INDUSTRY REPORT K6411B

Mortgage Brokers in Australia

Addressing change: A rising cash rate is expected to shift demand to fixed rate home loans

Darcy Gannon | August 2022

Contents

Recent Developments

Inflation pressures cause the RBA to raise interest rates

Concerns regarding inflation have prompted the RBA to raise interest rates. Surging demand and supply chain turmoil due to the COVID-19 pandemic, compounded by geopolitical tensions abroad, have contributed to the high inflation pressures. The RBA has therefore increased the cash rate target three times over the four months through August 2022 to limit spending and tame inflation. Rising interest rates are likely to increase the cost of borrowing and subdue business confidence, while simultaneously taming inflation.

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About This Industry

Industry Definition

Mortgage brokers in Australia generally act on behalf of lenders, primarily helping borrowers arrange mortgage finance (for both residential and investment real estate purposes) and refinance existing mortgages. Brokers do not usually charge mortgagees any fee for their services, and instead receive commissions on loans arranged for lenders.

Major Players

Australian Finance

Lendi

Main Activities

The primary activities of this industry are:

Brokering housing loans

Assisting borrowers to choose products provided by lenders

Assisting borrowers in the loan application process

The major products and services in this industry are:

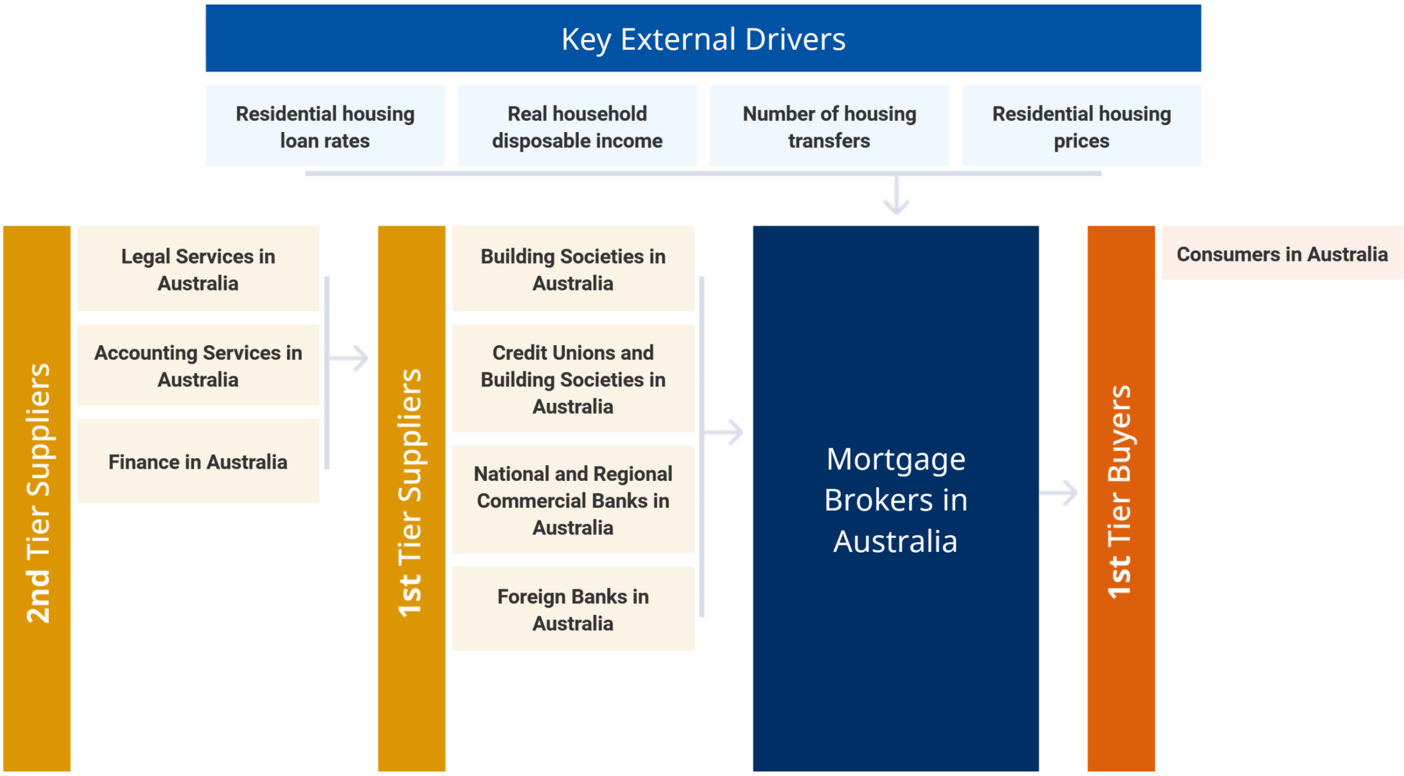
Standard Variable

Fixed rate loan

Basic variable loan

Other loans

Supply Chain



SIMILAR INDUSTRIES

Building Societies in Australia

Complementor

Credit Unions and Building Societies in Australia

Complementor

National and Regional Commercial Banks in Australia

Complementor

Foreign Banks in Australia

Complementor

Financial Planning and Investment Advice in Australia

Complementor

Insurance Brokerage in Australia

Competitor

RELATED INTERNATIONAL INDUSTRIES

Loan Brokers in the US

Financial Asset Broking Services in New Zealand

Industry at a Glance

Key Statistics

$4.5bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
4.9%	0.1%	

$538.1m
Profit

Annual Growth 2018–2023	Annual Growth 2018–2023
3.2%	

12.0%
Profit Margin

Annual Growth 2018–2023	Annual Growth 2018–2023
-1.0pp	

10,803
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
5.9%	1.7%	

18,689
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
2.0%	0.9%	

$1.8bn
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
5.3%	-0.2%	

Key External Drivers

% = 2018–23 Annual Growth

-0.6%
Number of housing transfers

1.9%
Real household disposable income

4.5%
Residential housing loan rates

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

Technology Change
Low

Industry Globalization
Low / Increasing

MIXED IMPACT

Life Cycle
Mature

NEGATIVE IMPACT

Revenue Volatility
High

Industry Assistance
Low / Steady

Regulation & Policy
Heavy / Increasing

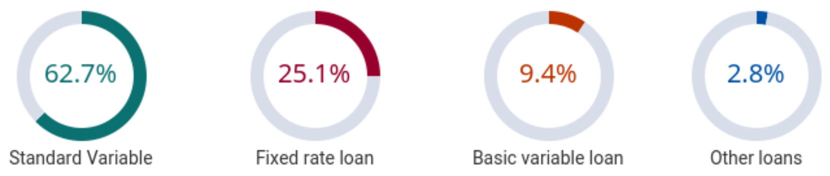
Barriers to Entry
Low / Increasing

Competition
High / Increasing

Key Trends

- Rising housing prices have increased the size of average loans, boosting industry commissions
- More borrowers have recognised the benefits of broker services in navigating mortgage options
- The number of mortgage brokers entering the industry has risen over the past five years
- A projected rise in housing loan rates is likely to limit demand from property investors
- Increased competition in upstream lending will likely reduce commission rates for mortgage brokers
- Aggregator websites make it easy for consumers to compare and select mortgages without a broker
- Rising interest rates are expected to limit industry performance in the current year

Products & Services Segmentation



Mortgage Brokers
Source: IBISWorld

Major Players

Mortgage Brokers
Source: IBISWorld

SWOT

S STRENGTHS

Low Imports
Low Customer Class Concentration
Low Capital Requirements

W WEAKNESSES

Low & Increasing Barriers to Entry
Low & Steady Level of Assistance
High Competition
High Volatility
Low Profit vs. Sector Average
High Product/Service Concentration
Low Revenue per Employee

O OPPORTUNITIES

High Revenue Growth (2018-2023)
Number of housing transfers

T THREATS

Low Revenue Growth (2023-2028)
Low Performance Drivers
Residential housing loan rates

Executive Summary

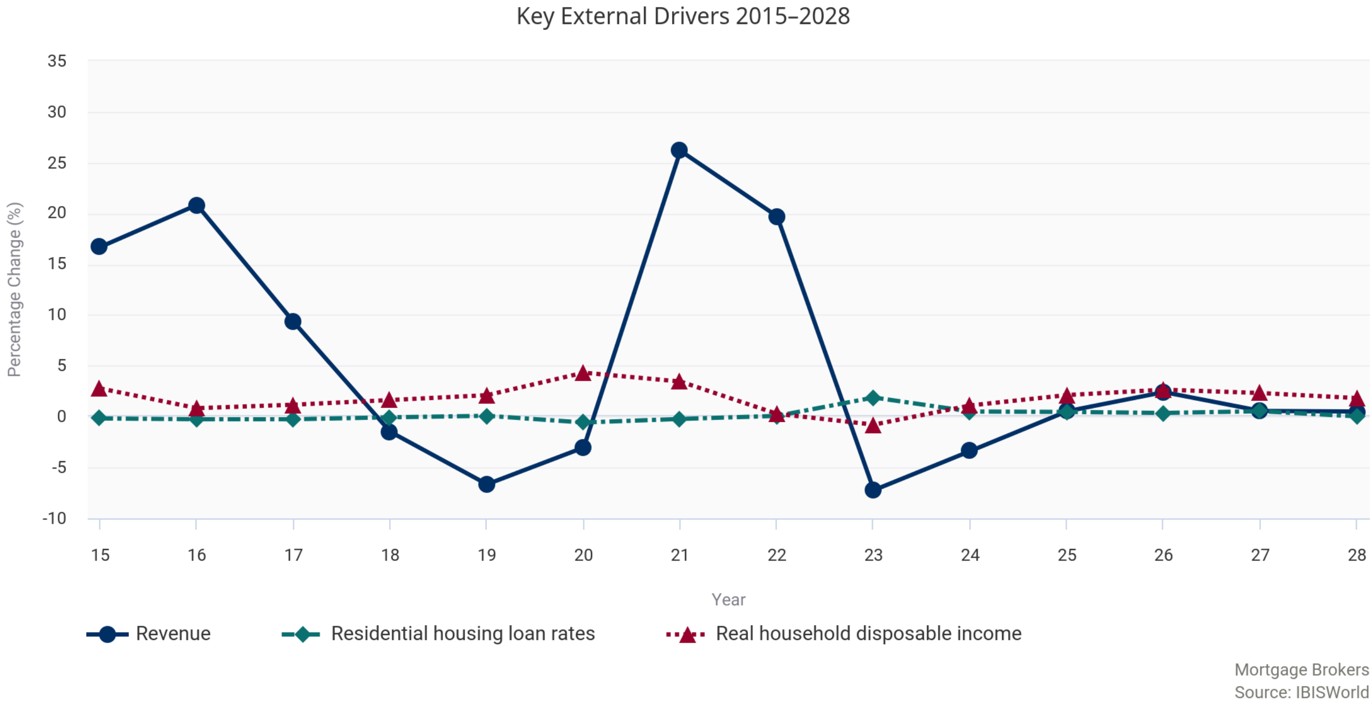
Addressing change: A rising cash rate is expected to shift demand to fixed rate home loans

Buying a home is one of the most important financial decisions many individuals will make in their lifetime, and usually requires a substantial loan. Consequently, many borrowers consult experts to help them navigate the complex range of loan products available. The Mortgage Brokers industry has only existed since the early 1990s. Mortgage brokers have since grown to be providers of comprehensive, convenient and unbiased advice to clients. As brokers represent a panel of lenders, they can offer customers a range of products and tailor mortgages to specific needs. While mortgage aggregator websites allow clients to easily compare features and interest rates across many mortgages, mortgage brokers consider the unique financial position of each client and provide them with personalised advice.

Rising house prices and declining residential housing loan rates have driven strong demand for residential property from both owner-occupiers and property investors over the past five years. This trend has translated into industry revenue growth as buyers have sought financing. The volume and value of loans issued through mortgage brokers has increased both in absolute terms and as a proportion of total mortgages issued. As a result, industry revenue is expected to grow at an annualised 4.9% over the five years through 2022-23, to total $4.5 billion. However, rising interest rates in response to inflationary pressures, and corresponding declines in housing prices and the number of house transfers, are anticipated to limit industry revenue growth in the current year. Therefore, industry revenue is anticipated to decrease by 7.2% in 2022-23.

A forecast rise in interest rates is projected to limit industry expansion over the next five years. Higher interest rates are likely to continue raising residential housing loan rates, thereby subduing residential housing prices and housing transfers. These trends will likely limit the value and volume of home loans settled by brokers over the period. Furthermore, higher competition both internally and externally is likely to exert downward pressure on industry profitability. Wider population growth and governmental support for first-home buyers over the period is projected to support industry growth. Overall, industry revenue is projected to increase at an annualised 0.1% over the five years through 2027-28, to total $4.5 billion.

Industry Performance



Key External Drivers

Residential housing loan rates

Residential housing loan rates affect demand for the mortgage products brokered by industry participants. When the loan rate (cost of borrowing) increases, demand for mortgages tends to fall. This trend represents a threat to industry expansion. Residential housing loan rates are expected to rise in 2022-23.

Real household disposable income

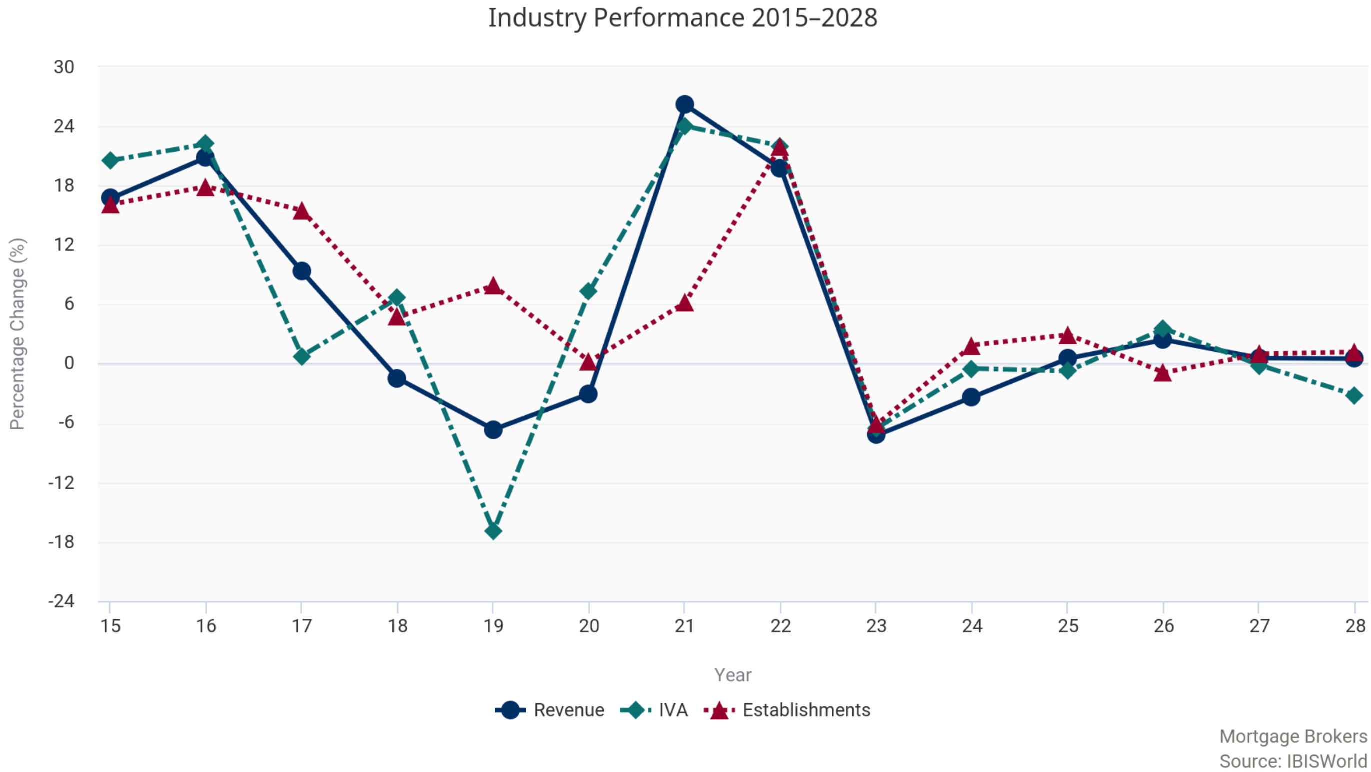
Household disposable income determines how much households can borrow and allocate to mortgage repayments. Disposable incomes influence the size, location and type of property purchased, strongly affecting demand for home loans. Higher disposable income helps drive greater mortgage broking activity. Real household disposable income is expected to decrease in 2022-23.

Number of housing transfers

The number of housing transfers is an indicator of activity in the residential property market. A rise in housing transfers generally increases demand for mortgages and mortgage brokers, representing an opportunity for industry expansion. The number of housing transfers is expected to fall in 2022-23.

Residential housing prices

Lower housing prices often indicate weaker demand for housing, which reduces demand for mortgages and mortgage brokers. Any significant decline in the housing market can reduce industry revenue. Residential housing prices are expected to fall in 2022-23.



Current Performance

Taking on a mortgage is a significant decision that affects future homebuyers.

As a mortgage is a long-term commitment usually spanning several decades, many borrowers consult a professional to obtain the most appropriate loan with a suitable structure. In the Mortgage Brokers industry, the broker acts on the borrower's behalf to find the most appropriate loan. Mortgage brokers generally offer their services to clients free of charge and earn income from origination fees levied on lenders for selling their products. According to ASIC's review of the mortgage broking market, this fee is generally 0.65% of the loan's value. Industry players also generate revenue through monthly trailing commissions, 0.15% on average, throughout the life of a loan.

Industry revenue is expected to grow at an annualised 4.9% over the five years through 2022-23, to total $4.5 billion. Historically low interest rates have encouraged first-home buyers to purchase their first homes while existing mortgage holders have refinanced their loans. Additionally, economic uncertainty during the COVID-19 pandemic has led to Australians approaching mortgage brokers for assistance. However, lingering unfavourable trading conditions stemming from the pandemic have heightened inflationary pressures felt by the wider economy. In response, the RBA is expected to continue aggressive interest rate hikes in the current year, raising the associated cost of borrowing and placing downward pressure on housing prices and the number of house transfers. Consequently, industry revenue is anticipated to decrease by 7.2% in the current year.

RATES, CONFIDENCE AND PRICES

The RBA cut the cash rate over most of the past five years, due to weak economic growth, low inflation and a rising unemployment rate.

Rate cuts have provided an opportunity for industry operators to expand over the period, particularly for those offering mortgage refinancing services. Households have capitalised on lower interest rates to refinance loans to lower, fixed-rate mortgages. Demographic factors have also increased demand for industry operators. As baby boomers have retired and downsized their homes, many have invested in property. Additionally, investors have turned to real estate as returns on these investments strengthened, while also acting as a potentially less risky alternative to equity markets.

Enterprise numbers have risen over the past five years as mortgage brokers have entered the industry to capitalise on growing demand for residential loan applications. Total wages have also grown, attracting more individuals to pursue careers as mortgage brokers. A growing number of individuals in the industry's workforce have been developing their own broking businesses on a part-time basis. Players strongly rely on referrals from existing customers to attract new business. As a result, industry firms have emphasised training with the goal of improving customer service and facilitating a positive word-of-mouth reputation among clients. Increased competition has raised marketing costs and reduced industry profitability over the period. However, larger players such as the Australian Finance Group have boosted their profit margins through larger broker networks and a strong focus on vertical integration where their margins benefit from being end-to-end providers of home loans.

BORROWERS AND LENDERS SEEKING BROKERS

Competition among brokers has intensified over the past five years, largely due to increased consumer understanding of the role brokers play in the mortgage lending market.

Convenience is a key value added for brokers, as mortgage brokers often visit clients at their home or work. Mortgage brokers also provide borrowers with a comprehensive understanding of various mortgage products, which borrowers may not be aware of without advice.

Mortgage originators tend to consider brokers an efficient way to increase brand recognition in areas where they may not have a strong presence. Some smaller lenders find brokers particularly useful, as these companies may offer competitive rates and quality products but lack the brand recognition, size and marketing power required to compete against larger institutions. Brokers have taken up a more prominent role in the mortgage lending market over the past five years, as borrowers have sought unbiased advice when obtaining a mortgage.

The value and volume of mortgages obtained through brokers and the proportion of loans sourced by brokers have surged over the past five years, driving industry revenue growth. According to the Mortgage & Finance Association of Australia, the third-party distribution channel is growing, with brokers accounting for a record of 69.5% of all new residential mortgages settled during the March 2022 quarter. Mortgage brokers are therefore a key distribution channel for loan originators and lenders. Residential housing prices have risen across Australia for most of the past five years, significantly increasing the average size of loans and boosting industry income from commissions.

FINANCIAL SERVICES ROYAL COMMISSION

The Financial Services Royal Commission (FSRC) significantly affected the industry.

The final report contributed to industry revenue declining in 2018-19, as mortgage brokers were hesitant to process loans amid regulatory scrutiny. The FSRC has proposed several recommendations regarding reforms in mortgage broking. These recommendations primarily involved amending the law to include a best interest duty for mortgage brokers, regulating mortgage brokers under the same framework as entities providing financial advice to clients, changing the remuneration structure to a user-pay model and abolishing commissions entirely.

THE COVID-19 PANDEMIC

The RBA reduced the cash rate to a historic low of 0.1% in November 2020 in response to the COVID-19 pandemic.

While the lower cash rate lowered mortgage rates, some banks tightened their lending policies. Lower mortgage rates meant that it could be cheaper for some buyers to purchase homes. Consequently, many borrowers turned to industry operators in response to tightening lending conditions, as brokers can help navigate the complexities of lending during economic uncertainty.

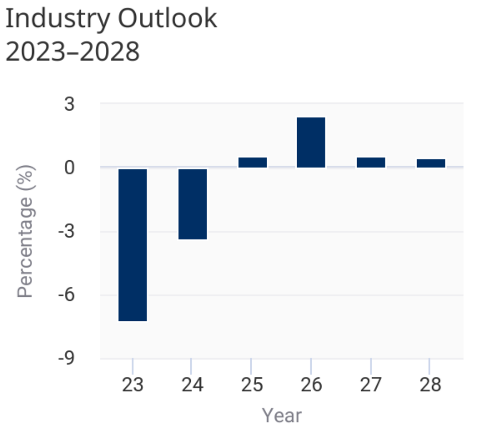
Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2013-14	2,327	1,198	5,413	4,671	10,347	N/A	N/A	854	N/A
2014-15	2,715	1,445	6,285	5,452	12,582	N/A	N/A	1,045	N/A
2015-16	3,281	1,765	7,411	6,476	14,918	N/A	N/A	1,246	N/A
2016-17	3,587	1,779	8,561	7,343	16,295	N/A	N/A	1,389	N/A
2017-18	3,534	1,898	8,967	8,125	16,905	N/A	N/A	1,387	N/A
2018-19	3,299	1,577	9,675	8,624	16,720	N/A	N/A	1,177	N/A
2019-20	3,199	1,692	9,698	8,689	16,611	N/A	N/A	1,218	N/A
2020-21	4,037	2,099	10,297	9,279	17,418	N/A	N/A	1,554	N/A
2021-22	4,833	2,561	12,565	11,387	18,106	N/A	N/A	1,943	N/A
2022-23	4,484	2,395	11,796	10,803	18,689	N/A	N/A	1,794	N/A

Industry Outlook

Outlook

The Mortgage Brokers industry is forecast to grow marginally over the next five years.



Mortgage Brokers
Source: IBISWorld

Australia's economic recovery from the COVID-19 pandemic, business confidence, consumer sentiment and residential property market conditions will continue to affect industry operators. Although the share of mortgages taken out through brokers is projected to remain high, forecast increases to interest rates are projected to place upward pressure on residential housing loan rates and deter property investors from entering the market. However, forecast general population growth and the continued development of support measures for first-home buyers, such as the Help to Buy scheme, are likely to offset this trend. Overall, industry revenue is projected to increase at an annualised 0.1% over the five years through 2027-28, to total $4.5 billion.

INDUSTRY THREATS

Australia's major lending institutions are limiting domestic residential property loans to foreign borrowers, representing a threat to the industry.

Over the past five years, the big four commercial banks and other financial institutions, including Macquarie bank, AMP and ME Bank, ceased lending to foreign investors that could not provide evidence of locally sourced income. Some banks reduced their loan-to-value ratio to foreign borrowers. This trend is forecast to reduce the industry's growth potential over the next five years, as foreign investors represented a key source of mortgage activity during the height of the residential property boom. Victoria is projected to increase stamp duty on property transactions above $2.0 million, potentially affecting industry operators. The tax reform could lead to some home buyers opting for cheaper houses, negatively affecting mortgage brokers.

Declining profit margins have encouraged industry players to try new strategies over the past five years, such as entering into partnerships with third-party sources. These third parties can include real estate agents or financial planners that receive commissions for referring their clients to specific mortgage brokers for advice on loan products. Industry profitability can improve through referrals, as they increase brokers' customer bases without significantly raising marketing expenditure. Both internal and external competition for the industry is forecast to heighten over the next five years, as websites such as Uno, an online mortgage broker, and Joust, a marketplace for lenders and borrowers, grow in popularity. These fintech platforms aim to provide competitive mortgage rates to borrowers by connecting home borrowers directly with mortgage providers. However, it is possible that many borrowers would prefer to take out a home loan with a broker or lender representative. This trend suggests that the threat of digital disruption will likely have less of an effect on mortgage brokers compared with many other sectors.

INFLATIONARY PRESSURES

Lingering unfavourable trading conditions, stemming from the pandemic and exacerbated by geopolitical tensions overseas, have fuelled concerns around the inflation rate and caused the RBA to institute strong rate hikes in order to limit a rise in inflation.

As a result, the official cash rate is forecast to continue rising over the next five years. Higher interest rates are likely to be reflected in higher residential housing loan rates. The higher cost of borrowing is projected to place downward pressure on both residential housing prices and the number of housing transfers. Therefore, industry profitability is projected to decline over the period as a result of subdued values and volumes of home loans settled by brokers.

COMPETITION

Industry competition will likely continue to intensify over the next five years.

Increased competition in upstream lending is forecast to tighten profit margins for lenders and reduce commission rates for mortgage brokers. Competition is also projected to increase at the brokerage level. Enterprise numbers are projected to grow at a slower rate over the next five years compared with the past five years, as the industry's regulatory environment and disclosure standards tighten and discourage potential new players from entering the market. In addition, some firms are likely to acquire other industry players in order to artificially expand their brokerage networks. Employment is projected to grow over the period, reflecting the industry's increasing reliance on skilled labour to achieve revenue growth.

Aggregator websites make it easy for consumers to compare and select mortgages with different rates and features. Consequently, mortgage brokers will likely need to alter their approach to focus more on personalised advice and implementation. As brokers have access to vast amounts of personal financial information collected from clients, they are in a better position to advise their client on suitable mortgage products. In this respect, mortgage brokers have an advantage over aggregator websites. Furthermore, mortgage brokers can provide a better analysis of risk and assess a client's risk tolerance when considering their personal financial situation.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2022-23	4,484	2,395	11,796	10,803	18,689	N/A	N/A	1,794	N/A
2023-24	4,333	2,383	12,019	11,029	20,260	N/A	N/A	1,809	N/A
2024-25	4,357	2,366	12,372	11,418	20,715	N/A	N/A	1,776	N/A
2025-26	4,462	2,450	12,263	11,385	20,493	N/A	N/A	1,861	N/A
2026-27	4,488	2,446	12,386	11,568	20,001	N/A	N/A	1,853	N/A
2027-28	4,511	2,368	12,534	11,777	19,579	N/A	N/A	1,772	N/A
2028-29	4,552	2,367	12,782	12,072	19,677	N/A	N/A	1,761	N/A

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

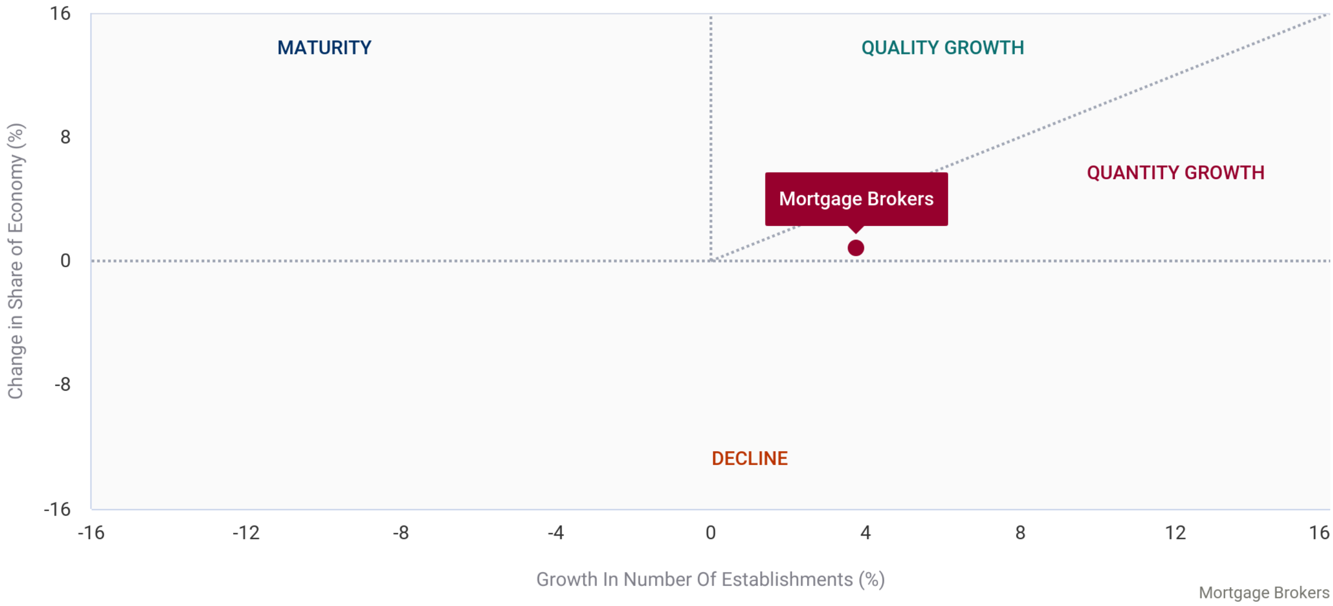
LIFE CYCLE REASONS

Enterprise numbers have increased over the past five years

Industry revenue has underperformed growth in real GDP

Operators are expected to face continued uncertainty and scrutiny from regulators

Indicative Industry Life Cycle



Mortgage Brokers
Source: IBISWorld

The Mortgage Brokers industry is in the mature phase of its economic life cycle. Industry value added, which measures an industry's contribution to the overall economy, is forecast to increase at an annualised 2.2% over the 10 years through 2027-28. This represents an underperformance of overall GDP, which is projected to rise at an annualised 2.3% over the same period. This result is indicative of a mature industry.

An increasing number of players have emerged in the industry on the back of a relatively strong residential property market over the past five years. The outcome from the Financial Services Royal Commission is expected to weigh on enterprise and employment growth over the next five years. Competition is also at a high level, both internally and externally, which is projected to limit profitability and lead to consolidation among the larger players over the next five years. The industry is anticipated to continue facing uncertainty and scrutiny from regulators over the period regarding its remuneration structure, potentially dampening revenue growth.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

Consumers in Australia

Key Selling Industries

1st Tier

Building Societies in Australia

Credit Unions and Building Societies in Australia

National and Regional Commercial Banks in Australia

Foreign Banks in Australia

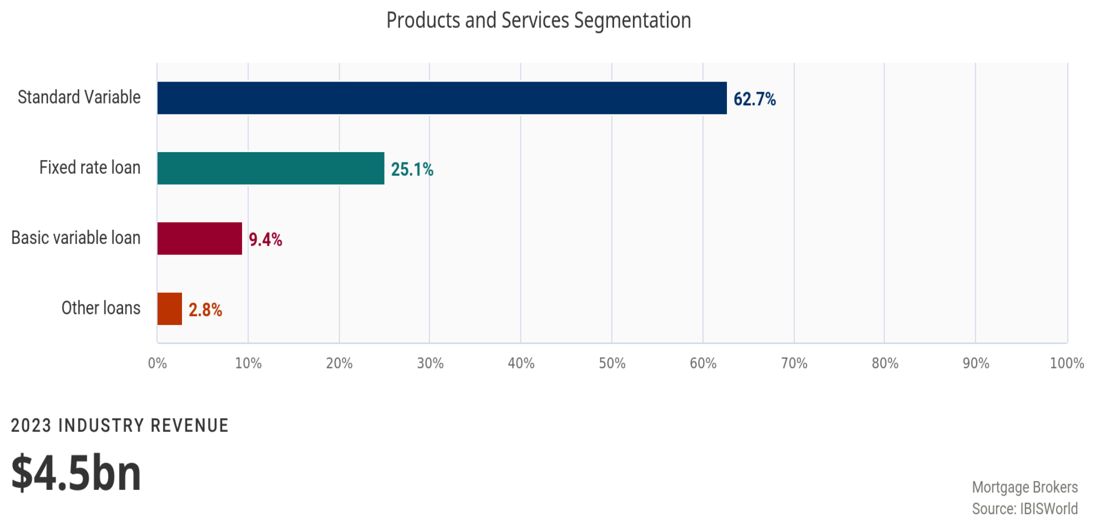
2nd Tier

Legal Services in Australia

Accounting Services in Australia

Finance in Australia

Products & Services



Loan products are largely homogeneous and the range of available products has not changed greatly over the past five years However, the popularity of some loan types over others has gradually shifted over the period in response to changing economic conditions.

An anticipated rise in the interest rate is expected to support demand for fixed rate loans.

STANDARD VARIABLE LOAN

Standard variable loans represent the industry's largest service segment.

Repayments for these types of loans can fluctuate with interest rates. If interest rates rise, repayment sizes do too. Standard variable loans have declined over the past five years as a share of revenue. The historically low interest rate-environment that characterized borrowing in Australia for the majority of the period benefited this type of loan over others. However, an expected rise in the cash rate in the current year, as the RBA attempts to subdue inflation, is expected to limit demand for this loan type, as consumers opt for fixed rate loans.

FIXED RATE LOAN

A fixed rate loan type means a loan's rate is fixed for a certain period of time that does not typically extend past the first five years of a loan.

Therefore, regular repayments remain unchanged for that period of time despite changes in the interest rates. Fixed rate loans have risen over the past five years as a share of revenue. The cash rate is expected to continue rising in the current year due to the RBA's desire to subdue inflation. As a result, consumers are likely to opt for fixed rate loans to avoid higher repayments associated with heightened interest rates.

BASIC VARIABLE LOAN

Basic variable loans are similar to standard variable loans.

However, they often lack extra features that standard variable loans have. For example, basic variable loans can lack flexible features, such as the ability to split the loan or make extra repayments. Customers typically pay cheaper rates for more basic loans. Basic variable loans have fallen over the past five years as a share of revenue. Similarly to standard variable loans, they can move with interest rates. Inflationary concerns have caused the RBA to continue raising interest rates in the current year, which is expected to place downward pressure on demand for basic variable loans.

OTHER LOANS

Other loans include introductory loans and equity loans.

Introductory loans are similar to fixed rate loans, whereby lenders will offer home loans with lower interest rates for a short period of time. Equity loans involve the use of an already owned asset as collateral on a new loan. Strong investment activity in the Australian housing market has benefited the popularity of equity loans as established investors have opted to use existing assets to back new loans. Overall, other loans have declined as a share of industry revenue over the past five years, due to the popularity of fixed-rate loans.

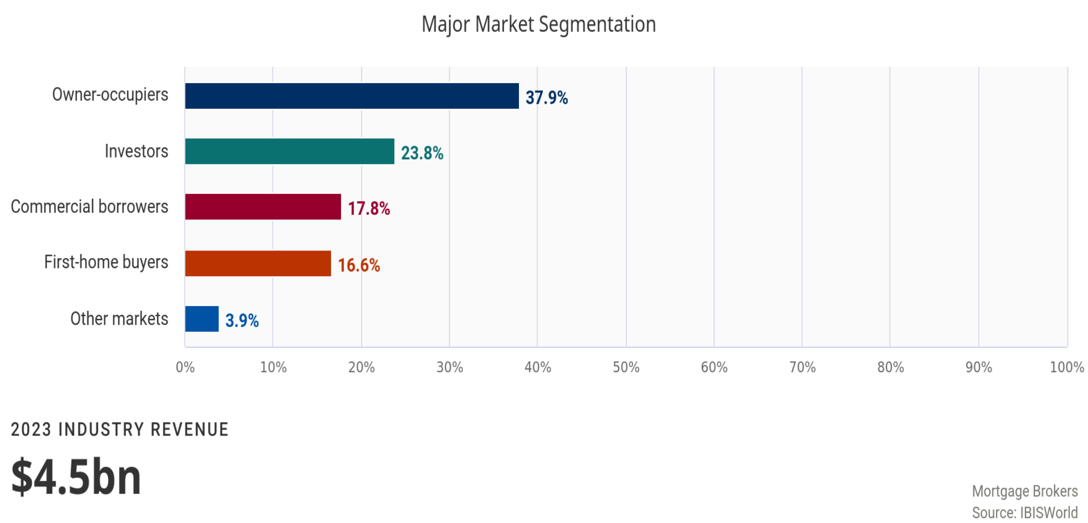
Demand Determinants

Demand for housing finance and the competitiveness of products offered compared with the rest of the market determine demand for mortgage broking services.

Demand for housing finance depends on interest rates, the unemployment rate, household debt, real estate prices and the general state of the Australian economy. Interest rates represent the effective cost of taking out a mortgage for a borrower. When interest rates are low, the relative cost of borrowing falls, generating greater demand for mortgage finance. The volume of loans processed by mortgage brokers can also be dictated by the strength of the residential property market. Rising residential property prices typically generate greater demand for property, with owner-occupiers and investors taking on mortgages, which generally increases demand for mortgage brokers.

Mortgage brokers act as intermediaries between the client and the loan originator. When demand for loans rises, so does the amount of business they attract. Furthermore, some loan brokers offer their own loan products that they both broker and originate. Any fall in interest rates generally leads to more borrowing from households and businesses. Overall, low interest rates, low unemployment, low household debt and a strong residential property market tend to increase demand for mortgage finance, increasing demand for the industry's services.

Major Markets



The home loan market has become increasingly cost-driven.

This has prompted lenders (including the major banks, regional banks and building societies) to seek alternative ways to find borrowers in an attempt to increase their market share. Lenders have identified mortgage brokers as an important distribution channel, which allows them to reach customers across Australia, particularly in areas where they have no branch presence.

OWNER-OCCUPIERS

Owner-occupiers and existing homeowners represent the industry's largest market.

These customers often have an existing mortgage with a lender. They are either looking to refinance or are selling a home and buying another, taking out a new mortgage in the process. These customers are more likely to have some knowledge of the home market, and have the option to go directly to a bank of their choice without using a mortgage broker. However, a significant proportion of homeowners need to refinance their existing loans and may turn to a mortgage broker for advice. Existing homeowners also use mortgage brokers to help select and arrange financing for a new property. Owner-occupiers have risen as a proportion of revenue over the past five years, primarily due to historically low interest rates over the period which have encouraged many owner-occupiers with existing mortgages to consider refinancing.

INVESTORS

Investors account for the second largest market in the industry.

Customers in this segment already own a home and are purchasing with the intent of building a portfolio of properties. These customers seek advice and often want a variety of options to help them finance their property investments. The investment market for brokered mortgages has grown as investors in other areas have turned to the relatively safe alternative of residential property, while self-managed super funds have also allowed more individuals to use superannuation to invest in property. Furthermore, strong returns on residential property for most of the past five years have prompted more investors to seek mortgages. Investors have therefore grown as a share of industry revenue over the period.

COMMERCIAL BORROWERS

Commercial borrowers largely borrow loans for non-residential property.

This can include the building in which the borrower conducts business, or a rental or investment property. Mortgages taken out by commercial borrowers are often used to purchase, refinance, or even to finance renovations to the interior or exterior of a commercial building. Commercial borrowers have declined as a share of revenue over the past five years.

FIRST-HOME BUYERS

First-home buyers are a significant market for industry operators.

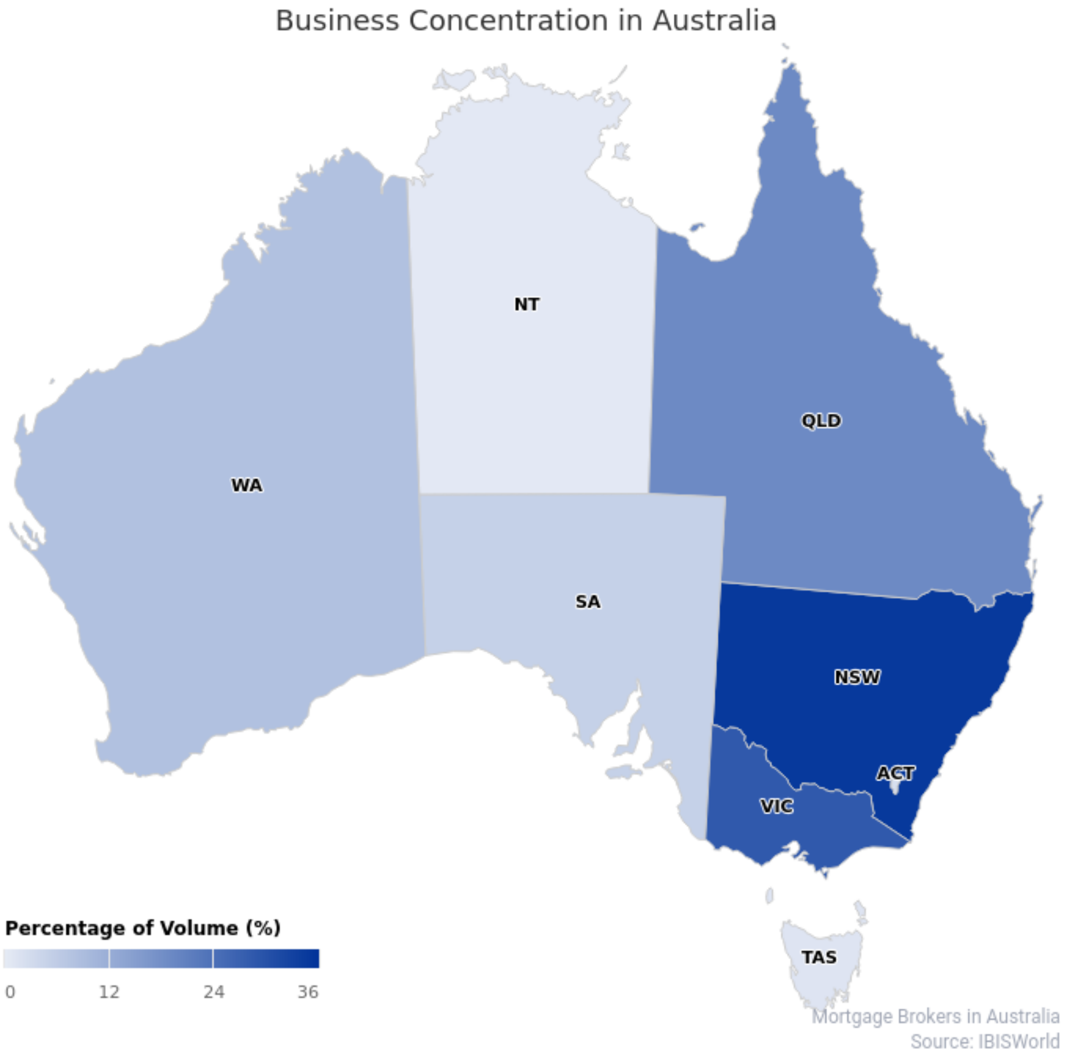
High property prices over the past five years have held back many potential first-time homeowners from entering the housing market. Larger initial deposits have also made it difficult for first-home buyers to acquire a property. However governmental schemes aimed at improving homeownership, such as the First Home Owner Grant and the Help to Buy scheme, have benefited the market segment's contribution to industry revenue. First-home buyer grants and schemes are implemented on a state-by-state basis. Overall, first-home buyers have risen as a share of revenue over the past five years.

Exports in this industry are ⊘ Low and Steady

Imports in this industry are ⊘ Low and Steady

Exports and imports are not applicable to the industry. Industry operators usually provide services to domestic clients. Some foreign investors may use brokers, but industry products and services are usually provided within national borders.

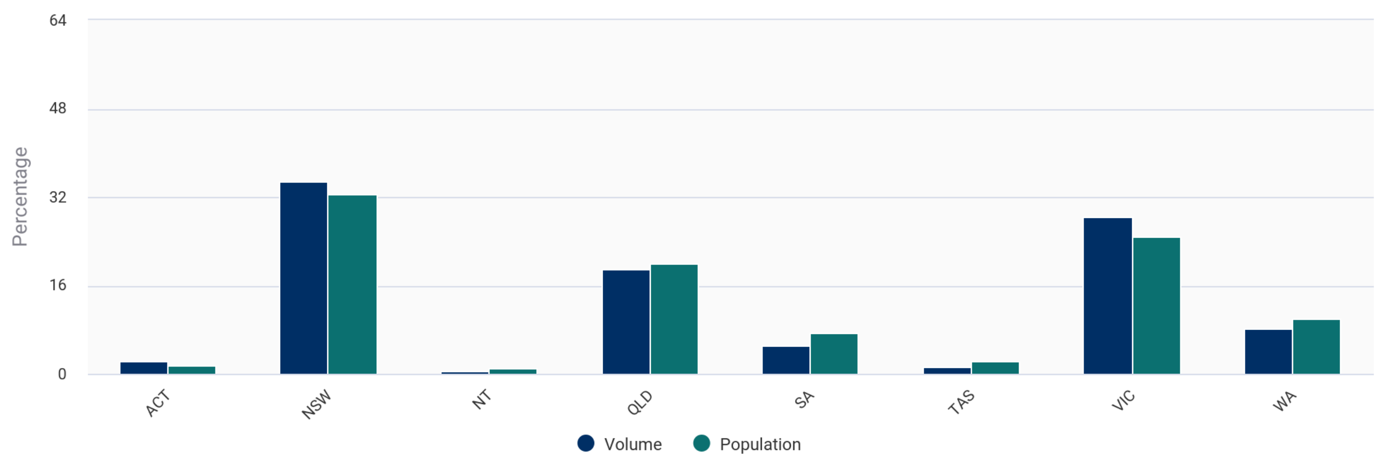
Business Locations



The geographic spread for mortgage brokers is presented as the value of home loans settled in each state over the past year. This closely follows the population distribution given the value of home loans is largely driven by the number of households and the housing stock in each state. Despite this, some states can be under or overrepresented primarily due to changes in residential housing prices, which can influence the value of loans taken out by borrowers. Business and commercial activity in each state also drives the value of commercial loans settled in each state, although this only makes up a small proportion of industry activity.

New South Wales, Victoria and Queensland represent the largest markets for mortgage brokers, primarily due to the housing stock and the size of the residential property markets in these states, which is dictated by its population. The high value and activity of the residential housing markets in New South Wales and Victoria is a key factor behind their overrepresentation compared with its share of the population. This in contrast to Queensland, which is relatively underrepresented compared with its share of the population. The remainder of states and territories are largely in line with its share of the population, although the Australian Capital Territory is slightly overrepresented due to the number of government departments and overseas companies headquartered there.

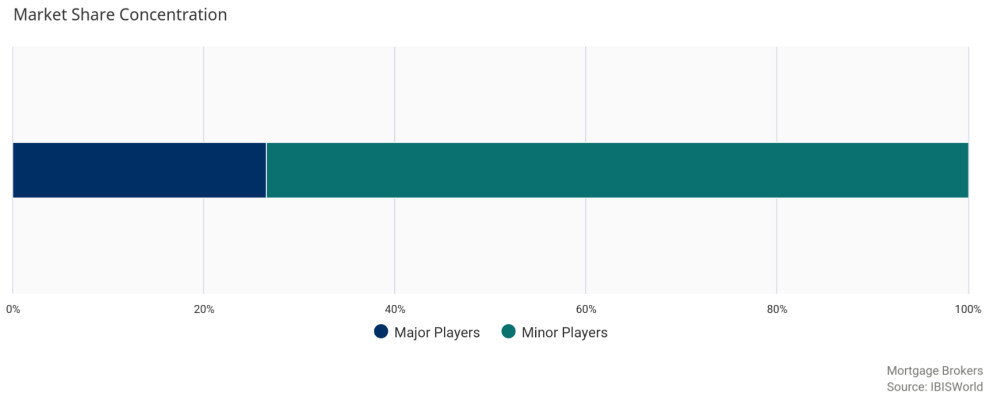
Distribution of Volume vs Population



Mortgage Brokers
Source: IBISWorld

Competitive Landscape

Market Share Concentration



Concentration in this industry is Low

The Mortgage Brokers industry is characterised by low market share concentration, with the four largest players accounting for less than 40% of the market. In August 2017, Commonwealth Bank of Australia gained full control of Aussie Home Loans. However, Lendi Pty Ltd has merged with Aussie Home Loans to form Lendi Group in May 2021. Lenders have lowered the overall commissions percentage paid to mortgage brokers over the past five years, putting pressure on operators to find more efficient ways to continue profitable operations. Lower margins on residential mortgages mean that efficiency and scale will become more important, and smaller players will have to find ways to stay competitive.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Having links with suppliers:
Brokers benefit from having strong relationships with multiple lending institutions to offer their clients a suitable and extensive range of loans.

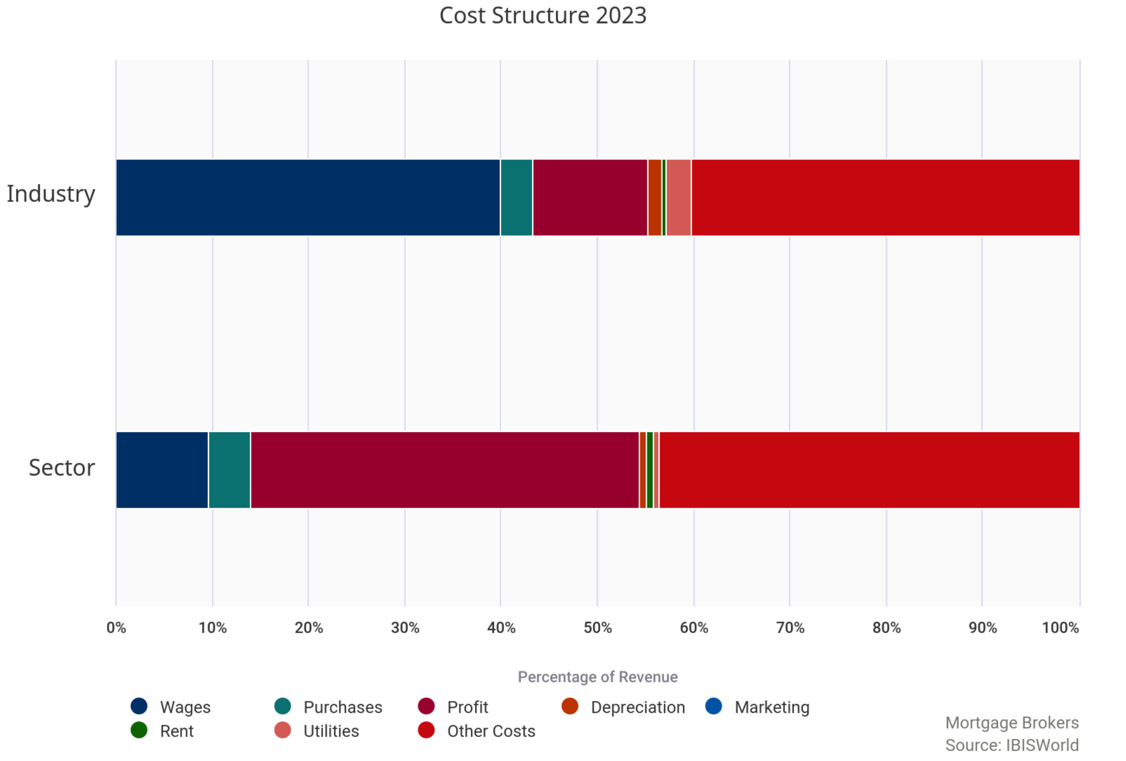
Experienced work force:
Industry firms require experienced and knowledgeable staff to provide superior customer service and suitable loan products to clients.

Ability to franchise operations:
Many larger brokers operate through a national network of franchisees. Sole operators are more likely to join a mortgage broker's network if they have a reputable brand and provide better support and training.

Economies of scale:
Many larger industry operators have a scalable business model, allowing them to grow their originations and loan book without significantly growing their cost base.

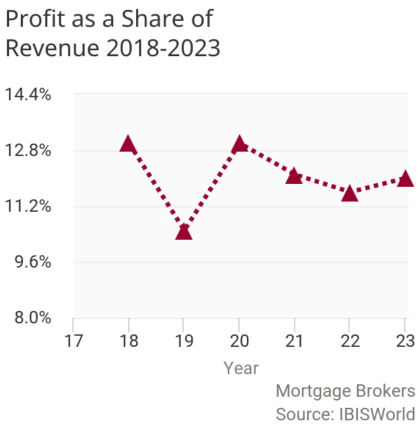
Maintenance of excellent customer relations:
Mortgage brokers must provide superior support and service to their customers. As mortgage brokers rely strongly on referrals from existing customers, good customer service helps grow an operator's loan book through word-of-mouth referrals.

Cost Structure Benchmarks



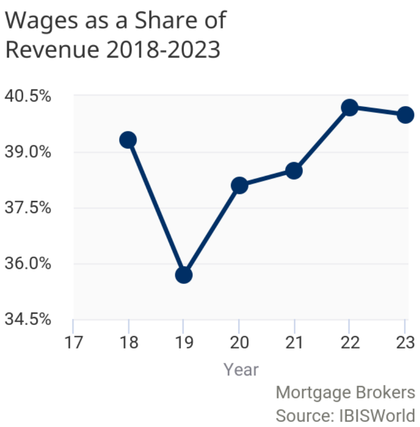
Profit

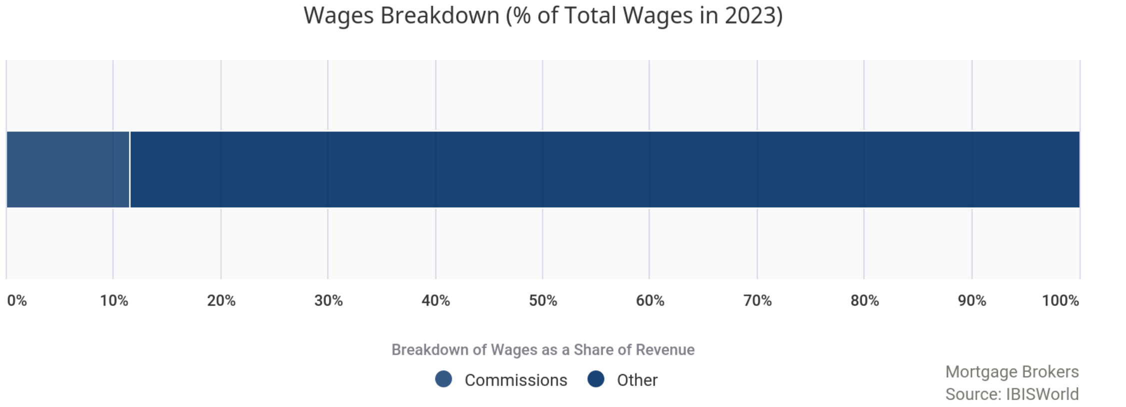
Brokers receive payment through up-front commissions and trail commissions, which are calculated as a portion of the loans organised. Higher residential housing prices have driven up total broker remuneration over the past five years. Historically low interest rates have reduced the cost of borrowing associated with purchasing a home, which has placed upward pressure on home loan values and therefore broker commissions. However, competition has limited prices over the period, with low interest rates weighing on growth in trailing commissions. In addition, commissions paid to industry brokers have recently come under scrutiny due to the Financial Services Royal Commission, which has led to several financial institutions restructuring their remuneration models with mortgage brokers. Wage costs have also limited firm profitability over the period. Overall, industry profitability has decreased over the period.



Wages

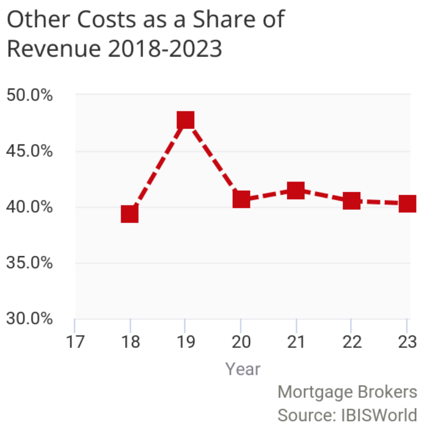
Wages are the most significant expense for mortgage brokers due to the industry's labour-intensive nature. Mortgage brokers deal directly with customers, and spend considerable time discussing loan options and managing paperwork required by the lender to process their mortgage. Customer satisfaction is essential for mortgage brokers, as they tend to bring in significant business through referrals. Referrals can represent a challenge for the success of new entrants operating independently (as opposed to franchisees), as they have to build their own customer base without the backing of an established brand. Consequently, operators must employ skilled and knowledgeable staff. High commission rates, due to strong residential housing price growth, have placed upward pressure on wages over the past five years. As a result, wages have risen marginally as a share of revenue over the period.





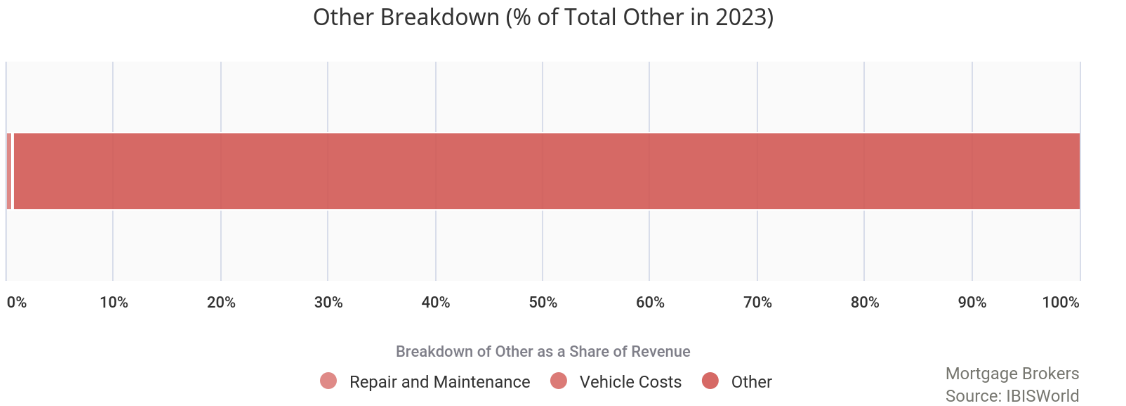
Other Costs

Other costs include rent, utilities and depreciation. Investment in IT represents the largest of these costs. Mortgage brokers often visit clients on-site and therefore require strong technological infrastructure to receive sufficient support in providing their services. Larger players also have significant technology expenses affiliated with maintaining software systems that process and evaluate mortgage applications, and keep track of lending products provided by originators. Other costs have increased as a share of revenue over the past five years.



Marketing and advertising

As industry internal and external competition has intensified over the past five years, firms have needed to stay competitive and distinguish themselves from their rivals through promotions and advertising. Mortgage brokers often market themselves as independent from large financial institutions, implying greater impartiality. Higher expenditure on digital advertising channels, such as search engine optimisation and ads on social media platforms, has placed upward pressure on marketing costs over the period.



Basis of Competition

Competition in this industry is ⚠ High and the trend is Increasing

The Mortgage Brokers industry is characterised by high competition.

Industry participants primarily compete with each other on quality of service, convenience and expertise. Externally, mortgage brokers compete with banks that lend directly to borrowers.

INTERNAL COMPETITION

Mortgage brokers are primarily service providers offering a high-quality service when arranging clients' loans.

Significant growth in the choice of loan products offered by lenders requires a mortgage broker to have a wide product range and be truly independent of lenders. Mortgage brokers must have detailed knowledge of all available products. A house is often the largest purchase for most people, so borrowers need to feel secure and must be able to trust their broker. To remain competitive, brokers should operate on behalf of the borrower's best interest, providing the most appropriate loan product with the highest level of service. Digital disruption has heightened competition in the industry over the past five years, with websites such as Uno, which is majority-owned by Westpac, acting as an online mortgage broker.

EXTERNAL COMPETITION

Despite some banks already operating in the industry, external competition also comes directly from these financial institutions as they act as direct mortgage lenders.

Banks aim to service customers directly without the need to use a mortgage broker or other intermediary. As banks cannot be considered independent in their product advice (since they only offer their own products), they must rely on customer loyalty to their brand. Banks can also attract clients by being their single manager for their financial affairs through managing their wealth products (cash, fixed-income, equities, property and superannuation) under a single platform.

Barriers to Entry

Barriers to Entry in this industry are ⚠ Low and the trend is Increasing

The industry has low barriers to entry, which contributes to its highly competitive nature. The main barriers include obtaining the necessary licence and gaining sufficient market share. The latter is usually achieved through affiliation with a larger broker group that holds an existing licence. Sole proprietors generally grow their loan books by establishing a referral relationship with local businesses, such as financial planners and real estate agents. The highly competitive environment has increased barriers to entry over the period.

Barriers to Entry Checklist

Competition	High ⚠
Concentration	Low ✓
Life Cycle Stage	Mature ⊖
Technology Change	Low ✓
Regulation & Policy	Heavy ⚠
Industry Assistance	Low ⚠

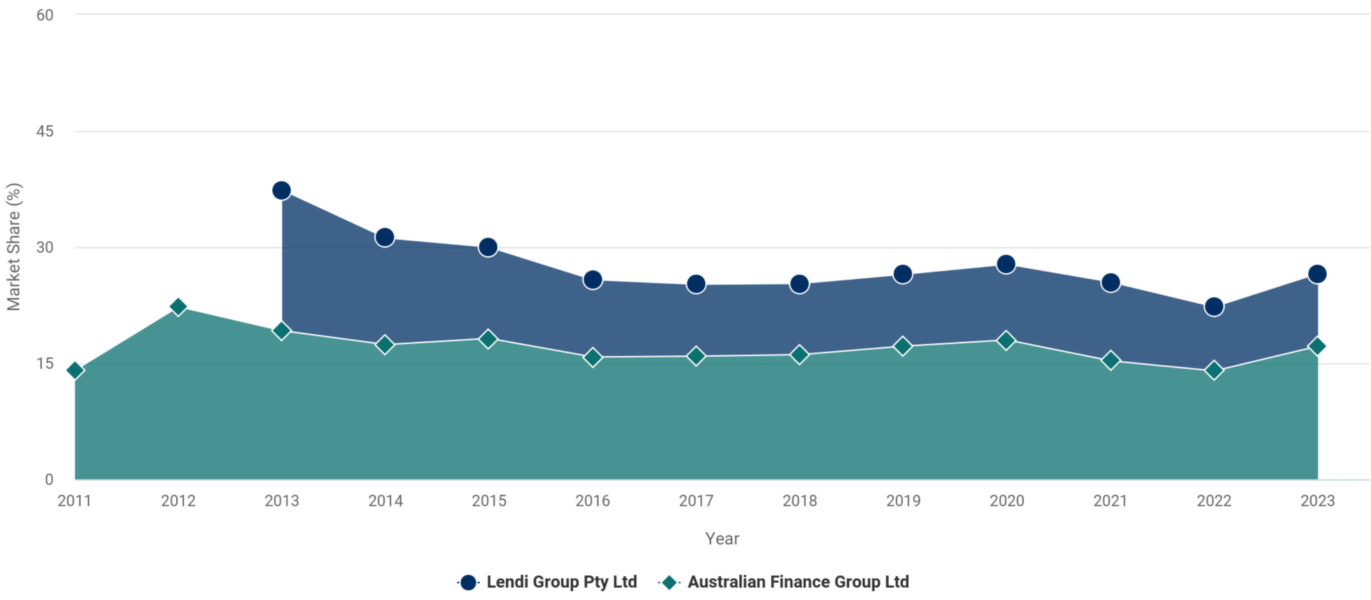
Industry Globalization

Globalization in this industry is ✓ Low and the trend is Increasing

The Mortgage Brokers industry is characterised by a low level of globalisation. Industry globalisation is measured by the level of foreign trade and ownership in an industry. Foreign ownership of mortgage brokers is at a low level, as most operators are independent brokers that are part of a partnership or a larger network. Most sales are also typically generated domestically. However, Australian residential property prices have trended upwards over the past five years, generating strong interest from investors looking to diversify their portfolios. Mortgage brokers have capitalised on this trend by hiring staff that can speak foreign languages to cater to foreign investors.

Major Companies

Major Players and Their Market Share 2011–2023



Mortgage Brokers in Australia
Source: IBISWorld

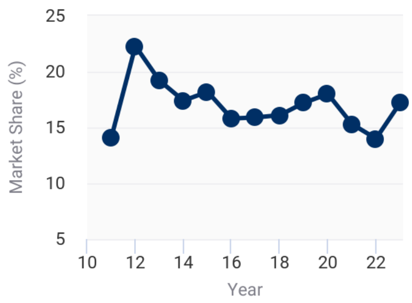
Major Players

Australian Finance Group Ltd

Market Share: 17.2%

Brand Names AFG Home Loans, AFG Commercial

Australian Finance Group Ltd



Mortgage Brokers
Source: IBISWorld

Australian Finance Group Ltd (AFG) is an Australian-owned financial services firm operating in mortgage and loan wholesaling. The group was established in 1994 and serves mortgage brokers, financial planners, accountants and insurance agents. The group listed on the ASX in May 2015. Originally established as an aggregator, AFG has expanded to offer many of these services as a retailer, giving the company significant competitive advantages. AFG also previously had operations in property development.

AFG announced the acquisition of a strategic interest in Think Tank Group Pty Ltd, a commercial property lender, in April 2018. AFG intended the move to benefit the firm's wider base of broker relationships and established AFG Commercial powered by Thinktank. The firm has a network of approximately 3,300 brokers that sell more than 5,500 finance products to consumers and businesses. AFG's vertical integration allows it to originate its own loans and offers, known as white label loans, under the AFG Home Loans brand. In 2021, it was estimated that one in eleven Australian residential mortgages were arranged by an AFG broker.

Financial performance

AFG's industry-specific revenue is expected to grow at an annualised 9.0% over the five years through 2022-23, to total $770.3 million. This trend represents an outperformance of the overall industry over the same period. A low-interest rate environment and higher activity in the mortgage lending market have boosted AFG's mortgage broking business over the period. White label loans have increased penetration of AFG Home Loans and supported demand for the firm's mortgage broking service. The firm's profitability has grown over the past five years due to its focus on the strong New South Wales and Victorian property markets. Broker market share of the loan commitment market has increased, which has benefited the firm's profitability.

Australian Finance Group Ltd - industry segment performance

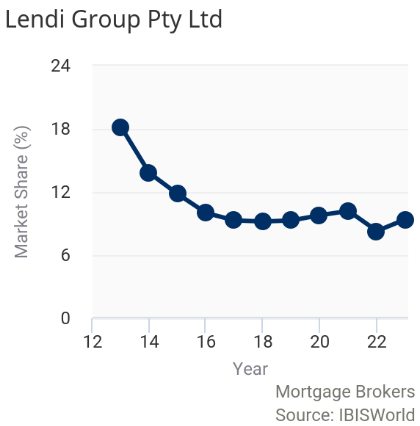
Year	Revenue ($m)	Growth (% change)
2012-13	280.2	N/C
2013-14	341.6	21.9
2014-15	412.8	20.8
2015-16	430.5	4.3
2016-17	491.4	14.1
2017-18	501.0	2.0
2018-19	514.1	2.6
2019-20	530.7	3.2
2020-21	585.8	10.4
2021-22*	659.1	12.5
2022-23*	770.3	16.9

Source: Annual Report and IBISWorld
Note: *Estimate

Lendi Group Pty Ltd

Market Share: 9.4%

Brand Names Aussie Home Loans, Lendi



Lendi Group Pty Ltd is the ultimate holding company of the Aussie Home Loans (AHL) and Lendi businesses. In May 2021, Lendi merged with Commonwealth Bank of Australia's AHL business to create Lendi Group. Lendi is an online loan platform that allows home buyers to search for home loans online. AHL has over 1,000 mortgage brokers across Australia. This merger is expected to benefit both AHL and Lendi as consumers can consult a mortgage broker from AHL while accessing a range of home loan products. As of June 2022, Commonwealth Bank holds a 42.0% ownership interest in Lendi.

Financial performance

Lendi's industry-specific revenue is expected to grow at an annualised 2.5% over the three years through 2022-23, to total $423.0 million. However, if AHL's pre-merger industry-specific revenue is taken into consideration, Lendi's industry-specific revenue represents an expected annualised growth of 8.2% over the five years through 2022-23, compared to AHL's industry-specific revenue in 2017-18. This result represents an outperformance of the overall industry over the same period. The merger between the Lendi and AHL businesses has benefited the firm's performance over the period. In addition, the company is expected to benefit from its link with Commonwealth Bank, which is the largest home loan lender in Australia. The significant costs associated with the merger have placed downward pressure on Lendi's profitability following the firm's incorporation in May 2021.

Lendi Pty Ltd - industry segment performance

Year	Revenue ($m)	Growth (% change)
2012-13*	266.1	N/C
2013-14*	271.1	1.9
2014-15*	267.0	-1.5
2015-16*	272.0	1.9
2016-17*	288.0	5.9
2017-18*	285.0	-1
2018-19*	280.0	-1.8
2019-20*	290.0	3.6
2020-21	393.0	35.5
2021-22	393.0	0.0
2022-23**	423.0	7.6

Source: Annual Report and IBISWorld
Note: *AHL industry segment performance (Estimate) **Estimate

Other Companies

The Mortgage Brokers industry includes some large corporations alongside numerous sole proprietors. As any individual with relevant qualifications and knowledge of the lending process could easily enter the industry at little cost, many individuals have entered the industry to run their own business and operate independently. However, this trend has already begun to change as large broker networks, such as AFG, focus on growing broker numbers by integrating independent brokers into their operations in exchange for leads, loan application administration, training and other support services.

Loan Market Group Pty Ltd

Market Share: 5.0%
Loan Market was established in 1995 and comprises a network of over 650 brokers across its Australian and New Zealand operations. The company offers mortgage broking, refinancing and insurance broking services. Loan Markets originated as part of Ray White Financial Services and later became a stand-alone business.

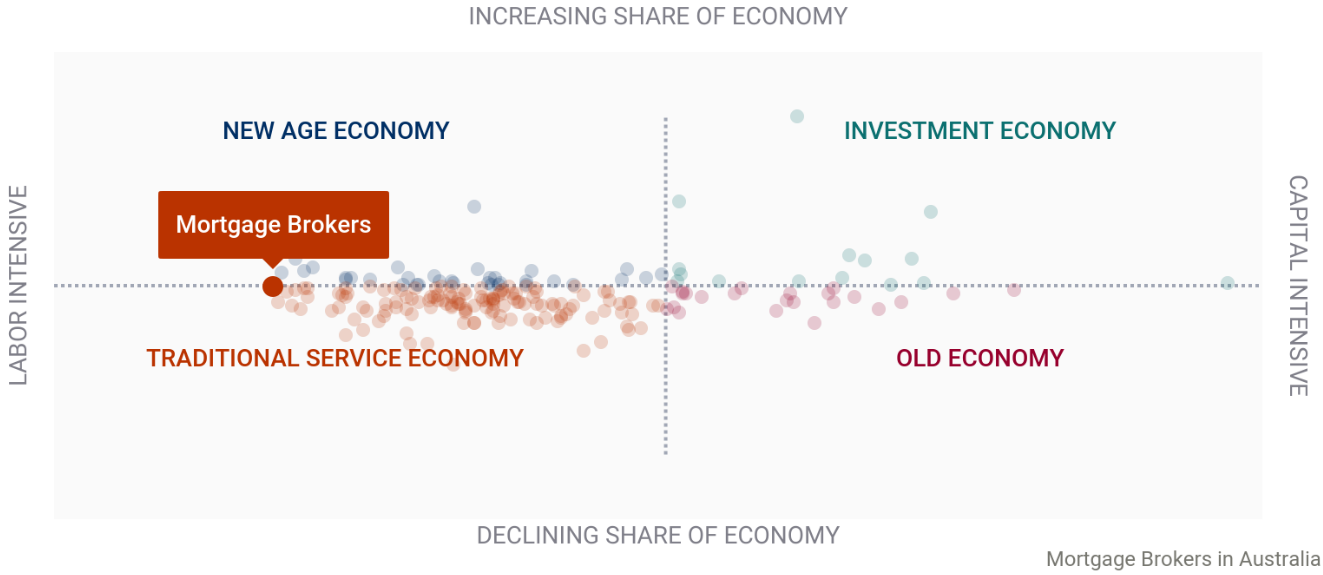
REA Group Ltd

Market Share: 2.0%
Brand Names: Smartline Home Loans Pty Ltd, Mortgage Choice limited
REA Group Ltd (REA Group) is the owner of realestate.com.au and was founded in 1995 as Netwide Solutions, and was later renamed and floated on the ASX in 1999. In 2000, News Limited (now News Corp Australia) invested in the business, and has since become the majority owner. News Corp Australia is a subsidiary of the United States-based News Corporation (News Corp).

REA Group, operates in the industry primarily through two of its subsidiaries which were both acquired over the past five years, Smartline Home Loans Pty Ltd (Smartline) and Mortgage Choice limited (Mortgage Choice). In June 2017, REA Group acquired an 80.3% stake in Smartline in June 2017, before purchasing the remaining stake in July 2019. REA Group acquired 100% control of Mortgage Choice in June 2021. The acquisitions have expanded the group's broker network.

Operating Conditions

Costs of Growth: Targeting Capital vs. Labor



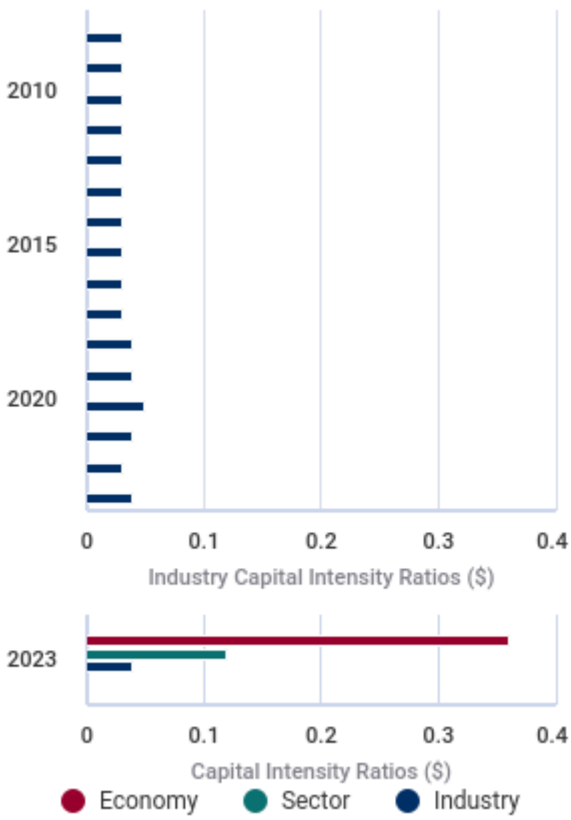
Mortgage Brokers in Australia
Source: IBISWorld

Capital Intensity

The level of capital intensity is ✓ Low

The Mortgage Brokers industry exhibits low capital intensity. For every dollar paid as wages, an estimated $0.04 is spent on capital investment. Mortgage brokers have to satisfy requirements such as education, experience and the ability to provide their services, honestly and fairly. Employees that have the skills necessary to perform high-quality mortgage broking services demand above-average wages. A large share of the industry's operations is conducted face-to-face with potential consumers, which involves explaining the necessary steps to take, navigating the process of obtaining a mortgage and addressing any queries.

Capital Intensity Ratios



Mortgage Brokers
Source: IBISWorld

Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruptive Effect	Description
Very Low	Rate of Innovation	Very Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
High	Innovation Concentration	Likely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
High	Ease of Entry	Likely	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
Very High	Rate of Entry	Very Likely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Very High	Market Concentration	Very Likely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The rate of new patent technologies entering the industry is low, which limits the potential for innovations. A low rate does not mean that innovations cannot occur, just that the likelihood of some innovation materializing as a threat is lower. However, the concentration of technologies is high in this industry. This suggests that industry operators have exposure to potentially unforeseen areas of innovation.

This technology trend is underscored by structural factors that support new entrants. An accommodative structure can create a situation where small entrants can focus on less profitable albeit innovative industry entry points. Or, large operators in other industries can leverage expertise in other areas to enter the industry from a new angle.

The major markets for this industry are highly concentrated, which implies that the market has a focus on key customer segments. This presents an opportunity for strategic entrance into lower-end markets or unserved markets for innovations to take on a disruptive trajectory.

The Mortgage Brokers industry faces a high level of technological disruption.

Besides online mortgage brokers or aggregator platforms, mortgage brokers face significant competition from several new fintech platforms seeking to cut out the intermediary and associated fees. Companies such as Credible Labs and Joust operate as a marketplace for loans and mortgages where borrowers can obtain offers and quotes from several lenders. Additionally, banks are increasingly investing in digital channels to market their mortgages, with Bendigo and Adelaide Bank funding Tic:Toc and Westpac investing in Uno.

The level of technology change is Low

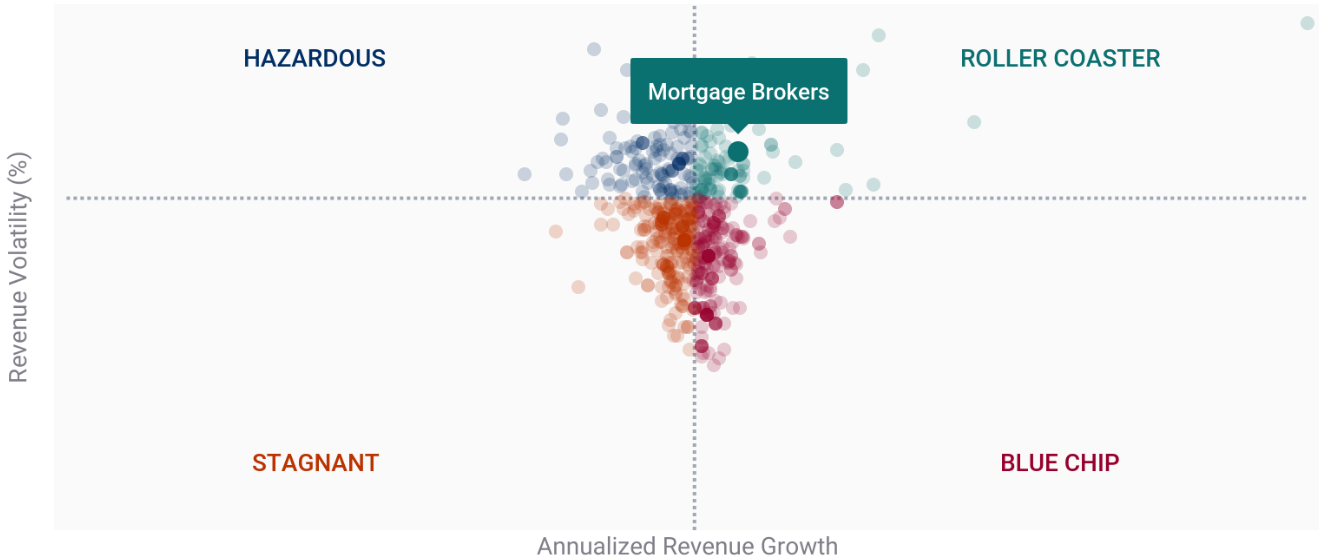
The Mortgage Brokers industry is characterised by low technological change.

Establishing an online platform, whether it is a full-service mortgage manager or simply an online presence, has become increasingly important for inbound lead generation over the past five years. All loan originators market their products and services through the internet. To stay competitive, mortgage brokers have been investing in technology to reduce costs, gain a competitive advantage, and improve the efficiency and delivery of services offered to their clients. However, business volumes generated through the internet remain low, encouraging brokers to continue using traditional delivery methods such as mobile broker services, where brokers visit the clients or where clients visit an authorised branch outlet. Many customers prefer to interact with a mortgage broker face-to-face to feel more assured that they are being provided with the most appropriate advice. A personal meeting also allows the broker to better explain the different loan products and options. However, some technological advances in the form of online mortgage brokers are emerging, most notably Uno, which is now majority-owned by Westpac.

Revenue Volatility

The level of volatility is ⚠ High

Volatility vs. Growth



Mortgage Brokers
Source: IBISWorld

The Mortgage Brokers industry exhibits high revenue volatility.

Demand for broking services mainly depends on house prices, interest rates and other macro-economic drivers such as unemployment. Activity in the residential property market has remained relatively strong over most of the past five years, fuelled by low interest rates and strong investor demand. However, concerns over inflation are expected to cause the RBA to continue with interest rate rises in the current year. Heightened interest rates are likely to limit borrowing activity and subdue residential housing prices, which is anticipated to contribute to high revenue volatility in the current year. Record low unemployment rates and strong real household discretionary income over the past five years are expected to limit industry volatility.

Regulation & Policy

The level of regulation is ⚠ Heavy and the trend is Increasing

The Mortgage Brokers industry has a medium level of regulation.

Mortgage brokers are required to hold an Australian credit licence with ASIC under the National Consumer Credit Protection (NCCP) Act 2009, as they are acting as an intermediary between a lender and a borrower. Mortgage brokers can also work as an authorised credit representative of a licence holder, which is less costly and has lower compliance requirements. The minimum requirements for entry into the industry is completing a Certificate IV in Finance and Mortgage Broking. ASIC also stipulates that any party involved in credit must have membership to an external dispute resolution program. For instance, the Credit and Investments Ombudsman is an external body through which any client may lodge a complaint against their creditor should internal dispute resolutions fail to resolve their dissatisfaction.

FINANCIAL SERVICES ROYAL COMMISSION

The final report on the Financial Services Royal Commission (FSRC) was released on 4 February 2019 with several recommendations affecting the Mortgage Brokers industry.

This primarily included introducing a duty for mortgage brokers to act in the best interest of borrowers, the borrower rather than the lender pays a fee for mortgage broking services, the remuneration model for mortgage brokers be changed so that commissions be scrapped over a two- or three-year period and that mortgage brokers be subject to the same regulatory framework as financial advisers.

The Financial Sector Reform (Hayne Royal Commission Response—Protecting Consumers (2019 Measures) Act 2020 was passed in February 2020. The Financial Sector Reform Act 2020 introduces a best interest duty for mortgage brokers and reforms broker remuneration. However, the best interest duty is expected to take effect from January 2021, instead of July 2020 due to COVID-19 pandemic. In May 2020, the Federal Government announced a six months deferral of FSRC implementation timetable, due to disruptions caused by COVID-19 pandemic. Measures originally scheduled for introduction in June 2020 will be introduced in December 2020, while measures scheduled for December 2020 will be introduced in June 2021. Similarly, ASIC has also postponed the commencement dates for mortgage broker reforms to January 2021.

The reform aims to restore consumers trust in the financial sector and is anticipated to be the largest financial services law reform package in three decades. Mortgage brokers will have to act in the best interests of borrowers and can no longer receive bonus commissions for achieving sales targets. Mortgage brokers will be also prevented from receiving campaign-based payments from banks. In addition, up-front and trail commissions will be reviewed in three years' time. Tighter regulation is expected over the next five years.

MODERN SLAVERY ACT

In November 2018, the Federal Government passed the Modern Slavery Act 2018.

The act, which came into force on 1 January 2019, is a new reporting requirement for larger Australian businesses. Companies that generate annual consolidated revenue of at least $100.0 million have to report on how they act to mitigate the risks of modern slavery in their operations and supply chains.

The NSW Modern Slavery Act 2018 was due to come into force on 1 July 2019, but the act was delayed for further consultation on the day it was set to be implemented. After lengthy deliberation, the NSW Parliament voted in favour of proposed amendments to the NSW Act in November 2021, under which local councils meeting the reporting threshold will also need to prepare a modern slavery statement. The Modern Slavery Amendment Act 2021 (NSW) commenced on 1 January 2022.

The act has had a minimal effect on the overall industry, as most industry operators do not meet the revenue threshold. For the industry players that do meet the threshold, the act will have moderate implications. For example, industry player AFG released a statement for the 2020-21 financial year. The statement outlined the firm's operations, addressed risks of modern slavery and indicated actions taken to address these risks.

Industry Assistance

The level of industry assistance is ⚠ Low and the trend is Steady

The Mortgage Brokers industry receives no direct government assistance. However, memberships with industry associations, such as the Mortgage & Finance Association of Australia and the Finance Brokers Association of Australia, can provide participants with support in the form of advice, training and marketing leverage through awards. The industry is also indirectly supported by grants for first-home buyers. For example, the First Home Owner Grant (FHOG) is designed to help new buyers in the housing market purchase a property. The grant is only eligible to owner-occupier buyers of new homes. Eligibility criteria, payments and benefits vary among individual states. New home buyers are also eligible for stamp duty concessions.

COVID-19 assistance policies

To help businesses retain employees, the Federal Government is providing a fortnightly wage of up to $1,500 per worker through the JobKeeper Payment scheme, while businesses are negatively affected by the COVID-19 pandemic. Businesses that receive this subsidy will be under a legal obligation to retain the employee. To be eligible, SMEs must have lost over 30% of their revenue relative to the prior year. The wage subsidy is falling to $1,200 per worker ($750.00 for part-time staff) at the end of September 2020 and then again to $1,000 ($650.00 for part-time staff) in January 2021. The JobKeeper Payment scheme ended in March 2021.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2013-14	2,327	1,198	5,413	4,671	10,347	N/A	N/A	854	N/A
2014-15	2,715	1,445	6,285	5,452	12,582	N/A	N/A	1,045	N/A
2015-16	3,281	1,765	7,411	6,476	14,918	N/A	N/A	1,246	N/A
2016-17	3,587	1,779	8,561	7,343	16,295	N/A	N/A	1,389	N/A
2017-18	3,534	1,898	8,967	8,125	16,905	N/A	N/A	1,387	N/A
2018-19	3,299	1,577	9,675	8,624	16,720	N/A	N/A	1,177	N/A
2019-20	3,199	1,692	9,698	8,689	16,611	N/A	N/A	1,218	N/A
2020-21	4,037	2,099	10,297	9,279	17,418	N/A	N/A	1,554	N/A
2021-22	4,833	2,561	12,565	11,387	18,106	N/A	N/A	1,943	N/A
2022-23	4,484	2,395	11,796	10,803	18,689	N/A	N/A	1,794	N/A
2023-24	4,333	2,383	12,019	11,029	20,260	N/A	N/A	1,809	N/A
2024-25	4,357	2,366	12,372	11,418	20,715	N/A	N/A	1,776	N/A
2025-26	4,462	2,450	12,263	11,385	20,493	N/A	N/A	1,861	N/A
2026-27	4,488	2,446	12,386	11,568	20,001	N/A	N/A	1,853	N/A
2027-28	4,511	2,368	12,534	11,777	19,579	N/A	N/A	1,772	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2013-14	32.2	26.8	8.65	9.57	18.9	N/A	N/A	22.6	N/A
2014-15	16.7	20.6	16.1	16.7	21.6	N/A	N/A	22.4	N/A
2015-16	20.8	22.2	17.9	18.8	18.6	N/A	N/A	19.2	N/A
2016-17	9.32	0.79	15.5	13.4	9.23	N/A	N/A	11.5	N/A
2017-18	-1.49	6.64	4.74	10.6	3.74	N/A	N/A	-0.14	N/A
2018-19	-6.65	-16.9	7.89	6.14	-1.10	N/A	N/A	-15.1	N/A
2019-20	-3.03	7.31	0.23	0.75	-0.66	N/A	N/A	3.41	N/A
2020-21	26.2	24.0	6.17	6.79	4.85	N/A	N/A	27.6	N/A
2021-22	19.7	22.0	22.0	22.7	3.94	N/A	N/A	25.0	N/A
2022-23	-7.23	-6.52	-6.13	-5.13	3.21	N/A	N/A	-7.66	N/A
2023-24	-3.37	-0.48	1.89	2.09	8.40	N/A	N/A	0.83	N/A
2024-25	0.54	-0.74	2.93	3.52	2.24	N/A	N/A	-1.83	N/A
2025-26	2.42	3.55	-0.89	-0.29	-1.08	N/A	N/A	4.78	N/A
2026-27	0.57	-0.16	1.00	1.60	-2.41	N/A	N/A	-0.43	N/A
2027-28	0.51	-3.18	1.19	1.80	-2.11	N/A	N/A	-4.38	N/A

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage ($)
2013-14	51.5	N/A	N/A	225	36.7	1.91	82,517
2014-15	53.2	N/A	N/A	216	38.5	2.00	83,071
2015-16	53.8	N/A	N/A	220	38.0	2.01	83,517
2016-17	49.6	N/A	N/A	220	38.7	1.90	85,241
2017-18	53.7	N/A	N/A	209	39.3	1.89	82,053
2018-19	47.8	N/A	N/A	197	35.7	1.73	70,413
2019-20	52.9	N/A	N/A	193	38.1	1.71	73,295
2020-21	52.0	N/A	N/A	232	38.5	1.69	89,224
2021-22	53.0	N/A	N/A	267	40.2	1.44	107,301
2022-23	53.4	N/A	N/A	240	40.0	1.58	95,992
2023-24	55.0	N/A	N/A	214	41.7	1.69	89,289
2024-25	54.3	N/A	N/A	210	40.8	1.67	85,735
2025-26	54.9	N/A	N/A	218	41.7	1.67	90,811
2026-27	54.5	N/A	N/A	224	41.3	1.61	92,645
2027-28	52.5	N/A	N/A	230	39.3	1.56	90,505

Figures are inflation adjusted to 2022-23

Additional Resources

Additional Resources

Mortgage & Finance Association of Australia
http://www.mfaa.com.au

Finance Brokers Association of Australia
http://www.fbaa.com.au

Reserve Bank of Australia
http://www.rba.gov.au

Industry Jargon

LOAN-TO-VALUE RATIO
Ratio of the mortgage banks lend to buyers as a percentage of the total appraised value of the asset

MORTGAGE AGGREGATOR
An intermediary between the broker and lender who, by way of aggregating large volumes of mortgages, can negotiate better commission or loan terms for the broker.

TRAILING COMMISSION
A fee paid to a broker by the lending bank, usually annually, which declines as the balance outstanding on an issued loan is reduced.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT
The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE

The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES

The gross total wages and salaries of all employees in the industry.

Call Preparation Questions

Role Specific Questions

Sales & Marketing

How does your firm market its products to clients?

Advertising should focus on core products and markets to maximise profitability.

How broad are your company's product offerings?

Firms that have a range of products and services are better positioned to benefit from cross-selling and cross-subsidising opportunities.

Strategy & Operations

How does your firm differentiate its product offering and brand?

Banks and other authorised deposit-taking institutions offer thousands of mortgage packages.

While industry operators offer numerous products, most products offer a similar mortgage solution.

How does your company compete with online players?

Strong competition, particularly through online channels, can constrain profit margins.

Technology

How does your business compete with online mortgage aggregators?

Online platforms that offer mortgage comparisons are becoming increasingly popular.

How can your company reduce wage costs through automation?

Mortgages are increasingly being approved and issued quickly through online platforms.

Compliance

How does your business adapt to changing regulations?

Mortgage packages offered by industry operators have come under increased scrutiny over recent years.

The Financial Services Royal Commission has recommended that trailing commissions should be banned, while up-front commissions should be phased out.

How does your company ensure it holds all relevant licences?

Mortgage brokers are not currently regulated by the same law as financial advisers.

Mortgage brokers are required to operate under an Australian Credit Licence.

Finance

How do your firm's profit margins compare with those of the wider industry?

Strong competition has constrained industry profitability over the past five years.

How large is your company's marketing budget?

Industry firms have been facing intensifying internal and external competition.

Consequently, promotions and advertising are important costs for operators.

External Impacts Questions

Impact: Real household disposable income
How does your company monitor changes in household disposable income?

Real household disposable income determines how much borrowers can allocate to mortgage repayments.

Impact: Number of housing transfers
How does your company track the number of housing transfers?

Housing transfers are an indicator of the level of activity in the residential property market.

Housing transfers help to drive activity for mortgage brokers.

Impact: Residential housing loan rates
How do fluctuations in residential housing loan rates influence your firm's performance?

Low interest rates have helped drive strong demand for mortgages over the past five years.

Internal Issues Questions

Issue: Having links with suppliers
How strong are your firm's relationships with banks and other lenders?

Having strong relationships with lenders can reduce a firm's regulatory burden and increase its customer base.

Issue: Maintenance of excellent customer relations
How much time does your firm spend with its customers?

Despite a growing number of online mortgage brokers, face-to-face meetings remain the industry's most significant method of generating revenue.

Issue: Experienced work force
How does your firm's work force differentiate it from competitors?

Strong industry competition means that mortgage brokers require substantial product knowledge to remain competitive.

IBISWorld helps you find the industry information you need – fast.

With our trusted research covering thousands of global industries, you'll get a quick and intelligent overview of any industry so you can get up to speed in minutes. In every report, you'll find actionable insights, comprehensive data and in-depth analysis to help you make smarter, faster business decisions. If you're not yet a member of IBISWorld, contact us at (03) 9655 3881 or info@ibisworld.com to learn more.