

DIVERSIFICATION

# EXPAND AND DELIVER: LENDERS URGE BROKERS TO BRANCH OUT

The residential property market is booming, but as the nation begins to emerge from pandemic lockdowns, the desire for commercial finance is growing. There's no better time for brokers to diversify, say Thinktank and La Trobe Financial



Peter Vala, general manager partnerships and distribution, Thinktank



Cory Bannister, vice president, chief lending officer, La Trobe Financial

**THERE** are plenty of reasons for mortgage brokers to branch out and diversify their product offering to clients.

It's not only about assisting the self-employed and small businesses to access funding, it's also about strengthening relationships with existing clients, attracting new clients and ultimately creating a more robust, resilient business.

*Australian Broker* caught up with Peter Vala, general manager partnerships and distribution at Thinktank, and La Trobe Financial's vice president and chief lending officer, Cory Bannister, to find out more.

"For brokers that are seeing significant levels of residential lending, it's the perfect time to diversify so your clients know you can arrange other finance solutions whenever the future need arises," Vala says. "Recurring business in all forms is a good problem to have.

"Diversification also helps reduce the risk of reliance on one predominant source of income, shielding a broker's cash flow through periods of instability."

This is critical given the unpredictable nature of markets, Vala says, particularly the property sector, which is likely to continue experiencing peaks and troughs.

At La Trobe Financial, Bannister says, "we strongly believe diversification to be one of the most important fundamentals for any investment. Arguably, a finance broking business is just that, an investment. So a strategy to diversify should be seriously considered to bullet-proof any broker's business". He cautions brokers not to

delay a diversification strategy, "particularly now with so much regulatory uncertainty in relation to the potential reintroduction of macroprudential limits".

"These limits will impact the residential sector specifically, along with the constantly changing lender appetite currently occurring. The time to plan for the future is now," says Bannister.

Vala says diversification allows brokers to offer a broader choice

**"To ensure customers keep coming back, brokers need to make sure they can cater for the changing needs of their customers"**

Cory Bannister, vice president, chief lending officer, La Trobe Financial

of financial products and attract a wider range of clients.

"Importantly, it also helps to develop deeper relationships with existing clients by supporting most, if not all, of their financial needs."

Diversified lending options open up opportunities, says Vala. "For example, the purchase of a commercial property may be facilitated by a full-doc loan, an alternative income verification product, or under an SMSF structure."

Vala says Thinktank's commercial lending products are simple, flexible and highly appealing to SMEs as they are not dissimilar to normal residential loans. Its commercial LVRs range from 75% for Full and

Mid Doc loans up to \$3m, through to 65% for Quick Doc loans requiring only a self-certification of income.

"We also offer a Mid Doc residential product up to 80%, designed specifically for everyday self-employed customers," he says.

Bannister says La Trobe Financial offers one of the broadest product suites in the market, with products covering residential, commercial, SMSF, development, rural, aged care

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and non-resident.

"We are well placed to assist brokers with their diversification strategy, and we have purposely engineered our products and processes to ensure all products look and feel the same – meaning that if a broker can write a residential loan, they can write a commercial loan just as easily," says Bannister.

It's clear the future growth area for brokers in the next 12 months will be SMEs and the self-employed.

"SMEs are the engine room of Australia's economy," Bannister says. "Small business accounts for about 35% of Australia's GDP and employs around 44% of our workforce. The events of the past 18 months mean that the path to finance is

as uncertain and complex as it has ever been, and we believe that brokers are best placed to help them navigate that path."

Some SMEs are playing offence, while others play defence, says Bannister.

On the offence side some SMEs have thrived during COVID through organic growth or a slight shift in their business model uncovering opportunity.

"These business owners are looking for capital to grow, which presents a great opportunity for brokers to help their clients build their business."

At the same time, Bannister says, some businesses are playing defence and having to restructure their financial positions to help them get through a very challenging period.

"This also presents a great opportunity for brokers to demonstrate their core value proposition and create a client for life, with customers who remember who helped them in their time of need."

Vala says the trend following every major lockdown has been for businesses to increase working capital requirements for various purposes – from restocking goods for sale and employing staff, through to relocating business operations, and commercial property acquisitions.

"To strengthen their position, many self-employed and SMEs have looked to restructure their existing commercial finance facilities to better terms, in addition to freeing cash for the purposes above," says Vala.

"This is where Thinktank

can be a strong ally for brokers, restructuring a client's loan to remove onerous reporting covenants, including property revaluations and annual reviews.

"We can also reset the loan term out to 30 years, significantly reducing monthly repayments to improve overall cash flow and help weather any future business and financial storms."

Vala says diversification both strengthens and protects a broker's loan book.

"One of the best places to start to grow a broker's business is with existing residential customers, as they are likely to turn to a trusted broker first when seeking out other forms of finance and lending."

There are plenty of ways brokers can generate opportunities within an existing customer base, says Vala.

He advises brokers to start by providing regular communication updates and relevant content, including reminders that you can help beyond residential requirements.

"Conducting an annual financial health check and product suitability comparison also allows you to determine future needs in areas such as asset finance, cash flow management and premises relocations."

Bannister says La Trobe Financial cannot stress enough how important diversification is for brokers looking to build a "flywheel" for their business.

"Repeat customers are the perpetual motion that leading brokerages covet," he says. "So to ensure customers keep coming

back time and again, brokers need to make sure they can cater for the changing needs of their customers over their borrowing life cycle."

Bannister says if a broker chooses to specialise in one product line only, then they must understand they are effectively prompting their clients to talk to another finance broker at some stage for the finance requirements they don't offer.

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Peter Vala, general manager partnerships and distribution, Thinktank

"The risk being, if the next broker they speak to helps them – and can also do what the incumbent broker does – then there is a strong possibility the client will be moving onto the one-stop shop, chasing convenience," he says.

So, should brokers focus on non-conforming or specialist loans first before diversifying into asset and commercial finance?

Vala says while non-conforming residential loans will widen the opportunity to assist more customers, this won't protect the broker from a correction in the residential market.

"Diversification can do both – grow the client base by offering

solutions in new areas such as asset and commercial finance, as well as deepen and shore up existing relationships with those wishing to invest in commercial property, reframe their wealth management objectives through an SMSF, or restructure their lending."

Bannister says now is absolutely the right time for finance brokers to invest in their future

and with less risk of error."

Peter Vala, general manager partnerships and distribution, Thinktank

through diversification if they haven't already done so.

"We would encourage them to branch into all of these areas over time to become a fully diversified business," he says.

"However, we would also caution against 'trying to boil the ocean'; instead we would recommend brokers pick an area that they are most interested in, or where they feel it could add the most benefit to their business in the immediate term.

"Pursue that first until it is successfully integrated, then move to the next piece. This 'slow and steady' approach is likely to ensure the diversification strategy is executed successfully

Both La Trobe Financial and Thinktank help brokers gain the skills they need to diversify.

Vala says Thinktank's team of highly experienced relationship managers assist and support the workshopping and deal preparation of any type of commercial, SMSF or residential property transaction.

"We're with the broker every step of the way, both in helping expand their relationships and network in commercial lending, through to assisting in structuring a deal to suit their client's needs."

Thinktank also runs regular training and accreditation sessions for commercial and SMSF lending, either virtual or face-to-face.

"Our education also extends to other areas such as prospecting and getting the best out of existing client and adjacent professional networks," Vala says.

Bannister says La Trobe Financial has removed the barriers to entry for many of its specialised products, including commercial, SMSF and development finance, all of which often require additional "specific" accreditation and training with each lender.

"We understand these accreditation barriers are a major reason many brokers fail to execute their diversification strategy," he says. "And finally, we offer customised training and education through our credit-skilled senior manager client partnerships and offer direct access to the decision-makers in credit so brokers feel supported right through the process." **AB**