HOW TO BECOME A MORTGAGE BROKER

What is a Mortgage Broker?

A mortgage broker serves as a financial consultant and is retained by a homeowner or homebuyer to explore financing options for real estate purchases or refinancing. A mortgage broker assists consumers to obtain finance by advising consumers and acting as a go-between between the consumer and lender (a bank or similar). In today's financial landscape there many different lenders and thousands of loan options. Mortgage brokers help consumers to navigate this landscape.

More specifically, a mortgage broker leverages their experience, knowledge and loan comparison tools to help their customer with loan selection and then prepares and presents the loan application and negotiates with lenders on their customer's behalf. Mortgage brokers often guide their customers through the settlement process and ideally continue to support their customers throughout the life of the loan. More than half of all new residential home loans are settled by brokers!

The Role or Job Description of a Mortgage Broker

A mortgage broker is obligated to act in the consumer's best interest. A broker must consider the customer's specific goals, objectives, and financial and personal circumstances to interpret which type of loan best suits their client and why. They will look at the different aspects of a loan application and present their client's application in its most positive light rather than just seeing whether it meets a checklist. Good mortgage brokers will follow up approvals for their clients. The service offered by mortgage brokers doesn't stop with just submitting the loan application, it continues right up to and after settlement. A mortgage broker should be trying to minimise the legwork and hassle for their clients and remain available to answer any questions they may have, even well after the loan settles. And with the use of modern software packages brokers can ensure they are providing an excellent service from A to Z.

Job duties a mortgage broker would undertake include:

- Meeting with customers to discuss their goals, objectives and specific needs
- Assessing their financial situation and circumstances
- Guiding customers as to what financial records will be required and verifying income information
- Loan research, presenting customers with a range of lenders and a variety of loan options
- Helping customers to understand lending policies and terms and conditions
- Educating customers to ensure an appropriate level of financial understanding
- Abiding by legislative and regulatory guidelines and industry codes of practice
- Completing the loan application and ensuring the required supporting documentation is included
- Liaising with the lender to managing the application process and following up any additional requirements
- Presenting the loan documents to clients to ensure the client fully understands their responsibilities and the financial implications of their commitment
- Liaising with additional service providers such real estate agents, solicitors, conveyancers, accountants, financial planners if required.

In addition, many brokers run their own businesses and may need to manage the following:

- New business development including networking and building referral systems

- Client management to ensure recurring business
- Marketing and social media management to build profile
- Operations management, IT systems
- Financial management, accounting, and bookkeeping
- Human resources management
- Strategic and sustainability planning.

Steps to becoming a Mortgage Broker

There are several legislative and industry-based requirements to becoming a mortgage broker. Essentials include a minimum education qualification standard, licencing, dispute resolution authority membership, insurances and industry body memberships. Furthermore, to obtain an Australian Credit Licence or be appointed as a Credit Representative under a Licensee, individual information and checks must be conducted to ensure the new broker is considered a "fit and proper person" as defined by ASIC. To be accredited by a lender to recommend their products to a client, lenders will also require evidence of the above. Keep reading as we outline these requirements in further detail.

Summary of Steps

1. Obtain qualification/s
2. Choose an Aggregator / Franchise Group / Mentor
3. Join the Industry Body (MFAA/FBAA)
4. Join the Dispute Resolution Authority (AFCA)
5. Get Accredited

Education /Qualification

The **Certificate IV in Finance and Mortgage Broking** is the first step and the minimum education requirement for individuals wishing to enter the mortgage broking industry. All mortgage brokers require a Certificate IV. Some professionals who are already experienced in lending may choose to obtain their qualification by way of the Recognition of Prior Learning (RPL) program. For more information or to enrol in the course or obtain the RPL application click on this link:
https://financeinstitute.com.au/courses/mortgageconsultant/

The **Diploma of Finance and Mortgage Broking Management** has become the industry standard. The Certificate IV will allow you to commence your career however many aggregators, some lenders, and the MFAA (Mortgage and Finance Association of Australia) require a Diploma qualification within 12 months of joining or accreditation. We offer the Diploma as a stand-alone upgrade for Certificate IV holders or as the Full Diploma program. For more information click here:
https://financeinstitute.com.au/courses/

What are Aggregators / Dealer Groups / Franchisors?

Choosing the right aggregator or franchise group is one of the most important decisions a new-to-industry broker will make. Your aggregator is likely to be your most important business partner. We recommend speaking to at least a few groups before making a commitment. Completing a Certificate IV in Finance and Mortgage Broking will arm you with the knowledge of what questions to ask to help you choose the group that is right for you.

Aggregators, Dealer Groups and even Franchise Groups are sometimes referred to as acting as a wholesaler between lenders and mortgage brokers. In this guide we will refer to all these bodies as Aggregators. Aggregators are in effect, the middleman between the lender and the broker.

Aggregators provide access to the lenders and manage the commission flow between the lender and individual brokers. For a mortgage broker to be able to introduce loans to a lender and get paid by that lender, the broker would normally need to work with an aggregator. The reason for this is that most lenders have substantial volume and compliance requirements that the average mortgage broker would not be able to meet.

Aggregators provide access to lenders through the aggregator's "lending panel". The average aggregator may have between 15 to 40 lenders on their panel. The lending panel of a broker is really the lending panel of the broker's aggregator.

In addition to lender access and commission processing, aggregators provide software for loan comparison, loan lodgement, and Client Relationship Management (CRM). The level of support offered to members by the aggregators can vary greatly, as can the software provided. Other options to consider may include compliance support, IT support, business development support, and assistance with Continuous Professional Development (CPD) to meet ongoing industry requirements. Some groups offer lead generation, branding and mentoring.

A new-to-industry mortgage broker will need to join an aggregator willing to appoint the new broker as an Authorised Credit Representative under the aggregator's Australian Credit Licence (ACL). The chosen aggregator may be the aggregator of choice of the new broker's new employer. Brokers are required to have a minimum of two years industry experience prior to obtaining their own ACL. Furthermore, a new broker must have an appointed Mentor for their first two years, and it can be helpful and sometimes required, for their mentor to be found within the Aggregator's membership.

Fees and fee structures vary between aggregators. While some charge flat monthly fees, more commonly aggregators take a percentage of lender commission. These percentages will also vary. For example, a branded franchise group offering marketing support and leads would be expected to charge more than an aggregator without these options. Other fees may include application and set-up fees and authorised Credit Representatives may need to pay monthly licensing fees.

Brokers must hold a **professional indemnity insurance** policy generally with a minimum of $1,000,000 per claim and $2,000,000 in aggregate. Most aggregators have relationships with various insurers and as a Credit Representative you may be covered for PI through the licensee's policy (at broker cost). Often the aggregator or franchise group is able to offer discounted PI Insurance so it may be prudent to join a group before deciding on a PI Insurance provider.

Fees and support are not the only considerations when it comes to choosing an aggregator. Another important consideration is how the "loan book" (a broker's portfolio of settled loans) and data is handled should a broker decide to switch aggregators down the track. It is important that a new broker reads any aggregator/franchisor contract carefully as there are numerous terms and conditions for being a member of an aggregator/franchisor group. Some brokers seek independent legal advice on their contracts.

What is Mentoring?

For new mortgage brokers, mentoring is a formal relationship with an experienced broker who can guide, and often supervise the new broker's early efforts. Your mentor will be required to endorse your first two years and the completion of your mentoring program. Mentors and mentoring programs vary depending on your career pathway. There are formal independent mentoring programs available while some brokers are mentored "on the job" within their franchise or broking groups. It is important to discuss mentoring requirements with your chosen aggregator and, you may find a mentor with their help. The industry bodies MFAA and FBAA both offer assistance to find qualified Mentors and the MFAA offers a structured mentoring program.

Professional Industry Bodies

Membership in one of the two professional industry associations is essential. While not an ASIC requirement, membership is required for accreditation by the aggregators and a majority of lenders. There are two industry bodies:

- **MFAA (Mortgage and Finance Association of Australia) www.mfaa.com.au**
- **FBAA (Finance Brokers Association of Australia) www.fbaa.com.au**

As well as offering assistance with mentoring, there are many benefits to MFAA or FBAA membership. Levels of support, advocacy, education, products offered, and services vary and you will want to choose the association that is right for you. Some aggregators will also have a preferred association and that is something to consider.

The Certificate IV in Finance and Mortgage Broking is the minimum requirement to join either association. The MFAA also requires eventual achievement of the Diploma in Financial Services and Mortgage Broking Management to maintain membership.

Both the MFAA and FBAA require new members to complete their online compliance essentials education training. The compliance essentials education training is undertaken online with the course content and assessments provided online once registered.

The MFAA's Initial Compliance Pack (ICP) is designed to confirm mortgage and finance brokers have an understanding of compliance with relevant legislation that governs corporate, broker and lending activities prior to membership accreditation. **Brokers who have recently completed their Certificate IV or Full Diploma should find this membership requirement straightforward**.

The MFAA's Initial Compliance Pack comprises the following units:

1. Introduction and National Consumer Credit Protection Act
2. Privacy Act
3. Compliance Essentials
4. MFAA Standards and Operating Guidelines
5. Banking Code of Practice - Mortgage Broker Guidance and Obligations
6. Mortgage Broker Best Interests Duty and Conflict Priority Rule
7. Anti-Money Laundering/Counter Terrorism Financing.

Credit Licencing and Dispute Resolution Authority Membership

All new-to-industry mortgage brokers are required to work under an **Australian Credit Licence (ACL**). To offer credit assistance, such new-to-industry brokers will need to be appointed as an authorised Credit Representative under an Australian Credit Licence. As mentioned previously, many aggregators and franchise groups offer this option.

A credit licence is issued by ASIC and allows you to engage in credit activities. 'Credit activity' is defined in the National Consumer Credit Protection Act 2009 (National Credit Act) (NCCP) and includes activities relating to the provision of credit contracts and consumer leases, securing payment obligations by related mortgages and guarantees, and the provision of credit services including credit advice. You will only be engaging in credit activities if your activities are in relation to credit contracts or consumer leases to which the National Credit Code applies.

More information from ASIC about Credit Licensing click can be found here:
http://www.asic.gov.au/for-finance-professionals/credit-licensees/do-you-need-a-credit-licence

ASIC has determined a minimum of two years incident free lending experience is required to hold an Australian Credit License (ACL). It makes sense for an individual to gain experience working under an ACL holder prior to being able to manage the compliance and responsibilities required to hold one. The ACL holder is responsible for ensuring compliance by their authorised Credit Representatives and, in effect provide supervision of their representatives in this regard. Many individual brokers remain authorised Credit Representatives for the duration of their careers. It is not essential to hold your own ACL, it is a personal choice.

For experienced lending professionals who already have the required financial services time experience (eg. ex-bankers) and wish to obtain an Australian Credit Licence there are further requirements for an ASIC application. These requirements can be found on the ASIC website.

All brokers are also required to become a member of an **external dispute resolution authority**. **The Australian Financial Complaints Authority (AFCA)** provides consumers with a free and independent dispute resolution mediation service to resolve financial complaints. AFCA gives consumers a place to turn when they have been unable to resolve a problem with the financial organisation directly. Information about AFCA membership can be found here: https://www.afca.org.au/members/apply-for-membership.

Documentation Requirements

Whether applying to join an aggregator, the MFAA or FBAA or obtain membership with AFCA, brokers are required to submit several personal documents, some of which may be time sensitive. Your initial set up can also be a confusing time as membership with various organisations is contingent upon associated memberships. For example, you must be a member of an industry group to join an aggregator however, the industry groups want to ensure you are a member of an aggregator before confirming your membership.

We suggest your starting point is to choose your aggregator, franchise group or your employer. They will help you through the process and provide you with a "letter of intent" that you may then use to make applications with various other entities.

We have provided a helpful checklist below however there will be variations in requirements between organisations. For example, the MFAA have a requirement of a credit report and police check, not more than 3 months old. The FBAA require a bankruptcy check and police check, not more than 2 months old. To ensure you have the most up to date information, carefully review the requirements with the relevant organisations at the time of your application.

General Checklist:

- Photo ID (most applications require a minimum of 2 forms of ID, eg. Passport and Driver's Licence
- Personal Resume and References
- Certificate IV in Finance and Mortgage Broking certificate
- Credit Report / Bankruptcy Check
- National Criminal History Check
- Professional Indemnity Insurance certificate
- AFCA membership certificate
- Letter of Intent from Aggregator or ACL/CRN (credit representative number)

What comes next - Obtaining Lender Accreditation

Once the set-up phase has been completed and a broker has obtained their Credit Representative Number (CRN), or Australian Credit Licence (ACL), they are ready to obtain accreditation with various lenders. As previously mentioned, access to lenders is provided by the aggregator's lending panel. However, brokers must be individually accredited with each lender to recommend their products to a client. Your aggregator will assist you with this process.

The lending process involves the Mortgage Broker interviewing a client, collecting as many facts as possible, and placing the relevant information into the aggregator comparison software (on the brokers' computer). The software program will recommend the most suitable loan (loans) applicable to the client's situation from the aggregator's entire lending panel. Again, each mortgage broker must be accredited by the lender to recommend the lender's products. For example, if the comparison software recommends an ANZ product, the mortgage broker must be accredited by ANZ to offer ANZ products.

The accreditation process varies from lender to lender. Some lenders may accredit a new mortgage broker within a few hours while others may take more time. There may be an online test on the lender's product portfolio, require a meeting with a lender BDM or attendance (perhaps virtually) of a scheduled accreditation event. Material covered may include the lender's products, the best way to offer them and the loan documentation required for each submission. Once the mortgage broker has completed the lender training, the lender will issue the mortgage broker with a unique number which the broker will need to add to every loan submission. This ensures the mortgage broker gets the commission payment for the loan and is also used by the aggregator/franchisor to assist with commission management.

From a documentation standpoint, lenders often require similar documents as AFCA or industry bodies. However, in this case these are often sent through to the accreditation teams directly by the aggregator.

Lenders typically hold update sessions regularly to advise changes of product and procedures and it is advisable that a mortgage broker attend as many of these update sessions as they can. The lenders will normally update the aggregator/franchisor of any changes and usually they will upgrade the comparison software which the broker uses.

Commission Payments

The vast majority of mortgage brokers in Australia are remunerated through the payment of commissions from the lenders for loans that have settled. This payment is most commonly disbursed via the broker's aggregator or franchisor.

There are two main types of commission:

Up-Front Commission
This commission is regarded as the cost of securing a new client for the lending institution. It is typically derived from the existing revenue margin built into the loan. Up-Front commission is normally paid in the month following the successful settlement of a loan. In the case where a lender does not retain the borrower for at least one year (and this term will vary between lenders), the Up-Front commission may have to be repaid to the lender, under what is called a Clawback provision. Conditions vary between lenders.

Trail Commission
This is regarded as a customer service cost by the lending institutions for retaining the client. Again, it is derived from the existing revenue margin built into the loan. Trail commission is commonly calculated on the borrower's daily loan balance and paid monthly on that calculated loan balance. Trail commission is generally paid for the duration of the loan with that lender. If that borrower closes their loan account with that lender, then the Trail commission ceases to be paid immediately. The volume of loans held by a broker is referred as their "loan book". A broker's monthly trail commission payments will increase as their loan book grows and these regular payments contribute to a brokerage's financial sustainability.

Some lenders will not pay trail for the first 6, 12 or 24 months of the loan and some lenders cease payment of trail income if the loan becomes more than 2 months in arrears.

Below is an example based on the aggregator/franchisor receiving 0.65% of the loan amount as an Up-Front commission and 0.15% as a Trail commission:

Loan Amount: $550,000	
Up-Front Commission	$550,000 x 0.65% = $3,575
Trail commission per month after settlement	$550,000 x 0.15% ÷ 12 = $68.75
As the loan balance decreases, so does the Trail Commission payable per month.	

In the case of a mortgage broker operating through an aggregator or franchisor the above example would need to reflect a payment to the aggregator or franchisor. As depicted below there is an assumption of a mortgage broker's share of 75% of commissions. It should be noted that the mortgage broker's share of the commission varies in all circumstances and is a result of negotiation between the mortgage broker and the aggregator/franchisor. The following examples use 75% but this should not be construed as the standard.

Loan Amount: $550,000	
Up-Front Commission Broker share*	$550,000 x 0.65% $3575 x 75% * = $2,681.25
Trail commission Per month after settlement**(broker share)	$550,000 x 0.15% ÷ 12 x 75%** = $51.56
As the loan balance decreases, so does the Trail Commission payable per month. The trail commission is calculated on the balance of the loan usually for the life of the loan.	

* The percentage retained by the aggregator varies between aggregation/franchise groups and would be communicated via a schedule or agreement provided during initial discussions.
** Some lenders do not pay trailing commissions for the first 12 months (or longer in some cases).

Commission statements need to be monitored to ensure all the trail commission payments are correct. If any particular trail commission payment stops, it is advisable to investigate why. The payment may have been missed by the lender, or alternatively your client may be in arrears. The mortgage broker should always contact the lender to find out why the payment stopped should they notice a client drop off their trailing commission statement. The client may be in difficulty and may need the mortgage broker's assistance.

Some lenders have a rule that they will claw back commissions from the Mortgage Broker if the loan is refinanced or paid out within the first 12 months. Lenders may also claw back commissions should the broker be found guilty of impropriety or misconduct at any stage.

The majority of the mortgage broking industry is based on commission only. This means that a new broker in business for themselves must be able to support themselves for at least their first 3 to 6 months as a broker while they build up their business.

Finding Clients

Accreditations and technical loan writing ability is not enough to succeed as a Mortgage Broker, you need clients. Where will your clients come from? There are many pathways to a career in mortgage broking. From salaried positions with larger finance firms where clients are directed to you by the organisation; joining or buying into a branded franchise where several leads may be guaranteed by the franchisor's efforts; working in a partnership with an affiliated business and capitalising on their client base; or relying on your own efforts working for yourself. Advertising, marketing, networking, building referral networks, word-of-mouth – there are numerous ways to generate leads and it takes hard work and persistence. Do your research to find out what pathway will work best for you.

Conduct Research

Read as much as you can about mortgages, sales and finance. There are numerous online publications such as Australian Broker www.brokernews.com.au and The Advisor www.theadvisor.com.au

Speak with other mortgage brokers to find out how they work and operate. Speak to different organisations to ensure you are fully aware of what each group may offer, eg. some aggregators do not offer supervision services so new brokers to the industry must find aggregators/franchisors who will accept and supervise new brokers. Aggregators/franchisors may be found through a Google search or through one of the professional associations. We also provide a sample on our website here: https://financeinstitute.com.au/resources/. There are numerous aggregators/ franchisors but those listed below are known to accept and supervise new brokers.

- Money Quest (franchise)
- Finance House Group
- LoanMarket
    - FAST
    - PLAN Australia
    - Choice Aggregation
- National Mortgage Brokers (nMb)
- Aussie / Lendi (franchise)
- AFG
- Connective
- Finsure
- Yellow Brick Road
- Mortgage Choice (franchise)

Additional Information

The ASIC website contains more information on the requirements for licensing and compliance including many Regulatory Guidelines available in full for those involved in the finance industry and it is advisable that all new or aspiring mortgage brokers read this site – http://www.asic.gov.au.

Remember, the **Certificate IV in Finance & Mortgage Broking** is your first step. You can enrol here: https://financeinstitute.com.au/onlineform/. What you will learn in your Certificate IV studies will help you determine what support you will need from an aggregator and help you make an educated decision.

For further guidance you can contact us on 1300 765 400 or email support@financeinstitute.com.au

The National Finance Institute wishes you all the best with your new career!

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