PAA | PROFESSIONAL ADVISERS ASSOCIATION

Volume 11, Issue 8, 2012

the new zealand mortgage mag

advice for lenders and advisers

BUMPER ISSUE

10th ANNIVERSARY

PLUS

BROKER GROUP SURVEY

11 questions for all advisers

Interest rate forecasts

Where to for house prices?

the new zealand mortgage mag — advice for lenders and advisers
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There are changes ahead for our broker groups as they start offering much more than aggregation. We asked the country's groups what sets them apart from the competition.

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10 years young

This issue of the NZ Mortgage Mag celebrates our 10th anniversary. When I think about one of my kids turning 10, it's not a big deal compared to some of the teenage birthdays, such as 18 and 21.

But 10 years of publishing in the financial services industry feels like a big deal. Over the decade we have witnessed a huge number of changes in the mortgage world.

For one, mortgage brokers are now, in our eyes, mortgage advisers.

People often ask: how are things going? The standard answer, slightly tongue-in-cheek, is that we're still here. The global financial crisis and New Zealand's own economic meltdown over recent years has been tough going for us and all of our readers, whether you are in the advice end of the business or the manufacturing end.

Here at the *NZ Mortgage Mag* we saw a huge amount of our advertising revenue disappear overnight. Clients like home equity release schemes and non-bank lenders just disappeared.

I provide some further thoughts on the past 10 years on pages *28* and *29* in this issue.

This issue is also an important one as it includes our annual survey of the dealer groups. We use the term dealer group in a reasonably generic way as it covers everything from franchise-based groups to aggregators.

What is important is that pretty much all mortgage advisers belong to groups now, so the survey is an excellent annual snapshot of the make-up of mortgage distribution outside the banks.

What is also pleasing this year is the positive outlook expressed by group heads and the increases in new business. All this augurs well for a good 2013.

It's traditional to thank a few people on big occasions. While not wanting to sound like a professional sports team it is important to thank and acknowledge those advertisers which have supported us over the years.

Special mention goes to Sovereign, Allied Kiwi (and its predecessors) and Liberty Financial.

These companies have been with us from day one and have barely skipped a beat, even through the GFC. They have ably demonstrated their support for mortgage advisers and deserve your support.

Also to the NZMBA and the PAA. The mag started with the NZMBA's blessing (and there was another choice at the time).

We have had a number people involved with the mag, but considering the amount of time we have been publishing it there is one person I would like to single out and that is Jenny Ruth.

She has written for Tarawera Publishing for 11 years and is well-known to many in the mortgage industry. Recently she decided it was time for a change and she has moved on.

Now it's time for a short holiday and we will be back into the second decade next year.

From all of us here at the *NZ Mortgage Mag* we wish you and your family a safe and happy Christmas.

Philip Macalister
Publisher

MANAGING EDITOR AND PUBLISHER:
Philip Macalister

SENIOR WRITER:
Susan Edmunds

STAFF WRITER:
Benn Bathgate

SUB EDITOR:
Susan Edmunds

CONTRIBUTORS:
Paul Watkins
Jenny Campbell
Geoff Bawden
Jane Turner
Steve Wright
Ian Webb
Jonathan Flaws

GRAPHIC DESIGN:
Mortimer Design & Print Ltd

ADVERTISING SALES:
Freephone: 0800 345 675
sales@goodreturns.co.nz

SUBSCRIPTIONS:
Dianne Gordon
Phone 0800 345 675

HEAD OFFICE:
61 - 63 Marguerita St, Rotorua
PO Box 2011, Rotorua
Phone: 07-349 1920
Fax: 07-349 1926
editor@mortgagerates.co.nz

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By Geoff Bawden

Stronger together... or apart?

This issue has a big focus on the numerous broker groups in the market. Prosper Group head Geoff Bawden questions whether advisers get beater value from big groups or smaller ones.

There is a lot of talk coming out of Australia at present about the future of aggregation and a divergence of views around whether the number of groups will consolidate or grow.

Some are of the opinion that aggregation groups will struggle to provide value and that only the larger operators will survive.

Others suggest that the larger groups will have to continue to reinvent themselves in order to provide members with value for their dollar. That provides opportunity for smaller groups to differentiate and grow.

The interesting question is whether or not consolidation benefits the individual adviser and small business operator, the backbone of our industry.

As broker groups grow, can they continue to provide value? If so, at what cost to the individual adviser who already has seen margins shrinking?

What is clear is that there is very little differentiation in remuneration for mortgage acquisition between groups.

One might negotiate some advantage but this is generally short-lived and what one negotiates one day as an exception pretty much becomes the norm the next.

Sure, the industry has changed, with alternative income streams now an important component.

But ultimately it comes down to how much of the income generated is passed over to the individual and it costs money to run a group efficiently and provide the services that members demand.

I think that means there is a future for the smaller players who choose to provide a different, lower-cost value proposition.

For years I have argued the need for the industry to be more cohesive.

What in fact has happened is that with the emergence of groups in their current form, the industry has become even more fragmented.

There is a perception that the groups have ownership of mortgage distribution and now provide diverse income opportunities.

But it is the individuals within a group that hold the key and hold ownership, without them the group has nothing to offer.

Why else would they fight so hard to retain members?

In recent times, and with the demise of the NZMBA, I have watched perceived third-party origination market share drop from over 40% five years ago to its current level, which I suspect is more likely to be about 25%, although no one seems to be keeping those statistics.

As an industry we have become totally focused on compliance and education, and while I would certainly not deny the importance of these, we have squandered the best opportunity we have had in my lifetime to be promoting the benefits of using third-party distribution and cementing our ongoing position as market leaders, not followers.

I suggest we now need to make some sweeping changes to the way third-party distribution (both mortgage and insurance) operates in this country if we want to guarantee long-term sustainability.

Now more than ever before it is time to work cohesively to ensure that happens. The new-look PAA has to drive and co-ordinate that.

By Susan Edmunds

ANZ forces responsibility on groups

ANZ is forcing dealer groups to take responsibility for the actions of all their adviser members, one aggregator says.

Ian Webb, PAA mortgage chair and managing director of mortgage adviser group New Build, said he had had the contract from ANZ sitting on his desk for some time and was not sure whether he would sign it.

"It says that as an aggregator I become legally responsible for everything and anything they [advisers] do If an adviser in my aggregator group is deemed to have done something wrong, I am liable."

But ANZ said the changes were just to reflect new financial services regulations.

Webb said the benefits of being in a group were being tested. "Sovereign was audited by the FMA and it discovered that they were liable for all the advice of its members. Aggregators are no different."

He said advisers and aggregators would have to weigh up the benefits and drawbacks of their structures. "The reason to have an aggregator is to have buying power but banks capitalise on that and say you have the buying power but you become liable for any and all activity of members."

He said if a bank tried to claw back commission from an adviser who had since left the industry, the aggregator would now be responsible.

An ANZ spokesman said the agreements with mortgage brokers were designed to ensure they kept to standards of conduct and represented ANZ products accurately and responsibly.

"The changes have been made to ensure these agreements reflect changes in the law and are consistent with the Financial Advisers Act 2008, implemented in 2011."

Loan Market chief executive David Hart said his organisation had not yet been affected by any changes.

IMPORTANT DATES

Jan 31	OCR announcement
Mar 14	Monetary Policy Statement
Apr 24	OCR announcement
Jun 13	Monetary Policy Statement
Jul 25	OCR announcement
Sep 12	Monetary Policy Statement
Oct 31	OCR announcement
Dec 12	Monetary Policy Statement

Send your appointments and events to: editor@mortgagerates.co.nz

By Jenny Campbell

Clawbacks: A hot topic

If it's your policy to ask for compensation when lenders claw back for commission, make that clear from the outset.

One of the important functions of a professional body is to be conduit between the consumer and members.

Each day we receive calls and emails from the general public.

We often get asked if a particular adviser is "legitimate", or to recommend a local adviser, but many times we still act as a referee if there is a minor complaint or dispute.

Professional bodies largely moved out of the dispute and discipline area when regulation came into force, as the external disputes resolution providers became the agencies to mediate consumer complaints.

But as regulation is still relatively new, the general public still often turn to us first, if they have concerns or a complaint about an adviser.

The number of queries and complaints coming through our office always increases significantly with major moves in interest rates or property values.

Needless to say, we have recently been dealing with a few unhappy borrowers who feel they fixed their loans too early, and a good number of surprised clients who have been presented with a clawback bill from an adviser – especially if the details of this clause were buried within a stack of paperwork the client signed many months ago.

While a lot of borrowers have been sitting on variable loans for some time now, many of them are moving across to fixed rates, and sometimes moving lenders without involving their adviser.

This is understandable from a client's point of view, as some lenders are actively encouraging clients to switch, and are offering significant financial inducements to do so.

Lenders' policies of clawing back all or part of an adviser's commission if a customer's lending moves within a particular timeframe were introduced to discourage churn behaviour from advisers.

These clawbacks from lenders have long been a controversial part of mortgage adviser/lender relationship. On one hand, it is understandable that lenders wish to discourage churn, but it is hard to accept when the same lenders encourage other customers to switch.

If it is your policy to pass on clawbacks from lenders to your clients, you do need to be aware that the FMA have indicated they are concerned about this practice, and have made a number of suggestions to advisers:

Fully disclose your clawback policy:

You absolutely cannot hide this policy within the small print of your advice documents. You need to make sure your clients are entirely aware of it. It would be good practice to highlight this section, and perhaps get them to sign or initial.

Quantify the dollar amounts:

You will also need to be completely clear how you quantify the amount of the clawback. It cannot be a sum that you decide arbitrarily – it must reflect your real loss. Clients also need to be aware of the dollar amounts involved.

Explain timeframes:

Make it clear to your client that a time frame will apply, and note what that timeframe is. If there is a sliding scale of clawback dollar amounts over time, then note this as well.

It is also important to note that some clawback situations are outside clients' control, and are not all caused by interest rate chasers.

People sell homes or refinance for a variety of reasons. Marriage breakups and work relocations can often force clients to alter their lending arrangements. Be aware that that presenting financially stressed clients with a clawback bill is probably not the best way to build your professional networks, especially if the client wasn't aware this could be charged.

We encourage all advisers to be completely open with clients about their remuneration structures. It is important to the health and sustainability of your business models that we openly discuss how advisers are paid – irrespective of whether you charge direct fees or not.

Discussing your remuneration with your client upfront also helps to highlight the value of the advice – even if the advice is not paid for directly by the client.

We should not advertise our services as free. The general public does not expect advisers to work for free – they like to know that you are compensated by the lenders or product providers for your time and effort.

Let's not be embarrassed to show clients how valuable your advice is – as it is worth much more than just a commission!

If you have any questions or comments, please contact the PAA office on 0800 275 722, or email jenny.campbell@paa.co.nz.

New bubble-bursting tools

The Reserve Bank is considering new tools to prick any asset bubbles that develop in the future.

The Reserve Bank Governor Graeme Wheeler is in discussions with Finance Minister Bill English and the Treasury about a suite of macro prudential tools that he wants to be able to implement to counteract asset price bubbles.

Creating the most headlines is the idea of restrictions on lending-to-value ratios, which could put a stop to 95% home loans.

But other tools on the table include counter-cyclical capital buffers, core funding ratios and capital risk weighting.

Wheeler said New Zealand had had some of the most rapid house price appreciate in the OECD between 2001 and 2007.

"They moderated but they didn't come back very substantially."

He said, compared to disposable income, house prices still looked expensive. The Reserve Bank had been raising loan-to-value criteria in talks with bank chief executives and boards.

Previously, central banks had taken a hands-off approach to asset price booms. But he said that was misguided. "People forgot the damage the bubble bursting can do."

Wheeler said he was satisfied that the current house price inflation was not the start of a house price bubble, because nationally it was only running at about 5% annually.

"That could change if we see liquidity bubbles starting to build up. The outlook we have is for the OCR to remain stable for some period. We think the house price inflation threat we see will start to moderate."

If it didn't, Wheeler said the bank would likely deploy one of its macro prudential tools before using the blunt tool of official cash rate hikes.

"If we felt there was an asset price bubble gathering momentum and threatening to do damage we would look at macro prudential tools in the first instance."

HER schemes stirring

Home equity release products funded by securitisation programmes aren't likely to be revived any time soon, but other fund options are developing which may revitalise the market.

Sentinel chief executive Vaughan Underwood says although there is talk that the securitization market is starting to pick up that is not the case for HER providers.

The main driver of the securitisation market in Australia has been the government, which provided money during the global financial crisis to keep non-bank lenders going.

However, Sentinel has been talking to other providers and hopes to secure some new funding next year.

Underwood says recently RBS sold its Australian home loan book, including HER, to Macquarie and there were, reportedly a number of other parties interested in buying the business.

This, he says, is a good sign for the sector.

Currently there are only two active players in the HER market in New Zealand; ASB Bank and SBS Bank. Both keep their offerings very low key and neither are using advisers to help distribute them.

Although Sentinel aren't lending at the moment it has two sets of rates. The rate Foundation clients, which has a margin cap of 4% above 90 days rate is 6.65%. Because of changes in the market new business has a margin cap of 5%. For clients from 2010 onwards the rate is 7.25% which is the same as ASB. SBS has a floating rate of 6.85% and rates of 7.05% and 7.40% for three and five year terms respectively.

Vaughan Underwood

NZ market 'pretty darn healthy'

New Zealand banks' cautious approach to lending helped this country's housing market survive the global financial crisis in relatively good shape, says the chief executive of RE/Max global.

Vinnie Tracey was in New Zealand recently after the buyout of the local master franchise of the real estate firm from its head office in the United States.

"I would look at the New Zealand real estate market as pretty darn healthy, you haven't made the critical mistakes we made in the United States."

There, Tracey said, about a third of homeowners were still in negative equity, with mortgage balances of more than their homes were worth.

"In Las Vegas, 63% are underwater because house prices were going up 30% year-on-year for five years at a time."

Tracey said that huge price growth was driven by lax lending by banks.

Popular options, such as no-doc loans and monthly adjusting adjustable-rate mortgages, where borrowers could choose to pay smaller repayments and add the difference back on to the mortgage total, allowed people to borrow more than they could afford, and get into large amounts of debt quickly.

Between 2004 and 2007, there was US$270 billion in exotic mortgages, he said. Those were loans that would likely not have been approved under normal lending criteria.

"It was dumb lending. People were able to borrow more than they could pay back."

But Tracey expected increasing demand, driven by immigration and pent-up demand from young people who had not been able to afford to set up their own households during the recession, would bolster US prices again.

He said the look of some of the country's housing stock would change and would likely need to include homes suitable for multi-generation families.

IN BRIEF

Bank profits not too big

BNZ's chief executive Andrew Thorburn has lashed out at the way the latest round of bank financial results have been reported.

Thorburn said the reporting of those figures had been "misleading, lacking perspective and straight-out wrong in places".

RBNZ accused of bias

Reserve Bank Governor Graeme Wheeler is massaging data to make New Zealand banks look less profitable, the Green Party says.

Wheeler denied any bias. "The Reserve Bank takes seriously its mandate from Parliament to supervise the New Zealand banking system, and it does so without favour. Australasian-owned banks emerged in better shape from the global financial crisis because of their more conservative management, and our economies benefit from that strength. New Zealand's strong banking system helped see the country through the global financial crisis."

S&P interested in LVR restrictions

S&P says it would look at LVR restrictions on bank lending if they were introduced.

"From a Standard and Poors' perspective, analysis of a bank's credit and risk management standards is integral to our credit stability analysis," S&P analyst Gavin Gunning said.

He said that included an analysis of the bank's policies for loan security. S&P's bank ratings already take into account risk management policies including LVR ratios and bank ratings factor in current and future policy in determining credit risk.

By Susan Edmunds

Trail commissions on the comeback

There is a growing view that banks will change their remuneration model for mortgage brokers.

The heads of some dealer groups are predicting that banks will once again review their remuneration model for mortgage advisers and reintroduce trail commissions.

Mortgage Link director Charlie Reid is predicting that trail commissions will make a comeback. Currently only Sovereign and Resimac are paying trail commissions to brokers.

Reid says part of the reason to for paying trail commissions is to help banks service and retain customers.

"I believe we will see our lender partners reassess their point of difference and we will see a return to trail income as a means of rewarding those advisers who actively manage and work with their client."

Currently the market is very active and banks are chasing new borrowers, particularly first home buyers and they also have a focus on retention of business.

"Banks and brokers shouldn't be fighting for customers," he says.

Reid says banks need to rethink what they are doing in the market. Two things which need to end is the discrepancy between carded rates and what banks end up charging customers.

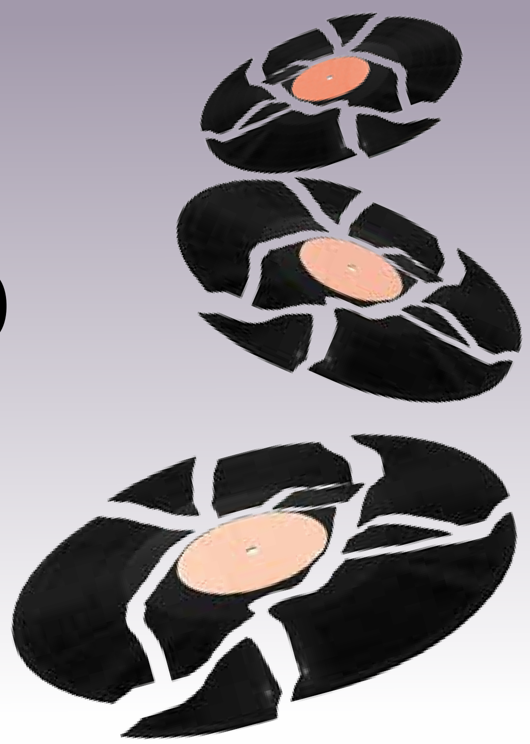
He says there should always be room to negotiate but at the moment most banks will cut the interest rate by up to 50 basis points without much argument.

His view is that banks are keeping their carded rates unsustainably high at the moment, allowing them to discount.

A second issue is all the promotional gimmicks at the moment from $2000 cash back offers to free tablet computers.

A recent NZ Property Investor Magazine survey of investors showed that these offers weren't very important in terms of making a lending decision. Things like rates and service were more important to the borrower.

Will the records keep tumbling?



Are higher sales volumes and record prices sustainable? Susan Edmunds reports

Another month, another record house price.

But what's propelling the property market to ever-increasing heights, and whether it's sustainable, is a matter of contention for the country's economists.

The number of residential sales recorded in October was up almost a third compared to the same month the year before, and the national median house price hit a new record of $380,000, according to the Real Estate Institute.

But while sales volumes were up nationwide, prices were not necessarily following, REINZ chief executive Helen O'Sullivan said. Auckland, Wellington and Christchurch showed strong price growth but the other centres had more mixed results.

Westpac chief executive Dominick Stephens said it was notable that the number of house sales was up at least 5% in every region of the North Island.

The biggest increase in the number of properties sold was in Central Otago Lakes, where there was an increase of 54.4% on the same time last year. Northland followed with a 52% increase, and Hawkes Bay with 47.7%.

Demand for expensive homes is rising much faster than the increase in price or sales volumes. More than 70% more homes in the $600,000 to $1 million price band were sold in October compared to 2011, and 96% more homes worth more than $1 million.

Year-on-year, REINZ reported that prices rose 14% in Auckland – the standout performer. The second biggest rise was in Canterbury, where prices increased 4% for the year, followed by Otago with 3.4%.

Quotable Value reported that house prices nationwide are now 1.1% above their 2007 peak. Research director Jonno Ingerson said values were being driven up by Auckland and Canterbury but there were signs other regions were starting to pick up pace. Hamilton prices are up 3.1% on last year, Tauranga prices 2.2%, Wellington 2.4% and Dunedin 4.5%.

QV said that all the main provincial centres had increased in value over the past three months, except Wanganui and Invercargill, which are slightly down and Whangarei, down 1.3%. Over the past month only Invercargill continued to drop.

Stephens said low interest rates were fuelling the growth. For the past year, interest rates had been at levels that he considered surprising. He said there had been a big market lift in response.

> "So long as mortgage rates stay this low, we expect house prices will keep rising"

Westpac is forecasting a 6% annual increase in national house prices this year and an 8% rise next year.

Stephens said: "Mortgage rates have fallen very sharply, and as night follows day, the housing market has responded. So long as mortgage rates stay this low, we expect house prices will keep rising. And if the profile of house sales is anything to go by, this bout of house price inflation is about to radiate out of Auckland to other regions of New Zealand."

NZIER economist Shamubeel Eaqub said low interest rates were fuelled by increasing competition among New Zealand banks as well as an historically low official cash rate (OCR).

The market activity is infectious – sellers are responding to the rush on sales with ever-increasing asking prices, although 20% of the properties that sold last month did so under the auctioneer's hammer.

Realestate.co.nz reported that the seasonally adjusted truncated mean asking price had reached a new high of $445,529 on its site – the highest level since the collection of data began in 2007.

This rise in asking price was noticeable right across the country, with Auckland reaching a new record high of $611,864, and Canterbury reaching a new high of $414,070.

But Stephens said the current interest rates were too low to be sustainable, which meant that the price rises would not continue indefinitely. The correction could be a harsh blow when it came.

"The housing market is behaving as if people expect interest rates to stay low for a long time. But I think they will rise sooner than they expect and that could come as a nasty surprise."

He is picking rates to start rising at the end of next year, bringing prices down.

Westpac is predicting 3% annual growth in house prices in 2014, and for prices to start dropping after that. Stephens expects the OCR to eventually reach a peak of 5.5%, a 300 basis-point rise from its current level.

Stephens said floating rates would follow although a drop in bank funding costs could cause them to rise less steeply than the OCR.

But Mark Lister, of Craigs Investment Partners, said low interest rates would not drive people to borrow to the extent that they had before the global financial crisis. New Zealanders' appetite for debt had dropped, he said. "Even with low interest rates, people are reluctant to take on more debt than they should."

Lister said the old Auckland city market in particular was in danger of becoming overheated as people worried about missing out on the chance to buy a home there.

He pointed out that new Reserve Bank governor Graeme Wheeler had noted Auckland's market as a concern. "Interest rate rises could be something the Reserve Bank considers."

Eaqub disagreed with the idea that higher interest rates were on the horizon. "We've been saying we don't think interest rates will rise anytime soon."

He said the economic recovery would be a long, slow grind and that if the global economy worsened, there was a chance the Reserve Bank could even drop rates.

But that wouldn't necessarily put more fuel on the housing market fire, Eaqub said, because it would mean such dire economic conditions worldwide. "It doesn't tend to inflate the housing market but puts in a floor."

Eaqub and O'Sullivan said a lack of supply was partly behind price rises.

In Christchurch, the severe shortage of houses was pushing prices up quickly, although that would likely stall once more homes were rebuilt.

And Auckland in particular had seen strong inflows of people from other parts of the country and overseas, prompting increased demand.

Realestate.co.nz reported that houses for sale nationwide would take 33 weeks to clear, under the long-term average of 40 weeks. In 12 of the country's 19 regions, the market was firmly in sellers' favour.

But Stephens said measures to increase housing supply would not bring prices down, as the Government hoped.

"A shortage of housing does have an effect but it's small compared to interest rates… That's because financial factors have played a far greater role in taking house prices to where they are than physical supply or demand."

He said during 2011 prices rose mainly in areas where there was a shortage, such as Auckland and Christchurch. But by 2012, they'd started creeping up everywhere, even in regions where there was an oversupply.

Stephens said that over the last decade's house price boom, regions with higher population growth had recorded lower house price inflation.

Auckland's population rose 11% over six years, and house prices rose 93%. But in South Taranaki, where the population fell 5%, prices rose 161%. Invercargill's population increased by just 100 people but prices rose 181%.

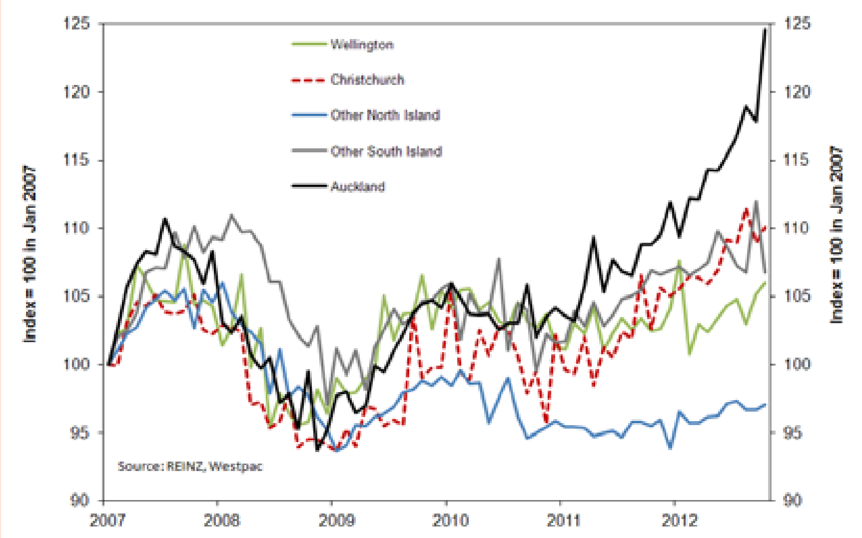
"Restrictions on land supply didn't seem to matter last decade. Dunedin has a famously expansive urban limit, and was the largest city in New Zealand by land area until the Auckland super-city was founded. Yet Dunedin house prices rose 133% over six years, much faster than "restricted" Auckland or Queenstown."

Realestate.co.nz reported that the level of new listings coming on to the market continued to increase, with 12,688 new listings in October, up from 11,514 in September and up 12% on the same time last year.

On a 12-month moving total basis, 132,291 new listings have come on to the market in the last year, compared to 124,503 in the previous 12 month period.

Eaqub said a big factor in whether price rises would continue was whether people had the money to pay for them.

HOUSING GRAPH



Economists expect Auckland's houses to maintain a significant price premium over those in the rest of the country. While the volume of sales is improving nationwide, value increases are largely confined to New Zealand's biggest city.

Broker Group Survey

By Philip Macalister and Susan Edmunds

There are changes ahead for our broker groups as they start offering much more than aggregation. We asked the country's groups what sets them apart from the competition.

Mortgage broker groups will likely find their role changes over coming years from one of simply aggregating commissions to providing a full range of services.

The groups have come to dominate the home loan space over recent years as banks increasingly refuse to deal with individual brokers and brokers see the value in combining forces to achieve higher commission targets.

To illustrate the importance and role of groups in the mortgage market it's worth noting what one banker said to the NZ Mortgage Magazine.

He doesn't want to deal with individual brokers any more. To use the bank's products an adviser had to belong to a group. Only a small percentage of advisers are truly independent.

The changing focus of the group space is summed up by Newbuild managing director, and PAA spokesman Ian Webb.

He said groups started out as true aggregators, which, by his definition, were independent advisers running their own business but working together for higher commissions.

But regulation forced groups to offer more than that. Now offerings such as CRM software and back office services are a vital part of their product for advisers.

"Back office support allows these guys to go out and drive business," he said.

As most advisers belong to a group,

Big names missing in action

NZ Mortgage Mag has had an excellent response to its annual survey this year, with only a couple of exceptions.

Despite sending many emails and leaving numerous messages with Adam Parore Mortgages, we have had no response. It is unclear whether the group exists.

The last newsletter on its website is dated 2009 and under the interest rates tab, it says: "There are no rates."

AMP-owned Roost Mortgages refused to take part in the survey – although it did last year. AMP acquired Roost, originally Mortgage Choice, from Miranda Caird five years ago. The transaction was aimed at trying to sell more insurance business through the mortgage channel but NZ Mortgage Mag understands the strategy hasn't worked.

Roost lists 11 mortgage advisers on its site.

An observation which is often made is: How can so many groups operate in the market and surely there needs to be some sort of critical mass for organisations to survive and provide services to their members?

We think that the market will develop so that there will be a number of large players but there will also be room for smaller niche groups as long as they have a sound offering and clear benefits to their members. These may come in many forms including technology, support or structure such as a franchise model or a licensee one.

Readers can speculate about the future of various groups based on information collected as part of this survey.

The Mortgage Mag survey provides a pretty good picture of the composition of the market.

The group space is undergoing a significant amount of change. NZ Mortgage Magazine understands two of the bigger groups are in the process of merging – or one may be being bought by the other.

Details of the transaction weren't available at press time, but if such a deal goes ahead it will make a major change in distribution of home loans. Our understanding is this will happen before Christmas.

The other major change in train at the moment is the sale of the pre-eminent retail brand Mike Pero Mortgages.

NZF has agreed to sell its half share in the business to its joint venture partner, Liberty Financial. Under the terms of the deal it was agreed that an independent valuation of the business be obtained.

NZF announced some details in late November and it is clear there is a massive discrepancy between what it thinks the stake is worth and what the valuer thinks.

The stake is in NZF's books at $7.5 million but Simmons Corporate Finance says the value is only $2.76 million.

To illustrate the rift between the two parties NZF said, in a statement to the NZX, that the joint venture board was unable to provide forecasts to Simmons.

What will happen to this business is open to speculation. Neither Liberty nor NZF would discuss it and the outcome of the sale depends on a special meeting of NZF shareholders, who may say no to the price offered in the valuation.

Both these prices are well below what the $20.63 million the partners paid for the business in 2006.

This valuation doesn't necessarily mean mortgage advisory business are declining in value, but reflects the commercial intensity of the battle.

From the survey it is clear that mortgage businesses are increasing in value, based on the huge increase in volumes written over the past year.

Allied Kiwi said its loan volumes had doubled, Mortgage Link was expecting a 25% increase, year-on-year, Loan Market said loans were up 50%, and Newpark said they had increased,. Lifetime group said loan volumes had increased significantly due to the Christchurch rebuild and new members joining. NZ Home Loans had more than $200 million extra in loan volumes this year compared to last.

What is unclear is what proportion of home loan business is now handled by mortgage advisers.

At the peak of the previous property cycle the market share was recorded around the 40% market. The number now is thought to be around 25% mark.

Groups are expecting more growth but one of the things which may hold advisers back is that there are only three big banks now allowing their products to be sold by advisers.

To compound the situation there is a growing perception that advisers, whether it be with KiwiSaver, home loans or life insurance, are competing more fiercely with the banks.

The head of Newpark's mortgage group, Glen McLeod, said brokers often put lots of time and effort into talking to clients about insurance and loans, only to find a bank stepped in and scooped it all up.

"It's complicated because we're trying to do the whole package but we're competing with the bank for part of what we've originated. When I get involved in arranging finance, the current bank wakes up."

What are advisers looking for from their groups?

Allied Kiwi conducted research of members and found three things topped their wish lists: Help with regulation and compliance; help with succession planning and bringing onboard new advisers and the reputation of the group and its management.

Newpark also did some research with its members. While they are mainly in the life insurance space some of the same things came through.

Newpark managing director Darren Gannon said lead generation was top, followed by help with regulation and then succession planning.

The issue of lead generation is one which is hot with some groups, particularly when it comes to life insurance advisers. At the moment it doesn't seem to have been so strong with mortgage advisers.

Some question whether lead generation is an appropriate activity for groups and what the real value of a lead is.

Allied Kiwi general manager Brendon Smith is a bit ambivalent about this. He thinks that if advisers are doing a good job and they have good systems and processes then business will come from referrals and the likes.

The issues of regulation and succession planning are interesting ones as mortgage advisers are registered financial advisers, rather than authorised financial advisers and the regulatory hurdles for RFAs are not much higher than they were prior to regulation.

The question being asked is whether this two-tier system will be abolished, leaving RFAs to step up to an AFA level.

Smith believes there will be changes and all advisers should be thinking about this and doing, at least, Level Five papers.

We asked the groups how many of their members were AFAs and the percentage was very low.

One of the services that groups can really add value to their members is with technology.

Allied Kiwi is clearly the leader in this space with its MyCRM package and Quotemonster for insurance advice.

We profiled the main CRM options in the previous issue of the NZ Mortgage Magazine, but there are a number of other smaller players out there and in recent months two groups -TNP and Newpark - have started the rollout of their own, custom, CRM packages.

Smith said technology and IT was expensive and companies had to constantly reinvest into their packages.

He said technology was an important tool to help advisers meet their regulatory requirements.

Regulation

This year we included some additional questions into the survey to capture how regulation is impacting on the mortgage advisory industry.

A theme to come through in discussions is that there is a trend from straight transactional business through to an advice driven model.

However only around 10 per cent of mortgage advisers have moved from being registered financial advisers to authorised financial advisers (AFA).

Likewise home loans are still very much a commission driven profession. While many advisers have the ability to charge a fee for service it appears very few are actually doing this.

Prosper Group head Geoff Bawden says fees are charged "in one-off situations where the income otherwise derived does not adequately reflect the work put in by the adviser."

Most change

The group which has gone through the most change in the past year is Mortgage Link. It has essentially been in a holding pattern for a year while it reviewed its strategy and its model.

One of the biggest issues was maintaining a corporate office during what has been a difficult business environment for mortgage advisers.

During this process the office was closed and former chief executive Rod Templeton left. However, in late October the company appointed Paul Gill as its general manager and he is tasked with promoting and growing the group.

Following the review of its operations Mortgage Link has "a significantly streamlined company structure with staff expenses now directly channelled into supporting our adviser network rather than a corporate structure," Charlie Reid says.

"Our resizing of the Mortgage Link corporate structure has given us the ability to give back to our licensees. The license fees, and payment terms, are now negotiable. We have a monthly office fee of $535 per month which is scaled depending on number of advisers, plus a 1% lender commission charge."

Reid says the model is a mix of commission and fees and sees risk sharing between licensees and advisers and the group.

Reid says the Mortgage Link proposition is still firmly based around advice, rather than transactions, and the group is looking at other services.

> "Our resizing of the Mortgage Link corporate structure has given us the ability to give back to our licensees"

One of these is life insurance. He says that Mortgage Link has an offering but it is probably not that well used by members. He sees life insurance as being an important part of the offering but advisers need to remember "what their primary core business is."

Reid echoes a view of many others and that is the need for some form of rationalisation amongst the groups. He says it could take a number of forms including having groups co-operating on services such as education and compliance. Obviously this sort of arrangement wouldn't lead to sharing "trade secrets".

Another that has seen a lot of growth is the TNP Home Loans business, headed by former NZ Mortgage Brokers Association chairman and chief executive Darren Pratley.

TNP is a relatively new player in the broker group space but has seen good growth in members. Many of these appear to be from the old Plan New Zealand, which was acquired by Loan Market.

We include the two franchise groups in the survey, NZ Home Loans and Mike Pero. While Mike Pero is a strong brand and was arguably the biggest player in the market for years, others are now bigger.

Since the survey was completed New Zealand Home Loans has reached the billion dollar mark in lending this year.

The milestone was reached after a record week for the business where $31.3 million of loans were settled and a best ever loan month in November with $121.3 million settled. The previous best month was $109.3 million in December last year.

Much of the growth this year has come from the Auckland market which as a region has grown over the past year from 27% to 43% of the company's home loan portfolio with the number of branches doubling over the past two years to the present 18.

New Zealand Home Loans chief executive Mark Collins has big plans to grow the group over the next few years and is actively looking to recruit franchise owners.

He says one of the big things for his group in the next year is around training its advisers.

"There is presently an unprecedented level of interest in new consultants entering the company's training and mentoring programme from which they ultimately progress to become business owners.

He says this bodes well the company's on-going growth which he is forecasting to be around 25% in 2013.

NZ Home Loans is owned by NZ Post and uses Kiwibank, Sovereign and Liberty products.

Mortgage groups come in all sorts of shapes and sizes from small to large and from the franchise model, to co-operatives to licences.

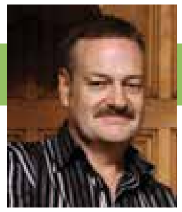
What is clear from the survey is that business is picking up significantly and some organisations have big future targets.

All this is excellent news for the sector, especially after many tough years – thanks to the global financial crisis.

Groups are at the heart of the mortgage advisory world and look set to develop more and more services to help their members better run their businesses.

GROUPS IN DETAIL

Name	CEO	Model	Ownership	Total settled	Loan vols v 2011	Size	New members	Departed	Fees and charges	Split	Fee for service	Plans for expansion	RFA v AFA	PAA members	Technology	Technology compulsory	Data and trails	Biggest issues	Outlook
Allied Kiwi	Brendon Smith	Dealer Group with an additional group of branded Kiwi Mortgage Market brokers	Inform Holdings and Brendon Smith	$4 billion plus	Doubled	Over 250 (group size 375)	102	11	Two options. A flat fee of $400 per month, where the adviser receives 100% of all commission. Another option is a Hybrid arrangement at $250 per month plus 2.5% of upfront mortgage commission (the adviser receives 100% of any trail).	100% to the adviser (or 2.5% to Allied Kiwi on mortgage commission if the adviser prefers the Hybrid arrangement).	This is not common		10% AFA	All need to belong to an association. Majority belong to PAA	MyCRM	MyCRM free to members. Most use it. Can choose alternatives if they want	Members can export their data. No handcuffs.	Managing growth	Positively rosy
Lifetime Group	Warren Stephens	Group	Lifetime Group shareholders	Not disclosed	Increased significantly due to Christchurch rebuild and new members	7 (58 advisers in total within the Group)	2	0	Not disclosed		Most	Actively looking for home loan advisers and or businesses in Canterbury, Nelson and Wellington, and North Island.	All RFA	All	MyCRM	Yes	Trail remains ownership of Lifetime Group and the client is reassigned to ensure servicing continues.	Time	Busy with so many opportunities for growth and development.
Mike Pero Mortgages	Steve Weston	Franchise	NZF Group and Liberty Financial			49	4	2			None, we do not charge fees except for commercial deals were commission is not received from the lender		RFA 47 AFA 2	All	Microsoft CRM		Yes	Operating efficiently and effectively in a regulated environment	Very positive about the future. Business model sustainable for the majority of franchisees.
Mortgage Express	Marcus Williams	Independent contractors	Harcourts International	$750 million	50%	33	8	2	Percentage split		None		1 AFA	50%	iLend by Finware		Yes		
Mortgage Link	Paul Gill	License	Existing or past Mortgage Link Advisers/Support staff.	$500 million plus	All indications are a 25% increase	29	3	0	The licences fees, and payment terms, are now negotiable. We have a monthly office fee of $535 per month which is scaled depending on number of advisers, plus a 1% lender commission charge.		All have the ability to do so and a number do. All income from this is fully retained by the licensee.	Our new group offering encourages both new adviser business and existing business expansion.	Several AFA	Membership not compulsory. Now advocating advisers join an association.	Finware	Not compulsory.	If they leave the industry income is on forwarded. If they leave the group but remain in the industry we agree a transfer of client. The client ownership remains with the adviser.	Understanding by our lender partners... particularly in respect to retention of clients	Lender partners will reassess our point of difference and we will see a return to trail income
Newpark	Glen McLeod	Aggregator	Newpark Financial Services 51% Edge Finance Services 49%	No comment	Increased	14	5 joined or joining	0			Up to each member to decide	Continuing to expand the business on a case-by-case basis. Also looking at rolling out lead program.	All RFA	Half	iLend by Finware	Service is provided to each member.	Owned by the broker	Changes within the banking environment	Positive Outlook. Focus on productivity
NZ Home Loans	Mark Collins	Franchise	NZ Post subsidiary The New Zealand Home Loans Company Limited	$962 million	12 months to September 2011 $731m. 12 months to September 2012 $962m	60 franchises, comprising 73 Business owners, 46 new business consultants and 27 client service consultants.	35	7	Confidential		There is a one-off application fee, after that fee free banking.	Significant plans. Our goal is to double production to $2 billion annual new business production over the next 4 years	All RFA	None	Xplan	Yes	The clients are owned by New Zealand home Loans Company Limited	The quest for relevance in a world where banks are offering the best deals directly to clients.	A huge opportunity for those businesses that offer unique value added services that banks are unable or unwilling to offer.
Prosper	Geoff Bawden and Ali Toumadj	2 models. Those Trading as Prosper (all shareholders in the company). Those aggregating under the licences owned by Bawden and Toumadj	As above	$300 million (includes pre approvals)	Submissions made April 1 to Sept 30 are just under $280 million. We would expect submissions this year to exceed $500 million	25 advisers (including 3 specialist risk writers and 1 F & G specialist)	4	0	Fixed monthly fee. All members retain 100% of what they generate by way of both upfront and passive income		Mixed. Fees are charged in one-off situations where the income otherwise derived does not adequately reflect the work put in by the adviser.	We will grow organically with the right people.	4 x AFA, the rest are RFA	Not monitored but probably less than 50%. Not a requirement of Group membership	Those branded Prosper all use X Plan, Those who aggregate but are not branded Prosper are free to use whatever CRM system they choose.	Only for those branded Prosper as above	We make no claim to ownership and an adviser is free to take their passive income with them if they leave the group	Any group who offers aggregation services for a profit is going to be continually challenged and will have to reinvent themselves to retain a value proposition.	Constant change.
Share	Scott Black	Dealer Group, primarily offering insurance advice but with some mortgage specialists.	The adviser/shareholders - 41, each with one share	$135 million	Up 42% on the previous period	9	0	0	All remuneration received by SHARE that is available to be paid to advisers is passed on to the advisers		Only a couple	Looking to grow the network to around 100 advisers (currently 60) providing advice on primarily insurance and mortgages.	Of the total number of advisers 80% are AFA and of the mortgage brokers 66% are AFA	About 95% are members		XPlan	Yes	Groups it is maintaining their relevance in an increasingly transparent industry	Very positive
The Loan Market Group	David Hart		Sam White, David Hart, Bruce Pattern	$1.8 billion	Up 50% in total	150	Net growth of 10 for the year		$460 per month or up to 10-25% commission		Some	Always looking to grow	About 10-12% are AFA balance RFA		Symetrey	No	We continue to pay trail through after they leave. Data belongs to the broker	Attracting better renumeration trail from main stream lenders.	Excellent
TNP	Darren Pratley	Dealer Group	TNP	No comment	NA	54	N/A		Fixed Fee Model		N/A	Further growth in members	95% RFA	Mostly TNPPA	Profile & Adviserbase	No	Depends on contract terms	Profitability and diversification	Strong growth and business development



SALES & MARKETING

Paul Watkins

Coping with a decade of change

Don't be left behind in new world of mortgage broking.

Reflecting on the last decade of mortgage broking, have things changed? Have the customer's attitudes or thinking changed? Has the market as a whole changed? Has the size of loans? Has how you do business changed? What about your methods of promotion? As the world around you changes, how have you changed?

You may be interested to know that other professions have had to made changes as well. Law and advertising are just two examples.

Let's take law. These statistics I am about to discuss are from the Legal Management News of 2010. A decade ago lawyers charged fees in units of time such as $30 per six minute unit. But things changed. There was a 10% drop in demand for legal services in 2009 alone over the previous year, primarily due to the global financial crisis. This caused an obvious issue for legal firms, starting with salaries. This led to increasing pressure by clients to discount or cap fees. In the US there was a wave of protest over time-based billing as well.

The result was that law firms slashed expenses, starting with salaries. This led to some of the largest reductions in overall numbers of lawyers in 30 years! Hardest hit were the associate level (middle management) with 8.7% leaving in one year. This in itself caused an issue as some partners' work was no longer always able to be delegated and the fees leveraged. Legal firms had to rethink their offer and how to charge.

Moving to advertising, a decade ago, accredited agencies received 20% commission on media booked. This included television, press and radio. So a $500,000 campaign would lead to a $100,000 income for the agency. But things changed. The media was being squeezed by lower numbers of advertisers and many stopped paying the commission.

Advertisers also saw the rise of this thing called the internet and agencies had to recruit new sets of talent and learn new methods of promoting their clients. And just when they got that under control, along came social media! This all meant that agencies had to rethink how they charged and offered their services. Advertising agencies of 2012 look nothing like they did in 2002.

Is mortgage broking any different? Of course not. Just be careful you don't become the boiled frog in that you don't notice the change until it's too late.

I have been consulting to the industry for about 14 years, which is nearly from its inception. I have seen considerable change in that time. Proof is the number of firms that have come and gone, the structures that have come and gone and the brokers that have come and gone.

All were doing the right thing at the time, but most that are gone were not able to appreciate changes to the market around them.

Here are some questions to ask yourself in light of this past decade of change.

1 Has your advertising become less effective? You are not alone if your answer is "yes". Advertising is offering an ever-decreasing return on investment when it is of the general broadcast type. Highly targeted, specific niche advertising is the only kind that works now. This of course requires you to clearly identify your target market first.

2 On the subject of target markets, has this changed for you? You decide.

3 Are clients more knowledgeable now? "Yes" is the only answer once again. The reason is the internet! They can check rates, lender offers and options daily. This brings up the fundamental question of how you as a broker add value to the transaction. If you can answer this, then you are well on the way to coping with change.

4 Has the number of lenders changed? It has decreased. Has this affected your offer? Some brokers still claim to "search myriad lenders for the best deal". Does this still apply? You decide.

5 Has the level of trust from clients diminished? "Yes" has to be the answer as there is widespread research to show that consumers are increasingly sceptical about general broadcast advertising, special offers and who they choose to be their service providers. You must constantly ask if what you are doing promotes trust or makes you sound like a quick-deal merchant.

6 Has loyalty from key clients increased? "Yes" is the answer to this one too, strangely enough. It seems to be a total contradiction to the previous question, but consumers CRAVE loyalty. When they find the "right one" they want to hang on to it as it's too hard to find a new one. So long as you have a good client communication programme, you will see increased loyalty and increased referrals.

7 Have you changed your client communication programme? Leading on from meeting the loyalty desire, have you increased the frequency of emails, newsletters, phone calls and other forms of contact? If you haven't, don't expect loyalty and referrals to grow.

8 Have you seen or perceived increased efforts on the part of competitors such as the lenders themselves? This is has to be a definite "yes!"

9 Has your method of remuneration changed? Trail versus upfront versus fees? Of course it has. What have you done to compensate?

10 Has your structure changed? You may have been part of a larger group or by yourself or in a partnership. It is almost certain that this will have changed. Will it change again?

11 Has the motivation of clients to use your services changed?

This last one is a biggie. Whereas in the past you could list the features and benefits of your service, that is no longer the case. You must now make all communication client-focused. This has been a fundamental change that you must acknowledge to move forward. Clients are far more sceptical about claims but want to be more loyal as I mentioned in the questions. This requires you to have a better understanding of their motivations and desires.

Take the time to get inside client's minds. Run focus groups, conduct surveys or simply ask them! The more you understand what a client thinks, the easier it is to craft an offer that will get them responding. And when you have it worked out, do it again! Change hasn't stopped and will never stop.

If there is one thing responsible for the change more than anything else it's the internet. As they say, the internet changes everything it touches and it touches everything. It has made the consumer believe that they now know it all – so where do you fit in their lives? It's worth spending time thinking about it.

Paul Watkins runs his own business consultancy specialising in marketing. Paul can be contacted on paul@paulwatkins.co.nz

RESIMAC Home Loans

Launches in New Zealand offering ‘a genuine alternative to the mainstream banks’

In Auckland, on November 8, leading Australian Non-Bank lender RESIMAC officially launched their New Zealand business RESIMAC Home Loans with over 140 brokers in attendance along with key industry stakeholders, RESIMAC Executives and Board members.

During his introductory address, RESIMAC’s chief operating officer Allan Savins said that RESIMAC plans to be aggressive in the market place and take on the banks. He says that RESIMAC “is a genuine alternative to the mainstream banks, New Zealand consumers will benefit from increased competition, not market domination”.

The launch function was facilitated with Andrew Stabback from Australasian Banking & Finance (AB&F) as the event co-ordinators hosting an educational forum that focused on providing detail about RESIMAC, an overview of the New Zealand economic outlook and industry highlights from some of the industries finest.

The launch forum included an opening keynote presentation from Allan Savins who gave an overview of RESIMAC, their history since 1985 and future aspirations in New Zealand. Savins further explained how RESIMAC pioneered the Residential Mortgage Backed Securitisation (RMBS) market with their first issuance in 1988.

RESIMAC is one of the few remaining Non-Bank Lenders in Australia, they never stopped lending throughout the Global Financial Crisis (GFC) and they are a strong business today that is delivering on its business strategy of diversification; diversifying products, asset classes and distribution, including geographical distribution, hence the move into New Zealand.

RESIMAC is excited to be entering the New Zealand market with a point of difference of new products and an excellent service proposition to provide genuine competition to the marketplace.

Nick Tuffley, the ASB chief economist then delivered an overview of the New Zealand market, the challenges we are all faced with and some insights into what’s on the horizon.

There was then a panel discussion with some of our industries finest, Naomi Ballantyne, managing director, Partners Life, Jenny Campbell, professional development manager, Professional

Advisors Association (PAA), David Hart, chief executive officer, Loan Market Group and Mary Ploughman, executive director securitisation, RESIMAC, who all provided some insightful views on the marketplace and the current funding environment together with discussion around the future opportunities and challenges. There was a general sense of optimism in the room with a new player in the industry everyone was interested in what they have to offer and there was a lot of questions from the room.

Ploughman provided more detail on the securitisation market. Ploughman admitted that this has been a challenging arena for some years but she also

highlighted that RESIMAC has continued to lend new money and to securitise throughout the GFC. RESIMAC have recently completed a new RMBS issuance which was over subscribed in Australia, this was actually upgraded from $250mill to $300mill to cater for the level of investor demand.

Due to the relevance of the launch forum content, the PAA had awarded 2 unstructured CPD points for each attendee.

Savins explained that the launch of RESIMAC Home Loans in New Zealand is the ‘footprint’ or ‘beachhead’ business with the current products being the starting point of what they will bring to the market. The current product that is attracting the main interest is the Low Doc product due to this not being widely available in the New Zealand marketplace. “We are very comfortable with writing this type of product as we will apply the same disciplines adopted in Australia around Responsible Lending under the current regulatory standards” Savins said.

RESIMAC’s launch specials include a standard variable rate of 5.55% and a one-year fixed rate of 4.95%. These standard product interest rates require a loan to value ratio of less than 80%, its Low Doc launch special variable rate is 6.55% with a one-year fixed rate of 5.95% with a maximum LVR of 70%.

The feedback received on the day of the launch was excellent, with one advisor stating that it was ‘the most professional launch he had attended in the 15 years he had been in the industry’.

RESIMAC Home Loans undertook a 3 month pilot period with selected business partners which commenced mid-August 2012. This pilot period showcased three RESIMAC products: Standard Home Loan, Non-Resident Loan, and an Uninsured Low Doc Loan.

The pilot was invaluable as RESIMAC tested these products, policies and processes with their key partners, seeking customer feedback which was used to further develop their value proposition ensuring they were ready to launch to the wider market. With this customer feedback enabling changes to products and policies this illustrated RESIMAC Home Loan’s promise of working in true partnership with its distributors.

RESIMAC Home Loans will continue to work closely with their business partners not only in the evolution of their current products but also in the development of further products and processes. RESIMAC also offers specialist, or non-conforming, loans in Australia and expects to bring similar products to New Zealand in the near future. “We have a strong desire to evolve new products in 2013” Savins said.

RESIMAC New Zealand has strategically aligned itself with the business partners who understand the value proposition of growing their businesses and portfolios with upfront commission payments of 0.60%, trail of 0.15% and through owning their ‘clients for life’ with ongoing client management, have the ability to cross sell without the banks preying on them for other business which essentially results in the loss of their client to the banks.

About RESIMAC Home Loans

RESIMAC Home Loans is a non-bank lender focused on providing a broad range of home loan solutions and competitively low interest rates for New Zealand borrowers. RESIMAC Home Loans has a team of professionals whose aim is to make the task of obtaining a home loan a pleasant experience for the borrower and business partners.

RESIMAC Home Loans is backed and funded by RESIMAC Limited, Australia (‘RESIMAC’), one of the leading Non-Bank lenders in Australia. RESIMAC is a respected wholesale funder, originator, servicer and securitiser of loans which has been successfully operating in the Australian finance industry since 1985.

For more than 25 years RESIMAC has helped tens of thousands of borrowers with their financial needs, providing simple, fast and competitively priced home loans. Unlike many of their competitors, RESIMAC are proud to say that they never stopped lending throughout the Global Financial Crisis, they have continued to lend new money and to support their borrowers and business partners throughout this time demonstrating their enduring presence in the Australian market place.

RESIMAC pioneered Australian Residential Mortgage Backed Securities (RMBS) in 1988 and has issued more than $13bill through more than 20 domestic and international RMBS issues.

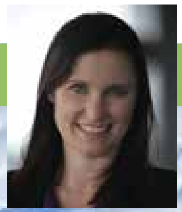
With robust access to capital via its solid relationships with shareholders and investors in Australia and internationally, RESIMAC has been rated ‘STRONG’ by international ratings agency Standard & Poor’s. The ‘STRONG’ ranking reflects RESIMAC’s high ability, financial standing, efficiency and competency.

RESIMAC Home Loans

For more information on RESIMAC Home Loans, please visit www.resimac.co.nz

Contacts:
Adrienne Church, Director Sales AUS & NZ
T: 099277720 M: 021440025
E: adrienne.church@resimac.co.nz

Scot Bailey, Business Development Manager
T: 099277725 M: 021440091
E: scot.bailey@resimac.co.nz



Jane Turner

Domestic recovery won't be enough to push up rates.

Global uncertainties to continue into 2013

Interest rates are likely to remain low for most of 2013.

The global backdrop remains marred by political uncertainties and weak growth from the US and Europe.

But we see evidence of domestic recovery in New Zealand with signs of activity lifting in Canterbury and increased buoyancy in the housing market.

Nonetheless, we expect the challenging global environment will continue to dominate the outlook, and expect interest rates will remain low, with the OCR unchanged at 2.5% for much of the coming year.

The final few months of 2012 have seen the financial markets remain in a holding pattern, awaiting the outcome of various political uncertainties.

The key uncertainty in the US is the fiscal outlook. The US government needs to address its high level of debt, and find a way to reduce the size of fiscal deficits.

As a result, lawmakers will need to agree on some tax increases and spending cuts over the next year. But the uncertainty of where the burden will fall is currently weighing on US businesses and households, and this is restraining economic demand.

To add to the uncertainty, if no agreement is reached by early 2013, a number of temporary tax cuts will automatically expire at the same time as automatic spending curbs come into force.

The combined fiscal contraction of $607 billion is likely to push the US economy back into recession. Early indications are that both political parties are willing to negotiate and compromise, but there may be a few white-knuckle moments for financial markets toward the end of this year.

The Eurozone debt crisis continues to simmer in the background, with gradual progress being made in supporting and stabilising the weaker nations. Europe has tipped back into recession, highlighting the difficulties in finding the right balance between fiscal austerity and supporting the economy.

The debt crisis will remain a key feature of the global backdrop in 2013.

Conditions for most exporters have been challenging over 2012, but we do expect to see improvement in 2013. We expect to see the NZD remaining elevated for much of the year, and to be a headwind on export-sector incomes.

The pace of economic recovery in NZ has been subdued.

The key driver of NZ's economic recovery will be the Canterbury rebuild. Indicators suggest that building work has now started to lift, albeit off low levels.

Employment has been slow to recover, but given the surge in job ads recently, it's clear that activity is in the pipeline to deliver growth from 2013 and onwards.

The ASB Cantometer, a simple summary of all economic activity in the region, suggests that aggregate activity has recovered to pre-earthquake levels. Over the coming year, we expect Canterbury to underpin an 18% lift in nationwide residential construction.

Beyond the Canterbury rebuild, there are signs of improving domestic demand throughout the rest of the country.

Incomes have grown modestly over the past year, and we can see signs of increased resilience in consumer spending and household demand.

Reflecting improving confidence, housing turnover has lifted strongly over the past year. But with a low supply of new housing, the housing market has been tight, placing upward pressure on prices.

The lift in house prices has been led by a few hotspots – in particular Auckland and Canterbury – where supply shortages appear most acute. Over the next year, a lift in construction (led by Canterbury) should increase the supply of new housing and help relieve some of the pressure on house prices.

Inflation pressures have been subdued, reflecting the gradual pace of economic recovery and the elevated NZD.

The annual rate of CPI inflation has fallen to 0.8%, and through the bottom of the RBNZ 1%-3% target band. While we see inflation remaining low for much of the coming year, inflation pressures will rise swiftly from 2014.

The elevated NZD will no longer be a deflationary influence and the acceleration in domestic pressures will become more evident. This will prompt the RBNZ to gradually lift the OCR. We expect the first 25 basis point increase in September 2013, and that rates to be gradually increased to 4% by mid-2015. This will return retail borrowing rates to just below historically average levels.

Fixed rates still good value

Financial markets are continuing to price in the possibility of a rate cut in NZ over the coming year. This largely reflects offshore concerns.

A rate cut is not our central view, although we do acknowledge there is about a 20-30% chance of a cut stemming from offshore risks.

As a result of market pricing and favourable funding conditions, banks remain able to offer very competitive fixed-term mortgage rates. Many shorter-term rates are now lower than the floating rates, which allows borrowers to secure a lower interest rate regardless of the economic outcome over 2013.

Longer-term fixed rates also provide a good hedge against future interest rate increases, although borrowers would have to be prepared to pay a bit more now, compared to a floating rate or shorter-term fixed rates.

Borrowers who prefer flexibility can still benefit from the floating rate remaining at 40-year lows until at least the second half of 2013, although they should be prepared for the floating rate to increase in line with the OCR over 2014 and 2015.

Which mortgage strategy proves cheapest will depend on how economic developments unfold, and how the RBNZ responds to these.

There remain large uncertainties around the economic outlook, and given the current risks it is conceivable that borrowing rates could end up either lower or higher than average.

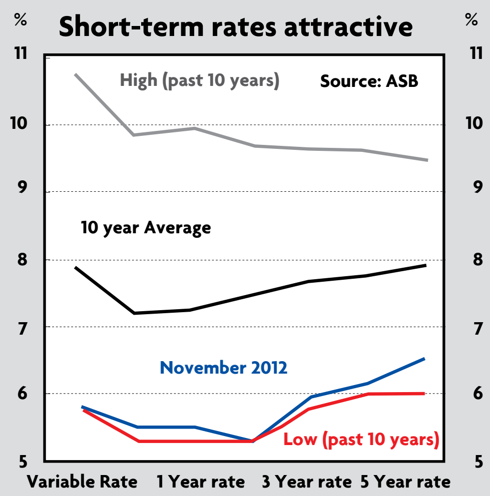
The perfect rate decision is something that will probably only be known with the benefit of hindsight.

Faced with uncertainty the best strategy for borrowers is to weigh up what their priorities are and make the choice that looks the best aligned with them.

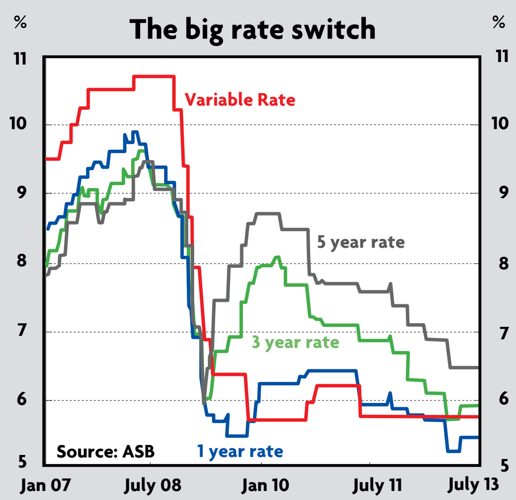
Of course, it is important to factor in the inevitability that interest rates will be higher in the future. It is also very important to make sure that finances have enough headroom to absorb the impact of higher debt-servicing costs than those being paid now.

Jane Turner is a Senior Economist at ASB Bank.

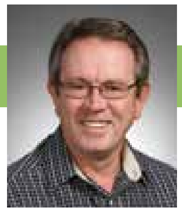
HOME LOAN RATES



Variable rate mortgages used to be the most expensive option but recently they have been the cheapest



Short-term fixed rates and variable rates are at or near record lows, but longer-term fixed rates are closer to the 10-year average



INSURANCE

Steve Wright

Diversification helps clients and brokers

Finding the best fit is not always just about ticking boxes or doing the numbers

It seems to me that the last ten years have had a profound impact on mortgage brokers. I deal with many who are also insurance brokers.

Even during the boom times of the mid-2000s, many mortgage brokers saw the value in diversifying their business by branching out into life, disability and medical insurance.

For many the transition was pretty easy because they already had the clients and most mortgage clients need insurance.

The tricky part was learning a whole new skill set and I think many mortgage brokers have done extremely well.

Many of the very best, most talented, and professional insurance advisers I know are mortgage brokers who took up the challenge of diversifying their businesses with insurance services.

Perhaps having to start with a clean slate was a blessing, because while it meant a very steep initial learning curve, no pre-conceived beliefs stood in the way of delivering the best insurance advice proposition.

Being accustomed to dealing with a variety of funding providers also made dealing with a number of different insurance providers, so critical to being able to give good advice, naturally easy.

While many mortgage brokers have dramatically increased the value of their businesses by adding insurance to their service proposition, the thing that I find the most satisfying is how most brokers understand that it's not just about the sale of an insurance product alongside the mortgage.

Advisers who are solely focused on the sale don't always appreciate how important their job is, particularly as the insurance business can be short on appreciation by clients… that is until they have a major claim.

When a family suffers the death of a mum or dad, it is typically only their insurance adviser who brings them money while others are asking for it.

In these cases, a decent insurance package can often mean the difference between financial security and financial ruin.

It is at claim time when most advisers realise just how important they are to their clients and everyone else realises how important great insurance advice is.

I'm extremely encouraged by the fact that good advisers recognise that great advice is not just about the risks faced by the client or the class of insurance or sums insured needed to compensate them financially if death, disability or ill-health should strike.

Great advice is about recommending the insurance policy and insurance provider that best meets the client's needs.

All policies differ, sometimes only in minor ways but sometimes in very significant ways.

Truly great insurance advice occurs when the client's particular propensity to suffer a particular risk and associated financial consequences are matched with the insurance policy that will pay the expected amount of money.

Good advisers know that benefits, not price, determine the most appropriate policy and that selling based on price is usually the best way to create an insurance business that will not be very lucrative, satisfying or compliant.

Increasingly, good advisers are also realising that great advice is also about helping the client through the process of applying for insurance, making sure they fill out the forms properly and don't forget to disclose health and other information required.

It's about sticking close to the client until their policy is issued and then continually helping the client understand why they pay a premium, why their premiums go up each year and just how valuable their insurance contract is.

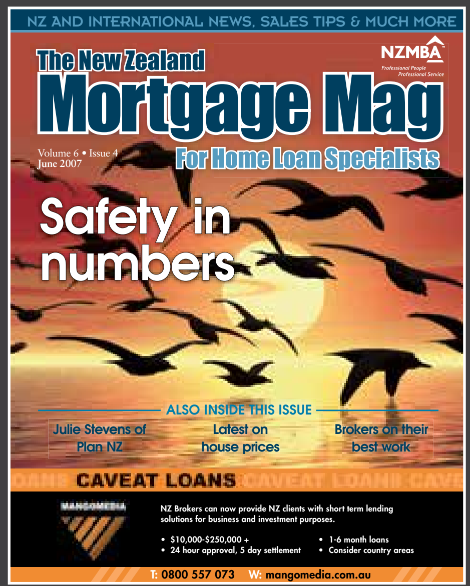
For me this increased focus on providing great insurance advice is the greatest achievement of the last 10 years because great advice, advice based solely on the client's needs and not the adviser's needs, brings great value to those who pay our wages, the client!

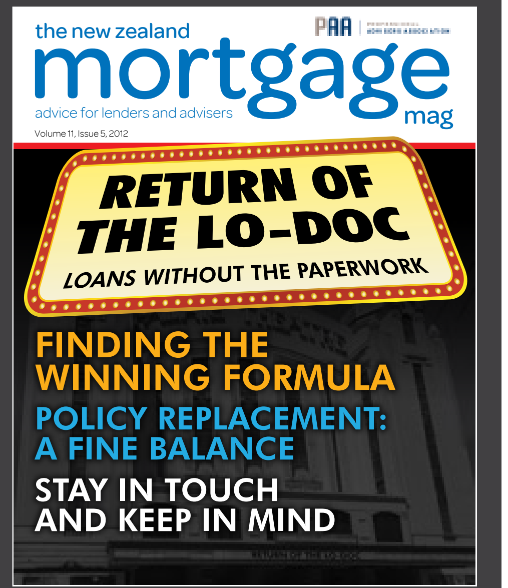
Congratulations to all those mortgage brokers who have understood the value of great insurance advice, created successful insurance businesses and, probably most important of all, forever improved the lives of their clients who have suffered death, disability or serious- illness by taking away their money hassles.

Steve Wright is Technical General Manager at Partners Life.

Our first turbulent decade

By Philip Macalister





The past 10 years of this magazine have seen some of the mortgage advice industry's highest peaks and lowest troughs.

A cornerstone of the NZ Mortgage Magazine right from day one 10 years ago is that we were writing it for brokers and about brokers.

Our view of the financial services world is that it's not an industry of just numbers. Numbers are important, but it is all about people.

People and their relationships are what drive business. Any mortgage adviser who gets out there, sees clients and provides them with a solution knows that.

The first issue of the NZ Mortgage Mag illustrates this with a cover picture of the winner of the NZ Mortgage Broker of the Year Sue Tierney.

Looking back over 10 years the cover is poignant.

It shows how people and organisations can fall from grace.

Indeed if there is one thing we have found over the years it is the number of firms that have come and gone. There are advertisements from all sorts of organisations many of today's brokers would never have heard of.

Funnily enough, when I look through the magazines of the past decade there are some themes and people who have been constant. No mortgage magazine would be complete without commentary on interest rates and that has been ably supplied by ASB over the years.

One of the features that resonates with readers is Paul Watkin's excellent sales and marketing ideas.

On the technical side Jonathan Flaws has kept readers abreast of all sorts of legal issues that could impact on their businesses.

These articles have all been designed to help mortgage advisers develop their businesses.

The first issue of the magazine is interesting as it talks about the entrant of a new player to the New Zealand market. Bluestone was very active here until the GFC. Also, brokers discussed the merits of Kiwibank – a discussion that is still ongoing all these years later.

Besides Tierney on the cover we talked to other winners at the NZMBA annual awards. Some of the names remain very familiar: Warren Rule, Charlie Reid and Gary Burton, Craig Seton and Rob Parsons.

The second year of the NZ Mortgage Mag started with a subject that is also the lead in this issue: Broker groups. In February 2003 we described them as aggregation groups. Looking at our chart of services offered it's fair to say the groups have evolved significantly.

In 2003 some familiar issues and names cropped up. We profiled Mike Pero, discussed the issue of disclosing commissions and had NZMBA chairman Brian Berry asking brokers if they were ready for regulation.

The year ended with the NZMBA deciding to go it alone rather than join other associations, ANZ buying National Bank (which funnily enough said "it is clear that many brokers and customers are unhappy with the idea") and BNZ cutting its ties with brokers.

The following year reverse mortgages arrived big time in the market, and brokers discussed whether they should be able to market their services as free.

It was clearly a time of buoyancy with the housing market going gang busters and brokers increasing their market share – how that was to change in a couple of years' time. The NZMBA appointed its first chief executive, Megan Salt, and Geoff Bawden started his reign as chairman.

The year 2004 also saw Superbank launch with the promise of tipping the remuneration structure on its head and rewarding brokers for keeping business on the books rather than writing new business. Meanwhile another bank, BNZ, started its anti-broker campaign.

Clouds started appearing on the horizon when the government started getting serious about regulation. Then-Commerce Minister Margaret Wilson was pictured as the sheriff with six-shooters blasting and a taskforce was established to run the cowboys out of financial services.

Those clouds darkened as 2005 progressed with more talk about the housing market heading south.

Perhaps 2005 was a seminal year for brokers when the banks decided to slash their remuneration to brokers. Non-bank lenders were happy to put their hand up and tout for broker business and the growing product trend was lo-doc/no-doc loans. It was also the year the NZMBA started its generic advertising campaign supporting brokers.

On the more positive side we had stories about technology coming to the market to help brokers, including Appsline, a business set up by Flaws and former Sovereign Home Loans general manager Chris Barry.

2006 started with more on NZ Finance's takeover bid for Mike Pero being thwarted by Liberty, which bought a 10.1% stake in the listed business. We all know where that story is at now.

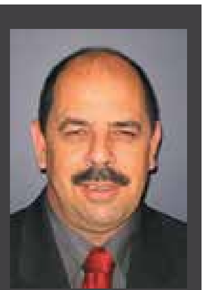
Recurring themes are around dealer group rationalisation (there are now more groups than before and fewer brokers), continuing education and brokers' relationship with banks post commission cuts.

We also asked the question why brokers didn't support non-bank lenders more strongly in light of these changes. Maybe the subsequent meltdown of the finance company sector was a reason, but did anyone see that coming in 2006?

The life and times of the NZMBA

Standfirst: Earlier this year the NZMBA was subsumed into the Professional Advisers Association. Jenny Ruth talks to some of the key players about some of the more colourful times in NZMBA's life.


Darren Pratley


Geoff Bawden

Darren Pratley says his time as New Zealand Mortgage Brokers Association chairman, between 2008 and February 2012, was "the hardest four-and-a-half years of my life but it was a fantastic opportunity".

Brian Berry, chairman between 2002 and 2004, says it was "very much a labour of love".

It wasn't just the time the role required that made it a tough ask.

"It's thinking on your feet, dealing with the press, making sure you're saying the right things for the industry, research and thinking and talking to different stakeholders," Berry says.

He rates achieving a single mortgage application form which all lenders would accept as "a major step forward in the efficiency of the industry" and one of his major legacies.

But it wasn't all hard work. The first chairman between 1997 and 2002, Rob Tucker, still retains the memory of one annual conference at which "something like 30 or 40 people" partied in his hotel room until about 5am.

Running a panel discussion at 9am that day "was one of the hardest things I've ever had to do," Tucker says. "The conferences were always fun."

Berry says his successor, Geoff Bawden, chairman between 2004 and 2008, is "much more shoot-from-the-hip than I ever was" and relied a great deal on Berry and Tucker to mentor him into the role.

Berry's nickname for Bawden, grasshopper, persists to this day. Taken from the kung fu movies, the term is a wise mentor's for a young tearaway student. Berry says he still says "grasshopper" to Bawden when he wants to signal it might be time to calm down.

NZMBA's only full-time chief executive Megan Salt, whose term coincided with Bawden's, says: "Some of our best work was done sitting in airports and on planes" while travelling between regional meetings.

As Bawden tells it, a lot of NZMBA planning was written on the back of coasters during such trips.

Both relate a memorably turbulent flight between Christchurch and Dunedin during which atrocious weather conditions saw them unable to land in Dunedin and having to return to Christchurch.

With other NZMBA people, they headed straight for a bar. "I don't remember much after 10pm," Salt confesses.

Alcohol, namely port, figured large the night Berry told Bawden he was stepping down and the board wanted Bawden to take over. "The port night," is how the pair now refer to the occasion.

One incident on another port night involved Berry, whipped cream and Bawden's cat, Sookey.

Berry refuses to explain: "Am not going to go there! Don't believe a word Geoff Bawden says! We have never had any alcohol-fuelled evenings that have resulted in unmentionable tales!"

Another theme we kept hearing about was the margin squeeze on banks and BNZ's (now legendary) Unbeatable campaign, and towards the end of the year HSBC severed ties with brokers saying the channel didn't generate sufficient returns.

During the year GE bought Superbank's book and brokers, and were talking about plans to get 40% market share of the mortgage business.

In 2007 Maria Scott took over the editorial reigns at the NZ Mortgage Mag. Maria had previously spent many years as a personal finance writer in the United Kingdom

Her first lead story was on who makes a good mortgage broker. One of the more intriguing insights was that policemen have great potential.

The start of the year saw more discussion about a co-regulatory regime for financial advisers but the whole project was pushed back two years after the government rejigged its timetable.

Looking back over these issues of the magazine there is a clear trend that the discussion around what makes a good broking business had matured and discussion on different models was engaging.

Yet as brokers were lifting their game a crisis was brewing. The banks were about to embark on their second round of commission cutting in three years. At the time we said "mortgage brokers are fighting the biggest challenge in their history."

That prediction has, arguably, proved correct.

June 2007 marked the first of our biggest-ever issues of The Mortgage Magazine, clocking in at 52 pages and including our first comprehensive survey of home equity release schemes.

The theme of diversification has come up through the magazine over the years, but linked to home equity release, commercial loans and other debt-based solutions.

It wasn't until the GFC really hit that life insurance was openly embraced. This was even though companies like Sovereign sold home loans primarily to sell more insurance.

During the year the implications of the credit crunch were being analysed and the positive vibes of previous years was being replaced with headlines like "Tough times ahead" and "Half of finance companies to go".

The following year, 2008, started with the battle of the professional bodies with the PAA attempting to poach NZMBA members.

Looking back at the people involved and seeing what happened this year, when the two bodies amalgamated, the story provokes a little chuckle.

The backdrop to the battle was the government's plans to have Approved Professional Bodies regulating advisers. This idea self-destructed when bodies couldn't agree and consequently we ended up with the present regime where the FMA has all the power.

One feature I loved in 2008 was "Hot shots hitting their targets", where we found fresh, young enthusiastic brokers.

It made a change as it seems the leadership of the broking world hasn't changed
that much.

A question to explore next year is who are the new leaders of the mortgage advisory world?

By 2008 there were some gloomy stories, such as: "How to sell your business or exit with grace and dignity." Headlines like "Rushing to sell," and "To the lifeboats" summed up the mood.

It was also the time when serious debate started on mortgage brokers selling insurance. The debate was pretty heated and at the same time an equally fierce discussion erupted on the merits, or otherwise, of selling KiwiSaver.

Towards the end of 2008 Bawden stepped down as chairman of the NZMBA.

Maria Scott summed up the year: "No tears will be shed for the passing of 2008 but many have been shed during the year."

She concluded: "Bring on 2009."

But the next year was a bit more positive. Our first lead in 2009 provided readers with tips to succeed. This was reflected in a far more upbeat tone to the market.

This was also the year the government settled on the two-tier regulatory regime for advisers.

This was also the year bank profit margins came under intense pressure as they refused to lower floating rates as the OCR came down.

While it was a tough start the year ended positively with NZMBA chairman Darren Pratley saying: "I think 2010 will bring a new era for our industry."

An ongoing theme for the year was preparation for regulation; moving to mortgage advice and articles to help readers become better and more professional advisers.

A theme that started around this time and is still current is how to recruit more people to the dealer groups.

During the year Maria Scott relinquished the editorship of the magazine and it was briefly taken up by Sonia Speedy, who was quickly poached to a communications role at the Reserve Bank. Readers them got to know Jenha White.

Terms we are now familiar with such as RFA, AFA, and disputes resolution schemes took up plenty of pages over the year, as did social media subjects. October also saw the introduction of Steve Wright's excellent insurance column.

How's this for an introduction to 2011: "The new year heralds a transition to a regulated environment, re-evaluating business models and striving to succeed in an environment where all the goal posts have shifted."

Ain't that the truth.

During the year we profiled many of the non-bank lenders in the market and it is something we will do again in 2013. It was a little surprising to see how many options are available.

At the NZMBA conference in the middle of the year the association announced its official tie-up with the PAA which ultimately led to this year's amalgamation.

By now there were signs the market was picking up and, as revealed in this year's dealer group survey, volumes are much better.

The past 10 years has been a roller coaster ride with some pretty hair-raising patches. The outlook now is looking much more positive for mortgage advisers. Regulation and compliance, while an issue, is manageable, groups are offering more and more services and support. There is a need for more lending options, especially as there are only three big banks that will distribute using intermediaries.

Groups need to recruit more advisers and the "generic brand" of mortgage advice needs to be promoted.

Jonathan Flaws

Back to the future

Technology offers vast improvements to the way we do business, and the odd drawback

Over the past decade, the world has become a different place.

The way we do business is probably forever altered by technology and the changes in the financial and legal landscape relating to land and mortgages have also been substantial.

It is probably worth taking a deep breath and looking back over the last 10 years and reflecting on some of the changes that have taken place.

These will provide a base from which to launch the next decade and prepare us for even greater change to come.

I have detailed five changes that have made a big difference to my business.

1 eDealing – electronic mortgages

In 2002, the Registrar General of Land declared the register of land in New Zealand to be a computer register. This meant that the old system of having to lodge the outstanding duplicate certificate of title when registering a mortgage was no longer required.

This paved the way for the electronic registration of instruments affecting land. The first electronic mortgages were registered in a pilot in 2002 and by 2007, all mortgages lodged by lawyers and conveyancers were required to be electronic.

The effect of this change has been to entrench the role of lawyers and licensed conveyancers ("conveyancing professionals") for without being represented by one, a mortgagor or a mortgagee cannot register a mortgage or a discharge. A non-lawyer can lodge a paper instrument but this is a more convoluted and slow process and very few will choose to do this.

The time between settlement and registration has been dramatically reduced and the cost of registering instruments has also dropped.

Searching title is now easy and requires the searching party to register with Land Information New Zealand (LINZ) and obtain the required digital certificate. A person, other than a conveyancing professional, holding the correct digital certificate is also able to prepare and lodge. Only a conveyancing professional holding a current practicing certificate and a more extensive digital certificate can sign and certify a dealing to enable it to be registered.

2 Verification of identity

A consequence of electronic registration has been the increased focus on verifying the identity of the persons who are instructing the conveyancing professional to undertake the registration on their behalf.

The Registrar General of Land is responsible for publishing requirements regarding verification of identity which, if met, confirm that the conveyancing professional has taken reasonable steps to verify the identity of the client. Initially the NZ Law Society published guidelines which the RGL approved and adopted. Subsequently, the RGL has published his own verification of identity standards.

During the decade, the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 replaced the previous Financial Transactions Reporting Act and it too requires financial institutions and other persons to "know your customer". This requires not just a verification of identity but also determining if the customer falls into a higher risk category that may require more verification or investigation.

For the mortgage industry this suggests that there is now a double-up with both the financial institution and the lawyer having to verify identity. This need not necessarily be the case. My firm has worked with others to establish a business process and procedure where the requirements of both pieces of legislation can be undertaken at the same time.

As a result of these provisions, at the end of the current decade, it is now no longer acceptable to take a person at face value unless that face has been identified and checked against a valid photo ID document.

3 Credit Contracts and Consumer Finance Act 2003 (CCCFA)

From April 1, 2005, the CCCFA replaced the Credit Contracts Act. While it improved some areas – such as dispensing with the requirement to provide borrowers with a finance rate so they could more consciously shop around – it also imposed greater responsibility on lenders. Some have looked at its impact and suggested that "CCC" is a shorthand way of spelling the word "sweet".

One of the main objectives of the Act was to ensure that instead of a finance rate as an aid to comparing loans, a borrower could use the annual interest rate disclosed by the lender to reflect the true and comparable cost of credit. To do this, restrictions are imposed on the ability of the lender to recover profit via credit fees and charges.

Fees and charges are required now to be reasonable and reasonableness is reflected by whether or not the amount charged represents a reasonable estimate of a cost or loss recovered.

Financial instruments, such as mortgages, can be complex and it is a dream to suggest that legislation can ever fairly create a level playing field. In fact it is not so much the instrument that creates complexity but the need that financiers face to provide a competitive product.

Legislation has always found it hard to regulate smoke and mirrors and the financial industry is full of these devices.

Credit fees and charges required to be disclosed are only those that apply in respect of the loan covered by the CCCFA.

If the lender is a bank, it is still free to charge fees for other services it sells to the new customer.

You could argue that even if the loan is from a non-bank lender, the customer would still need to incur such fees from its own bank in order to arrange for payments on the non-bank loan. That argument is often accompanied by a Tui singing in the background.

4 Responsible lending

Perhaps the things that have had the greatest impact in the area of responsible lending are the effect of the global financial crisis (GFC) and the Supreme Court in the GE v Bartle decision.

The GFC developed from the collapse of a financial industry that had grown fat and inventive on the back of irresponsible lending. At the coalface, this lending was referred to as sub-prime or non-conforming (sometimes referred to as non performing or liars loans). This lending relied upon self-certification and limited verification. If borrowers applied for loans and promised they could repay them, then the loan was made.

The system in the States took securitisation to very dizzy limits and created a huge chasm between the borrower, the ultimate lender and the ultimate servicer. The servicing rights were traded around as was the loan itself. Merchant bankers found new ways to package and repackage portfolios of loans and the risks associated with the loans until they eventually imploded upon themselves and took the lenders, bankers and borrowers with them into the financial chasm they had created.

If you assume that this event was all driven by what happened overseas then you are wrong. The Blue Chip debacle and the resulting Supreme Court case were just the tip of the iceberg. They represented perhaps the most aggressive use of low-doc lending which, when coupled with the collateral bad investment proposition, created the environment for the ultimate in irresponsible lending.

It is important to note that I have used the expression "created the environment" because the Supreme Court found that on the facts of this case that the lender was not irresponsible.

It was sufficiently distanced from and unaware of the use of the funds advanced and any irresponsible conduct did not rest with the lender. Indeed, the lender had acted responsibly and required that the borrower take independent legal advice.

The irresponsible lending was in fact irresponsible borrowing that resulted from incompetent advice given by a lawyer who the Court found to be negligent.

5 Acceptance and use of mobile technology and cloud computing

Ten years ago I thought we were pretty well advanced and at the leading edge in the way we used technology. And we probably were.

But the leading edge has moved so far that looking back it is hard to see where we were. In 2002, Apple was a struggling company and the iPhone, iPad were yet to be designed and released.

A significant development at the start of the last decade that has probably gone unnoticed by most of us was the development of web services and xml. We established web services with a client in early 2003. Since then virtually all of our B2B communications use this method.

Web services and xml refer to the method by which two parties (or more) can transfer data effectively and quickly between systems across a secure web connection. It makes integration and co-operation between multiple and different systems in different locations achievable.

The development of mobile phones and technology, VPN and virtual servers has also had a huge impact.

Let me finish with a simple example. I was recently sitting in the office of another lawyer in Sydney in the midst of a negotiation.

An issue arose that I knew I had dealt with some time ago. The file was on a removable hard drive that was hooked into my local drive on my computer in my office in Auckland.

It took less than five minutes to open my briefcase, remove my laptop, plug in my 4G USB modem, connect to the network in Auckland, access my PC using a remote terminal connection, search my PC and find the answer on the file.

All of my documents, letters and information are converted now to an electronic file and provided I am somewhere with WiFi, 3G or 4G range, I can access everything I need.

My office is wherever I and my Mac Air laptop happen to be.

Recently, I was flying from New York to LA and needed to respond to some emails urgently.

For $21, I hooked into the plane's satellite WiFi service and was able to write, send and receive emails.

At the start of the decade, that was a very expensive dream – or nightmare.

Jonathan Flaws is a principal of Auckland law firm Sanderson Weir and managing director of First Mortgage Services.