

MORTGAGE BROKING

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**Market
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**March 2002 quarter measure of Broker Home
loan Business shows Top 10 Brokers grow
share by 25% as Major Banks lose share to
Regionals and Others**

FINAL RELEASE

Press embargoed for 12.05am, Monday 27th May 2002

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March 2002 quarter measure of Broker Home loan Business shows Top 10 Brokers grow share by 25% as Banks lose share to Regionals and others

Bank and Broker Pool members consisting of the leading major and regional Banks: including Westpac, Commonwealth Bank, Suncorp Metway Bank, Bank of Queensland, BankWest and Adelaide Bank along with national and state concentrated Broker groups including Mortgage Choice, SmartLine, Choice, LJ Hooker, Bernie Lewis released today results from their latest quarterly collection produced through MISC (Market Intelligence Strategy Centre).

The results reveal that the Broker market is now exposed to two divergent structural forces as larger Brokers consolidate their share and the major Lender Banks lose share to Regional Banks and other less traditional Lenders. This structural change is made all the more critical given the size of the industry which the MISC pool shows was valued at \$29.5 billion for the calendar year to December 2001. The unique co-operative industry collection, was first established in December 2000 and its latest measurement now completes 6 quarters of **actual** 'pooled' statistical data, enabling MISC to report on corresponding quarter on quarter results for the first time.

Major Banks now represent 60% of all Broker written home loans in a static market

In the \$29.5 billion Broker home loan market, the Bank Lenders have been particularly active in utilising Brokers as a distribution channel, and MISC notes that while the average Broker lists 24 Lenders on its panel (i.e. the competitive range of Lenders, that its offers the public) usually these panels include 8 Banks* which are actively promoting loans to this market. The most recent of these to embrace this distribution channel are the Commonwealth Bank and the AXA/Members Equity joint venture. While the major Banks efforts have been rewarded capturing a 60% share of all Brokers loans in the March 2002 quarter, this represents a 3% loss in share since March 2001. MISC says it should be noted that while the percentage changes may seem small, in a \$29.5 billion market, a 1% loss or gain can mean \$290million more home loans. However, this should be viewed in the context of an almost static market over the last few quarters. At the same time Regional and Minor Banks (together with other financial institutions eg Originators) won some 35% share of all Broker written home loans.

****Counts State - based Banks like Bank of SA separately***

The widespread use of Brokers by Banks has clearly impacted favourably upon their business development. Conversely, the use of Brokers, often more than 200, by a variety of Lenders assists Brokers in their own development, as the wider the range of Lenders on a Broker's panel, the larger their appeal to would-be borrowers. This the Pool members say, suggests that their multi-Lender strategy has been successful and confirms that loan business is in fact diversely established via a wide range of Lenders including Banks, Credit Unions, Building societies and even Originators. This says MISC on behalf of its pool members shows that the Broker industry has successfully encouraged a wide range of Lenders, even though it is true that some major Banks have experienced problems in servicing Broker demand.

Top 10 Brokers win a 55% share of the market, indicating the emergence of a new market consolidation phase

While a loss of share and greater Lender competition results in greater Lender fragmentation, at the operational end, a quite contrasting pattern is developing. The MISC Broker pool results released this week, showed that at the top end of the Broker market, the March 2002 quarter revealed consolidation among Brokers. The industry's Top 10 Brokers have captured 55% of **all** Broker loan business. This says MISC, compares with the 36.7% they held for the corresponding period just a year earlier and is attained despite the growth in the number of Brokers actively writing business. In March 2002 these active* Brokers numbered 623. Indeed only one year earlier just 492 Broker firms were measured by MISC as being active (a fraction of the 2000 Brokers operating in Australia). A finding that startled many in the industry back then. This early evidence clearly showed that the balance of Brokers could be viewed as 'occasional loan introducers'.

Such market concentration compares with a highly fragmented Broker structure In March 2001 when the Top 10 Brokers held just 1/3 of the market. These Top 10 key Brokers have recently driven the market and they consist of a mixture of assorted groups, with not all operating on a national basis. For example, in some instances, they include state-focused Broker groups with prime operational activities in a combination of selected states e.g. NSW and Victoria and/or WA.

MISC says that even though this latest measure is for one quarter, the results signify structural change is occurring in a couple of forms. MISC says this may either mean that the 'big' Brokers are getting bigger at the expense of their smaller competitors, or that the immature industry with, origins as early as 1994, is finally maturing. It is a fact says MISC that in the last year several aggregators (an industry term for groups who assemble the business of some Brokers too small to deal with the Banks), have been growing and acquiring the business of others. Unlike the more traditional franchise model says MISC, this aggregation trend is a feature of the industry's evolution and has fuelled some of the recent 'top end' consolidation.

**** Active Brokers as defined by MISC and the Pool members are those that have settled 3 or more loans in a quarter. MISC notes that although a large additional number of Brokers have settled 1 or 2 loans in the quarter these make a comparatively negligible contribution.***

The Pool's latest results paint an intriguing picture of this once 'hidden' Home Loan distribution channel showing that it is far from representative of all Home Loan business written through other channels (eg Mobile Lenders or Branches). It exhibits a unique profile as shown in the following table:



Additional MISC Mortgage Broking Data Pooling Facility Notes

Latest MISC Pool Market Coverage

Following the March 2002 quarter collection, the pool results now represent 72% 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. Two new members will be announced and reflected in the June 2002 quarter results, thus further expanding the Pool's coverage. Despite the youth 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. MISC 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 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, 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
• SmartLine Home Loans	20	50	VIC, NSW, QLD
Source: MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/ March 2002 Quarter Collection			

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, 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 it's 6th 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 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.

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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 , 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 Hooker who sell loans through existing real estate offices;

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.

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 measure Internet Banking activity (For further information please refer to the MISC website at: www.marketintelligence.com).