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INDUSTRY FORECASTS

THE INSIDE TRACK
ON WHAT THE NEXT
12 MONTHS HOLD

Top minds from all parts
of the mortgage industry
tell **KEVIN EDDY**
what's in store for
the year ahead

Licensing. Diversification. A shaky property market. The possible return of first homebuyers. The relentless march of technology. The European debt crisis. The year 2012 promises to be a complex and volatile one – and that's even before you add in the fact that it's an Olympic year, too.

That complexity and volatility means it can be tricky to plan ahead. That's why *MPA's* gathered the mortgage industry's best and brightest and has picked their collective brains on the issues that will matter most, the industry players to keep a beady eye on, and how you can steer a steady course through the months ahead.



BANKS



JOHN FLAVELL
GENERAL MANAGER, BROKER DISTRIBUTION, NAB

What will be the ‘game-changer’ issue in 2012?

There’s no doubt that it’s a very competitive market out there, and I don’t see that changing any time soon. There’s going to be a lot of competition around price and lending policies, and there will be special pricing from some.

What will the cash rate be at the end of 2012?

I don’t think anyone can accurately tell you where the cash rate is going to be in a year. Domestically it looks solid, but internationally it’s very dynamic and volatile. If I had my wish – and it’s a wish, not a projection – the cash rate would be largely where it is now.

Which company or individual should we keep an eye on?

I’d keep an eye out for one of our BDMs, Nick Murray, who was shortlisted for BDM of the year at the Australian Mortgage Awards.

What are your company’s own targets and objectives for 2012?

We set ourselves the objective last year that between one in four and one in five broker mortgages should be written on our paper – we’ve largely delivered on that. In 2012 and beyond, we’re looking to continue growing our share. We also want to continue to deliver a strong proposition to brokers and their customers from a price and features perspective.

What will be the most important thing mortgage brokers can do to help their business?

The more complex and the more volatile the environment, the more people are going to want good quality advice. Brokers are in a wonderful position to sit down with their customers, hear what their needs and challenges are, understand the things they’re fearful of and provide some good advice.

Going out and spending time with customers in difficult times will position brokers well to grow their part of the pie.

Market talk

What will be the general story for the Australian property market in 2012?
Charles Tarbey of Century 21 Real Estate gives his predictions

The coming year should see a stabilisation of house prices, with modest growth in dwelling values. I believe that next year, the commentators will say that August/September 2011 was when the market levelled out. I expect the first homebuyer market to improve, having gained momentum as a result of the November 2011 rate cut, which will likely increase should rates be reduced once again.

First homebuyers have already begun to enter the market mainly due to the fact that interest rates are low, rents are rising and rental properties are becoming harder to find. Second and third homebuyers may also look to make purchase decisions and relocate or upsize over 2012. Activity in the top-end of

the market will be largely contingent on how the situation in European financial markets plays out.

There is little doubt that Australia's natural resource areas will provide much of the opportunity in the property market over 2012, as the combined impact of increased government spending on infrastructure as well as the commencement of significant resource projects will see burgeoning populations, and thus the need for residential property will quickly increase in these towns. Having said this, many of these areas still represent high risk: first-time investors should be very cautious.

In terms of specific property type, the lower-to-medium price range of \$400,000 to \$800,000 is currently performing well, with record sales occurring in this price range over the last few months. I suspect this will continue over 2012.



BROKER SNAPSHOT

What will be the 'game-changer' issue in 2012?

The game changer issue for the mortgage industry will be consumer confidence. There is currently uncertainty in the market, therefore many buyers have become cautious and will sit on the sidelines and wait. Once the buyers are comfortable with where the market is heading, their sentiment will change.

Justin Doobov, Intelligent Finance

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THE
VIEW
FROM...
BANKS



KATHY CUMMINGS
EXECUTIVE GENERAL MANAGER, THIRD PARTY AND MOBILE BANKING, COMMONWEALTH BANK

What will be the 'game-changer' issue in 2012?

The cost of funds: the continued instability in Europe and the monetary environment will cause money markets to tighten, thus putting increased pressure on the already diminished margins in the mortgage business.

Which market segment will be the most important?

Upgrades and investors. If rates continue to fall due to global monetary events and slowing economic conditions, there will be good opportunities for cashed-up segments.

What will the cash rate be at the end of 2012?

Economists believe that there may be more scope for an easing of monetary policy. Their consensus view is that there may be one or two more rate cuts over the next year. However, the indexed swap market has priced in the cash rate falling to around 3.3% by late 2012. It is too unpredictable to call, and it largely depends on your views on the situation in Europe.

Which company or individual should we keep an eye on?

In banking, it would be the new CEO of Commonwealth Bank, Ian Narev.

What are your company's own targets and objectives for 2012?

Increased productivity to deliver growth; enhanced efficiency by focusing on simple solutions and getting it right first time, every time; and cost containment.



BROKER SNAPSHOT

What will be the 'game-changer' issue in 2012?

The game changer for me will be that consumers will favour brokers over dealing with banks direct and the percentage of broker-orientated loans will rise well above the 50% mark. This will be fuelled by a consumer backlash against the majors with potential customers wanting to see more competition and further rate reductions.

Paul Bieg, Club Financial Services Norwood

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BANKS



LISA CLAES
EXECUTIVE DIRECTOR, DELIVERY, ING DIRECT

What will be the 'game-changer' issue in 2012?

With so much global uncertainty in the second half of 2011, a lot of the activity in 2012 will depend on how the domestic and international markets perform economically. I also think technology will play a big part in 2012, both in the lending and broking spaces. The growing influence and integration of technology into everything that lenders, brokers and customers do will drive a lot of value in service and communication in the year ahead.

Which market segment will be the most important?

The refinancing segment has, and will, continue to offer a growing opportunity in lending in Australia. Given aggressive competition from lenders, as well as the current falling interest rate environment, customers are being very proactive in chasing a better deal for their home loan.

Investors will be a growing segment, given many are taking advantage of the current market to make more strategic investment purchases.

What are your company's own targets and objectives for 2012?

We set some really important goals around service which we believe will positively impact our broader business goals. We want to capitalise on changes made in 2011 which were a result of feedback from the broker channel. We have made broker service a priority by re-allocating our team to allow for better desk-based support to complement the groundwork of our BDMs.

We have healthy growth targets for 2012 and want to cement our position as a true competitive alternative to the 'Big Four' banks. Making brokers advocates of our products and service is key to our business model, so we're keen to see that increase even further in 2012.

What will be the most important thing mortgage brokers can do to help their business?

We would like to see brokers put more focus on addressing the unhealthy dominance of the major banks in Australia and presenting second tier and non-bank lenders into the mix when comparing loans.

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FRANCHISES



MICHAEL RUSSELL
CEO, MORTGAGE CHOICE

What will be the 'game-changer' issue in 2012?

I think the challenge for the industry will be to continue to increase market share in another year of subdued housing credit growth. The second challenge will be to make sure we continue to refine our implementation of NCCP requirements and look to overcome some of the productivity setbacks that brokers have incurred.

What will the cash rate be at the end of 2012?

I'm game to look to the middle of this year, and am reasonably confident that we'll see one or maybe two further 0.25% cuts in the cash rate.

What are your company's own targets and objectives for 2012?

We want to continue growing our core mortgage broking market share. We're also working at growing our brand to extend into the financial planning space. We aim to deliver a specialist financial planning solution for our customers across risk, superannuation and wealth management.

What will be the most important thing mortgage brokers can do to help their business?

This year's going to be very challenging, given the housing credit environment we're operating in and the threat of further overseas economic turmoil. But, when you look at the key growth drivers for the industry today, such as home loan commitments and consumer sentiment, they're healthier and are improving. The key will be sticking to your core business and working hard to increase your market share, constantly refining your processes and procedures to create an increased productivity capacity, and using that capacity to write more home loans and diversify your business income.



BROKER SNAPSHOT

What will be the 'game-changer' issue in 2012?

I see the biggest game changer over the next 12 months being based around a temptation for our major banks responding to the global market by making the criteria for lending in Australia much tougher to obtain.

Gerard Tiffen, Tiffen & Co



ANDREW CLOUSTON
EXECUTIVE GENERAL
MANAGER OF RETAIL
DISTRIBUTION, FIRSTFOLIO

What will be the 'game-changer' issue in 2012, in your view?

The major industry game changer for 2012 will be rate changes, and we will see multiple RBA movements, combined with majors, regionals and others adjusting to new margin pressures. The result will be a great deal of market uncertainty about where the best deal lies.

Which market segment will be the most important?

A reducing rate market always sees an increase in refinancing enquiries. Given recent changes around exit fees and responsible lending, it will be interesting to see how much of this converts to legitimate business.

What will the cash rate be at the end of 2012?

There seems no doubt that the cash rate will reduce over the next 6-12 months.

What will be the most important thing mortgage brokers can do to help their business?

Focus on their customers and come to terms with the fact that true professionals welcome adherence to a process that leads to a fully compliant industry.



BROKER SNAPSHOT

What will be the 'game-changer' issue in 2012?

In 2012, property and the finance game could change dramatically on a number of fronts. After we adjust to the 'shock' of the PIGS, the US and possibly China faltering, here at home interest rates will continue to fall. It won't be pretty! People need to realise that low interest rates are not a signal to the herd to rush out and buy more useless stuff. Low interest rates are a signal to rein in your consumer spending, pay down existing 'bad debt' and become as debt free as possible.

Kevin Lee, Smartline and Smart Property Advisor

By the numbers

Refinancers and investors are clearly pegged by our mortgage bigwigs as the most important market segments in 2012: it looks like we may be waiting a little longer for the return of first homebuyers in significant numbers.

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AGGREGATORS



MARK HEWITT
GENERAL MANAGER, SALES
AND OPERATIONS, AFG

What will be the 'game-changer' issue in 2012?

I think brokers' ability to adapt to the changing face of social media, the way the next generation of homebuyers like to communicate and using new technologies to improve business efficiency will all be very important.

Which market segment will be the most important?

We have seen investors hit record levels in November so they, along with the continued re-emergence of first homebuyers, will be the market segments that we see performing the best.

What will the cash rate be at the end of 2012?

I think I need the crystal ball and dart board for this one... I will go for 4% on the basis that the troubles in Europe look like dragging on for a while.

Which company or individual should we keep an eye on?

iSelect have successfully expanded into mortgages this year and have some very exciting things on the horizon.

What will be the 'game-changer' issue in 2012?

ASIC reviews: we believe there is still some confusion and in some cases complacency on the requirements of credit licence holders. The number of brokers feeling overwhelmed or realising that they are not committed to changing their business practises will increase.

What are your company's own targets and objectives for 2012?

To increase our broker recruitment nationally. The recruitment of brokers will be in our three key market segments of residential, commercial and asset finance.

What will be the most important thing mortgage brokers can do to help their business?

First, embrace the regulatory changes now in place and use the new documentation required under NCCP to review and document the customer value proposition. Second, as consumer sentiment may still be an issue through 2012, it will be an ideal time to have a proactive customer contact program to review customers' current circumstances and look for opportunities to improve their mortgage and banking situation, or seek additional cross-sell opportunities.



DAVID O'TOOLE
NATIONAL SALES MANAGER,
FAST

By the numbers

Where did our pundits think the cash rate will be at the end of the year?

Despite global volatility clouding crystal balls, the consensus seems to be that the cash rate will fall.



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FINANCIAL PLANNER



MICHAEL STEPHENSON
CEO, WEALTH TODAY

What will be the ‘game-changer’ issue in 2012?

We see diversification coming to the fore. It’s at the point now where brokers will start to be able to generate significant revenues from that vested client value that they have. There’s been a natural progression and diversification in its various forms is becoming more accepted. It’s a continual progression which will come to fruition this year.

Which market segment will be the most important?

It’s very difficult to call, with all the uncertainty at the moment. There are probably good buying opportunities around at the moment, and therefore investors who are coming off a relatively low base.

Which company or individual should we keep an eye on?

I would suggest that Connective will emerge as players that have their brokers’ success at heart – this will stand them in good stead in a fast changing environment.

What are your company’s own targets and objectives for 2012?

To double the number of authorised representatives that we have on board. We’re also looking at growth in throughput of those we already have. We’re optimistic in terms of growth in both number and volume.

What will be the most important thing mortgage brokers can do to help their business?

Diversify! And to look at fee-for-service modelling – in the broadest sense, and consider that the service offering may be a little different to what they’re used to providing.



BROKER SNAPSHOT

What will be the ‘game-changer’ issue in 2012?

Brokers’ ability to embrace licensing as an opportunity to get closer to clients. The key will be taking a step past the basic NCCP requirements and finding out what drives the client with the intention of adding insight and value-driven services to enable clients to achieve their longer-term goals.

Nicole Seagren, Vision Finance

Enough talk.

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Sean Richardson,
Freshwater Financial Services

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2011 flashback

What did our pundits from last year want to see happen in 2011 - and did their wishes come true?



Michael Russell wanted to see "Indexation of the First Home Owner Grant and backdating to 2000 - bringing it to around \$14,000"

There was no move on the First Home Owner Grant, despite calls from many parts of the industry. However, with an election looming in 2013, could this change soon?



Iain Forbes wanted to see "A decline in interest rates"

At the beginning of 2011, everyone expected interest rates to go up, up and up: well, global volatility has changed the picture and the RBA finally cut rates by 0.25% in November. Parties ensued around Australia, and not just because of the Melbourne Cup.



Justin Doobov wanted to see "Second and third tier lenders come back into the market"

Despite funding challenges and the banning of DEFs meaning travails for smaller lenders, it seems that borrowers are willing to consider those outside the Big Four. AFG's Competition Index in November shows that non-majors held a 19.6% share of the aggregator's market in October.



Tony Carn wanted to see "The Wests Tigers win the NRL"

Unfortunately for Tony, the Tigers got knocked out in the second week of the semi-finals - with the Manly Sea Eagles taking the honours by a 24-10 victory over the New Zealand Warriors.



THE
VIEW
FROM...

THE BROKER



JEREMY FISHER
1ST STREET HOME LOANS

What will be the 'game-changer' issue in 2012?

Many brokers will find it challenging to meet the NCCP requirements and some may be forced out of the market. On the positive side, lower rates will encourage borrowing and this should fuel the property market.

Which market segment will be the most important?

Many of my clients have growing families and I am expecting a significant proportion of them to refinance, enabling them to upgrade to larger properties.

What are your company's targets and objectives?

To continue to grow in both loan volume and number of loans written. I am always looking for experienced and well-respected brokers to join us.

What will be the most important thing mortgage brokers can do to help their business?

It is paramount for brokers to work closely with their clients to ensure that the most suitable outcome is achieved each and every time.



NON-BANKS



KIM CANNON
MANAGING DIRECTOR,
FIRSTMAC

What will be the 'game-changer' issue in 2012?

Firstly, if Europe doesn't get its act together in 2012, we could have a credit crisis worse than GFC1. A lot of the financing for resources projects comes out of Europe, so if those banks fail, then it could affect what's going on resources-wise.

Secondly, it is the customer and online buying attitudes. I predict that some banks will walk away from third party distribution in 2012 and go straight to online.

Which market segment will be the most important?

I think there'll be more anti-bank sentiment in the new year: we can see what the capital markets are doing. I think refinance will be a strong market.

What are your company's targets and objectives?

To still be here in 2013! We survived GFC1, we'll survive anything - to keep an eye on the threats and opportunities, and react very quickly, but don't rest on our laurels. It's a dangerous time. There's still volatility.

What will be the most important thing mortgage brokers can do to help their business?

If you're smart and understand the new world that's on the horizon, you'll be building your own brand and your own private label away from the aggregators.

What will be the 'game-changer' issue in 2012?

It is the uncertainty in the global financial markets in Europe, and in particular if the European debt crisis has a flow-on effect onto Australian financial institutions.

What will the cash rate be at the end of 2012?

I expect the cash rate to be down at the end of 2012.

Which company or individual should we keep an eye on?

Mark Bouris and Yellow Brick Road. They could be a major player in 2012.

What are your company's own targets and objectives for 2012?

To: continue to grow the portfolio organically; invest in training, and improve the productivity of the staff; build quality products for our mortgage brokers; continue to offer competitive pricing; improve on our existing policy of 'excellence in service'; and explore any worthwhile business opportunity that will fit the AFM culture and business model.



IAIN FORBES
DIRECTOR, AUSTRALIAN
FIRST MORTGAGE

By the numbers

What's the consensus on the game-changer issues for 2012?

The European debt crisis clearly comes out on top for our industry experts and broker commentators, closely following by licensing.