HOW MORTGAGE BROKERS GET PAID

Fast facts

- Mortgage brokers facilitate over **74%** of all residential mortgages in Australia.
- Mortgage broker commissions are **highly regulated** under law.*
- Mortgage brokers receive two types of commissions from lenders – **upfront commissions**, paid when a loan is settled, and **trail commissions**, paid over the life of a loan.
- The commission rates mortgage brokers receive from lenders is **highly standardised** across the market.
- Mortgage brokers are **required under law to disclose** how their commission is structured and percentage to their clients.
- Mortgage broker commission is **revenue** for a broking business, it is not a broker's take home pay.

Clients don't pay mortgage brokers, lenders do

When a broker originates a loan for a lender, the lender pays them a commission – a portion or share of the economic value that the lender expects to earn from the loan.

There are three key components in mortgage broker commission:

Upfront commission

Generally ranging from 0.65-0.70% of the loan amount, upfront commission is paid to a mortgage broker on the settlement of a loan – before the lender has earned economic value from the loan through fees and interest.

Upfront commission is paid on the amount a borrower has drawn on their loan (not the loan facility) net of any funds the customer is holding in their offset account.

It is an upfront payment prior to lenders making a return on the loan.

Trail commission

Trail commissions are paid to a mortgage broker on an ongoing annual basis for the life of the loan – provided the loan is not in default or more than 90 days in arrears.

Trail commission is paid on the outstanding balance of the loan net of any funds in a customer's offset account

Trail commission is generally 0.15% of the loan amount.

It is a share of the return a lender makes on the loan as it is realised.

Clawback

Lenders will reclaim, or 'clawback', upfront commissions if a loan is discharged within 18 months to two years of settlement – that is a mortgage broker will have to 'pay back' some, or all of, their commission.

This is because lenders have not made a return on the loan as a result of early discharge of the loan.

A mortgage broker cannot recoup any clawback cost from their clients.

National Consumer Credit Protection Act 2009.

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MFAA

Mortgage broker commission is business revenue, not a salary

Out of their commissions, a broker pays for the costs of running their business, including:

- aggregator service fees
- staff salaries and benefits
- regulatory fees (ASIC, AFCA, CSLR etc)
- equipment such as computers and phones
- office rent
- corporate and other taxes
- insurance
- software licenses
- clawback provisions .

Only once all these costs are paid, can a broker pay themselves.

Example

Geraldine is a mortgage broker and facilitates a 30-year $700,000 home loan for her client Harriet.

Let's take a look at the upfront commission (prior to business costs) Geraldine would receive in two scenarios – if Harriet had funds in an offset account and if she didn't.

Based on a 0.65% upfront commission rate (excluding GST).

Upfront commission (no funds in an offset account)

Harriet has no funds in an offset account.

So, Geraldine will receive an upfront commission calculated on the full loan amount.

Upfront commission:
$700,000 x 0.65% = **$4,550.00**

Upfront commission (net of offset)

Harriet has $75,000 in an offset account. Geraldine's upfront commission will be calculated on the loan amount net of offset.

Loan amount net of offset:
$700,000 - $75,000 = $625,000

Upfront commission:
$625,000 x 0.65% = **$4,062.50**

It's important to note that mortgage brokers receive commission only after a client settles their loan. It can be up to 90 days post-settlement before a mortgage broker receives their commission.

Choice, competition and consumer protection through the broker channel

Unlike bank staff, mortgage brokers operate under the Best Interests Duty meaning they are required under law to always put their clients' interests ahead of their own.

Also unlike bank staff, mortgage brokers are able to provide loan options from a range of lenders, and bring choice and competition to the lending market for the benefit of home loan borrowers.

The Mortgage & Finance Association of Australia (MFAA) is the peak national body for the mortgage and finance broking industry with over 15,000 members. MFAA members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage and finance broking industry. Our purpose is to empower our members to prosper and thrive, ensuring Australians benefit from competition and choice.

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