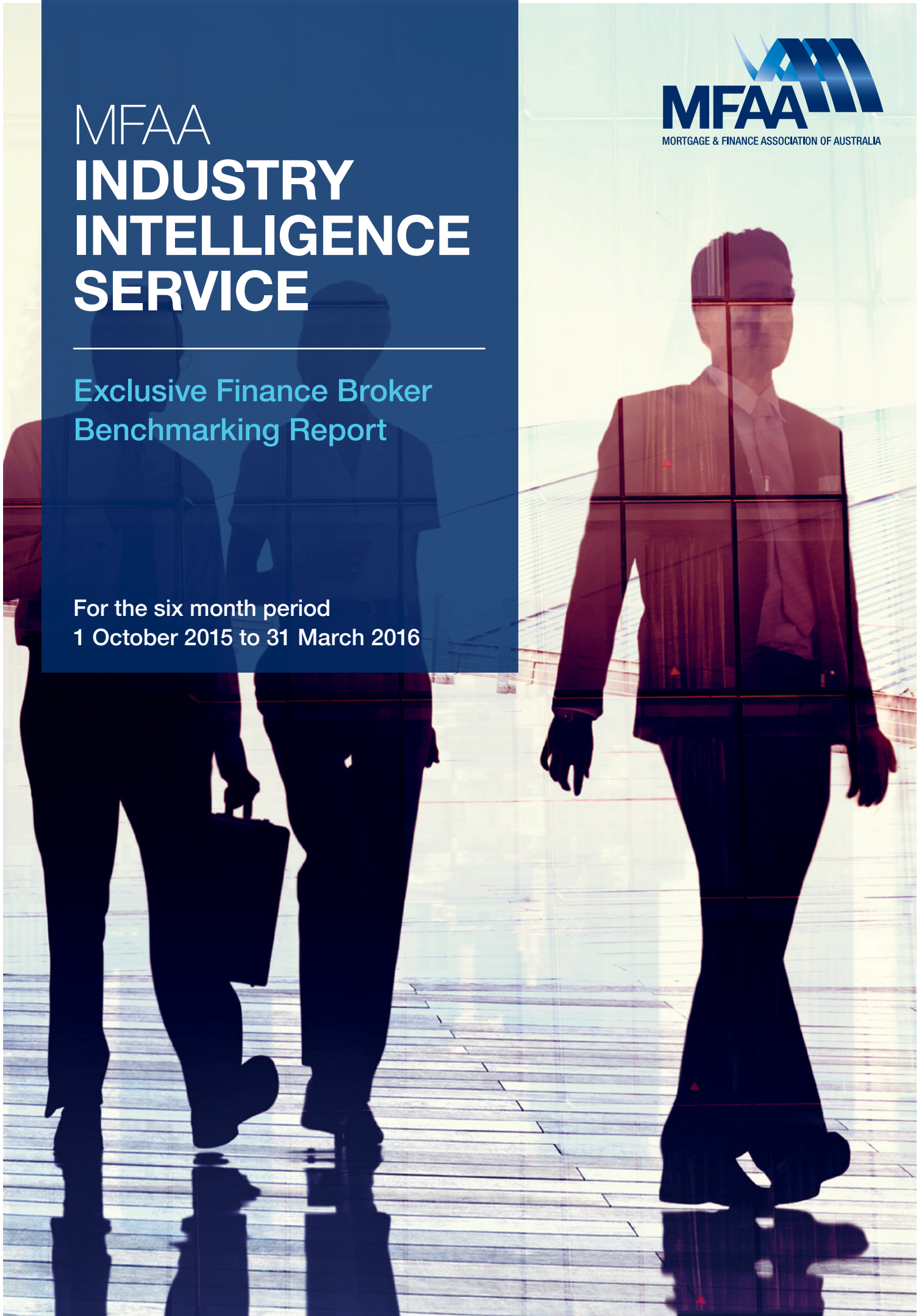


# MFAA INDUSTRY INTELLIGENCE SERVICE

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Exclusive Finance Broker  
Benchmarking Report

For the six month period  
1 October 2015 to 31 March 2016



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## Chairman's Report

The MFAA is pleased to bring you the second edition of the Industry Intelligence Service (IIS) Report.

The IIS Reports are an integral component of two of the MFAA's strategic pillars namely *Profession Enabler* and *Advocacy and Influence*. The IIS reports also demonstrate the cooperation that only MFAA member organisations can provide to produce anonymous metrics for analysis by broker businesses and industry policy makers for the advancement of the industry and the businesses within it.

Our first IIS Report released in February 2016 was very well regarded by the industry, with brokers attending sell-out briefing roadshows across the country. This second edition builds on this data and information contained in the first report.

When this initiative was launched earlier this year, it was the first time that a concerted effort had been made to capture broker performance measures across almost the entire industry.

Now that the second report is complete, we can start to analyse developing trends and investigate pathways for additional data. This will build a deeper understanding of our industry and provide evidence based insights for our members and a wider group of stakeholders, particularly legislators and regulators.

This report also contains more data, more details and more precision; with participating aggregators providing additional information compared to the previous report.

It is a strategic imperative of the MFAA to provide members with valuable tools and key metrics to assist their business. We look forward to continuing to share information about how broker businesses perform, and where the industry is headed.

I would like to thank the aggregators and major broker groups who provided the data and input to allow the MFAA to extend and develop the IIS Report in future iterations.

A handwritten signature in black ink that reads "Cynthia Grisbrook".

Cynthia Grisbrook  
MFAA Chairman

## Executive summary

The IIS owes its existence to a fundamental recognition that the mortgage broking sector, having grown and matured rapidly, is quite poorly understood and equally is inadequately served by research providers.

In this cycle of the IIS, the most solid, comprehensive submissions of industry, market and operational data were received from thirteen leading broker groups, accounting for sixteen businesses for the six month period of 1st October 2015 to 31st March 2016. The market environment for mortgage brokers is more dynamic, and arguably more challenging, than ever.

Against that backdrop, the key points revealed from granular analysis of the data sets underpinning the IIS are:

- The number of mortgage brokers has increased by 6% since September 2015
- A startling 17% of brokers did not settle a new loan during the six month period
- Around 750 new brokers entered the industry during the six months, contributing to a net growth in the number of brokers for the six months of 5.8%
- The larger states dominated the population of 14,379 brokers accounted for at the end of March 2016
- New business results show continued capture of share by brokers, but reveal a mild softening in the broker-originated home loan market overall, which contracted by 1.5% in the six months to the end of March 2016
- White label lending is on the increase, but remains a small minority of brokers' settlements
- More women are entering the industry
- The productivity of mortgage brokers varies widely, with the broker population containing a few very high performers, a lot of brokers in mid-field, but a lot of low performers: 22% of brokers originated less than \$1 million of new loans during the six months to the end of March 2016. Conversely, a high performing cluster of 21.1% of brokers settled more than \$10 million during the six months, within which a small percentage, 4.6%, of loan writers settled more than \$25 million
- On average, brokers lodged about 20 new loan applications each during the six month period
- The national average value of home loan portfolio per broker is around \$38 million dollars
- A minority of brokers are diversifying their businesses, with a small presence in commercial lending
- The average gross up-front and trail commissions generated per residential mortgage broker, before costs, are estimated to be around \$140,000 p.a.
- Observations about each state and territory reveal profound differences for each state's market dynamics, gross commissions and trajectories for brokers

The next cycle of the IIS will be run in the last quarter of this year, using data for the six months to the end of September.

## Background to the Industry Intelligence Service (IIS)

The IIS owes its existence to a fundamental recognition that the mortgage broking sector, having grown and matured rapidly, is quite poorly understood and equally is inadequately served by research providers. The MFAA adopted ideas and methodologies pioneered by research agency comparator to enable all industry practitioners, as well as the association, to observe and understand the dynamics of the industry as a whole in an informed, objective and data-driven way. With the support of every leading mortgage broker, covering wholesale aggregation models and retail franchise models, the MFAA funds the design, production and delivery of the IIS two times a year. Whilst still in its relative infancy, the IIS is becoming a reliable, trusted source of data about the industry, for the industry. It enables informed commentary, informed debate and more informed policy setting.

## The mechanics of the IIS and who is involved

The most solid, comprehensive submissions of industry, market and operational data were received from thirteen leading broker groups, accounting for sixteen businesses for the six month period of 1st October 2015 to 31st March 2016.



Note: attentive readers of this edition of the IIS may notice that three of the smallest broker groups did not submit data. The data sets have been normalised to allow for period on period comparisons between the thirteen biggest businesses, very very highly representative of the entire industry.

## The market environment for mortgage brokers is more dynamic, and arguably more challenging, than ever

The second edition of the MFAA's IIS has been produced during arguably one of the most challenging and dynamic periods for residential home loan origination. Never have the multiple effects of very low interest rates, multi-speed housing markets, regulatory intervention, prudential activity, international home buyers, bulging residential development pipelines, diminution in housing affordability, heated debates about immigration policy, customer demographics, changes to lenders' risk and policy settings, lenders' attention to capital management, lenders' assertive pricing campaigns all combined to produce a market environment when so much has to be considered, understood and adhered to by brokers.

## The number of mortgage brokers has increased by 6% since September 2015.

One of the most interesting findings from this second edition of the IIS is the solid growth in the numbers of residential mortgage brokers. Based on the thirteen biggest aggregators, covering sixteen mortgage broking businesses, that are represented in the two consecutive editions of the IIS, there were 14,379 mortgage brokers at the end of March 2016. Compared to the figure at the end of September 2015, that represents a healthy growth in the industry's "headcount" of 6% in six months.

Estimating the total population of brokers is challenging. Regulator licensing data can produce flawed results because many credit representatives are listed both as a corporation and as an individual and, conversely, loan writers directly employed by a licensee are generally not included in the data. With a reasonable assumption that the thirteen leading aggregator groups who are represented in the MFAA's IIS likely account for 95% of the industry, then grossing up the known number would suggest that the total population of mortgage brokers may be around 15,000. A future challenge may be in identifying the employment mix of the broker population, as to whether they are employed solely as a full-time broker, or on a part-time basis – e.g: accountants, financial planners whom also provide broking as part of their of services.

## A startling 17% of brokers did not settle a new loan during the six month period

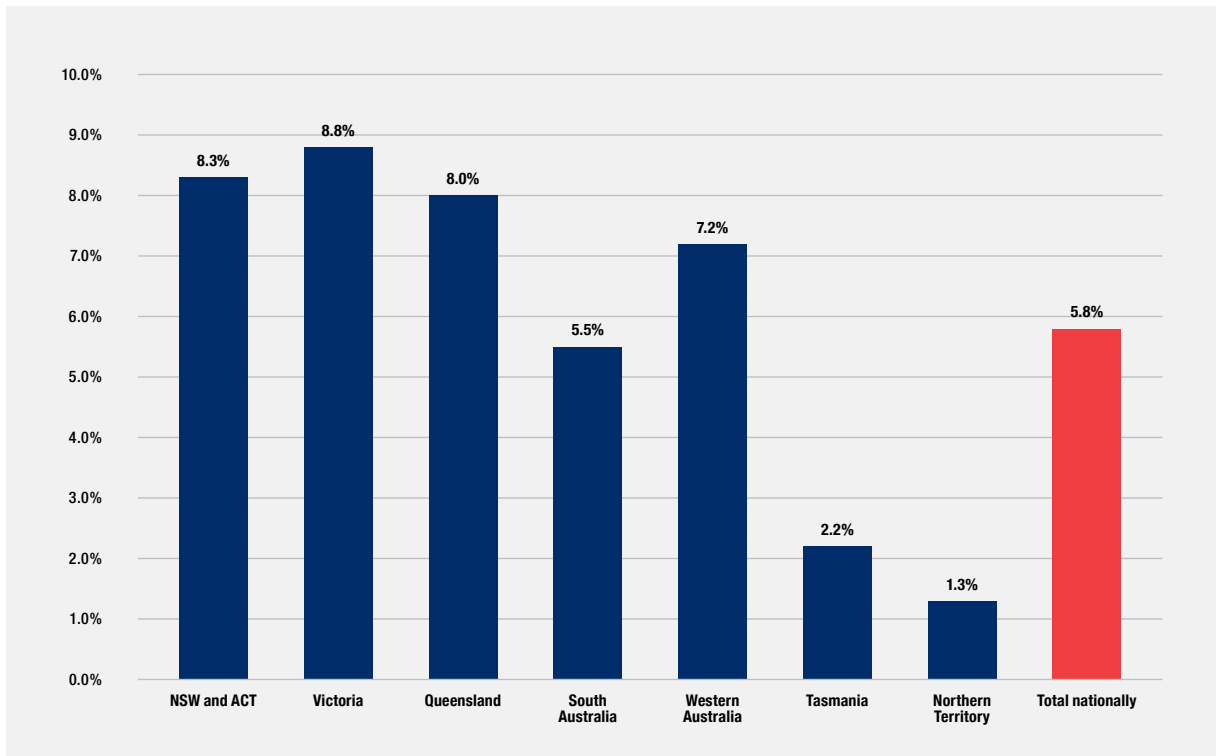
Counter balancing the 15,000 population figure is a very robust estimate of what may be called "dormant" or passive (part-time) brokers: brokers who for whatever reason did not settle a new loan during the six months to the end of March 2016. Within a highly representative sample size of 9,700 brokers, 1,642, or 17% of brokers did NOT settle a loan during the six month period. So, the consensus figure about the total population of brokers depends on one's definition of what constitutes a population that is active, not passive.

## Around 750 new brokers entered the industry during the six months

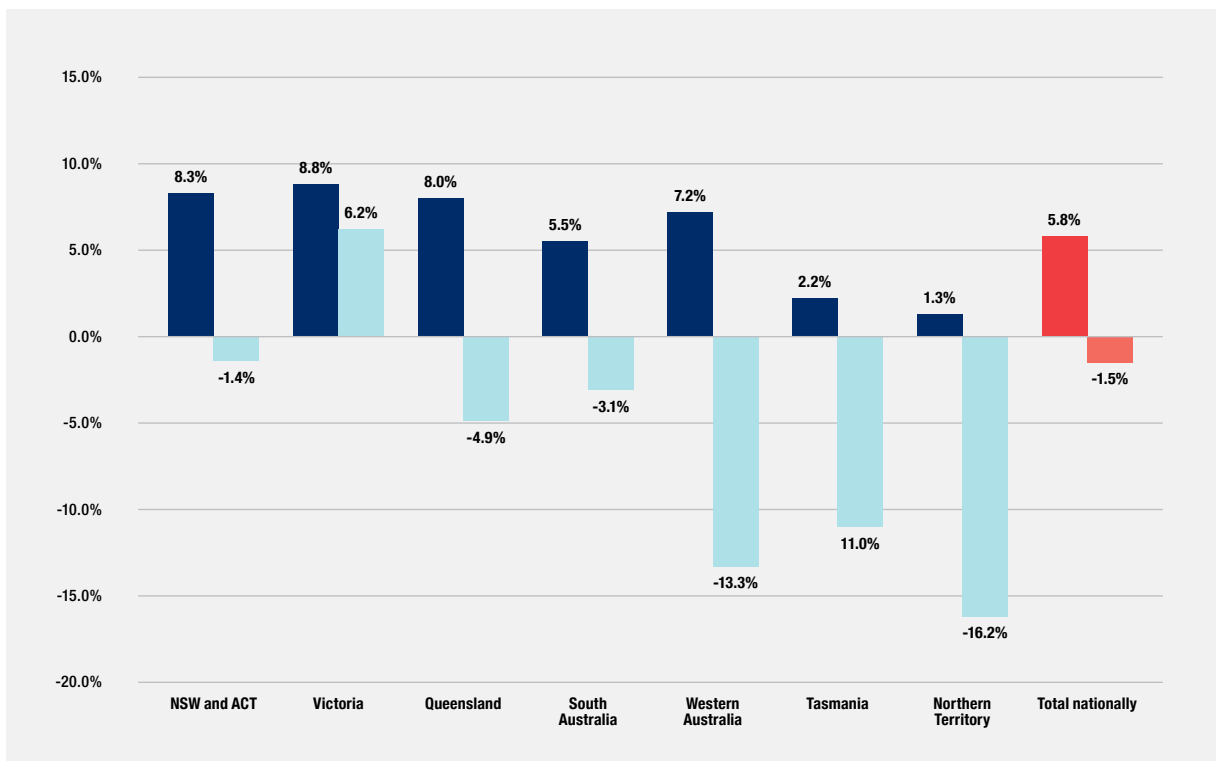
Beneath the headline growth figure, the IIS found that the 13 leading brokers and aggregators recruited in total 1,794 brokers during the six months. This figure counts not only the movement or switching of brokers between aggregators, but also new hires into the industry. On the attrition side, the IIS found that 1,044 brokers left or moved between businesses, implying that there was a net gain of 750 brokers who were new to the industry during the six months.

Percentage growth rates in the numbers of brokers was fairly even across the states and territories, with between 8 and 9% growth recorded in the most populous states of NSW and ACT, Victoria, Queensland, but with 7% or less in SA, WA, Tasmania and NT.

## Growth rates in the numbers of brokers in each state for the six months to end of March 2016



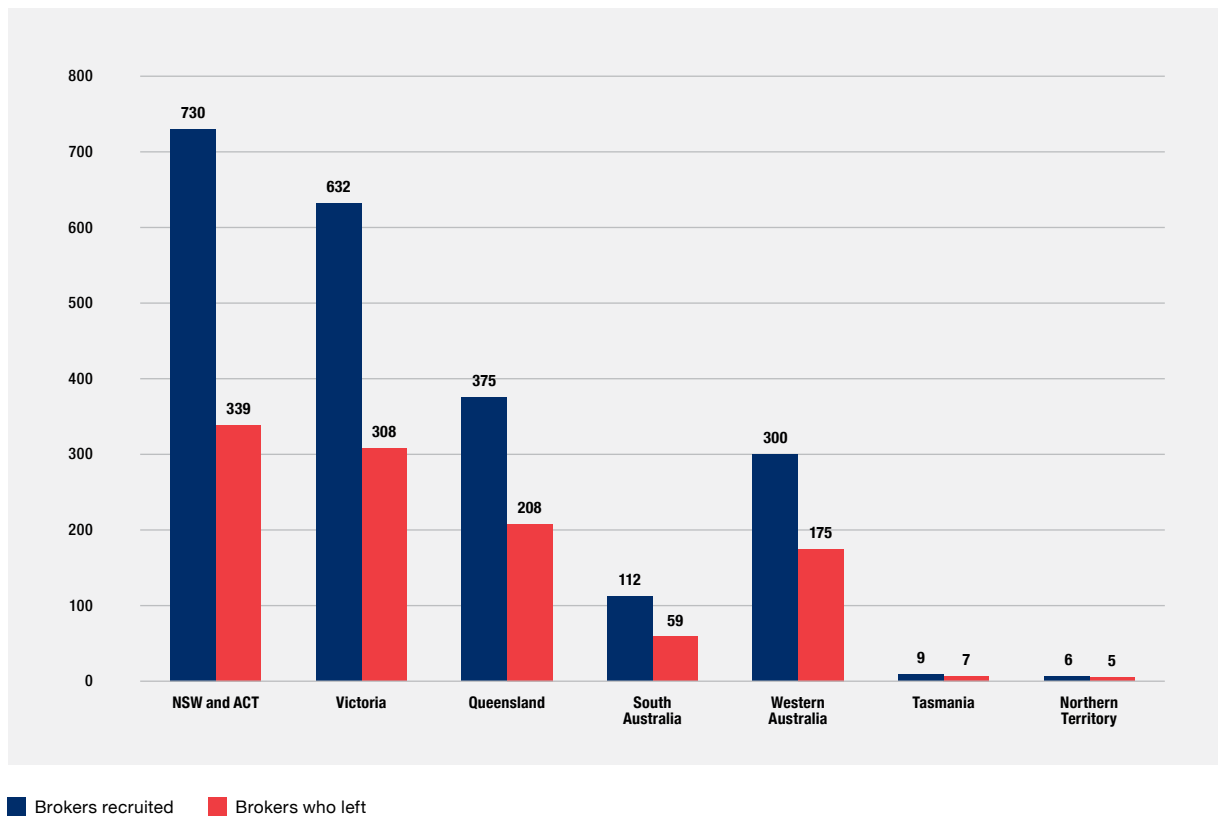
## Growth rates in the numbers of brokers vs Growth rates in new loans settled September 2015 to March 2016



■ Number of Brokers      ■ New Loans Settled  
■ Number of Brokers (nationally)      ■ New Loans Settled (nationally)

The actual number of brokers recruited and the numbers of brokers who left are illustrated in the chart below for each state and territory:

### How many brokers were recruited and how many left in each state during the six month period?



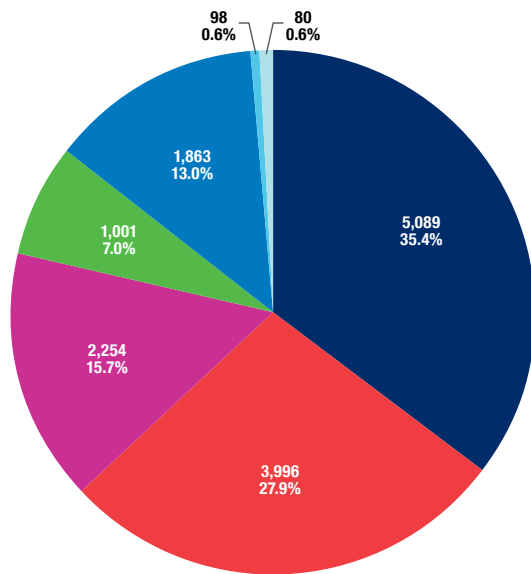
There are notable differences in the growth rates of the wholesale aggregators, and the franchised network brokers: most of the growth in the industry overall came from wholesale aggregators. Not surprisingly, wholesale aggregators dominated the broker mix: of the 14,379 brokers covered in the IIS, 11,931 or 83% were aligned to aggregators, and 2,448 or 17% were aligned to the retail franchise networks.

These “shares” of the two fundamental business models within the broker population are remarkably consistent across the states and territories, with only Queensland diverging and exhibiting a mildly higher proportion of retail franchise businesses. As is commonly known, a few small hybrid models are emerging that exhibit aspects of both models.



## Geography and broker populations: brokers follow the business

The larger states dominated the population of 14,379 brokers accounted for at the end of March 2016.



### How many brokers were deployed in each state and territory at the end of the six month period?

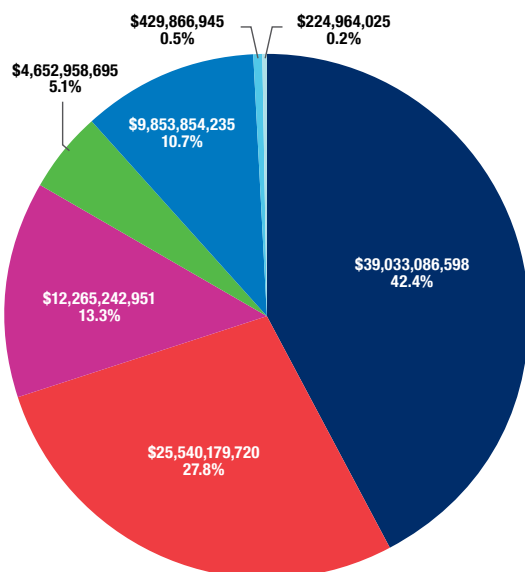
- New South Wales and ACT
- Victoria
- Queensland
- South Australia
- Western Australia
- Tasmania
- Northern Territory

**Total 14,379**

NSW is the most broker-orientated, or broker-friendly state accounting for 42% of all new lending originated by brokers. However, the population of brokers in NSW is only 35% of all brokers. So by inference, brokers in NSW are writing more business per capita.

Victoria: 28% of all new home loan lending that was originated by brokers occurred in Victoria. Commensurately, 28% of all brokers are in Victoria, suggesting that Victoria is in equilibrium, or a 'solid' place to be a broker.

QLD: 13% of all new broker originated lending was in QLD, where 16% of all brokers work: inference, it has been very competitive between brokers in QLD.



### What was the value of new home loans settled during the period in each state in dollars?

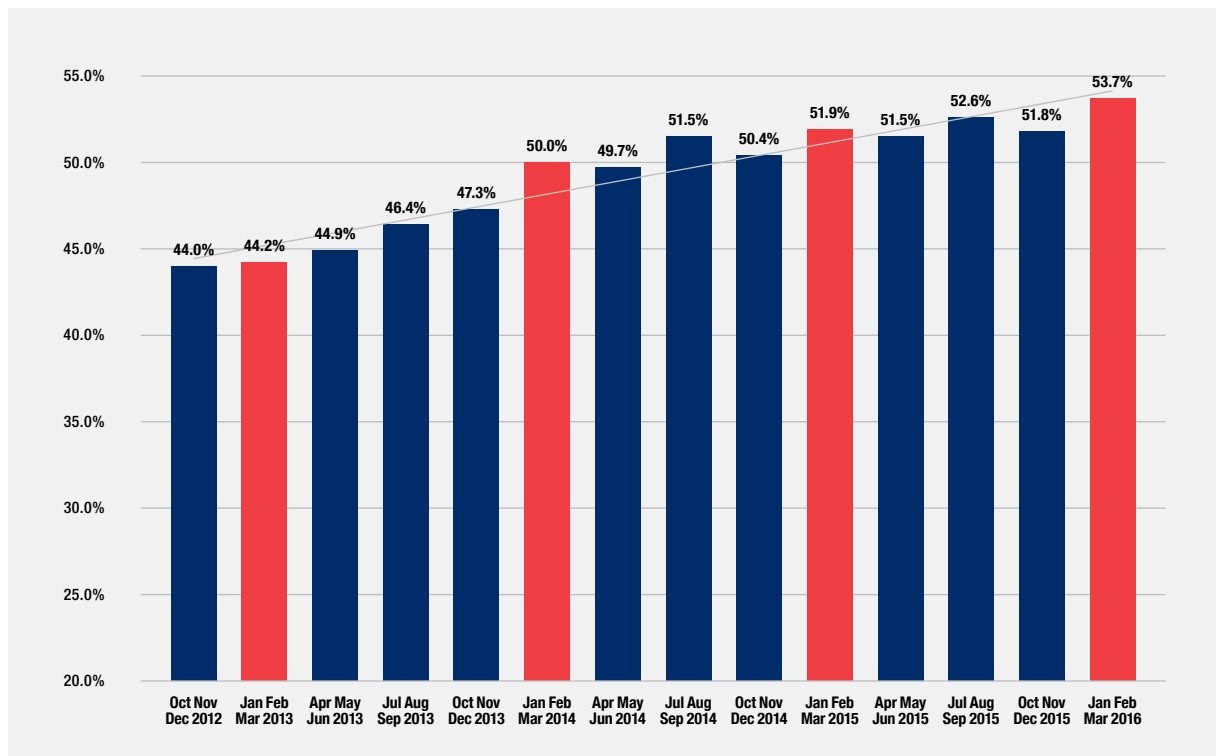
- New South Wales and ACT
- Victoria
- Queensland
- South Australia
- Western Australia
- Tasmania
- Northern Territory

## New business results show continued capture of share by brokers, but reveal a mild softening in the broker-originated home loan market overall

Based on the data captured and analysed in MFAA's Quarterly Survey, brokers continue to take share from lenders' direct channels, reaching a high water mark of 53.7% of all new residential lending during the March quarter.

### MFAA's Quarterly Survey of leading mortgage brokers and aggregators

Market share of new residential home loans originated by all mortgage brokers and aggregators as % of ABS Housing Finance commitments.

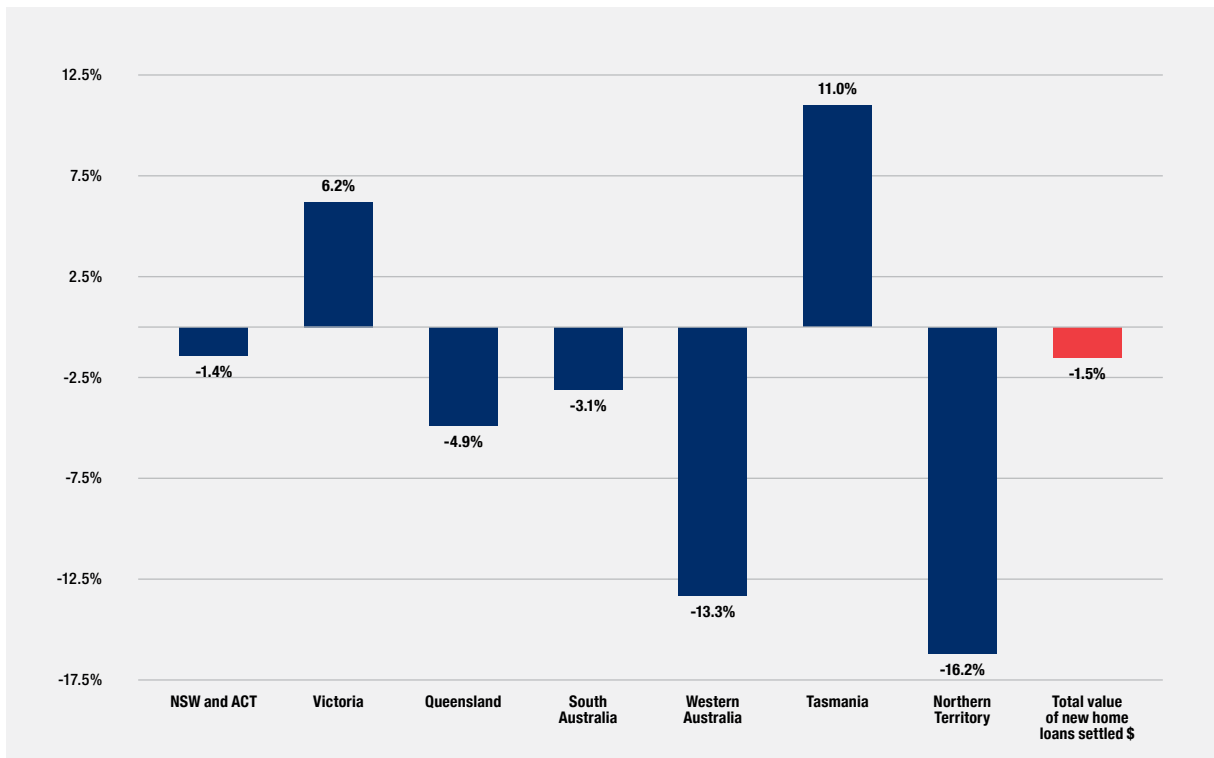


However, in a sign of a possible plateauing in the recently buoyant residential home loan market, the dollar value of new loans settled by mortgage brokers has slowed mildly, when new settlements in the six months to the end of March 2016 are compared to the prior six months.

In raw numbers, the thirteen leading aggregators settled \$92,000,153,175 of new loans in the six months to the end of March 2016, compared to \$93,378,510,240 to the end of September 2015, a decline of -1.5% at the national level.

Growth rates vary profoundly between states and territories, with positive growth in the last six months recorded for only two states: Victoria and Tasmania. Every other state and territory exhibited negative growth rates, as illustrated in the chart across the page:

## Growth rates in new residential loan settlements by brokers September 2015 to March 2016



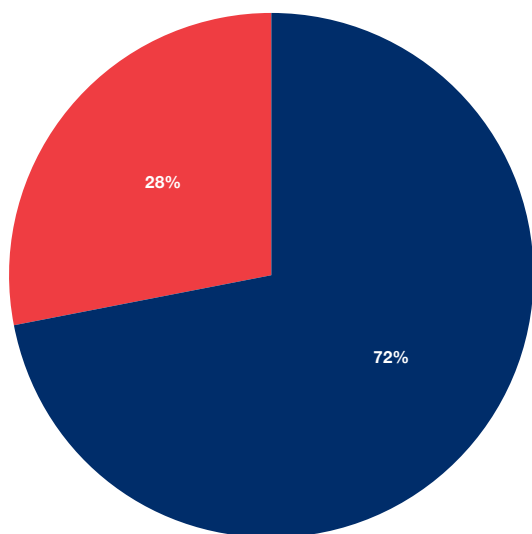
As has been widely reported, Queensland and WA have been tough markets for residential home loans, and this is further evidenced by the negative growth rates experienced by mortgage brokers.

### White label lending is on the increase, but remains a small minority of brokers' settlements

New home loans that were written to mortgage brokers' own-label or white label product grew 11% compared to the end of September, and represented around 6% of the value of all new loans settled by brokers during the half year. White label loans accounted for 4.8% of the value of brokers' combined loan portfolios at the end of March.

## More women are entering the industry

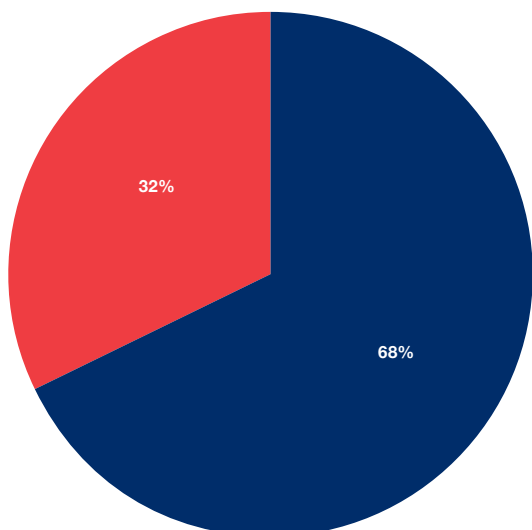
Based on a robust sample size covering 83% of the population of mortgage brokers at the end of March, 72% of brokers were male and 28% were female.



**What proportion of brokers were men and what proportion were women, at the end of the six month period?**

■ Number of men at end of period  
■ Number of women at end of period

In a solid indication, based on another robust sample size, there is compelling evidence of the increasing role and activity of women in the sector: 32% of all brokers recruited during the period were female, implying strongly that more women are entering the profession than their “natural” share of 28% held by women who were already in the profession.



**Of the brokers who were recruited during the six month period, what proportion were men and what proportion were women?**

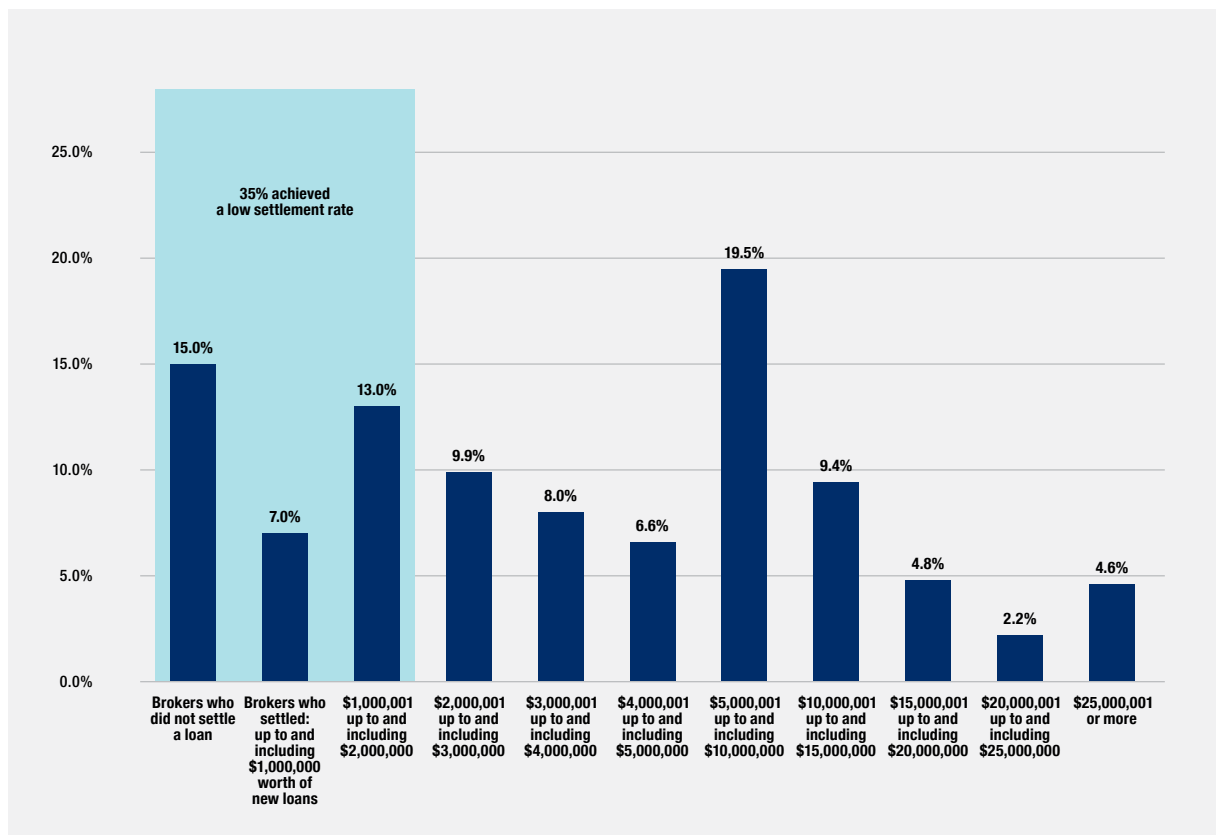
■ Number of men recruited during period  
■ Number of women recruited during period

## The productivity of mortgage brokers varies widely, with the broker population containing a few very high performers, a lot of brokers in mid-field, but a lot of low performers

Based on a very robust sample size of over 11,000 brokers, 22% of brokers originated less than \$1million of new loans during the six months to the end of March 2016. 59.4%, or nearly two thirds of brokers, settled less than \$5 million during the six months. Conversely, there is a solid middle ground of 40.6% of brokers who settled more than \$5 million in the six months.

A high performing cluster of 21.1% of brokers settled more than \$10 million during the six months, within which a small percentage, 4.6%, of writers settled more than \$25 million.

### How many individual brokers settled new home loans in aggregate in the following bands of value during the six month period?



Of course, the significant variations in the values of homes across the country, the mix of dwellings, and consequently the different lending requirements of borrowers, determines the value of home loans settled in each state and territory, and hence strongly impacts the average value of settlements per broker.

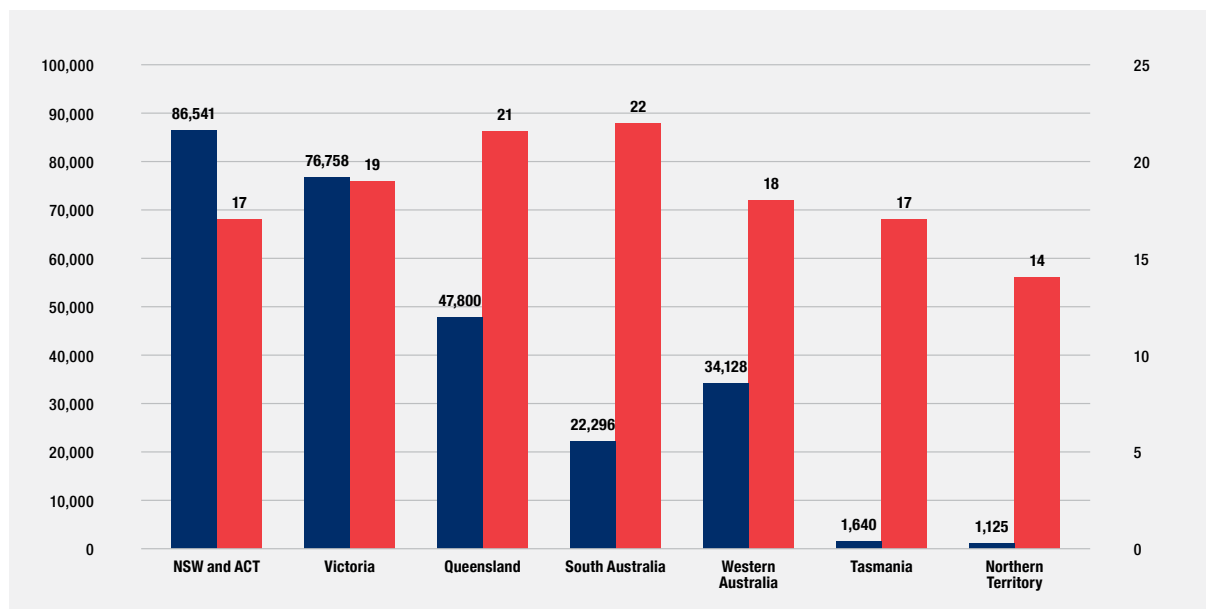
There is also a clear distinction between the average value of settlements per broker driven by wholesale and retail models.

## New Loan Applications

NSW and Victoria were the two largest markets in new loan applications: NSW's 86.5k accounted for 30% of applications. Victoria had a quarter share of the pool at 26% (76.8k).

However, the number of new loan applications of 17 per broker for NSW was below average, largely due to more brokers competing for the pool of new loan applicants.

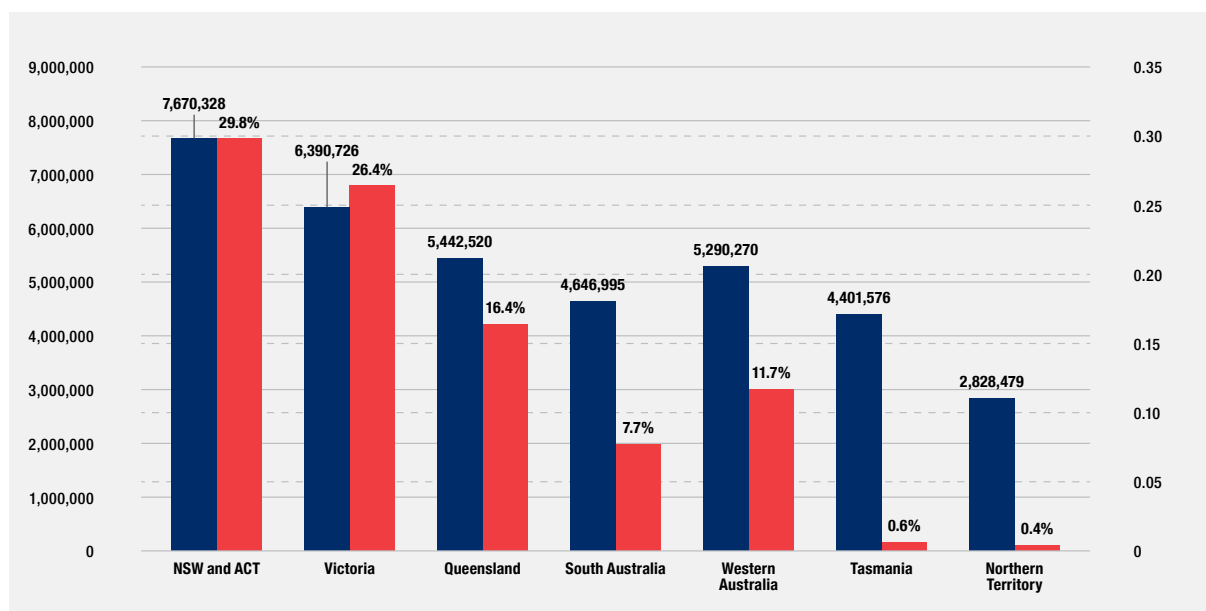
### New home loans applications in each state during the six month period



■ Number of Applications ■ Average number of new loan applications lodged per broker

NSW and Victoria had the highest value of new loan settlements per broker, driven by a combination of natural market factors such as higher residential property values, higher customers' incomes and higher borrowing capacities.

### Value of new home loans settled per broker in each state during the six month period

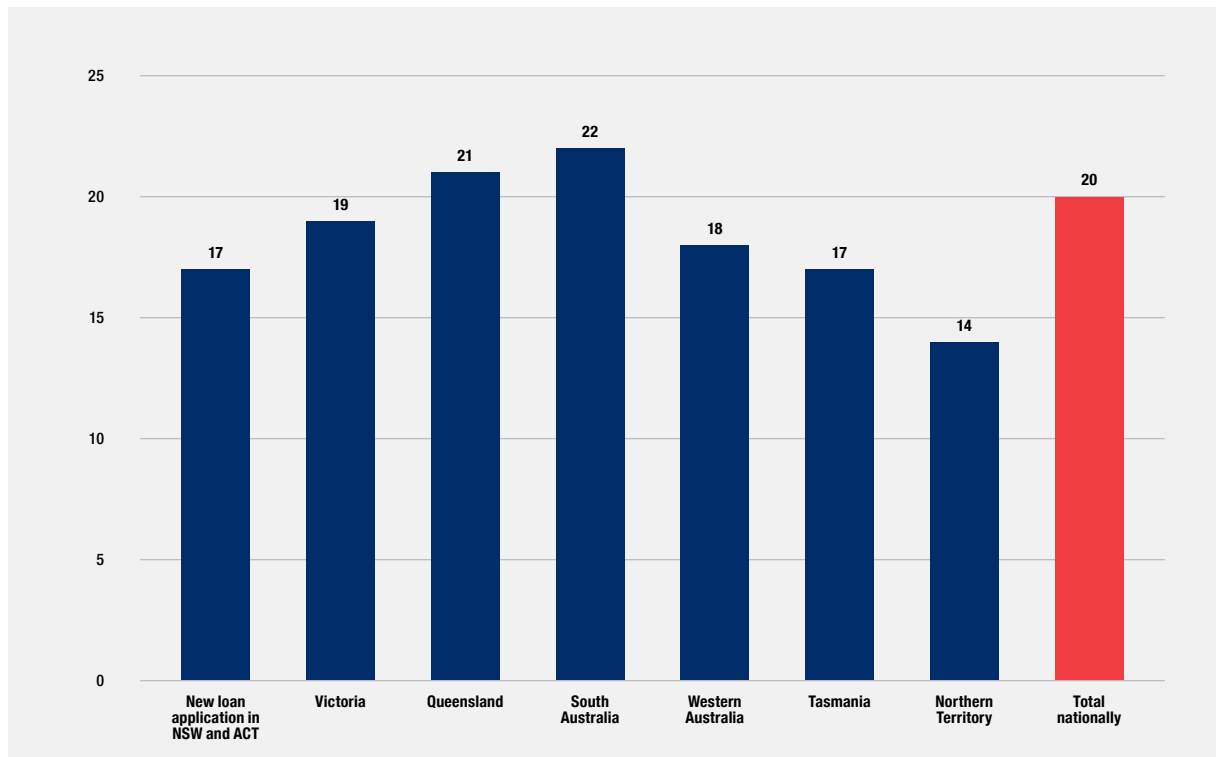


■ \$ Value of new loans settled per broker ■ % of Applications

## On average, brokers lodged about 20 new loan applications each during the six month period

Some caution is needed in the interpretation of the numbers of new loan applications lodged with lenders. Undertaken with the best of endeavours, but with some challenges with alignment to definitions, the industry average has been reasonably estimated to be 20 new loan applications lodged per broker in the six month period, or around 40 on an annualised basis.

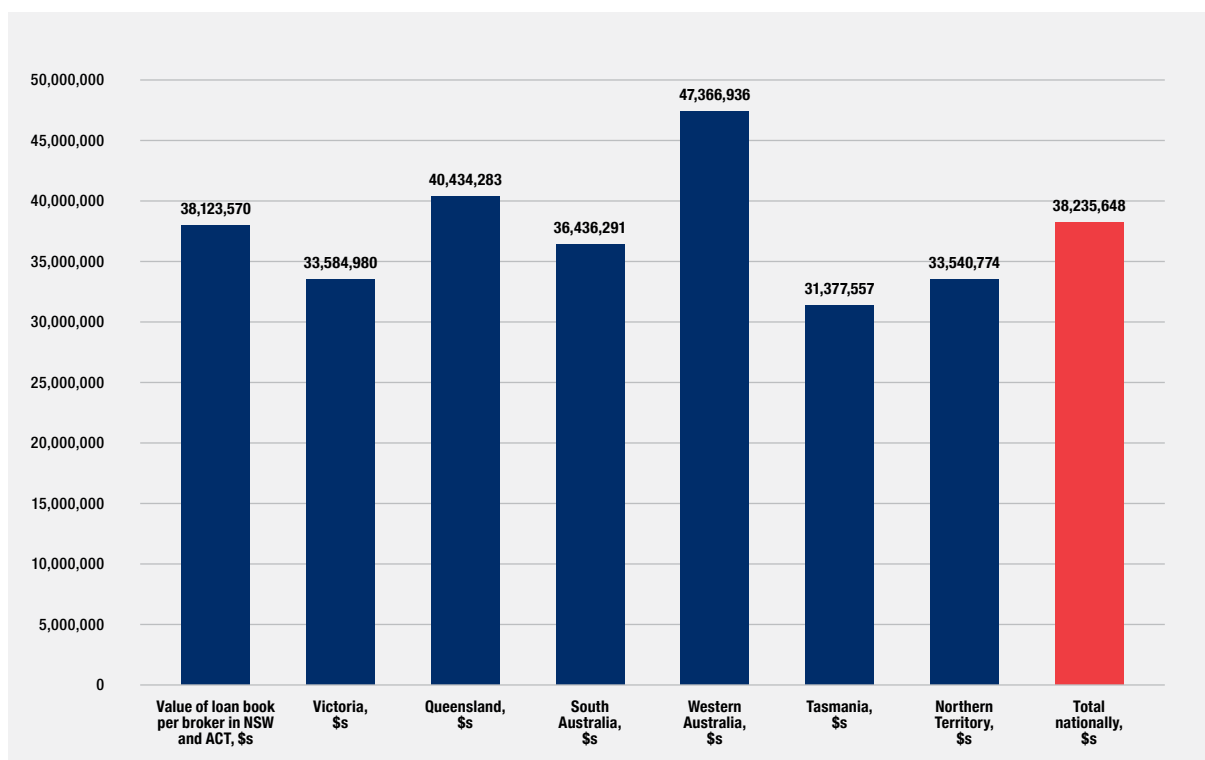
### Average number of new loan applications lodged per broker in each state, and in total, during the six month period



## The national average value of home loan portfolio per broker is around \$38 million dollars

The national average value of the loan portfolio per broker is around \$38 million dollars, but as would be expected based on the markedly different profiles of new loan settlements, the average masks higher and lower performances. West Australia stands out as the state with the highest average portfolio balance per broker.

### Average value of the residential home loan book per broker in each state, and in total, at the end of the period



## A minority of brokers are diversifying their businesses, with a small presence in commercial lending

\$6.3 billion of commercial lending, asset and equipment finance was settled by brokers on top of their residential mortgage origination activity during the six months. About 1,600 brokers, from within eight aggregators, wrote a commercial loan of some sort during the six months, or put another way about 11% of residential mortgage brokers. So plainly, residential mortgage broking, at \$92 billion during the period dwarfs \$6.3 billion of commercial lending, but there is solid evidence of brokers' presence in commercial loan categories.

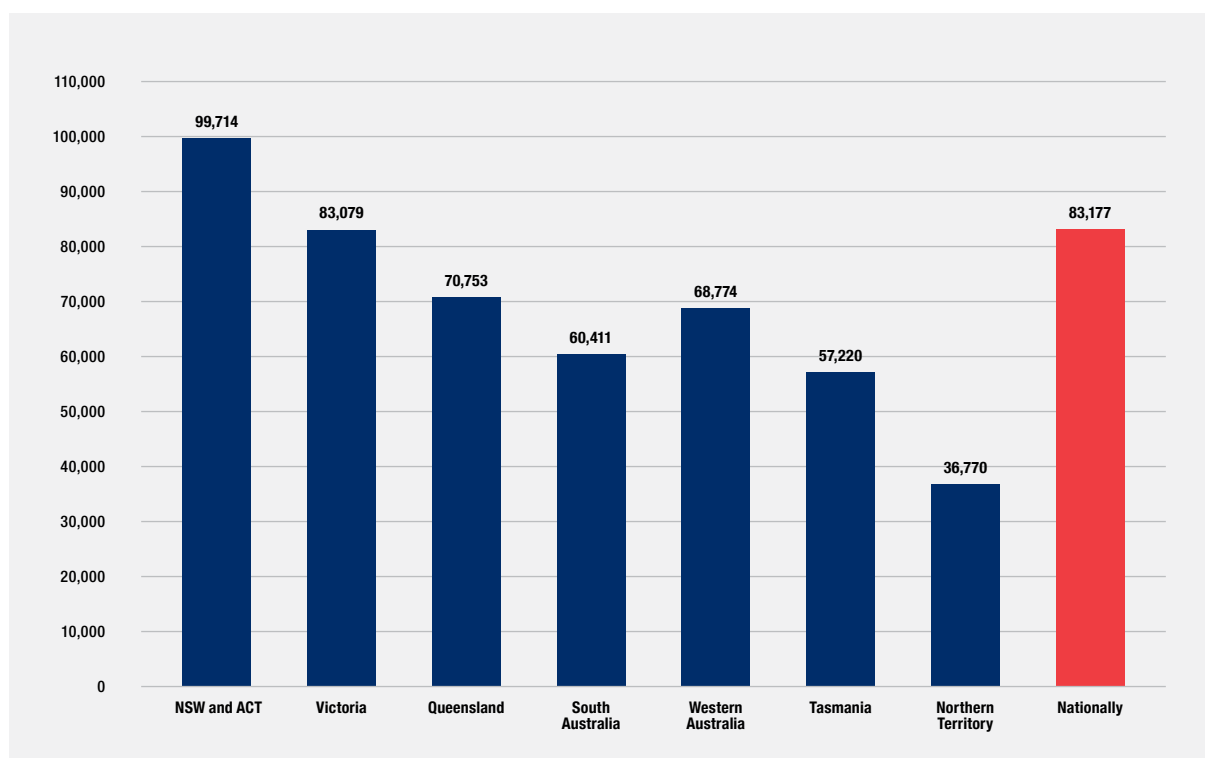


## The average gross up-front and trail remuneration generated per residential mortgage broker, before costs, are estimated to be around \$140,000 p.a.

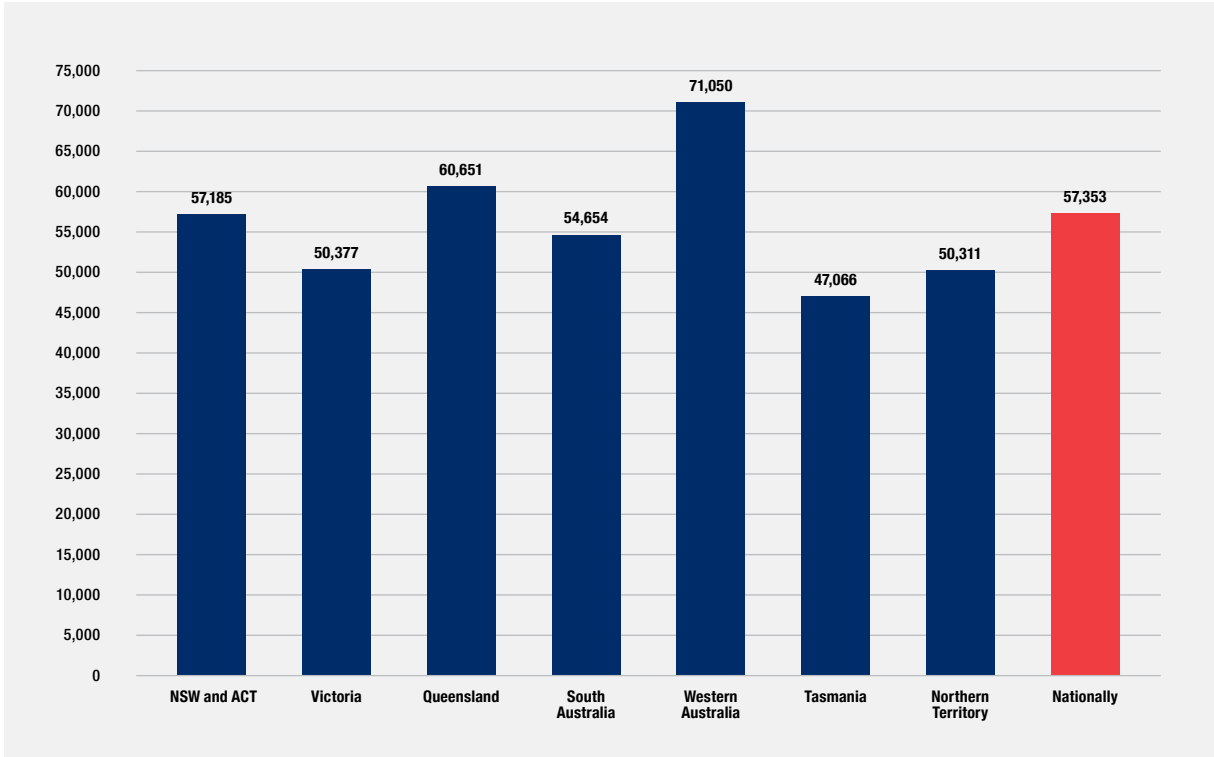
Brokers' average gross up-front remuneration and gross trail remuneration from residential lending, both prior to all costs, and prior to meeting any commercial obligations with aggregators have been estimated. Put another way, "gross remuneration generated" in this analysis means the total amount that lenders paid for the origination services provided by brokers. Out of this gross remuneration figure, brokers have to pay their own salaries, all their fixed costs of doing business, premises, service provision fees paid to aggregators, marketing and communications expenses, telecommunications, licensing, EDR and other statutory costs, client entertaining, data services and market data subscriptions, insurance policies, travel costs and support staff's salaries and wages. No attempt has been made to quantify the effects on gross remuneration generated of splits, claw-backs, nor any of the incentive payments, nor scaled or tiered remuneration structures that are commonly deployed. Lastly, no attempt has been made to quantify remuneration generated from commercial lending.

Importantly, the estimation of remuneration is based on assumptions of an average 65bps up-front remuneration and an average of 15bps trail remuneration paid by lenders for residential mortgages. These basis point figures were applied to the data sets for the value of new loan settlements and to loan portfolios respectively. Whilst caution is needed with all averages, the gross remuneration generated per broker nationally and in each state are illustrated in the charts below, and align to anecdotal observations.

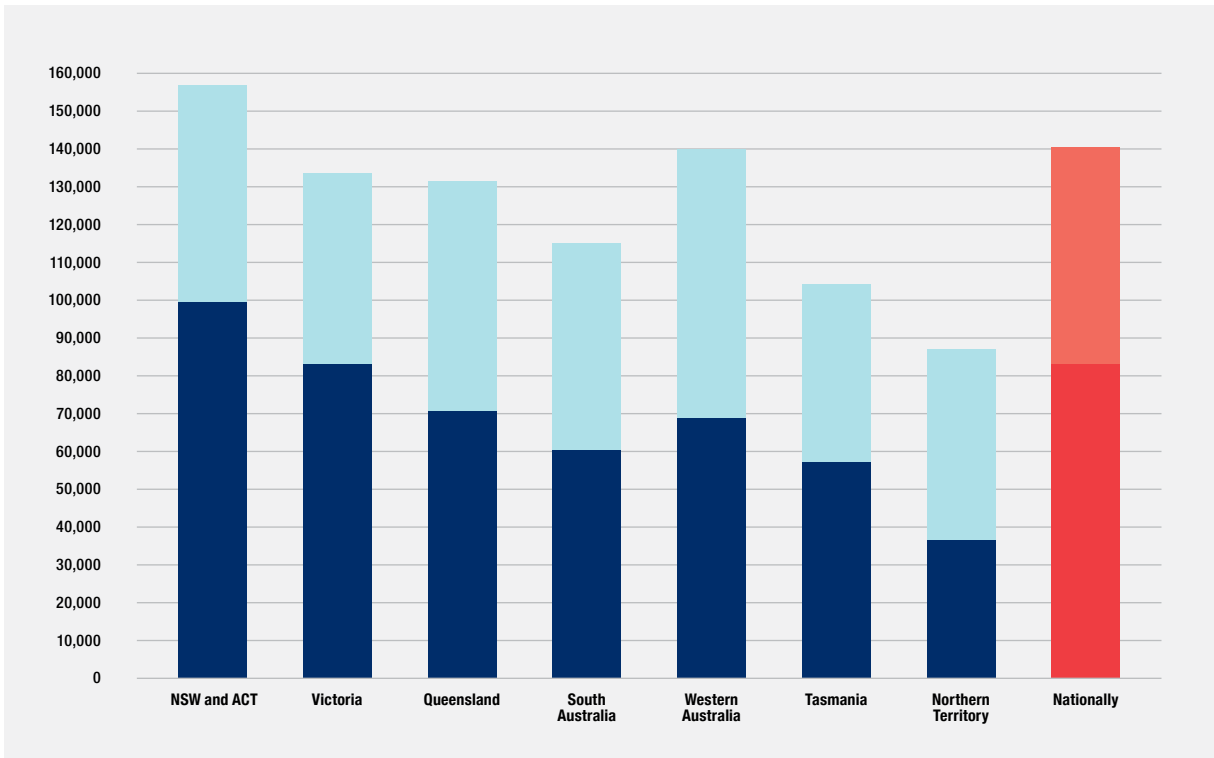
### Average gross up front remuneration generated per broker, prior to costs per annum, \$s



**Average gross trail remunerations generated per broker prior to costs per annum, \$s**



**Average gross remunerations generated per mortgage broker prior to costs per annum, \$s**



■ Average up-front remunerations generated     
 ■ Average trail remunerations generated  
■ Average up-front remunerations generated (nationally)     
 ■ Average trail remunerations generated (nationally)



## Observations about each state and territory reveal profound differences for each state's market dynamics, gross remunerations and trajectories for brokers

### **New South Wales/Australian Capital Territory**

The evidence suggests that NSW is becoming a more challenging market for some brokers. Overall, the growth rate for the state in the six months to the end of March 2016 was negative, mirroring closely the negative national growth rate. In tandem, the state recorded the second highest growth rate in the number of brokers domiciled in NSW. In effect, this implies that more brokers are fighting for a share of a shrinking home loan market. That said, NSW delivered the highest value of new loan settlements per broker, boosted by natural market characteristics: starkly higher residential property values, higher customers' incomes and higher borrowing capacities. However, the number of new loan applications per broker was below average, consistent with the theme of more brokers competing for the pool of new loan applicants. Higher values boosted up-front remunerations per broker, materially above the national average, but trail remunerations per broker were mid ranking, line-ball with the national average. It would be fair to conclude that for new brokers, NSW would present some considerable challenges to building a new business, whilst for established brokers, the state remains prospective.

## Queensland

With the second weakest and markedly negative growth rate of the major states, combined with robust growth in the number of mortgage brokers, Queensland presents a sobering synopsis. In some ways like NSW, this implies that more brokers are fighting for a share of a shrinking home loan market, with the strong inference that it has been very competitive between brokers in QLD. The current new business pipeline presents a more promising view, with the second highest number of new loan applications lodged per broker, mildly above the national average, and well above NSW. The average value of residential home loan books (ie portfolios) per broker is high, contributing to a solid cushion of trail remunerations per broker, the second highest overall, and the highest of the major eastern seaboard states. Inevitably consistent with low growth, and determined by lower comparative housing values, Queensland brokers' average up-front remunerations lag NSW and Victoria, and the national average.

## South Australia

Market conditions for brokers in SA echo the overall national picture, and arguably present a view of a state in a "stable condition", perhaps close to equilibrium when compared to the more testing environments revealed for brokers in the other states. Similar to figures for the entire country, SA returned a negative growth rate in new loan settlements of -3%, and growth in the state's broker population of 5.5%. Whilst a growing population of brokers in SA, and a softening new business environment increase the competition for existing brokers, the differential is considerably less than comparable percentages for most of the other states. Encouragingly, SA returned one of the lowest percentages of the broker population that did not settle a loan during the six month period, and the number of new loan applications per broker is the highest observed at the state level, though by only a small margin over the national average. The state registered the lowest levels of turnover or churn in brokers. Lower home prices and incomes inevitably and logically depress the value of new home loans settled per broker, and commensurately the value of gross commissions generated per broker in the state.

## Victoria/Tasmania

For the six month period to the end of March, the data presents a promising outlook for Victorian brokers. The state recorded the highest growth rate in the number of brokers, in tandem with the only positive growth rate for new loan settlements amongst the major states, and one of only two positive growth rates for all states; Tasmania was the only other state with positive growth. The value of new loans settled per broker was the second highest result, supported inevitably by home loan values commensurate with a city as large as the state's capital. The number of new loan applications per broker echoed the national average, comfortably more than in NSW. Reflecting the state's traditionally weaker comparative orientation towards brokers, the average value of loan books per broker is the lowest of the major states, and below the national average. However, robust new business results drove average gross up front remunerations generated per broker in Victoria to second highest behind NSW, and line ball with the national average. Consistent with lower portfolio values per broker, gross trail remuneration per broker lagged the other major states and the national average. Balancing the various observations, and without sounding trite, Victoria may well currently be "the place to be" for brokers when compared to the conditions observed in the other major states.

## Western Australia

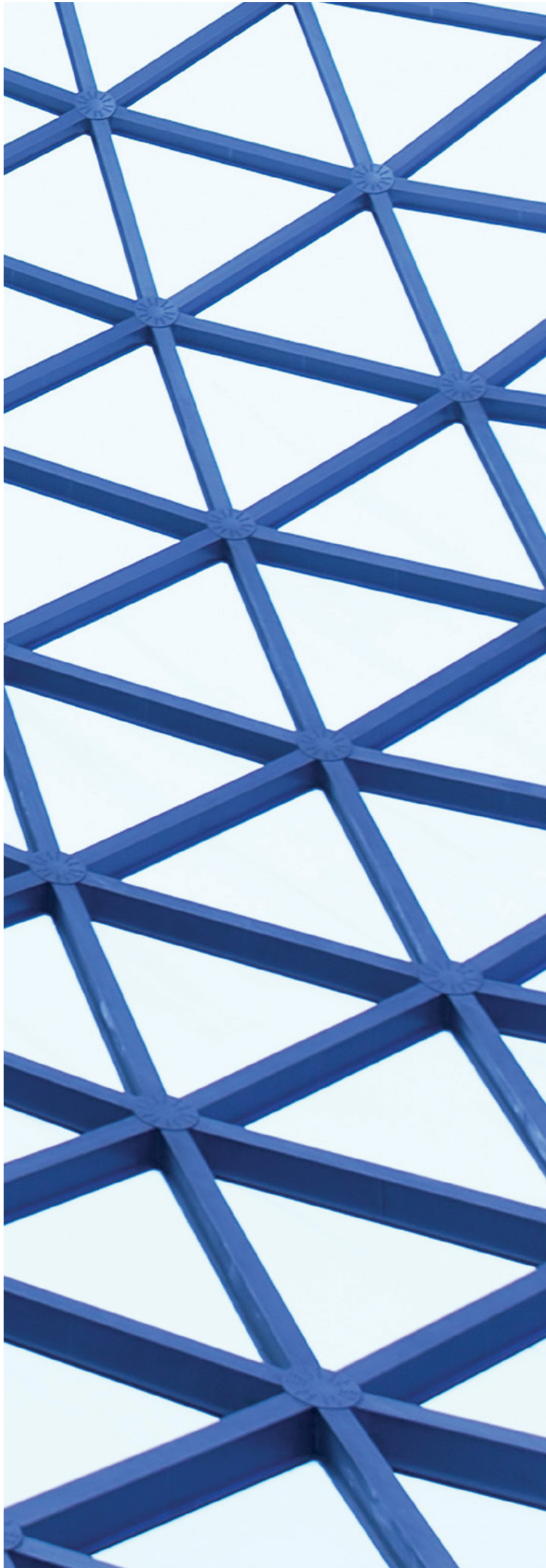
Two data points present a sobering observation about the recent condition of the broker sector in WA. Firstly, the state recorded a growth rate in the number of brokers that is above the national average, which continues to boost the number brokers chasing new business; secondly the state registered profoundly the weakest growth rate in new loan settlements. This combination suggests that the state is not in equilibrium between the depth of its broker resources, and the available market opportunity. Turnover, or churn, in brokers was the highest observed. Two important indicators evidence further the challenging market conditions: the second lowest number of new loan applications lodged per broker, and the fourth lowest value of new loans settled per broker for the six month period. On a positive note, particularly for established brokers, the state's historically strong orientation towards brokers renders the highest gross trail remuneration generated per broker, a function of materially the largest average loan book per broker, well north of the national average.

*Specific information on the Northern Territory is not available as most aggregators absorb NT data into Queensland or SA.*

## Benchmark your business against state and national averages

Brokers' average gross earnings from up front remuneration	Average gross earnings generated from up front remuneration per broker, prior to costs, per annum \$
New South Wales and ACT	99,714
Victoria	83,079
Queensland	70,753
South Australia	60,411
Western Australia	68,774
Tasmania	57,220
Northern Territory	36,770
<b>Nationally</b>	<b>83,177</b>

Brokers' average gross earnings from trail remuneration	Average gross earnings generated from trail remuneration per broker, prior to costs, per annum \$
New South Wales and ACT	57,185
Victoria	50,377
Queensland	60,651
South Australia	54,654
Western Australia	71,050
Tasmania	47,066
Northern Territory	50,311
<b>Nationally</b>	<b>57,353</b>



  
**MFAA**  
MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA