

He has only just got his feet under the managing director's desk of one of Australia's ASX-listed non-bank lenders, but that didn't deter *Jasmine Cook* from asking Brian Jones the hard questions on transparency, accountability and shareholder benefits

CASTING



Brian Jones, managing director, Homeloans Ltd

M*PA: Are mortgage managers having to battle for growth in the current climate?*

Brian Jones: Mortgages is a game of centimetres. It's essentially down to the law of run-off. To do quick numbers in your head, the market tends to use 25–30% as the book run-off rate. This means you have to write 30% of your book in new business to go nowhere, to stand still.

With mortgage managers currently accounting for around one-sixth of the Australian market, unless you have strong, widespread distribution or a marketing war-chest it's difficult to continue growing a book above a certain level when only one in six borrowers potentially relate to you. Furthermore, the distribution challenge for a mortgage manager becomes a two-headed monster when the book ages and the retention rollercoaster takes off!

MPA: How is Homeloans Ltd positioned within the market you've just described?

BJ: Well, due to a mix of organic growth and acquisition initiatives, Homeloans moved to a competitive posture of multi-funder and multi-product. This has the advantages of liquidity, spread of funding risk and sales diversity; the flip side is that operational complexity abounds.

Throw in some diversity of distribution and I think you have quite a dynamic mix where high levels of training and knowledge are essential, not to mention the underlying processes and systems. Does this complexity provide competitive advantages? Moreover, is simplicity possible? Time will tell.

MPA: Going back to the early 90s, Homeloans has existed under several different guises over subsequent years – some effective, some not. Have these changes influenced the direction you're heading in now?

BJ: Homeloans was originally founded in Perth. Its original format was in exclusive distribution representing eastern state lenders in the WA market. In the early 90s this developed into distribution of own

SHADOWS

brand WA Homeloans (effectively entry into mortgage management).

In the late 90s this led to entry into all other states. Until then 75% of its life was as a privately-owned company operating in WA only. Becoming a nationally-focused company listed on the ASX has its cultural, strategic and operational challenges.

MPA: Considering trends and growth in the mortgage management segment of the industry, what challenges have impacted most on the business?

BJ: It became apparent before the new millennium that those operators known as ‘mortgage managers’ had their work cut out surviving in the low margin world of mortgage lending. Basically, they were mono-line businesses with virtually no ability to cross-subsidise in a market space dominated by major financial institutions with balance sheets, scale, brand, marketing dollars and cross-subsidy capabilities. Nothing much has changed since the new century ticked over.

MPA: Being listed on the ASX, you’ve seen operations move into a different space than your competitors. Has this been a positive experience?

BJ: If share price is the measuring stick, listing has not delivered any benefits to shareholders.

The value of a company is, under normal circumstances, tied up in its ability to run efficiently, profitably and to be able to demonstrate that ongoing growth can be achieved in its chosen markets.

Being listed certainly doesn’t provide any advantages in the quest

to find the right formula for people, management, strategy and execution. The listing, however, can be beneficial in providing capital for growth (including acquisition), attracting opportunities through greater visibility and can provide the liquidity and exit factor for investors. Viewed this way, the listing can be considered a strategy in itself – but it’s more the case that it must be made to work in partnership with the growth aspirations of the core business.

Homeloans Ltd is now travelling down a path to address all the aforementioned factors – core business, growth, strategy, people, efficiency, profitability and its listed status. In doing so, some interesting factors have emerged.

MPA: And what factors are those? Do you think identifying them will strengthen your identity?

BJ: I believe that you have to stand for something or you’ll fall for everything. Commentators, partners and our competitors have continually indicated that they do not understand what Homeloans is: ‘What is their core business; how do they make money?’

It’s as simple as this:

Homeloans is a lender who participates along the value chain in marketing, distribution, assessment, documentation, settlement and

“Being listed certainly doesn’t provide any advantages in the quest to find the right formula for people”

funding, post-sales servicing, arrears and collection as well as discharge and payout. Some of these activities are outsourced.

MPA: What lies ahead? Are we going to see more dramatic changes just around the corner or do you think you’ve found the right formula now?

BJ: I haven’t brought a crystal ball or magic wands out for this conversation. To do so would perhaps be too presumptive that the answers are simple. For starters, awareness is better than ignorance and awareness becomes the precursor to resolution. Homeloans has achieved a significant level of progress over the past 12 months in improving efficiency and profitability; the company also returned to dividend payments for financial year ended 2005.

Moving forward, the strategic challenge we face is being framed by an approach encompassing the restructure of board/senior management, strategic and operational responsibilities and relationships, determining our strategic model and agenda, obtaining a clear view of core business, highlighting key objectives and metrics, as well as new budgeting and control procedures.

MPA: Sounds to me as though you’re in the process of shaking things up! How have the people within Homeloans responded; have feathers been ruffled?

BJ: There’s always room for changes; it’s how we approach them that’s important. The management team has an ongoing and formal process of reviewing strategy and performance and is encouraged to think in terms of the lift door opening and someone asking ‘how are you going?’ and you have 60 seconds to tell them. The world may abound with complexity, but let’s just try and keep it simple! **MPA**

Brian Jones, managing director, Homeloans Ltd