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# Home Sweet Home: Mortgages Attract Interest at Astounding Rates

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The RBA's recent interest rate cuts are contributing to increased competition and reduced profitability for mortgage lenders across Australia.

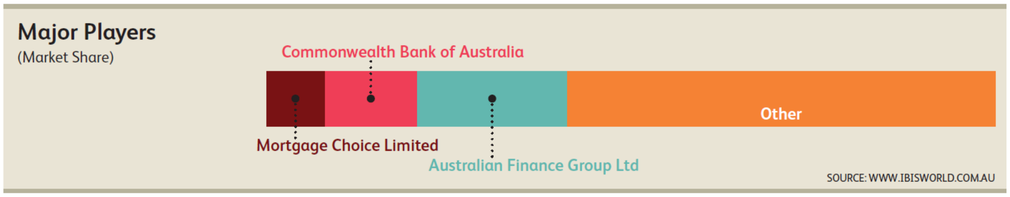
The falling cash rate and findings from the Financial Services Royal Commission are affecting mortgage brokers

The RBA's decision to cut interest rates to 1 %, along with GDP growth falling to just 2 %, has contributed to lower mortgage rates for those with current variable home loans, first-home buyers and seasoned property investors. A range of fixed-term and variable loans are now offered at rates below 3 %, which has made repayments more affordable. Although the interest rate cuts are largely good news for consumers, they also mean increased competition and reduced profitability for mortgage lenders throughout Australia.

In addition, findings from the Financial Services Royal Commission are likely to influence mortgage companies and aggregators over the next five years, with recommendations including ceasing lender-based trailing commissions and replacing them with a flat-fee model. Prior to the Royal Commission, Mortgage Choice Limited ended the 2017-18 financial year with industry-specific revenue of $206.4 million, an 8.9 % increase from 2016-17. Despite strong year-on-year growth, the company's industry-specific revenue is expected to grow at an annualised 1.3 % over the five years through 2019-20, to $184.1 million, underperforming the wider Mortgage Brokers industry.

Australian Finance Group Ltd (trading as AFG Home Loans) has recorded stronger growth, with industry-specific revenue totalling $501.0 million in 2017-18. The company's industry-specific revenue is expected to increase at an annualised 3.1 % over the five years through 2019-20, to $480.0 million, outperforming the wider industry.

AFG Home Loans revealed in August this year that it would be merging with Connective Group for a consideration of $120.0 million. The move could ensure that AFG maintains its position as one of the largest mortgage broking entities during a turbulent time for the entire sector. Challenges that have emerged as a result of the Royal Commission, such as tighter parameters for commission and remuneration, and stricter regulatory practices, may have contributed to the decision to merge. Following the merger,



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the group is anticipated to have over 6,500 brokers controlling roughly 65 % of the mortgage allocation network in New South Wales, and about 50 % in all other mainland states, cementing its sizeable market share in the industry.

Despite the company's overall strong performance over the past five years, AFG Home Loans has struggled in the wake of the Royal Commission, with lending volumes declining by 10 % throughout its network of brokers over the three months through March 2019. The value of mortgage lodgements declined at a similar rate over the same period, from $12.9 billion to $11.6 billion. However, the outlook for the industry is not entirely bleak. AFG Home Loans and Mortgage Choice can maintain relevancy through continually refining advisory practices, and capitalising on a recovering property market, which is contributing to a surge in demand for home loans.

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