

MORTGAGE BROKING

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**Market
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Latest Measurement of Mortgage Broking Sector shows a Record \$8 Billion of New Loan Business

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Latest measurement of Mortgage Broking sector shows a record \$8 billion of new loan business for the December 2001 quarter, thus producing a \$30 billion total market for 2001. However, quarterly growth slows to 4% indicating the market may be entering a new structural phase says MISC.

Bank and Broker Pool members released today results from their latest quarterly collection produced through MISC (Market Intelligence Strategy Centre). The results revealed that Broker-generated new Home Loan business volumes slowed for the first time, recording only 4% value growth, but still reached a record \$8 billion in new home loans written for the quarter. This unique co-operative industry collection was first established in December 2000 and this latest measurement now completes 4 quarters of **actual** 'pooled' statistical data, enabling MISC to report that Mortgage Brokers wrote some \$29.5 billion for the 12 months to December 2001.

Since the establishment of the Mortgage Broker Pool collection the industry has been eagerly awaiting a full year results to show how big Broker loan business really is. The latest December Quarter results although comparatively lacklustre, when compared to previous quarters, finally show that the Broker industry in the calendar year 2001 was worth \$29.5 billion. This finally puts to rest the media speculation over the last 2 years about the real size of this industry. Prior to the collection being established by MISC, sister company MINTEL (Aust) had delivered an estimation of the Broker business written for calendar year 2000. This showed that \$24.8 billion had been written in that year. Although the MINTEL measure was an estimate, based on major Lender contribution, and the recent collection is based on data from **actual** Brokers and Banks, this latest measurement, suggests that in one year, Brokers have increased their business by nearly \$5 billion i.e. a 19% increase.

While in previous quarters the Pool has recorded growth rates of in excess of 9%, in the December 2001 quarter there was no loan volume growth and a 4% growth in values. This was largely generated through still buoyant home sale prices, which affected new mortgage loan values. At the same time, these favourable conditions attracted more 'active'* Brokers, with 613 writing business in the quarter. However, MISC says that effectively the Broker market has slowed down in the context of what the industry regards as a strong December quarter. This apparent contradiction occurs, says MISC, on behalf of its Lender Bank and Broker members, not because the Bank members did not increase their new business through Brokers. On the contrary, the Banks showed a 6% growth in loans volumes, but as a result of, smaller Brokers themselves, generating, on average, lower volumes of business with smaller Lenders. As the MISC Lender membership consists of several of the larger, more Broker-dependant Banks, (with only few exceptions) this can only mean that Brokers in general

Statistical Highlights		
December 2001 Quarter Broker business And 2001 full year analysis		
Business Profile Measures		
Total Mortgage Broking Loan Business	\$8075m	↑
Quarter Growth Rate	value 4% volume nil%	↑
Annual Broker New Business 2001	\$29.5b	↑
Average quarterly Growth rate 2001	9%	↑
Pool Lender Profile		
Bank/ Broker Pool coverage	72%	↑
Active* Brokers	613	
<small>*Defined by MISC & Pool members as those settling 3+ loans per quarter.</small>		
<small>Source: MISC (Market Intelligence Strategy Center) Mortgage Broking Data Pooling Facility /March to December 2001 Quarter Collection</small>		

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wrote less business with other non-Bank Lenders in the quarter, i.e. Credit Unions, Originators, Building Societies and smaller Banks. MISC says that its Broker Pool members, (consisting of the larger Brokers) still improved their new business gains. However, it was the smaller Brokers who appear to have significantly influenced the market by losing business, possibly to other loan distribution channels. Some believe that the gains made by Building Societies and Credit Unions in the 'first home buyers' market, fully exploiting the attractiveness of the FHOG for new borrowers, may have caused these Lenders to favour other distribution channels. The Broker Pool members also noted that the quarter was still plagued by loan servicing/processing problems. However, several large Banks who had previously suffered, had by the December quarter, instituted significant improvements, even though problems still had difficulties in the NSW market.

State Market Loan Business Patterns

The December 2001 quarter was not only associated with some slow down in growth in the use of Brokers but also reflected significant structural change, as the two largest Broker home loan States, NSW and Victoria, saw declining growth. This occurred while Queensland and WA both recorded double-digit growth, with Queensland performing the better of the two. The recent quarter growth shows that although WA recorded 9% loan value growth, Queensland recorded a significant 16% making it the fastest growing State in the quarter. Of the two, it has been the newer Broker market of Queensland that through the year has recorded stronger and more consistent expansion. MISC says this reflects the efforts of the national Broker expansion in that State and the emergence of several Queensland originating Brokers like Northern City Finance, Australian Mortgage Brokers and LJ Hooker.

MISC says that these latest results show that the channel is still evolving with the opportunity for local market development still high. For instance, strong competitive jockeying is highly prevalent, particularly on a State basis, where the local Brokers fiercely compete to hold a significant share of the business.

Growth Rate of Broker Business December Quarter 2001 on September Quarter 2001			
	Dec 01 Qtr Growth	Market Growth Ranking - Dec01 Qtr	Market Share Ranking -Dec 01 Qtr
WA	9%	2	4
NSW	3.5%	4	1
VIC	Nil%	5	2
QLD	16%	1	3
SA	6%	3	5

Source: MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/ December 2001 Quarter Collection



Additional MISC Mortgage Broking Data Pooling Facility Notes

Latest MISC Pool Market Coverage

Following the December 2001 quarter collection, the pool results now represent 74% of all Broker generated Home Loan business and as such sets a world precedent for the level of co-operation in an industry previously known for its privacy. Despite the youth of the industry sector with its dynamic nature, this early collective research initiative demonstrates a high level of sophistication among the Pool members, as they collaborate to ensure effective measurement of their industry. MISC understands that no other, co-operative, non-regulated, independent statistical data pooling system, developed overseas has managed to win such a level of industry support so early. Via its extensive market coverage the Facility fulfils a long awaited need for reliable statistical measurement of this increasingly influential channel for Home Loan market distribution.

Please note: specific individual Pool member loan business share confidentiality is fully protected by the Pool charter and member contracts.

Current Pool Membership

Members include a who's who of the Mortgage Broking industry and their Lenders. The leading Brokers and Bank Lenders who are inaugural members of the Pool and who have driven the initiative include a wide cross section of Lenders. They include key Banks such as CBA/Colonial, Citibank, BankWest, Westpac, Suncorp Metway, Bank of Queensland and Adelaide Bank. From a non-Bank perspective, members include leading national and regionally focused Broker groups (eg Franchises, Aggregators and Real Estate Agents) like Mortgage Choice, LJ Hooker, Ray White, Bernie Lewis Home Loans, Choice Home Loans and Smartline.

MISC Mortgage Broking Data Pooling Membership			
<i>Financial Institution</i>	<i>Lender Panel</i>	<i>Approximate Number of Brokers</i>	<i>State Distribution</i>
Banks			
■ Adelaide Bank	NR	15	SA
■ Bank Of Queensland	NR	50	National
■ BankWest	NR	300	National
■ CBA/Colonial	NR	200	National
■ Citibank	NR	500+	National
■ Suncorp Metway Bank	NR	150	National
■ Westpac Banking Corp.	NR	300	National
Mortgage Brokers		Teams Employed	
• Bernie Lewis Home Loans	26	28	SA
• Choice Home Loans	23	240	WA, VIC, NSW, QLD
• LJ Hooker	4*	68	National
• Mortgage Choice	22	300+	National
• Ray White Finance	13	43	QLD, NSW, VIC, WA
• SmartLine Home Loans	20	50	VIC, NSW, QLD
Source: <i>MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/ December 2001 Quarter Collection</i>			

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Friends of The Pool

Further adding to the integrity of the data collection process MISC has also gained the support of a number of additional leading Brokers, who although not currently full data providers or financial members of the Pool, have generously contributed their own top-line loan business statistics to MISC. Their assistance permits the validation of non-Pool member loan business estimation via a MISC test of predictive accuracy for non-Pool member's contributions. This enhances overall reporting reliability. These Brokers who regularly feature in the Top 20, include groups like FASA, Fintrack, Plan Australia, Mortgage Gallery and Lawfund. This considerable level of commitment from the industry will further ensure the veracity of the data collection and success of the ongoing development of the Facility.

Background to the development of the Facility

This independent (MISC regulated) statistical collection, now in its 5th quarter, is the result of a unique industry initiative of key Brokers and Lenders to 'pool' together their quarterly records of all Broker derived Home Loan settlements on a regular basis through the **MISC** (Market Intelligence Strategy Centre) industry specialist research group. The **MISC** Data Pooling Facility use of final settlements-only statistics ensures that pool members gain a **true** reflection of Broker loan business market activity. This contrasts favourably with the use of approvals/submissions data, which is misleading when used for appraisal of market performance due to the volume of loan cancellations.

The MISC measure of actual Mortgage Broking business has enabled market participants to finally lay to rest the ongoing speculation that abounds about the size, value and growth of the Broker distribution channel in the Home Loan market for Banks and other Lenders. In addition, its reporting will reflect the dominance or otherwise of certain players within it. It achieves this on a quarterly basis, by delivering a unique individual market share measurement as well as a full aggregated national market development and size perspective of the Broker channel. On a confidential basis, a measurement of true Broker and Lender new business shares and volumes is regularly reported back to individual pool members. From a strategic planning perspective the report provides essential performance signposts in the form of sector benchmarks.

This concept is the second data pooling type initiative that MISC has undertaken and confirms its growing reputation as an innovative financial markets service provider. MISC successfully operates and maintains for most Banks a data pooling system to regularly measure Internet Banking activity.

Additional MISC Definitional Notes:

Broker firms are defined as corporates, not teams. MISC notes that actual field representation of sellers working for such corporate Brokers can exceed 6000. The various types of distributors of loans range from established small Franchisee operators, to Licensed Consultants, usually from the financial advisory and Real Estate groups or even individual operators who often transact with Lenders directly. MISC measures all types of Mortgage Brokers in its special "performance benchmarking series", including:

Franchise Brokers: like Mortgage Choice, who sell through appointed Franchisees nationally, or multi state operations like Smartline Home Loans.

Aggregators: like FASA or Plan Australia, who arrange lending panels and other services for existing retail Broker networks such as Accountants, Financial Planners, Small Mortgage Brokers etc;

On-line Brokers: like eChoice, who transact their business over the Internet;

Real Estate Agents: like Ray White who sell loans through existing real estate offices;

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Licensed Consultants: like Mortgage Gallery, Mortgage Force or Choice Home Loans[^] who buy a license or the right to sell loans using the firm's name.

[^] *Although Choice Home Loans operates through Consultants, it also has an aggregation operation.*

Other Third Party Distributors: like Australian Finance Group (AFG) who primarily operate as a wholesaler and utilise financial services professionals to source new loan business and introduce Lenders and loan seekers.

(For further information please refer to the MISC website at: www.marketintelligence.com.au).