Towards a faster, smoother home loan discharge: benefits for borrowers

An MFAA whitepaper

March 2024

Executive summary

Levels of refinancing activity in Australia were at an all-time high in 2023, driving strong competition amongst lenders, with many offering discounted interest rates and cashbacks on new and refinanced loans.

The Australian Bureau of Statistics (ABS) reported that in July 2023 refinances totalled $21.53 billion compared to $10.37 billion in July 2020. Our findings are that challenges still exist for a customer seeking to refinance a home loan.

Choice and competition are essential to the functioning of an efficient mortgage market that places consumers at the core. The advantage of working with mortgage brokers is that brokers have knowledge of a broad spectrum of home loan products from a significant range of lenders.

Brokers provide a wealth of information and guidance to borrowers during what is often a complex and lengthy process. Importantly, as an increasing number of Australians choose to use the services of a mortgage broker, the ease with which lenders provide support to broker customers has become critical to the functioning of the mortgage market. In this paper, we investigate the challenges and opportunities that exist in the home loan discharge process, and the value that improvements to the process will have on strengthening financial outcomes for borrowers, particularly those working with their mortgage broker to refinance to another lender.

Streamlining the discharge process and empowering borrowers to make better switching decisions makes for a powerful combination that delivers better consumer outcomes, including savings on their home loans.

This paper has been informed through conversations with MFAA broker members across Australia and their experience working with their clients during the highest levels of refinancing on record for Australia. Our research highlights that removing inefficiencies in the discharge process is about removing the friction from the customer experience, resulting in better outcomes for competition, and therefore borrowers.

Recommendations

- Improve efficiency in the discharge process to encourage more borrowers to switch lenders if it's the right option for them.
- In all instances, brokers should be able to act for a customer in the discharge process if the customer provides consent.
- Implement a simple to use, easy to find, standardised mortgage discharge form.
- Reduce the time it takes to process a discharge form and complete the switch to another lender.
- Lenders should offer their best repricing offer upfront, eliminating the need for retention activity once a discharge form is lodged.
- Automate and digitise the discharge process as much as possible, for example by accepting electronic signatures or online editable forms.

In December 2023, the Federal Government announced it will respond to the ACCC Home Loan Price Inquiry Final Report (the **Report**). The Report made recommendations to improve the home loan discharge process. The MFAA is pleased to see the Report receive the attention it deserves and looks forward to the Government's response.

Current landscape

Mortgage brokers, now more than ever, provide critical guidance to Australians looking at home financing options

The latest MFAA quarterly market share data from July to September 2023 shows 71.5% of home loan borrowers use the services of a mortgage broker, a 14-percentage point increase since the January to March 2021 period, when the mortgage broker Best Interests Duty was introduced.

The Deloitte Access Economics Report, *The Value of Mortgage Broking*, found mortgage brokers make mortgage markets work better.[1] Mortgage brokers are intermediaries that provide consumers with information about mortgage products available and assist prospective borrowers to apply for a home loan. Mortgage brokers also provide lenders with an additional channel to arrange loans. Mortgage brokers increase choice and competition between lenders, leading to better service levels and more competitive mortgage pricing.

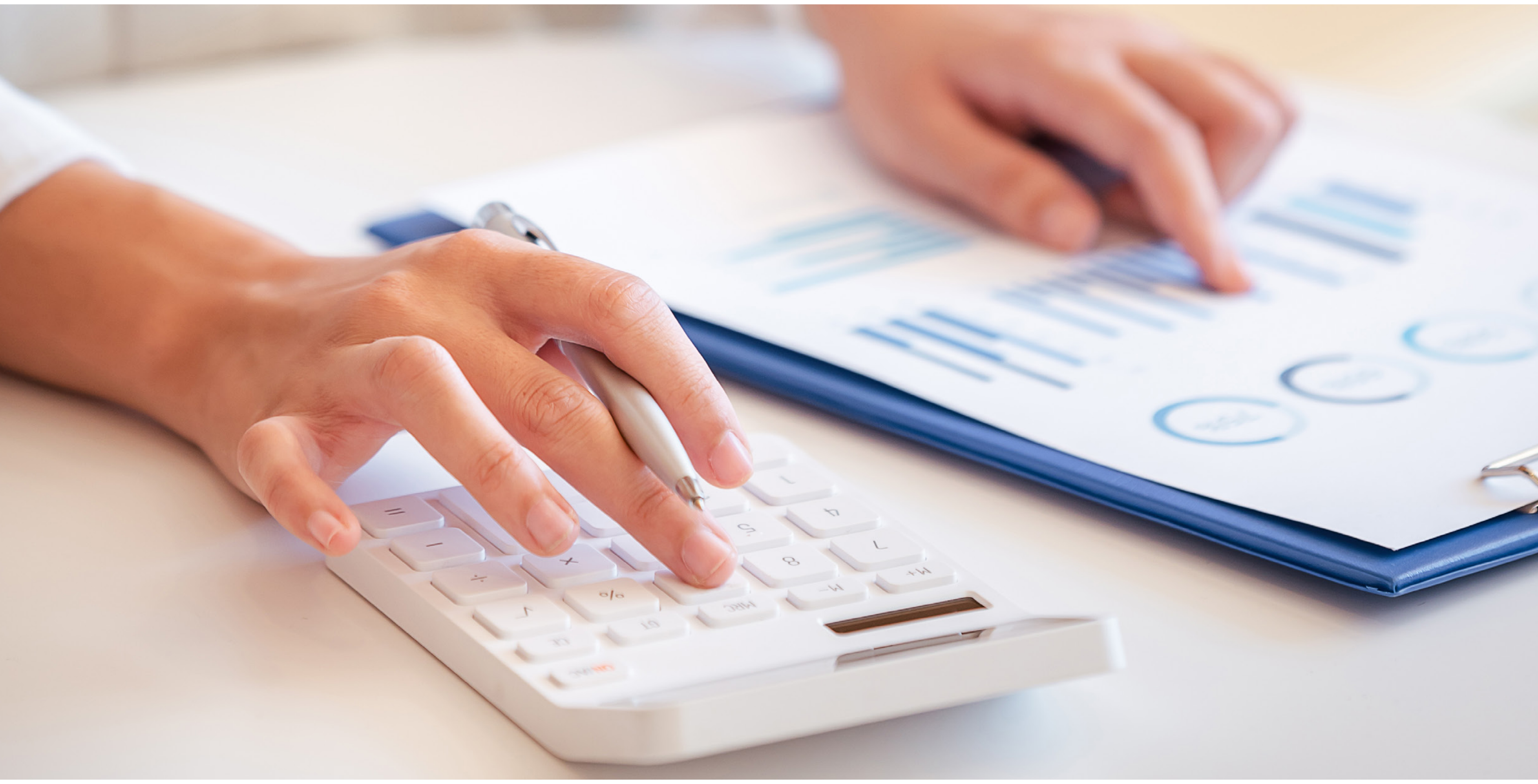
Services provided by brokers to their customers include completing home loan health checks, providing prompts to their clients to review their home loan interest rates and supporting their clients to reprice or refinance their existing home loans.

Record high levels of refinancing in 2023 were driven by a historically high number of borrowers reverting from ultra-low fixed rates secured during the COVID-19 pandemic and heightened competition amongst lenders. However, 2023 also saw a number of other trends, including:

- **a dramatic decline in consumer sentiment about their future financial health**
- **the end of many lender cashback offers in May and June 2023 which brought a surge of refinance activity forward, with refinances peaking in July 2023.**

This is especially true since late 2022 as mortgage brokers have helped their clients navigate the wave of expiring fixed rate mortgages.

In July 2023, 95% of brokers surveyed by the MFAA said they have had clients use them for the first time to refinance, reflecting an increased desire by home loan borrowers across Australia to find a home loan that better suits their needs.



[1] *Deloitte Access Economics Report The Value of Mortgage Broking, July 2018, pp 1.*

ACCC Home Loan Price Inquiry

In its Report, the ACCC found that switching supports competition in the home loan market, however there is evidence of impediments to switching lenders, meaning consumers (borrowers) are experiencing and paying the price – literally – for these inefficiencies and poor processes.

In the Report, the majority of stakeholders the ACCC consulted raised concerns that the discharge process of many lenders is unnecessarily difficult and lengthy for borrowers.

Commonly reported pain points in the discharge process included:[2]

- unclear and/or complicated steps for borrowers, including Discharge Authority forms that are difficult to access and complete, or administrative hurdles such as lenders requiring in-person contact before processing a discharge request
- uncertainty about how long the discharge process will take and unnecessary delays in the process (including through the use of retention strategies by existing lenders)
- that borrowers are less likely to start or complete a switch to a new lender if the process is frustrating or confusing, even if switching would result in a better home loan
- that existing lenders want to retain their borrowers and are therefore not incentivised to remove pain points from the discharge process (or may even be incentivised to create them).

These pain points in the discharge process impede switching and result in costs to market participants more generally, including lenders, mortgage brokers and borrowers.

The Report was presented to the former Government in November 2020, but no response was issued at the time. In December 2023, the Federal Treasurer Jim Chalmers announced[3] that the Government would respond to the recommendations in the Report in 2024 as part of its response to the ACCC Retail Deposits Inquiry Report released on 15 December 2023.

Summary of ACCC Home Loan Price Inquiry Recommendations

1. A prompt for variable rate borrowers
2. A standardised Discharge Authority Form
3. A maximum timeframe for existing lenders to process discharge requests
4. Continued monitoring of competition and prices in the home loan market

Mortgage brokers' perspectives on the challenges with refinancing

The MFAA has been advocating Government to implement the recommendations of the Report by:

- **including the recommendations in its Pre-Budget submission in January 2023**
- **continued dialogue with Treasury throughout 2023, presenting data and trends on refinancing activity**
- **highlighting the impacts of current in-market practices to the Senate Inquiry into Bank Closures in Regional Australia in December 2023.**

At roundtables held across the country in August 2023, MFAA members shared that consumer choice is bolstered by the competition and lender offers in market, but that the increased competition has also led to increased lender retention activity – creating challenges and delays with processing discharge requests. What we heard consistently from our members was that the process to refinance and discharge a home loan when switching lenders can cause confusion and delay to a consumer obtaining the best option for their situation as soon as possible (whether it be a reprice, or a refinance). There have been minimal improvements since the ACCC released its Report in 2020.

The MFAA's advocacy efforts throughout 2023 were rewarded by the announcement in December 2023 by Treasurer Jim Chalmers, that Government will formally respond to the Report's recommendations.

[2] *ACCC Home Loan Price Inquiry Final Report, November 2020.*
[3] *Media release, 15 December 2023, Australian Competition and Consumer Commission retail deposit inquiry | Treasury Ministers.*

About the MFAA

The MFAA is the peak industry body for the mortgage and finance broking industry with circa 15,000 members, with approximately 97% being brokers.

Our members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage and finance broking industry.

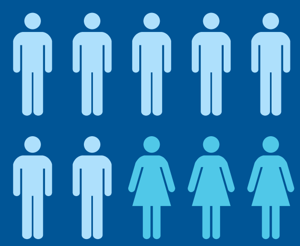
Brokers play a critical role in intermediated lending, providing access to credit and promoting choice in both consumer and business finance. As of September 2023, brokers facilitated 71.5% of all new residential home loans[4] and approximately four out of 10 small business loans[5] in Australia.

The MFAA's role, as an industry association, is to provide leadership and to represent our members' views. We do this through engagement with governments, financial regulators and other key stakeholders on issues that are important to our members and their customers. This includes advocating for balanced legislation, policy and regulation and encouraging policies that foster competition and improve access to credit products and credit assistance for all Australians.

Mortgage brokers wrote

71.5% **of home loans in the Sep 23 quarter.**

97% **of our members are mortgage and finance brokers**

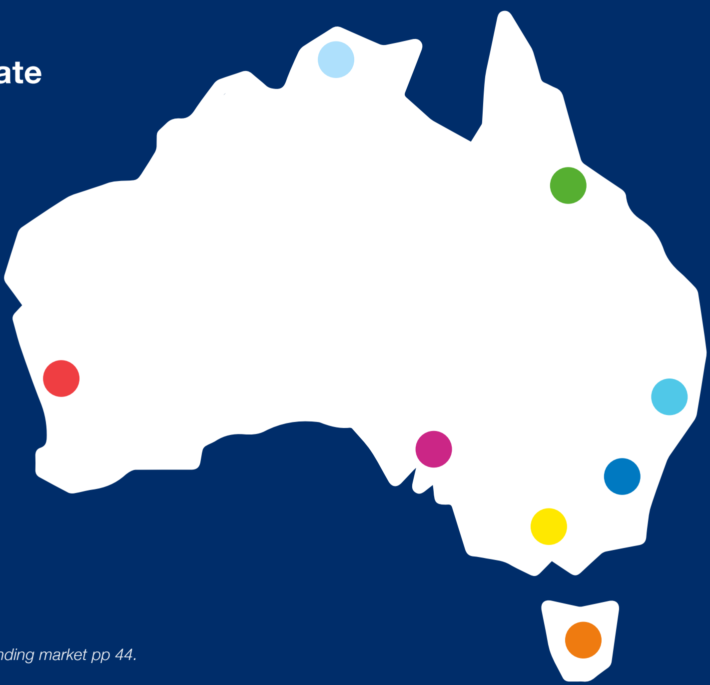


71% Male

29% Female

Geographic distribution of members by state

Australian Capital Territory	203
New South Wales	5,348
Northern Territory	60
Queensland	2,109
South Australia	1,079
Tasmania	146
Victoria	4,177
Western Australia	1,704



[4] *MFAA Industry Intelligence Service Report 16th Edition pp 3.*
[5] *Productivity Commission research paper Small business access to finance: The evolving lending market pp 44.*

A look at refinancing activity

Refinancing occurs when a borrower repays their home loan with one lender using the proceeds of a new home loan obtained from a different lender. Refinancing (also referred to as switching) from one lender to another can be complex given the breadth of choice in lenders and products, and the time it can take to complete the process. Borrowers often seek the services of their mortgage broker to assist with these complexities.

Home loan repayments are often a household's largest expense and refinancing allows borrowers to save and reduce their outgoing expenses. In addition, the ACCC noted in its Report that the refinancing market could encourage lenders to innovate and offer better products and lower prices to attract and retain borrowers. In Figure 1, data captured by the ABS shows that refinance activity rose sharply between July 2020 and December 2023, peaking at over $20 billion in July 2023. In this period, we experienced the most significant levels of refinancing in Australian history.

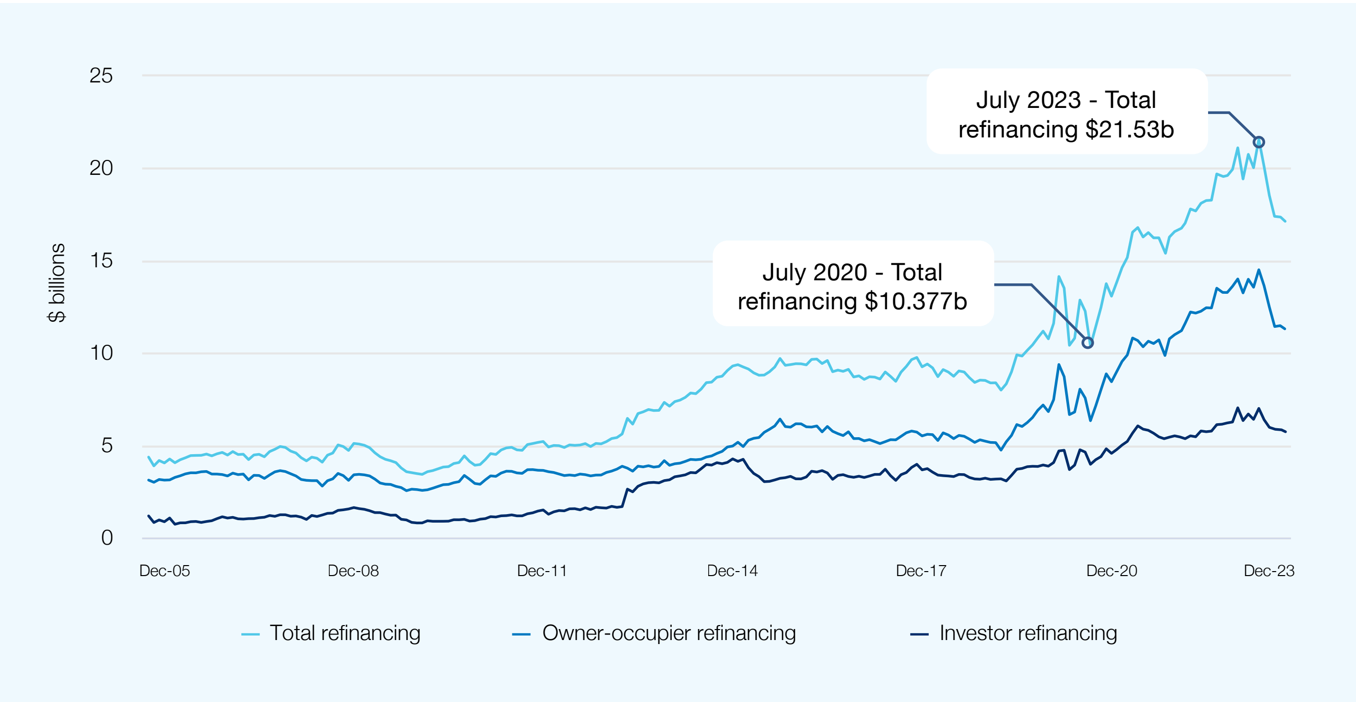


Figure 1: External refinancing (seasonally adjusted) values, Australia.[6]

[6] *Australian Bureau of Statistics, Lending Indicators, December 2023.*

Current economic climate

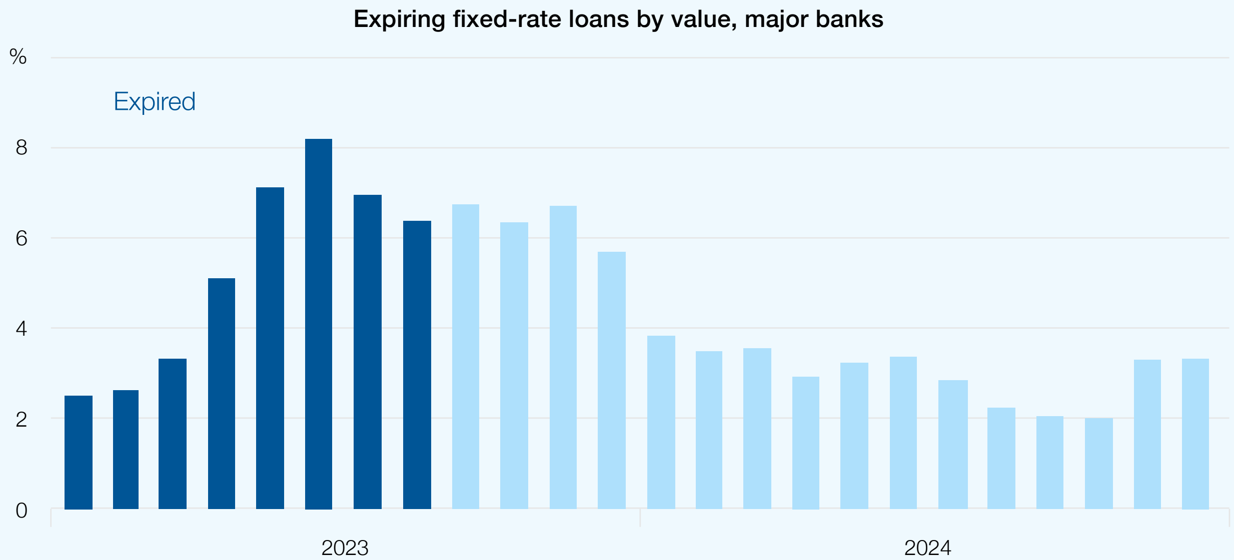
Interest rate rises since May 2022 have put pressure on the budgets of Australian indebted households. Borrowers on a variable rate, who account for around three-quarters of housing credit, have seen their scheduled mortgage payments increase sharply (by between 30% and 50%) since the first increase in the cash rate in May 2022 and may find it increasingly difficult in the months ahead to cut back on consumption as they have already substantially reduced their discretionary expenditure.[7]

With reduced disposable income after essential expenses and housing costs, one avenue mortgage-holders pursue is to seek a better deal for their biggest expense – their mortgage. For example, many mortgage holders had fixed their home loans for one to two years at the ultra-low rates that were available in 2021 and 2022. Borrowers rolling off their fixed rate are entering a very different lending environment and must consider their options. RBA data shows more than 800,000 fixed rate loans rolled off during 2023 (Figure 2).[8]

While rising interest rates have meant that some existing borrowers have become unable to refinance with a new lender because they cannot meet the serviceability criteria that lenders use to assess loan applications, many existing borrowers have been able to re-negotiate with their current lender, or refinance with a new lender on more favourable terms.[9]

In 2023, Australians found themselves in a heightened refinancing market and the challenges with discharges remained, if not worsened, due to the volume of activity. A consequence of this has been the impediment it creates to competition, as borrowers are having to navigate the complexity and inefficiencies of the discharge process.

As a result, more borrowers are seeking the services of a mortgage broker to help them navigate the environment. Mortgage brokers help to guide borrowers through the process, however there are still major inhibitors to switching that our members are observing in the market.



* Value of fixed-rate housing loans outstanding from a survey of major banks as at end-December 2022.
Loans expiring beyond 2024 not available monthly.

Sources: APRA; Majorbanks; RBA.

Figure 2: Fixed-rate housing credit.

[7] RBA Resilience of Australian Households and Businesses, *Financial Stability Review*, October 2023.
[8] RBA *Financial Stability Review*, October 2023, Graph 5.2.1.
[9] RBA Household and Business Finances in Australia, *Financial Stability Review*, April 2023, pp 43.

The mortgage broking industry market share

The strength of mortgage broker market share reflects the outstanding solutions and outcomes brokers are delivering for their clients.

Between July and September 2023, mortgage brokers wrote

71.5%

of all new residential home loans.[10]

This result is the second highest mortgage broker market share the industry has recorded and is a significant

4.3%

increase on the previous quarter.

During the September 2023 quarter mortgage brokers settled

$93.83 billion

in home loans.

This represents a **0.62%** decline when compared year-on-year.

However, it is the second consecutive period of growth and a

$15.24 billion

recovery from the March 2023 quarter when settlement values dipped to **$78.59 billion**.

"

The mortgage lending landscape is complex, in particular given the current interest rate environment. The benefits homebuyers receive from using a broker extend well beyond finding the lowest rate – it's the education, guidance and support a broker provides their clients that makes mortgage brokers stand out, and why they are the channel of choice for Australian homebuyers.

MFAA CEO Anja Pannek

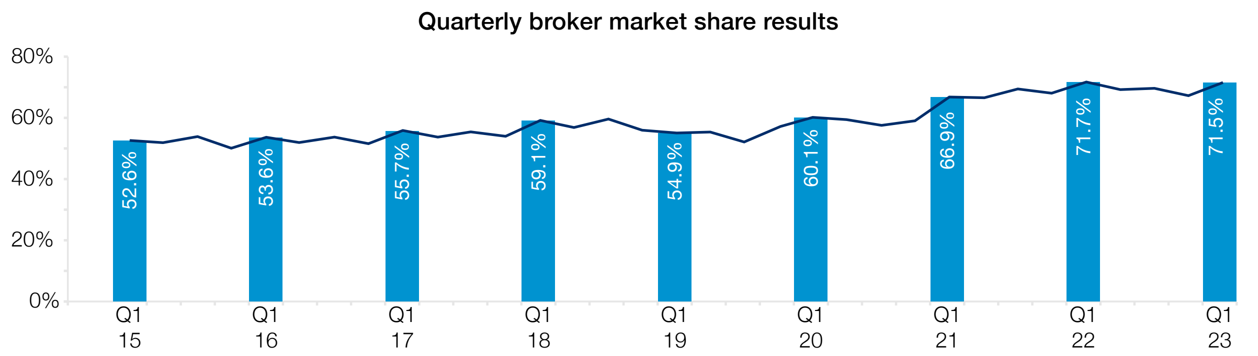


Figure 3 tracks the quarterly survey results since 2015 and reflects a steady increase in market share over time.

[10] *MFAA media release, Mortgage broker market share rebounds, 28 November 2023.*

Consumers are increasingly seeking a better deal

More borrowers are seeking the services of a mortgage broker to help them navigate the refinancing environment.

Refinance activity through the broker channel during the last two years has been driven by:

- complexity in the refinancing process
- the rising interest rate environment
- cost of living pressures
- lender incentives including cashbacks
- borrowers with low fixed rate loans about to expire – the 'fixed rate cliff'
- brokers proactively reaching out to customers, especially customers with a fixed rate loan, suggesting a 'home loan health check'.

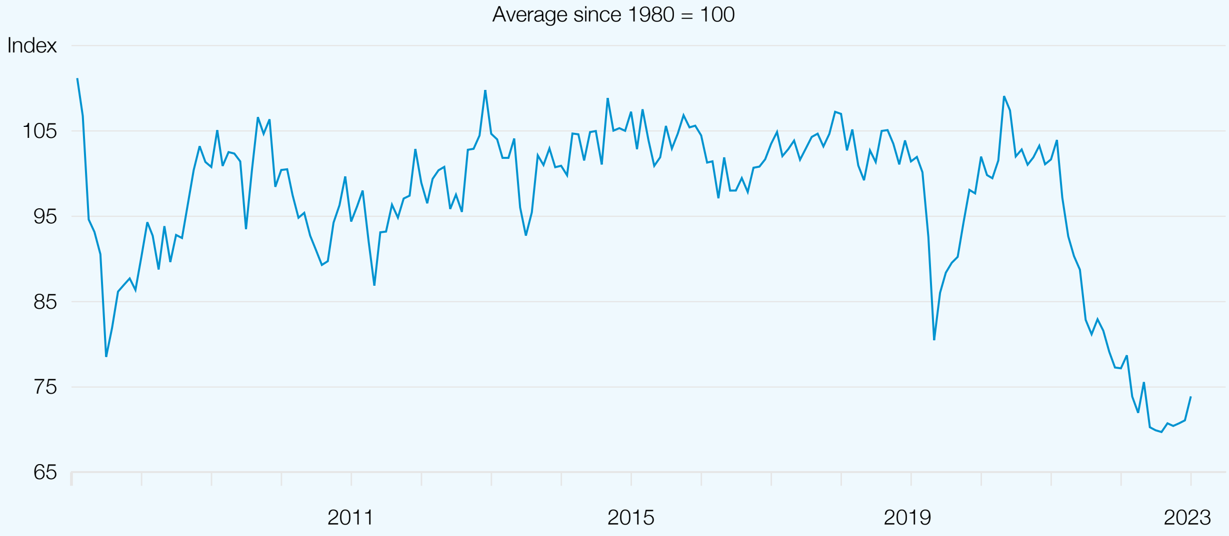
Australians refinanced over

$120 billion

in mortgages from January to June 2023.

Source: ABS[11]

The Westpac-Melbourne Institute Index of Consumer Sentiment[12] declined 2.6% to 79.9% in November 2023 indicating pessimism as consumers are wary of the potential for further interest rate rises. While the results of the December 2023 Index rose slightly to 82.1%, 2023 was still marked as the second worst calendar year for sentiment.[13] RBA data also shows consumer sentiment reached an all-time low in 2023 – see Figure 4.[14]



* Average of the ANZ-Roy Morgan and Westpac-Melbourne Institute consumer sentiment measure of respondents' perceptions of their personal finances relative to the previous year; ANZ-Roy Morgan index rescaled to have the same average as the Westpac-Melbourne Institute index since 1996.

Sources: ANZ-Roy Morgan; RBA; Westpac and Melbourne Institute.

Figure 4: Consumer sentiment

[11] *Australian Bureau of Statistics, Lending Indicators, December 2023.*
[12] *The Westpac–Melbourne Institute Consumer Sentiment Index for November 2023.*
[13] *The Westpac–Melbourne Institute Consumer Sentiment Index for December 2023.*
[14] *RBA Chart Pack*

Borrowers in stress

The MFAA Refinancing and Mortgage Stress survey conducted in July 2023 showed that borrowers continue to exhibit significant signs of stress, with 93% of respondents saying their clients are more concerned about meeting repayments than six months prior.[15] This correlates with RBA data showing an increase in the number of borrowers who are under severe financial stress.[16]

More than ever, a simple and easy process must be implemented, assisting borrowers to switch lenders so that they can benefit from more competitive offers that help to improve their household finances. The cost of a home loan is often the biggest expense a household has, and with repayments rising alongside interest rates, a greater proportion of a household's income is required to pay this debt. Household budgets are being reviewed regularly – with households having to either earn more to keep up with repayments or find ways to spend less.

95%

The percentage of brokers surveyed who say they are seeing customers who are seeing a broker for the first time to help them refinance.

More borrowers are choosing brokers

The survey also showed that more consumers are choosing to go to brokers for help with their home loan.

The value of working with a mortgage broker is that they have knowledge of a broad spread of products from multiple lenders. Consumers can have confidence in the fact that a mortgage broker will only recommend products that are suitable for their needs and circumstances, because:

- a mortgage broker has access to on average over 30[17] lenders via software provided by their aggregator service provider
- in addition to responsible lending obligations, mortgage brokers are subject to an additional obligation to act in their customers' best interests and to prioritise their customer's interests when providing credit assistance.

The broker channel drives competition between lenders and increases choice, leading to better service levels, greater access to credit, competitive loan pricing and better overall solutions for customers. The current high, and continually increasing, use of broker services demonstrates the unique value propositions offered by brokers to consumers and small businesses alike, including offering significant industry experience, choice, and convenience, and in the case of mortgage brokers, an unrivalled duty to act in their customers' best interests.

The shift in volumes over the past 15 years to non-bank and other types of lenders[18] (Figure 5) demonstrates the increasing choice available to consumers, as well brokers recommending alternative lenders that best suit their clients' priorities, preferences, requirements, and objectives.

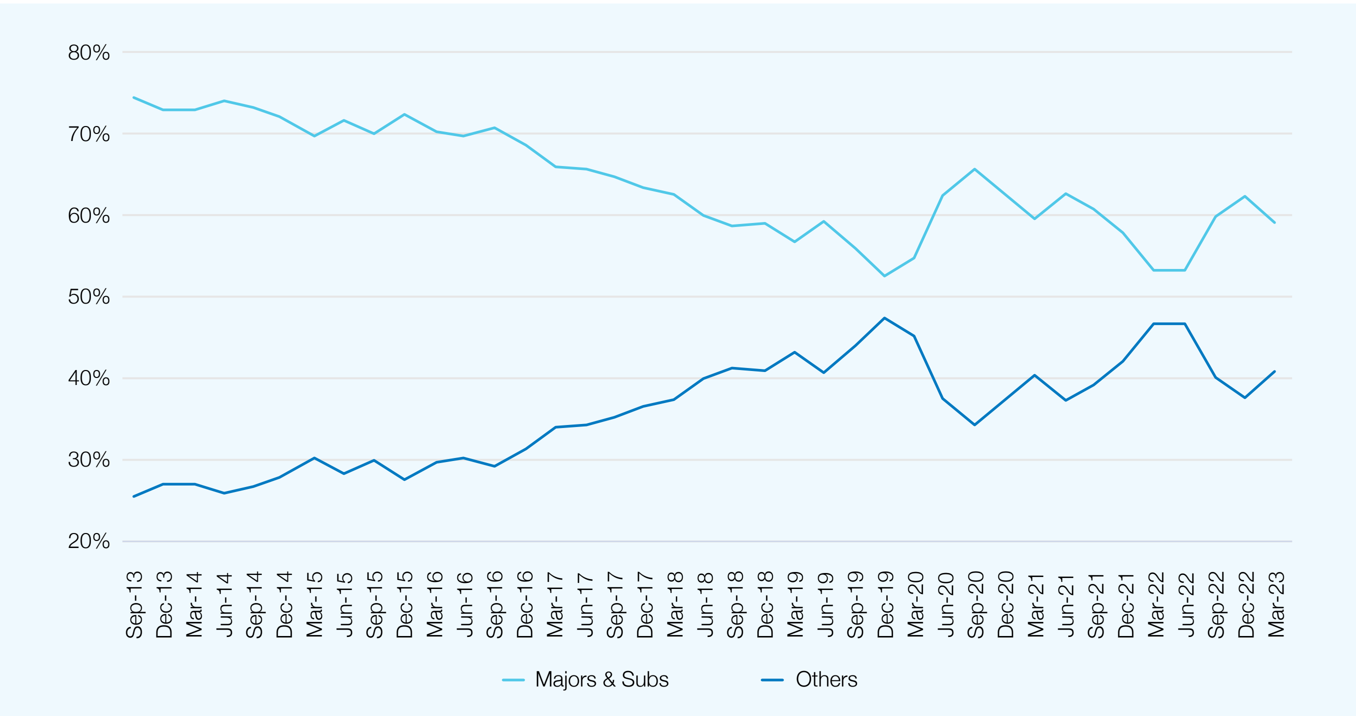


Figure 5: Broker market share of major lenders and their subsidiaries compared with non-bank and other types of lenders.

[15] *MFAA Mortgage and Finance Stress sentiment survey, August 2023*
[16] *RBA Indicators of Household Financial Stress | Financial Stability Review – October 2023.*
[17] *Deloitte Access Economics Report The Value of Mortgage Broking, July 2018, pp 7.*
[18] *MFAA Industry Intelligence Service (IIS) report 16th edition, published October 2023.*

Cashback offers drove refinancing in 2023

The increase in choice and competition led to many lenders promoting cashback offers to entice new mortgage customers to switch their mortgage to them. In 2023, when lender cashback offers were winding back or ending (many offers of the major lenders, or their affiliated banks, ended in May and June 2023)[19], many borrowers brought forward their decision to refinance in order to take advantage of these offers before they ended. This is evident in the ABS data that shows a peak in refinancing activity in July 2023 (Figure 6).

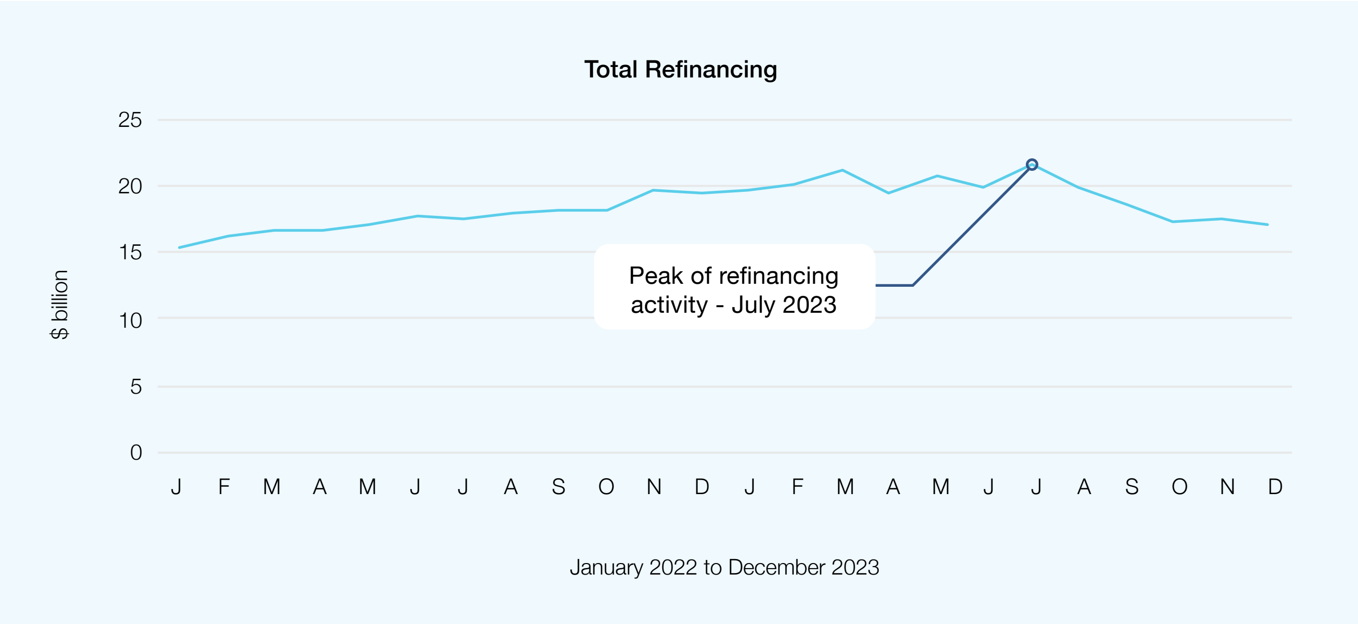


Figure 6: Refinancing totals per month[20]

Strategies used by mortgage brokers to help their clients

The MFAA Refinancing and Mortgage Stress member survey identified the top three strategies brokers use to support their clients with an existing loan:

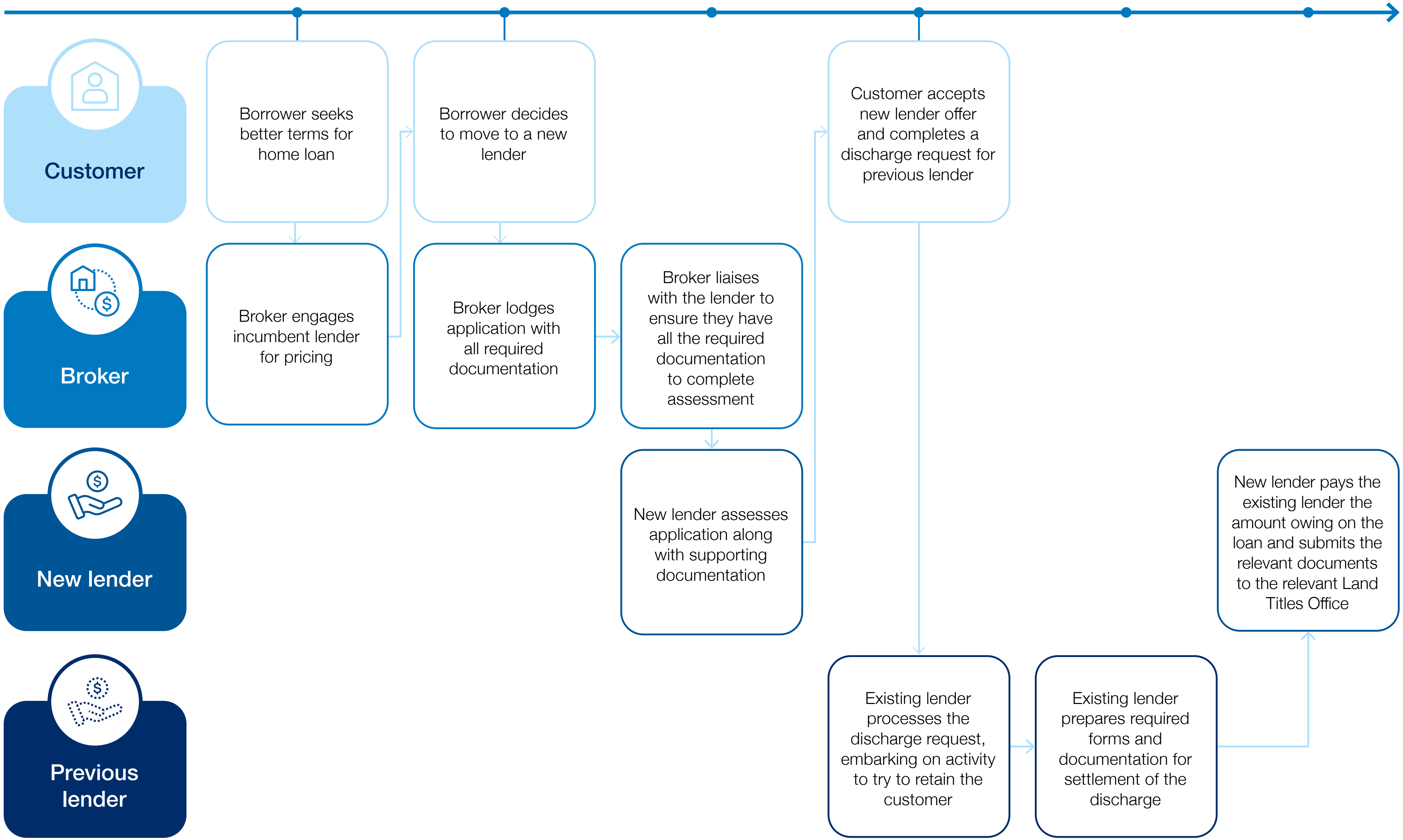
1. Negotiate with the customer's existing lender
2. Refinance to a different lender
3. Restructure short-term debt for improved cashflow

The survey also showed that 88% of brokers successfully negotiated a better rate with a borrower's current lender.

Brokers were also reaching out to their customers regularly and early ahead of any fixed rate expiry dates for those on a fixed rate loan, to help educate them on the various options available once the fixed rate period ends.

[19] *Current CashBack Offers - Broker Centre (mylocalbroker.com.au) and Cashback offer end date: Which banks are scrapping their cashback offers? And who is still offering them? (ratecity.com.au)*
[20] *Australian Bureau of Statistics, Lending Indicators, December 2023.*

Typical customer journey in the refinance process



The discharge process

MFAA member roundtables

To understand if the barriers to switching had improved organically since the Report in 2020, the MFAA ran a series of roundtables[21] across Australia in August 2023 to gather insights from its members on the barriers faced by them and their customers in the home loan discharge process.

Over 43 members attended the roundtables representing a cross-section of broker businesses from single-broker offices to businesses that employ over 100 brokers.

Core themes that emerged were:

- lenders are making it more difficult for people to switch and achieve a discharge, requiring customers to make in-person contact with lenders
- discharge timeframes continue to be lengthy, causing customers to miss settlements, pay more in fees and interest and experience a lengthy and complex process overall
- lenders are increasingly using retention tactics to try and save the customer from discharging their mortgage
- confusion is created in the consumer's mind as to who to trust – their lender or their broker.

Inconsistent and confusing lender processes

The general sentiment in relation to the challenges identified as a result of lenders:

- moving relevant forms to different pages on their websites
- removing the forms altogether and requiring borrowers to make in-person contact – either through attendance at a branch, or via phone or email
- not allowing for borrowers to nominate their mortgage broker as a representative acting on their behalf on the discharge form.

Where lenders are requiring borrowers to make in-person contact to process the discharge, their reasons why are generally noted as:

- being in the interests of privacy – particularly if the broker assisting the client is not the broker that originally introduced that borrower to the lender
- to ensure that the client has been supplied with correct information relating to the discharging loan, including that the client is aware of the costs
- quoting 'it's the lender's policy'.

Recommendations

Improve efficiency in the discharge process to encourage more borrowers to switch lenders if it's the right option for them.

In all instances, brokers should be able to act for a customer in the discharge process if the customer provides consent.

[21] *Member roundtables were held in Sydney NSW, Melbourne VIC, Adelaide SA, and Perth WA between 1 and 7 August 2023. Attendees are listed in the appendix.*

Inconsistent discharge timeframes (5 business days to 4 weeks)

Data from Lendi, an online broker business that provides consumers a tool to apply for a home loan, used by over 1 million Australians, provides insight into the consumer's experience over the past 15 months on how long it takes to discharge a home loan, versus the recommended 10 day maximum noted in the ACCC's Home Loan Price Inquiry – final report (Figure 7).

> "Our brokers are seeing lots of customers wanting to move to a bank with a more competitive rate, but they're frustrated by the wait time to move. Customers are having to wait to up to four weeks to be able to switch. Australian mortgage holders want competitive rates and flexibility, and these delays mean lenders are giving neither at the moment.
>
> **David Hyman, Co-Founder & CEO of Lendi Group**

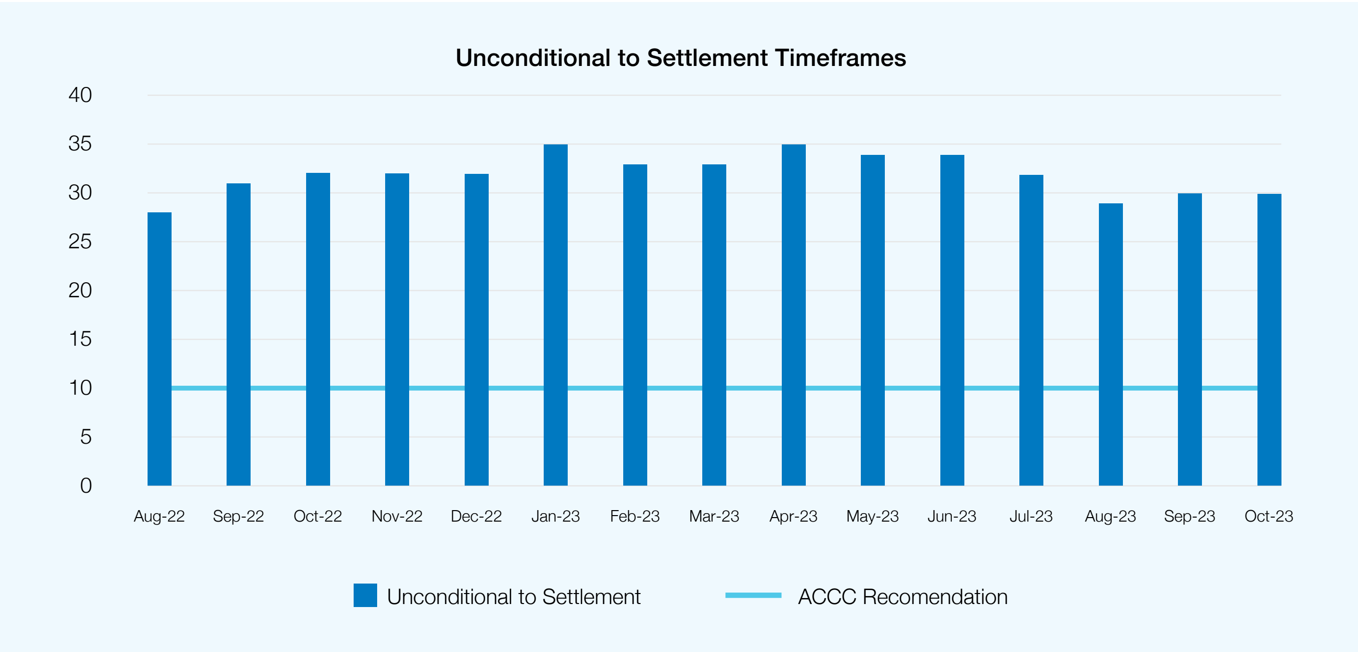


Figure 7: Number of days to reach settlement from when an application is unconditionally approved.[22]

Recommendations

- Implement a simple to use, easy to find, standardised mortgage discharge form.
- Reduce the time it takes to process a discharge form and complete the switch to another lender.

[22] *Source: Lendi*

Policies and practices	Sample of lenders (majors and non-majors)							
	A	B	C	D	E	F	G	H
Turnaround time for discharges	3-4 weeks	Up to 5 business days	2-3 weeks	Up to 10 days	15 working days	15-21 business days	3-4 weeks	3-4 weeks
Discharge forms on website	Yes	Yes	No	No	No however on settlement agent site	No	No	No
Customers/ Brokers must ring lender to obtain discharge form	Either	Not applicable, refer above	Only customer	If the broker is not the originating broker, customer must ring to obtain discharge form	Only customer	Only customer	Only customer	Either
Brokers can call on behalf of customer requesting discharge	Yes	No	No	Yes, if originating broker	No	No	No	No
Does it have to be the originating broker	Yes	No	Information not available at the time	Yes	Information not available at the time	Information not available at the time	Information not available at the time	Information not available at the time
What are the wait times when customers ring the lender	More than 1 hour	30 min	1 hour	Unknown	30 min	20 min	30 min	Unknown
Wet signature	Yes	Broker can complete discharge form and send in on behalf of client, however retention team will contact client to discuss	Yes	Yes	Yes	Yes	Yes	Yes

Table 1: Sampling of lender policies and processes relating to discharges, gathered anecdotally August 2023.

Whilst anecdotal at the time, information shared by our members of both major and non-major lender discharge policies and processes indicate there is lack of transparency to consumers, that there is great variation in both requirements, and in time to complete a discharge, and they are not generally designed to be inclusive of the consumer's mortgage broker (Table 1).

Retention tactics result in poor customer experience

Brokers have built steps to educate their clients on potential retention activity by outgoing lenders into their processes. The reasons they do so are to:

- improve transparency of the discharge process – educating consumers allows them to make an informed decision as to the right next steps for their financial circumstances
- minimise the chance of being frustrated by long discharge timeframes and improve the speed of the discharge process.

Two stand-out retention activities emerged from the research as the most common methods lenders use to retain and stop a mortgage broker client from discharging their loan and refinancing elsewhere. These were:

- offering a cashback
- offering a better interest rate than the original pricing offered at the beginning of the process (remember, the first strategy brokers employ is to seek better pricing with the incumbent lender).

The impacts of lengthy timeframes and retention tactics on customers were commonly cited as:

- stress and frustration because clients expect the broker to be able to deal with the retention teams, it's why they went to the broker for assistance in the first place
- damage to trust and confidence in the broker, although it's hard to measure to what extent
- creation of a negative perception of the lender and the broker.

Overall, not only does the difficult and confusing refinance process dampen the customer's excitement of the product they're refinancing to, the longer the refinance takes, the greater the cost that is incurred by the customer (Figure 8).

For brokers, they cite multiple impacts to them and their business, such as:

- a lessening of the customer's trust and confidence in their service proposition
- the additional time spent on a transaction as a result of inefficient processes
- in the event when retention activity is successful, reduced cashflows and increased stress as no new settlement occurs.

Overall, the discharge process for refinancing customers is an unsatisfying experience and the pain points continue to impede the process of switching lenders.

Recommendation

Lenders should offer their best repricing offer upfront, eliminating the need for retention activity once a discharge form is lodged.

State/ Territory	Average Home Loan $	Monthly Principle & Interest: Mortgage Repayment 7.00% $	Monthly Principle & Interest: Mortgage Repayment 6.40% $	Monthly saving $	Annual saving $	Cost to Customer $
NSW	785,405	5,225	4,913	312	3,744	205.15
VIC	613,018	4,078	3,834	244	2,928	160.44
QLD	572,439	3,808	3,581	227	2,724	149.26
SA	519,478	3,456	3,249	207	2,484	136.11
WA	509,275	3,388	3,186	202	2,424	132.82
TAS	462,661	3,078	2,894	184	2,208	120.99
NT	437,572	2,911	2,737	174	2,088	114.41
ACT	622,204	4,140	3,892	248	2,976	163.07
National	624,383	4,154	3,906	248	2,976	163.07

Figure 8: Cost to a customer with an average sized home loan[23] for an average 20-day delay in the discharge process.[24]

[23] *Data for average home loan size from Australian Bureau of Statistics, Lending indicators, December 2023.*
[24] *Assumptions: A borrower saves an average of 0.60% by refinancing from a variable rate of 7% to a variable rate of 6.4%, on a 30-year loan term, with no monthly fees, and incurs an average delay of 20 days.*

Customer

Case Study

Hi broker,

I hope this email finds you well.

It was later than expected but I had a phone call from the Bank Retention Team last Friday, and as you mentioned, they offered me $4,000 cashback and better rates if I choose to stay with them.

Their offer for Investment Loan is 6.04% and Owner Occupied is 5.79%, and New Bank rates are 6.14% and 5.84% respectively.

They also mentioned the costs of leaving Bank with $320 discharge fees for both properties, plus $374 per property in government fees, so total of $1,068.

I was very annoyed and expressed my disappointment with the fact that they couldn't do anything to help when I raised it with the bank branch, even their senior managers said there was nothing they could do and there was no incentive to retain existing customers.

Now, after we went through weeks and weeks of work and hurdles to find them offering me with this!

They acknowledged, apologised, and recorded our conversation as a customer complaint in their system.

Broker, firstly, would you be able to let me know the breakdown costs associated with moving over to New Bank (including New Bank's $4,000 cashback plus $395 Package Fee waiver).

Secondly, the difference in rates is not huge, but are you able to ask the New Bank manager if they can match what Bank is offering?

We are quite upset with this (despite you warning us earlier) because they are basically telling us that we don't need to do anything but get better rates and a full $4,000 cashback without any moving costs.

Regards, T&A

Broker

Case Study

A New South Wales broker had two, dollar-for-dollar, refinances (only refinancing for an improved interest rate) – one was an owner-occupied property, and the second for investment. Both were retained by the existing lender a few days after sending a discharge request.

- We were taking the loan to New Bank where rate was 4.89% and 5.14% respectively.
- The loans with the current lender were Basic Variable loans, and brokers are unable to reprice loans of this product type with this lender (only package loans can be repriced through the broker channel, but my clients had a key requirement for no ongoing fees).
- On the 17 March we sent the discharge form into Current Bank. On the 21st of March, the Current Bank had contacted the clients and offered better pricing than their new bank was offering for a Basic Variable loan (this is the loan type we couldn't price if we wanted to). The Current Bank not only matched the rates we found at New Bank but was also able to offer 10 bps better.
- The client chose to remain with their current bank.

My big issue was we couldn't undertake a reprice of the Basic Loans. I could have switched their loan to a package loan with their Current Bank (and obtained a better rate) but the clients would have incurred an annual fee that they didn't want. As I didn't have the ability to offer them any improvement on their existing loan type, the clients chose to refinance to a lender that could meet their needs and objectives. The retention activity from the current lender though, stopped that refinance from happening.

Editor's note: consistency in lender repricing processes regardless of channel, would have allowed the broker to reprice the loans at the beginning of the process and save the customer effort and time in embarking on a refinance.

Manual processes no longer fit for purpose

Manual processes such as calling a lender to request a discharge form, or requiring a customer's wet-ink signature before accepting a discharge request form, adds time to the overall process. This is in contrast to the digital enhancements many lenders provide both brokers and borrowers to streamline the application process.

With regards to process innovation, one lender has introduced a broker portal that allows a broker to make contact with the lender in particular to reprice a current borrower's loan. If the broker then finds a more competitive rate elsewhere and the customer decides to undertake a refinance, then if the outgoing lender is unable to match the rate, they will not look to engage in retention activity once the client's discharge request is received. This suggests that the lender is putting their best rate forward at the initial repricing stage, and saving their retention teams from completing retention activity that may not result in keeping the customer, thereby improving their own process efficiencies. However, transparency and consistency in the process is important, as well as ensuring it is adhered to.

Only one lender was identified by brokers at the roundtables as a bank that has a digitised process that results in better, quicker discharge results. Overall, given the vast array of lenders in the home loan market, there is opportunity for more of them to invest in technology to improve the discharge process.

Recommendation

Automate and digitise the discharge process as much as possible, for example by accepting electronic signatures or online editable forms.

Commentary from the roundtables on the question:

Are there differences between the large lenders compared to the mid-tier and smaller lenders? If so, what are they? Specifically, would you like to share specific examples of lenders that have overly difficult/lengthy discharge processes?

"

Slight differences – suggest that the smaller lenders are easier to deal with, their retention team is not as strong and resourced as the larger lenders. I also note the smaller lenders generally send out communication to brokers advising they have received a discharge request – so if I choose to, I can engage with customers to either retain/discover what has occurred.

(SA-based broker)

"

Generally, the larger lenders have the more clunky processes and more aggressive retention teams at the eleventh hour.

(WA-based broker)

Where to from here?

Fixing the discharge process and allowing borrowers to make better switching decisions makes for a powerful combination to help improve the financial commitments of Australia's mortgage-holders. Whilst we await the Government's response to the ACCC Home Loan Price Inquiry Final Report, lenders have the opportunity to improve their processes voluntarily for the benefit of customers and competition and we encourage discussion and change that will drive greater efficiencies to the process.

Recommendations

Improve efficiency in the discharge process to encourage more borrowers to switch lenders if it's the right option for them.

In all instances, brokers should be able to act for a customer in the discharge process if the customer provides consent.

Implement a simple to use, easy to find, standardised mortgage discharge form.

Reduce the time it takes to process a discharge form and complete the switch to another lender.

Lenders should offer their best repricing offer upfront, eliminating the need for retention activity once a discharge form is lodged.

Automate and digitise the discharge process as much as possible, for example by accepting electronic signatures or online editable forms.

Appendix

MFAA Roundtable Participants

The MFAA extends its thanks to the following brokers who shared their time and insights regarding their, and their customers, experiences with lender discharge processes.

NSW

Haydn Marshall	Lend Perspective
Andrew Stevens	Nectar Mortgages
Steven Zahos	ZT Finance
Gary Fowler	Contour Finance
Steve Tikellis	Excellence Home Loans
James Grima	Avenyou
Fabien Tribe	The Lending Lab
Beau Cook	Loan Market
Steven Yang	Loan Market

VIC

Luke Harris	Decipher Financial Services
Rebecca Wu	Buyers Choice Mortgage and Finance
Niti Bhargava	Resolve Finance
Melissa Pearce	The Money Collective
Darlene Neu	The Money Collective
Anthony Chimirri	Kode Finance
George Shaheen	Ashfords Finance & Lending
Jesse Erico	JE Consulting

SA

Jenna Devenport	Nectar Mortgages
Fred Morelli	Solid Finance
Denise Walters	Premium Loan Admin and Broker Services
John Savino	JAS Finance
Alison Stone	AS Financial
Anne Quick	Willow Financial Services
Richard O'Grady	Caveo Finance
Chris Albon	Your Loan HQ
Chris Burford	Zobel
David Hartas	Nectar Mortgages
De Woolman	Money Options
Deon Kruger	Propel Finance Group
Dino Marrone	Formula Finance
Riannon Diano	TTO Finance
Russell Thompson	Azura Home Loans
Sharene Dearlove	Total Home Loan Options
Simon Norris	Go Loans
Tina Pupello	Finance Tactics
Ben Slater	Aussie
Leigh Farrell	South Aussie Home Loans

WA

Julie Bishop	The Lending Collective
Matthew Posselt	Elite Finance
Derry Tanzil	Derry & Co
Kerry Franklin	Wealth & Security Partners
Rose De Rossi	Diversifi

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