



LEASE BROKERING IN AUSTRALIA

By David Gandolfo

When we talk about “Leasing” in Australia, we generally mean the broader Equipment Finance market, which comprises four main facility types being Finance Lease, Operating Lease, Chattel Mortgage and Hire Purchase. Of those, the two “Lease” variants only account for around 35% of all equipment and vehicle finance transactions.

For nearly two decades, Australia has experienced unprecedented economic growth and stability, shrugging off financial crises that have affected other parts of the world. And although the economy has eased over the past several months, Australia remains the beneficiary of a resources boom that could potentially run for another twenty years.

Large capital investments in mining, transport, manufacturing and infrastructure growth have underpinned the Australian leasing industry, with A\$20 Billion per annum written in asset-based equipment finance facilities.

The majority of these transactions are settled by Australia’s entrenched Lease Brokering community, which set its foundations in the 1970’s and has experienced particularly strong growth since the early 1990’s. This growth has been driven not only by a strong economy, but by the industry’s disciplined self-regulation, and lenders’ recognition that an outsourced supply channel is the most cost effective means of targeting and selling their product.

How The Market Operates

The specifics of brokerage fees in Australia are market sensitive, and are generally not disclosed to clients. However it is well understood that regardless of the transaction type, (Lease, Hire Purchase etc.), brokerage fees are capitalized into each transaction but offset by a discounted base rate from the underwriter. Volume bonuses and trailing commissions are negotiated by individual firms or “aggregators” made up of a cartel of individual firms.

Brokers in this market typically have career backgrounds in Banking and Commercial Finance or relevant tertiary qualifications. By necessity they have a strong understanding of the complex business, taxation and accounting principles relevant

to Equipment Finance and without these attributes they would fail in this highly developed and competitive commercial finance field.

Australia’s financial hub is centered in our two most populous states, Victoria and New South Wales. Established Lease Broker firms in these states are identified by their membership in The Commercial Asset Finance Brokers Association of Australia, (CAFBA), which is the result of a recent merger between former state-based bodies which had operated in unison since 1981. While CAFBA draws most of its membership from Victoria and New South Wales it also has a significant presence in South Australia and Tasmania and is expanding into Western Australia, Queensland and the Northern Territory.

CAFBA membership is an industry credential that is only achieved after meeting stringent qualification standards and passing strict character, credit and probity checks. CAFBA operates its own Professional Indemnity Insurance scheme, has an established Disciplinary and Ethics Committee and has even developed its own tertiary education program providing courses ranging from elementary financial analysis to specific areas of Anti Money Laundering and Counter Terrorism Financing.

Regulation and Mortgage Brokers

One of CAFBA’s main roles is to address legislators and financiers at the national level, and to make a clear distinction between the professional Lease Broker market and the rapidly expanding Mortgage Broker industry.

CAFBA and its State-based predecessors have successfully self-regulated for decades, to the point where regulators were largely unaware of, and quite unconcerned with the existence and activities of Leasing Brokers. But by contrast, the staggering growth of the home loan market since the early 1990’s has attracted the attention of the media, consumer protection groups, and State and Federal government regulators, who have not always made the distinction between these two very diverse areas of finance brokering.

As a result, draft legislation intended to rectify market failures in

the mortgage industry inadvertently used language and definitions which would also apply to Leasing Brokers, imposing costs and supposed remedies without any corresponding benefit. CAFBA has been fighting this proposed legislation over the last five years, presenting well documented and researched arguments and even supplying regulators with draft exemptions and more industry-specific definitions.

Interestingly, the peak national body representing Mortgage Brokers, the MFAA, has made submissions along the same lines, supporting the regulation of Mortgage Brokers while agreeing with CAFBA that the commercial Leasing market should not be included in consumer-based regulation.

In the most recent development, the Australian Federal Government has taken over responsibility of the proposed legislation from the States, in order to get one uniform code to apply to all States and Territories. The Federal Government's approach is welcomed by CAFBA and the MFAA as it focuses on the home loan product rather than just the Brokers involved in its distribution.

Industry Threats

The second major issue facing Australian Lease Brokers also has its origins in the home loan area. The booming property market has fueled the mortgage industry, and some of the banks and aggregators in that market have seen their army of Mortgage Brokers as a means to cross-sell other, more specialized areas of finance such as Leasing.

Accordingly there are now more players moving into the Leasing market, giving rise to "Commercial Brokers" who offer home loans, insurance products, factoring, superannuation, and Leasing, but who don't actually specialize in any of those areas. Even accounting groups and retirement planners have "arrangements" for equipment finance, but again it's not their area of expertise either.

Opening the Lease Broker market to "one-stop" operators diminishes overall industry standards and invites renewed interest

from regulators. Any industry analysis will support the 80/20 rule – that the majority of the good Leasing business comes from the homogeneous core of dedicated Leasing Brokers.

The emergence of these one-stop operators has been a major area of concern to CAFBA but ironically the solution may also have its origins in the home loan market. More specifically on the other side of the world, it is the sub-prime crisis that triggered a global credit squeeze.

Since late last year, funds have become more expensive and harder to get. Leasing underwriters have responded by tightening their lending criteria and looking more closely at the quality of assets, the standard of Leasing proposals, and the Brokers who introduce them. At the same time demand for Leasing finance has only slowed marginally so lenders can afford to be more selective, which leaves fringe operators out in the cold – where they belong.

For further information, or contact details go to www.cafba.com.au or contact the CAFBA President, David Gandolfo at +613 8420 9612 or email president@cafba.com.au. ☺



ABOUT THE AUTHOR

David Gandolfo studied Economics before commencing his Finance career in 1982. Over the past 25 years, David has gained the respect of the Australian commercial finance industry, both in senior Broker positions and in lending institutions. He is a regular guest speaker at training sessions held by industry associations, corporations and CPA discussion groups and is often called upon to provide editorial comment to relevant media publications. He was elected to the Committee of the Australian Asset Finance Association (now CAFBA) in 2001 and became President in 2006.