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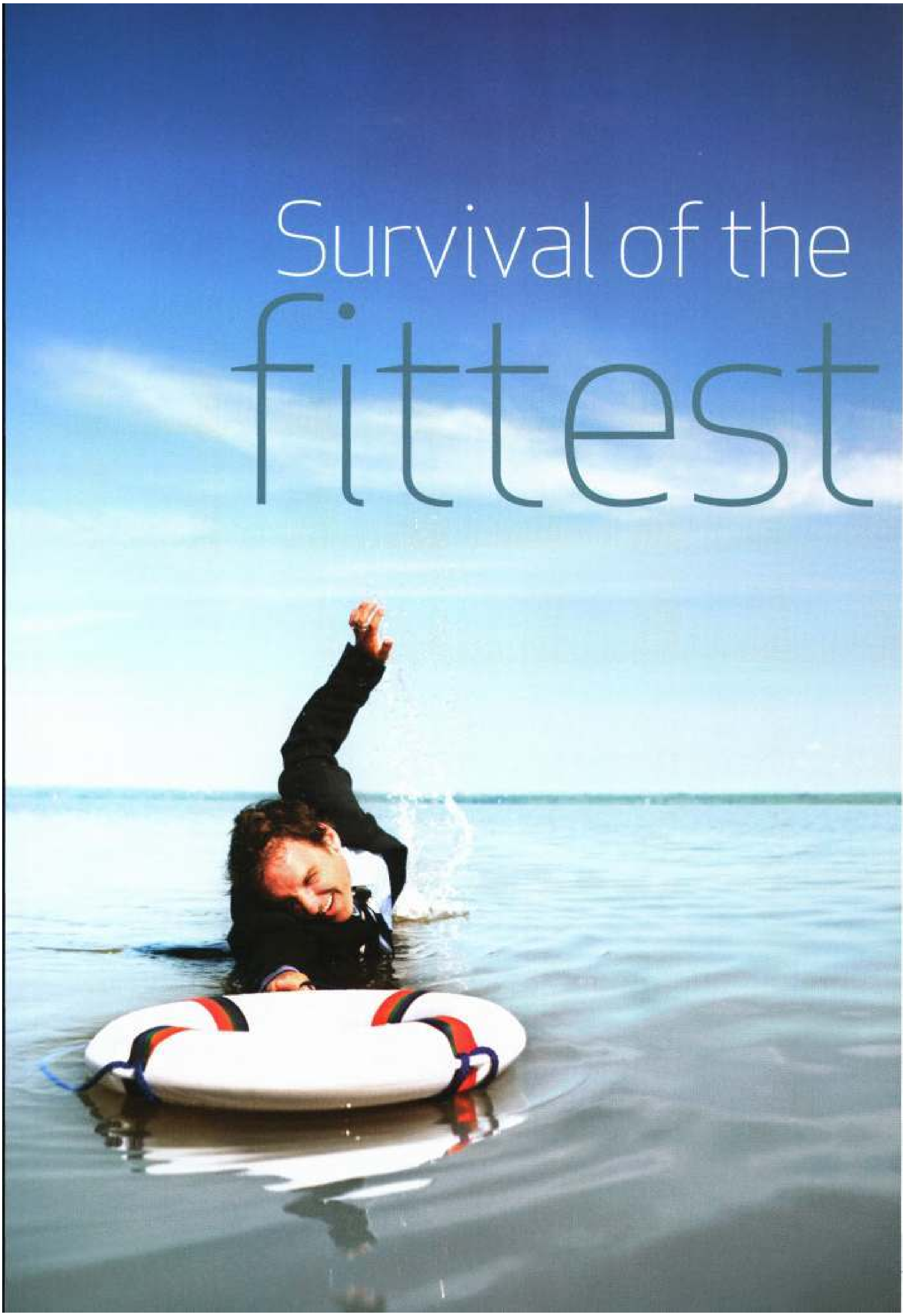
Survival of the fittest



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A rapidly shrinking mortgage management sector has forced remaining players to get stronger, leaner and wiser. *MPA*'s **Andrea Lavigne** talks to some of the industry's most well-known survivors. Warning: frank discussion ahead...

MPA magazine was privileged to speak to some of the nation's top industry mortgage managers in a roundtable discussion. These players have demonstrated through ingenuity and their ability to adapt quickly to the deteriorating economic climate that it is possible to survive bank dominance and an overall lack of funding.

This discussion has been edited for these pages. A full transcription is available at brokernews.com.au

***MPA*: What has your company done over the last 12-18 months to survive?**

Garry Driscoll, general manager, Mortgage Ezy: We've tried to maintain our business levels, which has been difficult. We have become very aggressive in terms of pricing in an attempt to try and take the majors head-on. Obviously, they've got a desire to see the non-bank sector crushed. And they've done a lot to make our lives as hard as they possibly can.

As well, we've increased our sponsorship and advertising spending. We've rejigged our products, offering fixed rates products that are extremely competitive, no-frills products, products that have no fees (or no ongoing fee) and changed our service offering to make it as personable as we possibly can with our broker clients.

Tanya White, managing director, Australian First Mortgage: We've done much the same as Mortgage Ezy, but at the same time we've realised we had to cut costs. We have also looked at what we can provide to the market and brought on LoanAxis, a loan servicing business. Smaller managers that were finding it difficult to run their back offices have now outsourced that function to us, so that's generated revenue and helped us keep more staff employed.

New business levels have dropped, but we've also focused on re-educating our sales staff on how to sell in this environment. We're definitely not writing the volumes that we were writing in 2006 or early 2007, but we're re-educating them on what this market looks like, and what the broker looks like – as we're predominately broker-based.

Ken Sayer, managing director, Mortgage House: We've been concentrating on outsourcing and varying our costs, and it has affected our bottom line. Although the volumes have dropped, we're the same as Mortgage Ezy and AFM, but we've been focusing on the costs. With our sales staff, we've gone back to 1980 and all we talk about is service, turnaround times, returning phone calls and spending more time with the client.

We became a bit complacent – at one stage we were so busy we would just post out blank applications and wait for them to come back. We've gone back to basics, do the meet and greet and come back a second time to take an application.

Warren Nicholls, chief operating officer, Firstfolio: We've only been in this business for about 13 months now. We started with a $1bn book, but we obviously needed some scale so we bought the Lawfund business, which is a smaller aggregator with about a $5bn book.

MPA LENDER
ROUNDTABLE

And then, basically, the downturn in the market happened. But we've done a couple of things. We've continued to grow through acquisitions and organic growth. Volumes are down with existing business but in late 2007, we bought the Capital First book. And it was about a $782m acquisition, primarily mortgage management. For that, we actually brought the extra volumes for the business, but we only needed to bring on one staff member, so it really helped our cost base.

So growth through acquisitions (including eChoice and Domain Financial Services) has been really important and has minimised our costs. We're actively looking at another $5bn in books right now, so we're at about $12bn and we'd like to be about $15bn by June. I think the extra scale will assist us with our cost base and the shrinking margins.

MPA: What have you done to diversify your business?

White: We've always had a commercial division, and we put more emphasis into that during 2008. But then, of course, we did have issues with funders in the leasing space. In saying that, we still operate a leasing and commercial division and it's still generating additional revenue that we didn't have before. Unfortunately, the availability of funds from lenders is shrinking also.

Sayer: We've actually embarked on a total reversal. With the shrinking market, we've decided to apply 100% of our focus on one thing and that's funding. Just about all of the non-bank funders have pulled back or stopped, and we're not diversifying – we're more determined to stay in the one spot. So it might work for us, it might not.

Driscoll: We've adopted a similar strategy. We believe that we have an excellent business here in mortgage management and we're trying to improve that all the time. We've had a commercial division for five or six years, and it was very successful. But, in the last 12 months, there's been a lack of funding for commercial and I don't really think that's really hit the market hard yet. Here in Queensland a number of large developers have gone to the wall. It's certainly not the last of it, either.

Nicholls: We've diversified and set up Firstfolio life insurance – it's a non-advice policy. There are quite good incomes there for Firstfolio and the brokers, and also we're building Firstfolio property. Quite a few of our broker groups do a lot of investment properties. We're working closely with the PIAA – the Property Investor Association of Australia.

Tanya White

"I heard predicted from a very high level at ING that they think there'll be less than 20 mortgage managers in the industry in 18 months' time – Warren Nicholls, CEO, Firstfolio"