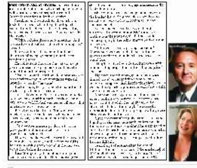

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Good times ahead for mortgage managers: Firstfolio

Mark Forsyth, CEO at Firstfolio, believes there are a number of reasons why mortgage managers will continue to have a bright future in the Australian residential lending market.

Speaking on the outlook for the market in 2009, he said that when the public stopped reeling from the effects of the credit crisis, they would realise the importance of having choice in the market.

"Without choice there's no competition. And we've all seen the effect of that when it happens," he said.

This would initiate a demand-pull for the return of mortgage managers and other non-bank lenders.

He pointed out that over the last six to eight years when the mortgage market did have free competition, it had prospered.

"People bought better home loan products – at better prices – than when mortgages were only provided by banks," he stated.

Furthermore, Forsyth made the point that the world's capital had not dried up.

"It's still available. So if you can't get a no-doc or a low-doc loan with a bank – or they're only offering a 60% LVR deal – someone will enter that market sooner or later," he said.

Forsyth described this as "the way free markets work". He added that when one lender closed a door, it created an opportunity for another one.

"Competitive markets produce attractive price points and market niches to stimulate growth," he exclaimed.

However, he did expect the credit crisis would inevitably take its toll, and felt there would be fewer non-bank players around in the next two years than before the crunch.

Lisa Montgomery, head of marketing and consumer advocacy at Resi Homeloans agreed that all was not lost for mortgage managers in the Australian market.

She explained that mortgage managers were the hardest hit by the global slow-down because cost of funds was such a critical factor in their business model.

Yet in spite of the setbacks, and together with federal government and RBA initiatives to stimulate the economy, she felt non-bank lenders playing in the prime space would continue to survive.

"But it won't be easy pickings for them," Montgomery warned, and added that the more competitive they were able to be, the better they would fare.

"They'll need to diversify and innovate – with unique selling propositions rather than on price," she said.

However, she felt mortgage managers with limited brand power and those who relied too heavily on single vertical distribution platforms, as well as those poorly capitalised or with debt, would continue to be vulnerable.

Montgomery also pointed out that, to some extent, brokers – too – were at the mercy of the banks. And that while they might seem like strange bedfellows, there might be a case for non-bank lenders and broker groups working more closely together in the future.

Since the onset of the global credit crunch and liquidity crisis, many non-bank lenders have left the market, and those remaining have struggled to stay alive. Typically, non-bank lenders lose market share during difficult economic times because adequate sourcing and price-competitive funding become difficult.

According to the Australian Bureau of Statistics, the non-bank share of the market fell to 11% in 2008, from 19% the year before. Most of this ground was lost to the major banks. **MPA**

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