HOW TO BECOME A MORTGAGE BROKER

What is a Mortgage Broker?

A Mortgage Broker is a go-between between the borrower and the lender (usually a bank), who negotiates the loan on your behalf. They will research products on the market from the hundreds available, and then support the customer through the application and settlement process.

They facilitate the transaction between the lender and the borrower.

A Mortgage Broker will look at the client's specific needs and circumstances and should be able to interpret which type of loan best suits their client and why. They will look at the different aspects of a loan application, present their client's application in its most positive light, rather than just seeing whether it meets a checklist or not.

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 Mortgager 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.

The Role or Job Description of a Mortgage Broker

A Mortgage Broker serves as a financial expert, retained by a homeowner or homebuyer to explore financing options for real estate purchases or refinancing, and to take care of the loan origination process up to the point of disbursing the funds. Armed with credit and financial information from the potential borrower, a Mortgage Broker uses a network of lenders and institutions to find a loan that suits the needs and desires of the buyer, then negotiates with the lender to secure terms and options for the buyer. When the application is approved, the Mortgage Broker oversees the signing of the loan documents.

Job duties they would undertake include:

- Development of new business and ensuring recurring business from clients
- Liaison with key lenders which may include banks, insurance companies and other specialised finance companies
- Generating presentations for exclusive assignments
- Building networking and referral systems
- Analysing applicants' financial situations and hunting for possible loan solutions
- Originating loans in order to sell to lending authorities
- Evaluating financial histories, pay slips and tax information
- Ensuring compliance with financial legislation
- Verifying borrowers; income and credit information
- Explaining the legal aspects of the loan to the borrower along with payment terms and conditions.

Key Representatives within the Mortgage Broking Industry

- Mortgage Brokers
- Mortgage Aggregators, Dealer Groups
- Regulator
- Industry Professional Bodies

Education Requirements to Become a Mortgage Broker

When looking at the education requirements for Mortgage Brokers to enter the industry there are some factors to consider:

- Legislative requirements
- Best practice – Industry Professional Bodies
- Aggregators and Dealer Groups

The Australian Securities and Investments Commission Regulatory Guide: **RG206** Credit licensing: Competence and Training, currently stipulates that the Certificate IV in Finance & Mortgage Broking (eg. FNS40815) is the minimum education requirement for individuals wishing to enter the mortgage broking industry.

There are some Industry Professional Bodies that require the Diploma level qualification for individuals wishing to join their group that is, the FNS50315 Diploma of Finance & Mortgage Broking Management.

It is therefore important to consider which dealer group or aggregators you may wish to join and what are their minimum education requirements and to which professional body they belong.

Once you have obtained your Certificate IV or Diploma qualification you will be able to obtain an Australian Credit Licence or become a credit representative. Individuals that don't have two years previous experience within the financial services sector, must start their career as a Credit Representative. A Credit Representative would work under a licence holder (a Mortgage Aggregator or Dealer Group). As a Credit Representative, the licensee (or licensed nominee) will supervise your work for two years to ensure compliance with legislative and industry requirements. This supervision can be remote and does not imply you are an employee of the licence holder.

Once you have worked within the industry for a 2 year period you may then decide whether to remain a Credit Representative of a licence holder or to apply for your own full licence.

Before considering whether to become a full licence holder or a Credit Representative you will need to speak to an aggregator or franchisor to firstly decide where you will be placing your loans.

What are Mortgage Aggregators / Dealer Groups / Franchisors?

Mortgage 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 of these bodies as Aggregators.

For a mortgage broker to be able to introduce loans to a lender and get paid by that lender, they would normally need to work with an aggregator. The reason for this is that most lenders have volume and compliance requirements that the average mortgage broker would be unable to sustain unless they were a large business. Even then, they might only be able to maintain the volume required to a few lenders and need to employ staff to manage their compliance and relationship with the lenders. This could greatly reduce the offering they have to their customers and increase their overheads and workload.

Aggregators have evolved overtime within the mortgage broking industry. Initially aggregators began as Mortgage Brokers and were approached by new brokers wanting access to lenders through their accreditations and business. Over time, aggregators were able to negotiate better commissions, service levels and set up systems and processes to support brokers.

The support offered to members by the aggregators can vary greatly. Services offered may include; software (loan comparison, loan lodgement, CRM (Customer Relationship Management), training (lending, sales and compliance), management support, lead generation, branding, commission management and back office support. The aggregator or franchisor may even offer their members the ability to be an authorised Credit Representative under their Australian Credit Licence (ACL)

The aggregator will charge a fee for offering supervising and support services which may include: upfront and trailer commissions, a fee per transaction, a flat monthly or annual fee. Some groups also charge a joining fee and a franchise will typically charge a franchise fee.

Working with an aggregator offers Mortgage Brokers the ability to operate their own business (even under supervision), offering a wide variety loan products, but with the support of the aggregator.

With this assistance a Mortgage Broker is able to provide a sustainable benefit to consumers. Customers benefit from being able to compare different mortgage products available from a panel of lenders, through one source (the broker) and, subsequently receive products that match their needs and individual circumstances.

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. Many brokers seek independent legal advice on their contracts.

For those who already have the required financial services timed experience (e.g. ex-bankers) and wish to obtain a full licence in their own right, there are further requirements (ten) for an ASIC application. These requirements can be found in the NFI Australian Credit Licence (ACL) Kit https://financeinstitute.com.au/acl/acl_licensing/.

Gaining an Australian Credit Licence (ACL) through ASIC

If you engage in credit activities you will generally need an Australian Credit Licence or authorisation from a credit licensee before starting business.

'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. 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.

Since 1 July 2010 a national licensing scheme has applied for people who engage in credit activities in relation to consumers under the National Credit Act.

Any person who wants to work as a Mortgage Broker is required to obtain an Australian Credit Licence (ACL), if they have previous lending experience or become an authorised Credit Representative of a licence holder (for those with no previous lending experience) under the NCCP Act (National Consumer Credit Protection Act).

For further information on ACL requirements, please click on:

> http://www.asic.gov.au/for-finance-professionals/credit-licensees/do-you-need-a-credit-licence

National Consumer Credit Protection (NCCP)

The National Consumer Credit Protection (NCCP) Act came into Law on 1 July 2010. The first stage of this legislation involved all parties involved in the credit process registering with ASIC. From 1 January 2011, all people and entities providing credit advice are required to either hold an Australian Credit Licence (ACL) or operate as an Authorised Representative of a licence holder (MFAA/FBAA membership renewals, lender agreements, aggregator agreements all require you to show compliance with NCCP).

As explained previously, you have two choices under the NCCP legislation:

1. Become an ACL Holder
2. Become an authorised Credit Representative under a licensee.

Either option will require you to be registered with ASIC and meet the education requirements.

1. Become a Licence (ACL) Holder

If you are thinking of obtaining a licence (i.e. you have previous lending experience), it would need to be the same legal entity that the agreement has with your aggregator and any lenders, or you would need to appoint that entity as an authorised representative (i.e. the company or trust that has the agreement).

Employees and directors of a licensed entity are automatically covered by the licence, but may choose to register as Authorised Representatives. Any contractors are required to be registered as Authorised Representatives or hold their own ACL. If you hold the licence you are responsible for the entire compliance requirements, processes, training and record keeping for you and all the authorised representatives under your licence.

When applying for a licence (more than two years lending experience) you will be required to provide (along with the application) several "checks" to show you are a "fit and proper person". These are:

Character and Credit Checks:

- Class 25 Federal Police Check – ASIC Financial Services Licensing Requirements – Valid 12 months – this is a different check to ones you might have previously had done.
- Bankruptcy Check (ITSA Bankruptcy check) is conducted through a government website – Valid 12 months – this is relatively new and not previously required.
- VEDA credit check – valid 3 months
- A minimum educational standard of Certificate IV in Finance and Mortgage Broking
- Professional Indemnity Insurance current
- Membership of an External Dispute Resolution service – See AFCA at https://www.afca.org.au/

2. Become an authorised representative under a licensee (Credit Representative)

Several aggregators and groups will offer you the opportunity to become an authorised representative (Credit Representative) under their licence. This is the way you will gain your two years lending experience required by ASIC. Different groups will have slightly different requirements and costs associated to manage their Authorised Representatives' compliance. They would generally require credit and police checks.

As an authorised representative (Credit Representative) you will have no option to do any sort of credit business that is not authorised by the licensee or not part of their panel of lenders.

Please note: ASIC has determined that you require a minimum of two years incident free lending experience to become a licensed mortgage broker. This means that all ***new*** *Finance Brokers (no prior lending experience) will need to obtain two years lending experience by being a Credit Representative under a licensee. As a Credit Representative all your work will be supervised, sometimes remotely, by a licensed broker to ensure the information given to the client is correct and accurate, that they receive the right product, that all is compliant and to assist the trainee broker. Those new brokers with more than two years incident free lending experience may be able to obtain a full credit licence in their own right but in all cases should check with ASIC before applying for that licence.*

As referred to above, brokers are required to be a member of an ASIC approved EDR (External Dispute Resolution) scheme. Previously there were two suppliers - FOS (Financial Ombudsman Service) - *www.fos.org.au and* CIO – Credit and Investment Ombudsman (formerly COSL) - http://www.cio.org.au/ however these have now been merged under the one banner of the Australian Financial Complaints Authority www.afca.org.au.

Conduct Research

Read as much as you can about mortgages, sales, and finance. There are numerous publications such as Your Mortgage Magazine, Mortgage Professional Australia and Australian Broker magazine that are available from most newsagents or online. Some other tips include:

- Speak with other mortgage brokers to find out how they work and operate. Speak to as many different organisations that you can to ensure you are fully aware of what each group may offer, e.g. some aggregators do not offer supervision services so new brokers to the industry must find aggregators/franchisors who will accept and supervise new brokers. Most aggregators/franchisors may be found through a google search or through one of the professional associations but some possibilities may be as follows (in no particular order or preference):
    - Money Quest (franchise)
    - Finance House Group
    - Accredited Broker
    - Vault
    - FAST
    - PLAN Australia
    - National Mortgage Brokers (NMB)
    - Aussie Home Loans
    - Choice Aggregation Services
    - AFG
    - Connective
    - Smartline (franchise)
    - EChoice
    - Yellow Brick Road
    - Mortgage Choice (franchise)

  There are numerous other aggregators/ franchisors but those listed above are known to accept and supervise new brokers.

- Remember, you will need to achieve the Certificate IV in Finance & Mortgage Broking coded FNS40815 (you can enrol here: http://financeinstitute.com.au/onlineform.html)

- You will need to get a professional indemnity insurance policy generally with a minimum of $1,000,000 per claim and $2,000,000 in aggregate. Most of the industry bodies have relationships with various insurers, as do most aggregation or franchise groups. As a Credit Representative you may be covered for PI through the licensee’s policy. Often the aggregator or franchise group are able to offer heavily discounted PI Insurance so it may be prudent to join a group before deciding on a PI Insurance provider, however you will need your Certificate of Currency for your ASIC ACL application.

Professional Industry Bodies

While there is no legal reason or compulsion to join an industry body most of the lenders require new mortgage brokers to be members of an industry association. Currently, the minimum education standard for FBAA (Finance Brokers Association of Australia) is Certificate IV while the standard for the MFAA (Mortgage and Finance Association of Australia) is a Diploma. However, if a new broker has a Certificate IV and uses the services of an MFAA accredited supervisor they are allowed 12 months to obtain their Diploma Certificate.

The benefits of an association are many and it would be prudent to view both websites to read what each association may do for you.

Mortgage and Finance Association of Australia (MFAA) - Membership Guidelines
www.MFAA.com.au

MEMBERSHIP - FULL MEMBERSHIP
Full membership is available to individuals, firms, companies, corporations and partnerships predominantly or substantially engaged in the mortgage and business finance industries.

ALL APPLICANTS FOR FULL MEMBERSHIP:

- must be of good character and repute and a fit and proper person to be an MFAA Member
- must not be currently Bankrupt or subject to control under the Bankruptcy Act 1966
- will not be accepted for MFAA membership if they have a charge pending involving fraud or dishonesty or have been convicted of, or found to have committed, an offence concerning fraud or dishonesty in the previous 10 years from the date of this application
- must not be an externally-administered body corporate as that expression is defined in the law
- must be over 18 years of age
- must be resident in Australia
- must be appropriately registered or licensed per the National Credit Consumer Protection Act 2009

The MFAA has named those people who supervise new mortgage brokers as "mentors" should you require supervision and having difficulty finding someone to supervise you, the MFAA has a list of registered mentors that may be able to assist.

Finance Brokers Association of Australia (FBAA) - Membership Guidelines
www.fbaa.com.au

The FBAA have 3 main membership types: Accredited member, Associate member and a Corporate Membership:

Accredited Member

- Completed and signed membership application form forwarded to FBAA together with certified copies of the requested accompanying documentation.
- Evidence of a minimum of 2 years proven experience in finance industry. If less than two years with the appropriate experience they must be supervised by another member who has the experience and time in the industry of finance/mortgage broking. Supervision is to continue until the completion of the two year requirement and the supervisor is satisfied that the new broker has met the requirements and experience necessary under the ASIC guidelines.

- Evidence of completion of Certificate IV in Finance and Mortgage Broking or the equivalent.
- National Police Check: Applicant must provide a National Police Check with their application. This document must be dated no later than three months prior to this application. In the instance where the applicant is a company, partnership, business or firm, all directors, partners and principals directly engaged in the business must provide this document. This can be the original document that can be returned to you on request, or a Certified Copy. NB: On legal advice original and copies of police documents are not kept on file and are destroyed after processing of application.
- Nomination of four lenders to provide written or verbal references (should you not know four other lenders you should contact the FBAA for instructions on how to meet this requirement). *N.B. Referees are contacted personally by FBAA staff to confirm references.*
- Declaration of any pending charges or convictions for fraud or dishonesty.
- Declaration of current bankruptcy or Directorship of a company under previous or current External Administration, Receivership or Involuntary Liquidation.
- Certificate of Incorporation where applicable.
- ASIC Search – in the instance where the Applicant is a Company: This search must be dated no later than three months prior to this application and must list all current Directors and Shareholders.
- Copy of Business Name Registration where applicable.
- Full Resume of Individuals/Directors/Partners.
- Photographic identification (Drivers Licence or Australian Passport number) of individuals for membership or nominees of company applicants.
- Evidence of any prior learning or training: *N.B. FBAA members are required to accrue 25 CPD points per annum as evidence of continued learning.*
- Evidence of Professional Indemnity Insurance by way of a Certificate of Currency.
- Evidence of membership of an ASIC approved External Dispute Resolution Scheme
- Evidence of an acceptable 'individual' AML/CTF (Anti-Money Laundering and Counter Terrorism Financing Act 2006) compliance training.
- A copy of your Credit Report / or that of Nominee of the business - which is dated no earlier than three months prior to application for membership.
- Copy of your registration details with ASIC if you are conducting consumer lending (i.e. ACL or ACR).

Associate Membership

FBAA Associate Membership is only available to brokers and loan writers with less than 2 years relevant finance and mortgage lending industry experience and who are nominated by a current FBAA Accredited Member or Corporate Member. This category carries full voting rights. You can read their requirements for this category here: https://www.fbaa.com.au/join-fbaa/associate-membership-full-requirements/

Corporate Membership

Available to approved non-broking entities associated with the finance industry and includes Credit Providers (Banks, Building Societies, and Credit Unions), Mortgage Insurers, Mortgage Managers, Fund Managers, Trustee Companies etcetera. This category has full voting rights. You can read their requirements for this category here: https://www.fbaa.com.au/join-fbaa/corporate-membership-full-requirements/

Both the MFAA and FBAA, require new members to complete their online compliance essentials education training. The compliance essentials education training is undertaken online, the course content and assessments are all provided online once enrolled. The MFAA refers to it as a Compliance Pack incorporating Anti Money Laundering. This is not included in the Certificate IV course training.

As an example, the MFAA compliance program consist of:

- Module 1: NCCP (National Consumer Credit Protection)
- Module 2: Privacy Act
- Module 3: Compliance Essentials
- Module 4: MFAA Standards and Operating Guidelines
- Module 5: Anti Money Laundering (AML)/Counter Terrorism Financing (CTF) Act
- Module 6: Literacy and Numeracy
- Assessment 1-3: Literacy
- Assessment 4: Numeracy
- Assessment 5: Compliance
- Assessment 6: AML/CTF

Obtaining Lender Accreditation

A Mortgage Broker must obtain lender accreditation before they may write loans for a particular lender. The lending process involves the Mortgage Broker interviewing a client, collecting as many facts as possible, placing this information into the aggregator/franchisor comparison software (on the brokers' computer). The software program will recommend the most suitable loan (loans) applicable to the clients' situation. In most instances the aggregator/franchisor will assist in obtaining the lender accreditations.

Each Mortgage Broker must be accredited by the lender to sell the lenders products e.g. if the comparison software recommends an ANZ product, the Mortgage Broker must be accredited by ANZ to sell ANZ products.

A Mortgage Broker that is signed with an aggregator/franchisor they then must complete accreditation with those lenders they wish to write loans for. The average aggregator/franchisor may have 30 or 40 lenders on their comparison software so if the Mortgage Broker wishes to offer all of those products they must be accredited to all of those lenders

Accreditation varies from lender to lender. Some lenders may take several hours to accredit a Mortgage Broker while others may take less time. The process involves the lenders trainer discussing the lenders products, the best way to sell 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 paid for the loan and is also used by the aggregator/ franchisor to assist with commission management. The lenders will also ask for evidence of:

- Successful completion of Certificate IV (supervisor arrangement)
- ACL or credit representative authority
- PI Insurance
- Photo identification (driver's licence or passport)
- Proof of membership of a professional body (MFAA or FBAA)
- Name of the aggregator/franchisor
- Successful completion of MFAA or FBAA compliance essentials training

Lenders may also ask for some or all of the following:

- Credit reference report
- National police clearance
- Current resume for reference checking

Lenders typically hold update sessions regularly to advise changes of product and procedures and it is advisable that 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 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 may be disbursed directly to the broker, where lenders' agreements permit, but more commonly is 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. 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.

Under some arrangements volume bonuses can also be earned, in addition to Up Front and Trail Commission, where the level of business placed with a lender, aggregator or franchisor exceeds predetermined targets over a specified time period. The amount of commission payable between lending institutions varies and individual commission arrangements will also differ.

Below is an example based on the aggregator/franchisor receiving 0.66% of the loan amount as an Up Front Commission and 0.275% as a Trail Commission:

Loan Amount: $350,000	
Up Front Commission	$350,000 x 0.66% = $2,310
Trail commission per month after settlement	$350,000 x 0.275% ÷ 12 = $80.21
Note: 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: $350,000	
Up Front Commission Broker share*	$350,000 x 0.66% $2310 x 75% * = $1,732.50
Trail commission Per month after settlement**(broker share)	$350,000 x 0.275% ÷ 12 x 75%** = $60.16
Note: 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 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.

Commission Disclosure - a broker must ensure that any referrer discloses to the borrower any commission payable to the referrer.

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

Additional Information

The ASIC website contains vastly more information in 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 Mortgage Brokers read this site – http://www.asic.gov.au.

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