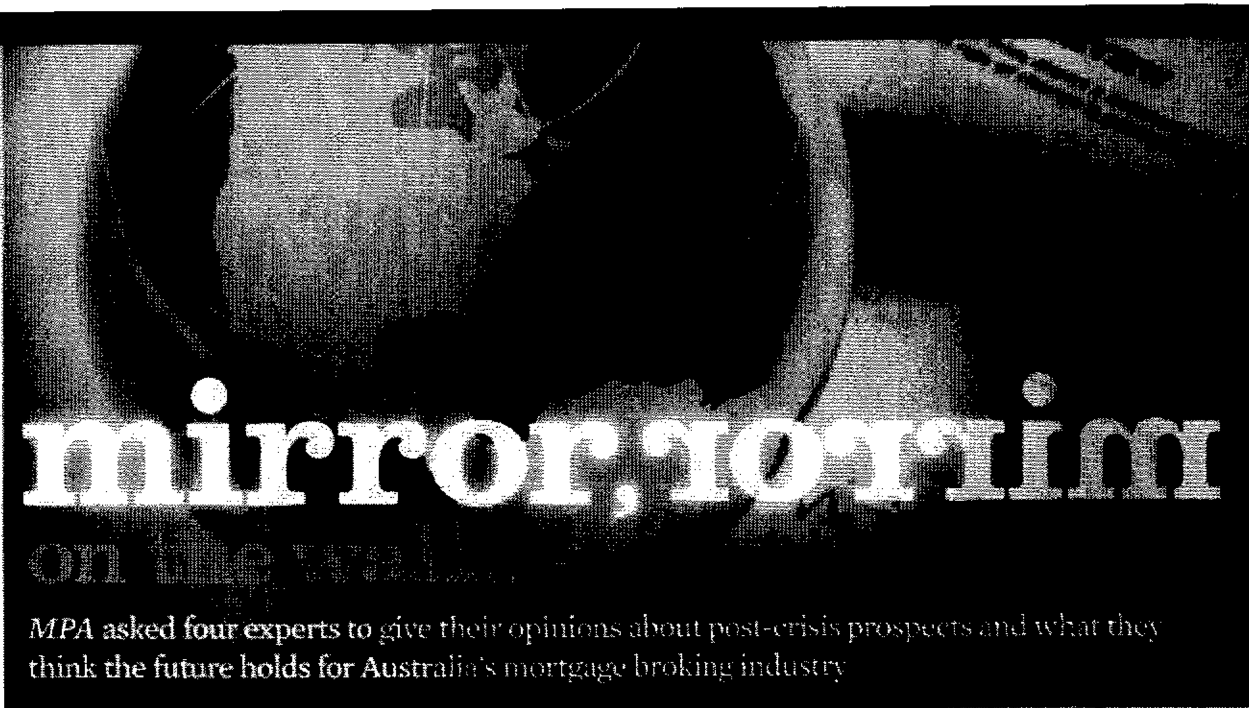


mirror, mirror on the wall...

MPA asked four experts to give their opinions about post-crisis prospects and what they think the future holds for Australia's mortgage broking industry

Lending in the market is already showing signs of returning to normal, but don't expect it to be as radical as it was.

So says Firstfolio CEO Mark Forsyth.

Lending activity has to be more cautious going forward, he says, because there almost certainly will be some form of international banking legislation introduced as a result of the global financial crisis. Regulation will be less heavy handed here than in the UK and US because, in general, "Australian banks were well behaved".

"I don't think we'll have those 'NINJA' (no income, no job & assets) loans that no one can afford, but LVRs will go back to 95%," Forsyth predicts. Right now, he sees banks, currently inundated with volume, using the LVR as a means to ration credit – but warns them not to leave an open door to somebody looking for an attractive return at reasonable LVR levels.

Forsyth explains why there is still capital around. "Bond yields and treasury returns are down at 3% and 4%, but wealthy, large funds want 8–10% returns, so sooner or later that capital is going to have to go somewhere," he says.

Add low interest rates, tight stock and growing migration to that intent, and those fund managers might consider the Australian market for "getting back into property".

"We're not talking anywhere near five years here, rather 18 months," Forsyth says.

Aggregators and mortgage managers

Forsyth is of the opinion that the outlook for the industry's aggregators is good, but insists that they will need to up their games to stay relevant in the future.

Lenders will want quality on the ground and that will require a 'higher touch' – meaning people providing services like advising – and higher levels of training and compliance, rather than simply taking a payment from the bank, reworking it through an accounting system and paying the broker. "It might be a cost solution for aggregators, but I don't see it as the right value-add solution," he says.

Mortgage managers, Forsyth says, will always be in demand because it is a lot easier for a bank to allocate a tranche of funds to somebody else to manage and distribute.

"[Banks will say] 'We don't want to deal with 10,000 customers individually, so you take a billion dollars of our funding and get rid of it for us.' That said, I think there'll be a lot less of them because the recent consolidation will continue," Forsyth predicts.

He pegs the number at around 20 large mortgage managers.

However, he makes the point that if the banks continue with the tight LVRs and do create opportunities for others with capital, they would be the ideal candidates to use mortgage managers to get the money out of the door.

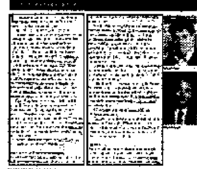
Important role

Brokers will continue to play an important role, Forsyth says, because consumers will always want independent advice. "People are time-poor, so they'll want someone not wholly and solely tied

Joe Sirianni

Mark Forsyth

Copyright Agency Limited (CAL) licenced copy



Page: 46
Section: General News
Region: National Circulation: 10,610
Type: Magazines Business
Size: 1,415.79 sq.cms.
Frequency: Monthly

to the big banks to see them on their time – at night or on the weekend."

Forsyth anticipates that through legislation or organic movement, brokers will become "some kind of advisor" and require an advisory certification or higher quality of qualification.

The payment of commissions and trails will continue be a contentious issue, but Forsyth expects lenders will keep paying them in order to motivate people. "Brokers will have to do something to earn that income," he says, "and that is to manage the client better, provide better quality paperwork and make the banks' job easier."

Joe Sirianni, director at Smartline, agrees that brokers will remain a force. "Five years from now, the broker proposition will be even more entrenched than it is today," he says.

And, like Forsyth, he believes brokers will need to meet higher professional standards as the industry pushes for better education and more transparency when dealing with customers.

Sirianni expects national regulation will mean brokers might be required to produce a 'fact file' on the client, including a needs analysis with reasons why they have selected particular products.

"It will be a more advice-driven industry, with brokers offering credit advice around mortgages and finance," he predicts.

This said, Sirianni expects brokers to "charge a couple of hundred dollars" as a consultation fee for their advice, depending on the strength of their service proposition.

Interest rates

Frank Gelber, chief economist at BIS Shrapnel, predicts interest rates will continue to come down while the economy stays weak.

He expects all the "bad news on the economy" to come through in this calendar year.

"We'll just have to wait and see how bad it's going to be," he says. "And we know that the RBA won't tighten interest rates until we start to see a strengthening in the economy."

Still, Gelber is adamant that five years from now, all the current problems in the economy will be gone, and that the downturn here will be shallow, relative to what they are experiencing – and will continue to experience – overseas. "Here we have a credit squeeze, not a financial crisis. But in three, four and five years from now, we'll be coming out of this, solidly at first and then strongly," he adds.

10 steps into the future

According to Darren Edginton, general manager at Blue Pig Financial:

1. The banks will get more arrogant, because they can.
2. The same names in the non-bank sector will re-sprout, perhaps with a new back end, but the fundamentals will be the same.
3. Consumers are going to get hit the most, because rates will not be as sharp as they have been in the last three or four years.
4. Brokers will need to be a lot more skilled up on what they do.
5. Brokers will need to diversify, or charge a fee for service, because banks will reduce their commissions.
6. Aggregators are just clearing houses – and they should see themselves as clearing houses.
7. Brokers are a lot wiser about what a mortgage manager is and does and will go straight to the source of funds in the future.
8. Government regulation is necessary, and will continue to have a huge influence on the industry.
9. The industry needs a minimum standard for people to qualify as a mortgage broker.
10. Get ready for a lot more consolidation.

Gelber points out that because current interest rates are highly stimulatory, they will be raised as soon as the economy shows signs of recovery.

Boom times ahead

A major undersupply of housing, along with pent-up demand, indicates that the next property market swing will be skywards, says Gelber.

He notes that it has already begun at the bottom of the market. "If we lose the FHOG, we may see a bit of stalling in the market, but the upswing will resume. It's already begun."

Gelber also predicts that rents will keep rising strongly, at about 10% pa, and that they will keep doing so for a couple of years at least.

"This will make investments cash positive and drive the upswing in the next three to four years," he says. "Starting slowly, it will build momentum and become a boom in four years' time."

Caveat

According to Gelber, governments are looking to regulate everything that moves, and that's not such a good thing. "There's no point in over-regulating the market now – the horse has bolted," he says. Instead, any regulation should be forward looking and preventative, or "we'll end up with a huge, costly infrastructure that's difficult to run".

He maintains that markets do what markets do, not what you want them to do. "You have to see what markets do and determine whether that in itself will lead to a problem," he says. MPA

Darren Edginton

Frank Gelber

Copyright Agency Limited (CAL) licenced copy