

Blog

Fee-for-service: smokescreen or professional costs? You do the math...

by Tim Neary

in Business platforms, Third eye open, The Idler's Sticky Beak in the Week

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While the horrible floods continue to devastate the state of Queensland, in the mortgage industry the news this week centered itself on the broker fee-for-service debate, as comments rained in on what I had thought was already a saturated subject.

But I was wrong.

The issue kicked up again when the NAB's John Flavell said he thought consumers would be happy to pay brokers a fee for their advice. Funny, I've never come across a consumer, and I've come across heaps of them, that was happy to pay a fee for anything.

"Right that'll be \$125 for the tickets, and I'll just grab another \$2.50 for the ticket fee."

"No worries. Only two-fifty? Happy to pay that, mate."

Still, it struck me - and a few others I suspect - that while it was the NAB this time, it could have been any of the others: all of whom I suspect are trying it on in an effort to palm off the burden of remuneration from their balance sheet to someone else's. Anyone else's.

Borrower beware

In this case it's the borrower, apparently, that is being asked to pick up the tab.

The argument proffered is that sound professional advice has a value, and should therefore also carry a price tag. Fair enough.

Perhaps.

The FBAA's Peter White is all for it. He was quoted in the press today as saying brokers not adding fee income to their business models run the risk of not being properly remunerated for their services.

"I think it is time to embrace fee for service. With licensing and regulation, we are able to show consumers how professional the mortgage broking industry has become. If consumers see value in the services brokers provide, they will not be averse to paying a fee."

See above.

The C-word

But AFG's Mark Hewitt is dead against it. His stance is that it's time to stop treating 'commission' as a dirty word.

He believes a fee for service model would mean disaster for the industry because asking for one would drive an obstacle between broker and client.

Cutting through the mist, Mortgage Point broker Susy Bessell; a long time broker with clients across Melbourne, made the simple but the most sanguine point of all in the press recently. Why would anyone - and in this case a borrower - pay for anything that is going for free somewhere else?

"I can definitely say that consumers would not pay 'fee for service' to a broker. They come to us because it doesn't cost them anything."

Smoke and mirrors

No, I think all this talk of fee-for-service is a smoke screen sent up by lenders intent on improving their own business model IRR's by dropping, or erasing even, the expense line "commissions paid".

Instead, go back to the fundamentals to see who indeed should shout the brokers tab. Who in the equation derives the most value from the brokers' contribution? The borrower, for the advice? Or the lender, for the interest and fees earned?

The answer, as it so often is in business, is in the arithmetic - the lender.

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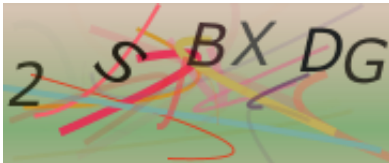
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