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**Insight**  
**Clancy Yeates**  
Big banks are far from bulletproof

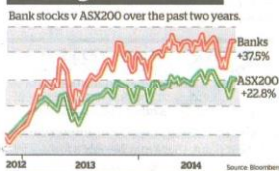
A soft economy has done little to interrupt the stream of good news for investors in those sharemarket giants, the big four banks.

The latest round of corporate results confirmed that the Commonwealth Bank, Westpac, NAB and ANZ are profit-generating machines. Between them, they earned \$28.6 billion in the latest financial year, 5.7 per cent more than last year. Dividends were up, although there were no one-off special dividends, such as those that some shareholders pocketed last year.

Bank bosses also used lots of phrases, such as "quietly positive", a sign they're confident things will more or less continue to hum along nicely. Barring a sharp deterioration in the economy, it seems a fair bet that earnings and dividends will indeed climb higher during the next year or so. How do the banks do it?

A key reason for their strong run is that they make a large part of their money from writing home loans.

**Beating the market**



Given the big banks' dominance in this market, it's hard to see these business conditions changing radically soon, but that doesn't mean big-bank investors don't face

**Better Borrowing**

# Lenders line up to sell loans online

A Sydney man will save almost \$17,000 over the next five years after putting his mortgage out to tender, writes **David Potts**.

When Murray Roach put his mortgage up for grabs online he was overwhelmed with 61 bids from lenders. Still, if doing business online as well as face-to-face makes sense to auction homes, why wouldn't it work with mortgages?

After posting his request to refinance his mortgage on [flongle.com.au](http://flongle.com.au), Roach was shocked to find one lender undercutting the variable rate that three years ago a mortgage broker claimed was the cheapest.

So for a fee of \$389, Flongle's charge for putting your potential mortgage up for competitive bidding and assessing each bid, Roach will save almost \$17,000 over the next five years.

"The loan I had was discounted but you finish up paying more because the broker is getting his whack," Roach says.

Lenders pay brokers who sign up a borrower between 0.5 per cent to 0.7 per cent of the loan's value plus a monthly trailing commission of up to 0.28 per cent a year.

Although apparently tiny, the latter is the most lucrative for mortgage brokers.

On a \$282,000 loan, for example, the upfront commission might be \$1410 but over five years the trail would be worth \$3525, says Flongle's creator, Michael Lee, a former mortgage broker and author of *Mortgage Free Debt Free*. Mortgage brokers reveal in the fine print the commissions they receive for successfully signing up a loan, but not other kickbacks.

They are only obliged to recommend a

loan that is "not unsuitable", as distinct from one that is the most suitable.

Although the commission is paid by the lender, not the borrower, Lee says a higher commission can influence the broker's choice of loan.

On its moneysmart website, the financial regulator ASIC also warns different commissions "can potentially influence what loans the broker recommends to you".

Some brokers will refund the commission they receive from lenders.

**It's completely clean. We don't take any money, just a \$389 fee.**

**MICHAEL LEE, Flongle creator**

One of the biggest, Mortgage Choice, says "our brokers are paid the same commission regardless of which lender you choose". But its website also says it might receive additional payments "relating to the overall volume of finance we arrange".

Any payments of more than \$500 that are made by lenders to brokers are published on the Mortgage Choice website.

For example, one broker was given an all-expenses-paid trip by Homeloans to "a conference" in Broome worth \$6000.

Flongle does not accept any commissions. "It's completely clean. We don't take any money except for the \$389," Lee says.

Brokers even have to reveal any commission they'll be getting from lenders before their bid is allowed to be posted.

In some cases they pass them on to potential borrowers because the rate they quote is less than the lender normally charges.

Some brokers are also offering to rebate the \$389 fee Flongle charges, Lee says.

Many mortgage brokers are submitting bids often on behalf of the big banks – the software filters out any doubling up of lenders when compiling the results – as well as smaller, lesser known lenders.

"It's a free service for lenders so why wouldn't they want to be there," Lee says.

"It's in the interests of brokers and lenders to offer the best deal because a borrower is almost in their grasp."

He also claims most brokers "only deal with three or four lenders despite having far more on their lending panel".

Flongle reveals all the features of each loan and lets you choose what criterion, which may not be the lowest rate, to apply.

"It's up to the consumer. You decide yourself on the facts," Lee says.

The system also filters out mistakes and suspect bids. A common error is misquoting the cost of loan mortgage insurance.

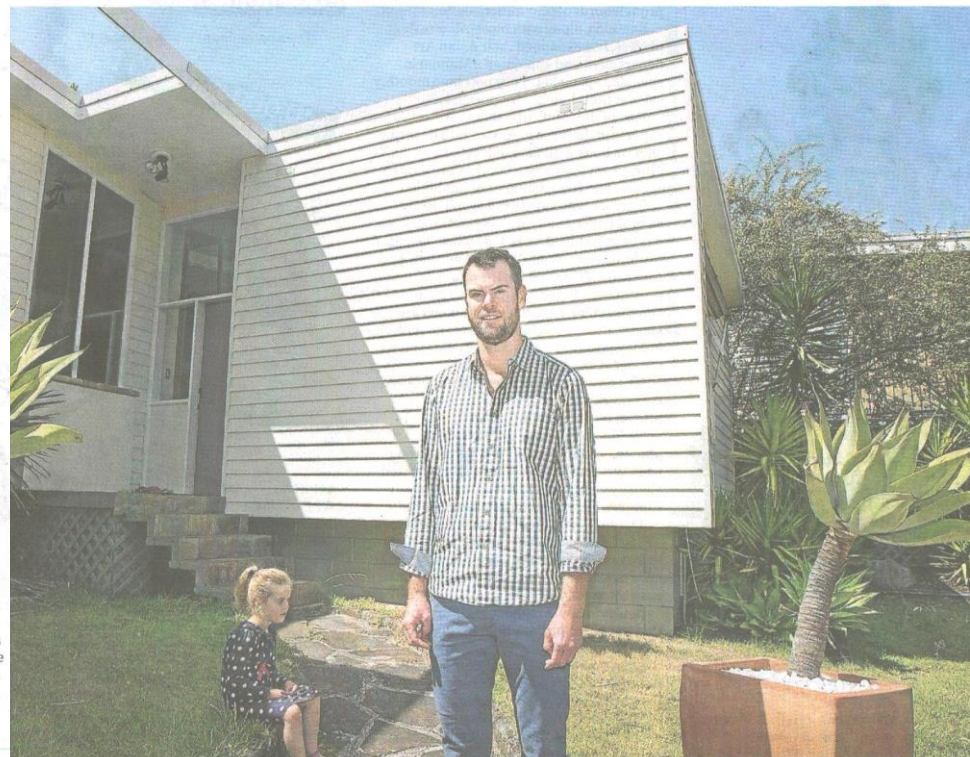
But there have also been bargains. In one bid a small lender discounted its discount by another 0.45 per cent and some brokers are "leveraging their buying power to negotiate individual discounts with lenders", says Lee.

Roach emailed three of his 61 bidders and "they contacted me straight away".

You aren't identified when your details are submitted for bids and so lenders can't at that point check your credit rating.

But Easy Living Finance's Tony Harris warns "you don't know until you make the application what the lender needs, so you might not get the loan. And if you go to a decent broker you don't pay anything."

Twitter: @moneypotts



Testing the market: Murray Roach and four-year-old Olive outside their home in Narrabeena. Roach is happy to be making substantial savings over the term of his property loan after posting online a request to refinance his mortgage. Photo: Jessica Hromas