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‘PROFESSIONAL CREDIT ADVISER’

Background

Some major lenders have recently introduced accreditation programs which either segment or distinguish brokers based on the volume of loans written for a particular lender. It has been argued that lenders are concerned about poor quality loan submissions and that, in the absence of any better measure, volume has been used as a surrogate for quality.

This paper is prepared to provide a description of the characteristics of a ‘professional broker’. It is proposed that lenders will discontinue accreditation programs which focus on volume, and instead utilise the criteria in the professional broker characteristics following as the basis of their accreditation programs.

The MFAA NBC has communicated this paper with all MFAA lender members. At this stage, while some lenders supported this attempt to focus on quality and professionalism in the industry, it is clear there is not general lender support for the adoption of the proposal.

However the National Brokers Committee has resolved to continue with its attempts to persuade individual lenders to add their support to the initiative.

The ‘Professional Credit Adviser’

In the context of the upcoming *National Consumer Credit Protection Act*, it is acknowledged that all brokers will be required to either hold an Australian Credit Licence or be a ‘credit representative’ of an ACL holder. This will require ASIC approved EDR membership, an IDR scheme, adequate PI cover and satisfying a ‘fit and proper person’ test as well as holding Certificate IV in Financial Services (Finance and Mortgage Broking). ASIC Consultation Paper 113 (yet to be finalised) suggests ACL holders also will need to have ‘at least 2 years relevant problem-free experience’ and should undertake 20 hours of continuing education each year.

Further the MFAA Board has recently adopted for consultation a Strategic Review of MFAA’s operations which includes recommendations around a new accreditation system based on ‘professional credit adviser’. While the final details of the new accreditation system based on ‘professional credit adviser’; are yet to be finalised they are focussed on MFAA broker members who are operating at higher education/experience standards than are required by legislation. That terminology is used in this paper.

Quite apart from the legislative requirements, it is proposed that a ‘**professional credit adviser**’ be characterised as follows:

- 1. Must hold Certificate IV in Financial Services (Finance and Mortgage Broking)**

It is proposed that over time (say 3 years) this minimum criteria will be a Diploma, the curriculum of which is currently being prepared.

2. Must undertake 30 hours of CPD per year, involving technical credit education

Under this proposal it will be mandatory to undertake at least 30 hours of technical credit education.

3. Must have had at least 2 years relevant experience in mortgage broking or lending in the last 5 years.

It is noted MFAA currently has a membership requirement that an applicant with less than 2 years relevant experience must operate under a *mentor until 2 years experience is achieved. It is proposed that persons currently operating on this basis be deemed to be 'professional' provided that they undertake 40 hours of CPD each year, at least 30 of which must involve technical credit education, and 10 in relation to mentoring. From the date of acceptance of this proposal package, no new entrants with less than 2 years experience will qualify as a 'professional credit adviser'.

* A 'Mentor' must be a person who qualifies as a 'professional credit adviser' who operates, or is a representative of, a broking business, or a broking or aggregator group who is in regular physical contact with and who supervises the loan writing of the mentee.

4. Must have a Conversion Ratio of at least 65%

[The 'conversion ratio' formula is subject to current discussions between MFAA NBC and NLC viz :

Conversion Rate = $\frac{\text{Total number of Applications Submitted during Q1}}{\text{The number of these applications settled at the end of Q2}}$

The number of these applications settled at the end of Q2

Q1 Applications = Total number of applications submitted during the quarter, excluding:

- *Pre-Approvals (ie. typically where client has not yet located a property at the time of application)*
- *Applications where the submission met all lender requirements, however "unreasonable" delays in the lender service level resulted in withdrawal*

Q2 Settlements = Total number of the Q1 Applications that settled, as at the end of the following quarter

For Example: *On the 1st of July, the conversion rate would be calculated by taking all applications submitted between 01-Jan & 31-Mar, and determining how many of these applications have settled as at 1-Jul (excluding pre-approvals).*

5. **Must be accredited, on an ongoing basis, with a panel of at least 10 lenders,**

The essence of a professional credit adviser is that they must be able to offer a range of choice of products and lenders and this range should be a fair representation of the different lenders in the market.
6. **Must establish that they are involved in an effective broking operation by demonstrating that they settle at least six loans per quarter in total from all the lenders which they deal.**
7. **Must suggest or recommend to an applicant only those arrangements for finance that the professional credit adviser genuinely and reasonably believes are appropriate to the needs of that applicant after undertaking an assessment of the applicant's capacity to repay the loan** (This is clause 21A of the MFAA Code of Practice)
8. **Must not engage in 'churning' by receiving a commission, payment or other incentive for negotiating a refinanced loan for a consumer, with a different lender from the lender which originally financed the loan for the same property, and the consumer is not better off as a result of the refinance.**
(Clause 21B -MFAA Code)
9. **Must be bound by a Disciplinary Process which is authorised by ACCC** (eg MFAA scheme)
10. **Must conduct themselves in a professional and courteous manner towards all persons/businesses with whom they have dealings** (this is a paraphrase of clause 54B of the MFAA Code of Practice)
11. **Must not bring the industry into disrepute**