

MORTGAGE BROKING

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**Market
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**December rate pressures and deadline for FHOG boost sees
13% contraction in the Broker market December quarter 2009
as Big 4 banks lose share to Regionals**

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December rate pressures and deadline for FHOG boost, sees 13% contraction in the Broker market for the December quarter 2009 as Big 4 banks lose share to Regionals

The entire Mortgage broker market suffered badly in the December quarter with a 13% contraction in loan volumes recording just \$16.3 billion for the 3 months. This was despite a 5.4% lift in the average mortgage sizes on the back of housing price increases in some states, the lessening grant influence on smaller lends to First Home buyers (which have effectively deflated average lends sizes) plus the early evidence of investor activity. The correction coincided with major bank loss of share fling to 69.8%, its lowest level for 5 quarters. The latest December quarter broker mortgage business results were released today by MISC (Market Intelligence Strategy Centre) on behalf of its broker and bank lender pool members.

The results were further impacted by tighter credit restrictions imposed by the lenders, the final removal of the FHOG boost, as well as the unprecedented 3-rate adjustments. Further, it comes on the back of an unusual September quarter, which was heavily "FHOG grant influenced. MISC, on behalf of its Bank and Broker pool members, points out that volumes of home loans written in the same December quarter one year earlier i.e. December 08 were in fact at similar levels.

The MISC (Market Intelligence Strategy Centre) pool results reveal that the channel, and its lender and broker participants, have responded to the new conditions in dramatically different ways. For the lenders the quarter marks something of a milestone as the Big 4 banks have lost share to regional banks. Regional banks accordingly grew their market share to 24% from 20.6% in the previous quarter, while the Big 4 banks saw their share fall to 69.8 % from 72.2%. This regional banks share gain represents the third consecutive share gain in successive quarters over the last year. MISC (Market Intelligence Strategy Centre) says, on behalf of its lender and broker pool members, that there were also further signs of smaller non-bank lenders re-emerging into the channel as some of the larger lenders provided seed funding for new lenders, and niche players developed specific, broker only, offerings.

In contrast the brokers themselves experienced one of the heaviest quarters of consolidation. This says MISC (Market Intelligence Strategy Centre), was reflected first, in the further erosion of the number of broker firms writing business. Now the number that were active # in the quarter fell to 190. Next was the redirection of more new business transactions to more of the larger aggregator groups at the expense of the smaller firms. MISC says that the top 10 brokers accounted for 83% of all broker loans written compared to 77.9% previously. The top 5 broker groups further entrenched their position as well, accounting for 59% of all loans up from 56%.

Broker Mortgage Business Growth December Quarter 2009 Quarterly Comparisons Selected Indicators of Channel Performance

Broker Activity	December Quarter 2009	December Quarter /Sept Quarter 2009 % Change
No Active brokers Groups#	190	-7% ▼
Top 5 Broker/Aggregator Groups share of business	59.3%	+3.2% share ▲
Top 10 Broker/Aggregator Groups	83.4%	+5.5% share ▲
Industry Performance	December Quarter 2009	December Quarter /Sept Quarter 2009 % Change
Broker Industry New Business ie Contract Volume + % quarter change	56407	-13% ▼
Lender Performance	December Quarter 2009	December Quarter /Sept Quarter 2009 % Change
Big Four banks excluding Bank West, St George, Bank of SA, RAMS	69.8% share	72.2% share ▼
All Regional Banks (inc. Bank West, St George & BSA)	24.1% share	20.6% share ▲

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

2 Note to editor: MISC Pool measures include: all Home Mortgage contracts (not approvals not commitments) Pool measures exclude Top ups, Commercial lending secured by domestic Housing un drawn Lines 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 customer seeking to change his or here loan).

Source: MISC (Market Intelligence Strategy Centre)



A number of factors have impacted on the dwindling power base of smaller brokers, says MISC. Not the least of which is the new requirements of ASIC for all brokers to obtain Certification and the tighter accreditation standards of the MFAA. Both these moves have discouraged many smaller broker firms from even competing. At the same time the larger aggregator groups continued on their acquisition phase. One recent example includes Ray White via further acquisition. At the same time aggregators continued to expand their reach via new membership eg National Broker Group now encompassing Matrix.

The industry research group, who manages the broker pool for its lenders and broker members, also believes that the 13% contraction in broker business came with the full impact of tighter lending restrictions, which in previous quarters, had progressively been introduced by one lender after another. By the December quarter says MISC all revised lending criteria had been set, and the full 3 months of lending reflected those resets uniformly. This meant that any artificiality of results for one lender over another was effectively removed and the playing field levelled.

The FHOG boost which variously provided an additional \$7000 on top of basic grants of \$14000 ended on 31 Dec 2009. Only in Victoria was the additional state Government extra boost scheduled to remain for another 6 months. MISC says that actual paid grants as opposed to applications in the September quarter totalled some 62000 and by the end of the December quarter these had reduced to just 57000 a 8% correction. WA was the only state to have maintained the level of grant activity in both September and December quarter's. In all other states the number of grants provided fell. (December quarter on September quarter).

#Victoria's extra generous increases to its own first home buyer scheme, announced in anticipation of a scaling down in federal incentives first by the end of June and then December now, effectively offer first homebuyers an extra enticement to June 2010 running parallel to the federal government's now reduced program.

Latest MISC Pool Market Coverage

This result emanates from the September Quarter 2009 to December Quarter 2009 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. Following the December 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.*

Background to the Development of the Facility

This independent (MISC regulated) statistical collection, now in its 37th 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 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.

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