



Trailing fee ban a boon for the banks

THE banking royal commission has put a blowtorch to some dodgy practices in the sector, but that was hardly a revelation.

Many people, myself included, have been writing about them for years. Higher "default interest" on loans in arrears and shonky insurance policies for credit cards are just two examples.

But what concerns most is the proposal to ban trailing fees for mortgage brokers.

While this has been welcomed in certain sectors, many people are ignorant of the purpose of trailing fees and how they work.

It's a quirk of human nature that while most people have no problem with expenses that are deducted invisibly, they hate to get a separate invoice.

Taxation is a classic case. Nobody seems to worry when they see \$20,000 deducted in tax on their group certificate, but they will scream if asked to hand over \$500 to the tax office.

When the financial services industry was in its infancy, a mortgage broker's main remuneration was by an upfront commission.

The problem with this was that the broker had no recurring income, and was solely dependent on chasing new business to stay afloat.

And while mortgage holders wanted ongoing advice over the life of a loan, how were brokers to charge?

Noel Whittaker



The upfront-only fee was unsustainable, so upfront commissions were slashed and a trailing fee introduced.

This gave the business a basic income to rely on, enabling ongoing service to clients without issuing a new invoice.

This is a different model to say, a law office — who will charge \$49 just to open an email.

I got some insight into the mortgage broking business last month when I was researching borrowing for the family home.

The options were overwhelming, the criteria for loan eligibility inconsistent and confusing, and fees and loan rates varied from lender to lender.

Choosing most suitable lender often turned on whether the borrower could meet eligibility criteria.

My conclusion was that it was far too hard to do it on my own.

My mortgage broker tells me that on a \$400,000 loan he would receive an upfront commission of 0.6 per cent, or \$2400, paid for by the bank, but which can be "clawed back" from the borrower if the loan is paid out within three years of establishment.

The lender then pays the

broker a trailing fee of 0.15 per cent, \$600 a year, as compensation for providing advice to the borrower as needed.

The banking royal commission has recommended this system be scrapped.

Applicants who wish to use a mortgage broker will have to pay an upfront fee.

If they can't pay, it could be added to the loan.

Well, you know what is going to happen?

No young couple looking for a loan will be prepared to fork out more than \$2000 to a mortgage broker to research the market and find the best deal.

Instead, they will go online to look for what appears to be the best deal and jump in.

The banks will have a field day. Without a mortgage broker as an intermediary, borrowers will be at their mercy.

Expect a return to loan establishment fees and even more complex products.

During the royal commission the value of bank shares was slashed. But as soon as the market opened last Tuesday morning, bank shares were up about 5 per cent. I rest my case.

Noel Whittaker is the author of Making Money Made Simple and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

valuables are with me in my waterproof safe.

Once this mess is all over my kids have already decided that their Give jar will be going towards the recovery of Townsville for as long as it is needed. That makes my heart smile as they also may end up losing their possessions. These two things are giving me hope in a pretty crappy time. I think

The Barefoot Investor for Families: The Only Kids' Money Guide You'll Ever Need
HarperCollins
RRP \$29.95



Barefoot responds: Your joint's flooding and you're emailing me?

Seriously, I love the fact that you're so calm in the face of a disaster: that's what happens when you've got your money sorted, and your plan in place. Even better, you're turning this into a powerful life lesson that your kids will remember.

You got this!

you for that, and have no doubt there are many in Townsville doing the same.

ASK THE EXPERT

Send your questions to Noel Whittaker
noelwhit@gmail.com or tweet @NoelWhittaker

Q I used the bring-forward rule in April 2017 to make three years of super contributions. I want to contribute a further \$100,000 in 2019-20. Can I do this in July 2019, rather than wait for the actual anniversary of the previous contribution in April 2020?

A It's calculated on financial years. Therefore July 1, 2019, is the earliest date you can contribute. Make sure you take advice — the rules regarding bring-forward contributions are complex.

Late change could be challenge worth taking

FOR years you have been stuck in a job that just isn't you. Or you are ready for a career change, but have no idea what to do or even where to start.

It may be that you have lost your job, or that you are simply tired of the industry you are working in. Or it could be your need for change has reached such a tipping point that the idea of changing careers is not only appealing, but absolutely necessary.

A career pivot at any age is a huge step, but making the decision to leave a position you have held for many years

WORKPLACE MATTERS

Gary Martin



career path is critical. Think through the reasons why you are dissatisfied with your current role.

Perhaps it is the stress that goes with the job, the workload or even the irregular hours.

You will need to focus on a new career that does not bring with it the same features of the role you are planning to leave.

Pinpointing those experiences in your professional life where you were the most motivated to do your best work will help you determine the type of job you would like to move into, as well

identifying your key strengths. And in pursuing a new career direction, it is always useful to chat to those who are already working in the type of job you hope to secure, to get their take on the role.

“ If nothing out there inspires you, there is always another possible option — starting your own business.

Once you have a clearer view of your new career direction, consider getting some training to bolster your chances.

And to help you secure your new position, you will

probably want to reach out to your trusted network of contacts to let them know you are open to new roles.

Networking with acquaintances, old and new, and just getting out there and

sharing your story are absolutely crucial to your success.

Of course, if nothing out there inspires you, there is always another possible option — starting your own business.

After all, there are an increasing number of people known as "seniorenpreneurs" — Australians over the age of 55 starting up their own businesses.

They represent the fastest-growing segment of entrepreneurs in Australia.

Although this type of move might be even more intimidating than changing jobs, being your own boss might just provide you with the flexibility you desire in an area that excites you.

Professor Gary Martin is chief executive at the Australian Institute of Management WA