



## 2003 Annual Report





*“We’re famous for giving unbiased advice and providing the highest standard of service”*



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## *Our aims and objectives*

To continue to expand on our position as Australia's leading mortgage broker.

To ensure that the company is **profitable** every year, and to **maximise shareholder value**.

To research, devise and implement marketing strategies that deliver a **sustainable competitive advantage**.

To provide our customers with a wide choice of home loans, on a truly unbiased basis and a **level of service** that is both responsive and pro-active.

To invest in and develop the most highly skilled, trained and competent people who **share our beliefs** and values, and who are **motivated to achieve** our collective goals.

To ensure that our dealings with franchisees, customers, suppliers and employees are based on the **highest standards** of ethics, fairness and integrity.

### Mortgage Choice Overview

Mortgage Choice was established in 1992. Against a backdrop of increasing complexity in the home loan market in Australia, it is now the country's leading mortgage broker offering genuine choice of home loans. Mortgage Choice provides a structured comparison of the mortgage products available from the company's panel of over 25 of Australia's leading lenders.

Mortgage Choice's business to date has been predominately residential lending for owner occupiers and investors.

The Company originates mortgages through its national franchise system of more than

460 accredited brokers, its website and call centre. Its brokers are either franchise owners or consultants employed by franchise owners.

Mortgage Choice pays its franchise owners the same commission regardless of the lender or loan type. When coupled with the fact that it has no products of its own, it can truly claim to offer an unbiased service. The company's strategy of providing unbiased information to residential mortgage customers regarding mortgage products, coupled with convenient service, remains a key driver and contributor to its success.

*“When coupled with the fact that it has no products of its own, it can truly claim to offer an unbiased service*



Mortgage Choice National Conference 2003 – Royal Pines, Gold Coast.

## 2002-2003 Company Highlights

Loan approvals increased by 30% to \$ 7.5 billion.

Net profit before tax increased by 78% to \$9.2 million.

Net profit after tax increased by 25% to \$6.3 million.

Revenue increased by \$22.5 million to \$76.4 million.

Loan book rose from \$9.6 billion to \$13.5 billion, an increase of 40%.

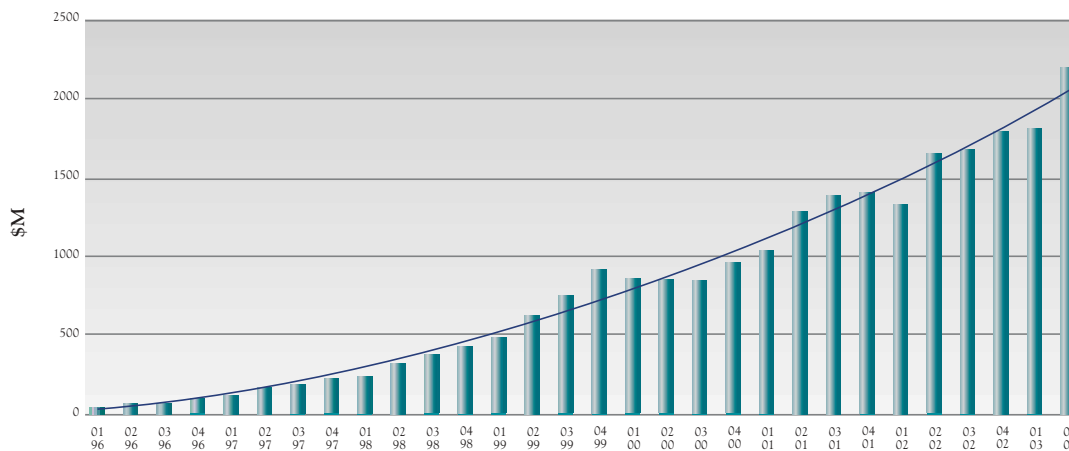
Franchise numbers grew from 296 to 335.

Total brokers grew from 394 to 474.

Shopfront / commercial premises now stand at 153 which is over 45% of the total network.

One new Mortgage Choice office opens each week.

Mortgage Choice: Quarterly Approvals



### Directors' Report

During 2003 Mortgage Choice delivered another strong year of growth. The combination of a strong housing market, a motivated and customer focused franchise network and a committed head office management and support team ensures the Company is well positioned to maximise the opportunities that lie ahead.

The financial result for the year to 30 June 2003 was a net profit after tax of \$6.3 million, an increase of 25% over the previous year.

Factors contributing to the Company's strong operating performance for the year include an increased demand for our service, increased productivity from our highly motivated franchise owners and success in franchise recruitment.

The calendar year 2003 has seen the appointment of a new Chief Executive Officer, Paul Lahiff. Paul joined the company in August 2003 and has brought significant experience and expertise to the role. The Board are delighted to have somebody of his calibre and capabilities join us.

On behalf of the Directors, I would like to take this opportunity to thank the management and staff for their continued commitment and contribution and also wish to recognise the leadership

of Chief Operating Officer, Chris Canty who capably managed the company during our search for a new CEO.

The Board looks forward to the year ahead with confidence.

The Board of the Company has recently authorised management to commence the preparation of the Company for listing on the Australian Stock Exchange by the first half of 2004. The float is subject to sustained conducive market conditions and a favourable economic climate.

Rod Higgins  
Director

*“The financial result for the year to 30 June 2003 was a net profit after tax of \$6.3 million, an increase of 25% over the previous year.”*

## Our Directors

### Peter Higgins

Peter Higgins is cofounder of Mortgage Choice. Mr Higgins also holds directorships in companies in the technology and electronics industry. Having been successfully self-employed for over 20 years he has been involved in a number of start up companies in a diverse range of industries covering manufacturing, technology, leasing, property and finance. Age 43.



### Rodney Higgins

Rodney Higgins is cofounder of Mortgage Choice and has a background in residential and commercial property, sales and leasing and has been a director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 49.



### Robert Prowse

Mr Prowse is the nominee of Thorney Holdings Pty Limited and joined the Board in February 2003. Thorney Holdings Pty Limited is a member of the Pratt Industries group and has been a shareholder since April 2000. Mr Prowse is an Investment Manager with Thorney Holdings Pty Limited and has significant experience in finance-related industries. Age 52.



### Peter Clare

Mr Clare is the nominee of Wealthpoint Limited and joined the Board in November 2002. Wealthpoint Limited has been an investor in Mortgage Choice since April 2000 and became a wholly owned subsidiary of St. George Bank Limited in early 2002.

Mr Clare is a member of the Group Executive of St. George Bank with responsibility for Strategy and previously held positions with CBA and as a management consultant. Age 40.



## Overview of Operations

The financial year under review ended with another strong profit result and impressive loan book growth for Mortgage Choice. The Company has a very stable foundation and is well positioned for solid growth over the next few years.

### Key Performance Indicators

The Company's operating after-tax profit of \$6.3 million is 25% higher than last year and reflects the growing acceptance of the Mortgage Choice brand and consumer proposition. The Company has now attained a financial position where the trailing income derived from its loan book is sufficient to cover its fixed costs. The Company is therefore less vulnerable to the immediate effects of volatility in the housing market.

Mortgage Choice's home lending approval volumes are up significantly achieving a new threshold of \$7.5 billion, up 30% on last year. Market share of the mortgage market grew to 4.4% (ABS) for the year.

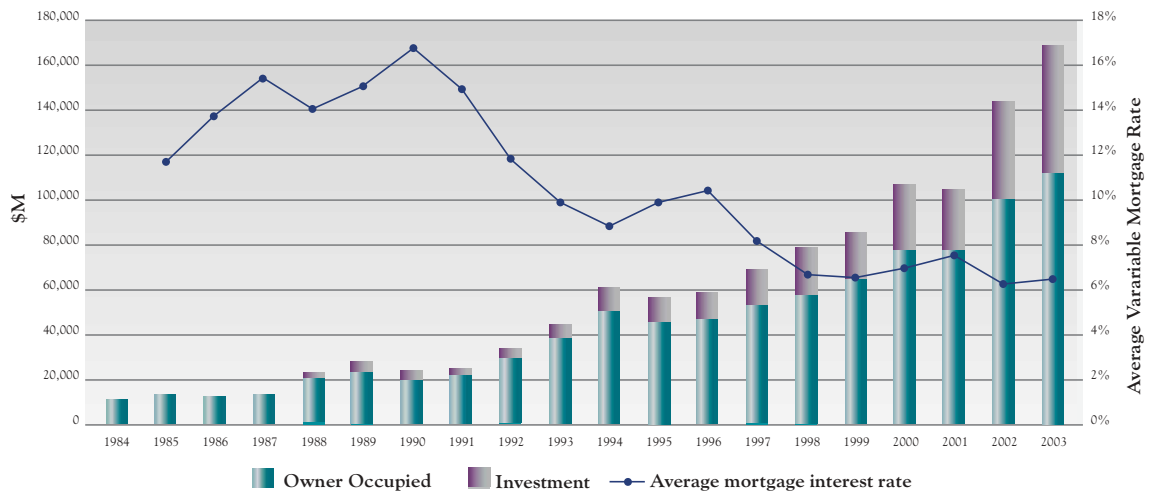
Client retention is a key strategy of Mortgage Choice and our loan book as at 30 June 2003 has now surpassed \$13 billion making it one of the – if not the – largest loan book of any of the non-bank lenders or mortgage brokers.

Our highly respected and award winning franchise system also experienced steady growth over the period. The number of franchise owners grew to 335, an increase of 13%. This meant, the Company had a total broker force of 474 (including the loan consultants supporting the franchisees) at 30 June 2003.

### The Mortgage Broking Industry

The industry has seen two major focal points of interest during the past year – what lies ahead for the housing market and, what form regulation will take. Both of these factors will continue to dominate the attention of all stakeholders especially the media and other observers during the next financial year.

Housing Finance Market and Interest Rates 1984-2003



Source: ABS; excludes commercial construction finance



## State of the Housing Market

There has been much speculation about the housing “bubble” and its impact on the demand for housing finance going forward. Mortgage Choice has held the view for some time that the housing market is experiencing solid growth but is not approaching the highs of the late eighties.

The market can be broken down into a series of sub-markets and whilst there has been significant growth in the investment sector, Mortgage Choice is of the opinion that a reduction in demand in this sector will not have any material effect on the Company’s business.

Housing is now looked upon by a growing number of consumers as a wealth creation vehicle and the use of home equity to generate additional wealth, either through investing in further property or equities or in both is now an accepted investment portfolio practice.

As a consequence the Company has seen an increase in refinancing for this purpose as well as for debt consolidation and renovations. It is worth noting that refinancing, provided it is in the best interests of the consumer, is an acceptable, logical and sensible means to access or manage their equity.

The plight of first homebuyers seems to be a widespread problem with many developed countries faced with the same dilemma of a reduced demand from this sector. It must be borne in mind that the Federal Government’s decision to increase the first homeowner grant to \$14,000 in 2000 did have the effect of bringing forward the purchase decision for many in this category. It is Mortgage Choice’s view that what we are experiencing at present is in part the after effects of that initiative.

## Regulation of the Industry

The introduction of the landmark report undertaken by the Consumer Credit Legal Centre NSW (Inc.) on behalf of the Australian Securities Commission in March 2003 highlighted among other things the need for regulation of the industry.

As an industry leader, Mortgage Choice over the past three years has been working closely with industry and government bodies to escalate the importance of regulating the mortgage broking industry. Our call for national uniform regulation in September 2002, together with our accompanying consumer advocacy initiatives, highlights the company’s commitment to stamping out unprofessional and unethical brokers. This call for regulation has received increasing attention and has been reinforced by a recent agreement between the various state and territory Consumer Affairs Ministers to move to national regulation.

Mortgage Choice instigated and developed two key consumer protection initiatives over the past 12 months that have further positioned Mortgage Choice as a leader in consumer advocacy. Key initiatives included our launch of a Customer Charter, which fully discloses the commission structure paid to our franchise owners as well as outlining the service customers can expect from a Mortgage Choice broker and what the company’s privacy and complaints policies are. Following this, Mortgage Choice developed a Consumer Checklist that was launched in March 2003, which gives customers a checklist to complete to assist them in identifying if they are dealing with a professional and honest broker.

## Pillars and Foundations

In order to achieve its objectives for growth in profitability and market share, Mortgage Choice has developed a strategic model, which embraces the basic pillars and foundations of the business. It is around this model that this overview will be positioned.

### Customer Focused

From the beginning, the Mortgage Choice philosophy has centred on providing the best possible service to its customers. This starts at the frontline with our brokers, and through new customer focused initiatives that are continually being developed in all areas of the business.

With a high proportion of Mortgage Choice business resulting from referral and repeat business, the importance of providing outstanding service to customers has been identified as a priority for the business. Consequently, in March 2003 the Company launched a Referral Marketing program which embraces past, current and potential clients to ensure that Mortgage Choice is top-of-mind for any future needs customers may have. A natural consequence of this approach to servicing our clients is a "Client for Life" and as the name suggests this program aims to ensure the customer is retained.

Consumer advocacy is high on our list of priorities and during the year we upgraded our processes for resolving all formal disputes raised by Mortgage Choice customers.

All disputes are immediately acknowledged on notification of the customer's issues and a detailed investigation initiated under the direction of our Compliance

and Corporate Standards Manager. The aim of all investigations is to fully and accurately determine all relevant facts, enabling a determination if Mortgage Choice was responsible in any way for the customer's grievance. Where possible, final determinations are communicated to customers within 10 business days of receiving the initial dispute communication.

### Marketing Driven

With the mortgage broking market growing significantly, it is a core priority of the business to actively and effectively promote Mortgage Choice's image, position and point of difference. This ensures the company both sustains and continues to build on an already strong and reputable brand clearly distinguishing itself from its competitors and encouraging consumers to choose Mortgage Choice as their broker of choice.

### Campaign Strategy

As a marketing driven organisation, Mortgage Choice develops and runs national advertising campaigns to support our franchisees. These campaigns are developed quarterly and kits are distributed to all franchisees. Each campaign has a different theme that is reflected across all the marketing material. Different channels and media used by Mortgage Choice include, radio, referral marketing, press advertising, television and sponsorships.

A typical integrated campaign this year for instance included a television



commercial (featuring Mortgage Choice franchisees) which was produced in February 2003. Press advertisements and billboards were developed to compliment the theme. Meanwhile, live reads were used on radio networks transforming consumer awareness to lead generation.

Mortgage Choice was principal sponsor of the Channel 9 Money Expo in Melbourne and Sydney 2003. The success of this exercise, both from a branding and lead generation perspective means the Company will expand this sponsor campaign to other capital cities in 2004. In a different vein the Company was also the major sponsor of Polo by the Sea, a community event held in Sydney which raises funds for charity.



### Website

A new website was launched during the year. It is used to provide consumers with useful information and support our lead generation activities. Franchisees are also provided with their own “mini-site” within the Mortgage Choice website.

### Mortgage Choice in the Media

A proactive media relations strategy directed at national, metropolitan, regional and suburban media has delivered increased awareness of and respect for the Mortgage Choice brand and consumer proposition.

### Franchise Centred

Mortgage Choice recognises its franchisees are the core of the business, and without a motivated and focused franchise network, the company would not achieve its goals.

Consequently, Mortgage Choice continually aims to improve on the support, resources and training that is offered to the franchise network to make their businesses as efficient and effective as possible.

The effectiveness of the Company-franchise network inter-relationship is vital for our success and playing a key role in the two-way information transfer process is the network elected Franchise Advisory Council which meets each month with senior management to discuss matters of national and local importance. This FAC ensures that there is ownership and understanding across the network on issues and development.



### Tracy Parish & Robert Walpole, NSW – National Franchise of the Year

*"Tracy and I have a good partnership. She has the technical aspect and vast lending experience, whilst I have the drive, vision and managerial experience. Developing a strong team of achievers around us is also vitally important to our success".*

### Nick Cook, QLD

#### – National Rookie of the Year

*"I do my job because I love to provide excellent customer service. I have worked extremely hard to develop and establish a strong business in my local area, and it is very satisfying being able to assist people achieve their property dreams".*



## Pillars and Foundations (*continued*)

### Value Drivers

Under a franchise model, which has proven to be one of the most productive in the industry, there is a Group Office dedicated to the support of the network. In addition to Group Office, franchisees also have access to more local State Offices.

The value drivers of the business include the brand, marketing support, field support, lead generation, regulatory compliance, information systems and the successful business model itself. All are driven by Group and State Offices and embraced by franchisees.

### Training & Development

Training is of critical importance to the Mortgage Choice business model.

Mortgage Choice is committed to ongoing development of its front line people by providing a continuous and powerful learning program that is respected by lenders, competitors and professional associations. The learning program involves the delivery of skills, knowledge and tools to enable the network to retain industry leadership.

Both induction and ongoing training is provided to ensure that the franchise network is productive and efficient. Training needs are identified and courses are developed constantly to address those needs.

The introduction of a Franchise Mentor System was predicated on the concept of establishing a learning relationship between the mentor (an already established and successful franchisee) and a new franchisee. This assists the new franchisee in developing their core interview techniques and lending knowledge, by providing hands on exposure to the core business.

The development of lending scenario workshops and training programs for Franchise Administration Support staff (which are delivered in each capital city) are among other initiatives introduced during the year.

### IT Support and Development

Every Mortgage Choice broker is equipped with a comprehensive suite of applications to support their broking activities. Mortgage Choice's sophisticated software allows its brokers access to over 200 products from over 25 lenders to ensure that its customers get the right advice on their home loan needs.

To back up its information technology proposition, Mortgage Choice operates a dedicated Helpdesk facility to service the network.

### Rewarding Effort

The success of the business is based on the quality of customer service together with a commitment to the franchise model by its franchisees.

Mortgage Choice believes it is important to recognise and pay tribute to the efforts of its franchise network. There are two key programs:

- Business Excellence Awards - rewarding overall business performance, on a state-by-state basis in four franchisee categories (Rookies, Single Operators, Multi Operators, and Multiple Franchise Owners).
- High Flyers - rewarding top volume performers.

In addition, the Company holds a national conference each year. Under the Mortgage Choice franchise agreement, it is a requirement that each franchisee attends the conference, demonstrating the commitment Mortgage Choice has to this premier event. The

conference allows franchisees and their staff to gain new skills and knowledge, as well as providing franchisees, lenders and Mortgage Choice personnel with an opportunity to network, understand each others roles and forge new relationships.

The 2003 National Conference was held at the Royal Pines Resort on the Gold Coast, Queensland. The theme of the conference was "Own the Future". It was the biggest conference to date with over 500 delegates in attendance. The conference is also the venue where the Business Excellence award winners and High Flyers are announced.

### Lender Relationships

With over 25 of Australia's leading lenders on its panel and with an increasing proportion of loans being written through the broker channel, Mortgage Choice recognises the importance of developing and nurturing the relationships between broker and lender.

Mortgage Choice has a dedicated Lender Relations team, which oversees the encouragement of a culture of information sharing with its lender partners and the franchise network.

Mortgage Choice aims are to encourage lender interaction on such matters as client retention and anti-churn strategies. Providing structured access to the franchise network and, promoting operational effectiveness by working with lender partners to improve service, and delivery of end-to-end electronic loan processing.

### Reliable Information

During 2003, Mortgage Choice implemented a new public internet presence. As part of this initiative, it provided each franchise owner with a personal website incorporating a powerful content management capability, allowing each broker the flexibility to manage their own local area marketing needs.

An intranet-based knowledge base was also created to provide a wealth of information and tools to franchisees on the subjects of best practice, referral marketing, campaigns, editorials and business management.

In response to the rapid evolution of the mortgage broking market in Australia, Mortgage Choice plans to implement a new breed of mortgage broking support tools for its mobile work force during 2004. The plan is to apply the company's more than 10 years' experience in mortgage broking to create a fully integrated 'enterprise system'. The new system will integrate the franchise management, client management, supplier and product, loan application, marketing and commission and bonus requirements of the business.

### Stephanie Cook, NSW – National Single Operator of the Year

*Stephanie attributes the success of her business to her understanding of the demographics / psychographics of the market in which she operates, and the ability to build on the already good name and reputation of Mortgage Choice.*



### Wendy Higgins, SA – National Multiple Franchise Owner of the Year

*Twice National Franchise Operator of the Year, Wendy commenced operations with Mortgage Choice in 1998. She has made her mark in Adelaide, particularly in the Holdfast Bay / West Torrens areas, and now employs 7 people. Wendy still remains unmatched nationally on the number, and volume of loans she writes.*



## Pillars and Foundations (continued)

In addition, during the second quarter, 2004 we plan to roll out a multi-lender electronic loan processing system, which is a collaboration of the big 3 in mortgage broking - Mortgage Choice, AFG and Aussie Mortgage Market. This facility will allow our loans consultants to submit loan applications

electronically to our top 10 lenders by the end of 2004. Electronic submission will shorten cycle times, reduce re-work and substantially improve the customer experience.

## Sharing the Vision

The culture of the company is one built on the foundations of a service culture and high achievement. The ability of any organisation to affect change and deliver ongoing growth is predicated on a flexible, motivated team of employees. The human resource efforts of Mortgage Choice are aimed at ensuring that our employees have the capability, motivation and leadership to deliver on the key pillars and foundations to both franchisees and consumers.

Any strategic plan is only as good as the quality of commitment that management and staff have to the process. At Mortgage Choice there is a team of dedicated experienced professionals who have proven to be high achievers in the pursuit of the corporate goals.

## Our Lender Panel



# Our Management Team

## **Paul Lahiff – Chief Executive Officer**

Paul is an Agricultural Economics graduate with over 20 years experience in the financial services. This has included roles as Managing Director of Permanent Trustee and Heritage Building Society, as well as senior executive roles with Westpac (in Sydney and London) and the credit union sector. Paul joined Mortgage Choice as Chief Executive Officer in August 2003, and he is responsible for managing the operations of the company to ensure the continued growth and development of the business through effective leadership and the development and articulation of a sound, credible and realistic strategy for the company.



## **Chris Canty – Chief Operating Officer**

Chris is an Agricultural Science graduate with a Graduate Diploma in Management and has had 14 years sales, marketing and management experience in the agricultural chemical industry. Chris joined Mortgage Choice in October 1997 with a Master Franchise in South Australia and having successfully established the operation in that state, he joined the senior management team that has led the business through a period of rapid growth. As Chief Operating Officer, Chris is responsible for the overall management of Mortgage Choice operations in Australia, with particular focus on sales, marketing and lender relationships, and the maintenance of harmonious and effective working relationships between Mortgage Choice and franchisees.



## **Earle Macgregor, Chief Financial Officer**

Earle Macgregor is a Chartered Accountant with 20 years broad professional and commercial experience gained with a top tier accounting firm and listed retail and media companies. He has experience in growing and listing companies together with overseas financial management experience in London and an audit and business services background. Earle commenced with Mortgage Choice in January 2002 and is responsible for financial management, control and planning.



### Our Management Team (*continued*)

#### **Mark Newton, Chief Information Officer**

Mark joined Mortgage Choice in May 2000. He has over 17 years experience in Information Technology, including 11 years in senior management positions. He has extensive experience in the design and implementation of infrastructure solutions and management of applications development on an international scale, gained primarily in the global reinsurance industry. As Chief Information Officer, Mark is responsible for IT strategy, applications development and infrastructure management. He holds a Diploma in Computer Programming Technology and a Business Management Certificate from the Australian Institute of Management.



#### **Brent McDonald, Group Franchise Manager – Australia & New Zealand**

Brent has a Bachelor of Applied Science. He has 17 years experience in franchising and small business management, the bulk of this time was spent in the Australian Oil Industry. Brent joined Mortgage Choice in November 1998 and is now responsible for the management and development of the Mortgage Choice franchise system and the training of new franchisees and loan consultants.



#### **Warren O'Rourke, National Corporate Affairs Manager**

Warren holds a Marketing degree from the University of Technology, Sydney. He has 20 years experience in marketing and communications covering both corporate and consulting roles. Warren has extensive experience in banking and finance, and has also worked in franchising and cause marketing. He joined Mortgage Choice as Group Manager, Marketing and Communications in March 1999. In August 2002 he became National Corporate Affairs Manager and now is responsible for corporate affairs and media issues.





### **Ian Pepper, National Marketing Manager**

Ian has a Bachelor of Economics from Macquarie University and trained to be a Chartered Accountant with Pricewaterhouse Coopers (PwC). Following four years in London where he worked with PwC and Equitas Limited, Ian returned to Australia to obtain his MBA (specialising in marketing) from Macquarie School of Management. Ian commenced with Mortgage Choice in June 2000 as Senior Financial Analyst working on strategy and large projects including Franchise Value Proposition and Field Support. However, now as National Marketing Manager, he is responsible for integrated advertising campaigns, franchisee marketing tools, referral marketing and brand integrity.



### **David Hoskins, Company Secretary**

David commenced with Mortgage Choice in June 2000. He has a Bachelor of Commerce and a Graduate Diploma in Corporate Management and is a CPA and a member of Chartered Secretaries Australia. David has had over 20 years experience in a variety of accounting and company secretarial functions primarily in the finance and insurance industries. As Company Secretary David is responsible for implementing and monitoring corporate governance practices, compliance and corporate standards; administering Board and shareholder matters; and coordinating legal counsel.



### **Steven Heavey, National Lending Manager**

Steven holds a bachelor of engineering (civil) and has had 15 years experience in senior management, sales & marketing roles within the construction, manufacturing and finance industries. Steven joined Mortgage Choice in November 2001 and led the franchise network to a phase of rapid growth in his role as Queensland State Manager. During this time, Steven was responsible for the overall management of the Queensland operations and was also responsible for national reward and recognition programs within the Mortgage Choice organisation. In August 2003, Steven moved into the role of National Lending Manager and while maintaining responsibility for the reward and recognition programs, is now focused on the management of commercial relationships and integration of electronic loan applications.



### Looking Ahead

The outlook for 2003-04 is positive. While speculation continues as to whether or when the property market will slow and interest rates increase, our experience is that the property market is made up of a number of sub-markets. Respected forecasters predict that there will be some degree of slowdown however, other than the owner-occupier sector, we do not have a large exposure to any one sub-market. As a consequence, we anticipate that Mortgage Choice will be somewhat insulated from any downturn if and when it happens.

Regulation of the mortgage broking industry is under development and it is likely to result in rationalisation of the industry. This has already started with a number of lenders setting minimum standards in terms of industry membership and experience in the industry.

Mortgage Choice is of the view that while

it can continue to grow organically, it also views acquisition positively should market opportunities present themselves in the future.

Productivity of the Mortgage Choice franchise network leads the industry and this will continue to grow, as we continue to develop the rewards and support to facilitate this. At the same time, growing the franchise owner base is fundamental to our short-term growth strategy. In this regard we will increase franchise owner numbers by 65 and total broker numbers by 130 in the period to June 2004.

Mortgage Choice is continuing to assess the conditions in relation to an initial public offering which could be as early as in the first half of 2004.

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