

## BROKERS ON NON-BANKS

# BROKERS ON NON-BANKS

**Non-banks are stepping up to deal with the chaos caused by regulation, but they've become regulators' next target. We asked brokers how and why they use non-banks, and which non-bank impressed them the most**

**THIS IS** the biggest survey of non-banks *MPA* has run for years, not only because it has more participants, more medals and more respondents, but also because it comes at a time when brokers are finally discovering how much the non-bank sector can offer.

Brokers who operated pre-GFC will be well acquainted with non-banks, but the intervening years have seen these lenders forgotten by many. Yet non-banks are now big business and include global players as well as more niche, fast-moving new entrants, all competing to fill the lending sectors vacated by the banks: investors, foreign buyers, the self-employed, and the simply unusual.

Our Brokers on Non-Banks survey asks which non-banks are stepping up and which are falling behind. Brokers rated each non-bank

they had dealt with from 1 (very poor) to 5 (very good) across 10 categories of service: the non-bank with the highest average rating won the award for *MPA* Non-Bank of the Year. We also asked brokers which individual non-bank product was their favourite, and this was named the Non-Bank Product of the Year.

This year we introduced seven additional awards, for 'Preferred Lender' in various categories. We asked brokers which non-bank best served certain niche areas of clients, including non-conforming, first home buyers, property investors, commercial clients, alt/low-doc, SMSF and foreign non-residents. The most-picked non-bank for each client group was named the Preferred Lender for those clients. You can find Preferred Lenders and overall winners listed in the 'Final Results'

section near the end of this report.

Our Brokers on Non-Banks survey is not all about awards, however. We also asked brokers why they use non-banks, why they don't, and how consumers see this sector. While different non-banks target very different groups of clients, they share a common challenge of achieving broker and consumer awareness, with only the biggest non-banks being able to mount sustained consumer campaigns.

One group that has certainly noticed non-banks is Australia's regulators. The 2017 Federal Budget saw APRA allocated additional resources and potential legal reforms in order to bring the non-bank sector under control. Hence our final question: if non-banks were restricted by APRA in the same way as banks, would you still use them?

## OUR TYPICAL RESPONDENT



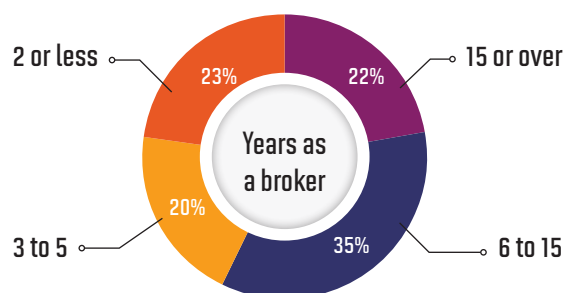
aged between  
46 and 55



based in **NSW** (29%),  
**Vic** (26%) or  
**Qld** (25%)

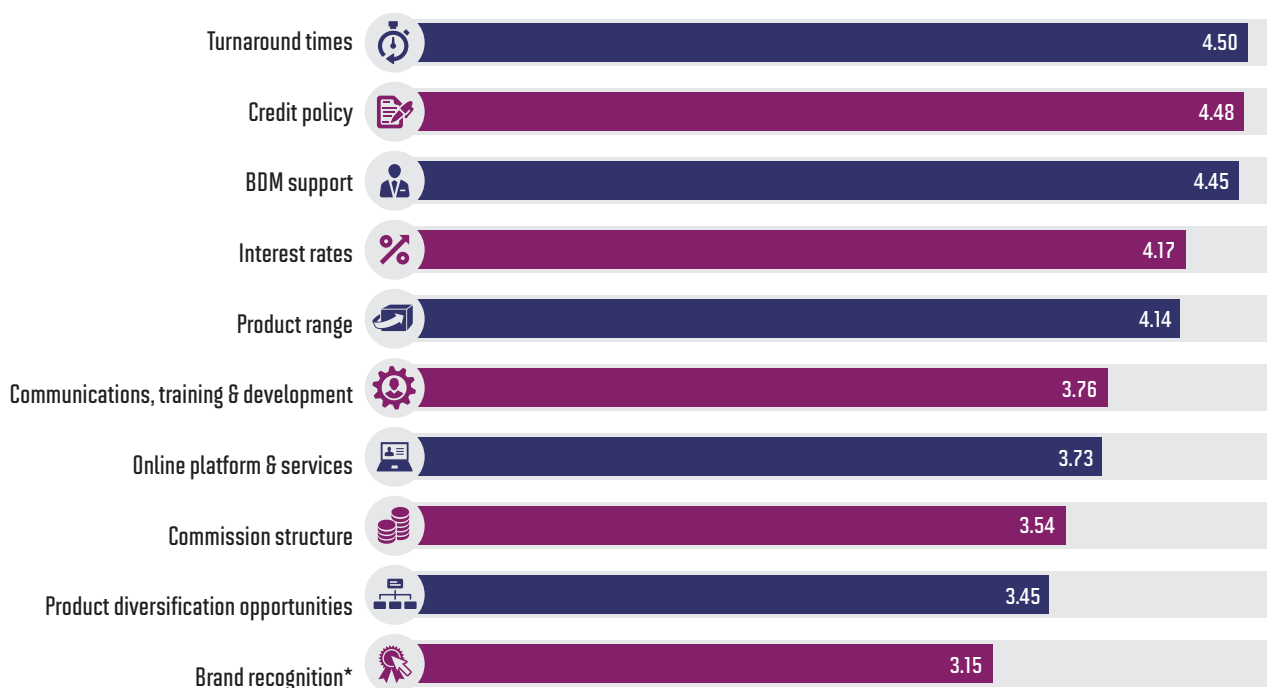


writes  
\$10m–\$20m in  
mortgages a year



## WHAT DO BROKERS WANT FROM NON-BANKS?

1 = not important; 5 = very important



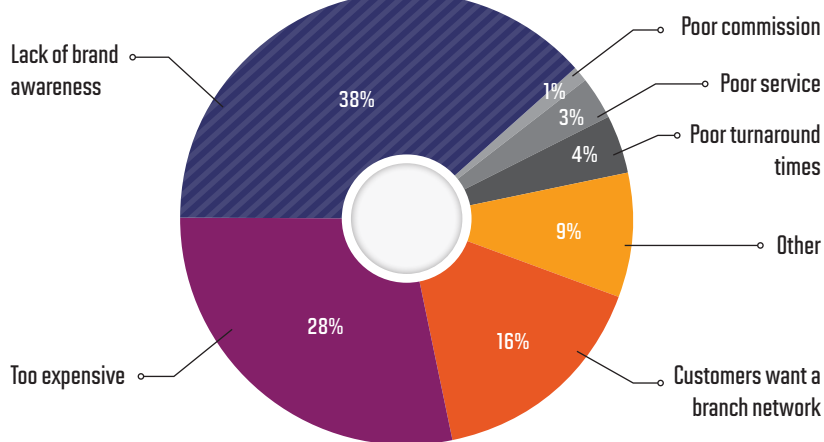
\*in 2016 this category was named 'Marketing and brand awareness'

## BROKERS ON NON-BANKS

# WHY USE A NON-BANK?

Although consumer awareness remains a challenge for non-banks, an increasing number of consumers have nowhere else to go

## WHAT IS THE MAIN BARRIER TO PUTTING MORE BUSINESS THROUGH THE NON-BANK LENDERS?

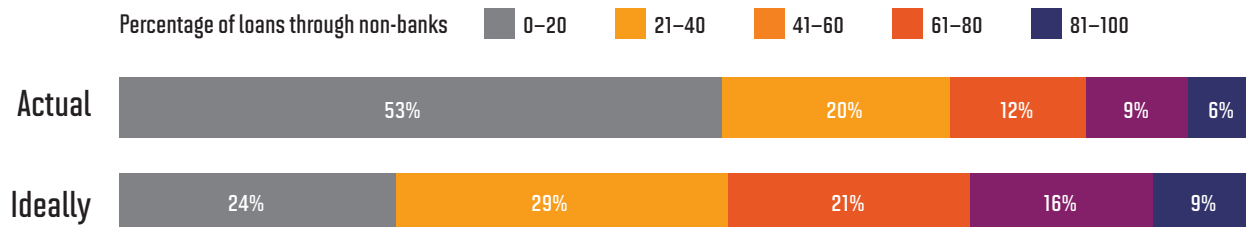


**IF YOU'RE** sceptical about non-banks, consider this statistic: 85% of consumers are open to considering non-bank products, according to our respondents. While this figure was slightly lower in Victoria and Western Australia – and consequently higher in NSW and Queensland – our survey goes some way towards proving that consumers are more open to non-banks than many brokers believe.

One could argue that our respondents had clients who were interested in non-banks because they, the brokers, were non-bank specialists. Yet for three quarters of our respondents less than 40% of their loans went to non-bank lenders – ie these are not necessarily specialist brokers. In fact, our survey suggests the opposite: that brokers themselves play a large part in slowing the growth of the non-bank sector.

Brokers do of course provide the only distribution channel for the majority of non-bank lenders. However, less than half

## THE NON-BANK OPPORTUNITY GAP







of our respondents could see themselves sending more than 40% of their loans to non-banks. Encouragingly for non-banks, most of our respondents were nevertheless interested in writing a higher proportion of non-bank loans than they do today.

Unlike our other surveys, Brokers on Non-Banks respondents were typically more experienced, having worked in broking for more than six years, on average. While this suggests it's never too late to change broker attitudes to non-banks, lenders should also be asking themselves whether new brokers are finding it too hard to access – or are simply unaware of – non-bank options.

How can non-banks bridge the opportunity gap? According to our respondents this could be as easy as through improved marketing, as 'lack of brand awareness' came ahead of 'too expensive' and 'customers want a brand network' in the list of factors stopping brokers from using non-banks.

Our results suggest that this marketing should be targeted, and cannot work without specialised products. This year's Non-Bank of the Year, La Trobe Financial, and runner-up Liberty, were named the Preferred Lenders for foreign buyers and property investors respectively. It's no coincidence that foreign buyers and investors are two groups of clients that, until relatively recently, could have gone straight to the banks, but now increasingly rely on non-banks, even if their interest rates are higher.

With many brokerages entirely dependent on these clients, our top-rated non-banks have provided a lifeline for both brokers and clients, and the trust they have built is reflected in this survey.

## HIGHLIGHTS: USING A NON-BANK

### Brand recognition



**Liberty**



**Pepper Money**



**La Trobe Financial**

### Commission structure



**Liberty**



**Bluestone**



**La Trobe Financial**

### Credit policy



**La Trobe Financial**



**Bluestone**



**Homeloans Ltd**

# BROKERS ON NON-BANKS

## PRODUCTS AND PRICING

Non-banks with the credit policies to target investors and foreign buyers are surging ahead of the competition

### NON-BANK PRODUCT OF THE YEAR: LIBERTY STAR



For the third year running, brokers picked Liberty Star as their favourite product. Aimed at owner-occupiers and investors, Liberty Star offers a maximum LVR of 95%, a 100% offset facility, and interest-only options (albeit with higher interest rates)

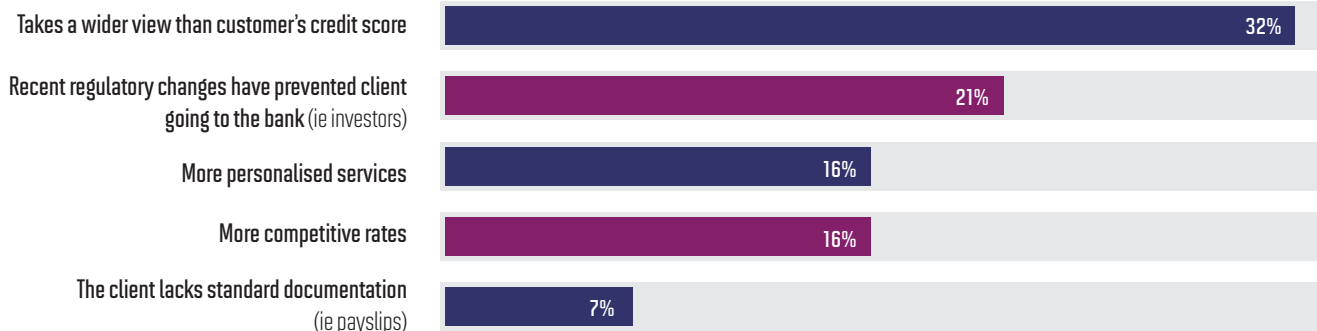
#### What brokers told us about Liberty Star:

- "Competitive interest rate, fast turnaround times and assessors are generally very willing to assist."
- "It's very comparable with the majors for product spec ... much better for servicing."
- "Easy to use, great rates, great comms. Win-win."
- "For clients at a high LVR being able to borrow up to 100% of the value of the property essentially is a great niche."

**PRODUCTS AND** specifically credit policy are at the centre of the non-bank proposition. Arguably this has always been the case – non-banks have long served groups such as credit-impaired customers – but non-banks' different approach to credit policy has been pulling in new types of clients and, consequently, brokers who would previously gone elsewhere. The data proves this: 21% of our respondents said they would pick a non-bank over a bank because 'recent regulatory changes have prevented clients going to the bank'.

Our Non-Bank of the Year, La Trobe Financial, demonstrates how important this trend can be. In 2016 La Trobe ranked ninth in our Brokers on Non-Banks survey – a poor result given the small size of the sector. This year La Trobe came first

### WHAT IS THE MAIN REASON YOU WOULD PICK A NON-BANK LENDER OVER A BANK?



\*At the time of writing in July, La Trobe had paused lending to non-residents, although they say it will resume.



## Broadest Product Range – **financing every life cycle**

**La Trobe Financial** has the **broadest product range** in the market.

**RESIDENTIAL • COMMERCIAL • CONSTRUCTION  
SMSF • NON-RESIDENT • P2C® • AGED CARE LOANS**

With our product range, finance brokers have the opportunity to cater for their client's finance requirements throughout every life cycle, including investing in Australia's leading credit fund.

To partner with a team that is looking out for you, and help you grow your business call us today **13 80 10** or visit **[www.latrobefinancial.com](http://www.latrobefinancial.com)**





# BROKERS ON NON-BANKS



## HIGHLIGHTS: PRODUCTS AND PRICING

### Interest rates



**Firstmac**



**Homeloans Ltd**



**La Trobe Financial**

### Product range



**La Trobe Financial**



**Liberty**



**Homeloans Ltd**

### Product diversification opportunities



**Homeloans Ltd**



**La Trobe Financial**



**Liberty**

overall, winning the service categories of credit policy (by a margin), product range and BDM support.

La Trobe is one of very few lenders who continue to lend to non-residents (hence being voted by brokers as the Preferred Lender for foreign buyers) and so you'd expect it to win the awards for credit policy and product range. La Trobe's win for BDM support suggests that once you give brokers a reason to start using a non-bank they will start to appreciate the service that non-bank can offer.

Exactly the same argument applies to runner-up Liberty, which has established itself as a leading alternative in the property investor space and has seen a huge increase in business as a consequence. Third-placed Pepper Money seems to have impressed brokers through more traditional means, providing solutions for alt-doc and non-conforming clients and taking a leading role in educating brokers and promoting these clients to the industry. Brokers named Pepper as their Preferred Lender for both of these client groups.

It's because of this focus on certain client groups – foreign buyers, property investors and non-conforming – that potential regulation by APRA is such a threat to non-banks. We asked brokers whether they would still use non-banks even if they were more heavily regulated, and while most brokers were supportive of non-banks, a large number questioned what the non-bank sector stood for without its alternative approach to credit policy. One could argue, therefore, that just a few APRA directives could leave next year's Brokers on Non-Banks report looking very different.



# Work smarter with Liberty IQ

**Liberty IQ is our new loan tracking web app** available on your mobile device or desktop. Liberty IQ lets you quickly and simply see the progress of your Liberty loans every step of the way – from submission to settlement. You can also see who's working on your deal and contact them with one click.

**Beep beep!** ... Liberty IQ alerts you at all the important milestones. You can also use it to upload and download documents using your mobile phone, tablet or desktop computer.

**Liberty IQ** is also the best place to find all of our latest interest rates, Introducer Guides and FAQ's.

**Login or create an account today.**

Visit [iq.liberty.com.au](http://iq.liberty.com.au) or call **13 11 33** to connect with your friendly BDM.



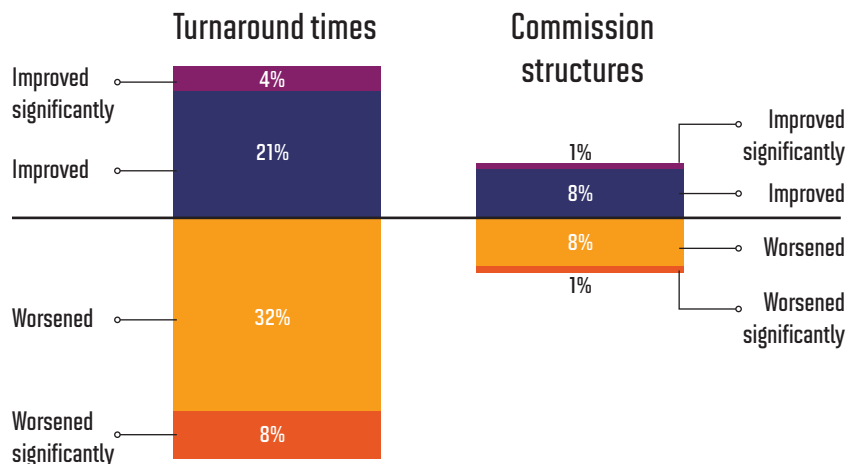


## BROKERS ON NON-BANKS

# TECHNOLOGY, TURNAROUND AND SERVICE

With turnaround times becoming so important for brokers, non-bank lenders that struggle to maintain them are losing out

## HOW HAVE TURNAROUND TIMES AND COMMISSION STRUCTURES CHANGED OVER THE PAST YEAR?



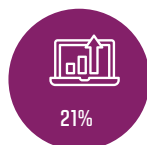
**WHEN IT** comes to non-bank services, brokers' demands have remained fairly consistent. With almost equal importance ratings, it appears that turnaround times, credit policy and BDM support remained brokers' top three priorities this year, and it's no surprise that La Trobe Financial, which won two of these three service categories, was brokers' favourite non-bank overall.

Across all non-banks, however, turnaround times are worsening, according to 40% of our respondents, compared to 25% who said they were improving. It's possible that increased business going to non-banks as a result of changes to investor and foreign-buyer lending, initially overwhelmed lenders with limited resources for processing, as one respondent suggested. "With the influx of new deals non-banks cannot cope the turnaround times. They are not geared to

## HOW COULD NON-BANKS IMPROVE THEIR SERVICE LEVELS?



More BDMs/credit assessors



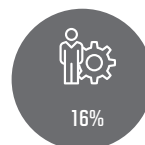
Better technology



Simpler income verification process



Better-trained BDMs/credit assessors



Other



handle or less committed in resources”.

Yet when you look at the non-banks who have profited most from these borrower groups – La Trobe Financial and Liberty – this argument becomes questionable, because these two lenders were also ranked number two and number one, respectively, for turnaround times. However, a number of non-bank lenders received average service scores of under 3.00 for turnaround times, ie brokers saw their performance as less than satisfactory.

When it comes to improving service levels, brokers’ demands are also very similar to

last year – split between the need for more BDMs/credit assessors, better technology, simpler income verification and better training for BDMs/credit assessors. It’s possible that inexperienced non-bank staff could be behind the slide in turnaround times, with one broker commenting that “credit assessors are now less skilled than previously as new lenders have had to employ new staff & be trained by brokers too. The new lenders haven’t had the quantity of staff to match the new volumes either”.

Just as interesting as the services brokers

judge to be important are those services they ignore. Brand recognition was the lowest-ranked service this year, behind product diversification opportunities and online platform and services.

Given that lack of consumer awareness is also one of the biggest factors holding brokers back from recommending non-banks, this finding is confusing, to say the least. Perhaps what brokers are saying is that a slick advertising campaign doesn’t excuse poor turnaround times or BDMs who won’t pick up the phone.

## HIGHLIGHTS: TECHNOLOGY, TURNAROUND AND SERVICE

### Turnaround times



**Liberty**



**La Trobe Financial**



**Firstmac**

### BDM support



**La Trobe Financial**



**Liberty**



**Homeloans Ltd**

### Communications, training and development



**Pepper Money**



**La Trobe Financial**



**Liberty**

### Online platform & services



**Pepper Money**



**Firstmac**



**La Trobe Financial**

## BROKERS ON NON-BANKS



# WHAT YOU'RE SAYING

With increased regulation imminent, we asked brokers: If non-banks were restricted by APRA in the same way as banks, would you still use them? This is what they told us

## YES

- ✓ Yes, I would, because: 1) There will be no channel conflict; 2) Better turnaround times; 3) Better customer service from BDM; 4) Better product range in some cases and 5) Better retention.
- ✓ Yes. Good variety and policy differences (Best fit) still trump 'interest rates'. If non-bank lenders were restricted, interest rates would rise, but policy tends to decide lender, not so much interest rates, especially in these days of more complex scenarios.
- ✓ Yes. I imagine there will be some constraints on the investor loan book and PI/IO options. However, as long as the flexible credit assessment criteria is in place along with alternate income verification methods, I will still use these lenders.
- ✓ Yes. APRA will have an effect on non-banks like it or not through warehouse facilities. Non-banks will still win out by using niche products and better services.
- ✓ Yes for many Lo Doc scenarios where clients can't provide BAS and that banks are unable to assist with. APRA restrictions could slow use of non-banks; especially the ability to expense existing liabilities at the actual repayment figure.
- ✓ The personalised service of non-banks compares favourably to that of the banking sector. More visits by non-bank BDMs, ability to discuss deals directly with credit analysts and flexibility of product means that non-banks will have a place in the market for some time to come.

## NO

- ✗ If non-banks were restricted by APRA I would not use them because they offered that out of the box situation, I would expect there to be further requirements but not to restrict them, then it will be [a] uniform process and we might as well say goodbye to customer choices and their option to choose which institute they want to go with.
- ✗ Probably not, I believe that the greatest advantage that non-banks have are their servicing calculators, if those policies were to change they would lose the upper hand.
- ✗ There would be no point as their policies would be the same. The reason we use them is that these funders can see deals that are "out of the box" but are still deals. They have more options to prove income than just the standard payslips.
- ✗ There would be less use for non-banks if they couldn't go outside of the box. High LVR lending has become non-existent with most of the big banks. Investors are restricted with the big banks; non-banks give them another opportunity to expand in the market.
- ✗ If full APRA restrictions were imposed on Non-Banks, the current pricing differential would need to be removed ... Clients currently understand that Non-Banks' "less stringent" requirements [mean they] do need to impose a premium in terms of their rates and charges. If Non-Banks were governed by the same requirements for banks, with the current pricing differential, there would be no incentive to use them.



# MPA

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## BROKERS ON NON-BANKS

# FINAL RESULTS

We reveal 2017's Non-Bank of the Year and discuss the strengths and weaknesses of the top performers

## NEW: BROKERS' PREFERRED LENDERS

This year we asked brokers to pick a preferred lender for each key category of borrower. The lender with the most mentions per category won:



Non-conforming  
**Pepper Money**



First home buyers  
**Homeloans Ltd**



Property investors  
**Liberty**



Commercial  
**La Trobe Financial**



Alt doc/Low doc  
**Pepper Money**



SMSF  
**Liberty**



Foreign non-residents  
**La Trobe Financial**

## OVERALL RESULTS

	Non-bank	Overall score
1st	La Trobe Financial	3.51
2nd	Liberty	3.47
3rd	Pepper Money	3.44
4th	Homeloans Ltd	3.40
5th	Firstmac	3.39
6th	Bluestone	3.19
7th	Better Mortgage Management	3.02
8th	Australian First Mortgage	2.99
9th	RESIMAC	2.92
10th	Nationalcorp Home Loans	2.87



## LA TROBE FINANCIAL



This year's standout performer has come a long way since 2016. Last year La Trobe not only received a poor

rating overall; it also failed to win any categories. This year, La Trobe has won three categories and was among the top three lenders in seven other categories, as well as being named Preferred Lender for foreign non-residents and commercial clients.

It would be easy to put La Trobe's success down to being one of the few lenders to play in the non-resident space. However, while this may have pushed brokers to use La Trobe for the first time, they were evidently happy with the service they received, as wins in two key categories of BDM support and credit policy – and second place in turnaround times – makes clear.

Nor was La Trobe's status as Preferred Lender for commercial clients achieved by accident. La Trobe's product range is broad and continues to expand, embracing rural lending, aged care and parent-to-child loans, to name just a few.

La Trobe paused lending to non-residents in July, after this survey had finished, although it says this will resume. Whether La Trobe's excellent service will continue to draw brokers in the absence of a unique product offering is a question with consequences for all non-bank lenders.

## LIBERTY



Close in second place, Liberty continued to hugely impress brokers. As the Preferred Lender for property investors,

Liberty has dominated a major revenue stream, which will only grow as the banks continue to cut down on investor lending.

Paired with brokers' favourite non-bank product, Liberty Star, and with wins in the categories of turnaround times, commission structures and brand recognition, it seems only major restrictions by APRA could prevent Liberty from achieving another excellent result in 2018.

## PEPPER MONEY



It was a great year for Pepper Money, with brokers voting the global non-bank as their Preferred Lender for alt-doc/low-doc

and non-conforming clients. Through its roadshows, online training modules and regular media commentary, Pepper has done as much as anyone to put alt-doc and non-conforming clients on brokers' radars, and our respondents recognised this, rating Pepper number one for communications, training and development.

Moving up in the overall rankings will require Pepper to excel across all service categories as it occasionally missed out on the top three in some areas.

## HOMELoANS LTD



With a broad product suite, Homeloans Ltd continues to appeal to brokers, including in some unusual sectors. Homeloans was voted Preferred Lender for first home buyers, a sector usually dominated by banks. With a win in the category of product diversification opportunities, a second place finish for interest rates and increased investment marketing, it should come as no surprise that Homeloans can compete within and beyond the non-bank space.

## FIRSTMAC



Remaining in the top five, Firstmac had a good year. It was rated by brokers as the top lender for interest rates, and took second place for online platform and services and third place in the key category of turnaround times.

Although Firstmac didn't score particularly poorly in any one category, what's keeping the non-bank from the top spots is its failure to achieve top three finishes in many categories, particularly the key categories of credit policy and BDM support.



## BROKERS ON NON-BANKS

# HOW LA TROBE FINANCIAL HIT GOLD

**Cory Bannister**, vice president and chief lending officer of Non-Bank of the Year La Trobe Financial, explains how quality relationships, flexibility and a broad product range made the difference

**MPA: Why did brokers pick La Trobe Financial as their favourite non-bank lender this year?**

**Cory Bannister:** Firstly, we are delighted to be recognised by brokers as the best non-bank lender this year, and are humbled by that recognition.

It is currently a highly competitive market and the industry has really raised the bar in terms of providing quality outcomes for consumers. To be held in such high regard by our broker partners among the many other extremely credible and impressive operators is something we are extremely proud of.

As to why brokers chose us as their favoured non-bank lender, we would hope that it is a combination of three things: a high-quality working relationship between brokers and our credit and sales teams; a collaborative and flexible approach to lending; and providing access to one of the broadest product ranges in the market.

**MPA: BDM support was a category La Trobe Financial dominated. What makes a great non-bank BDM?**

**CB:** We are incredibly fortunate to have an extremely stable, long-serving and award-winning BDM team that have the following five key characteristics in spades.

Sound credit skills: Brokers want a BDM to, firstly, understand what they are talking about, and, secondly, actually be able to help

them by providing guidance on any issues immediately, or be able to make a decision on the spot without having to refer to someone else.

Support from their credit team is also very important, as is accessibility and responsiveness. A detailed understanding of lender policies and processes is essential – unlike brokers, BDMs do not have to have in-depth knowledge across multiple lenders' products, so they should know their own extremely well.

Finally, BDMs should not spread themselves too thin – quality of relationships over quantity is very important.

**MPA: La Trobe Financial was brokers' Preferred Lender for commercial. Why should brokers consider non-bank lenders for commercial clients?**

**CB:** We are often told that non-banks make commercial lending easy by removing all unnecessary complexity. For us, this meant breaking down the barriers to entry and simplifying the process.

We removed the need for any additional

'commercial' accreditation requirements for brokers – if a broker is accredited to deal with us via their aggregator, then they are accredited to write all of our products. We have designed our commercial products and associated forms, documents and policies to look and feel like our standard residential products – we use the same application form, serviceability calculator, income verification methods and loan documents, ensuring first-time users can write them confidently and competently.

Furthermore, by making our credit team available for every transaction, we have experienced strong conversion rates. Brokers tell us that the stability in our policy and reliability in achieving a successful outcome are what is driving them to us.

**“We are incredibly fortunate to have an extremely stable, long-serving and award-winning BDM team”**





## LIBERTY

**MPA: Brokers named Liberty their Preferred Lender for property investors. What makes you better at finding solutions for these clients?**

**John Mohnacheff, group sales manager:** Being named the Preferred Lender for property investors directly reflects Liberty's commitment to providing flexible solutions coupled with market-leading service and turnaround times. Consumers are savvy and expect solutions with minimal fuss and effort. Brokers understand this and the importance of engaging a lender who provides certain and consistent consumer solutions, which Liberty provides.

**“Consumers are savvy and expect solutions”**

## PEPPER MONEY

**MPA: Pepper Money was brokers' Preferred Lender for non-conforming and alt-doc/low-doc. What have you been doing to highlight the importance of these borrowers?**

**Mario Rehayem, managing director, Australian mortgages and personal loans:** Since 2011, Pepper Money has been at the forefront of educating the industry on the need to address the largest underserved market – those who have endured some form of life event or have fallen victim to an overnight change in credit appetite and policies.

Over the past three years, Pepper Money's National Insights Roadshow, attended by a record 3,200 brokers, has demonstrated who these consumers are, where they live and how to offer specialist lending alternatives through new tools, technologies and techniques.

For Pepper Money, the ultimate outcome of these significant investments is that every consumer deserves to know their financing options.

## HOMELOANS LTD

**MPA: First home buyers are not normally associated with non-banks, but Homeloans Ltd was the number one non-bank lender for brokers in this space. Why would FHBs use you?**

**Daniel Carde, Homeloans general manager – third party distribution:** Homeloans' comprehensive product range is well suited to all borrower types, including first home buyers. When considering first home buyers, our product range covers those borrowers seeking a higher LVR, borrowers with or without genuine savings, and even a high-LVR uninsured option for those borrowers who may not meet mortgage insurance guidelines. We can also assist first home buyers who may be self-employed but unable to produce up-to-date financials, and those with minor credit impairment. Homeloans has a solution to suit most borrower types in almost any situation, including those buying their first home.

## FIRSTMAC

**MPA: Firstmac was number one in the category of interest rates. Why does a sharp rate matter for a non-bank lender?**

**Kim Cannon, managing director:** A sharp rate is especially important for a non-bank lender because we don't have the huge marketing budgets and name recognition of the big banks. Firstmac competes in the most sought-after segment of the market, so borrowers have many alternatives to choose from.

We only write prime residential loans and well over 90% of our new business flows are 80% LVR or less. That means a good rate is crucial.

We offer low rates to reward our customers for providing multiple security properties or for settling multiple loans. Our intention is to maintain clients long-term and work with brokers by being more competitive for low risk and high-quality clients.