

MORTGAGE BROKING

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**Market
Intelligence
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**Brokers defy nervous December housing slow down with
\$18.2 Billion of new business while top 5 brokers suffer
from increasing competition**

FINAL RELEASE

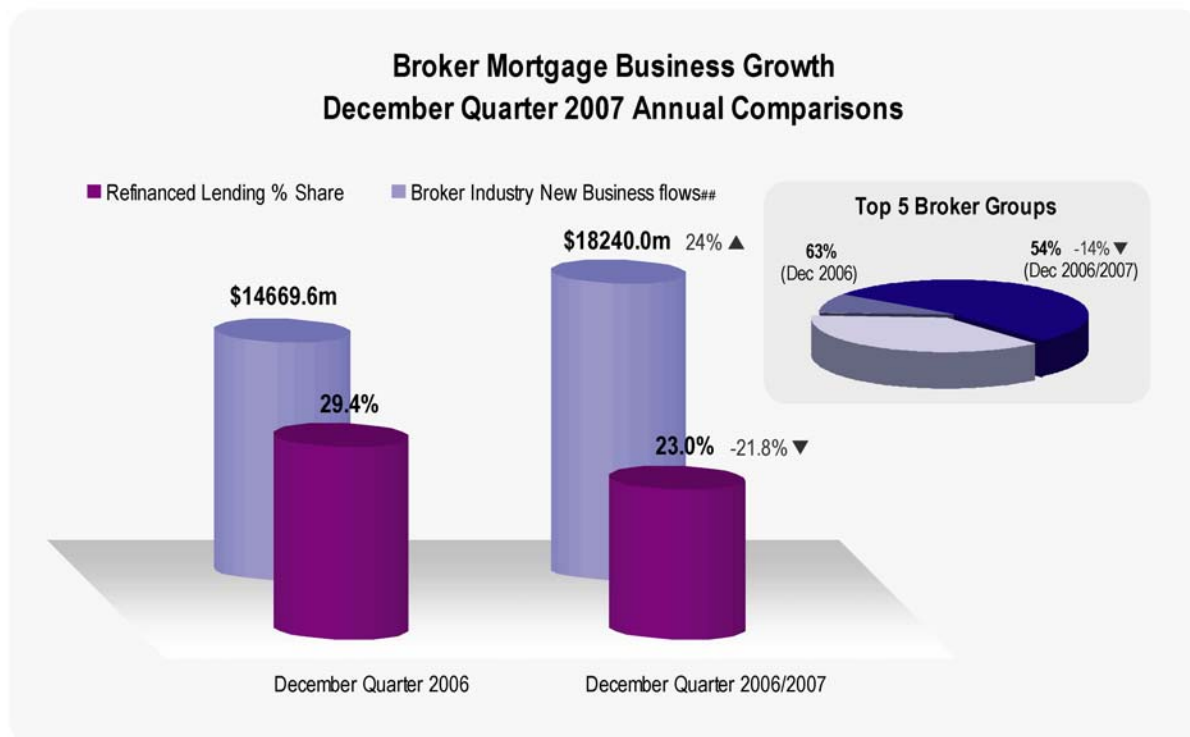
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Brokers defy nervous December housing slow down with \$18.2 Billion of new business while top 5 brokers suffer from increasing competition

Mortgage broker home loan originations reached \$18.24 billion for the 3 months ending Dec 2007. This says MISC (Market Intelligence Strategy Centre) should be viewed in the context of what was widely regarded as a poor December quarter of Home Mortgage business impacted by a severe stock market correction and the residual impacts of a further rate rise in November 2007. MISC says this is particularly significant when compared with the same quarter in December 2006. The latest (December 2007) results show a 24% gain in aggregate loan values written over the December 2006 quarter but significantly, a 3 % gain in loan volumes. In 2006 a similar interest rate rise was levied by the Reserve Bank but the stock market was booming says MISC, on behalf of its Bank and Broker pool members. Clearly, still rising loan sizes have greatly impacted on this result either as a consequence of higher lending practices (as the market becomes more competitive) or through still rising property values (despite evidence in some states of falling prices).



**Source: MISC (Market Intelligence Strategy Centre)
Mortgage Broking Report December 2007**



But not all in the broker market benefited from this quarters gainsays MISC. In December 2006 the MISC broker pool showed that the top 5 brokers commanded some 63% of all new loan business written, even though some 256 broker groups were writing business in the quarter ** In the December quarter 2007 just ended 267 brokers were writing mortgage business but MISC records that the top 5

broker groups wrote just 54% of the mortgage business. This says MISC shows a real 14% contraction of large broker power in the quarter as second and third tier broker groups won back significant market share. The broker channel has seen substantial rationalization in the past 12 months as smaller brokers have merged to combat growing aggregation groups. Clearly some of this merged activity has changed the competitive landscape says MISC on behalf of its bank and broker pool members. Examples of such mergers to have impacted on the results include the aggressive expansion of Challenger though either full or partial acquisitions of Plan, Fast and Choice Home Loans along with the Ray White /Emoca expansion through the merger with X inc and acquisitions of Loan Market and REAHL, the dot com. lender. Listed Homeloans (the WA based group) had developed its Mosaic broker merged entity in 2006 and recently expanded its reach with National Mortgage Brokers and the Victorian based broker IMC. Earlier in the year Astute in Qld and New Horizons, both aggregators, also joined forces.

Selected Chronology of Broker groups merges and acquisition

Date	Event
Jan 2007	Homeloans Ltd buys Victoria's IMC for \$13m.
Feb 2007	Astute Financial Management and New Horizons Lending aggregators combine forces.
July 2007	"National Mortgage Brokers (NMB) and Mosaic Financial Services (Mosaic) to merge with a combined \$5bn loan book.
Mid 2007	Ray White (Emoca) merges with X inc to create loan book of \$8bn.
Sep 2007	Challenger buys 19% stake in FAST aggregations.
Sep 2007	Challenger buys 100% of Choice aggregations.
Sept 2007	"Firstfolio Ltd to acquire a \$620 million prime mortgage management portfolio from Capital First, a GMAC-RFC Company.
Sep 2007	Emoca acquires the total shareholdings of mortgage broking group realestate.com.au Home Loans (REAHL) for \$2.8m.
Oct 2007	FirstFolio Ltd purchased the Gold Coast-based mortgage broking group Blue Coast Finance and entered a distribution agreement with Premium Mortgage Management covering far north QLD.
Oct 2007	Members First Brokers Network and Odyssey announces a merger.

Source: Market Intelligence Strategy Centre (MISC) Mortgage Broker Pool2007 /MISC data base

Broker Churn rate i.e. Refinance loans share falls by 21%

The significance of the business gainsays MISC should not be discounted by the still growing loan sizes. MISC on behalf of its Bank and Broker pool, members says the December result is a real gain in new lending because it reflects the 3% rise in loan volumes on the previous year and next by the greatly diminished extent of refinance lending. The December quarter pool results also show that just 23% of the new loans originated in the period were externally refinanced >The MISC Pool does not measure what is known as internal refinance or loans written by the same banks for the same custom seeking to change his or here loan).

The MISC broker and bank cooperative pool shows that a year earlier, refinanced loans represented as much as 29.4% and have over the year progressively fallen losing 6 % share equal to a 21% contraction. This means that real demand for new loans by borrowers led the December change and not a restructuring of business affairs by existing mortgagees as a result of the economic pressure. This is good news for the lenders and good for the brokers whose commission structures better reward brokers for new loan origination. Further the MISC broker and lender pool data which traces now 80% of all Broker written loans shows that refinancing by owner occupied borrowers into broker channel has also fallen and now sits at 14%. The only other official data set on owner occupied borrowings is that predicted by ABS (ABS does not measure other refinance). In the same period ABS material show that Owner occupied lending approvals not settlement have fallen from 27.2% to 24.8%. This is slower erosion of refinance share suggesting that the Broker channel change has been much more rapid. (See **Schedule 1** for annual comparison). *Note: some analysts have incorrectly attributed a rise in refinance rate to ABS.*

**Broker Mortgage Business Growth
December Quarter 2007 Annual Comparisons
Selected Indicators of Channel Performance**

Broker Activity	December Quarter 2006	December Quarter 2006/2007 % Growth
Active brokers Groups#	256	267 + 4% ▲
Top 5 Broker Groups#	63%	54% -14% ▼
Industry Performance		
Broker Industry New Business flows i.e. new Contracts##	\$14669.6m	\$18240.0m + 24% ▲
Contract Volume % annual change	-4.3% ▼	+2.9% ▲
Industry Churn /Refinance 2		
Refinanced Lending % share (External Refinance)	29.4%	23%▼
Owner Occupied % refinance share	19.2	14.2▼

**1 Active Broker is a Broker group writing at least 3 loans each quarter i.e. 1 per month

2 MISC Broker Pool measures include: all Home Mortgage contracts (not approvals not commitments) Pool measures exclude Top ups, Commercial lending secured by domestic Housing un drawn Line of Credits, un drawn Construction lending other Third party Non commission lending. The MISC Pool does not measure what is known as internal refinance or loans written by the same banks for the same custom seeking to change his or here loan).

Source: Market Intelligence Strategy Centre (MISC)





Latest MISC Pool Market Coverage

This result emanates from the December Quarter 2006 to December Quarter 2007 collections of the Mortgage Broking industry co-operative statistical pool, derived from leading Bank and Broker Pool members. It consists of the major and regional banks, along with national and state concentrated broker groups (Refer below to Current Pool Membership for more information). Following the December 2007 Quarter collection, the facility's results now represent 80% 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 relative infancy of the industry sector with its dynamic nature, this collective research initiative demonstrates a high level of sophistication among the Pool members, as they collaborate to ensure effective measurement of their industry. Leading industry researcher MISC (Market Intelligence Strategy Centre) understands that no other co-operative, non-regulated, independent, statistical data pooling system developed overseas has managed to win this level of industry support via its extensive market coverage, the facility fulfils a long awaited need for reliable statistical measurement of an increasingly influential channel for the housing 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 with Commonwealth bank Westpac, Homeside joined by even the Reserve bank, plus the regionals in addition to leading broker groups. From a non-bank perspective, members include leading broker groups e.g. franchises, aggregators mortgage managers and real estate groups.

MISC Mortgage Broking Data Pooling Lender Membership			
Financial Institution	Lender Panel	Approx. No. of Brokers	State Distribution
Banks			
Adelaide Bank	NR	50	SA +National
BankWest	NR	74	National
Commonwealth Bank/Colonial	NR	101	National
First Mac/ HSBC	Mortgage Manger/Private Label	101	National
Home side (Nab Broker)	NR	120	National
Reserve Bank of Australia	(Special Member)	(Special Member)	National
Suncorp Metway	NR	82	National
Westpac Banking Corp.	NR	167	National

Source: MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/December 06-December Quarter 2007 Collection

Background to the Development of the Facility

This independent (MISC regulated) statistical collection, now in it's 24th 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 though the MISC (Market Intelligence Strategy Centre) industry specialist research group. The MISC Data Pooling Facilities use of final settlements and 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.

Schedule 1

Analysis of ABS official Owner Occupied Lending Refinance share

	CY 2006	CY 2007
Total Commitments Owner Occ Advanced \$m	145,617	158,575
Total Approvals Owner Occ \$m	168,952	186,666
Total Refinance Owner Occ commitments \$m	48,089	46,059
Refinance share of Lending Commitments %	33.0%	29.0%
Refinance share of Lending approvals %	28.5%	24.7%

Source ABS: 5609 Table 1 b