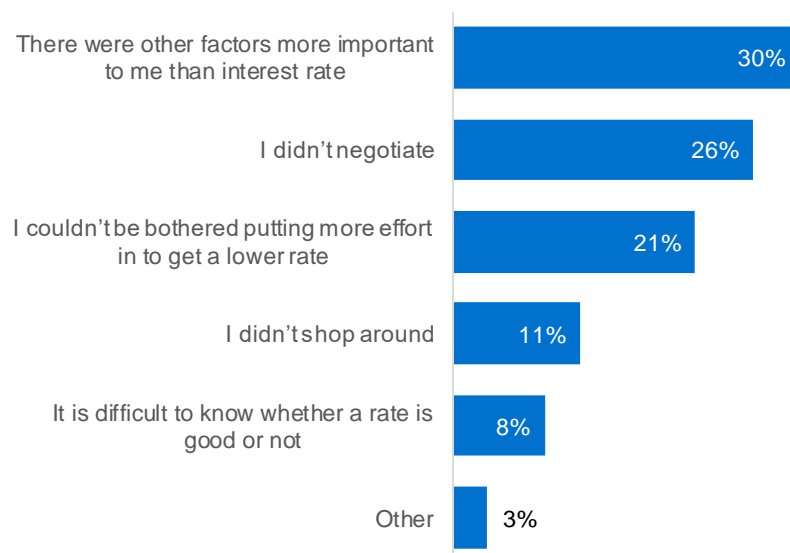
Note: See Table 20 for the data shown in this figure (accessible version).

I think I could have got a better rate

173

For consumers who felt they could have got a better rate, we found that:

- (a) 30% prioritised 'other factors' above the interest rate (see paragraph 162);
- (b) 26% felt that they hadn't negotiated; and
- (c) almost one third of consumers either 'couldn't be bothered putting more effort in' (21%) or 'didn't shop around' (11%): see Figure 15.

Figure 15: Why consumers believed they could have got a better rate

Question: Why do you think you could have got a better rate? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and who selected that they could have got a better rate (n=167). Percentages shown in the figure are rounded to the nearest unit. This means the sum of individual values shown may not equal 100% because of rounding.

Note: See Table 21 for the data shown in this figure (accessible version).

- 174 In total 26% of consumers either were unsure whether they received a good interest rate or felt they could have got a better rate. Of those who felt they could have obtained a better rate on their home loan, 30% (n=50) prioritised 'other factors' above the interest rate. Taking this into consideration, one in five consumers (21%) either were unsure whether they received a good interest rate or felt they could have got a better rate due to reasons that suggest confusion, indifference or exhaustion.

D Managing a home loan

Key points

One in 10 consumers who had taken out a home loan in the last 12 months said they had missed or were struggling to meet their repayments.

Most of the consumers who said that they had missed or were struggling to meet their repayments thought they would have to change their spending habits before taking out their home loan.

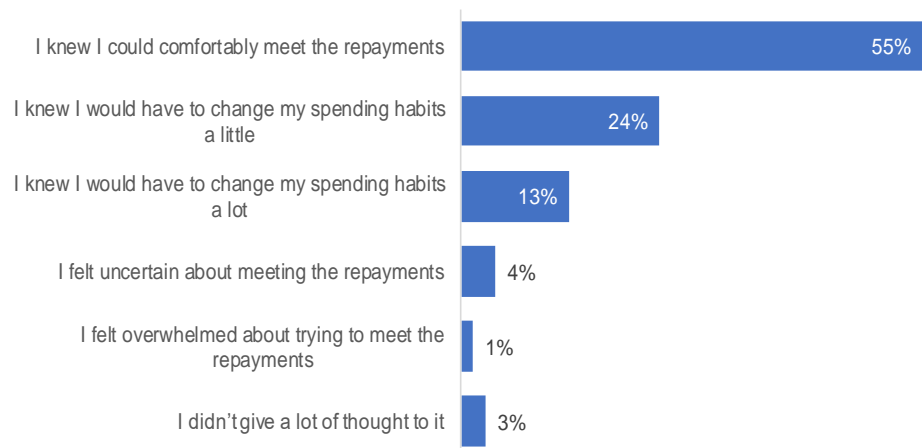
Meeting repayments

175 The findings in this section are based largely on the survey where we asked consumers who had obtained a home loan in the last 12 months about how they were managing repayments on their home loan.

176 However, we thought it would be useful to first set out consumer responses from the survey about how they had thought they would meet the repayments of their loan before taking it out.

How consumers felt about how they would meet the repayments on their home loan

177 In the survey, 97% of consumers who had recently obtained a home loan in the last 12 months indicated that they had considered how they would meet the repayments on their loan. Specifically, most consumers felt they could comfortably meet repayments on a home loan (55%) or would need to change their spending habits ‘a little’ (24%), before taking out the loan: see Figure 16.

Figure 16: Initial comfort in meeting repayments

Question: Prior to taking out your new loan, what best describes how you felt about meeting the repayments of the loan? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months (n=945).

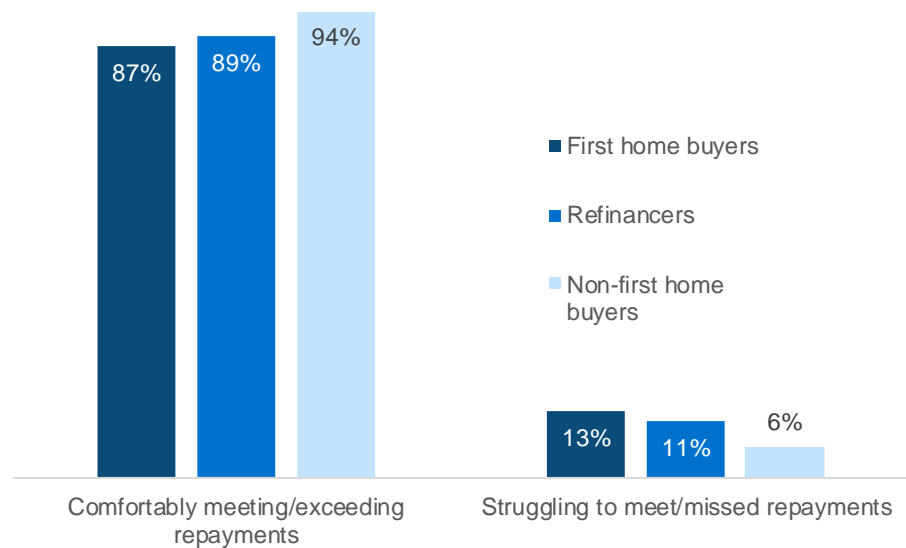
Note: See Table 22 for the data shown in this figure (accessible version).

178 Additional findings on how consumers felt about meeting repayments on their loan before taking it out include:

- (a) consumers who took their loan out direct with a lender were more likely to initially think they could comfortably meet repayments on a home loan (63%) than consumers who took their loan out through a mortgage broker (45%); and
- (b) first home buyers were most likely to indicate that they knew they would have to change their spending habits a little or a lot (46%) compared to a refinancer (35%) or non-first home buyer (32%).

How consumers are actually meeting the repayments on their home loan

179 Most consumers (89.5%) who had taken out a home loan in the last 12 months and started making repayments were either comfortably meeting or exceeding their repayments. The remaining consumers (10.5%) said they had either missed at least one repayment (1.5%) or were struggling to meet the repayments on their home loan (9%). These consumers were more likely to be a first home buyer (13%) or refinancer (11%) than a non-first home buyer (6%): Figure 17.

Figure 17: Current comfort in meeting repayments, by borrower type

Question: Now that you have the new loan, what best describes your level of comfort in meeting your repayments? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and who had made repayments on the home loan (n=912).

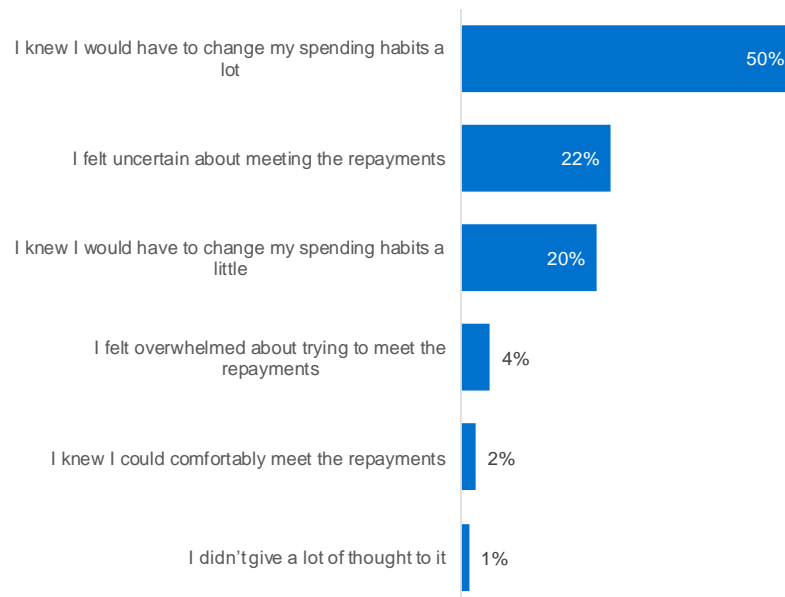
Note: See Table 23 for the data shown in this figure (accessible version).

Consumers who had missed or were struggling to meet their repayments

180

Most of the consumers who said they either had missed repayments or were struggling to meet their repayments had initially thought they would have to change their spending habits a little (20%) or a lot (50%) before taking out a loan. A further 22% said they initially felt uncertain about meeting repayments upon taking out their loan: see Figure 18.

Figure 18: Initial thoughts on meeting loan repayments (consumers who had missed/struggling to meet repayments)



Question: Prior to taking out your new loan, what best describes how you felt about meeting the repayments of the loan? Single response only.

Base: Consumers who had taken out a home loan in the last 12 months and stated that they had missed at least one repayment or were struggling to meet their repayments (n=94). Percentages shown in the figure are rounded to the nearest unit. This means the sum of individual values shown may not equal 100% because of rounding.

Note: See Table 24 for the data shown in this figure (accessible version).

- 181 The survey results show a relatively high proportion of consumers self-perceiving a level of financial pressure within 12 months of entering into a new loan.
- 182 As discussed in paragraph 168, most consumers in the qualitative research had generally given thought to the affordability of the loan and their comments usually reflected a level of caution about taking on too much debt. Taking this into consideration, these findings possibly suggest that even though consumers are aware that they may need to tighten their spending habits when they take out a loan, they may be underestimating the changes they need to make.

Appendix 1: Methodology

- 183 In January 2018, ASIC commissioned Colmar Brunton Pty Ltd to undertake consumer research involving:
- (a) a *qualitative* component in the form of interviews with over 300 consumers; and
 - (b) a *quantitative* component with a consumer survey of 2,068 respondents.

Qualitative research

- 184 We recruited 374 consumers across three different segments:
- (a) first home buyers;
 - (b) refinancers; and
 - (c) non-first home buyers, which included consumers who were taking out a new home loan but not for the first time (excluding refinancers).
- 185 To be eligible to participate in the qualitative research, consumers had to be planning to buy a home or investment property or to refinance any of their existing home loans within the next six months. To ensure that we followed a sufficient number of consumers completing their entire home loan journey (i.e. reaching final approval of a home loan), 30% of participants we recruited had already received pre-approval on a home loan.
- 186 The sample of consumers we recruited was based on current industry data including housing finance data from the Australian Bureau of Statistics.
- 187 We began the interviews in early March 2018 and concluded them in September 2018. Initial interviews were conducted with all recruited consumers. Further interviews were held with consumers when they indicated (via an online diary) that an event of significance had occurred (e.g. engaging with a lender/broker or deciding on their home loan).
- 188 A total of 118 participants completed their home loan journey. This included:
- (a) 97 consumers who obtained approval on a home loan and may have progressed to settlement; and
 - (b) 21 consumers who intentionally chose to conclude their journey without taking out a home loan (e.g. because they could not successfully borrow the amount they were after and decided to stop looking for a home loan, or because their personal or financial circumstances changed).
- 189 At the end of the research, 187 participants were still ‘active’ in their home loan journey.
- 190 Table 5 summarises the consumers we recruited and their progression during the qualitative research.

Table 5: Overview of consumers in the qualitative research

Type of consumer (channel)	Consumers recruited	Consumers who completed their journey	Consumers who dropped out of the research
First home buyer (lender)	37	11	9
First home buyer (broker)	52	21	5
Refinancer (lender)	57	21	7
Refinancer (broker)	52	17	15
Non-first home buyer (lender)	83	20	13
Non-first home buyer (broker)	93	28	16
Total	374	118	65

191

Table 6 summarises the questions consumers were asked in the qualitative research.

Table 6: Qualitative research—Summary of questions

Theme	Summary of questions
Getting started	<ul style="list-style-type: none"> • What type of property are you looking for? • How did you know where to start? • <i>Refinancers</i>: Why are you refinancing? • What do you already know about the home loan you would need/want? • How did you come to know what you would like in a home loan? • What research or information have you sought or received in relation to the home loan process? • What resources did you use to do your research? • Who did you ask for advice or information? • What is important to you in the process of getting a home loan? What features are important? Why? • To what extent have you thought about how much you will borrow? Why? • How are you feeling about the home loan journey ahead?
Decision to use a lender or broker	<ul style="list-style-type: none"> • Have you decided whether you are going to go direct to a lender or through a broker? Are you leaning one way or the other at this stage? How come? • What are the benefits of going direct to a lender? What are the benefits of going direct to a broker? • Where a consumer has engaged a lender or broker: <ul style="list-style-type: none"> – Why did you visit a lender/broker? – How many brokers or lenders have you visited? Tell me about your experiences. – Why did you/didn't you visit more than one broker or lender? – What were/would have been the benefits of going direct to a lender/broker than a broker/lender? – Did you have an existing relationship with the broker/lender?

Theme	Summary of questions
Interactions with lender/broker	<ul style="list-style-type: none"> • What lender/broker did you select? Why? • What questions did the lender/broker ask you? What did the lender/broker want to know about you? Did you discuss: <ul style="list-style-type: none"> – Financial situation – Expenses – Savings/deposit – Interest rates – Fees – <i>Brokers</i>: Remuneration • What information did you provide to the lender/broker? • How did you determine what your expenses are? How did you calculate this? • How did you feel when talking to the lender/broker? • After meeting with the lender/broker did any of your views change? What suggestions or advice did the broker/lender give you? How confident were you in any advice they gave to you? • Has the lender/broker influenced any features of the loan such as the type, or size etc? • What will you do next? Why?
Loan decision	<ul style="list-style-type: none"> • Have you decided which home loan you will take out? • How many options did the broker/lender present to you? • What were the options presented to you? How did they differ? • How long did it take for you to make up your mind? • What did you do to review/compare the different loans that were offered to you? • How did you select which loan and lender to go with? What had the greatest impact on your decision? • How did you feel through the process of reviewing loans and making a selection?
Approval	<ul style="list-style-type: none"> • How do you feel now about the home loan you chose? • How aligned is the loan you chose to what you thought you would initially get? • Tell me what you can about the home loan you have applied for, such as: <ul style="list-style-type: none"> – Interest rate – Type (investment, owner-occupier, principal and interest, interest only etc.) – Features (offset, redraw, package etc.) – Fees and charges – Lender name – Product name – Amount borrowed • <i>Interest-only loan</i>: How did you become aware of interest-only loans? Why do you think it suits your needs? How long is the loan for? • Are there any features of the loan you are unsure about? • Was your loan approved? • If your loan wasn't approved: <ul style="list-style-type: none"> – Why not? – Did the lender/broker provide any guidance or suggestions on what to do next?
Conclusion	<ul style="list-style-type: none"> • Now that you have the loan, how are you feeling about the entire process? • What worked well? What could be improved? • What advice would you give to someone just starting out on this journey?

Quantitative research: Consumer survey

- 192 The quantitative research involved a 15-minute online consumer survey conducted with 2,068 consumers between 20 September and 4 October 2018.
- 193 The research focused on two groups of consumers. The first group comprised 945 consumers who had bought or refinanced a property in the previous 12 months. Of these, 202 were first home buyers, 471 were refinancers and 272 were non-first home buyers. The second group comprised 1,123 consumers who were planning to buy or refinance a property in the next 12 months. Of these, 289 were first home buyers, 492 were refinancers and 342 were non-first home buyers.
- 194 A stratified sampling approach was used to ensure that a sufficient sample size was achieved in each state and territory, alongside gender and age.

Limitations of the research

Data was self-reported

- 195 The data collected through the qualitative research and the survey was based on the perceptions and experiences of the consumer and may have limitations in accurately representing the lender's or broker's behaviour and advice.

Recall bias

- 196 Consumers may have experienced recall bias, caused by the passage of time and possible differences in the accuracy of their recollection of events which occurred in the past.

Unintended external factors

- 197 Some consumers started referring to the Royal Commission and 'tighter lending conditions' in the later stages of the qualitative research interviews. It is possible that consumers' journeys may have changed because of these external factors.

Appendix 2: Accessible versions of figures

198

This appendix is for people with visual or other impairments. It provides accessible versions of the figures included in this report.

Table 7: Research conducted before approaching a lender or broker

Extent of research	Percentage
I did a lot of research	22%
I did some research	36%
I did a little research	32%
I did not do any research	10%

Note: This is the data contained in Figure 1.

Table 8: Information consumers were *keen to find* when conducting home loan research

Desired information	Percentage
What is a good/competitive interest rate	79%
Who can provide me with the best home loan deal	67%
Different types of home loans	65%
Options and features available on home loans	64%
What my borrowing capacity is	61%
Who I need to speak to, to get a home loan	34%
The steps to get a home loan	34%
The steps to refinance	21%

Note: This is the data contained in Figure 2.

Table 9: Information consumers found *difficult to find* when conducting home research

Difficult to find/missing information	Percentage
Who can provide me with the best home loan deal	25%
What is a good/competitive interest rate	19%

Difficult to find/missing information	Percentage
What my borrowing capacity is	17%
Options and features available on home loans	15%
Different types of home loan	11%
Who I need to speak to, to get a home loan	9%
The steps to get a home loan	9%
The steps to refinance	8%

Note: This is the data contained in Figure 3.

Table 10: Proportion of consumers who took out their loan direct with a lender or through a broker

Channel	Percentage
Direct to a lender	56%
Mortgage broker	44%

Note: This is the data contained in Figure 4.

Table 11: Consumers who recently took out/refinanced a loan, by channel and borrower type

Borrower type	Mortgage broker	Direct to a lender
First home buyer	53%	47%
Refinancer	44%	56%
Non-first home buyer	38%	62%

Note: This is the data contained in Figure 5.

Table 12: Reasons consumers believed they got the best interest rate, by channel

Reason for best interest rate	Lender	Broker
I trusted the lender/broker got the best rate available	17%	42%
I shopped around	35%	27%
It is a better interest rate than what I was paying on my previous loan	16%	9%
Most lenders offer similar interest rates anyway	13%	4%
I have talked to others (e.g. friends, family)	9%	9%

Reason for best interest rate	Lender	Broker
I feel like I was a strong negotiator	8%	7%
Other	4%	3%

Note: This is the data contained in Figure 6.

Table 13: ‘Shopping around’ with providers (lenders or brokers)

Borrower type	Visited only one provider	Visited two providers	Visited three or more providers
First home buyer	24%	27%	50%
Refinancers	40%	25%	35%
Non-first home buyers	45%	27%	28%
All consumers	38%	26%	36%

Note: This is the data contained in Figure 7.

Table 14: Main reasons consumers took out their loan with a lender

Reason	Percentage
Existing relationship/I have used them before	37%
Provide the best deal	18%
You cut out the ‘middle man’ going direct to a lender	10%
Knowledge and expertise	9%
Do work for me/provide personalised service	5%
They were recommended to me	4%
I am more likely to get a home loan approved	3%
Provide me with access to a wider range of loans	2%
They act in my best interests	2%
They are independent	2%
Offer flexibility in when I can see/talk to them	2%
Other	6%

Note: This is the data contained in Figure 8.

Table 15: Main reasons consumers took out their loan through a broker

Reason	Percentage
Knowledge and expertise	17%
Do work for me	16%
I have used them before	15%
Provide the best deal	14%
They were recommended to me	10%
Provide me with access to a wider range of loans	8%
They act in my best interests	7%
I am more likely to get a home loan approved	6%
They are independent	3%
Offer flexibility in when I can see/talk to them	2%
Other	2%

Note: This is the data contained in Figure 9.

Table 16: Consumer understanding of the home loan they wanted, by channel

Channel	I knew exactly what I wanted	I had a pretty good idea	I had a bit of an idea	I had no idea
Direct to a lender	19%	40%	30%	10%
Mortgage broker	8%	30%	44%	18%

Note: This is the data contained in Figure 10.

Table 17: Extent of research conducted before approaching a lender or broker, by channel

Channel	I did a lot of research	I did some research	I did a little research	I did not do any research
Direct to a lender	25%	41%	24%	10%
Mortgage broker	18%	31%	41%	10%

Note: This is the data contained in Figure 11.

Table 18: Number of loan options provided by brokers

Number of options provided	Percentage
1 option	33%

Number of options provided	Percentage
2 options	25%
3 or more options	42%

Note: This is the data contained in Figure 12.

Table 19: Consumer responses about interest rates

Statements about interest rates	Percentage
I think it is close to the best rate I could get	74%
I could have got a better rate	18%
I am not sure whether it is a good rate	8%

Note: This is the data contained in Figure 13.

Table 20: Why consumers were unsure whether they got a good rate

Reasons for being unsure if got a good interest rate	Percentage
It's too confusing	41%
Most lenders offer similar interest rates anyway	36%
It is difficult to compare	17%
Other	6%

Note: This is the data contained in Figure 14.

Table 21: Why consumers believed they could have got a better rate

Reasons for not getting best interest rate	Percentage
There were other factors more important to me than interest rate	30%
I didn't negotiate	26%
I couldn't be bothered putting more effort in to get a lower rate	21%
I didn't shop around	11%
It is difficult to know whether a rate is good or not	8%
Other	3%

Note: This is the data contained in Figure 15.

Table 22: Initial comfort in meeting repayments

Repayment comfort	Percentage
I knew I could comfortably meet the repayments	55%
I knew I would have to change my spending habits a little	24%
I knew I would have to change my spending habits a lot	13%
I felt uncertain about meeting the repayments	4%
I felt overwhelmed about trying to meet the repayments	1%
I didn't give a lot of thought to it	3%

Note: This is the data contained in Figure 16.

Table 23: Current comfort in meeting repayments, by borrower type

Comfort meeting repayments	First home buyers	Non-first home buyers	Refinancers
Comfortably meeting/exceeding repayments	87%	94%	89%
Struggling to meet/missed repayments	13%	6%	11%

Note: This is the data contained in Figure 17.

Table 24: Initial thoughts on meeting loan repayments (consumers who had missed/struggling to meet repayments)

Repayment comfort	Percentage
I knew I would have to change my spending habits a lot	50%
I felt uncertain about meeting the repayments	22%
I knew I would have to change my spending habits a little	20%
I felt overwhelmed about trying to meet the repayments	4%
I knew I could comfortably meet the repayments	2%
I didn't give a lot of thought to it	1%

Note: This is the data contained in Figure 18.

Key terms

Term	Meaning in this document
ABA	Australian Banking Association
ACCC	Australian Competition and Consumer Commission
broker	Generally, a member of the sector of the credit industry that provides independent home loan credit assistance (i.e. home loan credit assistance where the credit assistance related to credit secured by real property and neither the licensee nor its representatives will be the credit provider). Credit assistance has the meaning given in s8 of the National Credit Act
comparison website	A website or other channel through which consumers can compare interest rates (and other features) of home loans and which may give the consumer the ability to contact a lender or go to a lender's website
credit provider	Has the meaning given in s5 of the National Credit Act
home loan	A mortgage loan secured by residential property, not including: <ul style="list-style-type: none"> • loans for business or commercial purposes; • reverse mortgages; or • loans to self-managed superannuation funds
interest-only home loan	A home loan on which only interest is paid during a set period. The loan will revert to principal-and-interest repayments at the end of the interest-only period
investor	A consumer who has acquired a home loan for the purposes of buying a property that is intended to be rented to a third-party
lender	A credit provider
National Credit Act	<i>National Consumer Credit Protection Act 2009</i>
offset account/facility	A transaction account that is linked to a loan account so that some or all of the balance in the transaction account 'offsets' the loan principal. Interest is then calculated on the loan principal minus the offset account balance
principal-and-interest home loan	A home loan on which the consumer is required to make payments over the term of the loan that pay off interest as well as the principal of the loan
package	A home loan package with a discounted interest rate and possibly including other non-mortgage benefits such as a credit card. Packages often have a package fee structure distinctly different from the fee structure on standard loans
REP 516 (for example)	An ASIC report (in this example numbered 516)

Term	Meaning in this document
Royal Commission	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
trail commission	A regularly recurring commission to an intermediary, such as a broker, which is generally once-off and paid after settlement. The commission is normally a proportion of the settled amount, drawn amount, or a portion of the approved limit
upfront commission	An initial commission to an intermediary, such as a broker, which is generally once-off and paid after settlement. The commission is normally a proportion of the settled amount, drawn amount, or a portion of the approved limit

Related information

Headnotes

consumer, home loan, interest-only, intermediary, lender, mortgage broker, offset, remuneration, Royal Commission

Legislation

National Credit Act s5, 8,

Reports

[REP 445](#) *Review of interest-only home loans*

[REP 493](#) *Review of interest-only home loans: Mortgage brokers' inquiries into consumers' requirements and objectives*

[REP 516](#) *Review of mortgage broker remuneration*

Other documents

ABA, Retail Banking Remuneration Review, [final report](#), 19 April 2017