Mortgage Banking Australian Style

by Robert Pruett and Wayne Johnson

In 1994 a visionary team of executives from Westpac Banking Corporation (WBC) and the technology and management consulting groups of Electronic Data Systems (EDS) discussed various strategic and operational concepts intended to revolutionize the Australian home lending market. The challenge involved transcending virtually every aspect of product development, origination, settlement and servicing to accommodate the need of a national uniform commercial credit code (UCCC), decreasing origination and servicing costs and providing securitization opportunities. The mortgage project would impact Westpac in several aspects:

- Home loan origination and support staff for 2,000 retail branch offices;
- Regional credit approval centers;
- State loan processing and servicing centers;
- Create the first national mortgage processing center (MPC) in Australia;
- Recruit and train (internal and external) initially 450 staff for the new operation, ultimately growing to over 2,000;
- All new mortgage processes and procedures;
- Implement USA-style technology systems to support mortgage origination, servicing and securitization;
- New technology must incorporate Australian loan product features and culture;
- New systems and processes must be integrated into the banks' existing infrastructure.

The challenges continue, as the project must be flexible enough to deal with the UCCC, which had not been finalized or published, and an enactment date that would change several times between 1994 and 1996. The final challenge was to complete phase 1 of the project (including opening of the national MPC) within 12 to 18 months. This article will address the development of Australian home lending, how the Westpac project evolved and what the future may bring to mortgage banking in Australia.

AUSTRALIA HOME LENDING

Australia has 18 million people in a country slightly smaller than the United States, 60% of whom live in five capital cities. The Australian Bureau of Statistics estimates that 70% of households live in a dwelling they own or are purchasing. Homeownership is a very important and social aspect of Australian life.

Historically the Australian government was quite active in promoting homeownership, including enacting controls that capped home loan interest rates at 13.5%. Customers normally get their home loans from the four major banks (Westpac, NAB, ANZ or Commonwealth), regional banks or building societies. This approach worked well until April 1986 when the government eliminated the 13.5% interest rate cap. (See Figure 1.)

Figure 1. Australian Home Loan Rates

Bob Pruett, principal of RP Consulting, and Wayne Johnson, principal of The Chandelle Group, are independent consultants who collectively have spent six years in Australia working on the Westpac Mortgage Project.
The new unrestricted flow of home loan funds and increased competition was supposed to lower home lending rates. However, as the housing rate chart depicts, the free market approach would take time before competition was able to reposition its investment portfolio and for new lending sources to enter the market. This transition period (1986–89) resulted in increased lending rates that peaked at 17% by 1989.

The mortgage product of choice had always been variable rate, but with interest deregulation and the resulting rate increases, many hardships developed. Fixed-rate loans were then introduced as a way of hedging a homeowner’s risk; but as rates continued to fall this strategy caused relationship problems between the banks and their customers. When the customer had a variable-rate loan, interest rates went up; when they switched to a fixed-rate loan, rates went down. The customer lost and the banks won in both interest rate swings (from the customer’s perspective). This point of discontent in the early 90s created an opportunity for non-bank lending sources such as the mortgage manager (similar to a mortgage banker in the USA) and insurance companies to enter the market.

In the mid-90s, this group of non-bank loan originators started to take market share away from the four major banks, with projections that they would control 38% (Bain Securities Research) of the mortgage market by the year 2000. With interest rates steadily declining from 1990 though 1998, competition for the customer’s business became intense. The mortgage managers, whose funding source is securitization rather than deposits, created basic loan products (minimal features) with low rates and fees, and a promise for quick approval and funding.

The banks’ margin on home loans was traditionally very high (4% from 1992–94 vs. the UK, NZ or Canadian margins of less than 2%); but in order to compete with the mortgage managers, they needed to decrease loan rates. The banks challenged the mortgage managers with creative product features, low loan rates and fees, and bundled services; but continued to see their market share decrease slightly. During the process of competition with the mortgage managers, the banks saw their housing margins decrease to less than 2% by 1997. (See Figure 2.)

**Products and Features**

The home lending culture in Australia focused on flexibility and relationships, which ran counter to the new philosophy of standard loan products that could be securitized. Additionally, refinance fees were minimal ($300 to $600) and often discounted or entirely waived in light of the intense competition. Teaser rates (discounted rates in the early years) came into play, and new products were created in a feverish attempt to retain or gain market share. The combining factors of new non-bank lenders, falling home loan rates and minimal refinance fees erased any barriers to refinance so that customers routinely rotated loans from lender to lender.

While this portfolio churning was costly to all lenders, it provided an on-going opportunity to relatively quickly regain or take market share. The fixed-rate mortgage started to gain customer acceptance but only for terms of 1 to 5 years (amortized over 25 to 30 years) where opportunities to refinance were allowed.

Product development and campaign speed-to-market are deeply engrained in the home lending culture. Extensive customer research is continuously underway by the lending community to find the unique customer need that is currently not included in the mortgage product spectrum. Loan and deposit products are independently reviewed, and best in class awards annually are made to the company with the “best basic loan product,” etc.

The driving principle behind the constant introduction of new products and features was that those first to market traditionally enjoyed the greatest market penetration (retaining or gaining market share) and product...
profitability; followers had less success but the same product development costs.

Westpac knew its existing product development and launch process timeline needed to be upgraded with more reliance on technology to quickly distribute new programs throughout their branch network and the MPC. A critical component of the mortgage project would be to develop technology to meet this need in concert with UCCC documentation requirements.

There are several Australia-specific home loan features that are unique in the international market. Many of these features would pose a challenge to normal securitization criteria, as a lender’s product spectrum would include the basic loan (fixed or variable rate, easily securitizable), special option loans (some added features but still securitizable) and relationship loans (initially held in portfolio). Some of these special features are:

Redraw. Additional principal reduction is allowed but the customer can redraw funds at a later date, up to the then scheduled loan balance.

Top Up. A loan increase against existing security whereby the loan is increased vs. paying off the old loan and creating a new loan. A customer may request the increase based on the original or current market value.

Portability. The borrower sells a property, does not pay off the loan and takes his mortgage to the new property; sometimes combined with a top up.

Interest Offset. Home loan interest expense is reduced by the amount of interest earned on a related deposit account.

Product Switching. Options for the borrower to change products and features during the term (i.e., fixed to variable rate, basic to special option loan).

Apportioned Interest. The loan incorporates payments from both the customer and his/her employer.

Break Charges. Cost to unwind the original hedge of a fixed-rate loan; can result in a cost or benefit to the customer. During periods of decreasing rates, it acts as a prepayment penalty, thereby discouraging portfolio turnover.

Payment Holidays. Options for the customer to not make the regular payment and have that amount added back to his loan balance. This is similar to a redraw in that the customer has to be ahead in principal repayments.

Multi Borrowers. Multiple borrowers are not joined so much for loan qualification but for joint ownership. Requires significant processing and servicing costs to deal with documentation and notification requirements.

Multi Securities (collateral). The underlying loan security could be any number of properties (totally or partially owned by one or more borrowers). Tracking loans against securities enterprise-wide (or industry-wide) and releases/substitutions of security required close management to avoid over-lending.

Combination Loans. The customer can use more than one product to borrow the amount of money needed. For example, part of the loan may be adjustable rate, part may be fixed rate, and the remainder may be a home equity loan.

Securitization and the Uniform Consumer Credit Code (UCC)

During this period of home lending revolution, Westpac decided to make a major commitment to retaining and expanding its market share. While most of the Australian banks were well capitalized and did not need to securitize assets, Westpac saw the future potential of all forms of asset-based securitization, with mortgages leading the charge. The structure and consistency embedded in the UCCC would allow future mortgage products to meet rating agency criteria and provide local investors such as Superannuation Funds (pension and retirement programs funded by employers and employees throughout Australia) with additional investment sources.

The intent of the UCCC was to standardize lending processes and establish specific consumer protection. Failure to comply with the law could result in loss of principal and/or interest, fines to the origination lender and personal liability to the lending employee. Prior to this law there was no clear-cut set of standards or documents for Australian home lending. As the retail banking system was the primary customer contact point, it was not uncommon for the branch to make loan modifications that were not completely documented or within lending standards. The branch also was allowed to make changes to the loan characteristics on the computer system that again may not coincide with the loan file documentation.

UCCC in essence mandated that a form of control be established for all loans originated after the law took effect; loans originated prior to activation of the law continued to be administered per the related documents.

**SCOPE OF THE MORTGAGE PROJECT**

The primary drivers for what became known as the Westpac Mortgage Project were:

1. Compliance with the impending UCCC regulations.
2. Ability and confidence to securitize mortgage loans.
3. Computer systems that support rapid response to the marketplace.
4. Lower the cost of origination and servicing. Because of the large investment required for such a venture, the project had a very high profile within the bank's executive management group. The bank put a General Manager (equivalent to a Division President) in charge, who was challenged to find a partner that could assist in achieving the aggressive goals.

After due research and consideration, Westpac contracted with EDS as its partner. EDS would provide the knowledge and expertise of developing requirements for government compliance and securitization. Additionally, EDS already had mortgage applications that could support most of Westpac's requirements.

Once the partnership was confirmed, the full scope of the project was laid out. (See Figure 3.) It was quickly evident that this was not simply the modification of existing systems, processes, and functions. It was necessary to include in the project all things that are involved in establishing a new business.

- Prioritizing strategies.
- Facilities and equipment design and creation.
- Creation of new computer systems and modification of existing systems to Australian requirements.
- Process "reinvention" to endeavor to achieve "best practices."
- Organization development, recruiting and hiring personnel, and developing and implementing the training curriculum.
- Education and training existing bank branch staff that would work in participation with the mortgage project personnel.
- Establish user acceptance testing for systems and processes.
- Create key performance indicators to track the effectiveness of the work environment.

Project Organization

The project affected almost every area of the bank, thus requiring significant direct and nominal involvement throughout the bank's organization. However, a high level of confidentiality and secrecy surrounded the project due to site selection politics and staffing considerations. One of the benefits to be realized from the project was a gain in efficiencies of the mortgage process, resulting in decreased staffing requirements.

Most of the bank was under the impression that the project was primarily to install a system capable of complying with the upcoming UCCC legislation and enhance the bank's ability to securitize mortgage loans. People were not aware of the consolidation or the proposed staff reductions that would follow this consolidation. The project se-
cracy inhibited Westpac’s ability to staff the project in the beginning stages.

EDS also had staffing constraints. Most of EDS’s experience in the Australasia market was in the manufacturing, communications and government industries. One of the primary reasons that Westpac selected EDS, however, was for its international resources. Within 30 to 90 days, EDS had assembled a strong cast of mortgage professionals with experience in both business and technical disciplines needed by the mortgage project.

Westpac sought out project team staff with background and experience in mortgage and consumer lending, as well as project management skills. Those selected were highly motivated, well regarded within Westpac, open to creativity and possessed a broad knowledge base. They were expected to know the details and requirements of consumer lending within the bank, or to know where to find it.

While the majority of the EDS staff were technically oriented, individuals with business knowledge and expertise were involved to assist with the business design aspects of the systems, functions, processes and organization. The EDS financial industries consulting group was able to provide these individuals, and they were able to accelerate the inclusion of the securitization and “best practices” requirements into the project.

EDS staff numbers exceeded Westpac in the early stages of the project. The skewing of numbers to the EDS side caused WBC staff to be overwhelmed by the requirements that were coming from the EDS side. The working relationship suffered at this point, and it became obvious to the project management that changes were needed.

The structure was modified to integrate the two organizations as much as possible. Where before, the WBC staff was looked upon as a source of information to EDS, the reorganization combined WBC and EDS teams responsible for the same deliverables. This combined team approach made a dramatic difference in the working relationship, greatly benefiting the progress of the project.

The project organization was functionally driven, as follows:

- **Originations.**
- **Servicing (Loan Administration).**
- **Securitization (Secondary Marketing).**
- **Interfaces** (for integration of the EDS systems to the Westpac systems).

Each team included staff from the following EDS or Westpac groups:

- Westpac business personnel, to supply knowledge and expertise the ‘Australian Way.’
- Westpac technology personnel, to assist with the integration of EDS systems into the Westpac environment.
- EDS consulting personnel, to provide knowledge and expertise needed to develop business requirements to enable effective securitization and design of “best practices.”
- EDS technology personnel, to assimilate the business requirements and effects the programming changes in the EDS systems to meet project requirements.

In actual practice, there was a great deal of interaction among the teams. Additionally, other personnel were accessed as required to insure the successful completion of the project. This not only included local Westpac and EDS personnel in Australia, but also EDS personnel in the USA and other parts of the world.

**Project Initiatives**

Multiple strategies had to be satisfied by the Mortgage Project. These included the upgrading of systems and processes to enable conformity with the UCCC, quality of documentation and processes to enable effective securitization of mortgage loans, and streamlining of the product development process. Additionally, the bank wanted to implement “world’s best practice” in all the processes. This meant the review and evaluation of each process involved in the mortgage functions and reinvention as required.

While all of these strategies were of utmost importance and had to be incorporated in the overall project plan, UCCC compliance was the top priority, as it was driving the project time line. The bank viewed compliance with UCCC as a competitive advantage. It was questionable whether the other Australian lending institutions would be able to meet the deadline. Those not complying might be limited in the types of lending they could do until they were able to comply. This would afford those institutions that could comply, such as Westpac, with an opportunity to increase market share.

The organizational design and facility creation was quite extraordinary. A consolidation of this magnitude had not been accomplished within Westpac and probably not in Australia. The initial organization design was for approximately 700 (450 at start up) personnel that would grow to 2,000 within 3 to 5 years. A facility was needed that could be developed to accommodate the initial staff and support fairly rapid expansion without undue disruptions or the requirement to separate the operation into multiple locations.

The building of a new facility was not strongly considered because of time con-
strains. In the end, there were two strong considerations, one multiple building site in the state of New South Wales (NSW), just outside Sydney, and the other a large single-level warehouse in Adelaide in the state of South Australia (SA). The warehouse in Adelaide was chosen primarily as a result of favorable tax considerations by that state government.

While the warehouse satisfied the expansion requirements, it was the approximate size of three football fields; the only structurally reusable aspects were the sides and roof of the building. It had to be completely gutted and redesigned to accommodate the operational environment of a mortgage processing center.

Additionally, the design had to include the ability to expand without any disruption to the daily operations of the MPC. To illustrate the amazing success of this initiative, the time elapsed from the beginning of site selection to the issuing of the occupancy permit for the first phase, about one-third of the total space, was less than eight months.

While the Adelaide location provided favorable tax and government cooperation, it did pose problems relating to recruiting and hiring of experienced personnel. Westpac had a much smaller presence in SA than it did in NSW, its largest volume state. Therefore, it was necessary to develop a recruiting plan to hire and relocate staff from other parts of the bank to establish a core of experience; and another plan to hire and fully train local personnel. One advantage that the SA location did afford is that the job market was depressed and there was a sufficient pool of local applicants.

The recruitment plans did work and a reasonably good mix of Westpac (combination of mortgage and bank experience) and non-Westpac personnel were hired. However, all personnel had to progress through a rigorous training curriculum. The changes brought about by the new environment, systems and processes meant retraining for everyone. In many instances, the personnel not familiar with the Westpac environment had an easier time assimilating than the inter-company transfers. However, these transfers proved invaluable as to knowing how to get extraordinary things done in the Westpac environment.

A moving time line made the management and prioritization of the project extremely difficult. The project officially began in May 1995. At that time it was believed that the UCCC regulations could become effective as early as September 1995. That meant that the basic systems and processes to support compliance would have to be in place at that time.

Fortunately, it was soon determined that regulation would not be effective before November 1995. The regulatory target kept moving until enactment finally occurred in November 1996. However, the project had been forced to progress so rapidly that the MPC actually went operational in March 1996 with only fine-tuning required to meet final compliance issues.

**PHASE 1: JUNE 1995 TO MARCH 31, 1996**

The integrated project team was now organized around functions that replicated the MPC organization structure. Westpac elected to consolidate all home lending functions into the MPC from the regional and state credit/loan centers, utilizing existing staff to create business loan centers that would cater to business lending and non-standard home loan products.

The MPC would require a re-invention of mortgage processes to comply with UCCC. Existing credit/loan center processes were documented so as to identify unique state/territory settlement, payout, recording and stamping criteria. The new processes then became a combination of USA best practices, Australian cultural conditions and state/territory legislation. The business needs were then matched against Westpac's existing technology applications to support product development, loan origination, settlement, servicing and securitization.

This analysis concluded that none of the functional areas could be supported by existing applications other than customer collections (subset of servicing). EDS had recently customized their suite of USA mortgage applications in Europe and felt that the Australian characteristics could be integrated relatively quickly.

Speed, as well as quality, was imperative for Westpac to create a competitive advantage, so the EDS applications were chosen to support the project. An exception was securitization, where an interim product was selected so that securities could be sold throughout the project phases vs. waiting until its ultimate completion in 2 to 3 years.

With the technology applications chosen, the business processes were modified to take advantage of the proven EDS technology. There also was extensive customization to reflect the required Australian loan product and features. Business design specifications were jointly created by Westpac and the EDS consulting team, and then turned over to the technology teams for development, testing and implementation. Procedures and training material were developed based on the new processes and technology enhancements that would be implemented at the MPC.

The intent was to open for business on April 1, 1996, with a staff of 450 working on new loans. The staff level, as noted earlier, would grow to 2,000 over the next 3 to 5 years due to volume increases, acquisitions (Chal-
lengen Bank in 1996 and Bank of Melbourne in 1998), and moving the pre-UCCC portfolio of 400,000 loans to the MPC. The regional or state credit loan centers would systematically be reorganized into business loan centers, as their pipeline of pre-UCCC loans was.

Unionization within the financial services sector in Australia was the norm for the non-management staff at Westpac and all other financial institutions. As the union's impact was significant, Westpac developed a unique compensation program heavily weighted to learning. In addition to industry equivalent wages and benefits, each employee was given certain standards of performance that when achieved provided them with a certification of compliance and financial reward.

The MPC encouraged each staff member to take education classes in other functional areas and job switch into these functions. Whenever the employee satisfied the criteria for the new position, he or she received a salary increase. In this way, the employee benefited from learning and the MPC compensated staff based on increased value vs. the standard cost-of-living adjustments.

Each employee skill set was tracked so that during changes in workflow volume, trained staff could be shifted to the high volume areas. The resource flexibility combined with a technology infrastructure that supported hot-desking techniques meant that department work areas could be quickly expanded or contracted based on volume; or the staff could support short-term workflow changes by being granted access to the affected department's technology system within their current work environment.

Another concern of the union was staffing hours, as the MPC was officially open for business from 7 A.M. to 7 P.M. Monday through Friday, plus portions of Saturday and Sunday. Westpac again came up with a creative program that allowed employees to select the hours they would work, as long as they worked their normal weekly contract hours.

The process required a certain amount of core hours (prime customer contact hours) plus elective hours negotiated between employee and team leader. While a system of this type is very flexible and received strong employee support, there were instances where union involvement was needed to match staff with work volumes.

**Home Loan Origination Process Changes**

The prior origination process required customers to call or go to a branch office to discuss their loan requirements. The loan officer would reference rate and product information, assist the customer in selecting the appropriate loan and then complete a hardcopy loan application. Customer information was input to a rudimentary origination system that would check credit reports, perform credit scoring and provide an initial answer.

If the loan was preliminarily approved, the application was sent to the regional/state credit loan center for underwriting. The center would process the loan and advise the branch of its approval or denial; if approved, the branch would prepare a "terms and conditions" document (similar to a mortgage note) for the borrower's signature. Loan documents would be drawn by the center or branch, and settlement would occur at either the paid off lender, new lender or settlement agent (independent organizations or the borrower's solicitor). The loan center would then take care of the post closing issues of document tracking, recording and revenue stamping. Both the loan center and origination branch would do on-going servicing.

Under the new structure, the customer could either:

- Deal with his branch as before;
- Call the telephone-banking unit to gather program information and potentially start the application process; or
- Arrange for a mobile manager to take the application at a location of the customer's choice.

Instead of the customer looking at the various products and features, his or her loan requirements are entered into the computer system. The system searches all available products and provides a list that meets the customer's criteria.

This process allowed for a consistent approach to product selection plus the added benefit that new products and features could be taken to market faster. With the loan product selected and application data entered, the loan information is electronically uploaded to the MPC computer system where an automated credit scoring application approves the loan, subject to income verification, valuation and mortgage insurance requirements. Under normal circumstances a UCCC-compliant "terms and conditions" letter is automatically generated and sent to the customer within 24 hours for his approval and signing. Loan documents are then returned to the MPC for the balance of processing and settlement preparation.

The loan officer's duties changed dramatically, as they were no longer responsible for the administrative aspects of the loan after the application was submitted to the MPC. The new origination system incorporated a status-tracking feature to keep the loan officer aware of his customer's loan status as it progresses to settlement.

If the loan fails the credit score, the loan officer is notified electronically and would work with the customer to change loan characteristics or with the credit staff at the MPC for exception processing. Service levels were
established for each phase of the loan process that provided workflow delegation, priority management and exception processing, both on-line and through regular hardcopy reporting, updated on a real-time basis.

**MPC Organizational Structure**

Initially the organization (from the point that the application data comes into the MPC until the loan is funded) was structured on a functional basis. The end-to-end process resembled an assembly line with two specific subsets:

**Settlement**
- Terms and Conditions Generation.
- Credit Approval.
- Income Verification.
- Valuations.
- Mortgage Insurance.
- Settlement.
- Document Registration and Stamping.

**Servicing**
- Progress Draws.
- Customer Service.
- Loan Administration.
- Securitization Accounting.
- Collections and Default.
- Discharges and Releases.

The management of the MPC and Project Team considered various alternative structures and settled on a multi-team (Pod) approach that included all functions within Settlement, primarily based on geography. Workflow models were developed to track and project volumes in order to resource the number of staff allocated to each team. Each team was now responsible for a loan from start to finish and, more important, understood and supported the lending officers' customer service sensitivity.

The customer service function was structured to support new loans, settled loans and manual loan submission application processing. Their training program included learning about all three responsibilities so that people could be moved to the area of highest volume. They were also trained to utilize the other bank systems to support the bank-wide relationship programs and promote cross-selling. This approach allowed the customer and banking associates with a single source of information relating to loan (in process or settled) status.

The other areas of Servicing developed slowly since they dealt with a small portfolio in the early months. Initially the challenges dealt with customers and branch personnel support of the new mortgage products and processes. Previously a borrower and branch manager had wide latitude in modifying loan terms and conditions. While some of these modifications were still allowed, the customer now was dealing with a person in Adelaide as opposed to his/her local branch.

Time also became a factor, due to Australia's three time zones, and work priority was based on workload vs. customer relationships. Customers were also confused as to why they could do business as usual with loans settled pre-UCCC, and not post-UCCC—an issue also felt by the financial institutions. Various functional areas within loan servicing had to be refocused to product and geography in order to support Westpac's customer culture. Also the structure was amended to deal with product and process variations to gradually support securitization standards during the evolutionary process.

**SECURITIZATION**

Securitization of mortgage loans was a primary strategy of the Mortgage Project. In 1994, the securitization of Australian mortgage loans was not widespread. There had been some securitization and sale of loans in the local market, primarily by non-bank lenders; but this was minimal and "standards" were set on a deal by deal basis.

With the increase in non-bank lenders, Westpac realized that securitization would increase, and they wanted to be at the forefront, although the bank had not securitized any of its existing mortgage loans. The time constraints of Phase 1 did not allow the full development of the securitization capabilities. However, the processes and procedures were modified to incorporate the securitization considerations. This included automated document preparation to provide consistent and uniform documentation, quality checks throughout the process, and post settlement (closing) audits. Further system development would be incorporated later.

Westpac's Treasury Department decided that they needed securitization tracking and reporting capabilities before they would be made available through the Mortgage Project. They implemented a system, independent of the EDS's and Westpac's current systems, that would provide the necessary trust management and reporting. The loan data to support Treasury's system was provided by an interface from the EDS systems.

**PHASE 2: MORTGAGE PROJECT PLUS INITIATIVES**

After the full implementation of the MPC and fine-tuning of processes and procedures,
there were a number of initiatives undertaken to further utilize the capabilities of the MPC and better position Westpac in the marketplace. These initiatives included:

- Conversion of the pre-UCCC mortgage portfolio that resided on Westpac’s legacy systems.
- Enhance point-of-sale technology to improve the branch sales efficiency.
- Change product design strategy to be more customer focused.
- Acquisition of other banking institutions in Australia.

Conversion of the Pre-UCCC Mortgage Portfolio

In order to maximize the benefits of the MPC, one of the post implementation initiatives was to start planning the conversion of the 400,000-loan pre-MPC portfolio. This presented a unique set of issues that had to be addressed.

1. Identifying which loans could be converted to the MPC systems. It was quickly determined that the conversion would not be a one-time process, but a series of conversions. Each conversion would target loans of like product.

2. The loan packets, or files, had to be located and audited so that they could be moved to the MPC. It was discovered that the packets might be in a state loan center or branch or split between the two.

3. Data conversion was quite difficult. The data that resided on the legacy system was far less than that required for the new systems. Additionally, consistency of data on the legacy system was suspect as the data integrity controls were outdated.

4. The differences in the servicing requirements for the existing portfolio had to be integrated into the servicing processes and procedures. This required an extensive review of both process sets to identify these differences and optimize the processes.

   The first conversion occurred in the last half of 1996. Over the next two years, the majority of the pre-UCCC portfolio was converted to the new servicing system. The servicing of the remaining pre-UCCC portfolio has been moved to the MPC and is serviced on the bank’s legacy systems.

   **Enhance Point-of-Sale Technology**

The initial design of the origination system was intended to reduce branch administrative costs and improve document quality. While the design was good, it lacked certain functionality. The sales force felt would improve their prospect-to-closing ratios. A project team was established to enhance the product. Their priority was to look at everything from a sales point of view and find what was necessary to give the salesperson every opportunity to generate and close a sale.

   This initiative proved highly successful and the resulting technology was branded HLEM, Home Loan Enquiry Module. The real benefit was that the sales force was included in every step of the project and was responsible for its ultimate success.

   HLEM is now known as one of the best, if not the best, consumer loan sales platforms in the Australian market. Additionally, this is an evolving platform that is envisioned to support sales of all of the bank’s consumer products, including deposit accounts. While there are no direct statistics, the bank feels that this platform has been a major factor in maintaining the effectiveness of the sales force.

   **Change Product Design Strategy**

Australian lenders offer customers some very advantageous product features. Westpac realized that they had been dictating to the customer what features were available to them by the product that was chosen. As each product feature affects the overall product price to the customer, the customer’s needs were sometimes not totally covered by any particular product.

   The product development group in conjunction with the Mortgage Project designed a product that allowed customers to start with the “basic loan” and add features they thought would fit their needs. Each feature that was added had an impact on the price, either a rate adjustment or a fee. This proved very popular with customers, as they only had to pay for what they used or thought that they would use. In some situations, they even had the option of adding features in the future.

   This product was named Product of the Year and is another of the reasons Westpac has been able to increase its market share of new lending in the owner-occupied home loan market. Reported statistics put its market share for November 1998 at 23.8% when compared to all banks, and 20.1% in comparison to all lenders; and outstanding loans to about 20% of the national total at the end of 1998. (Westpac News Media Release, January 18, 1999.)

**INTRODUCTION OF THIRD-PARTY SERVICES WITHIN AUSTRALIA**

Soon after the MPC opened, Westpac began its attempts to market its processing and servicing capabilities to other lenders. Westpac realized that by providing services to other lenders they would be able to create additional revenue sources for the MPC and more quickly recover its investment. The offering included:
• State-of-the-art operation center
• All regulatory compliance
• Lower per loan cost due to economies of scale
• Constantly updated systems and processes
• Procedures and processing designed to support securitization.

The marketing effort for this was not aggressive for the first year in order to allow the MPC time to settle in and mature its operations. In early 1997 the efforts started in earnest and soon a letter of intent was in place with a moderate-size mortgage manager, FAI Home Loans (FAI), based in Sydney with lending offices in five of the eight states in Australia.

The arrangement was considered to be good for both organizations. Westpac viewed FAI as being a manageable size to be the first "third-party lender" to be serviced in the MPC. Additionally, FAI's product offering was fairly standard and could easily be assimilated into the MPC environment.

FAI, on the other hand, realized that their strength was in sales and marketing, and that they could not process and service loans as economically as Westpac. Additionally, they realized that their investment in plant, equipment and personnel would increase as they grew. They could see that by contracting with Westpac to do the processing and servicing functions they would be able to better control their costs and focus on their strength, sales and marketing. Additionally, with the improved system support from Westpac, they determined that they would be able to offer loan features that were previously not available to them and their customers.

The actual contract between Westpac and FAI was signed in December 1997 and became the first such agreement of its kind in Australia. In February 1998 the MPC started processing FAI mortgage loan applications, and the first loan was settled (closed) in March 1998. FAI's full portfolio of approximately 6,000 loans was converted at the end of March.

AUSTRALIA IN THE FUTURE

Today as we look back, the projection in 1995 that mortgage managers would gain a market share approaching 40% has proven untrue. The big four banks reacted very aggressively to retain market share. Westpac improved its market share of new lendings from 11.8% in January 1998 to 25.8% in January 1999. They improved internal operations to become more cost effective and customer responsive, and leveraged their balance sheets to enter the securitization market. The result is that banks continue to control over 80% of the Australian home lending market. Additionally, there has been a recent unsuccessful attempt by Macquarie Bank to sell its mortgage securitization business (PUMA Securities), which has been the major securitization source for the mortgage managers.

The banks also have put an emphasis on partnerships as a way to make their operations more cost efficient and international in scope. Westpac's collaboration with EDS led the way in creating the first national mortgage processing center in Australia. This was followed by a joint venture between the Commonwealth Bank (CBA) and EDS in which CBA outsourced all technology functions, including mortgages, to EDS.

GE Capital has aggressively entered the market through acquisition. National Australia Bank (NAB) acquired Homeside Lending, a major originator and servicer in the United States. The Homeside/NAB venture plans to leverage Homeside systems and processes for NAB operations in Australia, New Zealand, Asia and Europe. The first step is Australia where the second national mortgage center will be a NAB 65,000-square-foot facility in Melbourne, scheduled to open for business in March 2000.

Westpac has done six separate MBS issues since September 1996, including two private placements totaling over $5 billion (all servicing functions performed by the MPC). While the investor base for the securities was initially domestic, Westpac understood the benefits of expanding internationally; and so they have diversified between domestic ($2.29 billion), Euro market ($714 million), and US market ($2.25 billion) issues.

According to Moody's, banks led the issuance of MBS in 1998 with 67% of all issuances (A$5.8 billion) in Australia, which also represented the first year that non-bank issuers volume declined (1998 = A$2.9 billion, 1997 = A$5.7 billion).

Australian home lending has matured tremendously over the past four-plus years. With appropriate customer and shareholder focus, the industry has developed products that more exactly match customer needs (now and in the future), increased the speed and quality of new product campaigns, shortened the loan approval and settlement process, and established a strong infrastructure to effectively service the customer. They have taken the best of the world's strategies, experiences, processes and technology to improve the home lending process "Australian Style."