


The Treasury

1 Langton Crescent

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10 February 2025

By email: CFRReview@treasury.gov.au the CFR Review team,**SMALL AND MEDIUM-SIZED BANKS REVIEW (THE REVIEW)**

The Mortgage and Finance Association of Australia (MFAA) appreciated the opportunity to meet the Review team on 30 January 2025. The MFAA is Australia's peak industry body for the mortgage and finance broking industry with over 15,500 members which includes mortgage and finance brokers, aggregators, lenders including small and medium sized banks, mortgage managers, mortgage insurers and other suppliers to the mortgage and finance broking industry.

The Review examines competition in Australia's small and medium-sized banking sector, focussing on regulatory settings, funding costs, capital access and barriers to entry – key factors influencing competition, economic growth and consumer choice.

As noted in the Issues Paper¹, mortgage and finance brokers are critical enablers of competition in this sector, facilitating approximately 75%² of home loans in Australia, and at least four in ten small business loans.³ Given the integral role of brokers⁴ in supporting competition in the small and medium sized banking sector, the MFAA welcomes the opportunity to contribute to this Review to ensure policy settings support a diverse and competitive lending landscape.

Our submission highlights the vital role of brokers in fostering competition within the home lending sector, the ongoing obstacles to switching despite their role as enablers, and the opportunities for

¹ Council of Financial Regulators, *Review into Small and Medium-sized Banks*, Issues Paper, December 2024, <<https://www.cfr.gov.au/publications/consultations/2024/review-into-small-and-medium-sized-banks/pdf/review-into-small-and-medium-sized%20banks-issues-paper.pdf>>.

² MFAA media release, *Mortgage broker market share remains strong in June quarter*, 9 September 2024, <<https://www.mfaa.com.au/news/mortgage-broker-market-share-remains-strong-in-june-quarter>>.

³ The Productivity Commission, *Small business access to finance: The evolving lending market – Research paper*, September 2021, Australian Government, page 44.

⁴ Council of Financial Regulators, *Review into Small and Medium-sized Banks*, Issues Paper, December 2024, (see footnote 1), page 6.

regulators to support industry initiatives that enhance the competitiveness of small and medium-sized banks.

BROKERS' CONTRIBUTION TO MORTGAGE COMPETITION

Mortgage and finance brokers enhance competition in the lending landscape by offering borrowers access to a wide range of options, including to small and medium banks with or without a significant physical branch network. The Review recognises particularly in housing lending, that brokers have become an increasingly important source of loan origination. MFAA research demonstrates a direct correlation between the growing use of brokers and the increasing market share of non-major bank lenders including small and medium sized banks (**APPENDIX A**, Chart 1).

The MFAA engages CoreLogic to compile quarterly broker market share from data contributed by Australia's leading aggregation groups with calculations based on the value of new residential mortgage loans settled by brokers as a percentage of total housing finance commitments reported by the Australian Bureau of Statistics (ABS) (see **APPENDIX B**). From our research, it is clear consumers are increasingly using the services of mortgage brokers to facilitate their residential home loans, with MFAA's most recent market share research showing that nearly 75% of all home loans are now originated through brokers (**APPENDIX A**, Chart 2).

For completeness, it is also important to note that brokers are also increasingly instrumental in helping lenders of all sizes to distribute commercial lending products. As noted above, according to the Productivity Commission, at least four in ten commercial loans are facilitated by brokers, with latest MFAA research also showing that mortgage brokers are increasingly diversifying their businesses into commercial lending – in the six months ending March 2024, 30.6% of the total population of mortgage brokers facilitated a commercial loan⁵, up 0.5% from the previous period.

BARRIERS TO SWITCHING

The Issues Paper recognises that mortgage brokers play a key role in enabling borrower switching.⁶ While this is true, our members continue to report significant barriers to switching. Barriers to switching restricts competition and prevents consumers from accessing better loan terms.⁷ These barriers disproportionately impact small and medium-sized banks, making it harder for them to compete with major lenders.

Our members continue to report issues with the switching process itself including:

- Lenders frequently changing the location of discharge forms on their websites or removing them entirely, forcing borrowers to seek assistance in person.
- Requirements for borrowers to visit a branch, call a lender, or email for discharge forms instead of providing direct online access.
- Discharge forms not allowing borrowers to nominate their mortgage broker as an authorised representative.

⁵ MFAA *Industry Intelligence Service 18th Edition for the six-month period 1 October 2023 to 31 March 2024*, <<https://cdn.sanity.io/files/t0x3ukgp/production/cb2dd7b0a3957dbe2e715417344cb4cc93a1d92f.pdf>>.

⁶ See footnote 4.

⁷ MFAA whitepaper, *Towards a faster, smoother home loan discharge: benefits for borrowers*, March 2024, <<https://cdn.sanity.io/files/t0x3ukgp/production/d2d474a289df05c4d9e7a64aa99aec4a919e0006.pdf>>.

These inefficiencies disproportionately impact small and medium-sized banks, which rely on an effective switching process to compete with major lenders. When borrowers face unnecessary friction in refinancing, these banks struggle to grow their market share and attract new borrowers. The inability to efficiently move customers between lenders reduces the competitive pressure on larger banks, ultimately limiting consumer choice and affordability.

We encourage Treasury to accelerate work on customer prompts and discharge form accessibility and introduce a time-bound discharge process. For more information and recommendations on improving the discharge process, see our whitepaper, *Towards a faster, smoother home loan discharge: benefits for borrowers*.⁸

Another barrier to switching is serviceability. Our members report that the rigid application of the serviceability buffer limits refinancing options for borrowers, particularly in a high-interest rate environment.

The Issues Paper notes Australia's major banks account for more than two-thirds of the housing credit market.⁹ APRA mandates a 3% serviceability buffer for authorised deposit-taking institutions (ADIs), including small and medium-sized banks. This buffer requires lenders to assess borrowers' ability to repay loans at an interest rate 3 percentage points higher than the actual loan rate, potentially limiting borrowers' capacity to refinance. In contrast, non-bank lenders are not subject to APRA's serviceability buffer, providing them with a potential regulatory advantage.

Consequently, small and medium-sized banks face challenges in competing with both major banks and non-bank lenders. To address this imbalance, we advocate for a dynamic, fit-for-purpose serviceability buffer. For more information see the MFAA's submission to the Inquiry into the Financial Regulatory Framework and Home Ownership.¹⁰

SUPPORTING INITIATIVES TO HELP SMALL AND MEDIUM SIZED BANKS SCALE

The Issues Paper notes that proportionality is essential for an effective regulatory framework, a view that the MFAA supports.¹¹ Regulators have the opportunity to support joint industry initiatives that promote proportionality and support small and medium sized banks to achieve scale, an example is the initiative supported by the MFAA, COBA and the ABA, authorised by the ACCC in April 2024 to enable joint assurance reviews of mortgage aggregators (**Program**).¹²

We encourage regulators to support similar initiatives that help small and medium banks to scale effectively.

⁸ Ibid.

⁹ Council of Financial Regulators, *Review into Small and Medium-sized Banks*, Issues Paper, December 2024, (see footnote 1), Graph 6, page 5.

¹⁰ MFAA submission to the Senate Economics References Committee inquiry, *Financial regulatory framework and home ownership*, 30 September 2024, <<https://cdn.sanity.io/files/t0x3ukgp/production/24e5d5dcb1f488d4b76a5990814970b106968c43.pdf>>.

¹¹ Council of Financial Regulators, *Review into Small and Medium-sized Banks*, Issues Paper, December 2024, (see footnote 1), page 15.

¹² ACCC media update, *ACCC grants authorisation for banks to establish a program to jointly procure assurance reviews of mortgage aggregators*, 11 April 2024, <<https://www.accc.gov.au/about-us/news/media-updates/accc-grants-authorisation-for-banks-to-establish-a-program-to-jointly-procure-assurance-reviews-of-mortgage-aggregators>>, viewed 6 February 2025.

CLOSING REMARKS

If you wish to discuss this submission or require further information, please contact either me at

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Yours sincerely,

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Mortgage and Finance Association of Australia

APPENDIX A - CHARTS

Chart 1: Share of broker-originated lending settled with each lender segment

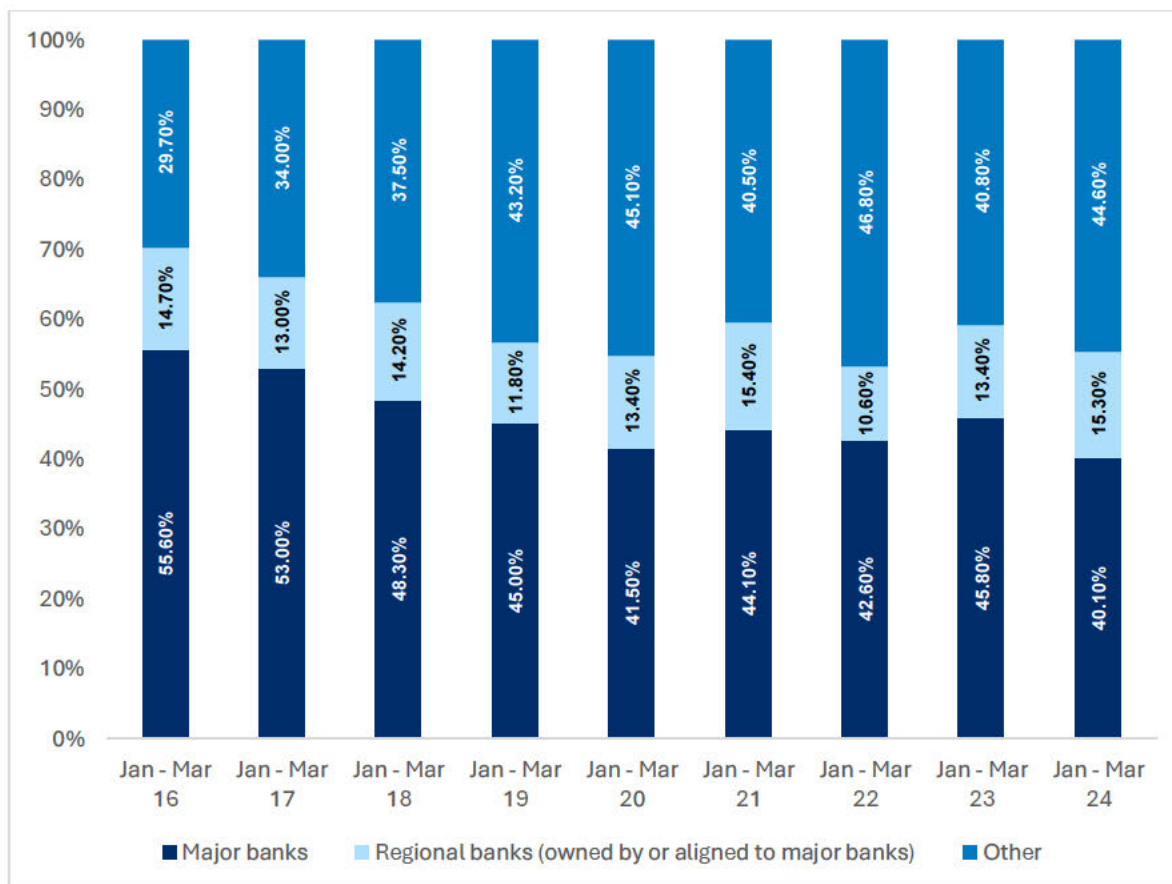
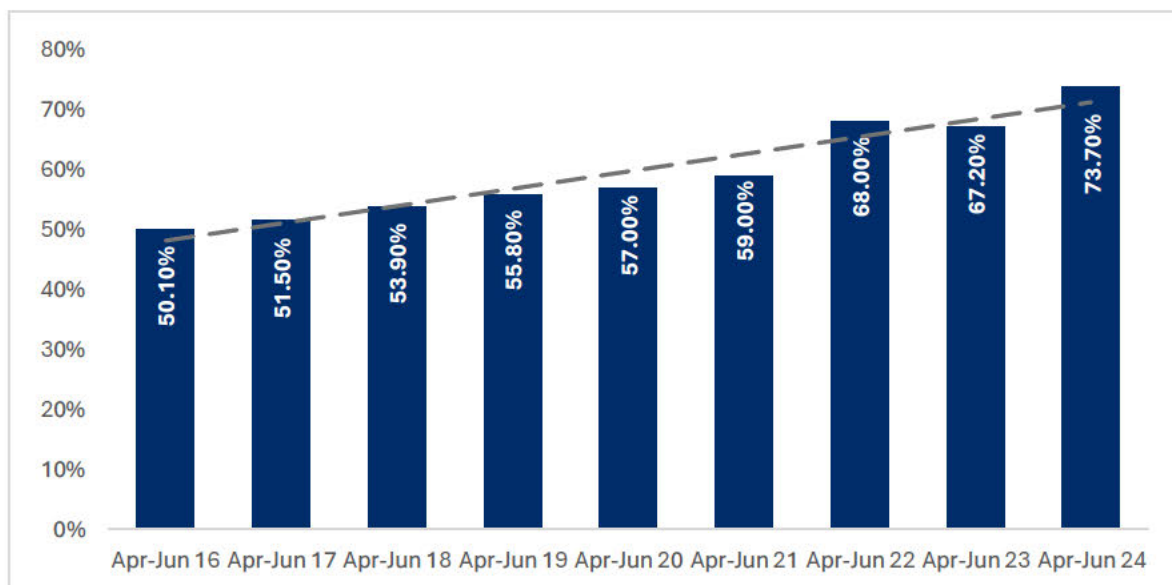


Chart 2: Quarterly survey of brokers: Market share of new residential home loans settled by mortgage brokers as percent of ABS Housing Finance Commitments/Lending to households



APPENDIX B – MARKET SHARE METHODOLOGY

The MFAA engages CoreLogic to compile quarterly broker market share from data contributed by Australia's leading aggregation groups. Data from leading brokers and aggregators is summed to provide a value of new residential mortgage loans settled for the relevant quarter.

The following ABS tables of data¹³ are used to calculate the total housing finance commitments by value for the relevant quarter, summing a + b + c:

- a. Table 3 (ABS Reference 560103) Housing Finance, Owner-occupiers section – column J, column P and remove column O (J + P - O)
- b. Table 13 (ABS Reference 560113) Housing Finance, Investors section – column J, column P and remove column O (J + P - O)
- c. Table 30 (ABS Reference 560130) Business Finance section – column C

The following calculation is used to determine the share of total housing finance commitments attributable to the data from leading brokers and aggregators. For example, for the quarter July to September 2024:

$$\frac{\text{Total value collated from leading brokers \& aggregators (\$103.23 billion)}}{\text{Total value from ABS tables (\$145.62 billion)}} = 70.9\%$$

Core Logic then applies an estimate of 5% to allocate a value of loans settled by smaller brokers and aggregators for the relevant period. Continuing the example:

$$(70.9 \times (100/95)) - 70.9 = 3.7\%$$

These two amounts are added together to generate total broker market share for the quarter July to September 2024:

$$70.9\% + 3.7\% = 74.6\%$$

For further information, the MFAA Industry Intelligence Survey Reports can be found here: <https://www.mfaa.com.au/professional-development/research/industry-intelligence-service-report>

¹³ Australian Bureau of Statistics, Lending Indicators (latest release) Data Downloads, <<https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release#data-downloads>>.