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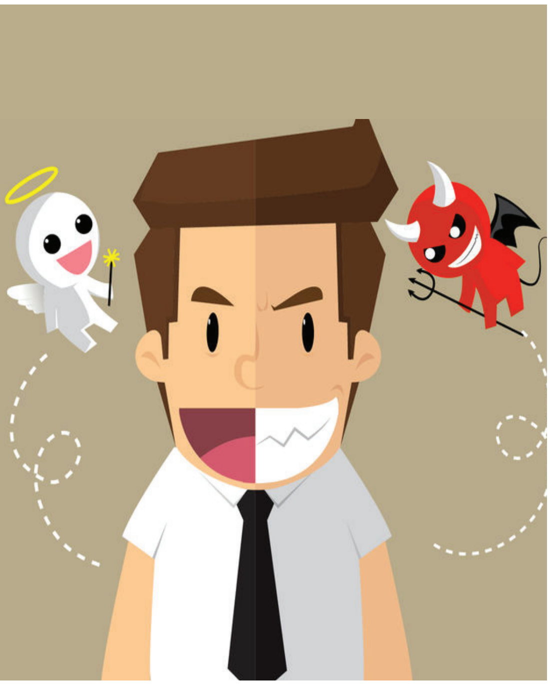

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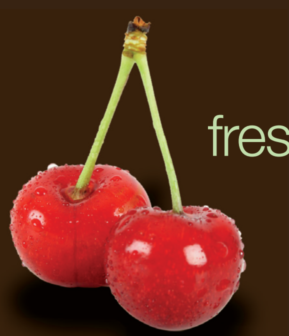

fresh ideas...

Dear Kenneth

I trust this letter finds you well. Please forgive me for not writing earlier but I have been meeting clients all weekend and every evening.

Thanks so much for your recent correspondence albeit at 950 + pages I must confess I have not read the entire document in detail. Sufficient to say that what I have read, particularly in relation to finance brokers and mortgage brokers troubles me, not least because your findings seem to reflect a lack of understanding of what it is that finance brokers actually do.

How could this be I wondered?

Surely the many days that you and Rowena spent imbedded in finance broker businesses combined with the hours of testimony from individual brokers would have been most informative., or so I thought. Sadly, I can't seem to find any evidence in your report that these activities took place. Not sure how you came to a view without visiting the scene of the crime but surely you are a wiser man than I.

Anyway, it seems that based on some pretty flimsy evidence you have decided that finance brokers shouldn't be paid by the banks and that cost should be shifted to consumers. I did note that at least one major bank CEO shares your view and why wouldn't he? The last thing the majors want is robust competition and external service providers who hold them to account. Heaven forbid!

I know you must be very busy, but I thought I might take the opportunity to give you some idea of what we do for a living and perhaps some thoughts on the nature of commissioned sales.

Believe it or not most of our time is spent educating consumers, helping them understand their own financial situation and the broader financial system, the economy and the bank lending system. We run modelling and analysis for individual transaction's and provide feedback on a raft of matters. It is not unusual for us to spend days, weeks and sometimes years supporting a consumer as they investigate options and work toward their goals. We charge no fees for this service while maintaining a fully staffed office and carrying all the overhead associated with a professional financial services business. This is time and money that the lenders need not commit. Indeed, given cost cutting the bank's wouldn't fund consumer support of this sort anyway.

Once a client decides to acquire an asset, we compile a detailed finance tender and compel the banks to compete for the business. We present the client with a comparison of lender proposals and assist them to make a decision. We don't need a best interest rule to act professionally. Frankly, if we did then we shouldn't be in this business. Should you suspect that we recommend the lender who pays us the most think again. It's tough enough getting deals approved without narrowing the field to the top commission payers. In any event the differences are immaterial.

Once a lender is chosen, we allocate a file manager to assist the credit representative in finalising the application, collating information and supporting documents and moving the transaction to approval and settlement. This process is incredibly time consuming as we cajole, badger and harass the lender to perform. Imagine how the orphan borrower with no experienced advocate must get on. It is not unusual for us to encounter a new client who comes to us after their bank has had an application for weeks and sometimes months. Interestingly enough, when we intervene things start happening and the borrower often finds themselves with a lower interest rate and more flexible loan terms. You got to love competition.

MFAA APPROVED BROKER

Anyway, enough of the process, lets get on to the remuneration.

Currently, we are paid by the lender when a deal settles. We can spend hundreds of hours on a file, if it doesn't settle, no win, no commission. We get an upfront fee and we are paid trailing commission. On many occasions the upfront barely covers our costs and if the loan is paid out early our commission is taken back. This is the nature of commissioned sales. We are a service delivery channel for the lenders, and we save them the cost of having to find the prospect, service the prospect and convert the prospect to a client. We also look after the client post settlement which is a good thing if you have ever had the dubious pleasure of experiencing day to day bank service. Oh sorry, silly me. I am sure a gentleman in your position need not trouble yourself with sitting in a bank call centre queue or justifying your borrowing capacity to a credit manager. It must surely have been challenging bringing your personal experience to bare when weighing the evidence. Thank goodness you and Rowena had such a sound finance industry background so you could sort the facts from the fluff.

I know what you're thinking. How can you work for the borrower and be paid by the bank? Surely you are compromised. Not so. We work for the borrower and we are paid by a bank, not the bank. Unlike the lenders, who have only their wares to sell , we can access industry wide products and ensure our client has a range of options to choose from. We can use our industry status and business volumes as competition levers and advocate for consumers in a manner that the stand-alone borrower cannot hope to replicate. Given the cost savings to lenders in having us manage the process our commission is not added to the borrower costs and in many cases we get better deals than the general public. As such, if the lenders are compelled to stop paying us, I would expect the cost savings to be immediately passed on to consumers by way of lower loan fees and wide ranging interest rate cuts. I would also expect the banks to go on a huge recruitment drive to replace the thousands of brokers who currently do the heavy lifting. Given the impact your recommendations have had on bank share prices I suspect no one thinks the banks will do so. For certain the champagne glasses were clinking in board rooms on Monday night.

I am sure you are more than aware of all of this, but I feel better for having got it off my chest. Your recommendation to move from a best interests' advocacy model that benefits consumers and is paid for by the people whose products we deliver to a user pays model must have some merit. Unfortunately, in 950+ pages I can't find it. I have noted various discussions relating to civil and criminal investigation of some banks and a couple of high-profile resignations. Maybe I missed it, but I can't find any such discussions relating to the finance broking profession.

In closing I want to thank you for reminding me of an old black and white movie I saw years ago. There's a great scene where a conniving, devious and slippery young man convinces his aging grandfather to change his will. The dialogue between the grandson, the grandfather and the grandfathers well-meaning lawyer is priceless.

Your Sincerely
Mike

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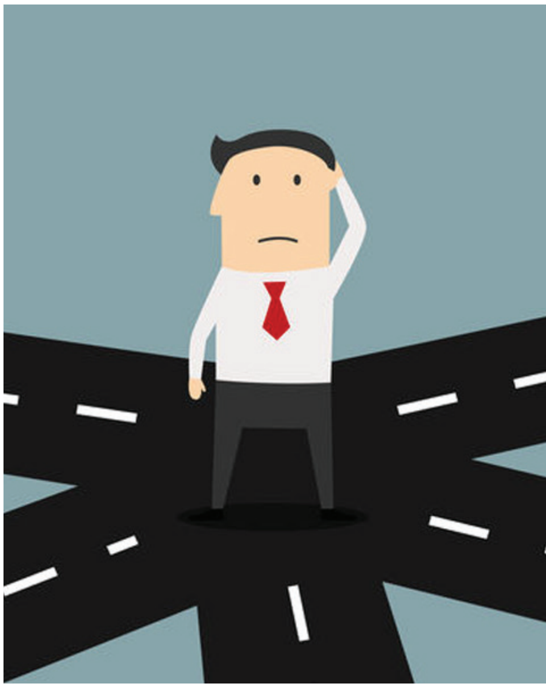

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