

# AustralianBroker

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**CHRIS  
ANDREWS**

The non-bank sector is on the verge of a major resurgence as banks face further regulatory restrictions, says La Trobe Financial's chief investment officer /14



#### Under dark clouds

ASIC looks for new ways to tackle the complex problem of mortgage fraud /16



#### Different markets, different constraints

Blanket lending restrictions could have detrimental effects /20



#### Industry shake-up

A non-major banking executive makes the move into LMI /21

#### ALSO IN THIS ISSUE ...

##### Jumping through hoops

A broker shows how to take change in your stride /23

##### Getting fired up

Brokers express concerns about ASIC's industry funding bill /24

##### In the hot seat

Business, books and trips with the family: achieving balance and mindfulness /30

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COVER STORY

# RETURN OF THE NON-BANKS

With banks facing increased restrictions and tighter lending standards, non-bank lenders are picking up more market share and are readying for a major comeback, explains La Trobe Financial's chief investment officer, **Chris Andrews**

**NON-BANK** lenders have perhaps entered a new golden era. So far, 2017 has been an outstanding year for non-banks, with many seeing loan volumes increase by roughly 25% because of recent lending restrictions placed on APRA-regulated entities, says La Trobe Financial's chief investment officer, Chris Andrews.

With banks facing increased regulatory burdens and capital requirements, the service gap left behind by the major lenders continues to grow. And as banks steer their appetites towards more vanilla-type loans, large segments of the borrower market remain untapped, primed for specialist lenders who can offer high-quality solutions in this new environment.

"In our view, the market need for this type of specialist lender is currently in what is likely to be an extended growth phase."

Furthermore, the regulatory pushback on the banks is probably not going to wind down any time soon, creating ripples of tension in the broker-bank relationship, Andrews says. Barely a week goes by without repricing by one of the banks on their products, or news that they have removed a loan product, and brokers are just having to deal with it.

Brokers were up against a similar attitude during the GFC, Andrews says, when several banks closed their broker operations entirely, causing much consternation for brokers and their borrower clients, who were left high and dry.

"At the moment, brokers are looking for a lender whose policies and pricing are consistent and steady – and not subject to

'tap on/tap off' risk. There is so much uncertainty created by this regulatory direction that perhaps it represents a generational shift

insurance companies and building societies held roughly 23% of the residential lending market share. Today, non-banks hold only 3–4%

**"We are trying to build ahead of the curve rather than behind the curve, so our fast turnaround times are not impacted and we remain the number one shop for our broker clients"**

in what banks and non-banks will contribute to this very large market in the future," he adds.

Back in the late 1970s, life

(\$10bn per year) of the \$350bn market, Andrews says, while banks absorb the rest. But he believes non-banks are on the upswing and

will experience a resurgence back to those levels. Responding to the size of this uptick will be the number one challenge for the non-bank sector.

## Questions remain around APRA's new powers

But there is one thorn in the non-bank expansion plan that it is worth being mindful of. In the May federal budget, the Turnbull Government announced it would provide APRA with \$2.6m over the next four years to allow it to exercise new powers in regard to the provision of credit by non-ADIs.

In the brief three paragraphs outlining this investment in the budget, the government gave few details about what these new powers would entail, what they were intended to achieve and how they would affect the mortgage lending market.

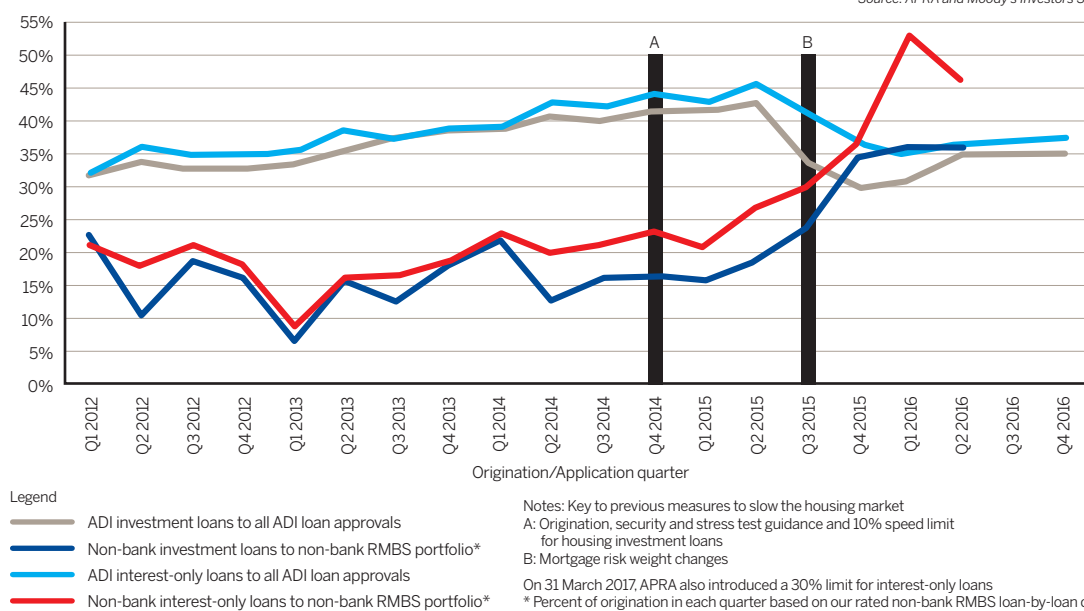
"These new powers complement APRA's existing macroprudential powers. This funding will also allow APRA to collect data from these entities for the purposes of monitoring the non-ADI lending market," the budget paper says.

The government went on to say that these changes would form part of a "modernisation of the Banking Act 1959 to better support APRA's use of the Banking Act for macroprudential purposes".

This will include making clear APRA's responsibility for using geographically based restrictions

## NON-BANKS' SHARE OF INVESTMENT AND INTEREST-ONLY RESIDENTIAL LOANS IS ON THE RISE

Source: APRA and Moody's Investors Service





on the provision of credit where appropriate.

“Whilst this announcement must be accepted at face value, the lack of detail provided to date represents a significant uncertainty on the regulatory landscape. As with all such measures, the devil lies in the detail,” Andrews says.

As such, the non-bank industry is grappling with a few unknowns around this. The question is: will non-ADIs be regulated in the same way as ADIs?

“The ability of non-ADIs to lend to segments that are out of favour with the banks is an important market outlet ... and ensures that the composition and risk profile of the Australian mortgage market does not become too concentrated and homogenised,” Andrews says.

Non-ADIs are funded by often-sophisticated investors within entirely separate regulatory frameworks, and the existence and integrity of these frameworks is called into question if APRA morphs into a “super-regulator” overseeing all credit activity in the country, Andrews explains.

“Indeed, the presence of super-regulators in other jurisdictions has been criticised as contributing to the global financial crisis by consolidating too many functions into the one regulatory remit,” he says.

What people should know, however, is that just because non-banks haven’t traditionally been under APRA’s purview doesn’t mean the non-ADI sector is running rampant with the rules.

“In our view, any in-depth analysis of the non-ADI sector will show credit standards as robust and responsible as any banks,” Andrews says.

La Trobe Financial, for example, has for many years benchmarked its credit program on the best that the ADI sector has to offer, he says. APRA’s *Prudential Practice Guide* on residential mortgage lending, which encapsulates the regulator’s views on sound lending practices, is consistent with La Trobe Financial’s internal standards, Andrews says.

#### **Growing with brokers in mind**

La Trobe Financial is working on expanding its third party distribution channel this year, which includes brokers and financial advisers, and it expects to be doing business with



Chris Andrews, CIO, La Trobe Financial

more than 2,000 brokers by next June, an increase of 500 brokers.

“We respect the importance of these channels and have always supported finance brokers with a clear no-clawback policy on commissions,” Andrews says.

As the operation grows, La Trobe Financial will be “recalibrating” its operations to ensure brokers’ needs continue to be met. The credit specialist is currently in the process of onboarding additional upfront sales staff and is making sure the back end is fully resourced to cater to growth.

“We are trying to build ahead of the curve rather than behind the curve, so our fast turnaround times

are not impacted and we remain the number one shop for our broker clients to come to for service,” he says.

La Trobe Financial has been helping brokers succeed in underserved markets since 1952, and it plans to keep delivering on that promise as times change.

“In terms of disruption, 65 years in the space has taught us that change is constant,” Andrews says.

And there’s no doubt there are more unknowns and uncertainties on the horizon.

Regulatory change will continue to affect all participants in the credit market, and technological innovation will deliver new

efficiencies. But from where La Trobe Financial is positioned, the outlook is positive.

Andrews believes change will most likely result in new and higher service offerings for clients, rather than wholesale disruption of industry participants as is sometimes suggested.

“I really am committed along with all of my colleagues to seeing the resurgence of the non-banks and assisting Australian consumers get a better level of services and products than available elsewhere,” he says.

“Working in this environment is both challenging and stimulating – it’s very rewarding, and the future looks bright.” **AB**