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Market Intelligence Strategy Centre

Low-Document Loans In Broker Channel Reach $2.2 Billion In One Quarter Suggesting $9.8 Billion In Low-Doc Lending Might Be Achieved By Brokers This Year.

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Low-document loans in Broker Channel reach $2.2 billion in one quarter suggesting $9.8 billion in Low-doc lending might be achieved by brokers this year.

The true size of the Low-documentation (Low-doc) market was finally revealed today when the latest MISC National Mortgage Broker Pool results were released. Results for the March quarter isolated some $2 billion of Low-doc lending in three months i.e. $750 million per month. The actual figures, sourced from the MISC (Market Intelligence Strategy Centre) Broker and Lender Pool, stunned the more optimistic of Low-doc promoters, as many in the industry have exaggerated the importance of this sub market. MISC (Market Intelligence Strategy Centre) says that at the rate established in the three quarters since measurement began, the annual Low-doc market, through brokers, may reach $9.8 billion by year-end. (*Low-document loans, not to be confused with non conforming loans, are essentially loans in which their lenders wave traditional proof of income and serviceability documentation for other evidence; see below for complete definition. MISC excludes under the counter Low-doc loans and normal loans with a Low-doc policy and process that can be used as a last resort.)*

Despite this first evidence of an audited total market size, Low-doc success measures have to date been remarkably illusive and confused and as a consequence exaggerated. Indeed estimates of the value of the Low-doc market have varied widely ranging from $28 billion, suggested by some researchers in 2004, to $50 billion, suggested by other researchers as early as 2005. In 2004 a Reserve Bank paper even estimated that little more than $5 billion in Low-doc loans were sold to the year ending August 2004. The forecasts have been even more varied as pundits quote the experience of some specialist Low-doc lenders as support for claims of exaggerated growth. (See appendix 1 for complete review of alternate estimates)

Low-document Lending Reaches $2.2million

Broker Activity	March Quarter 2005 $000s	Projected full year to December 2005
Low-document Broker Home loans	**$2197#**	**$9.8 Billion**

#Loans measured include only those traced by product qualifying Low-doc lenders who distribute though third parities *.Low-document loans, not to be confused with non conforming loans, are essentially loans in which their lenders wave traditional proof of income and serviceability documentation for other evidence; see below for complete definition. MISC excludes under the counter Low Doc loans, normal loans with a Low-doc policy and process that can be used as a final approval option e.g. ANZ and loans with alternate verification systems e.g. Liberty).*

Source: MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/March 2005

This new measure establishes the MISC Mortgage Broker Pool as the first and only regular measure of Low-doc loans, which are written through the Broker Channel. Brokers have become an important source of Low-doc lending with many of the original Low-doc offerings provided exclusively though the broker channel e.g. Macquarie bank as early as 2000, Adelaide Bank in 2001 and Collins in 2001. Indeed today all brokers, through their lender panels, will provide Low-doc access, while some brokers like Mortgage Choice will have as many as 15 lenders offering Low-doc. While other Low-doc loans will be written though traditional channels of distribution e.g. via the banks, mobile lender, phone or Internet, MISC (Market Intelligence Strategy Centre) on behalf of its Broker and Lender Pool members says that most in the industry believe that 80% to 90% of Low-doc loans now move through Brokers.

Quarterly Growth why?

The March quarter is a milestone of sorts says MISC (Market Intelligence Strategy Centre) as the results of the MISC National Mortgage Broker Pool Collection, now finally puts speculation to rest. Results of its third Low-doc market measurement show some $2.2 billion of Low-doc lending by brokers was recorded in the March quarter alone. MISC (Market Intelligence Strategy Centre) says that this is an important milestone in the accurate measurement of part of the Low-doc market because the March quarter reflected three full months of all major banks' Low-doc marketing in the Broker Channel. The Quarter results coincide with a popular misconception that recent growth has come with wider major bank involvement. A myth surrounding the beginning of Low-doc lending is that the market was the domain of the smaller fringe lenders and new major bank lender involvement has only resulted from the trail blazed by them. Accordingly, some in the industry mistakenly believe that any recent growth has come with major lender involvement. Major lenders were in fact early entrants and were quick to provide products to the Broker Channel.

As the selected chronology shows many major lenders were early innovators including Adelaide Bank, Suncorp Commonwealth Bank in 2001/2 and Macquarie earlier in 2000. The year 2001 did not see many non-bank lenders enter the Low-doc market though brokers. They gained only limited panel representation with few brokers. The broker exceptions included Mortgage Choice who had gained early Low-doc exposure though the likes of Adelaide Bank and Collins or Plan who encouraged Rock Building society to develop Low-doc product.

Selected Highlights of Low-doc Loan Marketing though Mortgage Broker Channel Lender and broker Initiatives 1990 to 2005

Date/ Quarter	Selected key Low-doc Event
1990	Latrobe Finance introduce a Low-doc product called LITE DOC
1995	Choice Aggregation Services offer Latrobe Low-doc loans and provides early Mortgage Manager Low-doc loans e.g. Jubilee
1999	GE Mortgage Solutions launch A Low-doc Lending product
Sep-00	Macquarie Bank introduce a single Low-doc loan called Express
Apr-01	Adelaide Bank launches it's products: Low-doc Express Term Loan, Low-doc Express Mortgage Tamer and Low-doc Express Home Buyer Power
Apr-01	Mortgage Choice offers Adelaide Bank and Collins Low-doc products
Apr-01	Home Loans introduces Low-doc Line of Credit loans in conjunction with Adelaide bank offering borrowing e.g. Limit imposed of $750 000
Mar-02	ING launches own Low-doc variable loan
Dec-02	CBA launches it's Low-doc lending products: Low-doc Viridian Standard Variable Home Loan & Low-doc Viridian Line of Credit
Mar-03	Macquarie Bank expands in the Low-doc market with additions to "Express" suite of Low-doc products
Apr-03	Westpac releases it's own Low-doc product in branches - released to brokers in December 03
Jul-03	Homeloans increase LVR level to 76% before Mortgage Insurance requirement
Oct-03	HomeSide launches it's Low-Doc loan EasyDoc - by April 2004 it withdraws it's product from the market

Sep-04	ING adds Line of Credit "Smart Line" with Credit Card cheque Book Low-doc loan to Low-doc offering through Brokers
Jul-04	BankWest launch a new Low-doc product called Easy Doc targeted at owner occupiers, personal investors and construction
Oct-04	HomeLoans increase maximum Low-doc borrowing limited with Mortgage Insurance to $2m
Oct-04	Suncorp changes Low-doc Standard Variable and Back to Basics. Adds Standard Fixed and Standard Asset Line rationalising other lines from Low-doc range
Dec-04	NAB re-introduced a Low-doc process for it's full line offering in the broker channel to the market in the later stages of the December 2004 quarter.
Mar-05	Macquarie Bank increase Low-doc limit beyond $1m
Mar-05	Commonwealth Increases maximum borrowing levels on Low-doc to encourage Investment lending
Source: MISC (Market Intelligence Strategy Centre) Mortgage Broking Data Pooling Facility/March 2005	

The recent gains in this March quarter coincide with several initiatives of both lenders and brokers in the broker home loan market leading up to this quarter. Among these are:

- The return of Homeside Bank Low-doc offering (reintroduced in late December 2004)
- New Low-doc loan product for specialist borrowers e.g. property developers
- Launch of Bank West Easy Doc targeted product
- The Westpac extension of Low-doc loans to the Broker Channel
- Broker initiatives in education eg Fast Low-doc education campaign
- The extension by brokers like Mortgage Choice and Choice of Low-doc Panel members to 15 or more.
- The increased prevalence of brokers being offered bonus commissions for reaching threshold of Low-doc business
- Expanding Low-doc offerings embracing 100% offset e.g. Adelaide Bank
- The provisioning of Low-doc options across full Broker Channel offerings
- Extended maximum lending to $1m and even $2m (eg Home Loans)

Low-doc Profile Snapshot

MISC (Market Intelligence Strategy Centre) results of the Low-doc measurement show that more than 40 Low-doc products are now available on the market across the full spectrum of major bank lenders and non-banks lenders alike. The profile of Low-doc loans written by brokers shows several interesting differences. Firstly, they are bigger than most loans with an average size of $234,737 (i.e. $40k larger than normal broker loans, which in themselves, are often larger than loan written though other channels). Evidence from Bank Pool members suggests that this can be due to the influence of very large Low-doc developer loans.

Secondly, the Cooperative Bank and Broker Lender Pool shows that 62% of all Low-doc loans have an LVR ratio of better than 61% with much of that lending at higher LVR (Loan to Value ratios). This is despite the fact that the concept of a Low-doc embraces stricter lending levels. It can be explained in part by the practice of many lenders to lend to 80% (but only with Mortgage Insurance i.e. many lenders require Mortgage increase when LVRS are from 60% to 80%) while at the same time some lenders have increased the levels before which Mortgage insurance becomes a requirement e.g. Home loans will allow leading to 76% without Mortgage Insurance. Still, the results are no doubt affected also by the recent trend to increase Low-doc lending limits. Commonwealth bank, Macquarie and HomeSide recently revised their maximum lends to more than $1m. The research also reveals that while most Low-doc loans written are variable, the Low-doc fixed and equity loans are well represented. This suggests, says MISC on behalf of its Broker and Lender Pool members that Low-doc loans are increasingly establishing a presence as another loan commodity. This is despite the fact that generally lenders will insist on stricter and lower loan to value ratios for the users of such products when not insured.

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Profiling a $9.8 billion Low-doc Loan phenomena

Selected Highlights of Broker generated Low-Document Loan Business March 2005 Quarter findings	
Low-doc Highlights	**March Quarter 2005**
Low-doc lenders with Brokers	50
Total Low-doc loan value $000	**$2197.5#**
Average Low-doc loan	$234,737
LVR ratio below 60% business share	48%
LVR ratio above 61% business share	62%

#Loans measured include only those traced by product qualifying Low-doc lenders who distribute though third parities. *Low-document loans, not to be confused with non conforming loans, are essentially loans in which their lenders wave traditional proof of income and serviceability documentation for other evidence; see below for complete definition. MISC excludes under the counter Low Doc loans, normal loans with a Low-doc policy and process that can be used as a final approval option e.g. ANZ and loans with alternate verification systems e.g. Liberty).*

Source: MISC (Market Intelligence Strategy Centre), Mortgage Broking Data Pooling Facility/March 2005 Qt

Media Research Appendix 1

Alternative Estimates of the Non-Conforming and Low-Doc Markets – now refuted

	Low-doc Loans	Non Conforming Market	Source
Current & Historical Market Estimates			
2000	$7.2 billion	-	Datamonitor
May-00	-	$6 billion potential size	S&P estimate (based on US/UK per capita comparison)
Mar-01	-	$6 billion	Pepper Home Loans
Jun-01	Negligible Mkt	-	Datamonitor
2002	-	Potentially 10% of all Housing Loan in the future	MIAA
Nov-02	-	$3 billion	Liberty Financial
Dec-02	Claim that Low-doc has potential to reach 5% of total HL	-	CBA
2003	-	$4.75 billion	Pepper Home Loans
Mar-03	-	$86 billion	Liberty Financial
Nov-03	Now account for 30-40% of mortgage broker new business	-	S&P
Dec-03	$28.7 billion for CY 2003	-	Datamonitor
Dec-03	14.5% of total mortgages	$8.4b	Datamonitor
Feb-04	15% of total housing loans	$4 billion (2)	(1) Media Source (2) MPA
Mar-04	$20 billion a year	-	Media Source Unspecified
			Macquarie
Jul-04	10% of total housing loans (1)	$5.82 billion (2)	(1) Bluestone Mortgages (2) S&P and Moody's - Implied Non Conforming Mortgage Backed Securities (MBDS) market
Aug-04	*	$15 billion	GE Mortgages
Forecast Market Projections			
2008	$50.5 billion, or 22.4% of total housing lending	$20.4 -	Data monitor
2008 +	-$50 billion	$30 billion	MPA

Media Research Appendix 2

Definitions- Background

The MISC (Market Intelligence Strategy Centre) definition of Low-documentation loans is essentially a product definition even though Lo Doc can frequently be a "verification option" to existing products eg some lenders will provide Low-doc options across their entire product range but MISC excludes such instances e.g. ANZ or instances where other verification systems are used e.g. Liberty. These Lo Doc loans will accordingly have consistent features eg Maximum LVR 80%. The key differences between Sub-prime and Low-doc lending are outlined below, with the main difference being that Low-doc housing loan applicants are not credit impaired, whereas Sub-prime lending applicants typically are credit impaired. Low-doc applicants are typically self employed individuals, although lenders will sometimes consider PAYG applicants as well. The fundamental point is, however, that while Low-doc applicants supply a reduced set of documentation in evidence of loan servicing capability, they must still be deemed credit worthy. A reduced level of documentation is not the issue for Sub-prime lending. Sub-prime applicants, for various reasons are not deemed credit worthy at the time of their application. Sub-prime applicants may or may not be self employed – it is not the key issue. Typically, Sub-prime applicants have at least one of the following features that make them credit impaired:

Non-Conforming Market For Housing Loans

Distinct Segmentation

Low-Documentation Applicants	Sub-Prime Applicants
• Not credit impaired	• Credit impaired
• Must have good credit record	• Are not deemed credit worthy
• Applicants typically make a verifying statement about their income	• Lenders independently verify standard income evidence
• Traditional lenders are approachable	• Traditional lenders are not approachable
• Often require mortgage insurance	• Use a risk adjusted pricing – often do not use mortgage insurance

Source: ***MISC (Market Intelligence Strategy Centre)*** *Mortgage Broking Data Pooling Facility March 2005 Quarter*

The Low-doc pool is comprehensive. It represents the aggregation of Low-doc lending for most lenders involved in Low-doc loans. The only "exclusions" from the MISC broker pool will be some of the non-securitised lending of ANZ, (who does not have an official Low-doc product) and some of the non-securitised Low-doc lending of St George Bank i.e. those Low-doc loans that are not traced through MISC broker pool members. Also excluded are those loans of Liberty Finance. A further caveat is that the securitised Low-doc lending aggregated in the pool may not include additional loans that were subject to late lodgement.

Aggregate Low-doc Lender Pool Membership	
MISC Pool Member	**Low-doc Exposure**
Commonwealth Bank	Growing
BankWest	Started in Sept Qtr 2004
Suncorp Metway	Growing
Adelaide Bank	Established
Westpac Banking Corporation	Growing Exposure
Home Side Lending	Reintroduced Low-doc Product in the Dec 04 Quarter
Securitised Pool Data in December Quarter Comprises:	
AIMS Home Loans Pty. Ltd	The Rock Building Society
First Mortgage Company Pty. Ltd.	Macquarie Bank Limited
RAMS	Homeloans Limited

Source: ***MISC (Market Intelligence Strategy Centre)*** *Mortgage Broking Data Pooling Facility March 2005 Quarter*

Features That Constitute A Low-doc Loan

There are three primary elements that need to be satisfied for a loan to be considered as being Low-doc:

1. The proof of income requirement is different for Low-doc loans than standard loans.
   - The income of the applicant is self-verified. The applicant typically makes a formal declaration about his/her income, which the bank then takes to consider the loan application. Normal lending criteria usually apply from this point.
   - However, there might be some variation in the degree to which banks require further details of occupation and assets etc.
2. There is normally an LVR restriction in Low-doc loans that is tighter than normal loans.
   - For example the maximum LVR for Low-doc loans was 80%, which was typically lower than LVR requirement of other bank lending products.
3. Furthermore, the primary target market of Low-doc loans is the self-employed and/or small business people.
   - However there are certain instances where PAYG applicants can be eligible for Low-doc loans. This includes instances where an applicant's income is seasonal or lumpy, or if the applicant has a large asset base.

Media Research Appendix 3

Lender Membership

These results emanate from the March quarter 2005 collection of the Mortgage Broking Industry Co-operative Statistical Pool derived from leading Bank and Broker Pool members. It consists of major and regional banks including Westpac, National Bank/HomeSide Lending, Commonwealth Bank/Colonial, Suncorp Metway, Bank of Queensland, BankWest and Adelaide Bank, along with national and state concentrated broker groups including Mortgage Choice Hooker and Choice Aggregation Services.

Latest MISC Pool Market Coverage

Following the March 2005 quarter collection, the facility's results now represent 89% 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 Housing Loan market distribution.

Please note: The confidential nature of specific individual Pool member loan business share is fully protected by the Pool charter and member contracts.

Current Pool Membership

MISC Mortgage Broking Data Pooling Membership			
Financial Institution	**Lender Panel**	Approx. No. of Brokers	**State Distribution**
Banks			
HomeSide Lending (NAB)	NR	300	National
Adelaide Bank	NR	15	SA
BankWest	NR	300	National
Commonwealth Bank/Colonial	NR	200	National
Suncorp Metway	NR	150	National
Westpac Banking Corp.	NR	200	National
Mortgage Brokers		Teams Employed	
Choice Aggregation Services	35	400 +	National
Mortgage Choice	27	570	National
Hooker Home Loans	4	68	National
*Source: **MISC (Market Intelligence Strategy Centre)** Mortgage Broking Data Pooling Facility March 2005 Quarter*			

Background to the Development of the Facility

This independent (MISC regulated) statistical collection, now in it's 18th 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's 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.

For further information on this unique service please contact MISC Marketing.

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