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The Development of Finance Franchises

By Peter Buckingham and Geoff McDonnell

Over the last few years, the major banks have joined a group of financial companies in creating a series of finance franchises, which are on offer to the public. These finance franchises come in different forms, and rely upon the operator writing or broking a loan between the customer and the money source.

Mortgage broking as an industry sprang from the initial conversations between lenders, and a few young entrepreneurs; the actual embryo of the industry is widely disputed, not hotly, by various quarters. John Symond of Aussie Home Loans is acclaimed for his quote of "At Aussie we'll save you", and is one of the main drivers. The Higgins brothers created Mortgage Choice, coming from their modest ship building business in the Perth suburbs, are also credited with the industry's growth.

Wherever it actually commenced, the fact is that this industry has spawned and grown through the acquisition of many of the finance industry's leading lights. The MFAA (formally the MIAA) and the FBAA are the two leading industry representative bodies. Combined, they look after the mortgage industry, including and with it, the many franchise models that it has encouraged.

The franchise sector has become a very lucrative one, and one that has been a vehicle for much of the growth of the industry over the past decade. We are now in the third generation of the franchise growth phase within the finance industry.

Mortgage Choice was really the first of the businesses to grow in this way. Mortgage Choice has grown from one franchise to over

400 nationally and with it have come many replicas.

The evolution of these franchises saw the market changing from where you went to your local established bank branch to apply for a loan, to where they came to you to write the loan. Being a time poor society, their offer of someone to come and visit you (normally after hours), and to offer you a range of loan options became very attractive to the public.

The market is divided into two types of loan organisations in our view: those that source the loan themselves; and those that broker the loan with some other institution. The banks are naturally a source of money in their own right, or arrange the loan from a wholesale source. The other type of loan writer is a mortgage broker, such as Mortgage Choice who give and recommend to customers a series of loan options from many lenders, and the broker's role is to find the best loan for you.

Recently, with the current credit crisis, there has been a drying up of available funding, with customers seeking the perceived security of banks; and this has moved business back to the banks. Before the recent crunch, the statistics showed the following:

Preferred Choice for Home Loans

- 41.5% mortgage broker
- 37.2% bank
- 10.3% non-bank specialist
- 8.5% credit union
- 2.6% building society

Source: MFAA/BankWest Home Finance Survey (Dec 2006)

Currently, there is real change in the industry occurring, mainly as a result of the recent credit crunch. RAMS has been taken over by Westpac, Commonwealth Bank has taken a share in Aussie Home Loans, and the re-structured Aussie has now purchased Wizard.

The wheel has been turning over the last 10 years to arrive at where we are today. As discussed, many years ago the banks had the majority of the loans market, and we (the public) had to court them for a loan. The mortgage broking industry evolved where the brokers acted as go betweens to offer the bank's loans in an environment where the broker went to the customer to sell the proposition.

The brokers became very successful, and today hold around 35% of the loans markets. The banks have reacted to this dent in their business by creating their own franchises, each unique to the major bank responsible, and offering that bank's products, again through a network of people who will come to you and arrange the deal.

Who is in the game?

ANZ Mortgage Solutions was the first of the large banks to head in this direction. They created a project team and decided to tackle the Mortgage Brokers head on. The model they created has 135 territories across Australia, and offers an exclusive territory for a franchisee to work within. ANZ have used their resources to create Local Area Marketing packages to assist their franchisees, and support them wherever possible. The model has evolved and the key to its success has been the integration of Mortgage Solutions into the main team's third party banking

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business model.

Commonwealth Bank followed suit with Mortgage Innovations five years ago and created a model that has seen it grow from one to over 35 operating businesses. The model is sustained as it allows the licensee to operate under the CBA brand and with full access to all of the systems of the big lender. As opposed to the traditional broker, the MI business owner can approve the loans themselves, and can see clients' files online at any time. This has been a very large part of the attraction to the clients who have chosen to use CBA MI.

Mortgage Choice has continued to go from strength to strength, writing around 5% of all home loans in Australia. Mortgage Choice has around 450 franchisees and runs around 130 territories across Australia. The territory is not an exclusive territory, and there is the option for Mortgage Choice to add another franchisee if the territory is under-performing. Mortgage Choice currently has a panel of 23 different lenders which they go to, so that the loan best suits the client's needs. This also instills a level of competition between the lenders, hopefully so Mortgage Choice can offer very competitive loans. With a large number of franchisees, Mortgage Choice runs an office in each State with a State Manager, Franchise Development Manager and other support staff. The Mortgage Choice model remains the most robust as it has built its growth on the planned and scaled commission model. Additionally, the business retains some of the industry's most experienced mortgage brokers. People such as Steven Heavey (current head of broker loans at St George), Geoff McDonnell (current

owner and operator of Multiple Property Services and co-author of this article), Chris Canty, (current head of Wizard sales and marketing); just to name a few, have all come from the Mortgage Choice executive ranks over the years.

Wizard was started in 1996 and has adopted a franchise approach recently. Having been purchased by GE Money from Mark Bouris, the original founder and Chairman, it has now been sold to Aussie, and the merger of the two businesses is currently taking place. Many Wizard franchisees are also being offered a package to enable them to compete in the commercial equipment market, as a back-up to the home loan business they have traditionally operated in. Wizard really came of age as the first mono product line business model. The evolution to providing bank products was a reaction to the market and the lenders initial reaction to the influx of these sorts of niche lenders. The business model has never really evolved into and away from one that was branded and seen as the one product player.

By comparison, Aussie has launched into franchising and has evolved its model also, as it required a rethink away from the "At Aussie we'll save you" motto. Aussie has been widely considered to be the training ground for many other broker businesses.

RAMS were purchased by Westpac after their sources of funding dried up in the current credit crisis. RAMS are re emerging with a new franchise and territories for their franchisees.

Most recently, smaller players have come into the market to franchise their operations, businesses such as Citiwide in Melbourne,

Mortgage Gallery in Perth and Count in NSW have launched into franchising in the industry. The main reason that these players are making the step is the number of aggregated brokers that are in the market and who are looking for a home that provides a solid training, product, management and potential selling price for their existing broker businesses.

Many brokers are evolving into the franchise model as a way of providing the security of tenure and the added protection that the Franchising Code provides them.

The industry has been recently squeezed by the commission changes that have been applied by the lenders and other funders. 2009 will no doubt see the growth of franchised brokers as they look for stability in a time of uncertainty. ❖

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