

MORTGAGE BROKING

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Broker refinance growth stops as top 5-aggregator groups lose 13% broker business share

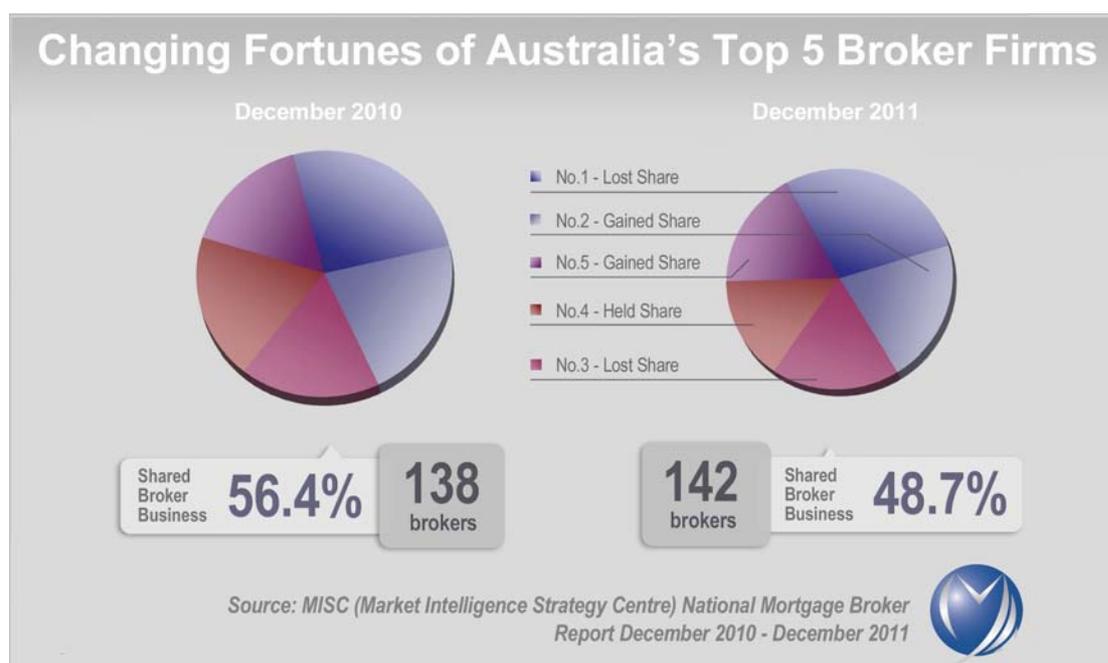
**FINAL MEDIA RELEASE
EMBARGOED UNTIL 12.05AM TUESDAY 20 MARCH 2012**

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Broker refinance growth stops as top 5-aggregator groups loose 13% broker business share

In an increasingly competitive mortgage market two developments highlighted in the most recent quarter results, released today by MISC (Market Intelligence Strategy Centre) signify the continuing restructure that is taking place in the broker Channel. The first is the break in a pattern of what has been growing refinance business and refinance business reliance. This trend has now been stopped as refinance-lending volume significantly slowed from its June quarter high of 11.4% to just 0.5% in the latest December quarter along. Next is the ongoing restructure of the 142 aggregators that now underpin the channel, especially the larger players, notably the top 5-aggregators who have lost significant market share. Compared to the same quarter in the year past the new top 5 aggregators now write just 49% of all mortgage business compared with 55% the same quarter 2010*. This represents a 13% contraction in broker share over the period. It underpins the changing fortunes of some of the more established aggregators and the growing strength of their emerging competitors. Such surprise findings of two specific structural changes impacting on the mortgage broker channel coincide with the impacts of regulatory changes now being felt by the channel as a consequence of the new NCCP requirements.



Top 5 Broker share fall.

With the advent of new NCCP regulatory reforms and the rationalization of the broker channel participants, the power base of the larger aggregator firms have not been immune from impact. The release to day of the latest aggregator performance measures monitored by MISC (Market Intelligence Strategy Centre) on behalf of its lender and broker pool members shows how volatile aggregator market shares can now be. The MISC (Market Intelligence Strategy Centre) confidential industry measurement shows that the larger aggregators i.e. the top 5, now collectively control 13% less of the broker market than they did in the same quarter 2010 .As result, the share of broker business written by the top 5 aggregators has fallen dramatically from 55% to now 49% as those emerging brokers outside the top 5 threshold have been growing business and share. On behalf of its broker and lender pool members MISC (Market Intelligence Strategy Centre) is quick to point out that the aggregator share fall does not mean

that all members have suffered. Among the top 5 MISC notes that 2 Aggregators in the period not only grew business but also gained share while another two lost business and share. MISC says the erosion of share by the dominant groups is impacted on first by the restricted growth opportunities of the larger groups, next by individual broker member attrition and finally by the tougher climate which sometimes favours emerging new groups more.

On behalf of its Lender and Broker Pool members MISC (Market Intelligence Strategy Centre) points out that new fee models now increasingly available to many broker members of these top 5 aggregators had specifically encouraged some migration in the prior and current quarters especially buoyed by the tougher financial climate. As a consequence says MISC some larger aggregators have been affected by broker attrition in the lead up to the quarter which in turn has impacted on performance levels achieved.

*** NOTE TOP 5 SHARE MEASUREMENTS**

Each quarter MISC measures business written by all aggregators including those aggregators whose business levels constitute the 5 largest as well as all other aggregators by size? Consequently members of the top 5 will vary each quarter depending on the level of business achieved. Some will leave the top 5 while other new entrants will join the top 5 from a lesser business levels eg top 6-20 players. MISC regularly traces these movements.

Refinance growth stops to 0.5%

The MISC (Market Intelligence Strategy Centre) co-operative pool results show, that after successive quarters of rising refinance activity (especially in the June quarter) refinance lending this quarter reflecting a negligible 0.5% growth. This compared to 11.4% growth experienced in the June quarter at the peak of *Switch campaign* activity by the major banks. Not only was growth curtailed but also refinance business reliance (share of all business) fell from 28% to 26% share. MISC says on behalf of its broker and lender pool members that the December period did coincide with some easing of previously more aggressive major bank cash rebate offers by some (but not all of the majors) and an easing of price offers as refinance demand was more customer than major bank driven. In this context many of the smaller lenders picked up part of the slack with extremely keen pricing especially in fixed rates but their impact was not enough to reverse the trend. The lessor refinance volumes and share, were also in part, a reflection of some much need recovery of the *First Home buyer market* especially in NSW that assisted in driving business for the channel. This was especially evident says the Industry research group in the latter part of the quarter as the RBA's further .25% rate cut and a growing fixed rate borrowing appetite, encouraged more new broker loan business than existing refinance. This is not to say that what the industry terms internal refinance i.e. borrower mortgage upgrades with the same bank, was not a contrasting growth factor as many brokers sought to upgrade their existing customers exposure. *Note: The MISC Co Operative Broker and Lender Industry pool does not specifically measure internal lending.*

APPENDIX II: Brief to Editor

MISC method December Quarter change

Warning: The June quarter pool member collection suffers from a data issue with a single major bank pool member. The normal process of Aggregator/Franchise lender data cross triangulation, has in this quarter, been replaced with an Aggregator/Franchise Lender trace to correct the major bank data issue. A 12-quarter data test of this substitute method reveals a statistical acceptable error margin. MISC considers it does not affect the results.

Mortgage Broker Cooperative Pool Methodology

Cross Triangulation Lenders and Brokers = 70% + Coverage



Latest MISC Pool Market Coverage

This result emanates from the December quarter 2010 and December Quarter 2011 collections of the Mortgage Broking industry co-operative statistical pool, derived from leading Bank and Broker Pool members. It consists of the majors and regional banks, along with national and state concentrated aggregators. Following the December Quarter 2011 collection, the facility's results now represent 85.7% of all broker generated home loan business. 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 (Market Intelligence Strategy Centre) (MISC-regulated) statistical collection, now in its 43rd 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 industry specialist research group. The MISC Data Pooling Facilities use of final settlements and only raw statistical records ensures that pool members gain a true reflection of broker loan business market activity.

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