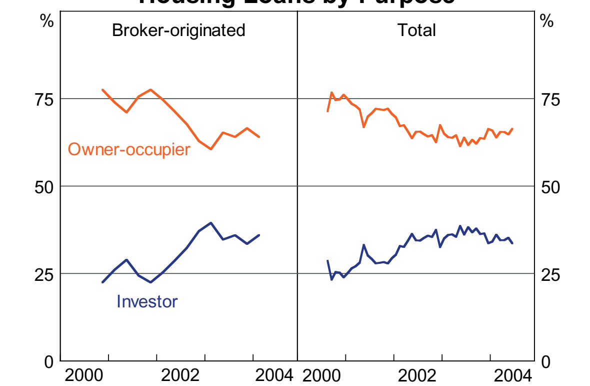
# Box D: The Characteristics of Loans Originated by Mortgage Brokers

Most Australians approach a lender directly when they wish to take out a home loan. However, an increasing number are choosing to arrange their loan through a mortgage broker – an intermediary that deals with a number of lending institutions. In 2003, around one quarter of all new home loans were sourced in this way.

The characteristics of loans originated by brokers are similar to lender-originated loans in many respects. For instance, investor loans make up a similar share of broker-originated loans and of all loans; in the March quarter 2004, investor loans accounted for 36 per cent of loans in each case (Graph D1).[1] The average size is also similar, although in the past broker-originated owner-occupier loans have tended to be larger than the market average (Graph D2).[2] The reduction in this difference may reflect growing customer awareness of brokers, resulting in brokers arranging loans for a broader cross-section of borrowers than previously.

**Graph D1**

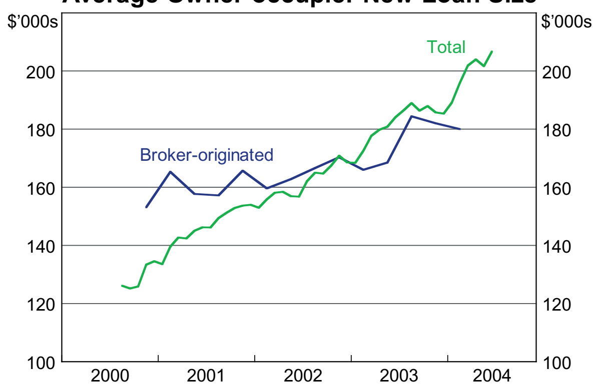
**Housing Loans by Purpose**



Sources: ABS; MISC; RBA

**Graph D2**

**Average Owner-occupier New Loan Size**



Sources: ABS; MISC; RBA

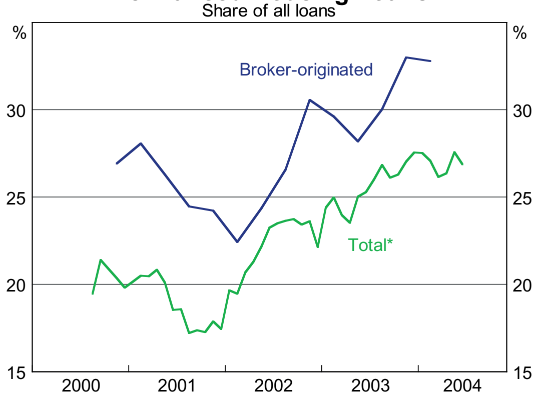
One point of difference is the prevalence of refinancing, with refinanced loans accounting for a larger share of broker-originated loans than of lender-originated loans. For example, in the March quarter, 33 per cent of broker-originated loans were used to refinance existing

1 *Market Intelligence Strategy Centre (MISC) data on broker-originated loans refers to loan settlements, whereas ABS data on all lending refers to loan approvals. There is typically a few months lag between when a loan is approved and when it is settled. Unlike the data presented in* The Macroeconomic and Financial Environment, *the data shown here are not seasonally adjusted.*

2 *Market-wide average loan size data are unavailable for investment loans.*

Graph D3

Refinanced Housing Loans




* Owner-occupier only; share of total owner-occupier approvals

Sources: ABS; MISC; RBA

loans, while 27 per cent of all loans were used for this purpose (Graph D3).

The higher proportion of refinanced loans is consistent with brokers' commission arrangements. Brokers typically receive upfront commissions from lenders for each loan they originate. In addition, most lenders also pay an ongoing or 'trailing' commission to brokers over the life of the loan. However, these trailing commissions are typically small relative to upfront commissions, so brokers have some incentive to encourage borrowers to periodically refinance with a different lender.

Given the strength of the household sector in recent years and the low aggregate mortgage default rates, it is difficult to identify any differences in default rates between mortgages originated through brokers and those originated directly. The higher rate of refinancing has mixed implications for the riskiness of broker-originated loans. On one hand, it allows borrowers to rearrange their debt on more advantageous terms; on the other, refinancing may provide an opportunity for households to increase the size of their mortgage and thus their total debt. One sign that brokers may be dealing with more vulnerable customers comes from the lenders themselves. A 2002 APRA survey of authorised deposit-taking institutions' use of brokers found that lenders tend to reject a higher proportion of loan applications sourced from brokers than other loan applications.[3]

3 *Chanthivong A, A Coleman and N Esho (2003),* Report on Broker-Originated Lending, *APRA, January.*