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MORTGAGE BROKING

MISC Global

Market Intelligence Strategy Centre

Broker mortgage business contracts by 11% as average loan sizes reach $276,715 but all mortgage business falls 21% in latest ½ year.

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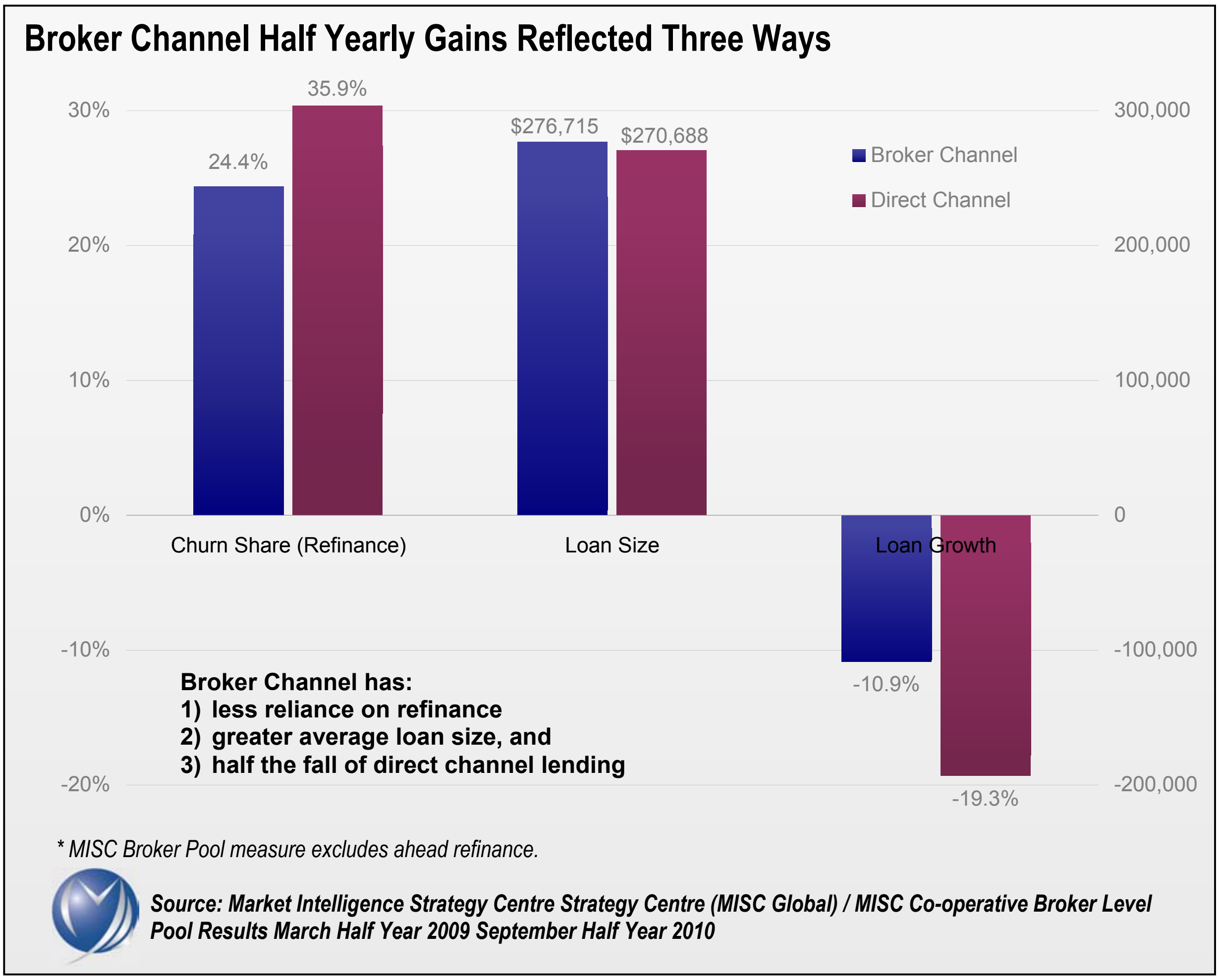
Broker mortgage business contracts by 11% as average loan sizes reach $276,715 but all mortgage business falls 21% in latest half year.

In a total mortgage market half yearly correction of -11%, some 164 Broker groups wrote just 9% less loans. This well outperformed the total mortgage market growth for the same Sept 2010 half year. The latest September half year results from the MISC (Market Intelligence Strategy Centre) Mortgage Broker Pool, released today to its members, show that while brokers suffered from a -11% contraction in their mortgage business – this was a far better result when compared to all mortgage lending loss of -19% for the same period. In a qualitative sense, MISC attributes this better broker result to the more dynamic and responsive nature of the channel and in part, to the changed borrower psyche as a consequence of a tighter overall lending environment. MISC says, on behalf of its lender and broker pool members, that with a growing perception that tighter lending conditions prevail, borrowers will naturally be encouraged to embrace channels they perceive afford them more assistance and more lender choice. By comparison the total mortgage market results for the same size month half year to September 2010 including all other lending channels as well as brokers (eg Braches, mobile lenders) reflected their poorer performance for the six months ending Department 2010 writing 19% less lending. This downturn coincided with further rate pressures exacerbated by not one, but two rate adjustments on the back of a late March increase as well. It also coincided with the second full quarter of removed federal government mortgage support and significant political instability. The MISC comparative channel performance results for the half-year ended September 2010 draw on the latest Broker channel Broker Pool results compared to the proprietary MISC Direct channel survey conducted for the same periods. (See Editors Brief)



However, for the brokers, the comparatively modest correction of just -11% (i.e. 1/2 that of all mortgage lending) came as a result of the same factors, but with the addition of member participation uncertainty, which arose as the 30 June deadline for registering for the Australian Credit License loomed. Some pundits had suggested that the compulsory requirements of the new National Consumer Protection Act would encourage brokers to leave the industry. MISC says, on behalf of its lender and broker pool members that despite these factors, Brokers also outperformed in two other respects.

Comparative Performance measures Broker Channel benchmarked

	Direct & Third Party Channels	Broker Only Channel
September Half Year Growth	-19.3%	-10.9%
September Quarter End Average Loan Size	$270,688	$276,715
Refinance share *	35.9%	24.4%
Refinance share change Half Yearly	+8.2%	+1.7%

** MISC broker pool measure excludes internal refinance*

Source: Market Intelligence Strategy Centre (MISC Global) / MISC Co-operative Broker Level Pool Results March Half Year 2009 and September Half Year 2010

More Brokers new loans less refinance

They wrote more new loans, says MISC, who draws analysis from the pool data records of refinance and other loan purposes. Some 76% of all loans written by brokers in this quarter were for new lending for either investment or owner occupied deals. Thus some 24% were refinanced (i.e. lending when another lender, not the same, refinanced an existing past loan). This is against the entire industry experience where, in the same period, new loans represented just 64%, as more than one third of all lending was refinance. MISC says the lenders have been keen to encourage brokers to seek more new business than to persuade customers to refinance, and this effort seems to have worked. Indeed some lenders have constructed incentive packages to reward brokers to encourage loan retention among their customers. The result was also influenced, by the need to pay additional LMI insurance in order to refinance, which as MISC says, acted as a disincentive for many broker customers.

Larger loans for Broker

Brokers also wrote larger loans in the quarter, than did the industry in general. MISC Lender and Broker Pool results at the end of September half year 2010 show that while the average loan written by brokers was $276,715 - the average across all mortgage channels was $270,688 - a $6,100 premium. MISC (Market Intelligence Strategy Centre) says that the premium lending level does not suggest that Broker customers borrowed against more expensive property, but partly reflects stronger investment lending which is underpinned by more experienced borrowers (rather than for first home buyers who borrow less). Packaged multiple loans aimed at the investment sector called Pro Packs were also the subject of development in the half year as several lenders targeted these products for discount. Among the bigger banks Westpac targeted this segment while Citibank and AMP were also active discounters.

It also coincided with more stable LVR context. In the previous half-year many lenders were progressively lowering their LVR (Loan to Value Ratios). At the star of the September half year, says MISC on behalf of its Lender and Broker pool members, many banks were holding LVR levels firm especially for existing customers who were benefiting from higher LVR allowances than new customers. Both Westpac and Commonwealth Bank were affording a 5% more generous allowance for existing customers. The National Australia Bank was providing 95% LVRs for new customers in the same period. MISC says by the September small lenders were returning to the market with LVR levels set to try and match the banks.

Some specifically directed this initiative to assist the first homebuyer market. Examples include: Adelaide Bank and Home loans Ltd which now allow 95% lends on owner occupied deals favouring the first home buyer. Australian and New Zealand Banking Group later moved to align its LVR policies with those of the other majors, raising its existing customer levels to 95%. MISC (Market Intelligence Strategy Centre) also sights several other initiatives that influenced the better broker performance this quarter. Low Doc loans, which are 90% reliant on the broker channel, began to re appear as some lenders like Bankwest, for example, relaunched their low doc offerings.

September half year Changing LVR environment in the Broker Channel underpins performance		
Half year start	**Held LVR levels at least for 12 Months**	
	Lender - clients base	**New LVR level**
	AMP new customers	90%
	Bankwest existing customers	95%
	Citibank new customers	90%
	CUA credit union new customers	97%
	Commonwealth Bank new customers	90%
	Commonwealth Bank existing customers	95%
	NAB Broker new customers	95%
	St. George new customers	90%
	Westpac Bank new customers	87%
	Westpac Bank existing customers	97%
Half year end	**Example of Increased LVR levels**	
	Adelaide Bank - owner occupied new customers	95%
	ANZ Bank - existing customers	95%
	Bankwest new customers	95%
	Homeloans owner occupied new customers	95%
	Westpac new customers	92%

Source: Market Intelligence Strategy Centre (MISC Global) / MISC Co-operative Broker Level Pool Results March Half Year 2010 September Half Year 2010

Latest MISC Pool Market Coverage

This result emanates from the March half year 2010 to September half year 2010 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 Seprtember half year collection, the facility's results now represent 77% 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. 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 Broker Pool Collection

This independent (MISC regulated) statistical collection, now in it's 40th 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.

MISC Proprietary Methodology underpins all channel measurement as well

NOTE: MISC (Market Intelligence Strategy Centre) employs the original MINTEL (Australia Pty Ltd) method of home loan measurement (calculated using a stamp-duty based model capturing all loans settled) in preference to using ABS derived figures (which are collected on mainly owner-occupied loan approvals by only the larger Lenders thereby MISC believes seriously understating home loan activity). Unlike this most commonly quoted measure, MISC measures ALL new loan contracts completed (i.e. not Approvals which it says can be cancelled). MISC also includes not just owner-occupied home loans but also Investment housing, Holiday housing and other home loans by all Lenders not just the major ones that the ABS counts. This means that MISC does count loans written by the small Lenders including Credit Unions, small Originators, Solicitors, Accountants, Brokers etc which do not meet ABS loan value size thresholds and thereby are not officially captured. These loans make up the "Hidden" loan market first revealed by MINTEL Australia research in its inaugural research survey of 1998.

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