Using a broker

Factsheet August 2011

With so many different credit providers to choose from, you may decide to get a finance or mortgage broker to do the legwork for you.

Brokers can help you find out about suitable loans or credit packages and arrange special deals. As with any adviser, though, it is wise to shop around yourself so you know what questions to ask. Check with ASIC that your broker is licensed to engage in credit activities or is an authorised credit representative of someone who is licensed.

Take the time to understand their fee structure, and make sure that your broker finds you a suitable and competitive loan – or you could end up paying more than you need to.

David and Carole didn't check the fine print before signing

David and Carole were delighted with their new home. But four years after buying it, David was made redundant. They began to fall behind in their repayments and worried that their credit provider would sell their home to repay the loan. They approached a broker who advertised that he could help people in arrears on their loans. By the time he had refinanced their loan, they were over three months and more than $5,000 overdue on repayments.

The broker and the new credit provider charged them over $30,000 in fees and costs to refinance. David and Carole soon discovered that they were paying a higher interest rate on the new loan (9.95% instead of 7.0%) and that the repayments were $500 a month higher than on their previous loan. Within 12 months of refinancing, they had to sell their home.

Because of the refinancing, they owned even less of their home than before. Altogether, they ended up over $90,000 worse off after refinancing.

How do brokers work?

- Finance or mortgage brokers are go-betweens who arrange loans. A **finance broker** negotiates with banks, credit unions and other credit providers on your behalf to arrange loans, and a **mortgage broker** specialises in home loans.
- A broker's fee or **commission** for arranging a loan is often paid by the credit provider whose products they sell. Different credit providers pay different commission levels, so this has the potential to influence a broker's recommendation of a particular loan product. Sometimes a broker will charge the customer a fee directly (instead of, or in addition to, the credit provider's commission).
- Make sure you understand the **fee structure** for this brokerage service and compare fees charged by different brokers.
- Finance or mortgage brokers can help you select a loan and manage the process through to settlement. But they may be limited to a particular range of products that might not suit your needs or give you the best value for your money. For example, if a credit provider doesn't pay your broker commissions, their loans might not be included on the list of products that the broker uses. So you may be able to get a better deal by **shopping around** yourself.

TIP What you should know before you see a broker

- Brokers are not financial advisers and are not obliged to find you the best possible deal unless they specifically agree to do so. So ask your broker exactly what loans or credit products they offer, and be prepared to **ask questions** about other home loans or credit packages on the market.
- Make sure you're comfortable with the commission and any benefits the broker may receive for recommending a loan product to you.
- Make a list of **loan features** you are interested in (for example, if you're looking for a home loan you may want the ability to make extra payments) and ask your broker whether it will cost more to have these features.
- Avoid being pushed into signing a **business purpose declaration** – do not sign a declaration unless you are really using the loan for business and are eligible to claim your repayments as a valid business expense for taxation purposes. By signing a business purpose declaration, you may lose valuable rights under the credit law.

Six steps to smarter borrowing

Step 1.

Work out if you can afford to borrow

- Before you borrow, use our **budget planner** at **www.moneysmart.gov.au** to see exactly where you are spending your money and how much you can afford in repayments.
- Save up as much as you can, so you can borrow less and save on interest.
- Remember to allow for interest rate rises and anything that might affect your future income (such as changing jobs).
- Make a list of **loan features** you are interested in and be prepared to ask questions about whether it will cost more to have these features.

Step 2.

Shop around for the best deal

- Think about whether you need a broker. Some of the best deals on the market are available directly from credit providers.
- Look at other loans online or call other brokers to check what they charge and what they offer. Reputable brokers will want to make sure you get the best deal for your needs. Clarify whether you need to pay anything for a first appointment to talk about your options. If not, talk to a few different brokers before making up your mind who is best placed to assist you.
- Check if the broker **charges fees** or is **paid a commission** by the credit provider. Ask whether you will have to pay anything to the broker if you decide not to proceed with the loan.
- If you are refinancing, take time to compare interest rates, product features, and fees and charges, and how these stack up against your existing loan. Even a small difference in the interest rate can make a big difference to what you have to pay. You also need to factor in the costs of refinancing. Check if there are any fees that need to be paid to exit your existing loan, in addition to the costs of establishing the new loan and any fee charged by the broker.
- Shop around online to compare products or use our multi-loan calculator at **www.moneysmart.gov.au**.
- Research published by the independent consumer group CHOICE can also help you find the right product for your needs and budget – see **www.choice.com.au**.

Step 3.

Know who and what you're dealing with

- Anyone who wants to engage in credit activities (including brokers) must be licensed with ASIC or be an authorised representative of someone who is licensed. If they aren't, they are operating illegally.
- There is currently an exemption from licensing for credit assistance provided through some businesses (for example, retail stores and car yards). While the store may be exempt, the actual credit provider must still be licensed. If you are unsure who the credit provider is, ask the person you are dealing with to point out the name in your credit contract.
- To find out if a credit provider is licensed, visit **www.moneysmart.gov.au** or call ASIC's Infoline on 1300 300 630.
- Anyone engaging in credit activities (for example, by providing credit or assistance to you) must give you either a **credit guide** (with information such as their licence number, fees and details of your right to complain) or a written notice with details of your right to complain about their activities.
- Make sure you get a **written agreement** that states the type of loan being arranged for you, the amount, the term of the loan, the current interest rate, the repayments at the current rate, and any fees you have to pay.
- **Never sign blank forms** or leave details for the broker to fill in later.
- If you need the money by a certain date, ask the broker how realistic this is. If it's not, work out a plan for how to manage this. If the broker agrees to secure funds by a certain date, make sure you have this in writing. If you feel like you're being pressured into signing something you're not sure about, take more time to think things through. See our tips for resisting pressure selling at **www.moneysmart.gov.au**.

Step 4. **Keep up with your repayments**	▶ Keep your repayments up-to-date to avoid having to pay any **penalty fees**. ▶ Make extra payments when you can, to save on interest. ▶ Check for fees or charges if you're thinking of transferring your loan.
Step 5. **Get help if you can't pay your debts**	▶ **Act quickly** if you're having trouble making repayments. It may be difficult to face the problem, but ignoring it will only make things worse. ▶ If you can't make the full repayment, pay what you can. Contact your credit provider without delay. ▶ If you are experiencing financial difficulties, you have the right to apply to the credit provider for a **hardship variation**. If the credit provider refuses, you can complain to its independent dispute resolution scheme for a variation on the grounds of hardship (see step 6 below). ▶ There are places you can go for help – visit **www.moneysmart.gov.au** for sample letters and information about support services such as financial counselling and legal assistance, call the National Financial Counselling Hotline on 1800 007 007 or call ASIC's Infoline on 1300 300 630. ▶ See our factsheet *Can't pay your debts?* at **www.moneysmart.gov.au**.
Step 6. **Complain if things go wrong**	▶ Try to resolve your problem with your credit provider first. ▶ If you aren't satisfied, take your complaint to your provider's independent dispute resolution scheme. This will be either the Financial Ombudsman Service (FOS) at **www.fos.org.au** or the Credit Ombudsman Service Ltd (COSL) at **www.cosl.com.au**. Both schemes can be reached by calling 1300 780 808. ▶ If you think that a credit provider has acted unlawfully or in a misleading way, you can complain to ASIC online at **www.asic.gov.au** or call ASIC's Infoline on 1300 300 630.

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ASIC Infoline: **1300 300 630**

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