A marketing study relating to the long term sustainability of recently established mortgage management organisations

A Masters Project
by

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Abstract

The first section of the report sets the outline and the scene for the project. The introduction provides the readers with a synopsis of the journey to be undertaken and the key objectives to be achieved. Furthermore the first chapter outlines the rationale and the organization of the entire study.

The next section looks at the secondary research and familiarizes the reader with the Mortgage Management and real property mortgage industry. This section looks at the banking and finance sector, the role of government within the industry and provides us with an outlook from an empirical perspective on the direction of the marketplace as well as the consumer and product base. The author provides the reader with an understanding of the key terms and buzz words within the industry as well.

This is followed by the research methodology. The study uses mainly secondary sources as well as the experiential data provided by the author through his knowledge of the industry and sector.

Chapter four examines the Mortgage Manager in detail. This section looks at the placement of the vocation within the industry and outlines the key barriers as well as competitive factors facing Mortgage Managers. This section also identifies the critical success factors and provides the backdrop for the key strategy that is outlined within this chapter.

The final section provides a summary discussion and highlights the limitations as well as opportunities for future research created by this report. This section also emphasizes the importance of clearly identified goals as well as flexible strategic direction with key distribution channels and partners.
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1.1 Introduction

The Australian culture breeds a free spirit. This free spirited nature also relates to the business world and as such this country of 20 million individuals breeds a larger band of entrepreneurs in comparison to most other nations. The culture of this country provides the impetus for individuals to go it alone and be admired for having the courage to ‘do it for themselves’. The purpose of this study was to evaluate the marketing strategies of newly established mortgage management organisations.

This study provides the backbone for a long term success within the venture outlined. It is an attempt to develop products that will enhance and sustain the organisation within its industry with a niche that will differentiate them from their competition. A successful analysis and undertaking will enhance the business and provide a clear view of product and market placement for mortgage management organisations.

The study also addresses the issue of marketing these products to the general consumer. Identification of the target market and suitable niche for such organisations and the products developed as well as creating a suitable marketing plan for the products is vital for the long term sustainability of such organisations.

It is intended that this study will provide a benchmark for all mortgage management organisations to progress their marketing related activities and to implement their marketing programs so as to ensure long term profitability.

1.2 Context of the research

The residential and commercial lending market has a number of tiers. The top tier is the major banks such as the ANZ bank and the National Australia Bank. The second tier is made up of wholesale fund lenders such as Challenger bank and ING who provide access to a select number of Mortgage Managers to use their funds for
lending. The next tier is the neighborhood broker who will source the funds for the client at a fee and a commission structure from the source of the funds.

Mortgage Managers fit into the picture as tier two lenders who have access to bulk funds provided by banks such as ING and Challenger.

Mortgage managing can be an Australia wide operation that funds a loan anywhere in Australia. Be it in Queensland or Western Australia the Mortgage Manager is able to fund a loan. In an instance where the Mortgage Managers own funds do not suit a client, they are able to outsource their funds (Brokering). If there is an instance where a client prefers another deal the Mortgage Manager will definitely broker that deal out in order to keep the client happy which will in turn provide more business for the organisation.

1.3 Research focus

The focus of the research is three fold. The first is the identification of suitable and unique products. The second step was the identification of the market place and the suitability and fit of products to the market place. The third is the marketing process and the documentation of a plan for the business.

The products are targeted towards the non-conforming and low documentation area. This area is growing rapidly and was the focus of products created by one particular player in the industry. The nature of the products developed was sustainable and flexible to the changing markets.

The market place is rapidly evolving. The consumers are gaining knowledge and are more and more involved in the process. The impact of this changing market on the suitability of products is examined.

The third section of the research focuses on the marketing process which will take this product to market. This mode of operation involves a detailed plan outlining the best strategy for gaining market acceptance and penetration.
1.4 Rationale

The underlying reason for this project was to develop a reference tool for the mortgage managing business. The in depth and detailed analysis required is suited to the questions that need to be answered in the context of this project.

The new business is in a competitive market. Mortgage lending and brokering is a mature industry. It is still growing in some areas and products (property wrapping, reverse mortgages, etc.) but overall the market place is extremely competitive.

It is important that Mortgage Managers position themselves such that they are not disadvantaged within this market and that they provide a sustainable operational model for their owners. This operational and product model needs to encapsulate a niche strategy for which it is imperative that a niche product or range be developed.

1.5 Research objectives

The specific aims of the project were as follows:

a. To develop a range of products that is unique to this lending organisation. The financial lending arena is filled with different lending and financing options from a simple hire purchase to a property wrapping deal that can be organised for a first home buyer. By formulating suitable products and tabulating these different lending methods and options Mortgage Managers would be able to offer a vast array of options that would differentiate it and position it accordingly in the market place.

b. To develop a marketing strategy that would differentiate a Mortgage Managers products and services and generate the required new business.

c. To create a reference guide for the emerging players in the industry.
1.6 Contributions of the study

This study will benefit the mortgage managing industry by identifying the critical success factors in achieving its long term aim. It will also provide a planning document to achieve the best fit in terms of strategy and goal orientation. Furthermore it will outline the key steps that need to be taken to achieve the major marketing related objectives.

This study will also tabulate the different financial options that may be offered to customers from Mortgage Managers. These options will be unique to the organisation and would offer them a competitive edge.

1.7 Organisation of the study

This study is organized as follows. Chapter two contains the current literature and research background pertaining to the marketing activities of mortgage management organizations. A comprehensive examination of the information that has been published and a review of the previously published literature will be used in the further analysis of the markets and products involved.

The third chapter describes the research methodology.

Chapter four describes the findings of the empirical research. These findings are a result of the information gathered through secondary means and experience. This chapter also provides the reader with the strategy that is outlined for this study.

Chapter five summarizes the discussion and provides recommendations and areas for future research. This chapter concludes the study.

The chapters have been organised incorporating the following concepts. The purpose of the study is to identify a strategic marketing plan within the mortgage industry specifically targeted towards the sustainability of a Mortgage Manager. The study aims to explore the fundamental shift within the residential mortgage industry and identify a directional change towards Non conforming and non bank lending.
The first chapter will outline the background for the project as well as set the scene for the rest of the report. This chapter will include a synopsis of all the areas that would be examined as well as major milestones that need to be highlighted. The aims and objectives of the project as well as the scope and limitations will be outlined in this area.

The next section would be the market analysis. Within this area the author will examine the productivity of the exercise as well as the customer base and the rest of the market. What other factors may influence the products that Mortgage Managers introduce? An appraisal of the customer base and accessibility factors will be outlined within this area. The market analysis will be able to provide the reader with additional information on the positioning of Mortgage Managers within the marketplace.

The product assessment section will analyse the products from general appeal, appeal to specific niche groups, acceptance and risk and return. Each subsection will be analysed from an internal as well as external view. Internal been the management and internal organisational view of a mortgage managing organisation and the external been the niche customer and general consumer.

The second chapter provides literary evidence of the subject matter. It also validates certain statements and information about the industry and the direction it has taken. This is followed by the literature review, which is empirical evidence of the information provided within the project.

The rest of the chapters then use the information and data gathered to provide justification for the conclusions and recommendations that are provided.

1.8 Conclusion

The study sets the background and provides the reader with the necessary information to understand the industry and provides the reader with the modus operandi towards achieving the objectives outlined above.
Chapter 2 – Literature review

2.1 Introduction

This chapter examines the existing literature and provides the reader with a foundation towards the industry. The chapter looks at the background of the mortgage industry and the different lenders. The relationship between lenders and overall marketplace is examined. The literature review looks at the banking and finance industry as well as the real estate property market. The role government within the industry is also examined. Finally the chapter inspects the changing market conditions and lending structures.

2.2 Background of the mortgage industry

The alteration of the planned economies of Australia to market economies is focused on three key processes:

1) Economic stabilization and liberalization,
2) Privatization,
3) Financial sector development.

The housing sector and its financial dimension, the mortgage market, have been a factor in each of these processes, although, have not always a positive one. The housing sector has not contributed to economic stabilization, since new housing construction in most transition economies has plummeted since 1989. (Black et al, 1996) Even if we take into account the statistical under-reporting problems for private investment activities in housing rehabilitation, it is unquestionable that the withdrawal of the state from direct housing production has led to a sheer fall in annual output. The housing sector has also lagged in terms of economic liberalization, since house rents continue to be among the most regulated prices in the transition economies (global economic policy n.d). (Although some rent controls appear in many economies, they take on an extreme form in most transition economies as a legacy of central planning.)
The privatization of housing sector assets has also been utterly slow, even when housing units are available to the current occupants at virtually no cost. This may reflect the fright that owners will be charged higher utility and maintenance costs than are renters. In any circumstances, this slows down the overall process of privatization since housing generally represents a large part of any country’s tangible capital. In the United States, for example, residential structures (excluding land) represent almost 30% of all substantial capital and all real estate (including land) represents almost 70% of all substantial capital (US economic policy, n.d).

In relation to the financial sector development, housing finance has remained in a primitive state compared to the rapid development of banking and other financial markets. This is particularly outstanding as in most developed countries, the mortgage market, meaning the market for financing real estate assets is among the largest components of the capital markets. In the United States, for example, mortgage debt is the largest component of the domestic debt markets (US Census Bureau 2000).

Mortgage market development is probable to be a key factor in overall financial market development. An efficient mortgage market will act as a positive externality for the other capital markets, creating pressure for higher efficiency in these markets. On the other hand, a poorly functioning mortgage market is likely to "pollute" other financial markets with its inefficiency. For example, governments are likely to "support" inefficient mortgage markets with subsidies and regulations, which then act as implicit taxes and constraints on the rest of the capital markets. In fact, controlling the proliferation of quasi-fiscal subsidies is a generic problem of developing economies (Energy code of Alabama 2001).

The prompt development of the banking sector in most developing economies raises an instantaneous question, which is why the banks in the changing economies have failed to take the lead in developing a housing finance system. They are focusing on a series of risks credit, interest rate, and liquidity that have constrained the ability of the developing economy for banks to develop mature housing finance systems.

The slow development of mortgage markets in changing economies indicates the need to create a consistent housing finance strategy. It firstly needs to approach this
topic by evaluating the housing finance systems used in the developed economies. Two primary systems that are observed depository institutions acting as portfolio lenders and secondary market systems. It is then necessary to further analyse the alternative versions of secondary market systems.

In addition, it is then productive to evaluate the likely efficiency for the transition economies of the alternative systems used in developed economies. Conclusions favor secondary mortgage markets as the key instrument to eliminate the constraints that have slowed the development of housing finance.

Secondary markets present two main benefits. First, banks can shed the risks associated with holding mortgage loans by selling the loans to other investors through the secondary market. Second, secondary markets create standards for credit evaluation and collateral procedures that directly increase the efficiency of the primary markets for new mortgage originations. Although this will focus on the development of secondary mortgage markets, essential changes are also required to develop the primary mortgage markets in the transition economies.

2.2.1 Banking and housing finance

Above it is mentioned that the rate of new housing construction and re-financing in most transition economies has plummeted since 1989 (Black et al. 1996). This could suggest that the failure to develop housing finance systems has been the result of little demand for mortgage loans to finance new mortgages. The same transition economies, however, have a restricted demand to exchange existing residential structures, either to match housing locations with job locations or for family life-cycle reasons. Such trading of existing structures generally creates a large demand for housing finance. In addition, the low levels of new housing construction and mortgages and the value of a housing asset as an inflation have raised the excess demand for housing (housing shortages), therefore creating an excess demand for housing finance. In short, there is sufficient demand for housing finance in the changing economies. As per the Interstar Mortgage managing handbook of 2006, the source of the failure to develop housing finance systems can be reasonably associated with supply side lenders, primarily the commercial banks.
In all economies, long-term housing loans create significant credit, interest rate, and liquidity risks for bank management. In the changing and emerging economies, volatile inflation and the political pressures to control interest rates have expanded these risks even further. The financial instruments and markets that are used to manage these risks in the developed economies are just now beginning to function properly in the group of advanced reformers. The lack of credit evaluation skills and insufficient capital are other constraints to mortgage lending that are only gradually being determined.

In order to best evaluate this situation it is best to look at each of these factors individually.

In developed mortgage markets, credit risk that is, the risk of default on a real estate loan is usually measured by two ratios, with a lower value of either ratio indicating less credit risk:

> The **loan to value ratio** is the ratio of the loan amount to the property value.
> The **payment to income ratio** is the ratio of the annual mortgage payment (including payments for insurance, property taxes, and the like) to the borrower’s annual income.

The loan to value ratio is generally considered the more basic determinant of credit risk because, as long as the loan amount is less than the property value, the lender can always recover the loan principal by taking over the property and selling it. In transition economies, however, this is unlikely to be the case for two reasons. First, the property rights and foreclosure procedures that are needed for real estate to function as loan collateral are not well established in the legal and institutional structures of the transition economies. Second, accurate methods for estimating property values in transition economies are developed, although this is where it is imperative to use a reputable valuer so that the property is not over valued. The recent interest rate rise in Australia by 0.25% places more pressure on the valuers to ensure that property valuations that valuers execute are of a conservative value.

In the absence of real estate as a source of reliable collateral, payment to income ratios become a more critical determinant of credit risk. In the changing economies, the risk of loan defaults is increased (Homebuying 2006). Although this is likely to be
temporary, given that it is primarily the result of highly depressed income levels in the changing economies, it makes housing loans in the changing economies extremely risky. Furthermore, the difficulty of verifying income due to significant underground economic activity and the absence of credit bureaus increases credit risks and lead to credit rationing.

In developed economies, housing finance lenders are sometimes short funded, meaning that the maturity (or duration) of their mortgage assets exceeds the maturity of their funding sources (such as bank deposits). This occurs because mortgage borrowers generally wish to match their durable housing assets with long-term mortgage loans, while depositors prefer the liquidity of short-term investments. The short funding creates an interest rate risk for the lenders, since an increase in market interest rates raises the cost of deposits without immediately raising the return on the mortgage assets (Eagle trader 2006). The interest rate risk can be hedged using capital market instruments, but they have a high cost, approximately equal to the difference between short-term and long-term interest rates. Alternatively, the interest rate risk can be controlled by using adjustable-rate or floating-rate mortgages, but these instruments only displace the interest rate risk to the borrower.

In the changing economies, capital market instruments are unlikely to be available to hedge the interest rate risk, so floating-rate mortgages will be the norm. ('About economics', economic help, 2006) This means that borrowers face the interest rate risk, which increases their likelihood of loan default. In other words, floating-rate mortgages tend to transform the banks' interest rate risk into credit risk, not necessarily a significant improvement. Furthermore, real interest rates (nominal interest rates minus the expected inflation rates) have been high (often in excess of 15%) (Economic help 2006) and volatile in the transition economies, further raising the credit risk on adjustable-rate mortgages.

In fact, price-level indexed mortgages, which contractually set a fixed real interest rate for the mortgage, offer a potentially better solution for controlling both interest rate and credit risk in the transition economies. There are also hybrid instruments, such as the dual interest rate mortgage (DIM) used in Mexico, which create variable, real-rate, mortgages. However, these mortgages remain relatively complex
instruments, and therefore are likely to be difficult to introduce in an otherwise under-developed housing finance system (Management professor, online, 2006).

The depositors in transition economies are likely to value liquidity meaning the ability to convert deposits rapidly to cash reflecting the high risks associated with the macro-economy, individual banks, and the consumer’s individual needs for funds (Easley et al. 1996). The banks must therefore anticipate large and unexpected deposit outflows, which require that assets be rapidly sold to finance the deposit outflows. Government securities are good assets for this purpose, since they trade in active and liquid markets and their prices are accurately determined. Business loans are more difficult to sell, but their short-term maturities make them essentially self-liquidating.

Mortgages do not have short-term maturities and they do not easily trade in secondary markets (because buyers find it costly to verify the credit quality of each mortgage offered for sale). Taking these factors together, mortgages create significant liquidity risks for lenders.

### 2.2.2 Real estate property rights

In most changing economies, property laws have had to be rewritten to recreate the concept of real estate. Privately managing the bundle of land and building rights that constitute real estate property in a market economy is still a new way of operating. The requirements of residential and business real estate development often remain poorly understood or accepted by central and city administrations (OECD 2006).

In all changing economies, the weak environment for secured lending affects all types of loans, including loans to small and medium sized enterprises. Loans secured by real estate lending suffer especially from the legacy of poor land titling. Even in countries with a tradition of high quality registration, like East Germany, “land books” were no longer properly maintained during the socialist era (OECD 2006). Alternative forms of collateral lending that differ from the usual Western foreclosure practices may therefore be useful.
2.2.3 Efficient mortgage markets in developed economies

Proficient mortgage markets require that the lending risks credit, interest-rate, and liquidity be allocated to the long-term investors who are best able to handle them. Many substitute systems have been used, reflecting different economic conditions and attitudes toward risk. For example, the late 19th century saw the development of what we call the mortgage credit institute (MCI), created throughout Europe and most common in Northern Europe (Agarwal et al. 2005). The structure of these banks reflected the tradeoff between credit risk on one hand and interest rate and liquidity risk on the other hand. Its German version (the Hypothenken Bank), for example, minimized credit risk by making mortgage loans with loan to value ratios below 60%. (Easley et al., 1996) Although this reduced the credit risk faced by the bank, it forced the borrowers to delay their first home purchase until they had accumulated the substantial equity required for the deposit.

Australia however has two forms of security. The first is Perpetual Trustees who are Australia’s leading fund manager. They managed all funds whether a mortgage is placed through a bank or private lender. This then secures the mortgagor in case the mortgagee goes out of business. For example, if the Commonwealth Bank of Australia was to close down tomorrow, Perpetual Trustees would take over all the mortgages that they have in order to protect the borrower. The second form of security that Australia has is the Mortgage Insurer. There are two main mortgage insurers in Australia, GE and PMI. Both will assess the risk of the property and decide how much they will insure the property for. Once they have given approval on the property the bank is then able to lend against that property due to the fact that the property has been mortgage insured. There are programs designed for properties that are non insured and they then fall under the non-conforming product line. This will then attract a much higher interest rate due to the risk involved for the lender.

In the United States and England, until recently, most home loans have been made by depository institutions, including commercial banks, Savings and Loan Associations in the United States, and Building Societies in England. How the various risks are shared between the lender and borrower then depends on the particular form of the mortgage instrument. For example, in the United States during the Great Depression of the 1930s, (Easley et al. 1996) many borrowers suffered the
unforeseen loss of their homes when lenders suddenly stopped renewing short-term mortgage loans. Conversely, in the United States during the early 1980s, the Savings and Loan Associations suffered massive losses and many of the institutions ultimately failed when interest rates rose unexpectedly while the institutions were following a short funding strategy using fixed-rate mortgages. (Easley et al. 1996)

A key advantage of the *depository institution system* is that three distinct mortgage market functions can be vertically integrated within the depository institution:

- Mortgage origination is the process, through which mortgage debt is created, comparable to the underwriting function for other capital market securities.
- Mortgage holding refers to the activity of institutions and other investors who own or hold mortgage debt. When the mortgage originator and the mortgage holder differ, it is necessary to transfer mortgage ownership. The high risk, high information costs, and small size of individual mortgages confuse the mortgage transfer process.
- Mortgage servicing refers to a series of activities, including:
  (a) Collecting the monthly payments from the borrowers and transmitting the funds to the holders
  (b) Confirming that the borrower maintains property insurance and pays property taxes, and;
  (c) Carrying out the foreclosure process in cases of default and arrears. (Clemons, 2006)

The last 30 years have seen a trend toward separating or unbundling these mortgage market functions. The new developments can be described as *secondary market systems*, (Glassear & Kallal 1997) in which mortgages are originated by one agent (a depository institution or specialized mortgage originator), but are then transferred to a capital market institution or other investor who serves as the final holder.

Strictly speaking, real estate loans generally consist of two documents:

1. The bond (or note) which documents the terms of loan repayment;
2. The mortgage which provides the collateral.

However, in using the term "mortgage" refers to both sets of loan documents.
2.2.4 Criteria for evaluating efficient mortgage market systems

A simple indicator for evaluating alternative structures is the borrower’s “all-in” cost. The all-in borrowing cost incorporates both the direct interest rate and the costs associated with the non-price terms of the mortgage instrument such as maturity, variable interest rates, deposit requirements, and credit availability (Glassear & Kallal 1997). In principle, each of the three mortgage functions origination, holding, and servicing can have an independent impact on the borrowing cost. In practice, the holding function is the primary economic factor, since the mortgage holder can then choose the most efficient institutions for administering the mortgage origination and servicing activities.

The all-in borrowing cost also includes the government’s cost of guaranteeing or otherwise administering the housing finance system. For example, under the mortgage managing, some of the government’s costs associated with safeguarding deposits should be included in the all-in costs of the housing finance system. Furthermore, the government stamp duty is also included within this all-in cost.

Under a secondary market system, the same is true for the government’s cost of providing credit guarantees on mortgage tools and/or the liabilities of the mortgage holding institutions. The government may try to contradict responsibility for the housing finance system’s credit risks, but this is hardly ever successful.

It has been observed that the mortgage holding function is the strategic focus for dealing with the risks of mortgage lending. We now consider secondary mortgage markets (SMMs) as a solution for handling risk in the housing finance system. The basic principle of a SMM is to tap capital market investors as the long-term funding source for the mortgage market, thus mitigating interest rate and credit risk. Mortgages are first originated by depository institutions that are expected to have expertise in risk evaluation and underwriting new mortgage loans. The mortgages are then sold to the final investors who hold the mortgages. There are various forms for SMM systems, based on differences in the tools which are used for the mortgage sale and in the type of investors or institutions who buy the mortgages.
The SMM buyer of existing mortgages faces *asymmetric information* in that the mortgage seller is likely to have much improved information regarding the credit risk of the underlying mortgages than does the buyer. This creates the *moral hazard risk* that the seller may claim that the mortgages are of high quality, whereas in fact they are of low quality. Moreover, the low quality of the mortgages may not be discovered until many years later when higher than expected default rates begin to occur. At that time, it may also be difficult to determine whether the high default rates result from low quality mortgages or simply bad luck (high default rates on high quality mortgages).

A solution is for the buyer to evaluate the quality of the mortgages with the same level of meticulousness carried out by the mortgage originator (i.e. the mortgage seller), thereby eliminating the informational asymmetry (Glassear & Kallal 1997). This process is burdensome and costly, since individual mortgages are of small size relative to investor portfolios and each mortgage must be evaluated. As a result, mortgage sales are rarely based on a re-evaluation of the individual mortgages. Instead, asymmetric information is controlled through a number of devises, including underwriting standards, reputation of the seller, and credit guarantees.

### 2.2.5 Purchases by credit institutions & securitisation

In many developed countries, the SMM is dominated by large institutions which specialize in either purchasing mortgages or in lending funds to the institutions that hold the mortgages.

The large size of these institutions allows them to set underwriting standards and to rely on the sellers’ reputations. The large scale of their bond issues and their continuing presence in the capital markets also provides liquidity benefits that result in lower interest rates.

The interest rates paid by these institutions are generally very close to the rates on government securities of the same maturity, reflecting little or no risk premium, because investors treat the bonds as if they had an implicit government guarantee. The basis for this belief is either that the government would not allow a primary
component of the mortgage market to fail and/or that the institution is too large a component of the overall financial markets to be allowed to fail.

Mortgage securitization, a third form for the SMM, has developed very rapidly in Australia. The process begins with the wholesale funder purchasing mortgages from an originator in the same manner described above. The purchased mortgages are then combined to form a mortgage pool and prorated shares in the cash flow of the mortgage pool are sold to investors as mortgage securities. The mortgage pool and the mortgage securities are thus directly linked, and neither appears on the balance sheet of the wholesale funder.

In the traditional mortgage purchase model described above, in contrast, the purchased mortgages and the issued bonds both appear on the wholesale funder’s balance sheet. This difference is less important than it may appear, however, since under the securitization system the wholesale funder continues to guarantee the mortgage securities against losses created by defaults on the underlying mortgages.

A more important difference is that unexpected timing variations in the cash flow from the mortgage pool, created by early repayments on the mortgages, are passed through to the mortgage security investors, whereas they are not when the wholesale funder issues regular bonds.

2.2.6 Government and secondary mortgage markets

The question can be asked, if a Mortgage Manager assists in creating an efficient housing finance system, then why can't the private commercial banks create the Mortgage Managing facility themselves? The short answer is that the Mortgage Manager must have a high enough credit rating to issue bonds in the capital markets, and B rated commercial banks basically cannot create A rated Mortgage Managers. Furthermore, the Mortgage Manager requires stature and size to set standards for the entire mortgage market, and it is hard for private market institutions to cooperate in order to cover the large initial costs required to set up such an institution. In particular, a fully private Mortgage Manager would likely be initially too small to achieve the liquidity benefits that arise from issuing large amounts of securities on a continuing basis.
A well functioning mortgage market will however provide an enormous external benefits to the economy, including capital market development, increased labor market mobility, construction sector employment, and the efficient allocation of real estate assets. Initial government support of the SMM is therefore likely to be both essential and beneficial, which is why governments have always helped to create the likes of Perpetual Trustees in the developed economies. At the same time, the experience gained in creating SMMs in the developed economies can be usefully applied by the new transition economies.

Some specific principles that can help guide a government toward providing efficient support of the SMM are that of the SMM taking the form of a trustee which issues debt in the capital markets and uses its funds to purchase mortgages from the private market institutions that originate them. In the initial stages, the government should share ownership with private market participants, with each side contributing to the trustee’s equity capital. International organizations, such as the International Finance Corporation (World Bank) might also contribute equity capital to the Australian trustees. This has the further advantage that such international organizations would also contribute expertise and management experience.

The government’s primary role in the secondary mortgage market is to guarantee the bonds issued by the trustees. This guarantee should be explicit. It is inefficient to use implicit guarantees because the government remains obligated, but the trustee does not receive the full benefit. Furthermore, the government should charge the trustee a user fee, to defray the cost of the guarantee. This makes the amount of the subsidy transparent, and also provides an incentive for the trustee to eliminate the guarantee at a later date when it can generate a high credit rating based on its own assets and management skills. At the same time, if the government chooses to introduce other direct subsidies for housing construction or home purchase, these should be handled within the government budget or with special donor programs, not through the SMM.

The goal is to create an effective housing finance system, not to support any specific class of lenders or borrowers. Therefore, access to the SMM should be available to all lenders and borrowers who are able to offer properly underwritten mortgage
instruments for sale. In this way, those private sector institutions that are most efficient in making mortgage loans and using the SMM would be encouraged to do so, without the need for any central agency to prejudge which specific institutions will participate. This criterion seems particularly important given that most transition economies are adopting universal banking systems, in which competition and efficiency will determine which individual banks choose to specialize in each form of lending.

The government, of course, should maintain an important supervisory role, reflecting its stake in the guarantees it provides on mortgages and the institutions operating in the SMM. In particular, it should set regulations specifying the type of mortgage assets purchased and bond liabilities issued by the trustee. Furthermore, it should specify required capital ratios and related supervisory standards for the trustee on a basis comparable to its commercial bank requirements.

As the housing finance system develops, the Mortgage Manager is likely, sooner or later, to become quite profitable. It is therefore worthwhile to anticipate, even from the beginning, how the system should evolve. For one thing, as soon as it becomes practical, charters should be provided for the entry of additional and competitive Mortgage Managers. Otherwise, a single Mortgage Manager will use its monopoly power to maximize profits, to the detriment of the housing finance system. For another thing, procedures should be established to allow the private owners of the Mortgage Manager to purchase the government’s share, leading eventually to a fully privatized institution. This principle was used in the United States, for example, to organize the Federal Home Loan Bank System. To remove any ambiguity whether privatization will occur, it can be useful to set a sunset date, by which the government’s participation must be fully eliminated. As an example, the French government provided guarantees for only 4 years when it created a privately owned SMM institution.

Although discussion has focused on secondary mortgage markets as a mechanism to allocate the risks of mortgage holding, a well functioning mortgage market also requires an efficient system for mortgage originations in the primary market. The institutions to carry out the primary mortgage functions are likely to arise naturally once the secondary market is established.
However, the government must first take on the responsibility to create the legal and financial infrastructure real estate property rights, foreclosure procedures, and secured lending laws that are the necessary first step for the development of any meaningful mortgage market activity.

A housing finance system is an essential component of the development of an efficient financial system in a transition economy. Given the importance of real estate’s a share of all the tangible capital in a country, and the potential for real estate collateral to secure large mounts of secured debt, the housing finance system should become an engine of innovation for the rest of the financial sector. On the other hand, if the housing finance system is stunted, then other non-market devices will develop for financing and subsidizing the housing sector, creating negative externalities for the rest of the financial system.

### 2.3 Mortgage managers and wholesale finance

A Mortgage Manager is different from a mortgage originator who is different again from a mortgage Broker. Each has independent functions, with Mortgage Managers relying on mortgage originators and mortgage brokers to find borrowers for them. The Mortgage Managers’ role is to satisfy the requirements of their firm so that they may advance the money that forms the loan. They may also have arrangements with a wholesale lender to distribute funds. A Mortgage Manager would liaise with a solicitor to arrange for settlement of the loan and would continue to monitor the repayments of the loan on behalf of the lender as well as arranging arrears debt collection if the borrowers default. The Mortgage Manager will even arrange for the auction of a property if arrears continue, but they are not the lender, merely the agent of the lender.

Clients may not realise the distinction between a Mortgage Manager and a Mortgage Broker. Furthermore Mortgage Managers are lending specialists who arrange funding for home and investment loans. Unlike banks, building societies and credit unions, Mortgage Managers do not have a base of customer deposits with which to fund their loans. Instead they source their funds via a process known as securitisation. This is a process whereby assets (such as mortgages) with an income stream are pooled and
converted into saleable securities. These assets are purchased and packaged into low risk negotiable securities such as bonds and then issued to the investors.

The Mortgage Manager’s job is to set up the loan and perform a liaison role with all parties involved, for instance originators, trustees, credit assessors and of course, borrowers. They provide the customer service role and are there to prudently manage a loan throughout its term.

Unlike banks, when money is borrowed from a Mortgage Manager it’s not actually the Mortgage Manager who is the owner of the mortgage. As the name suggests they are partly instructed to manage the mortgage. Instead the original provider of the funds is the ultimate owner of the funds. The funds may come from any entity ranging from a superannuation fund or unit trust to an individual who has invested in mortgage backed securities. Generally a trustee is appointed to act on behalf of the fund.

One major reason behind the take off of Mortgage Managers was the introduction of compulsory superannuation in the 90’s. Investment fund managers controlling these funds were quick to realise that mortgage backed securities were a safe and lucrative investment. Suddenly Mortgage Managers had access to large pools of funds and in addition many willing investors.

The big influx of mortgage mangers into the market place in the last five years has substantially heightened competition. Mortgage Managers are price competitive for a number of reasons. They have substantially lower overheads than banks. Most have comparatively fewer staff members on board and no extensive branch networks or shopfronts to support as they don’t have deposit facilities. Rather than having several offices in each state, they may simply appoint agents who don’t require large offices from which to conduct their business and many focus instead on the use of phone centres and mobile lending.

Obtaining funding via the securitisation process and low overheads often allows Mortgage Managers to undercut the banks rates. Their initial loans however, were traditionally “no frills” products and their discounted rates often came at the expense of many of the loan features offered by the banks. Facilities such as offset and
redraw were rarely offered by Mortgage Managers when they first entered the marketplace.

In more recent times, increasing numbers of Mortgage Managers are offering comprehensive products with numerous features which increase the flexibility and sophistication of a loan. This is in response to the banks offering competitive discount rate home loans and attractive banking packages. As home loans rates available from various types of institutions emerge, the features on offer become more standardised. The majority of loans these days come with a redraw facility, so much so that it’s now a standard request and issue with borrowers. Mortgage Managers currently account for over 10 percent of the home loan market. Not only are they rate competitive, they place an important emphasis on customer service. It was actually a Mortgage Manager that first offered no obligation home visits 7 days a week and it was also the first to offer investment loans at the same rates as home loans. This venture endeavoured to avoid the feeling of bureaucracy many people associate with banks.

2.4 The role of mortgage managers

Mortgage Managers have certain limitations when it comes to the use of the funds. The limitations are placed by the bank that lends the money. These restrictions are in place due to the risk involved in different lending scenarios and the acceptability of this risk. Some Mortgage Managers choose to mitigate this by accessing funds from different lenders. This is possible where the Mortgage Manager has the capacity to service each lender’s serviceability targets.

Some of the areas where the wholesale funds can be used are as follows;
- Residential home loans
- Short term loans
- Commercial loans
- Business finance
- Leasing
- 106% Finance
- Loans for individuals with varied income streams (self employed, etc.)
- Property Investment (Land and Construction Finance)
- Commercial Investment Properties
- Manufacturing, transport, retail and professional services
- Vehicle Finance

The specialty of most emerging Mortgage Managers is Low Documentation and Non conforming finance. Many lenders and brokers do not give the Low Documentation clients enough care and attention in the market. The main reason for this is that they are generally very demanding clients due to the difficulty in placing the finance. The amount of work required may not justify the return in regards to these clients. This is another reason why many lenders and brokers do not wish to look after clients such as these.

The Mortgage Managers do Full Documentation loans. Although due to competitive rates in the market much of this lending is brokered out to other lenders. It depends on the client and if there are interest sensitive clients or if they are more service and deal orientated; this may influence the outcome.

The business can provide solutions to residential and commercial property purchasers as well as developers. They can operate on two arms. One is the residential home loan market and the other is the commercial lending market. It is imperative to clearly identify the lending criteria on each lending arm as to avoid cannibalisation of resources and business from one sector to satisfy another.

The Mortgage Managers can provide a specialist service to small to medium business owners. The company needs to be able to market itself to as a niche service provider. This differentiation is vital for the future sustainability of the business. Without a unique and individual marketing standpoint; the business will be the same as every other lending business out in the market place.

This differentiation does not alienate any of the other markets that may be targeted but provides a specialisation that can be used to generate a large amount of business from a niche market that has been languishing due to the inadequacy of the current lending institutions and products. The current products for self employed business and small to medium business owners as well as organisations are miniscule and not geared for the differences in setups of certain businesses. An
example would be sole trader consultant who consults to three organisations and has an annual income $200,000 plus. This person should be an ideal candidate to set up a property portfolio. But in the current market and product portfolio offered by competitors such an example becomes harder and harder to finance.

The appeal is high within the Australian financial lending market place for a product or a suite of products that cater to the small to medium business arena. The need for financing and refinancing is also high as most businesses have been started with personal funds.

The products in the marketplace vary in positioning. Mortgage Managers can target the niche customer who cannot access funds due to complicated personal circumstance or complicated funding situations (self employment, second mortgages, complex developments). The Mortgage Manager needs to develop the niche and to position itself as the lender who will source the product for the complicated deals that cannot be done by the every day mortgage broker or bank lender. These deals need a lot more attention and time. They are also harder to close and harder to fund and may need a wide range of other criteria to be satisfied. The advantage in these complicated financing and lending scenarios is that they are far more lucrative for the lender. They are generally at a marginally higher rate of interest and also incorporate a high administrative cost for the client. The future commissions/trail received from brokering such deals can also be greater than usual.

The risk to the Mortgage Manager is the closure rate of deals is far less than the average lender. This needs to be managed by the directors of the organisation by continuing to offer the generic suite of products that appeal to mass markets as well. The future sustainability and market niche may lie in the complex lending area. But it is important to provide the market and the customer with options that are in line with the generic brokering and lending model as well.

The acceptance rate of consumer will depend on the sustainability and funding options of the new products. The differentiated markets are generally not as rate sensitive as the general market place. This is due to the normal turnaround time of the loan and its repayments. If the loan is for a project, then the successful conclusion of the project should involve the paying back of the principal or
restructuring for another loan for the professional developer types. The targeted market is also not concerned with fast turnarounds and administrative cost. Most often they are informed consumers who are aware that the complexity of their situation will relate to more time and energy on the part of the broker in placing this loan.

2.5 Changing market conditions

The literature defines the financial lending and brokering business as well as the loop holes and caveats within it. The literature also identifies the coming booms that can be used to leverage a new business or repositions within the market place. Hechinger (2003) outlines the boom that is experienced within the re financing area and the effect of this to the mortgaging industry.

McDowell (2001) also outlines the influx of creative brokers who can place loans for people with bad credit history and bank rejections. He outlines examples where different circumstances make bank lending structures difficult for individuals and the mortgage broker with an array of options may be a solution. This type of example resonates with the Mortgage Managers proposal. The author feels that the Mortgage Managers niche is in areas of complicated lending where other lenders and the major banks would keep away.

SFI News in its 2004 feature article “Adelaide Wraps Up” talks about the different types of securitisation offered by lenders. They contrast the low documentation loans with the Off shore product placements for lenders where by a different type of rating may be used. This has served the bank of Adelaide well and is the type of creative lending that Legacy has to pay attention to in order to create that sustainable market niche. Further information on the different types of commercial properties that may be financed is also available. An example would be interest shown by ABN Amro bank in the medical services and health care properties sector. This is another example of a niche area been targeted by the lender in order to gain the market share before the rest of the market follow.

The interest shown by the rest of the world in this market is also a clear identification of the potential in the Australian brokering and mortgage lending
area. Finkelstien (1999) talks about the emerging markets for Home side Lending and the emergence of Australasia as a viable market for the big global players. The fact that the Australian Mortgage Credit market has doubled in value size from 2000 to 2004 is clear proof of the potential within this area.

From the above literature and prior research it can be said that there is a clear consumer change within the residential mortgage and lending market. The market place is taking the shift towards a more informed and mature stage. The individual consumer is aware of the greater choice and the service provider is pushed to innovate to keep up with the pack.

Informed consumers are becoming more and more financially savvy. Today the average mortgagee understands the difference in loan to value ratios and the comparison rate. Investors are more concerned about there retirement and financial independence. This can be seen by the increasing interest in superannuation and the similar trends all around the world. Stoneman (1998) discusses this emerging trend within the US real estate boom in the late nineties. This has also been due to the greater access to information and the trend by governments to regulate previously unregulated industries. This has been due to the increased instances of misconduct and general growth of the industries in question. Examples of these statutes are the privacy act of 2001 in Australia.

Younger investors are more inclined to seek financial advice and consumer attitudes towards astute investing are also changing. Ennew (1992) in her article “Consumer Attitude to independent financial advice” examines the consumer behaviour changes over age and identifies the increase in younger more informed customers. This claim is supported by Colgate and Lang (2001) in their article ‘An investigation into the financial services industry’. Consumers are more inclined to take advantage of the various options available. The new breeds of consumers are less loyal than ever and will switch between products and services depending on the rewards offered. The products and service providers are also keen to manipulate and take advantage of this lack of loyalty by offering more and more incentives to switch customers. Banks as an example budget for this switching cost and the poaching of consumers is fast becoming an art form.
Mortgages and purchase and refinance of property are a highly involved process. For most people the purchase of a home is the biggest transaction they engage in. The decision making involved is drawn out and engaged. (Foxall and Pallister 1998) Most often it involves a number of parties that contribute to the end result. (Parents, spouses etc) The increased risk and volatility in today’s world means that the average consumer is also at a heightened level of apprehension. This leads to greater analysis and consideration of options out in the market place.

### 2.6 Lending structure

The current lending market is divided into three sections.

- **a. Major Banks and institutionalised lending organisations.**
- **b. Wholesale Lending organisations**
- **c. Mortgage Brokers**

The banks lend their own money and have great access to funds and can offer flexible terms. They are also capable of diversifying their risk and tend to be conservative in their lending structures. A new bank such as St George will take a greater risk in order to capture the market share but this is not a long term strategy.

Wholesale Lenders purchase access to monetary sums under certain criteria. These purchases could occur on the open bond market or other appropriate financial instruments. These lenders take a greater risk in their lending criteria for the greater return offered in terms of interest as well as fees.

Mortgage brokers are the front line on most occasions who act as the conduit between the consumer and the financial organisation. More and more consumers are willing to engage the services of a broker. The flexibility offered by a broker and the access to a wide array and range of products has made mortgage brokers a very popular alternative to banks (Manger 2006).

The perception in the market place that banks are a fee oriented organisation has fuelled this trend. Certain institutionalised lenders such as ANZ have now started there own mobile lending products to compete with the growing trend in support of brokers.
Over the last 24 months the tier two lending providers have increased dramatically. This is mainly due to the increased investment from foreign banks and other financial institutions within Australia. Attention towards the Australian market has heightened due to the strong economy and the growth in the housing market over the last five years.

The ability of the specialist non-conforming lenders to fund their lending by securitization is of course dependent on the willingness of investors to make funds available. Greater acceptance of non-conforming mortgage lending on capital markets has therefore been vital to the markets growth.

The non-conforming mortgage market has grown at a faster than the mortgage market as a whole, which over the period 2000-2004 grew at a compound annual growth rate of 17.7 per cent (Crenshaw 2005).

The non conforming market will follow the trend within the prime market and customer retention will be a bigger issue. Competitors will aggressively search for new clients and try and secure the lion’s share of the marketplace before the inevitable entrance of the players in the mainstream market. (Major Banks etc)

Companies such as BlueStone Mortgages, Pepper home Loans, GE money and Liberty Financial have created a niche within this marketplace and are trying to secure the share of the market by offering further incentives for clients to remain with them and also for new consumers as well.

Australia also has a high level of self employment which leads to issues of income verification. Further issues of credit impairment and declaration of income and self declaration have made the non conforming area very attractive to consumers. The competition within the area means that the rates are extremely competitive and this compounds the attractiveness of this type of lend.

As with the low documentation area where the banks have standardised the products, the non conforming section will follow suit. The banks have used the securitisation process with the mortgage insurers in order to provide standard service levels which are followed by the rest of the industry. The non conforming
sector will also have the Mortgage insurers provide a standard of requirements for insurance and this will lead to further regulation within the non conforming sector.

As with the low doc and prime market the non conforming market place is leading towards more feature packed products. From lines of credit to offset accounts and credit cards most lenders are trying to entice consumers by providing the same service levels as the larger banks.

To close a non-conforming loan, originators have a lot of work to do, and must have a solid understanding of how to go from start to closure. Like any loan program, marketing is the key.

This section of the market requires a greater level of attention; according to the Interstar mortgage manager’s handbook of 2006, from the 13 million credit available Australians, 1 in 8 have some sort of credit impairment. This market needs to be identified and the products must be targeted towards these individuals. Most of these individuals have had rejections from the mainstream lenders and require greater attention than the normal loan client.

The non conforming consumer may have credit impairments or may be clear credit with other issues which do not fall within the lending criteria of the funder.

Over recent years, new participants have entered Australia’s lending market offering loan alternatives for those borrowers who don't qualify for loans from mainstream lenders such as banks, building societies, credit unions, finance companies and mortgage originators. Other categories of the non-conforming market include loans for those with a poor credit record and new arrivals in Australia, non-residents and retired borrowers.

2.6 Customer Service and non Conforming products

Most clients that fall into this category are clients who do not meet the traditional lending criteria set by the mainstream lenders, this stream of lending is definitely a niche market.
The non-conforming product is designed to assist borrowers who are currently in arrears, bankrupt, had paid or unpaid defaults, court judgements or any other adverse notations on their CRAA file. This loan is suitable for PAYG or Self Employed borrowers who are wishing to purchase an owner occupied or investment residential property or borrowers wishing to consolidate their debts, basically any worthwhile purpose is considered.

In addition the customer service that is provided in such a finance sector needs to be very carefully handled. Generally clients that come to financiers for help in such a situation are either very desperate, sensitive or even both. They need to be clients whom are managed as their loans have a tendency to take longer to settle due to the complications of their type of loan. In saying this it is also important to ensure that these clients have constant contact with the financier as they need many documents to complete this type of loan. Due to the prior assumed history of these clients they often do not do things in a timely managed fashion which means that the financier needs to ensure that they keep on top of the file at all times and follow each piece of paperwork up the client. This is all part of the special customer service that is needed to be provided when it comes to non-conforming loans. Due to the fact that the non-conforming lending market stems from potential borrowers having income sources or particular credit profiles, which do include adverse credit histories that cause them to fall outside the traditional mortgage lending criteria. Consequently, the borrower’s ability to repay the loan is doubted. This means that the financier needs to ensure that they are able to win the client over as well as the funder over in order to provide the desired level of customer service that a non-conforming client would need.

2.8 Conclusion

In summary the real estate market is in a state of fluctuation. The mortgage industry as well as the banking and finance industry is changing to keep up with this change. The competition and growth in other parts of the world as well as the changing regulatory and governmental influences have had their impact as well.
Chapter 3 - Research Methodology

3.1 Introduction

This chapter examines the method of study undertaken. It looks at the different types of information that has been sourced and the organization of the study. The conceptualization Diagram for the study is shown below. This diagram outlines the relationship between the market and the products discussed as well as the importance of the background information provided.

Figure 1 - Conceptualisation diagram

Source: Author
The information required for this project has been gathered in two forms. One is the secondary data and literature that is already published and the second is the experiential and informal information leads. The methodology that has been used is in the form of research, data and information gathering. Primary data collection includes informal leads and information that has been gathered through personal business connections.

Secondary data and analysis conducted by third parties was vital. This information properly sourced formed the backbone of the research into the market place. Additional information gathered from analysis of individual transactions as well as collective quantitative data gathered over a period of time on the trends set within a certain area was important.

An example of this information was the gathering of data through personal visits and travels to specific areas of Australia. Examples were the nature of positively geared properties within the mining belt of Queensland. Areas such as Mount Isa and Mackay have a different structure and selling trend to the rest of Australia.

The initial objective of the project is to develop the background information and then to perform the literature review with an emphasis on the conceptual framework and gathering information for the introduction of new products. A literature review was conducted looking at research done previously within this area and gathering secondary information on the products currently offered by the market place. Further research was done to analyse customer behaviour within the niche area that will be targeted. This was used to screen as well as confirm the niche or multiple niche areas that will be targeted by the Mortgage Manager.

The report accessed the marketing and transactional literature from all the major lending organisations in order to tabulate the current products that are available. Further information was the primary research on different financial and commercial opportunities that can be offered as investments.

Personal experience through transacting and working in this area of lending was also used as a basis for the research. The experience gathered through the analysis of property markets in Queensland and other areas in Australia was used. Further
information was of a quantitative nature. This information was past data and trends through which trend analysis and extrapolation of further information may be conducted.
Chapter 4 - Analysis and findings

4.1 Introduction

This chapter examines the market for mortgage managers. It looks at the barriers existing and new within the marketplace. The competition through bank as well as non institutionalised lenders and their distribution models are examined. The chapter outlines the critical success factors and finally provides the reader with the competitive advantage derived from the background information provided.

4.2 Mortgage Management – who do we market to?

Figure 2 - Mortgage Management positioning

Source: Author
Figure 1 clearly identifies where the Mortgage Managing organisation fits in the process. The majority of the funds for the banks are raised through the bond markets or capital markets which are traded on the exchanges in the US, Europe or Asia. The money is borrowed at the bank bill rate, which could be through the LIBOR (London interbank offer rate) or BBR (bank bill rate within Australia) The banks then provide the wholesale lenders who are generally consortiums or groups of people organised as companies who are able to guarantee the lending process due to their expertise in the industry as well as their ability to insure and securitised the money lent. The whole sale lenders then setup processes and procedures to provide a distribution network for these funds. The whole sale lenders pay the banks a certain mark up on the rate that the banks borrow from the money markets. This distribution network could be a Sherman Ma backed liberty financial type network where the brand is also marketed and a profile for the company is out in the general public. The other type would be the Interstar Wholesale lending styled lender. Interstar is well known within the industry but practically unknown to the outside public.

These Mortgage Managers who get their money from either an Interstar type lender or a Liberty type lender (who lends to the broker network) have to then market their product at another mark up which may include trailing commission.

The Mortgage Managers have two clearly identified markets that can be targeted.

They are:

a. Mortgage Brokers
b. General Public

The related sources of referrals such as accountants, real property agents and financial planners are identified as referral and alliance sources.

The Mortgage Managers are faced with the same crisis as any other party on the ladder above. They have to decide which channels to market their product to. The
proper mix is crucial as the incorrect mix can lead to cannibalisation of business and soured relationships due to incorrect planning.

An example of a Mortgage Manager who markets to public would be Resi Home loans and Yes Home loans. These types of organisations need a substantial capital expenditure contribution for the development of required infrastructure to deal with the general public. This includes staff, premises, advertising etc.

The above mentioned model markets directly to the public but also provides services to the Broker market by advertising in the MIAA magazine etc.

The other type of Mortgage Manager is the Mortgage Manager who markets exclusively to Mortgage Brokers. These are the HLP’s and Austwide Private Mortgages of this world. They only target brokers. The reasons for this niche approach are simple. The Mortgage Manager can keep capital expenditure to a minimum and still provide an Australia wide service and have access to a larger more efficient market. This means that the loans been processed are already vetted by the broker and as such can be analysed further at a faster pace. This creates greater efficiency in the process. By not dealing directly with the public the organisation also eliminates costs of operations and unnecessary delays in sourcing criteria based loans. This means that the broker can be provided with the necessary product information before hand so that they place their loans accordingly disallowing the need for any analysis on the part of the Mortgage Manager.

4.3 Primary versus secondary market

The mortgage business is a complicated and ever-changing industry. It is important that you understand how the mortgage market works and how the lenders make their profit. In doing so, you will gain an appreciation of loan programs and why certain lenders will offer certain loans.

The first broad category of distinction is institutional versus private. Institutional lenders include commercial banks, non mainstream banks, savings and loans, credit unions, mortgage banking companies, pension funds, and insurance companies. These lenders generally make loans based on the income and credit of the borrower,
and they generally follow standard lending guidelines. Private lenders are individuals
or small companies that do not have insured depositors and are not regulated.

First, these markets should not be confused with first and second mortgages. Primary mortgage lenders deal directly with the public. They “originate” loans, that is, they lend money directly to the borrower. Often referred to as the “retail” side of the business, lenders make a profit from loan processing fees, not the interest paid on their loan.

Primary mortgage lenders generally lend money to consumers, then sell the mortgage notes (in large packages, not one at a time) to investors on the secondary mortgage market to replenish their cash reserves.

The primary market is the place where mortgages are originated and funds are loaned to borrowers. Primary market lenders include mortgage companies, savings and loans, commercial banks, credit unions, and state and local housing finance agencies.

Lenders sell mortgages into the secondary market -- the place where mortgages are bought and sold by various investors. Secondary market investors include wholesale lenders, various pension funds, insurance companies, securities dealers, and other financial institutions. Once a mortgage is originated, lenders have a choice. They can either hold the mortgage in their own portfolios or they can sell the mortgages to secondary market investors, such as a bank or institutionalized lender. When lenders sell their mortgages, they replenish their funds so they can turn around and lend more money to home buyers. Lenders can sell mortgages to the institution that comply with our guidelines and loan limits. This is in keeping with the unique strategic of each organization.
4.4 Barriers

The structure of the mortgage industry has created a competitive structure for mortgage management. Survival as a mortgage broker is simply not an option any longer. A broker needs to find a niche market in order to sustain the levels of income and justify his work. Finding this niche area will be the key.

Most successful brokers have aligned themselves with constant referral source or have targeted a certain specific market. An example of this would be Mortgage brokers who service only a certain client base. This happens to be the most successful broker areas. Most brokers create a cross referential system with a legal firm, accounting firm or a financial planning firm. The greatest success can be found in the collaborated referrals from a number of these sources. The success of this type of broker is on customer service. The better the customer service the higher the customer retention. An examination of customers has established that the service received by clients accounts for 90% of the conversion.

Regular contact with the existing client base, referrals from business alliances and referrals from existing businesses are further strategies exercised by this type of broker.

Another strategy is the service of a specific market. This has been the success of the WA broker market. Mortgage Professional Australia (2006) lists the top one hundred brokers of 2005. Ninety percent of the brokers in the top 20 are from resources related growth areas. QLD, NT, WA mining towns and surrounding areas have had a successful customer base that have been harnessed by hardworking and innovative brokers.

A variation of this strategy is the targeting of high value clients. Certain brokers work in exclusive areas in order to satisfy the finance needs of a certain high value clientele. Examples of this are brokers who work in areas such as Toorak in Victoria and Mermaid Beach in Gold Coast.

Even with the above mentioned strategies it is unforeseeable that brokers by remaining as brokers would see the same levels of success they have enjoyed over
the last decade. The banks are targeting the customer directly and have no loyalty towards the brokers who may be within their distribution model. Wholesale funders such as Bluestone and Liberty are now diverting their distribution models in order to accommodate the direct real property consumer. Mortgage Managers are absorbing rate rises and percentage increases in order to remain more competitive and as such provide a better solution than the individual broker. Brokers cannot compete with the Mortgage Managers or wholesale funders who can discount on rate and product in order to sell their product.

The barriers for sustained success apply to Mortgage Managers as well. The above paragraphs identify the inherent problems within the brokering industry and the direction of customers moving towards Mortgage Managers. Even though Mortgage Managers themselves target brokers, the successful broker would invariably identify with one lender and receive the option for rate variations which would make them Mortgage Managers themselves.

4.5 Competition

Competition is rife within the industry. The Mortgage Manager faces top down line competition as well as competition amongst managers themselves. The top down line competition is due to the banks and wholesale lenders approaching the mom and dad customer themselves as well as the brokers. The banks may use the brokers as their distribution model.

The greatest competition faced by Mortgage Managers is by their peers. The attractiveness of the mortgage management process is not lost on anyone within the industry. With comparative small investment the return on investment is enormous. The Mortgage Managers themselves are targeting different areas. Some target the general public and others target the broker network. Other Mortgage Managers are more like brokers where they target a certain niche market. The most successful Mortgage Managers have a targeted strategy that they stick to. This does not mean that they are not flexible; it just means that they are determined to make their chosen strategy a success.
The other competition is from innovation itself. Wholesale lenders, Banks, Mortgage Managers and brokers themselves all innovate to a certain extent. These innovations could be of a technical nature or a product or marketing nature. A more diverse innovation is the innovative approach by some Mortgage Managers to business as well as sales. Innovations in technical areas include online loan submissions and the streamlining of data entry issues. Specifically Mortgage Managers are increasingly finding their staff allocating days to manually input data of new investors, subsequent dividend payments and mortgage data. With the problem of Mortgage Managers to successfully maintain and service their loan and investors; consideration for industry specific software is becoming more sensible and vital. Managers are increasingly seeking software to decrease errors of data management and increase efficiency to allow for more time to focus on gaining investments and allocating mortgages.

Some of the advantages of converting to software and using new technical breakthroughs such as e-submissions are as follows; having all your data integrated into one system is more efficient overall, allows for instant access to information to review corporate status for accurate analysis and proactive planning. The cross-referencing of data throughout the corporate records ensures consistency and accuracy with data input and editing. Integration provides for the ability for analysis of corporate progress by generating customized reporting.

These innovations in technical areas increase efficiency and provide greater opportunity for the Mortgage Manager to concentrate on the more important aspects of his business. This will improve client relations as well. The ability to have your own label on the wholesale funders product, statements can be reviewed directly on your web site by the customer. (Instead of all the time and cost required to print, stuff and stamp statements, the system can electronically deliver statements - or better yet be able to put statements password protected online.) This provides greater competitive edge with the banks. Client requests can immediately be resolved by instantly searching and reviewing their status and historical records.

Other key innovations are the distribution models used by the Mortgage Managers as well as the wholesale lenders. Even the naming of mortgage insurance can be an innovative process. Certain wholesale funders such as Bluestone and Liberty use
their own online submission software named BlueLink © and Loan Net © respectively. These funders use the software to enable their distribution network of brokers to provide them with leads and submissions faster and with greater and easier response. Other innovations used are the use of email / sms updates, the offer of plasma screens to certain brokers and other incentives.

Further innovations can be the distribution network itself. Virgin blue for example will deal only with the actual borrower and will not speak to brokers. Virgin blue market their product direct to the public; this gives them greater flexibility with rates and greater upfront and trail from the settled loans. Other lenders may use a franchise or agent network to create a sustained referral source. Examples such as Aussie Home loans and Wizards have decided to invest in the infrastructure required for brick and mortar offices. This has differentiated them from the rest of the market. Providing the lender with a much recognised name and bank compared infrastructure setup.

Even the major banks have identified the innovative need. The mobile broker, area based mortgage management and higher low documentation loan to valuation ratios. Active business development with referrals sources such as accountants and lawyers who still have a bias towards institutionalised lending has also created greater business for the major banks.

Other institutionalised lenders such as Adelaide Bank have actively invested in creating a Mortgage Manager Distribution channel. Adelaide bank are taking the path of a wholesale lender and providing mortgage management functions to their selected distribution partners. This has been the domain of non mainstream banks such as ING who have always had the Mortgage Manager as their distribution channel.

Non mainstream banks have become adept at innovating to suit the needs of the market place. This is due to the competitive nature of their industry itself. Banks such as RaboBank, CITIbank and ING are leading the race to innovate within the sub industry. Rabo bank for example will only fund rural land and development projects linked to agriculture. They fund and are able to cover a large untapped market with their specialised lending process.
4.6 Critical success factors

The critical success factors that can be summarised from the information provided previously are as follows:

a.) Have a targeted niche strategy  
b.) Concentrate on the selected strategy and do not digress  
c.) Source multiple wholesale funders and create relationships that will sustain the requirement for new products  
d.) Continuously plan ahead with analysis on the market place.  
e.) Successful Distribution model  
f.) Alignment of goals with distribution network

4.7 Competitive advantage

The business needs to identify its positioning. If the plan is to white label and to use the wholesale funds the Mortgage Manager the business needs to identify its niche. The business can be a market maker by providing one to one solutions to high net worth individuals as well as providing the one stop solution to brokers. If the broker breaks away from the aggregation model and aligns him or herself with the Mortgage Manager then the business has a sustainable distribution model. This should be the path to success for the business. The low margin high volume broker distribution as well as the low volume high margin net worth clientele will be the two pronged business model. (Appendix C)

The Mortgage Management to the high net worth clients can be similar to a broker. This allows for greater throughput of loans and referral networks. The two distinct targets will give the business the necessary diversity to grow in any economic conditions. It is imperative that the business complement the broker. By using the funnel the business will receive a substantial amount of business through the networks. It is important to always back the model and not to deviate from it.
As shown in figure 2 above the mortgage manager can manipulate the available channels and decide to niche market and service a certain sector. As an example the residential Non conforming low documentation sector can be highlighted.

### 4.8 Conflicts and pitfalls

The successful Mortgage Manager needs a number of different lenders in order to satisfy the different lending needs of the non conforming client. The problem with having many wholesale funds is that the rate and the ability to mortgage manage through them depends on the volume that can be passed on to these funds. If the total volume was written through one lender the rate offered to the Mortgage
Manager and the service would not be an issue. If the volume has to be shared amongst a number of wholesale lenders then there may be a conflict of not sustaining the minimum loan writing levels required for mortgage management. This is double edged sword as the Mortgage Manager needs the diversity of funds but also may not be able to sustain the volume.

Another conflict that the Mortgage Manager is faced will be the default and loan maintenance task. Most whole sale lenders are happy to audit the procedures and if there is nothing illegal they will continue the relationship. But the hassle of processing the audit and the cost and time required for client management must be made aware.

The changing regulatory environment will also have an adverse impact on the Mortgage Manager as well as the industry as a whole. The mortgage industry has had a reputation of low regulation and as such the NSW and WA mortgage market has been regulated to the extent that the brokers and lenders are required to disclose the commissions charged to their clients. The industry is also moving towards greater scrutiny of brokers and other industry participants and greater barriers to entry. (Appendix C)

The interest rate trends are a constant concern to the Mortgage Manager. Most managers have discounted a rate rise that has been declared by the Reserve Bank and have decided not to pass on the increase in rate to the consumer. This allows them to compete better with the larger lenders. The incidence of discounting in the mortgage market appears to be accelerating, with the pricing strategies of Mortgage Managers an important check on the cost of credit to home loan customers. The Reserve Bank of Australia found that the average increase in basic housing rates advertised by Mortgage Managers over the last two months was around 20 basis points, and less than the rise of 25 basis points in the official cash rate in March. By contrast, most lenders, including virtually all banks, increased the indicator rates on their variable rate housing and personal loans by the same increase as the cash rate.

A pitfall of the mortgage management process is the fact that brokers as a distribution network may use the mortgage management practice as a sounding board for their deals. The brokers may submit deals in order in a hit or miss system
whereby they are submitting the deal through a number of Mortgage Managers in practice that is using the strength of numbers to get the deal through. This could mean that the actual conversion rate of the Mortgage Managing practice declines. Due to the number of poor submissions the settlement percentage on submissions will decline. This will reflect poorly on the performance of the Management practice thus creating a negative impact at time of sale for the practice. It will also dilute the referral network with brokers with poor submission and business practices.

4.9 The Strategic view

The vast majority of non-conforming mortgages are distributed through third party mortgage broker networks. This will continue to be the case; however there will be an increasing focus on wholesale funding relationships between the established non-conforming lenders and the broader sources of retail mortgage distribution including the branch and franchise networks of traditional bank and non-bank lending institutions and the branded product offerings of Mortgage Managers and aggregator mortgage broker groups.

These wholesale funding relationships will leverage the specialized credit and underwriting expertise of the non-conforming tenders via the broader retail distribution networks created by traditional branch and shop-front operators. These relationships will also raise the bar in terms of consumer awareness of the types of loan products available within the non-conforming mortgage sector.

Raising the level of general awareness of non-conforming mortgage lending will increase the choice available to borrowers from all walks of life, whether they are borrowing to finance the family home, looking to acquire an investment property or obtain cost-effective working capital for their small business.

Such increased awareness may also help consumers steer clear of less reputable private lending arrangements, often funded by unscrupulous operators profiteering from borrower adversity. The continued promotion of non-conforming mortgage lending at a grassroots level can only benefit the market as a whole. It will also enhance the level of choice to the Australian borrower.
Mortgage management is not the easier form of lending money as there is very stiff competition within the market. There are many more mortgage originators and Mortgage Managers although at the end of the day its also all about being able to be a sustainable and honorable mortgage originator / manager.

The mortgage originators / managers operate using a financial process called “securitization”. Once loans are made, they are bundled together into trusts and units (i.e. securities) in those trusts are sold off, largely to professional investors. Interest payments on the housing loans are thus converted, after subtraction of operating costs and fees, into interest payments for the investors. Unlike a bank, the home loans do not generally stay on the balance sheet of these mortgage providers, who often continue to manage the mortgages (for a fee). This allows these providers (in contrast to banks) to specialize in their strength in credit of risk assessment without the direct legal burden of continuing responsibility for the loans (and the borrowings which finance them). The efficiencies of this process seem sufficiently large that the majority of home loans could, at some time in the future, be funded and managed this way. This prospect poses a formidable challenge to traditional banking.

4.9.1 Tier one and tier two mortgage management

Throughout this study Mortgage Managers have consistently been mentioned. Furthermore there are tiers within Mortgage Managers. There are tier one Mortgage Managers and tier two Mortgage Managers.

A tier one mortgage manager holds a much larger liability and responsibility than a tier two Mortgage Manager. A tier one Mortgage Manager must encompass a number of elements in their business. (Appendix A)

In order to become a tier one Mortgage Manager the business and its directors have to have proved that they have worked and managed a financial institute for a minimum of two years. The trustee will then give the business monthly targets which they have to meet. If monthly targets are not met then the advantage of being a Mortgage Manager may be taken off them. The directors of the company must also give a personal guarantee. This ensures that the directors are willing to be liable for
loans which may default and go into arrears. The reasoning behind this is that it will make directors more aware of what they are approving and not just let any loan be approved. If a client has a detriment credit history then it is very important the Mortgage Manager assess their risk properly and can not let what they will make out of a deal cloud their judgment.

A tier two Mortgage Manager must submit the loan to the funder’s credit team. The risk of this is that the credit team may not understand the loan as well as the Mortgage Manager; consequently the loan may be declined. Furthermore, it also means that in order to be a very successful tier two Mortgage Manager (which is actually what most Mortgage Managers are). Therefore this is the edge that tier one Mortgage Managers have over the second tier’s.

In addition a tier two Mortgage Manager is not able to obtain lenders mortgage insurance as this is something only a tier one Mortgage Manager is able to do. This is another step that does make it quite hard for tier two Mortgage Managers as once again the person in charge of the file must be able to present the loan properly. This is a major problem in this industry due to many people that write loans are not really sales people. In order to get a loan across the line the only difference could actually be the person presenting the loan. As much as Mortgage Managers are perceived to have a lot of control over an approval of a loan the real advantage to being a second tier Mortgage Manager is the fact that the rates you are able to provide are very competitive.

In order to become a sustainable Mortgage Manager is it a far more viable option to be a first tier Mortgage Manager. Furthermore to be a tier one Mortgage Manager who has a niche within the market. In this instance it is best be in the non-conforming market as this is not what the major banks are so good at according to “The Australian’s, (2006) Katherine Jimenez and Richard Gluyas”. They wrote: “Lower lending standards from banks have left a ‘bus smash waiting to happen’ in the home mortgage market”.

Bluestone chief executive Alistair Jeffery said the banks had rushed into the non-conforming loan market without the expertise to manage those who cannot afford to
repay debts if the market turned bad. His warning comes less than a month after Treasurer Peter Costello warned executives from the big four banks against lowering credit standards. (Jimenez & Gluyas, 2006)

“There is a bus smash waiting to happen in terms of the pricing of the risk that some lenders are taking on the lack of preparedness to handle the arrears,” Mr Jeffery told The Australian.

Banks were preparing for an increase in customers falling behind on loan repayments because of higher interest rates and petrol prices, he said.

Bluestone had been in discussions with some banks about providing arrears management services.

The above article demonstrates that banks are not experienced enough to handle non-conforming lenders nor are they capable of being able to handle a large amount of arrears. This inadvertently means that their lending criteria will be stricter than that of a Mortgage Manager which places a Mortgage Manager within a good stead.

At last, the traditional lenders in the housing loan market are facing strong competition from low-priced rivals. Such lending has been dominated by banks (with smaller contributions from building societies and credit unions) and has been very profitable for them. Funds have been largely raised from vast, low-cost household deposits. Strong demand for housing upon widespread aspirations to “own your own home” and expectations of capital gains through house price appreciation) and a quite concentrated, uncompetitive market structure have put upward pressure on home loan rates charged. Home lending has also been a safe, secure activity for these lenders. Loan default rates have risen over the past few years which ensure that banks are not one the strongest contenders in this market.

A Mortgage Managers strongest competition in the market place is actually another Mortgage Manager! Therefore it is very important for a Mortgage Manager to ensure that they have the correct strategy in place to ensure that their business is a sustainable model. There are a number of elements which make up the strategy of being a Mortgage Manager. This strategy involves many elements which will make up
one strategy as a whole. This strategy brings to the attention of the reader even the simplest elements in a business such a customer service. So simple – yet so many businesses to are unable to fathom such an easy concept.

4.9.2 Various marketing elements

It is imperative that as a tier one Mortgage Manager a strong relationship with other professionals and their clients is maintained. Constantly meeting with other industry professionals will not only improve the wealth of knowledge which is a necessity but also increase the network the business has at hand.

Knowledge is power and keeping oneself very up to date in this industry is the key. Many Mortgage Managers whom are called often give out-of-date information to clients relying on the point of indicative approvals. For example the recent interest rate increase of 0.25% left some Mortgage Managers still quoting old interest rates, even today! This is an example of very poor product knowledge.

Ongoing communication with settled clients is another very important factor in the client service element. Ongoing communication with the settled clients will enhance future business. Constant contact with the clients will ensure that they remember the business. This will initiate clients referring your business to their network of people and even create repeat business for you. (Appendix B)

Need to consistently keep up with the market and constantly improve the products that are on hand. In some ways the mortgage market is very much like the legal profession. In order to stay a professional in this industry and to stay reputable it is essential that as a successful Mortgage Manager products are constantly updated. In addition it is one thing to update yourself with the products as a Mortgage Manager, but the successful Mortgage managers also distribute this information to their client network. This can be done successfully by emails, brochure or even a phone call to inform clients. (Appendix B & C)

Due to the amount of competition in this market it is imperative that the marketing elements of this strategy are unique and innovative. In this industry it is vital that this business becomes a household name such as ‘Wizard Home Loans’ & ‘Aussie
Home Loans'. It is crucial to incorporate traditional and innovative strategies to stand out and constantly try new things. Many Mortgage Managers get comfortable in this industry and once they have found a marketing campaign works they tend to stick to it and not try anything new which is a detriment in this industry. The reasoning behind trying new things all the time is due to the fact that there are so many competitors within this industry that a fundamental element of marketing here is to try new elements. One successful effort was branded coffee cups and lunch bags which many lenders within this industry carry out. This brand tactic has been adopted throughout the Mortgage Choice network. Their web-based strategy is also delivering for them and they have a comprehensive web-marketing campaign. (Appendix B)
Chapter 5 – Conclusions & recommendations

5.1 Introduction

This study has looked at the background of the real estate mortgage industry and the development of this industry. The study has examined the Banking and Finance industry and the position of government and its role. The study also examines the wholesale lending organisations and the role of Mortgage Management within the structure of the real property secured lend.

The report continues to examine the barriers within the industry and the competitive factors as well as external factors which affect the Mortgage Manager and impede or exaggerate his or her growth. Through an extensive examination of secondary information the study establishes a trend of niche lending, with examples in the non conforming market been at the vanguard.

The conflicts and pitfalls of cannibalising the different business areas as well as making the mistake of not managing the growth are highlighted. The issues of managing the default and loan maintenance as well as the extended regulatory environment are discussed. The increasing need to seem transparent and transact in a greater complaint environment will change the way the industry and Mortgage Managers will conduct business.

The successful industry player will be adaptive and flexible to all industry needs and will have the ability to engage in continuous improvement but still focus on the overall objectives, goals and direction. The thriving Mortgage Manager will be able to innovate within the industry and create a new direction for his business. The triumph for a Mortgage Manager is to develop his business with the help of the successful distribution model which will help him maximise profit and work at the optimum revenue levels without losing the advantage.
5.2 Recommendations

The key recommendations that follow are a result of the study conducted. The Mortgage Management industry has developed within the real property mortgage industry to be at a cross road. The Mortgage Manager faces competition from its source of funds as well as its distribution model. The importance of a tiered marketing strategy is vital. The successful mortgage manager will have a distinct niche strategy as shown by the example of the non conforming low documentation product. The target market will best be converted, convinced and retained by good service within difficult lending scenarios.

The Mortgage Managers must decide if it wants to maximise its business profitability and create a saleable asset or if the goal is to get access to its own fund source. The goals and targets must be clear within the driving force of the organisation. The marketing and products need to align with the goals. The importance of brand recognition, customer service, and customer retention as well as customer advocacy is highlighted throughout the report.

As outlined in the Appendix C the marketing tools required and the marketing strategies implemented must suit the changing marketplace as well as the viable flexible strategy that is used.

5.3 Limitations of Study and future research

The information that is available for study within certain areas of Australia is scarce. The advent of un securitised areas and the lack of historical data within these geographical locations will have an impact on this project.

The focus of the study is on generating the niche market business. The lack of attention towards the rest of the market as well as other generic products may be a weakness of the project. This concentration on new products may hinder the development of main stream products of similar value that may have been over looked.
The lack of competitor information and primary research from competition will make this a focused study on one perspective on the marketplace. This may limit the ideas and products that may otherwise occur from such a study. This will also affect the conclusions and recommendations made. The author limits his focus to the sustainability and success of Mortgage Managers and as such may stifle the information and influence the research areas to gain optimum advantage for Mortgage Management and the aims of the project.

Future research may be used to identify specific products and outline the benefits and advantages of these products. Future research may also be designed towards market making. This concept, if used innovatively has the ability revolutionise the industry. It can also affect all ancillary industries such as building, insurance etc. Other areas of additional study can be the situation for standard products and the place of these products within the industry.

**5.4 Conclusion**

The project has outlined the background of the industry and the narrative of the historical movement of the industry towards its current situation. The project examines the governmental impact the role of government in the industry. It also looks at the non bank lenders and the comparison with institutionalised lenders. The advantages of flexible organisations with innovative distribution models have been outlined.

Direction has become all important, how you get their can be as important as where you want to go. The methods you use to achieve your goals may eventually decide your level of success. The success is measured against the achievement against goals and objectives. With the changing marketplace the industry is evolving at faster pace and the successful participants are prepared for this change. They anticipate the change.
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Appendices

Appendix A – Tier 1 Mortgage Management Elements

- Complete a full application form with all clients details filled in correctly
- Order a valuation of the property in from a valuer whom is on the funders list of valuers. (When a funder has a list of valuers this means that they have been deemed a reputable valuer whom the funder sees fit to assess the REAL property value. Due to liability reasons a Mortgage Manager is only able to order a valuation from one of these valuers).
- Have a CREDIT TEAM in place. (This means that this Mortgage Manager is able to approve loans in house without having to submit the loan to the funder for approval). This is a very big step as a very small minority of Mortgage Managers are able to have this function in house.
- If required they obtain lenders mortgage insurance. (This is also another very important feature as this enables a loan to be approved in a far faster manner).
- Arrears and defaults management (When a loan is in default or arrears it is the responsibility of the tier one mortgage manager to follow this up and ensure that the client pays.
- After sales management (This entails the Mortgage Manager ensuring that what ever the client may need is attended to and dealt with in house – for example management of their account).
- Statement Management (ensure that all statements for clients are printed and sent to clients on time).
- Customer relations (Ensure that clients have all their needs adhered to and are not overlooked when they require a service)

Appendix B - the Seven P’s of Marketing

In order for the Mortgage Managers to be sustainable in this industry it is essential to look at the seven P’s and envelope this into the marketing strategy. The idea of this is to become aware of the aspects that will enable this to become a sustainable business.
Product

For the Mortgage Manager to engage in a sustainable business their product in this industry must be flawless. The product must be something which is very well thought about and furthermore something which is not just done on a whim. Many Mortgage Managers in this industry sell things before they have actually found out exactly from their trustees what the guidelines of the product are.

Branding is an important element of product. As a Mortgage Manager an excellent strategy is having the branding tied up with your business name, such as having a theme throughout the business. E.g. the name of your company may be Jupiter Finance Corporation Pty Ltd. Therefore you could have products such as the Saturn Package and the Pluto Package. This will deter brokers from the normal names of funders which can actually prevent a broker from calling a Mortgage Manager. Once a broker calls a Mortgage Managing company the product needs to be sound so that every staff member in the office knows and conveys the same information to the brokers.

Another form of branding is also known as ‘white labelling’. This means that as a Mortgage Manager you are able to have your ‘own’ application form so neither the broker nor the client will know where you are sourcing your funds from. This means that it makes you a far better competitor as well as more sustainable within the market. Brokers need to have the perception that it is ‘your’ product so that they will not shop the loan around and also believe that this is your own branded product.

Moreover product knowledge is actually another large element that contributes to the product model. To be a sustainable Mortgage Manager it is essential that the product knowledge is kept right up to date and that the Mortgage Manager’s make a conscious effort to ensure that they keep in touch with their various trustees and funders in order to uphold their product knowledge.

The type of product is also very important. As a Mortgage Manager it must be decided whether or not the business will provide all lines of finance products or just stick to a certain niche such as the non-conforming market.
By evaluating the current Mortgage Managers that are in business it is evident that most of the successful Mortgage Managers either provide a niche product or have extensive product knowledge.

**Price**

A sustainable model for the pricing is a pricing structure that does not have over-priced products nor products that are too cheap either. A cheap product will have brokers wondering if you are a reputable Mortgage Manager and an expensive product will mean that brokers will go elsewhere.

Being a Mortgage Manager gives the business a lot of edge when it comes to pricing. Basically a mortgage manager receives a delivery rate which they are able to build on. Due to the fact that they are the ones who are building on the rate it is at the Mortgage Manager’s discretion as to how much they build on the rate and how much they are willing to discount.

An ingenious pricing structure would mean that instead of taking all the upfront and trail on a deal as well as the valuation fee, legal costs, application fee, mortgage insurance fee etc. A way to attract business through price would be to actually give the valuation and legal fees away for free. This attracts brokers to the product as they need an edge for their clients.

Sequentially Mortgage Managers pay their brokers a commission for the referral of a deal. To ensure that a broker will keep on referring work and not just use you as a one off it is an idea to always ensure that the broker is paid a very fair commission which can also be built into the rate.

As a Mortgage Manager it is very important to ensure the pricing of the products are correct as they will have to please the broker and the client. If the broker is convinced they will no doubt be able to make their client happy too!
Place

The distribution of these products should be a staged process. When the business is first starting off geographically the products should be released nationwide in a state by state manner. By distributing the product by state it controls the way in which the products are released which means that if there are any teething problems with this they can be dealt with.

In relation to whom they should be released to it is important that a Mortgage Manager releases their product to brokers as they are the place to distribute the product.

Promotion

They way in which to best promote this business and ensure that it stays a sustainable model is to control all promotions and watch that products are not sold by over promising. Over promising in the past and still to date has been a major problem in this business. Promotions of products and the business need to be clear, succinct and sincere in the way in which they are promoted.

Different ways of promoting these products may include the following:

- Promote on the company website
- Newsletter sent out via email to brokers and then a follow up call for an appointment for a BDM to go and see the broker
- The company BDM should go and see brokers. This gives them an opportunity to explain the product property which will ensure that the brokers have an excellent understanding of the product.

In order to promote Australia wide and be able to uphold this structure the Mortgage Manager needs to stay in contact with their clients, brokers etc and respond to calls. To further cement the relationship it is very important that just because a broker may be interstate that does not become an excuse not to go and see them.
Physical Evidence

- logo, corporate, signage, tangible aspects (services cape)

It is vital that as a Mortgage Manager there is a sense of being is established within the industry. This should be done by having things such as a logo which is recognized as well as correct signage around the office buildings. Furthermore there needs to be many tangible aspects within the businesses environment as well. For instance if a client walks into the office they need to see a professional yet welcoming atmosphere. Always have brochures and information lying around that a broker or client for that instance is able to take away with them.

The customer service in this element of the seven P’s is also a major constituent. If the customer service aspect of this business is any less than perfect then this opens the business up for criticism. It is the little things that matter immensely here. E.g. when a customer calls be sure that you call them back. As much as Mortgage Managers in the past have claimed that they were too busy as an excuse for not calling clients back in a timely manner. In the eyes of a broker this means nothing. Unfortunately brokers are under immense pressure from their client to ensure that their loan is processed in a timely fashion. To a desperate client a Mortgage Manager does not buy them money it is actually time we are buying them.

Process

This process is part of the whole customer experience. This is where once again the Mortgage Manager needs to ensure that their customer services skills across the office are immaculate.

As mentioned earlier it is once again the little things that count here. As follows:

- If you promise a broker or client that you will do something then ensure that you will do it
- If a customer calls you then be sure to call them back
- Ensure all technology within the office is always working, such as the internet, printer, email, fax machine and so forth.
- If you move offices then be sure to inform everyone
- Do not over promise. This is the quickest way to disappoint brokers

If customer service is maintained and as a rule everyone in the office strives to exceed client expectations, business will be sustainable and thrive on word of mouth.

**People**

The people in the business are what can make or break a business. The employees need to be experienced, professional and extremely knowledgeable. Employees need to also understand the importance that should be placed on customer service in this sector.

On the contrary as the owner of a mortgage management firm it is imperative that employees are trained properly in all areas and are constantly reviewed to ensure consistency and efficiency within the business are constantly met. If the employees are also treated well they will perform and also treat the business like their own. This will reflect when they deal with the brokers.
### Appendix C – TOWS Matrix

<table>
<thead>
<tr>
<th>TOWS MATRIX</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
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</table>
|             | • Mortgage Managers have the control of the loans that are going through and ensuring that they are able to get them over the line  
• Can deal with only brokers and it’s a viable business  
• Able to determine interest rate for clients / brokers  
• Able to target niche markets  
• Mortgage Manager has the option to invent products that are demanded by the industry  
• Credit team is able to operate from in-house and work under the business name  
• Low overheads often allow a Mortgage Manager to undercut the banks rates | • Mortgage Manager is in charge of arrears and defaults  
• Unlike banks, building societies and credit unions, Mortgage Managers do not have a base of customer deposits with which to fund their loans  
• They are liable for anything that is written in a client file. Therefore if a client does something they shouldn’t the Mortgage Manager will be questioned about this also  
• If guidelines are not met by staff members the trustees are able to take away funds  
• As a Mortgage Manager a lot of the time they get large rushes of |
- More flexibility with product and pricing structures for clients and brokers
- Most Mortgage Managers do not need a large staff base in order to handle large dollar amounts as would banks
- No need to have an office in each state, able to appoint a BDM for each state, therefore saving on offices and shop-fronts, once again reducing prices of products or increasing profit for business owners / shareholders.

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>SO Strategies</th>
<th>WO Strategies</th>
</tr>
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</table>
| - This industry has a lot of potential and a lot of room to grow.  
- Due to the introduction of superannuation in the 90’s, Mortgage Managers have | - Due to the fact that Mortgage Managers have more control over the loan, they need to take that opportunity and conduct business in a unique manner in order to take advantage of the potential growth that is possible within the industry | - By being in charge of arrears and defaults it is possible to turn this weakness into an opportunity by providing brokers excellent customer service within this element. For example; if a client is in arrears providing them with an already |
taken a larger role in the securitization of funds. Therefore as super funds grow the amount of money a Mortgage Manager will have at their disposal will grow

- Able to target brokers in the industry who will create customer loyalty
- Hours of operation are at the discretion of the mortgage manager
- Opportunity to eventually become a wholesale lender

- A large staff base is not needed in order to execute large dollar amounts, a mortgage manager needs to take advantage of this and use this as a lead up to being a wholesale funder
- Money saved via overheads and so forth can be used as a marketing tool to drive in business and become a household name such as ‘Wizard’ & ‘Aussie Home Loans’ have done
- Provide brokers with regular updated training in the industry to have an edge over other Mortgage Managers – this is possible by the low amount of staff required, therefore there is money there to spend on something like this
- Having the strength to have a credit team will mean that brokers who are targeted will be overall happier with service as they are getting approval of a loan directly, this will of course entice a broker to then repeat
- Entice staff by offering them certain packages and giving them aims within the business so as the business improves and grows they are able to move up the ladder within the business. Gives staff a goal and a reason to stay at the one company creating loyalty and stability for the company
- To take the pressure away from any influx of work that may arise, contractors should be on stand by for months that are more likely to be the busier months such as the quarter just after tax time
- Due to the growing industry and the opportunity within the industry it is possible to negotiate with wholesale funders to incorporate some services

| Drawn up letter to send to them and even an outline of a phone conversation that should be performed |
| Money saved via overheads and so forth can be used as a marketing tool to drive in business and become a household name such as ‘Wizard’ & ‘Aussie Home Loans’ have done |
| Provide brokers with regular updated training in the industry to have an edge over other Mortgage Managers – this is possible by the low amount of staff required, therefore there is money there to spend on something like this |
| Having the strength to have a credit team will mean that brokers who are targeted will be overall happier with service as they are getting approval of a loan directly, this will of course entice a broker to then repeat |
- An increasing number of brokers are realizing the fruits of being a Mortgage Manager and are now doing so
- Banks have a larger access to funds and could offer a more competitive interest rate
- Banks are able to offer more facilities than a mortgage manager such as

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| business that the banks have such as term deposits and credit cards. | Brokers need to be provided with a level of customer service that exceeds their expectations. This will then lessen the chance of the idea forming that they will leave brokering and becoming a mortgage manger. Most of the time this happens with a broker when they are disappointed with the level of customer service they are being provided and they take the “why don’t I just do this myself attitude!” Due to low over heads Mortgage | Market to brokers to prevent them from entering the mortgage managing market
- So that banks do not over take the presence of a Mortgage Manager it is imperative that they up keep customer service to brokers
- Do not over promise within this industry, just because a bank may be able to provide a product, over-promising will eventually backfire and become a major weakness |
offset accounts
• Wholesale funders having the infrastructure to eventually go to the client directly and marketing themselves and skipping the ‘middle man’
• There are many more Mortgage Managers entering the market
• Funders such as Virgin Money, who refuse to deal with a Mortgage Manager and will only talk directly to a client
Managers should take this opportunity to provide a cheaper, different product that is marketed directly to the client in order to become direct competition with the likes of Virgin Money. A Mortgage Manager can even start up another business name and trade under this in order to keep the identity a secret
• Keep an eye on what the banks are doing and due to the flexibility of the interest rates offer products such as ‘free’ valuations and ‘free’ legals
• Provide personalized customer service, a specialty that banks fail to maintain
• Mortgage manger can eventually raise funds and also go to the ‘bond’ market just like the banks turning themselves into a wholesale lender with their ‘own’ Mortgage Manager
• Ensure that there is expert after loan service care

• Listen to a broker if they come with a problem (financially) then think of all the different products that are on hand and ensure that you come up with a strategy. Don’t just sell them the one that would make you the most money like a bank would
• Staff training is imperative, do not get the company in a situation where the client wants to go direct to the funder
• Do not disclose who the funders are as they are a threat and the broker is able to go directly to the funder most times
• Have contracts with brokers, putting them on a loyalty program – need to secure repeat business, too often brokers will use a Mortgage Manager once or twice and then end up going directly to the source
• Negotiate exclusive rights with certain wholesale funders so that
other Mortgage Managers are not able to use the same wholesale funders as you
- White label products so that other Mortgage Managers are not sure of where you are obtaining your funds from