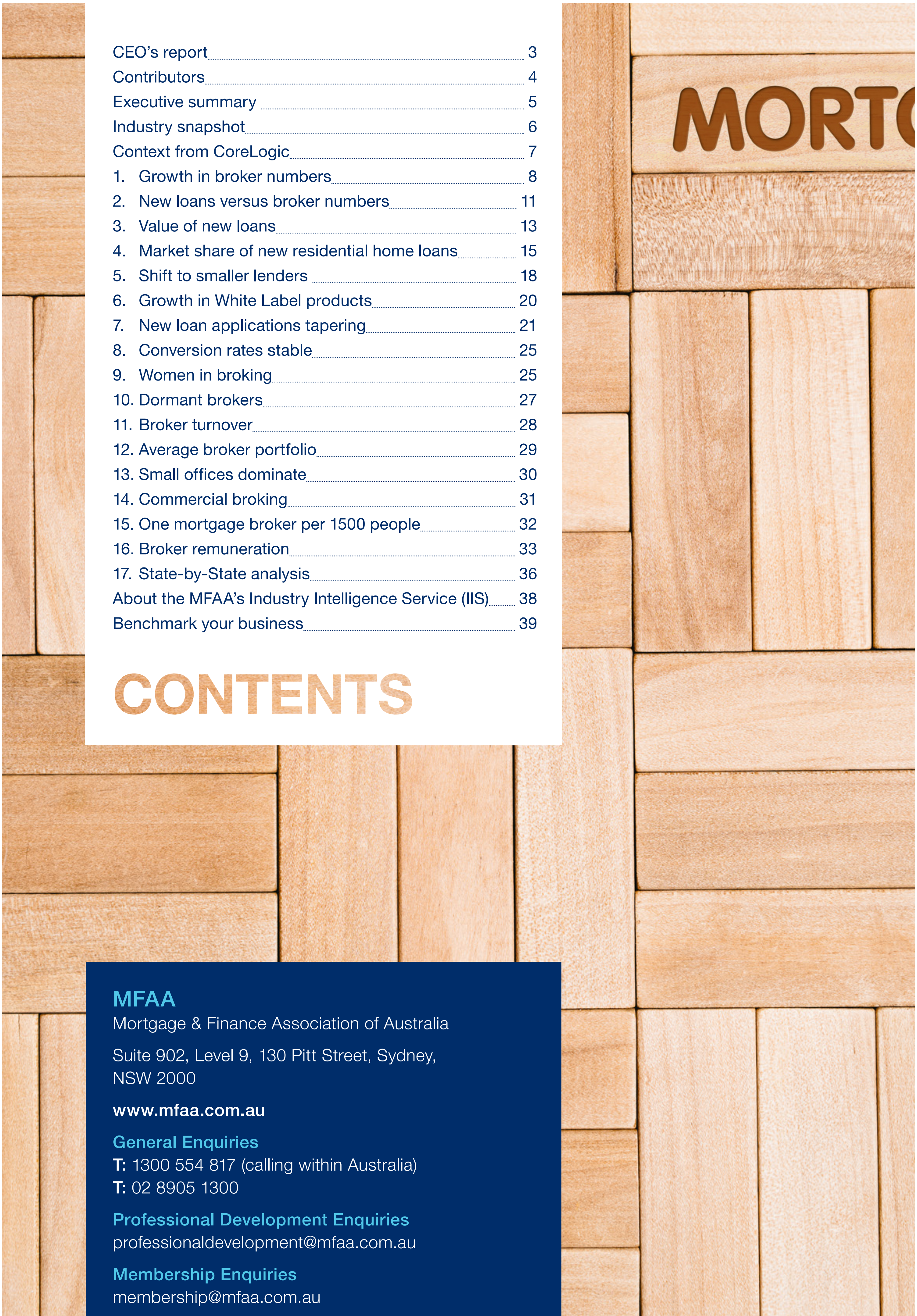
MFAA INDUSTRY INTELLIGENCE SERVICE

FOURTH EDITION

Exclusive Finance Broker Benchmarking Report

For the six month period
1 October 2016 – 31 March 2017

MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA



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CEO’s Report

I am delighted to bring you the fourth edition of the MFAA’s Industry Intelligence Service (IIS) Report.

The bi-annual report provides a set of robust, data-driven insights into the home loan market, for and on behalf of mortgage brokers and the leading aggregators that support them in the field.

Since its inception, the IIS Report has grown in stature to become a leading source of credible data about the finance broking industry. In an ever-changing world, utilising credible data such as this is a key to future success strategies.

I believe the data in the report highlights the relative strength of the industry but also shows a number of current and potential challenges.

This edition coincides with one of the most dynamic periods for the broker community at large. Strategic adjustments in lender’s preferences for their channel composition, a strategic and highly progressive acquisition of a leading franchised broker business by a leading real estate portal and the handing down of ASIC’s Broker Remuneration Review make for interesting times.

In this edition, readers will find data covering a wide range of important issues, including women in the industry, broker numbers, the value of new loans, the growth in white label products, latest conversion rates, average broker portfolio sizes, a trend toward small offices, an increase in commercial lending and a state-by-state analysis of the strengths and weaknesses of the industry across the country.

A new feature of this edition are the workbooks at the end of the report. The workbooks are designed to allow brokers to benchmark their own business against state and national data to enable them to recalibrate their business activities where required. This is an exercise we recommend all brokers conduct as part of managing their business.

The IIS Report could only have been compiled with the ongoing help of our aggregator partners and in that regard I would like to thank all those involved in its compilation. Enjoy the read!

Regards

Mike Felton
MFAA CEO

With thanks to the contributors

Information for this edition of the MFAA's leading market intelligence resource for brokers was provided by the following leading brokers and aggregators:

Executive summary

A potentially challenging divergence of market indicators has arisen, with the growth in the net population of brokers (3.3%) for the previous six months continuing to out-pace growth in new lending (0.1%).

Brokers

The population of mortgage brokers has grown strongly in the period 1 October 2016 to 31 March 2017, reaching 16,009, the highest number since the inception of the IIS. On average, there was about one mortgage broker per 1500 people in Australia.

The net growth rate in the number of brokers of 3.3% during this period (compared to the previous six months) was fairly representative of growth in each of the major states but not of the smaller states and territories.

In all except the two smallest markets, the number of brokers recruited by aggregators exceeded materially the number of brokers who left. The proportion of female brokers appears stable however, strong growth in the prior period appears to have slowed. Turnover in the broker population remains quite high and has increased. Over half of all brokers work as sole-operators, or in two-broker offices.

The national average of brokers' gross annual earnings was $133,407, a drop of 6% from the previous IIS Report (third edition) when they were $142,500.

Loans

The placement of new home loans by brokers with each segment of lender during this period reveals profound shifts toward second tier and smaller lenders. Growth in the value of new home loan settlements by brokers was flat, at 0.1% for the six months. New lending grew materially in Victoria and Tasmania, very mildly in New South Wales and Queensland but contracted in Western Australia, South Australia and the Northern Territory. The number of home loans settled fell 2.5% compared to the previous six month period.

The value of new loans written by brokers using White Label products has continued to grow, reaching $6.2 billion during the six months.

The number of new loan applications originated by brokers fell by 4.5% compared to the prior period and with it an important measure of brokers' sales productivity has fallen. The average value of new home loan settlements per broker was $5.9 million, down slightly from $6 million per broker in the previous six months.

The implied conversion rates of new loan applications to settlements has been stable. The average value of the home loan portfolio remains stable, at about $38 million per broker. The value of commercial loans that were originated by residential mortgage brokers appears stable at $7.9 billion, while the number of brokers writing commercial loans has increased 10% in the six month period.

During the six-month period, 2,452 brokers (or 17% of the broker population) did not settle a loan. This figure is similar to the previous six-month period of 2,465. (Please note only 10 of the 14 aggregators were able to provide data on this).

Industry Snapshot

Industry Intelligence Service (IIS) Report – Fourth Edition, October 2016 – March 2017

Population of Mortgage Brokers

16,009

up from

15,443

in Sept 2016

Ratio of Mortgage Brokers

1 to 1500

Brokers per head of the Australian population

Growth in the population of brokers continued to out-pace growth in new lending

Total Loans $94.61B

Net Population of Brokers

+3.3%

New Lending

+0.1%

Gross Annual Earnings

March 2017	$133,407	-6.0%
Sept 2016	$142,500	

The national average of brokers' gross annual earnings dropped 6% from the previous IIS Report (third edition).

Average Value of New Home Loan Settlements Per Broker

$6.0 Million Sept 2016

$5.9 Million March 2017

The average value of new home loan settlements per broker was $5.9 million, down slightly from $6 million per broker in the previous six months.

Number of Home Loans Settled

Sept 2016 — March 2017: **-2.5%**

Number of Brokers Writing Commercial Loans

+11.5%

Average Value of the Home Loan Portfolio per Broker per Year

$38 Million

Stable

Sept 2016 — March 2017

The MFAA's Industry Intelligence Service (IIS) Report is compiled by Comparator, a CoreLogic business.

Context from CoreLogic:

According to CoreLogic Executive, Craig Mackenzie and Segment Strategy Leader, Matt Carlson, the broker market remains vibrant and continues to grow through consumer demand, however, there are several significant factors that are impacting or could impact the market dynamics.

Broker Proposition:

Frequent and numerous changes by lenders to pricing and policy are creating a more complex marketplace and would appear to be supporting the broker proposition and the provision of their professional services. A marked change in volumes to the smaller, more nimble lenders or those lenders with less constraints has been observed via valuation platforms.

Competition:

The recent announcement by two leading real estate portals to engage more formally in the mortgage distribution market is a strong indication that the industry is still in growth phase. The impact is yet to be seen or felt by the industry, however, with the large balance sheets and many eyes each month on these portals it will continue to be watched with interest by many in the market.

Regulation:

The MFAA has responded proactively to the ASIC Broker Remuneration Review recommendations and has set out a clear pathway forward to enhance consumer outcomes. We see the response from the MFAA as pragmatic and aligned to the future needs of the industry and the consumers it serves.

In summary, brokers and aggregators will need to keep defining and refining their value proposition through all stages of the loan lifecycle in this dynamic regulatory and market environment. The mortgage broking industry is a key strategic segment for CoreLogic from the provision of data & insights, market information as well as the management of valuation platforms.

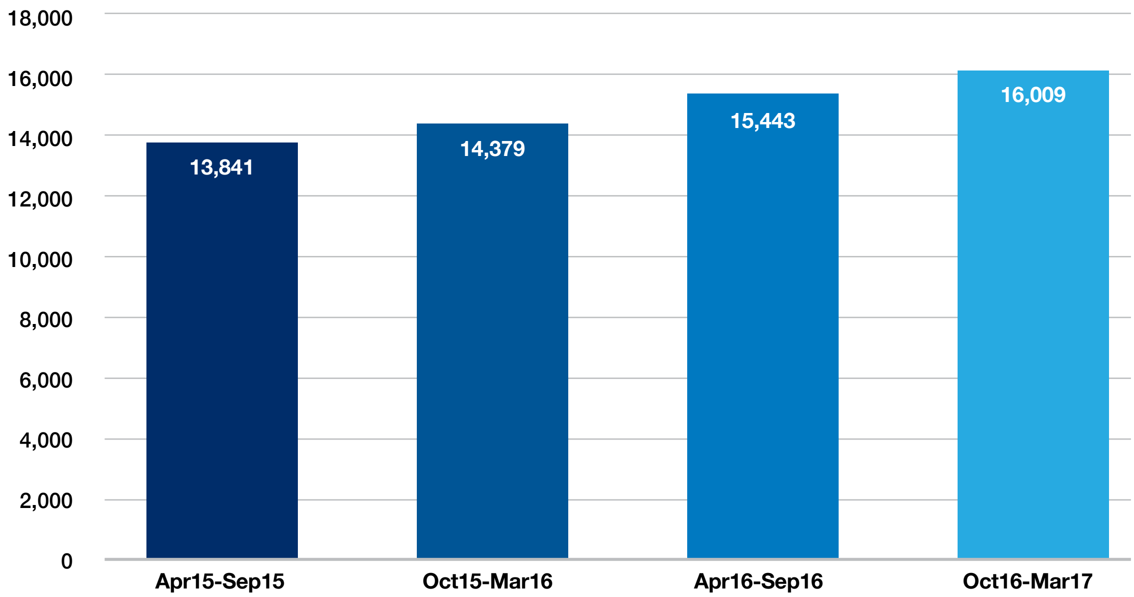
1. Growth in broker numbers

Based on robust data from all the leading aggregators, the population of brokers at the end of March 2017 was 16,009 brokers. This is evidence of an industry that continues to be an attractive and vibrant one.

Up from the 15,443 brokers recorded in September 2016, this points to around 500 newcomers to the industry in six months, demonstrated in Figure 1.1.

Figure 1.1

Growth in total broker population.



Growth in total broker population (state by state)

The headline growth rate in the number of brokers was fairly representative of growth in each of the major states and territories, with Queensland leading the rankings at 3.9%.

In the smaller states and territories, growth rates in their broker populations was observed to be weaker. For example, consistent with observations of a tougher home loan market, growth in the broker population in Western Australia was weak at 1.2%.

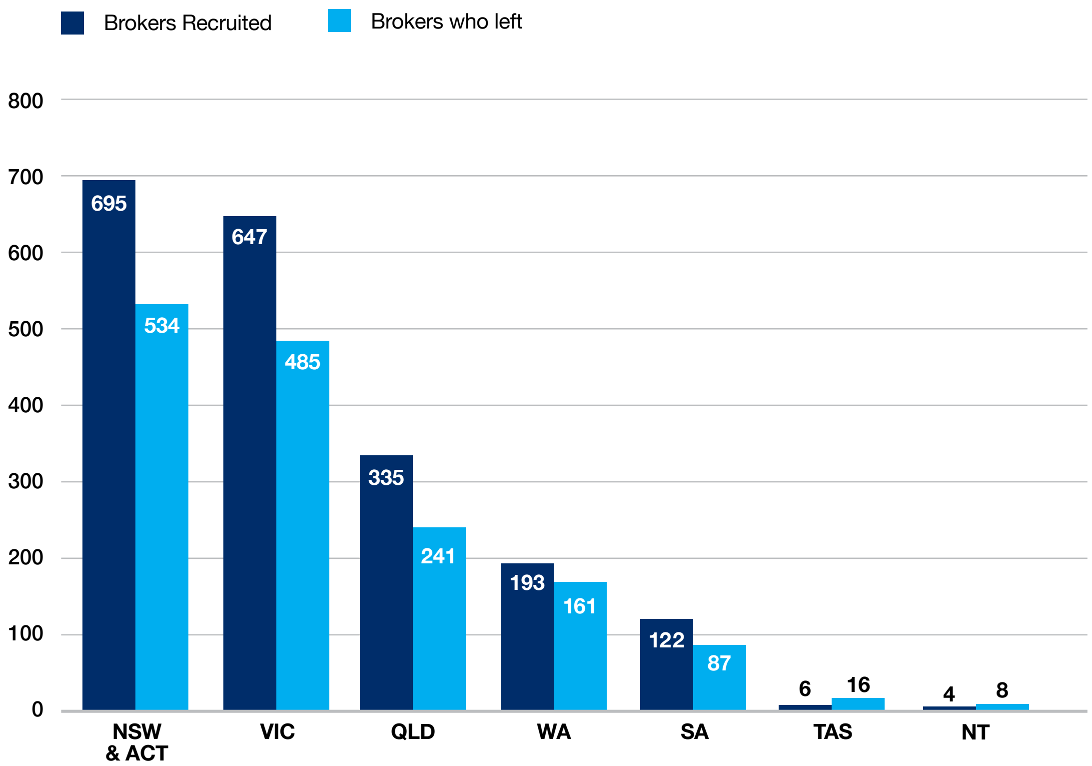
Negative growth rates in the smallest markets of Tasmania and the Northern Territory must be interpreted with caution because small changes to the numbers of brokers have bigger effects on percentage measures.

Mobility or the movement of brokers within the industry is an interesting dynamic not only for aggregators themselves to manage but also reflects the competition between service choices that individual brokers make. Data on the recruitment and attrition of brokers (Figure 1.2) illustrates the pattern, as well as being indicative of relatively high rates of turnover.

In all except the two smallest markets of Tasmania and the Northern Territory, the number of brokers recruited exceeded materially the number of brokers who left, pointing to the net increase to the industry's headcount being strongly positive in the larger states.

Figure 1.2

How many brokers were recruited by leading aggregators and how many left in each state during the six month period, October 2016 – March 2017.



The population of brokers continues to be dominated by the larger states, not surprisingly, echoing the volumes of new lending and average loan size at the state and territory level (Figure 1.3).

Figure 1.3

How many brokers were deployed in each state and territory at the end of the six month period, October 2016 – March 2017.

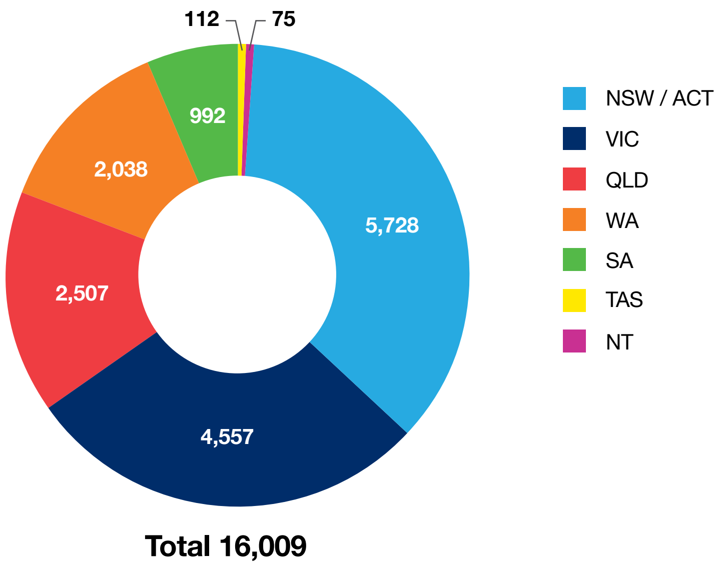
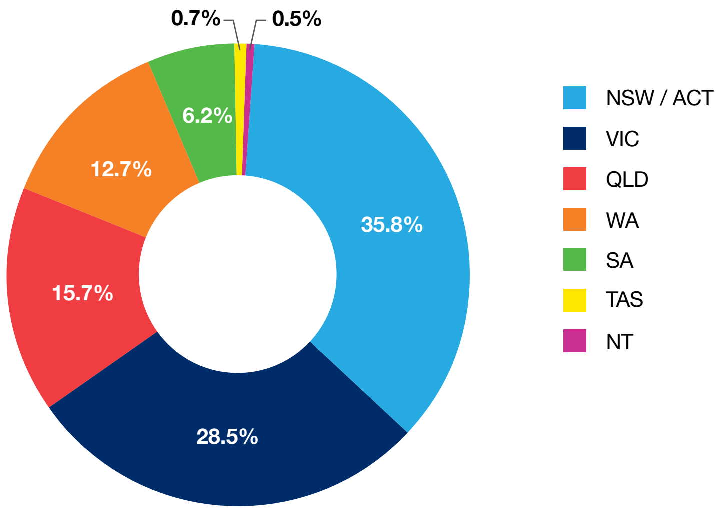


Figure 1.4*

Proportion of the total number of brokers deployed in each state and territory at the end of the six month period, October 2016 – March 2017.



*Please note that these percentages have been rounded up (leading to a total of 101%).

2. New loans versus broker numbers

Growth in the value of new home loan settlements by brokers was flat compared to the previous report. The value of new loans settled by brokers during the six months was $94.61 billion, a marginal increase of 0.1% over the equivalent figure for the six months to the end of September 2016. The 0.1% increase is based on the $94.61 billion compared to the $94.53 billion for the previous period.

Figure 2.1

The value of new home loans settled by brokers during the period October 2016 – March 2017, by state.

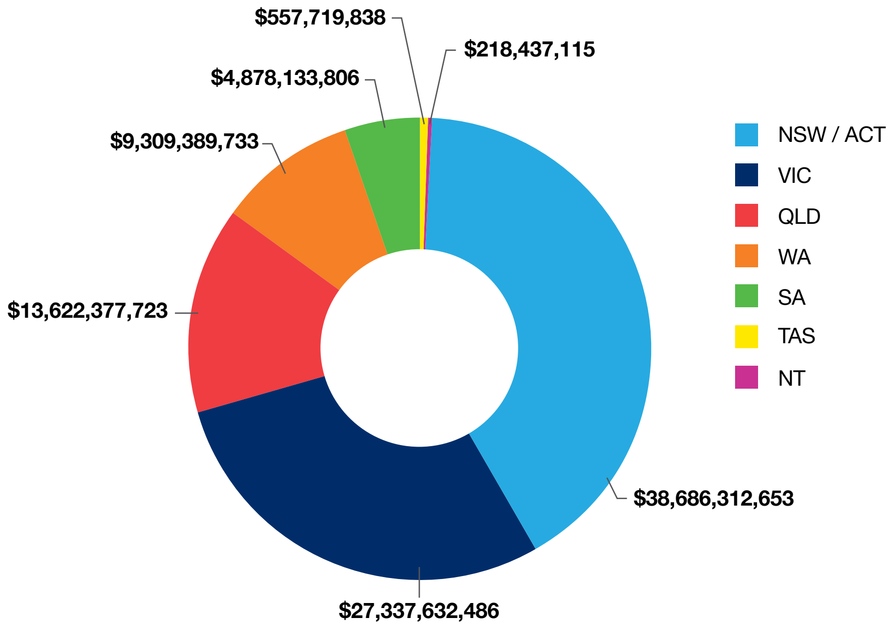
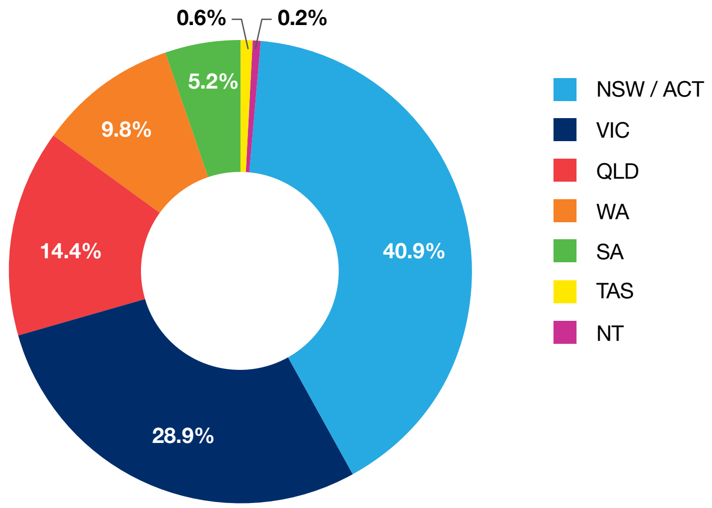


Figure 2.2

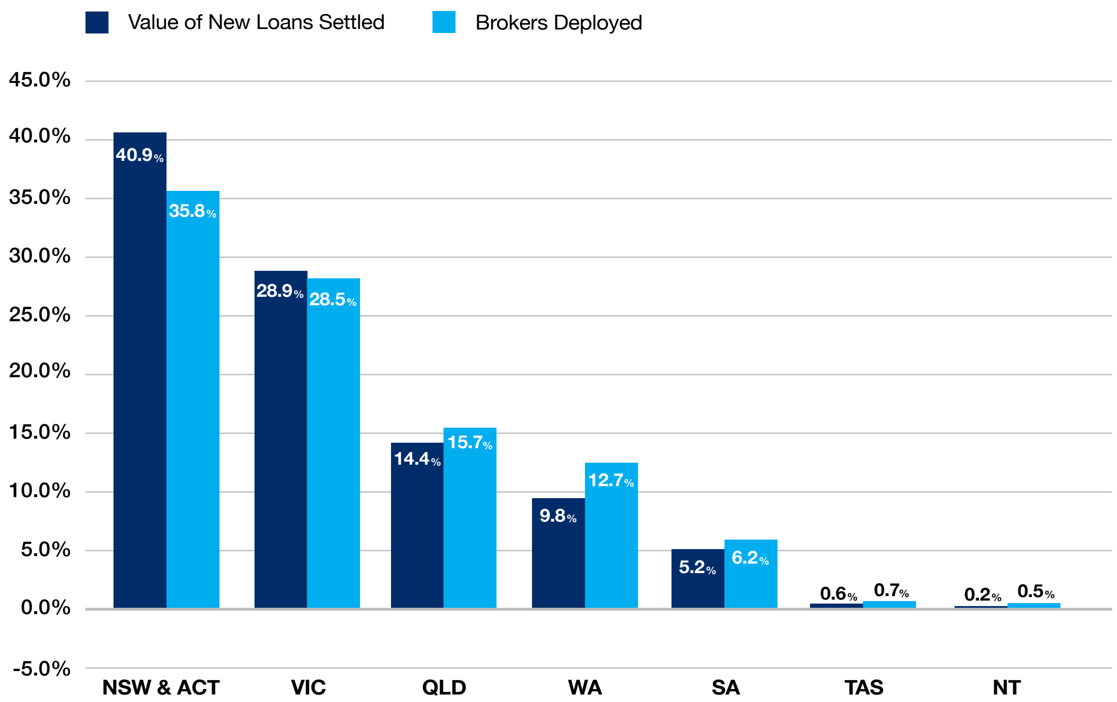
The proportion of the total value of new home loans settled during the period October 2016 – March 2017, by state.



The balance between broker population and loans settled in each state appears to be fair in most instances. However Queensland, Western Australia and South Australia have higher shares of the pool of brokers than their shares of the pool of new lending settled, pointing to more competitive environments for brokers in these states (Figure 2.3).

Figure 2.3

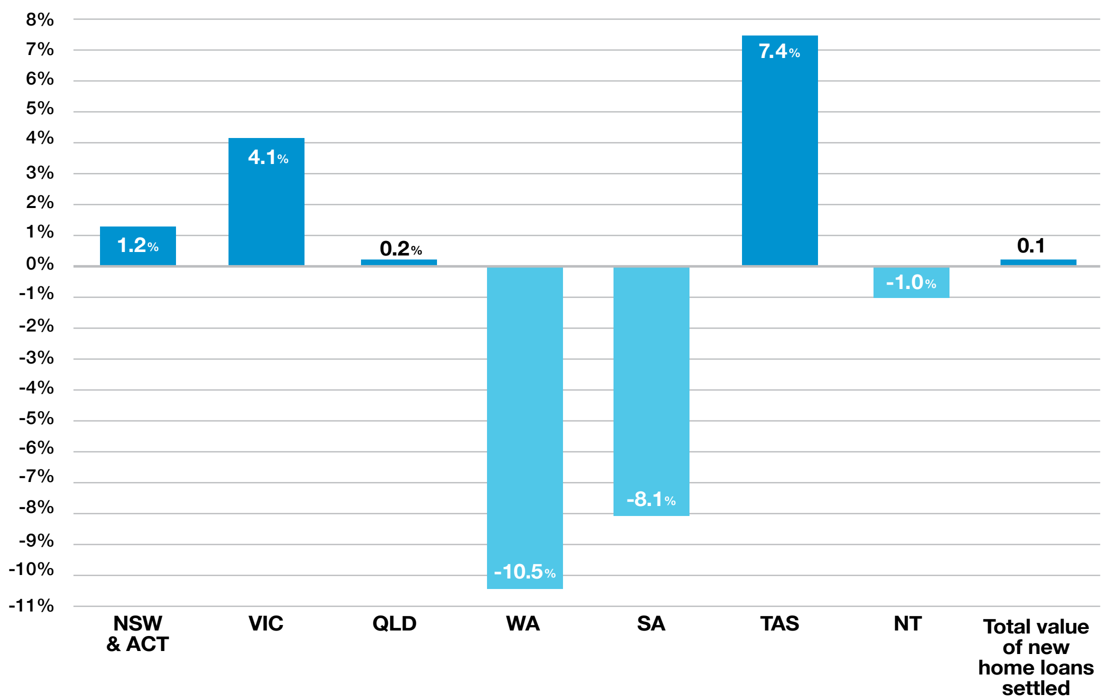
Value of new loans settled vs % of brokers deployed in each state, October 2016 – March 2017.



At a meagre 0.1% for six months, the national average growth rate for new loan settlements by brokers demonstrates the current challenging market conditions. However there are notable differences in some state by state growth rates.

Figure 2.4

Growth rates in new residential loan settlements by brokers, October 2016 – March 2017.



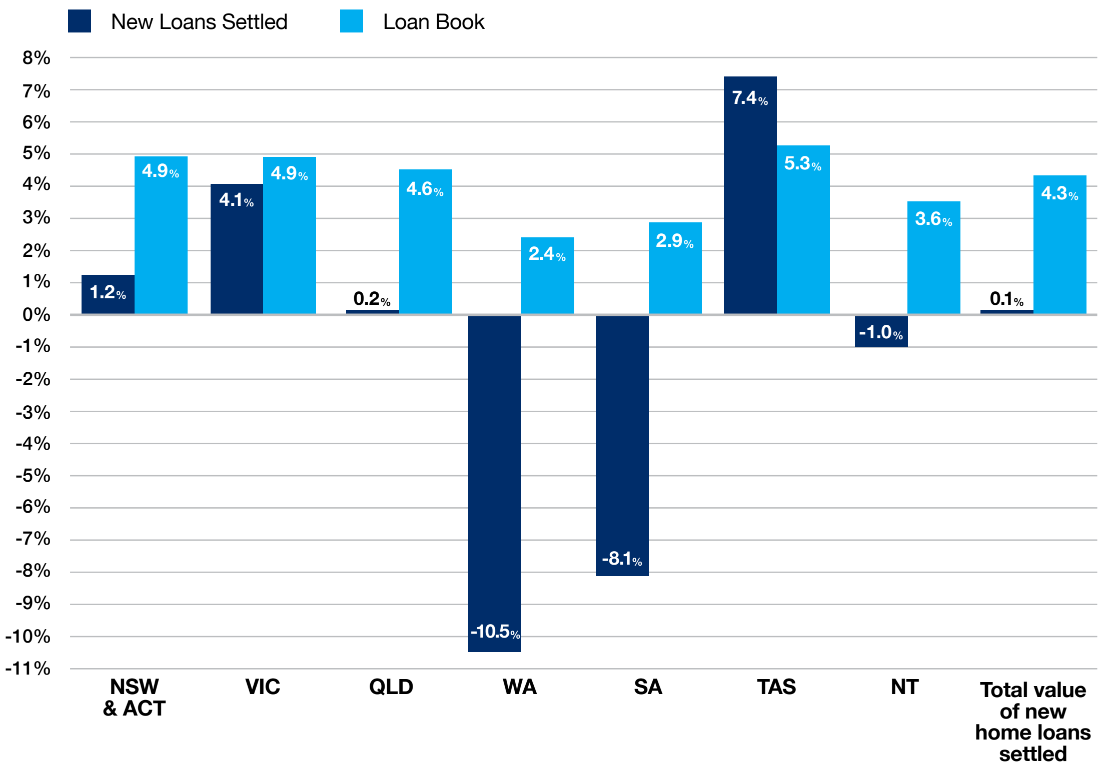
3. Value of new loans

Of the seven states and territories covered, the value of new loans settled grew solidly in Victoria and Tasmania, grew marginally in New South Wales / Australian Capital Territory and Queensland and contracted in Western Australia, South Australia and the Northern Territory. Victoria exhibited the highest growth of the larger states at 4.1%. Conversely, the home loan market in Western Australia continued to shrink markedly and South Australia has experienced a marked contraction.

Aggregate portfolio balances grew well, returning a portfolio growth of 4.3% nationally, supported by solid performances in most states and territories. Figure 3.1 illustrates the broad consistency in portfolio growth rates and the volatility in growth rates in new business at the state level.

Figure 3.1

Growth rates in new residential loan settlements by brokers, October 2016 – March 2017.

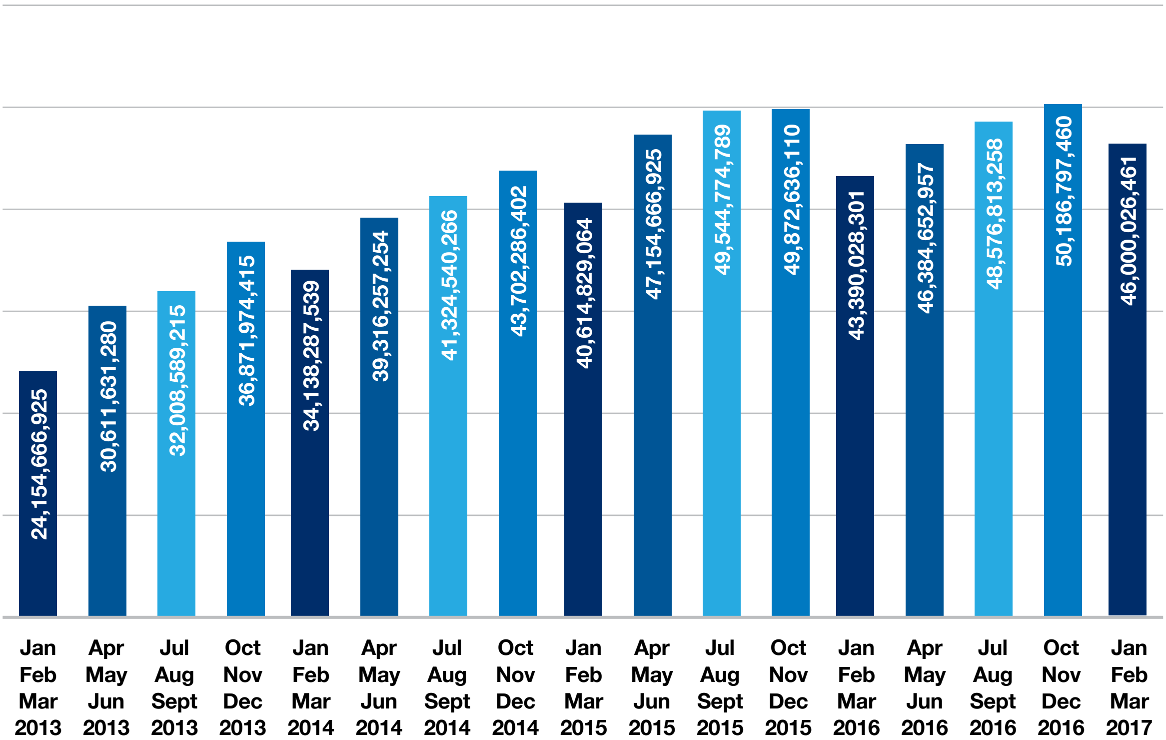


Data from the MFAA's Quarterly Survey of leading aggregators (Figure 3.2), which has an almost identical coverage to the IIS Report, reveals the plateauing of new loan settlement values in the last four quarters, after three years of solid growth.

Figure 3.2

Value of new residential home loans originated by leading mortgage brokers and aggregators.

Source: MFAA's Quarterly Survey of leading mortgage brokers and aggregators

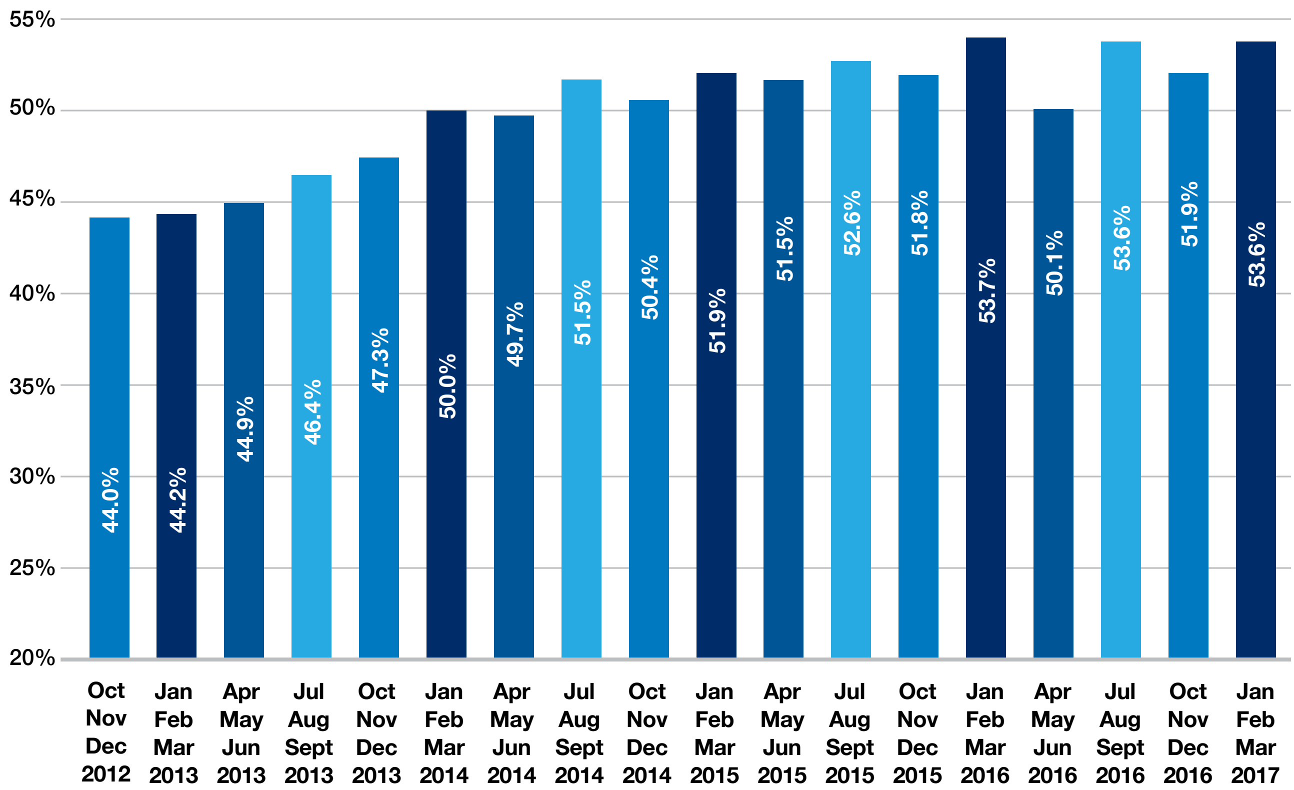


4. Market share of new residential home loans

The MFAA's Quarterly Survey also reveals a similar plateauing of the market share of Broker originated home loans, as shown in Figure 4.1.

Figure 4.1

Market share of new residential home loans originated by all mortgage brokers and aggregators as a % of Australian Bureau of Statistics Housing Finance Commitments.

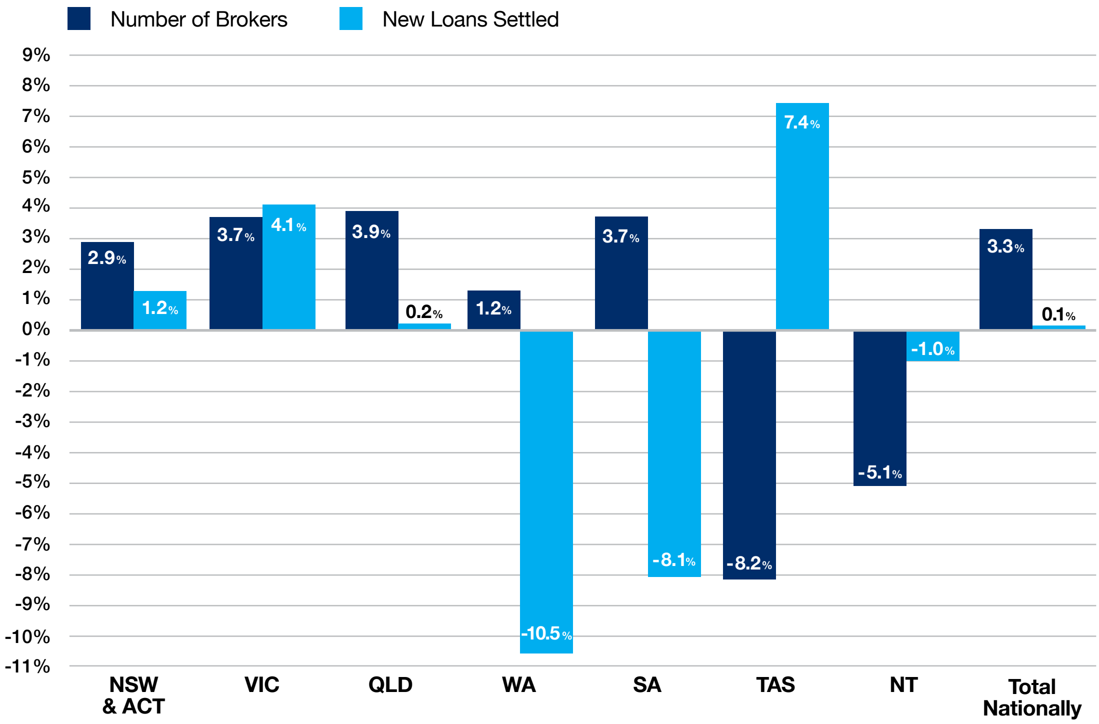


Growth in the population of brokers has out-paced growth in new lending, a potentially challenging divergence of market indicators (Figure 4.2). Quite simply, in the past six months the population of brokers has grown at several times the rate of growth of new lending. Only in the state of Victoria does there appear to be an alignment, or a reasonable equilibrium between these two important measures of the broker market's dynamics. Of the largest states, Victoria returned not only the highest growth rate for new settlements but also a growth rate in the broker population that was proximate in percentage terms.

At the national level, a growth rate in the population of brokers that was 3.3% for the six months appears to have overshot the low growth in settlements of 0.1%.

Figure 4.2

Growth rates in net number of brokers vs growth rates in new loans settled (by $ value), October 2016 – March 2017.

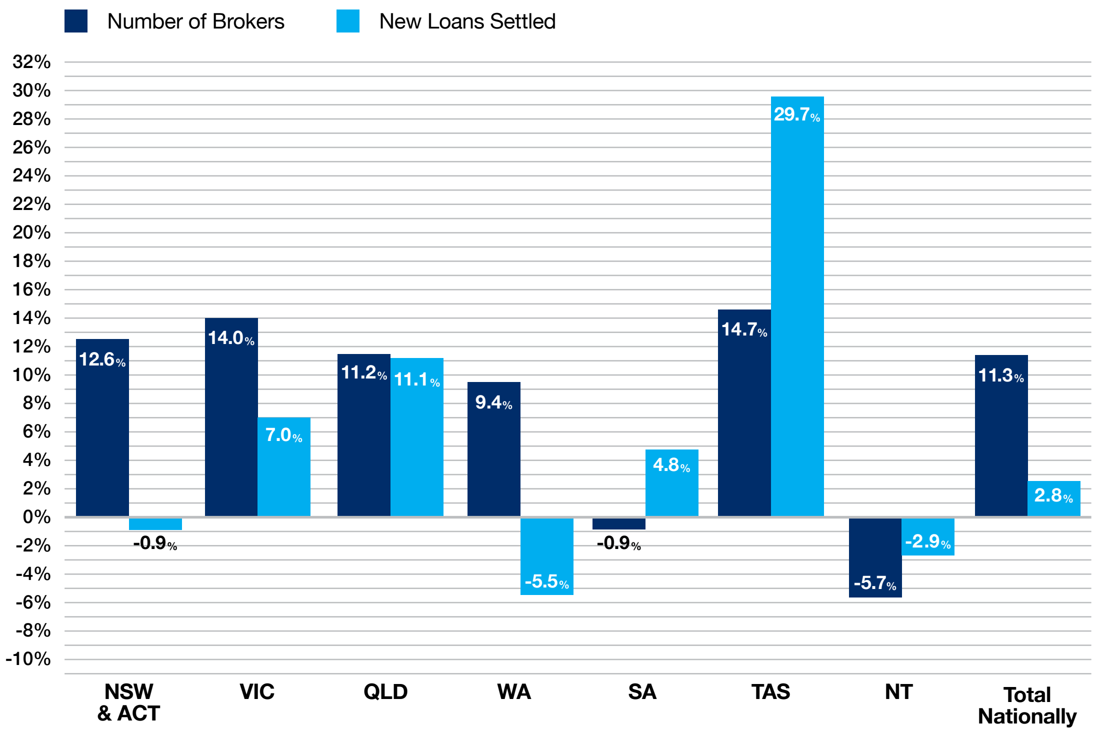


When viewed on an annual basis, using data from the March 2016 edition of the IIS Report to the current March 2017 edition, an annual growth rate in the population of brokers of 11.3% is returned (Figure 4.3). This compares to an annual growth rate in new loan settlements of 2.8% (shown in $ value in the chart below) and underlining the divergence of growth rates. The divergence between growth rates of the broker population and growth rates for new loan settlements appeared most acute in Western Australia and in South Australia for the past six months.

This annual comparison indicates that there are potentially too many brokers deployed particularly in the larger states of New South Wales, Victoria and Western Australia. However, when taking into consideration the 17% of brokers not successfully submitting loans, this oversupply perception could be more balanced. (See Figures 7.1 and 10.1)

Figure 4.3

Growth rates in number of brokers deployed vs growth rates in new loans settled year on year (by $ value), March 2016 – March 2017.



5. Shift to smaller lenders

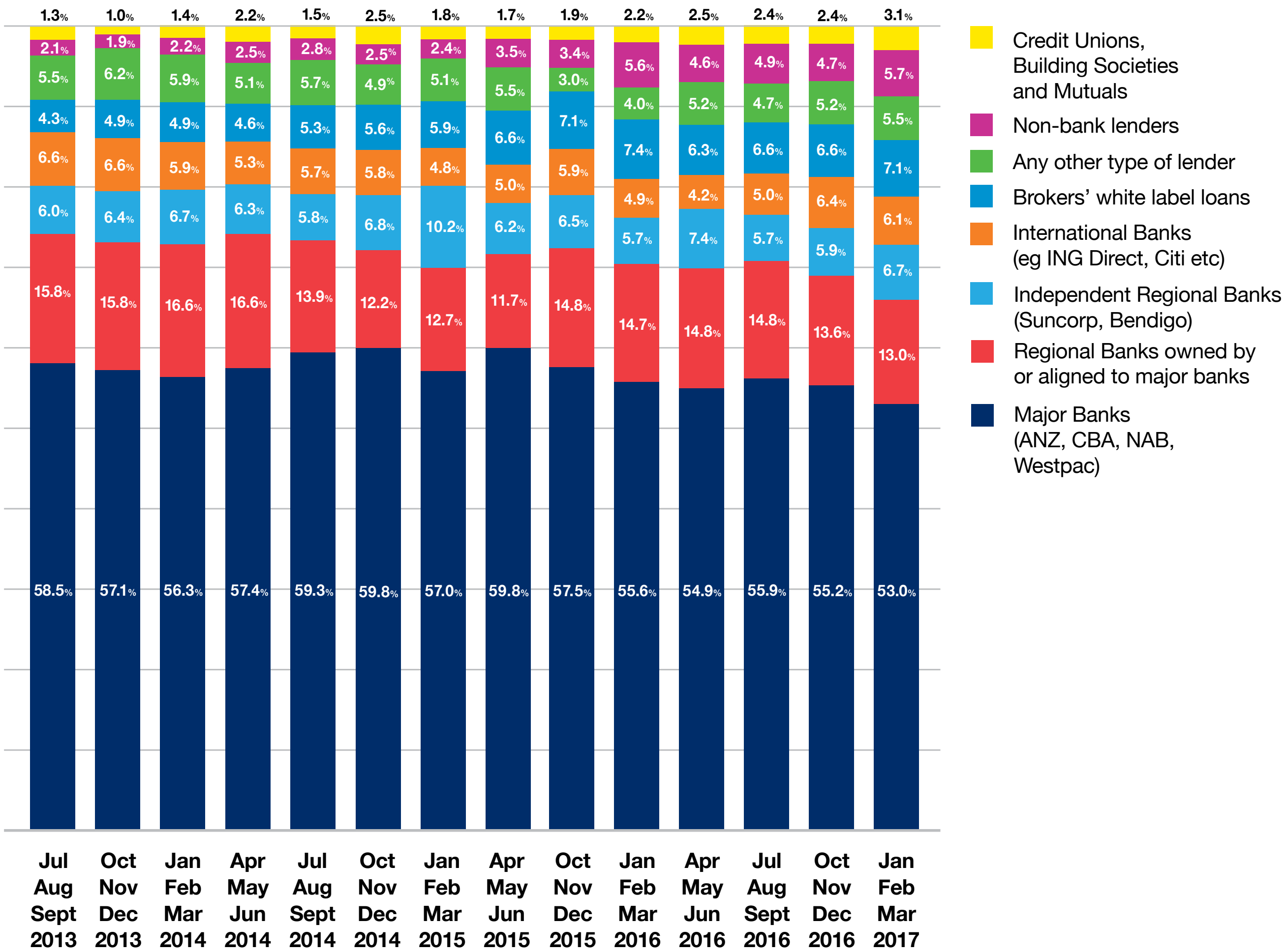
The chart below shows notable changes to brokers' placement of new loans amongst the eight categories of lender that are monitored in the IIS Report, that is, a gradual shift to smaller and specialist lenders. Those changes include: the regulator requiring that banks cap lending to investors; re-pricing of lending for risk profiles; a focus on the prevalence of interest-only home loans; adjustments to loan serviceability calculations; current processing and turnaround times for new loan applications with different lenders and re-pricing of back books.

The composition of lending placed by brokers with eight generic segments of lenders can be plotted for the past four years, based on data from the MFAA's Quarterly Survey. Whilst the overall pattern is reasonably stable, the shifts between segments are visible, as is the implied growth over time for smaller lenders.

There has been a marked fall in the value of new lending placed with the major banks and with their subsidiary regional brands. This fall in lending to the largest "traditional" lenders was off-set during the six months by strong climbs in new lending placed with the categories of international banks, with non-bank lenders and with loans written to brokers' White Label products.

Figure 5.1

Value of new lending originated for each segment of lender.

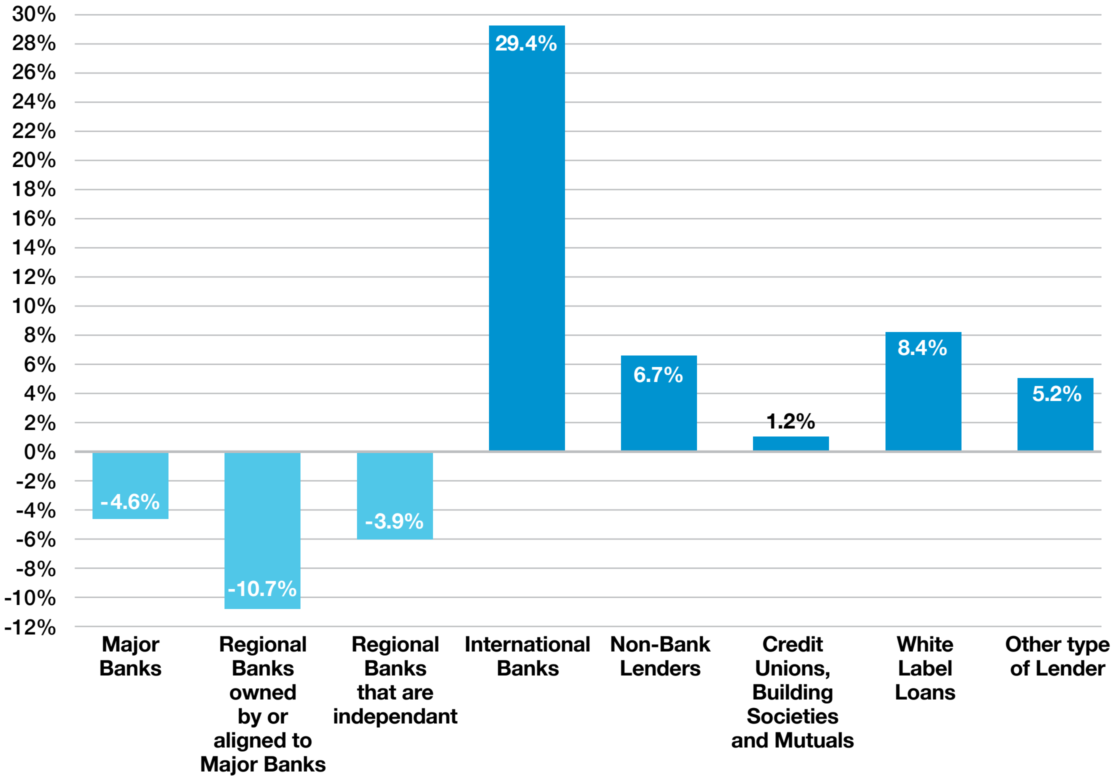


Please note: no data was available for July-September 2015

Further, the smaller lenders (the eighth category monitored) showed favourable growth rates and are arguably most dependent on brokers because of their lack of large proprietary distribution networks. This conclusion is drawn after comparing the growth rates for each category or segment of lender between the prior IIS Report and this edition. The largest three categories of lender shrank and the four smallest grew.

Figure 5.2

Growth rates of new loans settled with each category lender October 2016 – March 2017.



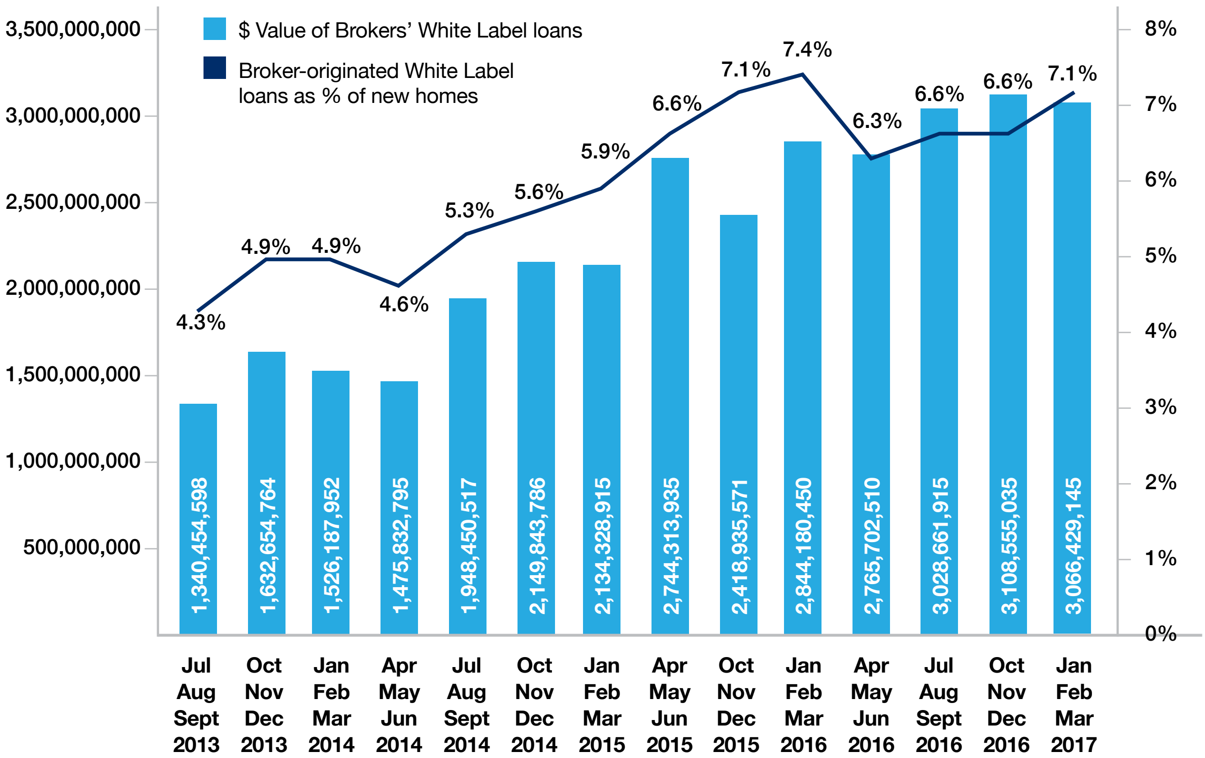
6. Growth in White Label products

The value of new lending written to brokers' White Label products was $6.2 billion during the six months, a solid increase over the prior six months' figure of $5.7 billion. While brokers' "white label" products accounted for 6.5% of all broker-originated loans, for the 6 months from Oct 2016 to March 2017, they are still demonstrably a minority product category. However, they registered a rate of growth that was amongst the highest for the eight categories of lending monitored.

Data sourced from the MFAA's Quarterly Survey of leading aggregators provides a longer range view into the evolution of White Label lending and reinforces the findings of this edition of the IIS Report (see Figure 6.1).

Figure 6.1

Growth in White Label lending per quarter.



Please note: no data was available for July-September 2015

Technical note: the data embedded in this chart sums the White Label lending for only those aggregators who have offered the product consistently in the past four years. As such it accurately reflects organic growth in the product category. As is commonly known, other aggregators are beginning to offer White Label loans but their small shares have not been counted in this analysis.

7. New loan applications tapering

The raw number of broker-originated new loan applications has tapered, falling from a high point in the second half of 2016. During the six months, 303,300 new loan applications were lodged, a fall of 4.5% compared to the prior period's 317,600 applications. This pattern spells out the increasing intensity of competition for new business amongst brokers. This suggests a further softening in settlement volumes as the pipeline contracts.

At the state level, different levels of demand for investment lending are observed and with that, anecdotal evidence suggests an artificial "inflation" of the number of applications originated by brokers. This may be explained by brokers working all angles available to them as they try to match applicants to lenders, in a market where lenders' appetites for investment loans and their policy settings are constantly shifting.

Figure 7.1A

Number of new home loan applications nationwide.

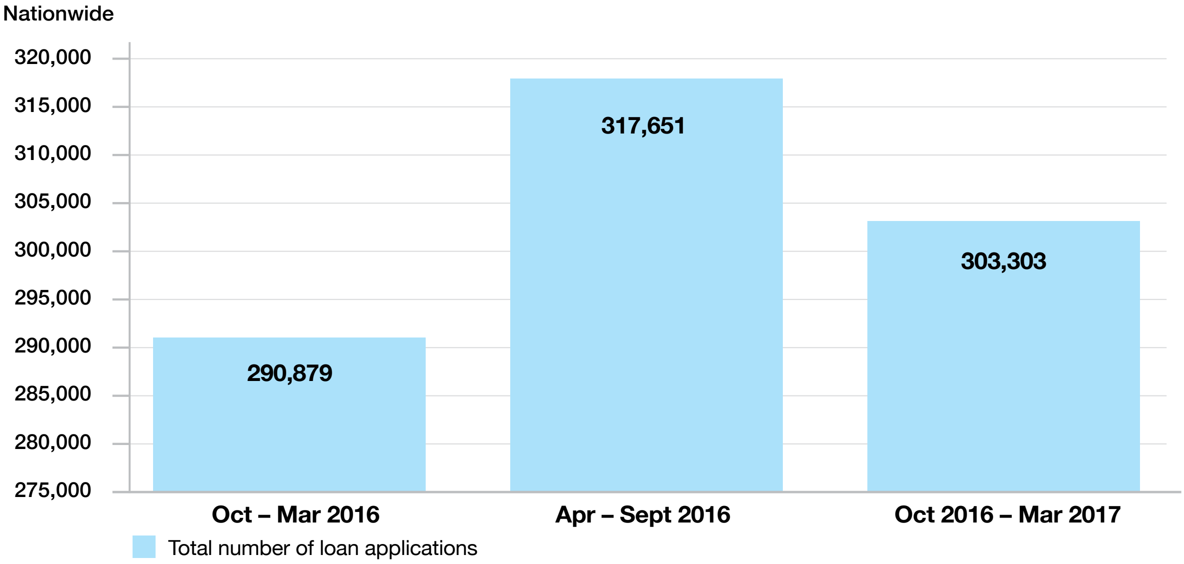
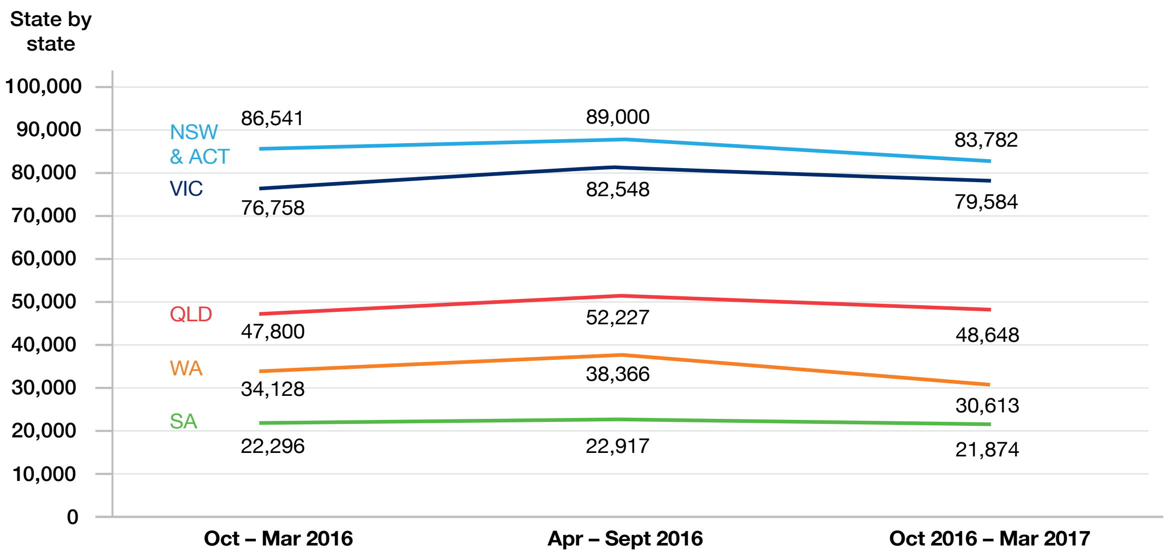


Figure 7.1B

Number of new home loan applications in each state.



Technical note: most but not all aggregators provide data for new loan applications at the state level, so sub-totals for the states do not reconcile to the overall totals. Data for the Northern Territory and Tasmania has been excluded from this analysis.

An important measure of brokers' sales productivity has fallen. Along with the overall contraction in the volume of new loan applications, so too an important measure of brokers' sales productivity has fallen slightly: the number of new loan applications lodged fell to 19 per broker in the six month period (Figure 7.2).

Inevitably, a growing population of brokers and a falling volume of new loan opportunities is a troubling combination for the industry. In the prior six months, the national average number of applications per broker was 21, whilst in the six months to March 2017, a national average of 19 new loan applications lodged per broker was observed. This key measure of sales productivity has fallen in every state and territory, with particularly weak results returned for New South Wales and Western Australia, both barometers for the health of the broker sector at the state level (Figure 7.3).

Figure 7.2

Average number of new loan applications lodged per broker, nationally.

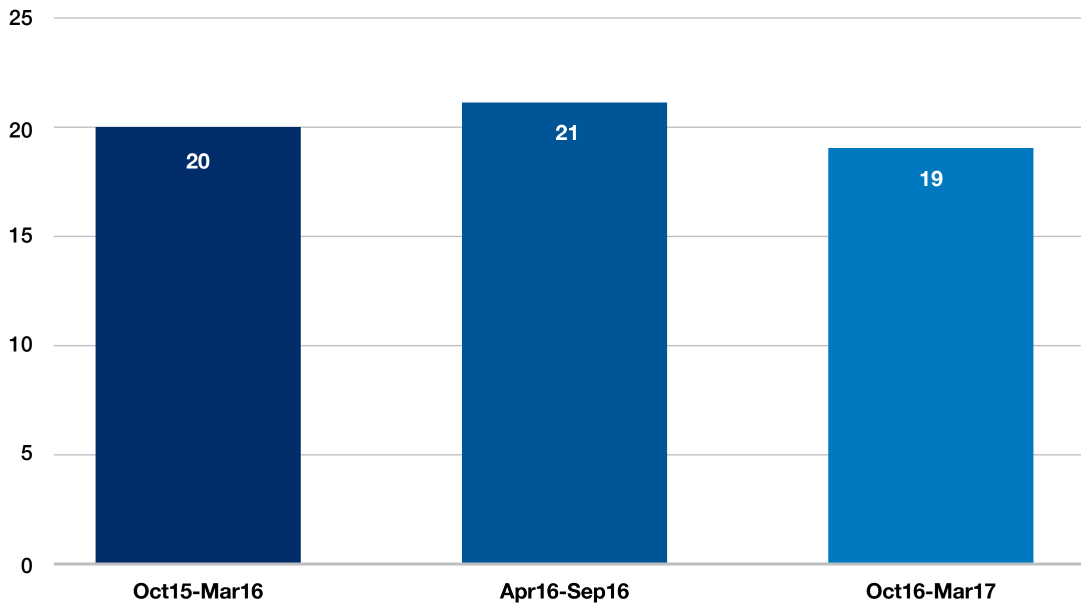
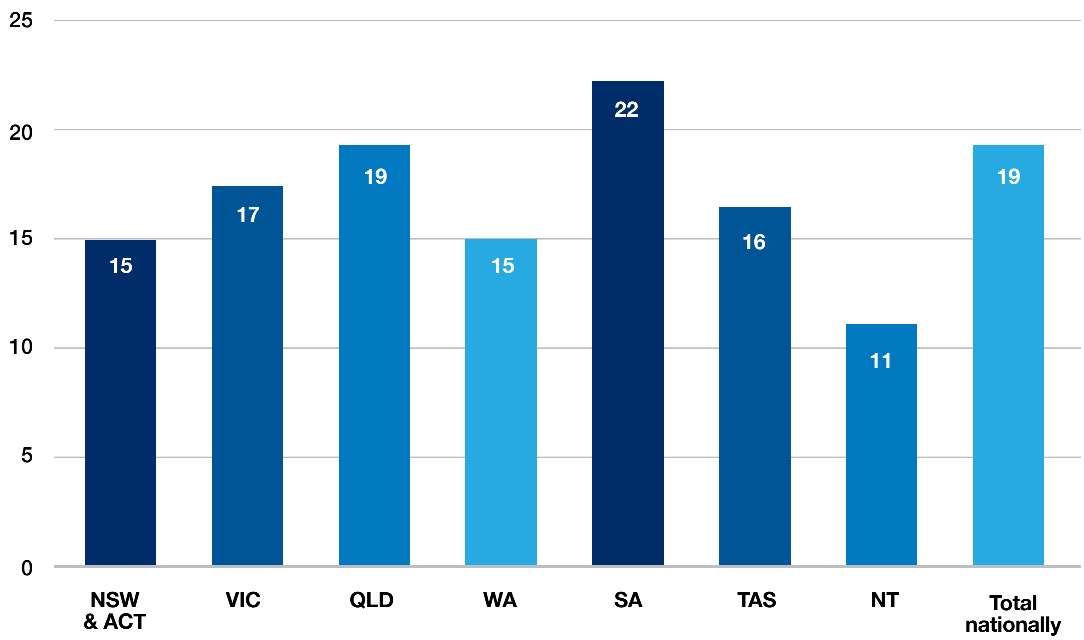


Figure 7.3

Average number of new loan applications lodged per broker in each state and in total, during the six month period October 2016 – March 2017.



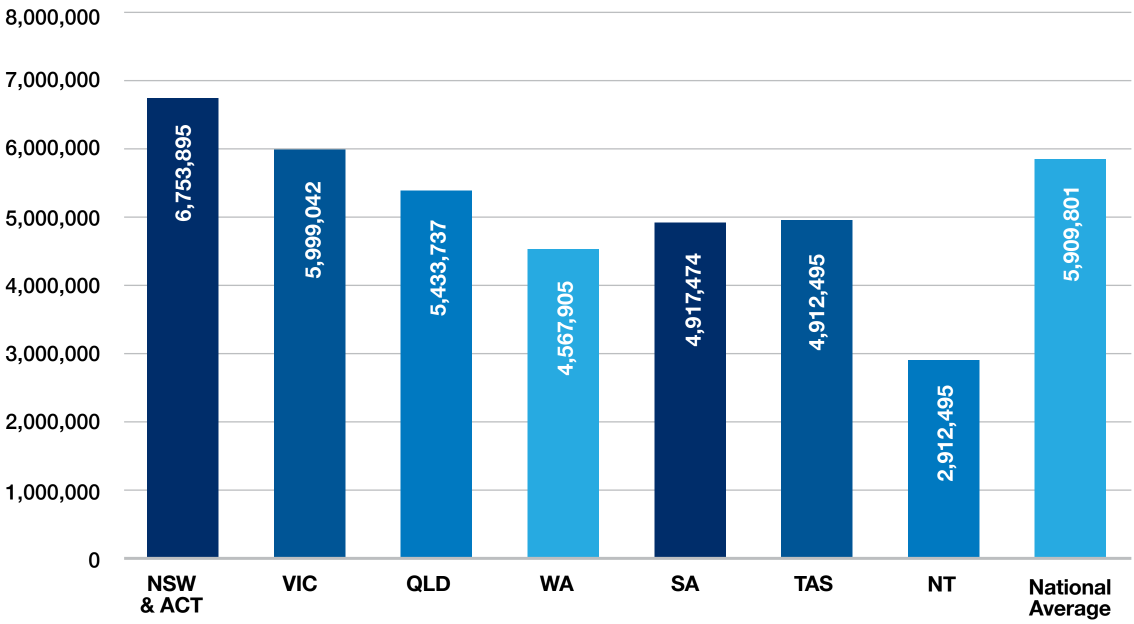
The average value of new home loan settlements per broker was $5.9 million (Figure 7.4), slightly down from $6 million per broker in the prior six months. Tougher market conditions and the increase in the broker population manifested in the softening of the average value of settlements per broker, which fell not only at the national level but also in each state and territory except Tasmania and the Northern Territory.

However, as is covered later in this report, the number of brokers who are inactive, passive or dormant for whatever reason is significant, representing around 17% of the broker population (Figure 10.1). Please note only 10 of the 14 aggregators were able to provide data on this.

This proportion places, inevitably, a significant drag on the average measures of productivity for the overwhelming majority of brokers who are active.

Figure 7.4

Average value of new home loans settled per broker in each state during the six month period, October 2016 – March 2017.

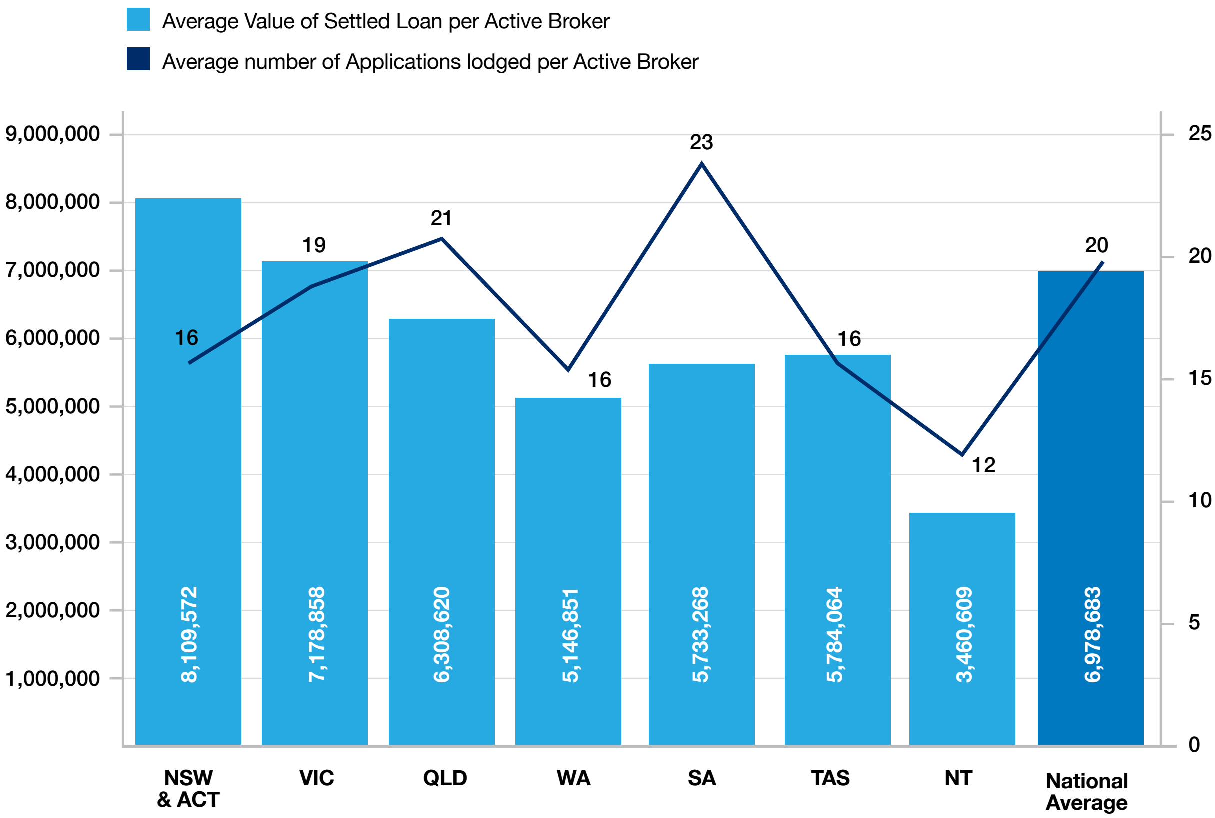


When the 17% sub-set of the broker population who are inactive is removed from measures of brokers' productivity, the ratio of new loans settled per active broker and new loan applications per active broker jumps, as is illustrated in Figure 7.5.

This provides a more realistic illustration of average rates of productivity for the majority of brokers.

Figure 7.5

Average value of new home loans settled and average number of applications lodged per active broker in each state during the six month period, October 2016 – March 2017.



8. Conversion rates stable

The implied conversion rate of new loan applications to settlements has been stable compared to the previous, third edition of the IIS Report (73%), to return 74% for the six months to the end of March 2017.

For the March period last year, the implied conversion rate was 80%, which indicates a 7.5% fall over the past 12 months. Whilst conversion rates always need to be interpreted with caution, it is plausible to infer that brokers are having to be very agile, responding deftly to the lending policy changes that have been implemented by lenders and in turn to initiatives from the regulator, to couple together applicants, lenders and products effectively.

In an increasingly complex market for borrowers to navigate, brokers can optimise the application process with feasibility and outcomes in mind.

Technical note: Conversion rates were calculated based on data from 10 out of the 14 aggregators who were able to provide data for new loan applications.

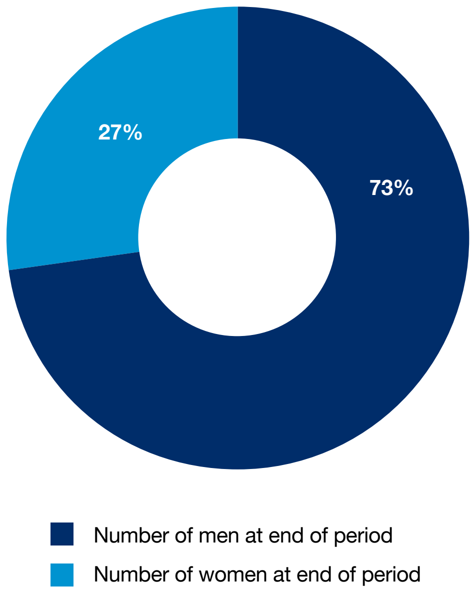
9. Women in broking

The proportion of brokers who are women appears stable, however, strong growth in the prior period appears to have slowed.

Based on data-points that are remarkably consistent with previous observations, 27% of brokers are women. A lower proportion of new brokers who were recruited during the six months were women. This segment is down from 32% to 27%, which represents a 15% reduction on the figures in the previous edition of the IIS Report.

Figure 9.1

The proportion of men and women working as brokers at the end of the six month period, October 2016 – March 2017.

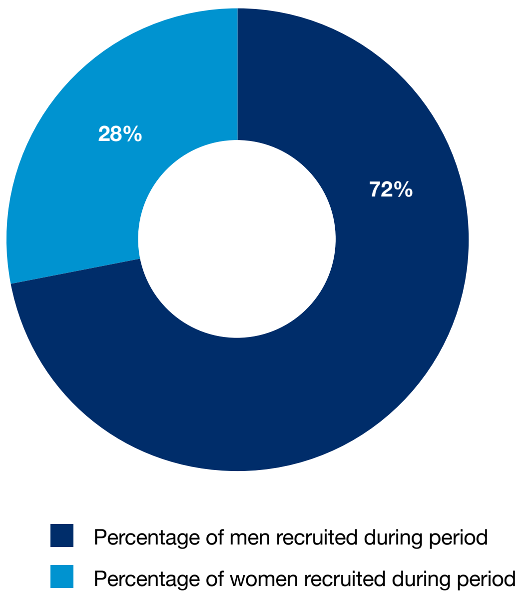


These results reaffirm conclusions observed in previous editions of the IIS Report that more women are entering the industry and that conversely fewer women are leaving the sector. Consistent with demographic forces at work in the overarching Australian population, the role of women in the finance broking industry seems not only assured but also a vital ingredient for its longer term prosperity and the value of the industry's proposition to customers in response to generational shifts.

It is interesting to note that although 28% of brokers recruited during the six month period were women, this represents a drop of 4% since the last edition of the IIS Report.

Figure 9.2

The proportion of men and women recruited during the six month period, October 2016 – March 2017.

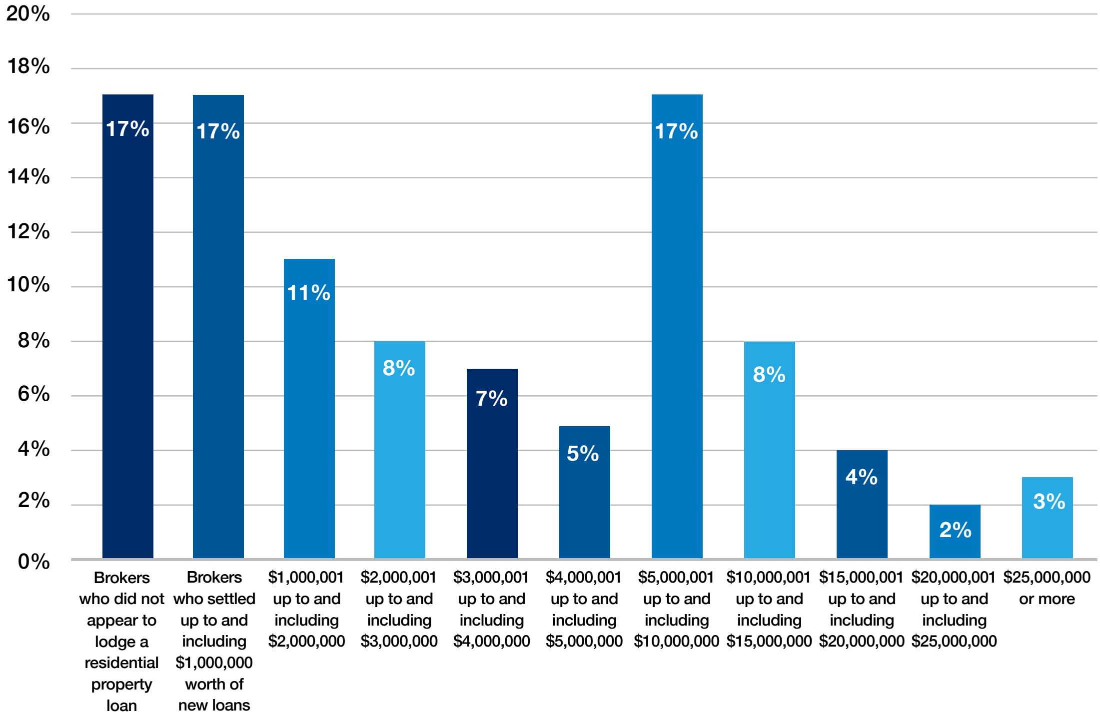


10. Dormant brokers

During the six-month period, 2,452 brokers did not appear to lodge a residential property loan, a percentage of the broker population that has not changed materially compared to the prior period. Reaffirming the conclusion of previous editions of the IIS Report, the industry has a materially sized minority cohort of brokers, around 17% of the broker population, who did not settle a loan in the last six months. The figure is based on a very representative sample of the industry that contributed data to this thought provoking data-pool.

Figure 10.1

How many individual brokers settled new home loans in aggregate in the following bands of value during the six month period, October 2016 – March 2017.



An increase is apparent in the next cohort of brokers who settled up to $1 million of new loans, which we attribute to two factors: partly to better reporting and to better adherence to the IIS Report's definitions and secondly to anecdotal evidence of aggregators increasing their support and focus on mobilising new-to-industry brokers to become effective faster. None the less, the conclusion appears valid that whilst the industry has a significant number of higher and top performers who continue to out-perform, there remains a cohort of passive, dormant or lower-performing brokers.

Interestingly, 45% of brokers settled $2 million or less in loans in this report period, up from 35% in the previous edition, an increase of 10%.

11. Broker turnover

Turnover in the broker population remains quite high and has increased.

As was observed in the last edition of the IIS Report, the industry's leading aggregators endure rates of turnover in their broker resources that are quite high. Furthermore, rates of turnover have increased half year on half year to register double digit rates not only nationally but also in four of the eight states and territories. The likelihood that turnover will increase seems self-evident: an increasing population of brokers; falling sales productivity; plateauing sales volumes and falling new loan application volumes will likely mean that higher rates of turnover are sustained.

Figure 11.1

Broker turnover during the six month period calculated as the number of brokers who left / the number of brokers at the start of the period.

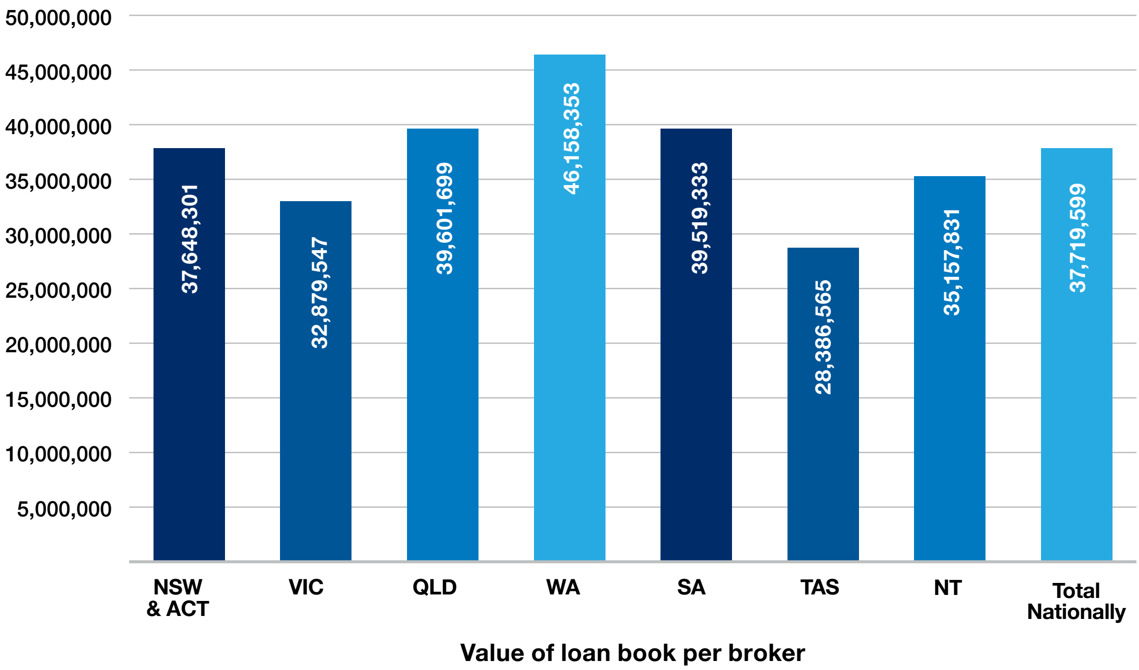
State or territory	The Industry average %
NSW & ACT	9.6%
VIC	11%
QLD	10%
WA	8.4%
SA	9.1%
TAS	13.1%
NT	10.1%
PERCENTAGE NATIONALLY	**10.2%**

12. Average broker portfolio

In a measure that registers only glacial changes, the average value of the portfolio or book of each broker is $38 million. Whilst the total value of the residential loan book for all 14 aggregators represented in the IIS Report grew by 4.3% to $603.853 billion, so did the population of brokers, meaning that averages of this sort take a long time to change. Plainly, beneath these state and national averages lie markedly different cohorts, determined fundamentally by the effectiveness, maturity, or longevity, of individual brokers.

Figure 12.1

Average value of the residential home loan book per broker in each state, and in total, at the end of the period, October 2016 – March 2017.

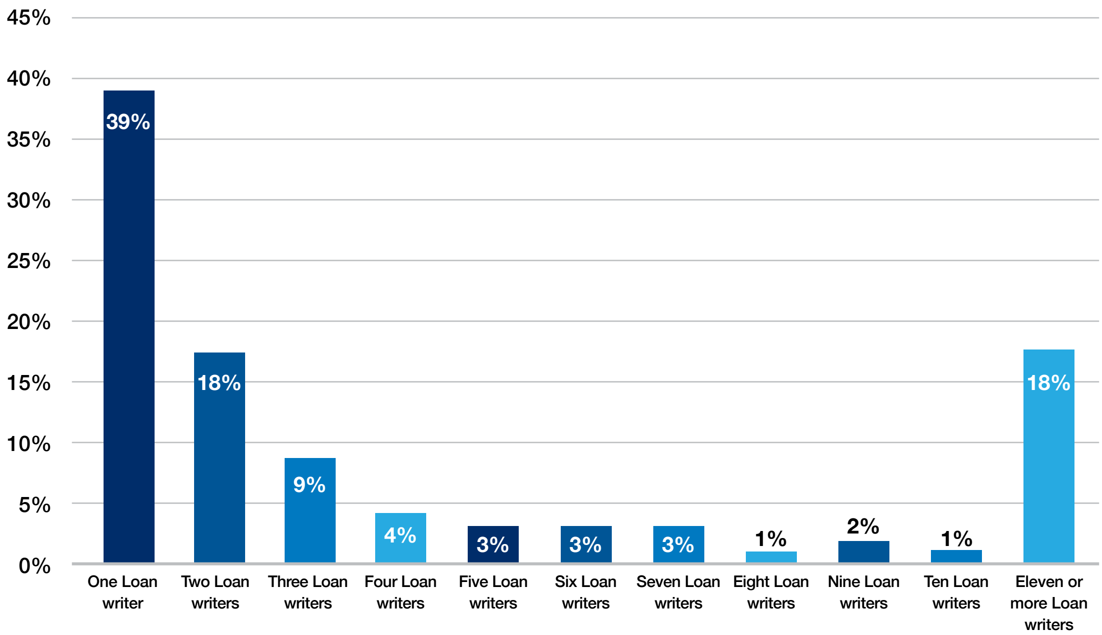


13. Small offices dominate

The industry remains dominated by small offices of one or two brokers. Fifty six percent of the broker population work in such boutique environments, based on a reasonable sample of brokers, illustrated in Figure 13.1. As some intriguing corporate strategies begin to play out in home loan distribution, it remains to be seen whether consolidation into larger offices will become more prevalent and whether economies of scale can be realised.

Figure 13.1

Brokers working as sole operators or in multi-broker offices, October 2016 – March 2017.



Technical note: the data in this chart is based on a sample of 5,371 brokers from 16,009.

14. Commercial broking

The value of commercial loans that were originated by residential mortgage brokers appears stable and the number of brokers writing commercial loans has increased solidly.

The total value of new commercial loans originated by brokers was $7.9 billion in the six month period, not materially lower than the prior half's result and inevitably a function of timing in a lumpier market than home loans. Two thousand six hundred and fifty brokers wrote a commercial loan during the period, up by ten per cent on the number of brokers involved in commercial lending last year. Anecdotal evidence continues to support the high levels of interest and activity amongst aggregators and brokers for diversification of their income streams and amplification of their product suites.

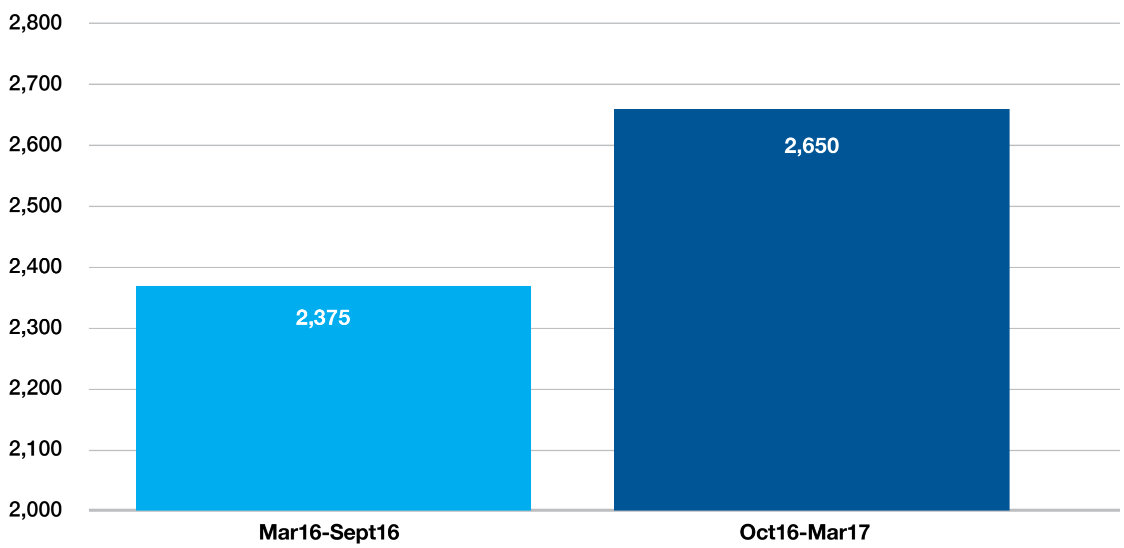
Figure 14.1

The value of new commercial, business, asset or equipment finance lending settled during the period, in total and in each state and territory.

State or territory	Total value for the pool of brokers
NSW & ACT	$3,395,525,051
VIC	$2,268,990,913
QLD	$1,090,320,424
WA	$753,504,881
SA	$379,357,966
TAS	$10,566,471
NT	$4,668,186
TOTAL VALUE OF NEW COMMERCIAL LENDING	**$7,902,933,892**

Figure 14.2

The number of brokers who wrote a commercial loan during the period, October 2016 – March 2017, compared to brokers involved in commercial lending in the previous 6 month period (March 2016 – September 2016) – an 11.5% increase.

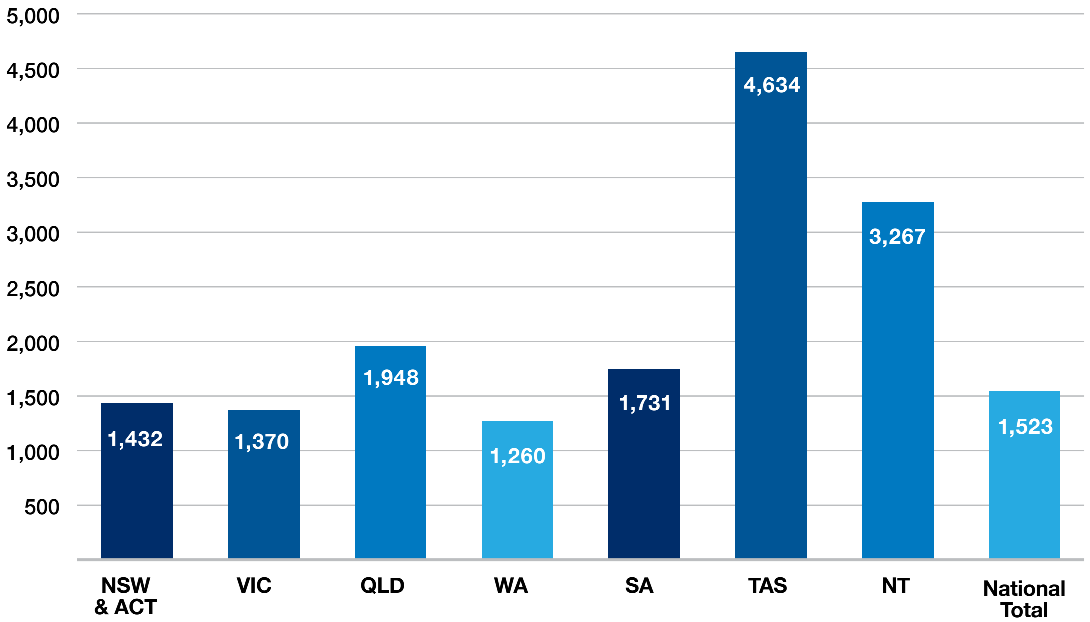


15. One mortgage broker per 1500 people

The average number of people per mortgage broker in Australia remains unchanged, at about 1,520 people per broker. This is not surprising given glacial movements in its underlying variables. Of the larger states, Queensland appears less penetrated by brokers, all else being equal, whilst Western Australia the most penetrated. Inferences may be drawn about the attractiveness of expansion opportunities therein.

Figure 15.1

Number of people per mortgage broker based on Australian Bureau of Statistics population estimates, December 2016.



16. Broker remuneration

The average gross up-front remuneration generated per broker, prior to costs, per annum is calculated to be $77,000 and the average trail is $56,500. Broker's average gross up-front remuneration and gross trail remuneration from residential lending listed here are estimates. These figures are estimated prior to all costs and prior to meeting any commercial obligations with aggregators.

Put another way, gross remuneration generated in this analysis means the total amount that lenders paid for the services provided by brokers. Out of this gross commission 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, entertaining clients, data services, market data subscriptions, insurance policies, travel costs, support staff's salaries and wages.

There are no material changes in the remuneration estimates in this report compared to the previous report.

Figure 16.1

Average gross up front commission generated per broker, prior to costs per annum.

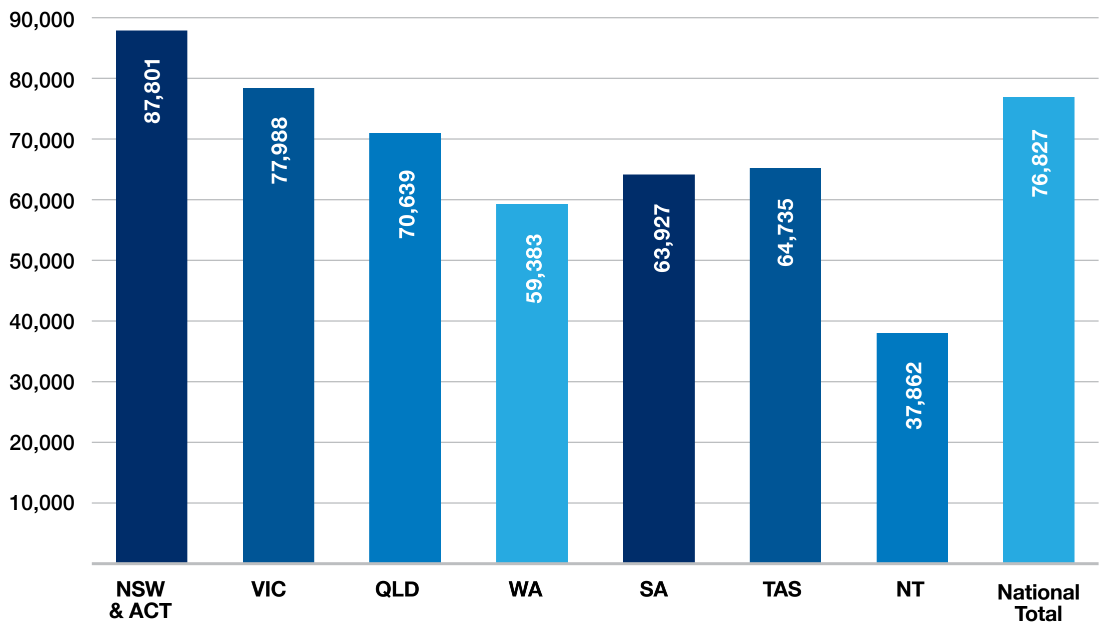
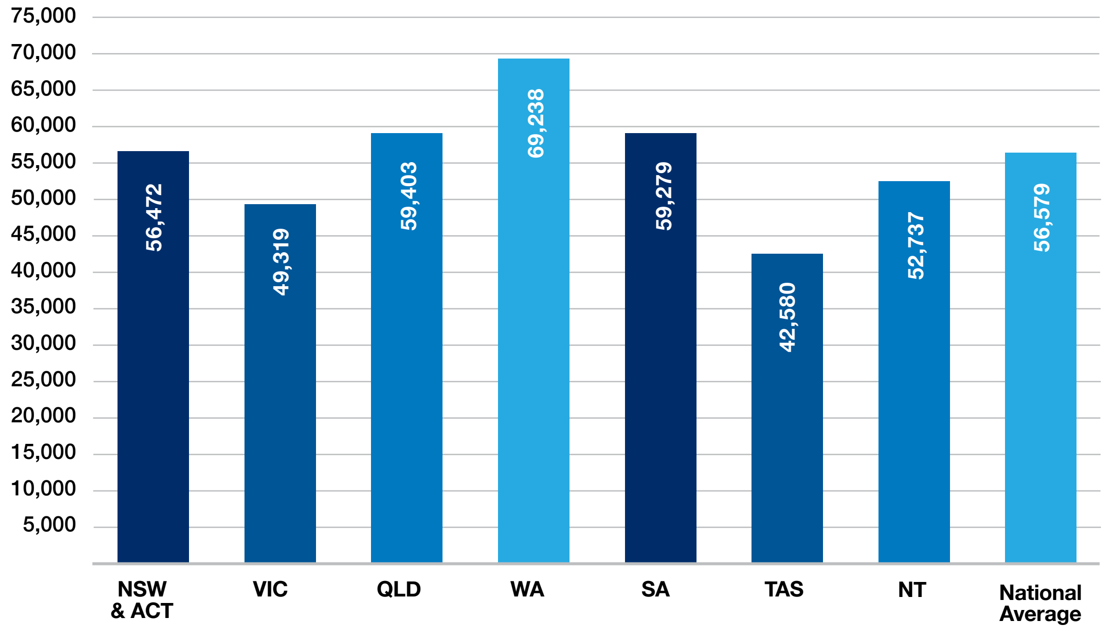


Figure 16.2

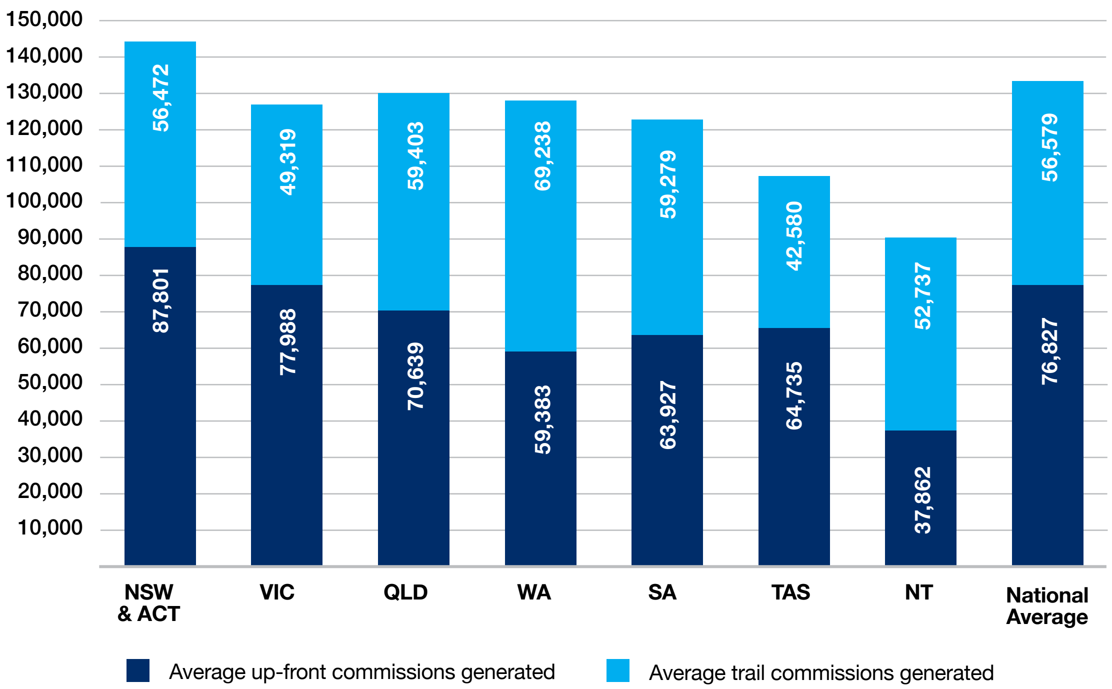
Average gross trail commissions generated per broker per annum (prior to costs).



The average broker's up-front and trail remuneration (in total) are calculated to be $133,500 per annum.

Figure 16.3

Average gross commissions generated per mortgage broker per annum (prior to costs).



The national average earnings (gross) for brokers was $133,407 per annum, a drop of 6% from the previous IIS Report when they were $142,500.

Figure 16.4

Calculation of broker's average gross annual earnings, combined up-front and trail remuneration generated per broker, prior to costs, per annum.

State or territory	Average up-front remuneration generated	Average trail remuneration generated	Total gross earnings generated
NSW & ACT	$87,801	$56,472	$144,273
VIC	$77,988	$49,319	$127,307
QLD	$70,639	$59,403	$130,041
WA	$59,383	$69,238	$128,620
SA	$63,927	$59,279	$123,206
TAS	$64,735	$42,580	$107,315
NT	$37,862	$52,737	$90,599
NATIONALLY	**$76,827**	**$56,579**	**$133,407**

State-by-State analysis

NSW and the ACT

New South Wales and the Australian Capital Territory have exhibited solid growth in the population of brokers, out-stripping weak-ish growth in the value of home loans originated by brokers. This was similar to the previous period.

Conversely, buoyed by high house prices and urban growth, the state remains the largest pool of home loan lending originated by brokers by far, at $38.69 billion in the six months to the end of March, equivalent to 40.9% of the national total.

The broker population stood at 5,728, again by far the largest and returning an increase on the prior period of 2.9%. As such, New South Wales and the Australian Capital Territory represented a dominant 35.8% of the national broker population.

The average value of settlements per broker in the six months was $6.75 million per broker, a material fall on the equivalent figure in the preceding half of $7.5 million, deflated inevitably by new-to-market hires.

Turnover, or movement of brokers in New South Wales remains pronounced, with 695 being recruited and 534 leaving the leading aggregators during the six months. This implies a net gain of 161 brokers in six months, cautioned only by any invisible effects of inter-state migration. That said, New South Wales' share of the pool of recruits during the six months, standing at 34.7%, is marginally below its natural share of the broker population. Whilst interpretations of fine margins need to be done with care, it is possible to infer that the leading aggregators have recognised and are responding to the risks of potential over-resourcing or over-deployment of brokers.

Of concern for New South Wales brokers is the fall in the number of new home loan applications from 89,000 at the prior six month count to 84,000 for the six months to the end of March. Coupled to the growth in the population of brokers, this implies one of the weakest average numbers of new loan applications per broker at 15 and certainly the weakest of the three large Eastern seaboard states.

VIC

Data for Victoria exhibits a pleasing solidity for the broker sector: solid growth in the broker population coupled to the highest ranking growth amongst the states in the value of new loan settlements.

Having arguably lagged behind its northern neighbour's adoption of brokers, Victoria appears to be managing growth well and enjoying an equilibrium that New South Wales might currently envy.

The total value of new broker-originated settlements in Victoria was $27.34 billion for the six months, returning growth of 4.1% and representing 28.9% of the national total. The broker population increased 3.7% in the six months to reach 4,557. The recruitment and retention of brokers reveals a lot of movement between aggregators, as well as implying a net gain of 162 new to market brokers, beating New South Wales' net gain by one person. Victoria's share of the pool of brokers that were recruited during the six months was 32.3%, well ahead of its share of the national population which stood at 28.5%.

The number of new loan applications generated in Victoria was 79,500, compared to 82,500 in the prior period. At 17 new loan applications per broker, the state's broker sales funnel appears somewhat better positioned than New South Wales, however, the ratio has softened compared to the prior six month period's 20 applications per broker, it remains below the national average of 19.

QLD

Queensland returned the highest growth in its broker population, at a robust 3.9%, to 2,507 mortgage brokers. However, growth in settlements was only 0.2%, proximate to the national average growth rate of 0.1%. This presents a sobering about-turn compared to the more robust results presented in the prior cycle of the IIS Report, a picture of an increasing broker population and a faltering home loan market.

Queensland's brokers originated $13.62 million of new loans, only marginally ahead of the $13.3 billion in the prior period. Aggregators recruited 335 brokers and lost 241, implying a net number of new to industry brokers in Queensland of 94.

The number of new loan applications per broker was line-ball with the national average at 19, a retreat from 22 per broker in the last period and implying a weaker capture of what appeared to be a more solid sales pipeline.

A typical broker in Queensland settled $5.43 million of new home loans in the six month period, a mild fall on the $5.59 million per broker observed in the prior half. In a measure that is inevitably glacial in its movements, the average value of the home loan portfolio, or book, per Queensland broker is $39.6 billion, very mildly above the national average.

Despite recent growth in the state's broker population, it remains the most prospective of the eastern seaboard states, returning the highest head of population per broker of the three at 1,948 people per broker.

WA

Western Australia's residential home loan market for brokers contracted markedly in the six month period, returning the lowest and negative growth rate of all states and territories at -10.5%.

When combined with even only mild growth in the population of brokers, at 1.2%, this indicates a tough environment for newcomers to the sector, whose dependence on up-front commissions rather than trail is inevitable. This further emphasises the need for resilience amongst established businesses who at least benefit from the largest book per broker at $46.2 million.

Total new loan settlements by brokers fell below the $10 billion level that was achieved in the prior half to $9.31 billion, a little known but possibly psychologically important figure.

For Western Australia's 2,038 brokers, this returned average settlements of $4.57 million, a contraction of 16% on the prior period's figure of $5.45 million per broker.

In further sobering findings, the state had the lowest number of new loan applications per broker, suggesting that the current sales pipeline remains lean. The state also has the lowest number of people per mortgage broker, at 1,260, further clouding the environment.

SA

Compared to the prior period, brokers' fortunes in South Australia seemed to have experienced a downturn.

South Australia's broker population grew by a solid 3.7% during the half to 992 brokers, who originated $4.88 billion of new home loans. However, this figure fell 8% from the April to September half last year, when $5.3 billion of new home loans were settled.

Similar to Western Australia, South Australia has endured a tough six months to the end of March, when arguably more brokers entered the state's broker industry than the recent market may have merited.

Based on new recruiting and departure numbers, a net 35 new brokers started in South Australia. In that sense, the state has had diametrically opposite movements: more brokers joining the industry coinciding with a much softer home loan market, a pattern that would have been impossible to foresee but sobering for incumbents and newcomers none the less.

TAS

Hot on the heels of some robust results from the previous edition of the IIS Report, Tasmania again compared favourably to larger mainland states. However, the data used was based on information from only five aggregators.

Home loan settlements by brokers grew a very healthy 7.4%. In an unusual movement, the population of brokers contracted by 8%, based on the data submitted by the leading aggregators with presence in Tasmania.

This unusual divergence meant that a population of 112 Tasmanian brokers, who originated $558 million of home loans, returned a robust $4.98 million of new settlements each, on average, above results for far larger states such as Western Australia and South Australia.

A cautionary note is necessary when interpreting data from small market environments: Tasmania represents less than 1% of the broker population and only 0.6% of the value of the broker home loan market so results are vulnerable to greater fluctuations than larger, more stable markets.

The data sourced from the five aggregators is believed to be fair and representative but local opinion may diverge from the results presented.

About the MFAA's Industry Intelligence Service (IIS) Report

The MFAA's Industry Intelligence Service (IIS) Report provides reliable, accurate and timely market intelligence for the mortgage broking sector.

It is designed, produced and delivered by Comparator, a CoreLogic business and a recognised provider of performance benchmarking, market diagnostics and ad-hoc investigative services to the retail financial services sector in Australia and New Zealand.

The IIS Report profiles quantitative variables including:

- broker resourcing,
- deployment,
- recruitment and retention,
- new business acquisition, and
- loan portfolios.

It provides performance metrics or benchmarks for the industry and for the prevailing models of wholesale aggregators and franchised broker models.

Individual results for participating aggregators are completely confidential and are never provided to the MFAA, nor to other brokers.

The MFAA's IIS Report is produced twice a year, for the six months ending March 31 and the six months ending September 30.

CoreLogic®
Comparator

Level 21, 2 Market Street, Sydney NSW 2000 Australia. Telephone 1300 734 318

Benchmark your business

Where does your business fit in comparison to the rest of the state and national average? Are you above, in the middle or behind the pack? Use the information in the tables over pages 38 – 44 as a tool to evaluate your business.

New South Wales

	National Average	NSW and ACT	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$6.8 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	16 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$37.6 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$87,800		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$56,500		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$144,300		

My key actions

Victoria

	National Average	VIC	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$6 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	19 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$32.9 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$78,000		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$49,300		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	127,300		

My key actions

Queensland

	National Average	QLD	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$5.4 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	21 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$39.6 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$70,600		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$59,400		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$130,000		

My key actions

Western Australia

	National Average	WA	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$4.6 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	16 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$46.2 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$59,400		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$69,200		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$128,600		

My key actions

South Australia

	National Average	SA	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$4.9 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	23 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$39.5 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$63,900		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$59,300		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$123,200		

My key actions

Tasmania

	National Average	TAS	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$5 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	16 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$23.4 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$64,700		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$42,600		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$107,300		

My key actions

Northern Territory

	National Average	NT	My Data	% Difference.
Average value of new home loans settled per broker in each state during the 6 month period	$5.9 million	$2.9 million		
Average number of new loan applications lodged per active broker in each state and in total during the 6 month period	20 loans	12 loans		
Average value of the residential home loan book per broker in each state and in total, at the end of the period	$37.7 million	$35.2 million		
Average gross up front remuneration generated per broker, prior to costs per annum	$76,800	$37,900		
Average gross trail remuneration generated per broker, prior to costs per annum	$56,600	$52,700		
Average gross remuneration generated per mortgage broker, prior to costs per annum	$133,300	$90,600		

My key actions

MFAA

MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA