

# MONEY

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## Mortgage brokers branch out

By 2003, half of all home loans may be made through brokers. One broker's strategy includes re-introducing the shopfront

**T**he mortgage broking industry is booming in Australia, and new participants are searching for ways of differentiating themselves from competitors. Two leaders in the industry, Mortgage Choice and Australian Financial Group (AFG) use sales representatives and the internet, but Money Street Group in Sydney is expanding its retail business through a branch network and creating a wholesale division, specialising in deposit bonds.

Money Street's managing director, Richard Gardner, says the company is taking lending back to the days of personalised business between customer and lender. "After 100 years of banking, people have forgotten the fundamentals," he says. Many customers use the internet for gathering information on home loans, but Gardner says most prefer to visit a branch when applying for a loan or wanting advice on mortgage products.

Money Street is built around two businesses, retail and wholesale. The retail side operates as a one-stop-shop mortgage centre (Money Street is the only mortgage broker with an internal credit department), and the wholesale business sells deposit bonds for property purchases (see panel). Money Street opened its first branch, in the Sydney suburb of Darlinghurst, in September 2000 and is planning to open another two branches by the end of next year. The locations will be determined by market research. Mortgage Choice and AFG do not operate retail branches.

Money Street sells mortgages and personal loans on behalf of 26 financial institutions: the four big banks, regional banks including BankWest, and mortgage originators including Rams and Wizard

Home Loans. Its main target market is busy professionals aged 35 to 45, who are considered an active group in the property market but have little time for visiting various lenders.

Gardner says more than 1500 customers have used the service in the past 14 months. About 70% have come through the Darlinghurst branch and the rest have used Money Street through its alliances with property developers including Mirvac Property Group and Lend Lease. When the Darlinghurst branch opened last year, a local advertising campaign was run in cinemas and newspapers. There has been little advertising since then, and Gardner says most new customers now come through referrals by existing customers.

A report in May by the stockbroker Salomon Smith Barney (SSB) said that about 25% of mortgage customers now deal with brokers instead of banks and other lenders; it says the figure will be 40% within a few years. SSB says mortgage brokers are regarded as an independent third party and a convenient way of collecting information. They have also partly filled a gap created by the closure of bank branches. National Australia Bank's general manager of mortgage integration, Andrew Linklater, says mortgage broking has become an important third-party distribution channel for lenders. "With 25% of customers choosing it, mortgage broking is now a key part of the industry and it will continue to grow."

Gardner and his business partner, Louie Nehme, started a mortgage origination company, Property Finance Group, in July 1998. They worked from Gardner's house and wrote \$100 million in home loans in the first 18 months. The company evolved into Money Street and adopted the one-stop-shop branch strategy last year.

"We always knew the key was to set up a single outlet that became a supermarket retail arrangement," Gardner says.

Money Street does not charge customers a fee for mortgages. The company makes

its money in commissions from financial institutions. Gardner will not reveal profit figures or commissions but says Money Street's retail and wholesale businesses had revenue of \$15.8 million in the 12 months to November 30 this year. It wrote \$300 million in residential loans in its first year; the average loan is \$403,000. AFG wrote \$2 billion in loans and Mortgage Choice \$1.3 billion in the three months to July 31 this year.

Gardner declines to reveal growth projections, revenue forecasts or the number of customers. But he expects to achieve consistent growth during the next year and says that in the 12 months to October 31 this year, the company's growth rate was 236%.

Money Street's diversification into deposit bonds has enabled it to offer products to customers buying an existing property or a property under construction and being sold off the plan. Buyers usually have to pay a non-refundable 10% deposit. Money Street's deposit-bond customers do not pay a deposit on the property because the company guarantees to cover the payment if, for example, the buyer pulls out of the sale. Customers pay a fee for the bond based on the amount and duration of the bond. Property developers get security.

The deposit bonds, backed by American Re-Insurance, are sold through the Money Street branch and developers. They are also wholesaled to companies including Colliers Jardine and McGrath Estate Agents, which sell long-term bonds under their own brand names. Between November 2000 and October 2001, deposit bonds from Money Street have been used for buying property valued at \$1.4 billion. The average bond is \$45,000.

Gardner believes that the future of banking is in multi-bank broking — independent brokers offering services from many institutions. He says customers will demand more control over their transactions and more personalised service. Money Street plans to offer insurance policies early next year, and Gardner says it is also considering managed funds.

PATRICE GIBBONS

### THE SUNNY SIDE OF THE STREET

- The mortgage broking company Money Street Group opened its first retail branch in September last year.
- The company offers mortgages from 26 institutions, including the four big banks.
- It has written \$300 million in residential loans in its first year, and it has revenue of \$15.8 million in the year to November 30.
- Money Street will start offering insurance policies next year and is considering the managed funds sector.

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