

ROUNDTABLE

BANKING ON BUSINESS

With the non-banks now in the driving seat and more brokers exploring the space, commercial lending is evolving rapidly. However, an influx of inexperienced advisers could soon reverse the positive outlook. La Trobe Financial explores the trends with three leading brokers



Q What are the primary trends that have driven commercial broking over the last 12 months?
David Scardoni: The primary trend I see is the tightening of the credit markets, namely the banks. That has really driven demand for a business like ours and the services we provide. Banks are not doing presales at a lower leverage, and so developers are struggling to secure bank funding and they are partnering with experienced brokers to be able to give them that optionality, both in construction and investment debt.

Jean-Pierre Gortan: I personally think there is a much wider acceptance of non-banks now than there was 12 to 18 months ago. Clients aren't predominantly driven by price – they are more solutions-focused now; they need an outcome. The other development is that there are simply more players in this space, so that builds reputation and acceptance of the non-bank sector and drives demand.

Cory Bannister: Diversification is no longer an option. The industry bodies are really starting to promote that. We know CAFBA has a clear focus on commercial, and we now see the MFAA promoting commercial brokers directly to business owners on social media. The FBAA is running commercial forums, and this is all in addition to the aggregators pushing commercial diversification. For many aggregators this has been a focus for some time, and now pleasingly others are following.

George Karam: We are starting to see an improvement in the quality

of the client seeking our services initially, rather than clients simply coming to a broker as a last resort, so to speak.
Stephen Lawrence: Personally, I am seeing much more acceptance of the non-banks, especially where

“My personal view is that you should be educated rather than regulated, and we need to lead that change. It's a craft” George Karam, director, BF Money

a borrower, who has been a bank customer for many years, is now finding it much more difficult to obtain finance from the banks. We have therefore been assisting the broker market as to what we can do as a non-bank to meet the

borrower's requirements in a timely manner, giving them confidence that as a non-bank we can meet their needs.
George Karam: There is a diminishing role of the banks being able to articulate their value

proposition to their commercial clients, and an improvement in the way commercial brokerages have been able to communicate theirs. It's about the banks losing their way by not putting the needs of their clients front and centre, whereas the

brokers are, and that's starting to play itself out in the marketplace.
Cory Bannister: There are certainly tailwinds and a combination of factors that mean brokers with no or limited experience in commercial lending are now finding themselves having more conversations with their clients to find commercial solutions. Consumers are finding they need a broker to source a loan for them because they can no longer self-serve at their local bank. With broker market share pushing towards 60% and likely to go to 70% in the near future, it means the opportunity set is wider now for brokers too. There are more people in your CRMs and more people who are comfortable dealing with brokers.
 Everywhere you look the tailwinds for the broker proposition are strong, and more customers will use brokers now for commercial solutions.

Q In terms of educating the brokers who want to diversify into commercial, who should develop and provide the resources?
George Karam: The issue I have with diversification at the moment is that it's for income's sake, and it's not diversification for the customer's sake. I think we as an industry run the risk of rushing more people into diversified business models without providing them with the tools to do it well. That needs a real measured approach.

Stephen Lawrence: If we talk about the La Trobe Financial construction product, for example, we do webinars, PD days, presentations, and we have hosted webinars and presentations for brokers on how to assess a construction deal, from start to finish, step by step. We can do the same for commercial, and our BDMs are specialists in that area too. Those brokers who are looking to make the move, we are absolutely out there to help them.

Cory Bannister: The question of who polices and sets the standard is a bit of a chicken-and-egg situation because industry bodies may say lenders should impose a minimum standard, but many lenders look to the industry associations to hold the standard as part of their accreditation process.
 If we look at it from the top down, if brokers are represented by their industry bodies and they say generally lenders want you to be with one of those bodies before they will consider you for accreditation, then that's where it might be most

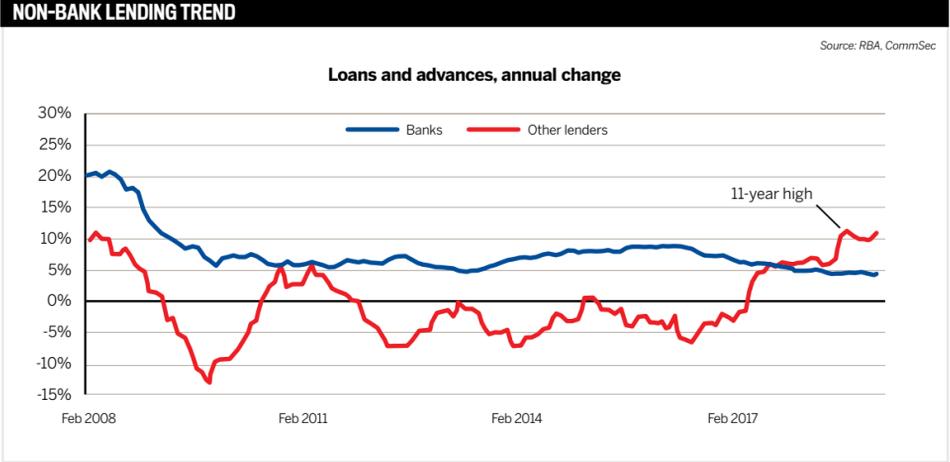
appropriate. I think the national broker ID has the potential to become a good platform for this; similar to how on your driver's licence it's marked for cars, bikes and trucks, a similar regime could apply for brokers.
Jean-Pierre Gortan: One of the majors, as part of their industry accreditation, gives commercial accreditation with residential straight up, regardless of whether you asked for it. It's a package deal.

and increase education, for example through standards, courses, etc?
Jean-Pierre Gortan: A broker saying “I can do commercial lending” when they have no experience is bad for everyone – the customer, the industry, the reputation of the industry. Then in turn for the lenders you have people with no experience calling you for transactions; and, last but not least, if a particular transaction is overpitched to the lenders it gets

“Why commercial lending fits so well with our business model is that our diversified funding allows us to do it broadly” Cory Bannister, VP and chief lending officer, La Trobe Financial

To maintain the industry standard, it definitely needs a different set of rules, agreements and accreditation. A new-to-industry resi broker has to be mentored, and only two years later can they take the training wheels off.
George Karam: We recently employed an equipment finance (EF) specialist, and we wanted him to get EF accreditation, but the only way to get it was to get the home loan accreditation first. If you look at the agreements, it reads exactly the same, but the work, practical application and skill set – they're not exactly the same. We need a fundamental rethink of what a commercial broker is.

tainted. At the end of the day the customer is the one who loses.
Cory Bannister: There is a need for brokers to be generalists to a certain level, but then we need specialist brokers.
 It's like going to the supermarket. The days of going to a butcher, baker and so on are over, and instead supermarkets win because they provide a generally good array of produce and it serves your purpose for day-to-day needs. But when you have friends over for dinner, most people will have a particular butcher they like to go to, or an organic store, for example. I think broking could perhaps evolve into something similar, where you have generalists to a degree, but when you're going to complex areas it may sit better with a specialist.



ROUNDTABLE PARTICIPANTS



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what is the value proposition for your customer?

David Scardoni: It's certainty, speed – time is money – and ease. Typically, the credit process is a lot more streamlined, and the other benefit is terms. It might be higher gearing or presales, and it is offset by a slightly higher rate, but that's the offset.

George Karam: Particularly with development finance, more than any other type, your obligation needs to

a perception with clients that non-banks are the easiest, rather than best, option. We package all the options, and that might be a major, a second-tier, a non-bank, and we say here you will get the most gearing, this one has the cheapest price, and effectively if it's the one most suited to the project it isn't going to require you to discount your presales or find extra cash. You do sometimes get pushed back, but there is much more acceptance with non-banks now, and with

“It's about getting involved and being passionate enough to get into commercial lending. Look at the qualifications out there and find a mentor” Steve Lawrence, VP, head of major clients, La Trobe Financial

George Karam: In the accounting profession you don't see the industry telling bookkeepers that they should now diversify into complex advisory, but that seems to be the discussion among aggregators and, to some extent, lenders.

Q La Trobe Financial offers the broadest product range of any non-bank lender. How does the broker experience feed into the development of the portfolio?

Stephen Lawrence: We talk to brokers to find out what they see in the market and if we need to tweak something here or adjust something there. We absolutely listen to brokers in the market, from a residential and commercial basis, and of course we are also looking at the wider lending market and the other lenders to see what they are doing.

George Karam: La Trobe Financial's competitive advantage is that they are engaged with our businesses. They aren't simply waiting, cap in hand, for the next transaction. You feel like you are an extension of their supply chain.

Cory Bannister: Dealing with commercial brokers can often lead to deeper relationships. As was mentioned, you are there to find solutions for customers in complex

scenarios that perhaps aren't always easy to find. It isn't just a case of putting information into a matrix and then away you go. It's about having detailed conversations along the way so we feel part of a broker's business too.

Why commercial lending fits so well with our business model is that our diversified funding model allows us to do it broadly. Our retail credit fund, which is something different in the market, means we can act in a relationship-banking style because we aren't limited by single warehouse covenants.

Q As a broker, what is the most pressing reason for you to select a non-bank lender for commercial clients, and

be to the project, not necessarily to the customer. If you're looking for what the project needs and there is a solution out there that fits with the requirement, then more often than not you will be able to get the right fit for the development from a non-bank that is more flexible on the terms than by trying to make the project change to fit the bank.

Jean-Pierre Gortan: Generally, for most transactions we offer our clients lenders from each part of the spectrum by way of comparison, and we talk through the pros and cons of each.

Effectively, we are looking for client buy-in by identifying what suits them most, but I am reluctant to go straight to the non-bank as default – there is

La Trobe Financial there is credibility associated with the brand too.

Stephen Lawrence: What we try to do as a non-bank is meet those broker requirements by speaking to the market and the decision-makers. Because dealing with the banks you can speak to a relationship manager, but they can only do a certain amount because they have credit and property, etc. But at La Trobe Financial we give the brokers direct access to our decision-makers. We are all on the same floor and we make decisions more quickly and collaboratively. That helps brokers and their customers at the end of the day, with faster decisions and more flexible terms. That's where we come from in a timely manner and

in a manner that hopefully suits the customer at the end of the day.

Jean-Pierre Gortan: I've actually put Stephen in front of a few customers. When clients don't know the brand it helps to put someone senior, knowledgeable, articulate and well-spoken into the decision-making process. It's helped me close a few deals. Stephen is invaluable to the process wherever you can use him.

Q What are your three tips for brokers looking to try commercial lending?

George Karam: You need to spend time to investigate and learn. You need to be a curious individual who wants to learn for the sake of learning things. If you want to do it well and over the long term, it's one of those things where every transaction has its own learnings, and they should be applied to the next deal and the one after that. It is a continuous education. I would encourage people to invest in themselves rather than trying to find the next income stream.

David Scardoni: Upskilling and getting the time in market; understanding the ins and outs of commercial broking, including understanding basic commercial property fundamentals such as evaluations, cash flow, feasibility. You need to get your head into that stuff. You need to really understand what capital is available, otherwise you're not really servicing the client to their full needs. That once again comes with time in market, experience and finding out how to deal with your database and networks.

Jean-Pierre Gortan: They need a good mentor. You need a sounding board rather than making decisions on the fly because the customer will pay. I have lots of brokers who call up and ask me for advice. I'm more than happy to help, because when I was starting out nine years ago I used to do the same. If you don't know what you're doing, find someone who does, and learn as much as you can. It's not as simple as putting up the flag and starting to write commercial.

Cory Bannister: Partnerships are critical, but alignment of those partnerships is key. To start with, look to your aggregator – can they



help you on education? Same with lenders – make sure you have the support of a lender who can help you throughout the process. Next, I would say start with your existing client base rather than going out and telling the world you are a specialist in the commercial arena. Just try to solve a few less complex transactions and learn through those first, and keep in mind that you really do need to learn as much as you can about lenders, products and the market before you dive in.

Stephen Lawrence: It's about getting involved and being passionate enough to get into commercial lending. Look at the qualifications that are out there, and find a mentor. You can go through your aggregator instead, and they will put you in touch with specialists in that area and help mentor you as well. Again, we have a very experienced commercial lending team who can also help the broker to workshop a deal.

I've been through 40 years of banking and finance and 26 of those in commercial lending – it's just about passing that knowledge on and helping people who are up and coming.

George Karam: Commercial has gone from being a career path that

is closed to anybody who isn't a commercial banker to being open to anyone who has worked in mortgage broking. There will be a transition, and if it isn't managed well it will end up being regulated.

My personal view is that you should be educated rather than regulated, and we need to lead that change. It's a craft, and like any other craft it needs to be taught.

We have seen the lack of standards, qualifications and our inability to professionalise come under a lot of scrutiny recently. Either we step up or we step into line.

Q How do you expect the commercial lending space to develop over the next year, and where could the challenges lie?

Jean-Pierre Gortan: My expectation is that post royal commission and post-election, the banks will start to loosen up a little. I think the likes of La Trobe Financial will retain a big chunk of the market share they have started to win, but I also believe the banks will become more competitive, a little more flexible. The INGs and Suncorps and so on are saying they really want to write construction but can't get 100% presales, so how do we get around that?

There will be some defrosting of the commercial space.

David Scardoni: The non-bank space is still maturing. A lot of new lenders have entered the market in the last 12 to 24 months, but they're struggling to find deals. It's overcrowded, and a lot of them will go out of business I think.

George Karam: We are constantly looking at our lender panel to see where we want to strengthen relationships, and we are assessing them on what we call the three Ps: price, policy and process. Bank or non-bank, if you can only compete on one P, close shop; if you can compete on two, then you will win market share; if you can compete on all three, you will own that space in the market.

Cory Bannister: I don't think a lot will change in the next 12 months. Our focus is to continue to improve our value proposition, because we expect over time that lenders will return to this space, so we feel we have an opportunity to solidify our footprint and demonstrate our capability and user experience to the market so that we leave a lasting impression that continues to be sought after through all seasons. **AB**

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