Discretionary Commission Model

The discretionary commission model is a compensation structure in which the broker receives a commission based on the loans or credit products they successfully arrange for their clients. In this model, the commission is not fixed or standardised but is determined at the discretion of the broker based on the work they undertake.

Here's a breakdown of key features of the discretionary commission model for credit brokers:

Variable Compensation: The commission earned by the credit broker is not predetermined or fixed. Instead, it can vary depending on factors such as the type of credit product, the amount of the loan, and the specific terms negotiated.

Lender's Discretion: The credit brokers commission rate will be based on the compensation structure dictated by the lender and their internal policies and agreements with the broker. This allows for flexibility in rewarding brokers based on the perceived value of the work they undertake to facilitate the transaction.

Negotiation: Credit brokers may have the opportunity to negotiate commission rates with lenders based on the volume of business they generate, the quality of clients they bring in, and other relevant factors.

Incentivising Performance: The discretionary commission model can serve as an incentive for credit brokers to focus on high-quality deals and maintain strong relationships with lenders. Credit brokers may be motivated to secure favorable terms for clients to maximise both their own earnings and client satisfaction.

Conflicts: Discretionary commission models can lead to conflicts where the broker is incentivised to sell higher rates to secure higher commissions. The Financial Conduct Authority (FCA) banned these types of models in 2021. So current discretionary commission models have to reflect the costs the broker incurs to facilitate the loan facility for the client. This would be covered by the broker's Price and Value assessment.