



How The 'Best Interest Duty' Can Help You Find The Best Home Loan

The Best Interest Duty (BID) for mortgage brokers came into effect 1 January 2021.

The Best Interest Duty and related obligations ensure that you receive advice that meets your objectives, financial situation and needs, and that we act in your best interests when providing this advice¹.

What does that really mean for you?

In short, it means that your mortgage broker (us!) must legally comply with the BID to ensure that you secure the best home loan product that is most appropriate for your situation.

It also means that not much will change for us because we have always put our clients' interests first.

More about BID

The Best Interest Duty guidelines state that while price will always be a determining factor, in some cases the cheapest price may not be the best outcome.

Some circumstances may mean that the benefits provided by certain features might outweigh the importance of cost.

Some clients may have a strong preference for a loan feature that may not be in their best interests. For example, someone may insist on an interest only loan, when in our view it is not in their best interest.

In this case, we are expected to make reasonable efforts to explain why these features may not be appropriate or offer good alternatives to help them make an informed decision.

Other home loan considerations where we will act in your best interests include:

- **When refinancing** – “the consumer may benefit from being made aware of any potentially minor cost savings associated with refinancing, with an explanation of when the cost savings would exceed the refinancing expenses.”
- **Considering promotional offers** – “any promotional offer that is quantifiable will be considered as part of the cost of the credit product... it is important to be aware of eligibility criteria, exclusions and time limitations.”
- **Comparing interest rates** – for example a “fixed rate loan with a substantial break fee could be detrimental to a consumer who wants flexibility to refinance.”
- **Deciding on account structure** – “an offset account may not be relevant to a consumer whose plans do not include repaying additional amounts (and may be detrimental if there is an additional cost for the feature).”

You will have the assurance that we must place your interests ahead of our own as set out in the Conflict Priority Rule guidelines. Conflict priority requires mortgage brokers to prioritise the consumer's interests in the event of a conflict of interest.

For example²

Linh and Zelda approach a mortgage broker for a home loan.

Based on the information provided, the broker sourced two very similar loan products:

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Lender 1 - A home loan package with an offset account, but NO annual fee.

Lender 2 - A home loan package with an offset account but includes an annual fee of \$149.

The broker recommends to the client to proceed with Lender 1.

However, Lender 1 offers a higher commission to the broker than lender 2 for the same size loan.

Commentary

In prioritising the consumers' interests, it IS POSSIBLE that the interests of the consumer and the broker align – even if the broker is paid more commission. In this situation, the fact that there is an additional benefit for the broker DOES NOT indicate that the broker did not prioritise Linh and Zelda's interests.

If the situation was reversed, where Lender 2 offered the broker more commission, AND the broker recommended Lender 2 over Lender 1, then the Lender 2 product would be inconsistent with the conflict priority rule, and therefore becomes a conflict of interest - thus not operating in the best interests of the consumer and not legally complying with BID.

Best Interest Duty does NOT apply to any lenders!

A lender may offer you products, but a mortgage broker MUST act in your best interest.

Lenders have no legal obligation to act in your best interest, but we do!

Looking for a home loan? Contact us today to see how we can assist you.

Sources

1. Regulatory Guide 273 RG 273: Mortgage brokers: Best interest duty (asic.gov.au)
2. ASIC, Regulatory Guide 273: Mortgage brokers: Best interest duty, Example 16: Aligned interests



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