The Adviser

BROKER'S GUIDE
April 2019

BANKING ON THE NON-BANKS

How brokers and non-bank lenders are supporting one another


TheAdviser
ELITE BROKER
Your weekly catch-up with the leading mortgage brokers in Australia
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Editor's letter

IN THIS Broker's Guide to Non-banks, we're taking a look at what has been happening in the non-bank lending space and how brokers and this lending segment are supporting and working with one another.

The past few months have been dominated by discussion around the final recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The recommendations, which shook the broking industry given the radical proposals for broker remuneration, have been widely condemned by brokers, aggregators and many in the lending industry too. On page 16, we take a look at what the recommendations mean for brokers, lenders and borrowers (with further details in the main magazine) and talk to several non-bank lenders on page 18 about their thoughts on the proposed changes.

As well as the royal commission, this supplement also takes a look at the product offerings from the non-bank lenders. At the end of last year, Momentum Intelligence undertook its annual Product of Choice Survey, which saw more than 500 brokers from across the country outline what they thought about the product offerings from the non-bank sector and ranking them across six different categories. Turn to page 8 to find out more about what brokers think of the performance of this sector.

I hope you enjoy this edition of the Broker's Guide to Non-banks. ●

Annie Kane
Editor

Limited access to finance is giving self-employed Australians nightmares

With purpose-built solutions for self-employed borrowers from Bluestone

• Fast turnaround times • Cash out for business purposes • Flexible alt doc solutions

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13BLUE

Bluestone.

Cash out amount is dependent on credit impairment level and subject to Bluestone's lending criteria. Bluestone Servicing Pty Ltd ACN 122 698 328 Australian Credit Licence 390 183 on behalf of the Credit Provider, Permanent Custodians Limited ACN 001 426 384. Lending criteria, terms & conditions, fees and charges apply.

Bluestone.

Tips for building loyalty with self-employed borrowers

Customer retention and referrals should be a top priority for any broker looking to grow their business, and the self-employed segment offers great opportunities for building ongoing relationships

BUILDING client relationships that encourage repeat business and referrals is a great way for brokers to build long-term stability and profitability. In fact, a recent survey of Bluestone's network of accredited brokers found that 73 per cent of them regard referral marketing as one of their best-performing growth strategies.

Self-employed borrowers are the perfect market to target when looking to build return business, as their financial needs are often more comprehensive and more likely to call for regular support. Below, I've summarised some tips for attracting and retaining these customers.

Provide genuine value

First and foremost, if you want to build a loyal fanbase, you need to provide great service. Strong product knowledge and a good relationship with a diverse panel of lenders are key to always having the best solution at your fingertips. This is the foundation that has to underpin your service, but it's only the start to providing a truly memorable experience.

The difference between good and great service is in the details. Find ways to make your customers' lives easier, such as sending regular SMS reminders and updates so they never have to worry about the status of their loan application.

Get to know their business

When a self-employed borrower approaches you, they have a specific need. Maybe they want to purchase their first home but don't have access to the records other lenders require, or perhaps they want to refinance their existing mortgage to pay off a tax debt.

While helping them meet this need, try to understand the broader context of the business. What does their cash flow look like, and do they regularly need cash injections to keep everything running smoothly? What are their plans for expansion over the next few years? How often do they need to replace or repair major equipment?

Taking note of this information will help you proactively check in with your customers when you know they may have new financial goals you may be able to help them achieve.

Learn how to solve their problems

If you're serious about sourcing and retaining self-employed clients, think about how you can diversify to address more of their needs.

In the case of residential home loans, different lenders offer different features for self-employed borrowers. Non-banks like Bluestone offer a variety of options like cash out for business purposes, the ability to consolidate business debts into a personal home loan, paying out ATO debts and multiple options for proving income.*

If you want to go further, expanding into business and equipment loans, insurance broking or even financial advisory services can be another way to make sure you can assist in solving problems they face.

Stay in touch

Your client relationships should never end at settlement. Make sure you have a strategy in place to be top of mind when borrowers need you again.

Where possible, check-in points should not be impersonal - your customers will notice if you're only sending mass emails that go to everyone in your network. Instead, focus your check-ins on individual customers' journeys, for example:

- Key milestones, like the anniversary of settlement
- Periods where you know finance needs may arise, like tax time or pre-holiday periods necessitating cash injections for merchandise stock-up
- Any period your customer signalled for key business goals, like target dates for expansion
- During significant market developments in their suburb or industry

Self-employed borrowers are one of the best segments to target for ongoing relationships. Bluestone offers a variety of purpose-built solutions to fit a wide variety of business owners. Get in touch today to learn about how Bluestone can help your self-employed customers.

Royden D'Vaz
national head of sales and marketing, Bluestone

Subject to conditions. The information provided in this article is general in nature and should not be taken as constituting professional advice.

Saving the day

The royal commission has eroded the public's trust in traditional lenders, but will the non-banks step in to pick up the pieces?

STORY/ LINDA SANTACRUZ

AUSTRALIA'S FINANCE industry, as a whole, is at the brink of an overhaul.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry exposed the dark underbelly of the financial services and lending arena. Traditional lenders have moved to even tighter controls as they attempt to restore trust and tighten up on any practices that could result in misconduct.

But as the major banks go into damage control, a different corner of the lending industry is enjoying growth and looking towards a bright future.

The non-banks are taking a bigger bite out of the big four banks' market share, with the sector having issued more than 60 per cent of new home loans in 2018, according to Standard & Poor's. In its *Structured Finance Outlook 2019* report, the ratings agency said it expects the non-bank sector to "dominate" the issuance of new home loans in the coming year.

Resimac, for instance, saw its loan settlements grow by 19.4 per cent in the June quarter of 2018, according to Daniel Carde, the lender's general manager for third party distribution.

"Throughout 2018, we saw a significant increase in broker understanding and appetite for the non-bank proposition," he said.

"While this has been a continual trend throughout the past three years, as non-banks have focused on educating the market on their proposition, it was accelerated in 2018 as a result of regulatory and political influences forcing tightening lending among the bank sector, encouraging brokers to seek alternative solutions."

Likewise, Pepper's director of sales and distribution, Aaron Milburn, told The Adviser last month that while some lenders may be pulling away from lending to non-conforming or self-employed borrowers, demand remained strong.

He said: "We've never eased or relaxed our credit policy to gain the market share we've gained. We have the same living expense requirement or stringent living expense requirements as some of the major banks, and we manually assess every single deal. So, there is no automated decisioning."

Mr Milburn added: "Pepper exists to help the underserved and undervalued segments of the market. Our view is that alt-doc falls into the underserved segment. These customers may not know that this offering is there or how to get the help they need, and our job – through the broker channel – is to help them.

"I think that the only thing that is going to make or grow alt-doc lending is the education of brokers around how they can help their self-employed customers that are looking for alternatives and looking for loans."

It's not just brokers who are becoming increasingly attracted to non-banks. Investors are also being lured, as several mergers and acquisitions have taken place in the last few years.

Earlier in 2018, private investment firm Cerberus Capital Management acquired specialist lender Bluestone Mortgages Asia Pacific. It came after Pepper confirmed in 2017 that it had accepted a takeover offer from California-based investment manager KKR, while New York-based global asset management firm Blackstone acquired 80 per cent of La Trobe Financial in December 2017.

La Trobe Financial chief lending officer Cory Bannister said this capital boost in the sector will help ease concerns around the stability and viability of non-banks.

"I think the injection of funding from overseas really validates the proposition of non-banks in Australia, and I think it sends a really positive signal to the market, that it is a very stable and viable sector. It's not

something that's 'shadowy' or 'under the table'," he said.

"In terms of what Blackstone is bringing to La Trobe, it's very much business as usual for us. But certainly, having the world's largest asset manager in your corner is helpful."

Still, there are other concerns that continue to swirl.

Mr Bannister noted that non-banks are often portrayed in the mainstream press as unregulated "shadow banks", despite being subject to the same regulatory guidelines as established banks.

At least seven non-bank lenders are now seeking to strengthen public trust and transparency by signing a new Code of Lending Practice that aims to standardise transparency and disclosure around their online, unsecured business loans and the use of finance brokers.

The code was developed with support from the Australian Finance Industry Association (AFIA), the Australian Small Business and Family Enterprise Ombudsman, thebankdoctor.org and FinTech Australia. It pulls together the obligations of online SME lenders to promote high standards of service, provide a benchmark with respect to the disclosure of comparable financial information to borrowers and support compliance with legal and industry obligations.

These seven "code compliant" fintech signatories are: Capify, GetCapital, Lumi, Moula, OnDeck, Prospa and Spotcap. In addition to the code, the seven lenders also have the ability to share a new pricing disclosure tool to their customers, aimed at helping SMEs make better decisions.

The SMART Box tool, developed by the Innovative Lending Platform Association for the US, Canadian and Australian small business lending markets, provides small business owners with comparative pricing from various online lenders while detailing "clear and concise" outlines of loan summaries before they are accepted.

Beau Bertoli, co-founder and joint CEO of Prospa, said: "Prospa has consistently been committed to helping lift transparency across the industry and transform the way small business owners experience finance.

"The introduction of SMART Box to all of our loans will make it even easier for small businesses across Australia to review and compare unsecured small business loans to support their business. We continue to encourage other small business lenders in the industry to engage with AFIA and sign up to the Code of Lending Practice."

While the future looks bright for non-banks, challenges still lie ahead for the overall industry.

Trail commissions may soon no longer form part of a broker's remuneration structure, with the Treasury announcing that it would remove trail commissions for new loans from July 2020, with a "further review" in three years on the implications of removing upfront commissions and moving to a borrower-pays remuneration structure (see page 16 for more).

The scrutiny has caused a wave of uncertainty and upheaval among brokers, who are already dealing with increasing compliance requirements and tightening lending policies. But these challenges have led to one positive outcome in the short-term, and that is the uniting of an industry.

Associations, aggregators and brokers have all been voicing their support of the broker channel following the release of the royal commission's final report, mounting petitions and meeting with legislators in an effort to defend the current model.

Indeed, several non-bank lenders (as well as some major banks) have also warned that any changes to remuneration will require great care and consultation.

La Trobe's Mr Bannister said the recent environment makes the job of non-banks that much more important.

"The coming together of minds – whether they be industry bodies, lenders, aggregators – has been the most positive outcome over the last 12 months. That's also where non-banks see an opportunity. Now is their chance to step in and do some of the lifting," he said.

"People still require finance. Brokers are still finding solutions for clients. The wheel turns at various points, but right now, it means that the non-bank sector is as relevant as it's ever been. We see that as a greater responsibility. We certainly welcome that change."

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The Real Life Alternative

Near Prime Loans 101 with Pepper Money

With tightening lending criteria, more borrowers are being turned away by mainstream lenders than ever before. Aaron Milburn, Pepper Money's director of sales and distribution, discusses how there has never been a better opportunity for brokers to assist underserved families with a near prime loan and create new clients for life

Why is near prime an important segment for brokers to tap into?

We've always said, if a broker's business is standing still, it's going backwards. But in the current lending environment, remaining competitive is becoming increasingly challenging. Near prime solutions need to be an integral part of a broker's offering to address the gap created by the tightening lending criteria of the mainstream lenders. Not only will this expand a broker's business, it will give them the satisfaction of helping more families through real-life hurdles.

What makes a borrower near prime?

Mainstream lenders typically restrict the borrower profiles they accept to clean credit, vanilla customers. Pepper Money knows that real life happens and that borrowers may fall outside of this profile for a number of reasons, such as:

- **Complex income**

Contractors, overtime hours or borrowers who receive income from multiple sources like Centrelink.

- **Self-employment**

Self-employed borrowers with incomplete tax returns but who can provide alternative income documentation such as BAS statements.

- **Past credit impairment**

Borrowers with defaults under $1,000, defaults of any amount once registered over 24 months, or have been discharged from bankruptcy by more than one day.

Common reasons why near prime borrowers come to Pepper Money

The Pepper Money difference is our real-life approach to assessing applications. We assess every application on a case by case basis and don't use credit scoring to make our decisions. In other words, if the customer can afford the loan and it makes sense, we'll make it happen. Generally, we find that customers who fit a near prime profile are looking to:

- refinance or consolidate an unlimited number of debts
- access cash out for business expansion
- increase their investment property portfolio

How should brokers go about educating their existing clients about near prime options?

The challenge for brokers is often positioning a near prime product with the client when they may have never needed to consider an alternative lender in the past. This is where "Pepper's 5-Step Process" can come in handy. Brokers can use this as a guide on how to successfully offer an alternative lending solution, as well as get some tips in navigating the emotional aspect of the customer's lending experience. Brokers can access this guide via the Pepper Money Broker Portal.

How should brokers best position their near prime loan applications so they get approved?

The application process for a full-doc near prime loan is no different to a full-doc prime loan.

In submitting a strong application, attention to detail is key. Taking the time to include as much information as possible upfront will save time in processing and a quicker path to approval for the customer.

If you have a client you suspect may need a near prime solution, contact your Pepper Money BDM or our dedicated Scenarios Team today. Alternatively, run the scenario through the Pepper Product Selector Tool, which can give you an indicative offer within two minutes.

Aaron Milburn
director of sales and distribution, Pepper Money

Pick of the products

A closer look at Australia's top non-bank lenders, as ranked by brokers

STORY/ LINDA SANTACRUZ

THE RESULTS ARE IN. Last year, brokers from around Australia responded in their droves to rank the top non-bank lenders by rating their products from best to worst. The 2018 Product of Choice Survey polled 500 brokers from across the industry, quizzing them on a range of product satisfaction and sentiment issues.

The survey asked brokers to rate non-bank lenders' products across six different categories: SMSF loans, SME loans over $250K, SME loans under $250K, prime investment loans, prime owner-occupied loans, and specialist loans.

The most recent results saw some previous winners dethroned from their categories, while some new names reached the top five list.

Last year, Pepper was named the winner of three categories: best prime owner-occupied loans, best specialist loans and best prime investment loans. But Resimac rose up the ranks this year, taking two of those trophies for itself. Towards the end of 2018, Resimac and Homeloans merged into a single entity, so the votes for those brands have been consolidated into one.

But Pepper did not leave empty-handed. The company took first place for best specialist loans and second place for both prime investment loans and prime owner-occupied loans.

Meanwhile, a number of new players have occupied some spots among the top five. While last year saw only a handful of non-bank brands voted best of the best, this year was different. Among the newcomers are Get Capital, Scottish Pacific, Prospa, Interim Finance, Cashflow Finance, Better Mortgage Management, and Thinktank.

However, some brands just can't be moved. For the second time, Liberty has been named the winner of three products: SMSF loans, SME loans under $250K, and SME loans over $250K.

This special feature takes a closer look at the winners, shedding a light on what they've done in the last year to help brokers with their products and move the industry forward.

WINNER: BEST PRIME OWNER-OCCUPIED LOANS, BEST PRIME INVESTMENT LOANS

Daniel Carde, general manager, third party distribution, explains what sets these products apart

WHY DO YOU THINK YOUR PRODUCTS ARE SO POPULAR WITH BROKERS?

Our prime loans are fully featured yet cost-effective, with benefits such as offset without an interest rate loading and online redraw without any fees. They also provide for flexibility in repayment options with the convenience of either weekly, fortnightly or monthly repayments, and our borrowers can choose to make their repayments via salary credit, direct credit or direct debit.

Whether choosing our Resimac Prime Standard or Resimac Prime Flex loan, and whether providing a solution for an owner-occupier or investor (or both), our loans and loan features are easy to understand, giving our brokers more time to spend discussing the all-important loan application, approval and settlement process with their borrowers.

WHAT ARE THE MAIN BENEFITS OF THESE PRODUCTS FOR BORROWERS (I.E. UNIQUE SELLING POINTS)?

The most unique feature of our Resimac prime loans is our approach to loan pricing. The interest rate on our Resimac prime loans is determined by the security type, not the loan purpose, making our loans particularly attractive to investors who use their owner-occupied property to secure their loan. So, whether borrowing money to upgrade a property, invest in the share market or provide a deposit for an investment property purchase, provided the loan is secured by the owner-occupied property, the borrower will enjoy owner-occupied pricing on the entire loan.

HOW HAVE YOU BEEN WORKING WITH BROKERS TO IMPROVE EDUCATION REGARDING YOUR OFFERING FOR THESE PRODUCT CATEGORIES?

Over the past 12 months, we have been providing regular broker updates outlining key product features, focusing on the unique features such as interest rates based on security type. As lending and credit conditions change, we ensure we keep our brokers up to date with our position with respect to any changes so our brokers know what options remain available for their borrowers. These updates are backed by a visitation program by our road-based business development managers and a phone campaign by our relationship managers.

CASE STUDY

Prime Owner Occupied

A broker approached Resimac after having difficulties placing a loan for a client. The client was seeking to refinance his owner-occupied property and consolidate a number of debts, one of which was a small business loan associated with a café the client used to own and operate but had since closed. Even though the borrower had now moved to PAYG employment, the consolidation of the business loan under a home loan facility was an issue for some lenders. With Resimac's credit policy of allowing the refinance of business facilities under our standard home loan products, the borrower was able to complete the refinance and consolidation they were seeking under one home loan facility.

Prime Investment Loan

A borrower had an owner-occupied property along with two investment properties, all held as security by their current lender. Although their current lender held all three properties, the value of the owner-occupied property alone was sufficient to secure all current loans at an LVR of less than 80 per cent. The broker approached Resimac to refinance all three loans using only the owner-occupied property as security. Given our security-based loan pricing, we were able to refinance the loans under one loan facility with three separate splits and offer owner-occupied interest rates on the entire loan facility, irrespective of the loan purpose. This refinance saved the borrower over $1,000 per month in interest expense.

QUICK FACTS: RESIMAC'S PRIME INVESTMENT AND OWNER OCCUPIED PRODUCTS

Prime Owner Occupied

- Rates from 3.74% p.a.
- Purchase or refinance
- LVR up to 95%
- Loan term up to 30 years
- Maximum loan amount $2 million
- Both PAYG and self-employed (full documentation)

Prime Investment

- Rates from 4.04% p.a.
- Purchase or refinance
- LVR up to 95%
- Loan term up to 30 years
- Maximum loan amount $2 million
- Both PAYG and self-employed (full documentation)

WINNER: BEST SPECIALIST LOANS

Pepper Money outlines some of the key features of its specialist loan product

WHY DO YOU THINK YOUR PRODUCT IS SO POPULAR WITH BROKERS?

By being flexible, Pepper Money has been able to help thousands of Australian families own their own home when other banks said no.

When a broker chooses Pepper Money, they know that they are increasing the probability of finding a solution for their customer. That's because of our unique cascading model, where the one application form accesses three credit policies attached to a range of home loan products. The customer is initially assessed under prime, and if they don't meet the criteria, they are automatically considered for a near prime or specialist loan.

In addition, our "Pepper Product Selector" and "Pepper Resolve" technologies simplify the research and application process so brokers can confidently continue the conversation with their clients knowing there is a genuine solution available. "Pepper's 5-Step Process" is a complementary guide for positioning the solution with the client.

In 2018 alone, there were over 8,500 broker enquiries returning over $4 billion in indicative offers to their clients. Usage continues to grow, with 3,000 brokers accounting for multiple repeat visits over the year.

WHAT ARE THE MAIN BENEFITS OF THIS PRODUCT FOR BORROWERS?

Many people with bad credit are reluctant to apply for a home loan; they can be misinformed and told they won't be able to get a loan. This may not be the case.

A specialist home loan is designed for customers who (due to restrictive credit or employment history criteria, divorce, or unexpected illnesses) are unable to meet the lending criteria of banks and mortgage insurers. Also, self-employed borrowers who have been in business for less than two years, borrowers who have defaulted in the past, those with judgements or writs, and borrowers who have been discharged from bankruptcy even after just one day may also qualify.

HOW HAVE YOU BEEN WORKING WITH BROKERS TO IMPROVE EDUCATION REGARDING YOUR OFFERING FOR THIS PRODUCT CATEGORIES?

Pepper Money has always advocated the case for specialist lending, by educating brokers and consumers about non-conforming loans. To support and nurture our position as a leader in specialist lending, we have invested heavily in education and awareness campaigns for both the consumer and broker markets.

In mid-2018, we released a downloadable referral marketing toolkit to support brokers in seeking more referrals to build their alternative lending customer base. It includes a series of relatable case studies explaining the sort of customers Pepper can assist, as well as practical online learning tools. While there are many how-to guides and tools out there, this is a specialist approach to alternative lending. And that makes its value unique. Since its launch, the toolkit has been downloaded more than 3,500 times. This was supplemented late in the year with the launch of a social media marketing toolkit.

CASE STUDY

ADRIAN, 30, and Rebecca, 28, are from a mining town in Tasmania where, overnight, the whole town lost their jobs.

As a result, Adrian and Rebecca lost three investment properties and fell behind on the mortgage repayments of their home in a matter of months. They relied on multiple credit cards to cover their living expenses and bills in the initial unemployment period, but fell further in debt.

Determined not to lose their home, worth $700,000, Adrian and Rebecca found new jobs in a town about 50 kilometres away. They were still struggling to make all their repayments and required a solution that would help them get back on top and in control of their finances.

Their broker recommended Pepper Money's specialist Full Doc Plus product, which accepts more than one month mortgage arrears (within the last six months) and the consolidation of more than four debts (including ATO debt). Adrian and Rebecca were able to keep their family home and take back control of their finances.

QUICK FACTS: PEPPER'S SPECIALIST LOAN PRODUCT

- **Rates:** from 5.59% (LVR: 55%)
- **Maximum LVR:** 95% for purchase, 85% for refinance
- **Cash out:** up to 85% (including business use)
- **Term:** 10-40 years
- **ABN:** 6 months
- **PAYG:** Last two payslips plus either employment letter OR tax assessment notice OR latest group certificate OR three months bank statements

WINNER: BEST SMSF LOANS, BEST SME LOANS OVER $250K, BEST SME LOANS UNDER $250K

Liberty describes how it was able to improve broker education around its products

WHY DO YOU THINK YOUR PRODUCTS ARE SO POPULAR WITH BROKERS?

Liberty is appealing to brokers because our products are simple, our service is great and our customers get solutions. From our home loans to SME loans and from our car loans to our personal loans, Liberty's combination of great products and great service will help brokers navigate the application process with ease.

Many lenders cannot match the breadth of loan options that Liberty offers to its brokers. For example, many of our SMSF clients have multiple product relationships with their broker. Liberty even offers insurance solutions that allow brokers to deepen client relationships while servicing even more customers.

WHAT ARE THE MAIN BENEFITS OF THESE PRODUCTS FOR BORROWERS?

Liberty's SME loans are simple to use, easily understood, cater to broad customer base and have a comprehensive range of features, such as low-doc, full-doc and lease stream options. Another benefit of these products for borrowers is the "set and forget" nature of the product compared to other SME loans.

Our SMSF loan option SuperCredit is popular for numerous reasons. As well as having options for borrowers with custom circumstances such as impaired credit, Liberty doesn't

QUICK FACTS: LIBERTY'S SMSF AND SME PRODUCTS

SME >$250,000
- Up to $4 million
- 30-year term and 75% LVR
- Low-doc, no-doc and full-doc options
- "Set and forget" with no annual review or revaluations

SME <$250,000
- From as low as $100,000 up to $4 million
- 30-year term and 75% LVR
- Low-doc, no-doc and full-doc options
- "Set and forget" with no annual review or revaluations

SMSF
- Up to $3 million
- Existing or new SMSF
- 30-year term and 80% LVR
- No minimum contribution required
- Residential and commercial properties

require minimum contributions or minimum SMSF size limits. Further, SuperCredit is available up to an LVR of 80 per cent for residential and 75 per cent for commercial property, and the loan term was recently extended from 15 years to 30 years.

HOW HAVE YOU BEEN WORKING WITH BROKERS TO IMPROVE EDUCATION REGARDING YOUR OFFERING FOR THESE PRODUCT CATEGORIES?
Liberty has long valued face-to-face meetings so brokers have the opportunity to understand how a partnership with Liberty will enhance business. One example of this is our national "Do More" presentations, which have been well received by participating brokers. These sessions are designed to help brokers learn how they can easily diversify and broaden their offerings to better serve existing and new customers. We've also invested in putting more BDMs on the road to make commercial lending even more accessible to our broking partners. Liberty also invests in our aggregator partner relationships across various PD days across the country. ●

CASE STUDY

Michael Mariano, a mortgage broker with Loan Market, came to Liberty with an urgent SMSF deal. His clients had made a successful offer for a commercial property, but they were struggling to get approved for finance. If they didn't act quickly, the property would go back on the market.

Having submitted a few SMSF loans previously, Michael knew how straightforward they can be, as long as you have everything the lender needs. Liberty was able to review the application and approve the deal within four days, allowing the customer to secure the property and grow their assets within their SMSF.

"Any broker will tell you the most satisfying part of the job is calling a customer and saying your loan's approved. This is especially true for clients who have previously been told they couldn't be helped. It's very rewarding helping these people fulfil their dreams," he said.

Dennis D'Angelo, an adviser with Liberty Network Services, was approached by Jonathon, a self-employed electrician wanting to purchase a factory through his SMSF. Business was booming and he wanted to purchase the factory to use as a base for his tools, materials and equipment.

Jonathon had already been to his bank, but the 65 per cent LVR he was offered didn't suit his situation. It would have required him to dip into his emergency savings to complete the purchase, which wasn't an option.

Dennis prepared the application and submitted it to Liberty. Not only did Liberty turn around the deal quickly, but Liberty was able to offer a 75 per cent LVR, meaning the factory could be purchased without the need to raid into any hard-earned savings.

Capify

Where we stand: By our brokers and partners

With resilience, the broker community will prevail and show the importance of their existence to the wider economy. Capify is here to help brokers have the ability to diversify with as much ease as possible

AS WE all know, the final report of the royal commission has been released at the beginning of February. After much speculation and anticipation, the recommendations have created great angst within the broking industry.

With the report being handed down to the Treasurer, the recommendations that are holding the largest concerns within the broking community are that of the commission structures. The key highlighted commissions being both upfront payments made from lenders (banks and non-banks) and trail commissions. Unfortunately, this leaves many brokers with a feeling of unrest surrounding the uncertainty of the industry and how this will affect their business moving forward.

The reality of the situation is that majority of these recommendations may be upheld by the government. Yet it does not have to come at a cost to the industry. Brokers will be able to implement fundamental changes in their businesses - changes that will forever enhance the customers experience, such as mortgage brokers diversifying into business needs, e.g. equipment finance, business lending, invoice/trade debtor lending.

From our experience in the banking industry and working with brokers, roughly 40 per cent of an existing broker's database/clients are self-employed individuals, which could mean that more than a third of their existing clientele are only being a mortgage solution for their individual needs. There is an opportunity here for brokers to have a greater, comprehensive impact to their clients moving forward; the RC report may just be the catalyst.

There is great support from broker associations such as the FBAA, MFAA and aggregators to ensure additional reviews are made. This will be an ongoing process that will be watched closely and supported by Capify also.

One of the highlights during the royal commission was the lack of solutions to business owners from the banks. This is where Capify is playing a pivotal role, identifying and filling this crucial gap in our lending environment and allowing unsecured business lending to fulfil the needs of SME businesses across the country.

Capify, being the most experienced alternative business lender in the Australian market, has been providing businesses the accessibility to short-term, unsecured lending solutions in order to support businesses moving forward and achieve their growth potential. Since 2008, Capify has been committed to providing solutions and strengthening the SME community as a whole.

Brokers are a necessity. Brokers create competition within the finance sector. They keep lenders honest, whether it be the major banks, second tier, third tier or alternate lenders. Without brokers, transparency becomes diluted, the ability to track and compare lenders are minimised to the detriment of the consumer. Brokers provide a whole suite of options to the consumer, with the aim of providing a better customer experience.

Capify provides dedicated support to our broker partners, especially during this time of angst. We ensure that we are providing a positive experience for our brokers and their clients in every interaction. As Capify is also one of the first signatories to the AFIA code, our broker network can rest assured we are delivering responsible lending solutions to Australian business owners.

We are here to support the broker industry through the current state and into the future.

If you woud like more information, please contact Ahmed Khan at akhan@capify.com.au or 0437 282 022

Ahmed Khan
senior manager for strategic partnerships (broker and third party), Capify

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RECOMMENDATIONS WERE PUT FORWARD BY THE ROYAL COMMISSION IN THE HOPE OF REDUCING MISCONDUCT AND IMPROVING CULTURE

Keepers of competition

Following the release of the final report from the royal commission, including radical changes for the broker market, many non-bank lenders have been coming out in support of the broker channel and highlighting their much-needed role in delivering competition and choice in the lending marketplace

STORY/ ANNIE KANE

IN EARLY February, the final report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released – laying out 76 recommendations to change the relevant sectors in the hope of reducing misconduct and improving culture.

Among the changes were several radical suggestions for changing the broker model (see the main magazine for more information), with the most controversial of these calling for a change to broker remuneration.

Commissioner Kenneth Hayne recommended that changes in brokers' remuneration should be made over a period of two or three years, by first prohibiting lenders from paying trail commission on new loans and by then prohibiting lenders from paying other commissions to brokers.

The industry reacted with shock, anger and dismay at the recommendations, with some saying the changes would have a "significant impact" on the viability of the broker channel and potentially damage competition in the marketplace – particularly to lenders that do not have bank branches and rely on the broker channel for distribution.

Among them were several non-bank lenders, who have been voicing their support for the broker channel and highlighting their dependence on them.

While many have focused on the ability of brokers to boost competition by placing downward pressure on lenders to reduce rates, it should also be noted that many smaller lenders rely almost entirely on the third-party channel for distribution and their future viability could also be impacted if the channel is negatively impacted by the proposed changes.

Speaking in February, Prime Minister Scott Morrison even made note of how brokers provide competition by providing access to lenders outside of the big four banks.

When asked to talk directly to the mortgage brokers of Australia about the changes, he said: "We have the Productivity Commission report on mortgage brokers, which basically says: 'If you start turning that industry on its head, you just hand the power back to the banks'.

"Now I don't see how that achieves our objective, and that is why we have been extremely cautious on that point and that is why I'm not surprised that mortgage brokers are very angry with the Labor Party.

"And these are tens of thousands of small and family businesses that help mums and dads get a good deal on their mortgage so they don't have to just face the banks themselves.

"It's a pretty important service. We want to make sure that Australians still have access to that service," he said.

Mr Morrison continued: "I don't want to see this sector wither on the vine and be strangled by regulation that would throw them out of business, but more importantly, would deny choice and competition in the banking system.

"If there is one thing that we have learned through this process, it is that we need more competition. We need more options. We need more choices. Not fewer. And that is what the Treasurer and I are concerned about in terms of how we would go forward on that one recommendation [on broker remuneration]."

Indeed, since the release of the final report, several lenders have come out voicing their support for the broker channel and also emphasising the downward force they place on mortgage rates as well as by providing more options to consumers.

Even some of the major banks have noted that brokers provide this service, with Anthony Waldron, NAB executive general manager of broker partnerships and chairman of the Combined Industry Forum, recently stating that "brokers have enabled smaller lenders to compete, which is ultimately good for consumers".

But it's the non-bank lenders that have really come out strongly in support of the broker channel. In the following pages, we outline some of the thoughts that the non-bank lenders have had on the royal commission recommendations...

Mario Rehayem
CEO, Pepper Money

Pepper Money CEO Mario Rehayem noted that, following the release of the royal commission report, "many brokers we have spoken with [are] say[ing] they are being forced to reassess their futures in the industry".

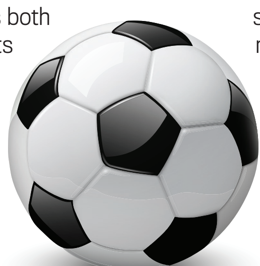
"Pepper Money supports the broker channel because we believe they provide a wide variety of loan choices to borrowers from all walks of life – something the banks frequently do not do," he said.

"By taking time to understand a customer's individual borrowing needs and sourcing appropriate loans, expert and customer-centred brokers are part of the process of creating wealth for first home buyers, young families and professionals."

Mr Rehayem continued: "Pepper Money also believes brokers play a vital role in supporting competition in the financial services industry.

"It is no coincidence that brokers' market share has grown to close to 60 per cent of all mortgages written. Australians have voted with their feet to support the broker channel.

"Pepper Money expects to play a leading role driving a regulatory outcome on the remuneration model issue that is both in the best interests of borrowers and sustainable for brokers."



Royden D'Vaz
head of sales and marketing, Bluestone

As a non-bank, Bluestone does not have the benefits of an extensive branch network. As such, along with dozens of other non-banks, credit unions, non-majors, regionals and specialist lenders, our ability to offer more options for borrowers is tied closely to the continued vibrancy and competition the mortgage broking industry offers. In an industry without brokers, many consumers across Australia would simply have little option apart from the local branch of a major bank. As smaller lenders disappear, so would the competitive price tension they bring to the market, ultimately leading consumers to be forced into less choice at higher cost.

There can be no doubt of the positive impact brokers have had on the industry in terms of increased lender competition and improved consumer outcomes. This impact is well-documented by industry research, which finds that brokers arrange a growing majority of home loans, and do so with fewer complaints and higher levels of trust than their lender-employed counterparts.

Brokers are passionate advocates for their clients, and without this source of professional guidance, many borrowers would be unable to realise their financial goals. As such, Bluestone remains entirely supportive of brokers and the work they do every day to help more borrowers access financial solutions not available at the banks.

Scott McWilliam
CEO, Resimac

Resimac chief executive Scott McWilliam said that mortgage brokers are essential component of the ecosystem of the mortgage industry.

"Brokers provide consumers with access to loans from the big banks as well as smaller lenders without a branch network and accordingly stimulate competition within the lending market."

Mr McWilliam added: "We support the six principles of the CIF package, which includes a carefully managed upfront commission structure."

"This approach achieves better customer outcomes and improved standards of conduct, while continuing to promote competition in the Australian mortgage market."

Mr McWilliam said the royal commission scrutiny had led to big banks having a greater focus on responsible lending, which has resulted in tightening of lending policies.

"This 'royal commission effect' has levelled the playing field by requiring big banks to operate to the more stringent standards already observed by non-banks and smaller mortgage lenders.

"However, the proposed changes threaten to reduce competition in the mortgage industry, penalising consumers who could end up paying more for mortgages."

Mr McWilliam urged lawmakers to think carefully about the consequences of changes. "Anything that diminishes competition or reduces consumer access to a wide range of mortgage options would be detrimental to ordinary Australians," he said.

Andrew Way
director, Semper Capital

Kim Cannon
managing director, Firstmac

Peter Langham
CEO, Scottish Pacific

Andrew Way, director at Semper Capital, commented that historical "abuses" of conduct and regulation were "incubated" by "the lack of an active and able competition".

"Just as the finance playing field looks to be levelling, the royal commission, for some inexplicable reason, takes aim at the one thing competitors to the four banks need – broker distribution networks," Mr Way said.

"We taxpayers funded the royal commission. Non-banks lenders benefit from broker distribution networks, and SMEs are going to rely on them too because it will be non-bank lenders increasingly meeting their needs.

"So, is now really the time to disrupt the country's most effective distribution system when a couple of simple regulatory calculations could do for broker commission fairness and transparency what comparison rates did for interest rates? I think not."

"But for now, we encourage the broking community to have an active voice against the commission's recommendations, though not indulge in a knee-jerk, catastrophic response," the Semper Capital director said.

"In the meantime, where possible and when in your client's benefit, consider making a stance and supporting lenders that are invested in the industry and demonstrate to the big four, in real terms, what it means to alienate our community."

Non-bank lender Firstmac has also hit out at the "betrayal" of the royal commission recommendations and called on mortgage brokers to stop sending business to the big four banks in response. Firstmac managing director Kim Cannon said the big banks had prompted the royal commission through a series of scandals and had then successfully "deflected blame" onto mortgage brokers.

"The big banks saved themselves by brazenly throwing mortgage brokers under the bus," Mr Cannon said.

"The only reasonable response from mortgage brokers is to protect themselves by diversifying their businesses so they aren't so reliant on the banks."

He said it was unfair that tens of thousands of mortgage brokers could suffer severe financial stress as a result of changes recommended by the royal commission, while shares in the big banks had rallied nearly 5 per cent in the day following the release of the final report.

"Australians have nothing against mortgage brokers and it wasn't the brokers that provoked this royal commission, yet they are the biggest losers from the commission's recommendations," Mr Cannon said.

"We are very disappointed that mortgage brokers have been made into fall guys for the banks, and we support them 100 per cent. We will work with brokers to ensure that their businesses remain viable despite this very cruel and unfair blow."

SME lenders have also been coming to the fore, with Scottish Pacific CEO Peter Langham stating that adding a broker fee for service is likely to be "detrimental to anybody who can't get funding from the banks".

"Brokers play a major role in putting non-bank lending alternatives to their clients, providing real solutions for business owners when the banks can't or won't lend to them."

"A fee for service is likely to drive borrowers straight to those with the biggest advertising budget," he said.

"Brokers have helped drive lending competition and increased the visibility of non-bank lenders. Australia's ability to provide diverse lending options for consumers and SMEs could go backwards if the fee for service is implemented. Whatever happens to brokers will be critical to the whole consumer and SME lending space," he said.

"Without the independent broker, the consumer might lack the ability to see all the options open to them and end up picking funding that isn't right for them," Mr Langham said.

He concluded: "Treasurer [Josh] Frydenberg points out that affordable access to finance is critical to the economy. The success of the SME sector is vital for the economy. It's important that the changes flagged in [the] royal commission report don't negatively impact the flow of funding for SMEs."

Backing brokers with an Ezy solution

WE BELIEVE the royal commission's recommendations for brokers were undertaken without due consideration to the needs of the consumer - the suggestion of paying the broker directly is not a feasible solution that customers will support.

Statistics in a recent report by Momentum Intelligence showed that 48 per cent of those surveyed are prepared to pay brokers less than $100 only! It requires experience and time to prepare a submission. Simply put, nobody would be expected to work hours on reviewing and preparing the necessary paperwork, so why would anyone suggest that a fee-for-service model would be appropriate, much less for the suggested $100 fee.

The pending compliance obligations extending even beyond today's requirements will mean that even smaller or typical loans will not be viable to be serviced by brokers. The eradication of trailing commissions coupled with the fee-for-service model will effectively kill most brokers altogether.

Was the intent to force brokers to join the banks as an employee and/or retire? We have repeatedly heard that "competition" is vital in any business, so let's support this by valuing what brokers bring to the table.

Reviewing the commissioner's final report evidences a multitude of wrongdoings by the big four banks, yet the recommended changes address processes externally, targeting brokers rather than the details at hand. Our stock market recognised the significance of the findings and the proposed rulings, with share activity reflecting a downturn of some 30 per cent in the aggregation companies whilst we saw a $20 billion increase across the big four banks, being the largest one-day increase of all time.

The solution that perhaps should have been tabled was that brokers should be recognised for what they are... an "agent" just as the precedent set by real estate agents.

Real estate agents provide their customers a selection of houses. Likewise, brokers do a similar thing by showing a customer several lenders' loan offerings. If they deal with a number of lenders, then they would act in the capacity of a "multiagency". If they support just one lender, they would simply be called an agent of the lender. Real estate agents are paid by any one of a series of vendors and, as such, there is no confusion for whom they act.

Support for the broker channel

Currently, declaration by brokers of commission is more rigorous as it compares each lender's rate upfront.

Is changing the name of brokers the simple solution, rather than what CBA CEO Matt Comyn has tabled?

For over 18 years, we have championed the broker channel. In the *Consumer Access to Mortgages Report*, 96 per cent of borrowers interviewed expressed satisfaction from the service provided by brokers and would elect to use them again. In contrast, the majority of borrowers utilising bank services expressed dissatisfaction with the service they received.

The intent to eradicate brokers has clearly been indicated by the statements of both Westpac and CBA. This will eliminate the current service levels that consumers expect and deserve and will decimate the objective that was being championed with the broker's service to the consumer.

The non-bank proposition

Independence in the market needs brokers to support the demands and needs of the customer, and let's not forget that transparency goes hand in hand with competition.

Non-banks provide the mutually beneficial relationship between customers and the broker channel whilst maintaining equality, honesty and completion without the exorbitant costs incurred by bricks and mortar banks. They provide innovation and competition, ensuring customers are receiving value for the services received. Now more than ever, brokers see the importance of partnering with those lenders who generally have their interest and that of the consumer at heart.

Mortgage Ezy's unfaltering support within the non-bank sector will see the healthy revival of the market in its business model, which will see a continued growth in the coming years.

We continue to compete head-to-head with the majors in the marketplace in prime lending as well as specialty loans and near/subprime.

We are a lean operation that delivers sharp rates and superior service. Brokers need to vote with their feet today. They need to understand that for their future survival and for promotion of genuine competition in the market place, they need to look to non-banks especially if they have not done so before.

Peter James
executive director,
Mortgage Ezy