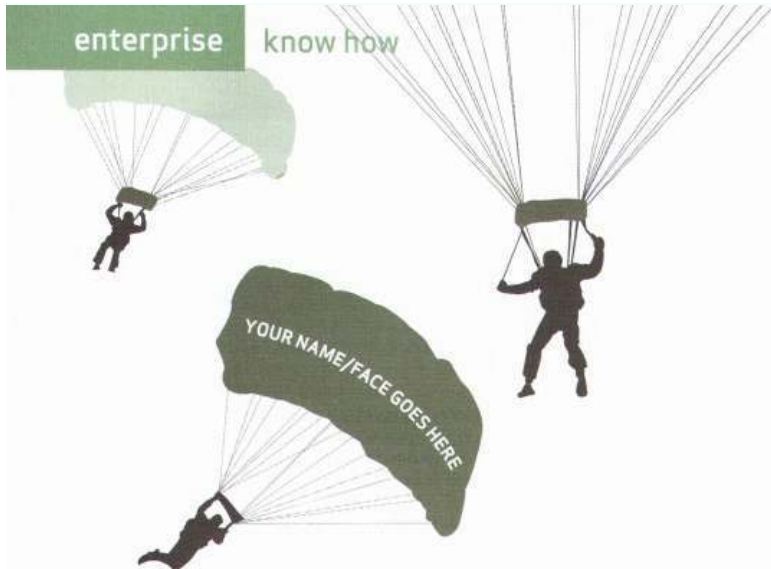




WHITE LABELLING: Make your mark



Brokers are under siege: market demand is slowing, commissions are crashing and the cost of doing business is rising. When your back is against the wall sometimes all you've got left is your good name. *MPA's Andrea Lavigne* examines how to use it to your advantage...



he battle to stay alive has begun. Westpac fired the first shot at brokers in April when it announced it was cutting commissions by 0.2% from its 0.7% upfront commission and 0.1% from its 0.25% trailing commission.

St. George followed with a softer blow, but a hit nonetheless – at least to brokers who are unable to meet or exceed an agreed percentage of home loan applications that convert to settlements or agreed home loan book run-off rates.

CBA stepped up to the plate next. The bank dropped commissions to a maximum of 65bps. (brokers earn 15bps for lodging electronically, submitting quality reports and for settlements that exceed 80% value of loan applications lodged). They also cut trail commissions for the first year and reduced trail commissions in the second year onwards to 20 bps.

BankWest then delivered its own bomb. The lender limited its lending to the top 17 aggregator groups and cut ties to the rest.

Commission cuts and the culling of brokers are just two fronts of the broker blitzkrieg. According to comments in *MPA's 2008 Brokers on Banks survey*, brokers have to contend with some banks stealing their clients.

“Once the broker has done the deal for the bank, the lender should refer the client back to the broker, without stealing the broker’s bread and butter – as with one lender whose staff keep asking clients if they want to refinance when they go

to the branch, and they don’t care if the client was referred by a broker, which is wrong!” one broker commented.

So what’s a broker to do? Some suggest white labelling could be the ultimate safeguard to falling commissions. *MPA* examines how brokers can get involved in white labelling and if it is wise to take it to the next level – mortgage management.

ABCs of white labelling

In its simplest definition, white labelling allows one to brand his or her own products. You can control the pricing offered to clients and by controlling the price, you can control the level of commission or margin earned. A wholesale funder offers a product range at a set delivery rate and a margin is then determined.

But there are varying degrees of involvement, from being a full-service mortgage manager, to working slightly down the food chain at the mortgage origination level.

A mortgage manager is responsible for the full processing of a loan including the pre-settlement tasks as well as all the post-settlement work. The manager may have a delegated lending authority from the funder and approve the loan itself, or they may send it to the funder for approval. The mortgage manager also handles collections, customer enquiries and arrears.

Sometimes a mortgage manager is able to offer a sub-origination agreement to white label a product for brokers.

WILSON NATIONAL



Wilson National is billing itself as the ‘one-stop shop’ for white label financial products.

“Brokers can combat commission cut backs by not only offering a white label home loan but by diversifying into other financial products that augment a home loan, like personal loans, credit cards, lease financing, and commercial loans,” says Geoff Wilson, managing director, Wilson National.

The Gold Coast lender is also carbon-neutral, meaning that by extension so are its white label products. Brokers offering these products can use the green tag to their marketing advantage.

Wilson National manages the loan on behalf of the white label client.



Usually the mortgage manager takes full responsibility for processing and managing these loans.

There are other offers from wholesale funders which allow mortgage brokers to originate mortgages under their own label but tasks are typically limited to pre-settlement activities including obtaining valuation and preparing conditional approval. These brokers are commonly referred to as mortgage originators. Generally, an originator is seen as the person that goes out and markets to the community to bring the business in the door. The originator then sends the loan to the funder for approval.

The mortgage delivery rate usually reflects the amount of work the mortgage manager or originator is prepared to do. The less work involved, the higher the delivery rate and vice versa.

Name your price

Industry players say interest in white labelling has spiked over the last few months as a result of the current market.

GE Money Third Party Solutions reported it received a 25% increase in broker applications for white labelled funds from March to April this year.

Head of mortgage management, Brett Mansfield, confirmed ING Direct

commission and a lower trail. And when their business then becomes established, they'd typically prefer to have a greater trail because that's how your business is valued."

Taking a lower upfront and a higher trail is a good thing in times like these, says Weston, because there is less business for you and less upfront income, but "you've got the trail there to sustain you through the quieter periods".

While white labelling does allow for different types of delivery structures, Mansfield suggests that giving customers a price-sensitive offering should not always be the end goal.

TONIQ FINANCIAL SERVICES

Toniq Financial Services offers mortgage brokers and small originators an opportunity to start their own white label program.

"The problem you have in the wholesale funding side of things is a lot of the bigger players have found it unproductive to be dealing with white labels when they're only bringing in a million to \$2m or \$3m worth of business – it's more productive for them to be dealing with higher volume originators. So it's very difficult for a broker or a small originator to get a start with the bigger players at the moment," says Paul Ryan, Toniq's executive director.

Ryan also owns Opportune Home Loans, which was set up in conjunction with Toniq to allow business writers the option of dealing direct without having to go under someone else's umbrella.

"It's a lot easier to distance yourself when St. George or Westpac lifts its rates. When it's your own brand you've got to wear it"

has also experienced an increase in enquiries from brokers wishing to become mortgage managers.

One compelling driver of this is pricing flexibility.

White labelling allows brokers to set their own commission structures and introduce new profitable revenue streams with no clawbacks.

Brokers could decide to either take a greater upfront, or no upfront and a trail, suggests Steve Weston, Challenger's general manager of residential and commercial lending.

"Somebody who's relatively new in business and requires more cash flow could decide to take a higher upfront

"It's important for brokers to keep in mind the overall proposition the client is receiving. It's not all about price. If you look at any survey that's done, price isn't the number one factor in a lot of cases.

"Yes, it's a major driver for where a loan is eventually placed for a customer, but it's not the only driver. There are other factors that should be taken into consideration when the broker is looking to place the customer."

The one caveat to white labelling is that you have got to be competitive, says Paul Ryan, executive director of Toniq Financial Services.

"One of the key challenges, and it's very relevant in today's market, is if you



have your own white label and the funder increases its rates outside the Reserve Bank [rate], that sits on your book, so therefore does the responsibility of accepting the borrower's reaction.

"It's a lot easier to distance yourself when St.George or Westpac lifts its rates. When it's your own brand you've got to wear it."

Cradle to grave

Another major reason to consider white labelling is customer retention.

Why do brokers work so hard to win customers only to hand them over to a bank, asks Ryan.

"They're the ones sitting in Mum and Dad's living room at seven o'clock at night. They're working very, very hard. Sometimes it takes a day, sometimes a week, sometimes a month to win a client."

But at the end of the day, he says, when a broker cuts a bank loan, they are giving up that client.

"Then the client doesn't belong to you and you're at the discretion of the lender to pay the upfronts or the trailer."

Not only that, but brokers potentially risk losing their clients to bank churn.

"As a former broker myself, in most cases a broker won't know that they've lost a customer until they don't appear on their commission sheet at the end of the month anymore," says Geoff Wilson, managing director of Gold Coast-based mortgage manager Wilson National. White labelling, on the other hand,



Paul Ryan

allows a broker to own the client. As Resi's head of consumer advocacy Lisa Montgomery says, it allows you "to manage that client right through from cradle to grave. So it gives you an opportunity to service them and to nurture them".

In return, brokers have an opportunity to nurture their own brand and build a greater asset after they retire.

"So if you think about it – being a broker – if you're putting business through the broker channel, when you come to exit the industry will you be



rewarded for your effort? Because who's going to pay a premium when all your loans sit on someone else's book?" Ryan asks. And at the end of the day, Wilson says, a white label business is a good lure.

"The other advantage of white labelling is when it comes to establishing an exit strategy for your business, quite simply, a white label loan book is more attractive for takeovers because they're considered a safer option," he says.

ING DIRECT

The ING Direct Mortgage Management program provides funding to a restricted number of proven, established business partners.

"We've experienced an increase in enquiry from brokers wishing to white label," says Brett Mansfield, head of mortgage management. "One challenge for a prospective mortgage manager is to meet our requirement for a proven track record.

"From an ING Direct perspective we'd only consider a mortgage manager joining our program if they've got a proven track record, if we know they've got a strong proposition, strong management, and broad distribution. So at the moment, it would be hard for a business that doesn't currently white label to enter this space."

The ING Direct Mortgage Management model outsources the lead generation, fulfillment, credit assessment and settlement process to the mortgage manager, who is also responsible for post-settlement customer service.

But the primary motive should be servicing the client, says Mark Flack, Firstfolio's manager for product development, mergers and acquisitions.

"From my view, the key thing about white labelling is why you're doing it, and you really should be doing it because you want to earn and service the client, that's really the major opportunity.

"If you're just doing it because you think you've got this fantastic idea for a

deal with the lender that they have the best relationship with at that point in time.

"Generally the choice that's placed in front of the customer is the choice of lenders the broker wants to use. And that's no one's fault. It's just that there are so many different rates and products and features that are out there that no one can be expected to know everything," he says.

"In most cases a broker won't know they've lost a customer until they don't appear on their commission sheet at the end of the month"

brand then you've really got to have deep pockets. It's really about commitment to client service and earning the clients – that's the key to it."

Challenges

There are several challenges that are associated with white labelling, whether you are a mortgage originator or a mortgage manager.

For mortgage originators, one problem is the perception of independence. Borrowers come to brokers for independent advice – that is one of the big selling points. Would customers detect bias in offering your own white label product alongside other lender's products?

Ryan says no.

"I defy any broker to be able to say that they actually provide that choice to the consumer because they generally only

For brokers looking to move beyond origination, the challenges increase in direct correlation to their level of responsibility. You need to be a technician who can do the underwriting, do all the independent employment and income checks, order the valuations, underwrite a loan, and approve repayment capacity.

But the key difference, says Weston, is once the loan is settled you need to do the customer servicing.

"So you know when you're on a holiday, and you've sent a deal to a bank or to another mortgage manager, if the customer has any inquiries, they phone up the bank or the mortgage manager. You're it, that's you.

"So when you're on holidays, you've got to have someone there that's checking everyday if a customer missed a repayment and you need to chase them up. If the



borrower has a question, they don't care that you're a one or two-man band and on holidays with the family. You are, in their eyes, the bank. So you need to be there."

Unless you've got enough volume, the fixed costs of being a mortgage manager can make it economically unviable.

"It's not enough to say 'I'll do it in my spare time'. Being a mortgage manager is a serious business. You sign an agreement that says you'll undertake the customer servicing and the arrears management up to a certain point. And your funder, like Challenger, will enforce that. They'll ensure that you take it seriously and if you don't then they'll take the servicing off you and do it for you at a cost," Weston says.

If you stuff up the service, you risk stuffing up your good name. And branding is one of the biggest components of white labelling.

Branding

Aussie did it. So did Wizard. Two of Australia's best-loved mortgage businesses successfully built up their brands through white labelling.

But it is not the kind of thing that happens overnight and can take deep pockets to really pay off.

Weston suggests for the little guys, the best name you have got to work with

is your own.

"Their brand is them. Quite frankly, if you're using your own name it's a bit easier – it's your personal property. If you've got another brand name you're never going to be able to build a publicly recognisable brand without a chequebook that's worth millions and millions of dollars. You can do things in your local community, you can have different offices in different areas, but you're simply not going to have the capital that's required to build a brand that's like a CBA, you're just not," he says.

Ryan agrees. It is a confusing market and people do not know who to trust, he says. When someone asks a friend for advice, the friend is more likely to suggest the name of a broker they worked with, rather than the business.

"At the end of the day, the consumer is looking to find somebody who they can trust with their personal information and their long-term plans in terms of borrowing money.

"We get it all the time. They want somebody they can trust who's going to act in their best interests," Ryan says.

The current flight to brand quality cannot be ignored. When non-banks and mortgage managers started raising rates in reaction to the increasing cost of funds, public opinion was swayed to believe that these products were unstable. Months

later, banks also raised their rates, but the consumer flight to brand quality is still in effect.

Mansfield suggests that to be successful as a brand, consumers must see the value in the product offering and service proposition.

"Especially with the way the market is today, mortgage managers tend to not have the brand presence, so it's putting the customers at ease that yes, they're getting a quality product that meets their needs, and the service proposition that backs that product is a superior one," Mansfield says.

He adds: "Customers are attracted to brand, but if you understand who's behind your mortgage manager it may be a brand as strong as ING Direct which would provide some customers comfort."

ING lets mortgage managers choose whether they want to play up their connection to a funder.

"I expect a mortgage manager, who has their own brand presence, wouldn't choose to mention their source of funding. But if it's a newer brand or a lesser brand they might choose to reveal it," Mansfield says.

Credit crunch

On the one hand, a desire to protect their profit margins has resulted in banks cutting broker commissions,



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Steve Weston

CHALLENGER

Challenger is looking forward to instigating competition between non-banks and banks when the current flight to brand quality subsides.

"Right now, there's certainly been a shift away from non-banks to banks. But that just won't continue indefinitely ... and Challenger intends to be the funder of that non-bank competition," explains Steve Weston, Challenger's general manager of residential and commercial lending.

"We'll be looking to fund white label mortgage managers and those

mortgage managers will be looking to source business from mortgage brokers who do want to have more flexibility of commissions and ownership of their customers."

But Challenger will not be throwing money around.

"When the funding market has come back and banks start pricing home loans rationally and non-banks become more competitive again, we won't be accrediting a lot of one-man, two-man broker businesses to become mortgage managers," Weston says.



which in turn has led brokers to look towards white labelling.

Ryan says he is seeing more brokers becoming interested in becoming mortgage originators and having their own white label program.

“What I’ve noticed is a lot of brokers making enquiries about how they can utilise a sub-origination process. That is, they can still have their own white label program, but they can outsource their operation aspects and utilise the services of an existing mortgage manager, explains Ryan.

But what about making the leap from mortgage originator to mortgage manager? Is now a good time? “I think that mortgage brokers have become aware

that a mortgage manager is more than just putting your name on a loan statement ... Our reply to the little guys is, look we’re not going to accredit you – as a little guy you just don’t have the resources or the capability to become a mortgage manager, but we’re happy to introduce you to our mortgage manager

a drop off in volumes in the channel as a whole, the impact of the credit crunch has been different across different funders.

“There’s been an impact,” he says. “The key is how a mortgage manager partners themselves with a funder – how the funder they choose sources the funds that they lend, whether it’s through

“I think more than ever now, when there’s a lot of volatility, you need to have that competitive set to keep the majors honest”

FIRSTFOLIO

Firstfolio offers ‘house labelling.’

“We allow them to utilise our new loan brand but still retain all the benefits without the cost of building a brand,” says Mark Flack, product development, mergers and acquisitions.

Brokers can operate under Firstfolio’s new loan brand but have the same benefits, (ie client ownership).

“For most of the brokers, it’s not worth their while to really spend the money to develop a brand; the cost can be prohibitive. But if they’re driven by securing the client and the client relationship then that’s where white labelling or house labelling becomes important,” Flack says.

and if you like the colour of each other’s eyes, there’s a viable alternative for you,” Weston says.

Resi’s Montgomery admits it’s tough times and says funding is hard to obtain.

“There’s been rumour about brokers moving into mortgage management but no evidence of that. Knee jerk reactions to try and obtain greater business volumes are of interest to everyone, but I just don’t think brokers moving to mortgage management is really going to do it right now,” she says.

She says established mortgage managers are relying on their existing customer base, retaining that customer base and readying themselves to increase volumes when the market returns. Mansfield says that while there has been

a securitised program or whether it’s through someone like ING that has a balance sheet presence.”

In the end...

Despite it being a difficult time, white labelling proponents suggest mortgage managers have an important role to play still.

“If we look at the world prior to mortgage managers, banks enjoyed larger margins and little competition, so I think the competitive set would be severely disadvantaged if mortgage managers weren’t available anymore. I think more than ever now, when there’s a lot of volatility, you need to have that competitive set to keep the majors honest,” Mansfield says. **MPA**