



# THE EMERGENCE OF NON-BANK LENDERS

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# NON-BANK LENDERS

## From banks to non-banks

Non-bank lending institutions account for just over 3% of intermediated credit. But three prominent New Zealand firms are optimistic about the scope for growth as they work together to educate brokers and clients on the manifold opportunities available in their burgeoning market

### Why non-bank lenders?

Mark Collins, CEO of Liberty Financial, believes non-bank lenders are an increasingly crucial component of the lending market. As the nature of work and the economy grows increasingly complex, so too must there be lending options that may not conform to the traditional criteria applied in the lending market by big institutional banks. Novel circumstances require tailored solutions.

“Not all borrowers are the same, which is where non-banks can provide greater choice, scope and flexibility to assist those customers that are not well serviced by the traditional approaches of a bank,” says Collins.

He notes that good lending solutions come from reciprocal and supportive relationships between lenders, brokers and borrowers. Non-bank lenders provide brokers with unique lending products, and brokers provide the channel through which non-bank lenders can assist a broader segment of would-be borrowers with their specific borrowing needs.

“Unlike the major banks, the primary distribution model of non-banks is through the third-party broker channel. Non-banks are an essential part of the broker proposition, and from Liberty’s perspective,

our commitment to supporting the broker channel is unwavering.”

Banks traditionally have been slower moving and therefore apply more restrictive and formulaic criteria for assessing loan applications. And this tendency is likely to be further amplified with the increasing

seek out competitive lending solutions that better align with their goals,” Collins says.

Dynamism and innovation in the modern economy require lending options that facilitate the needs of borrowers – whether these are small business owners, investors, or the customers who create the economic



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**Mark Collins, CEO, Liberty Financial**

scrutiny of the major banks. This means that non-bank lenders will only become more important.

“As banks continue to restrict their lending appetite, offering alternative lending solutions will become the new normal for most brokers. We expect demand for our customised and alternative lending solutions to only increase as more customers actively

demand. Liberty and other successful non-bank lenders stress the importance of a context-specific, case-by-case approach that accounts for a wider range of factors than typically considered by traditional banks.

“Sometimes a client’s financial situation is not straightforward. For example, they might be newly self-employed, have an impaired credit history, require an asset lend or a

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## LIBERTY FINANCIAL: STABILITY AND DELIVERY

- “Liberty Financial is a free-thinking non-bank lender that offers innovative solutions at competitive prices to support customers with greater choice. Since 2011, we’ve specialised in finding custom solutions for Kiwi borrowers who may not be serviced by traditional lenders.”
- “Because we’re constantly striving to find the right fit for a wide range of borrowers, we offer a suite of products from 90% lending right through to no-doc products, further enhancing our flexible approach.”
- “Due to Liberty’s financial strength it was one of the few non-banks that continued to serve customers through the GFC and continues to grow today.”

low-deposit loan. These situations typically fall outside the traditional underwriting criteria of the banks. However, a non-bank lender such as Liberty will take the time to understand the customer’s full story and be better positioned to offer solutions.”

Collins lists a few examples of the diverse product range offered by non-bank lenders. This includes:

- Low-doc – for the newly self-employed
- No-doc – for short-term investment asset lending
- Credit-impaired – taking care to understand each unique customer’s credit history to find ways to help those who don’t match traditional lending criteria
- Low-deposit – for first home buyers.

He underscores the flexibility and creativity of the non-bank lending space as its primary advantage in an ever-changing market, and to that end there’s still plenty of

room left for non-bank lenders to grow.

“More than ever, customers want certainty and choice. As the financial services industry has evolved under changing regulation, borrowers have been seeking out alternative options. The role of non-banks has always been to drive competition and provide more consumer choice, so lenders like Liberty have naturally increased in relevance.”

### Spreading the non-bank gospel

Luke Jackson, head of New Zealand at Resimac, shares Collins’ views as to why the non-bank market is taking off. But he is keen to highlight the work that various non-bank lenders are doing together to spread the message and advertise their unique products. There’s plenty of strength in the non-bank lending market, and a proliferation of new and innovative products that different firms specialise in. So, rather than attempting to outdo each other, non-bank lenders (such as those canvassed in this report) are working together to get the message out to

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## RESIMAC LOOKS TO THE FUTURE



"We're always looking at ways we can do things faster, at ways we can make things easier. We pride ourselves on having the sharpest price in the market – keeping competitive, keeping up the initiative, whether that's in terms of product, whether that's in terms of policy risk, whether that's in terms of how we can speed things up. The credit underwriting component is always going to be the key part of what we do, but we're always trying to find ways to get information to our advisers quicker and faster."

brokers and borrowers that there are vistas of opportunities beyond the lending products of traditional banks.

"The main thing non-bank lenders want to get across is that we do exist, that there are a lot of deals that banks aren't doing, and there are solutions for these borrowers."

Jackson believes Resimac has a unique advantage and capability to deliver extremely competitive rates in the sphere he terms 'non-bank prime'.

"We're seeing a lot of self-employed contractors and sole-trader-type operators; we're seeing a lot of explainable adverse credit on credit scoring; we're seeing changing borrowing structures that reflect changing family borrowing needs. All of these situations are amenable to great deals, but they're not sitting within the ambit of the main banks' criteria. We can look at those, we can do those, and we can do them at very competitive rates."

While Jackson is understandably proud of Resimac's record and reputation, he is equally enthusiastic about coordinating messaging strategies with other non-bank lenders, given the advantages of exposure that traditional

banks still enjoy due to their established institutional footprints.

Most importantly, Jackson is working with others (including Liberty and Avanti) to connect with advisers and raise general consumer awareness.

"We've done a lot over the past year to educate advisers, but it's also about furthering that education and getting advisers to step out of their comfort zones and get involved with non-banks. And then there's raising consumer awareness as well. For Resimac, that would include raising awareness of our competitive pricing. I think there may be misperceptions



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in the consumer market about what non-banks are – and the associated costs – that aren't actually the case."

These efforts aren't just a matter of passive advertising campaigns; instead they involve actively seeking out and connecting with brokers to highlight the triangular benefits to non-banks, brokers and consumers of the diverse product offerings of the non-banks.

"So for instance last year we ran speed-dating events where advisers across all aggregators were invited to come and hear from a group of non-bank providers what our offerings are, what our appetites are. Speaking for ourselves, we've always got BDMs out on the road talking to advisers and keeping them up to date about what our policies and offerings are, and seeking out new advisers to discuss what we can do."

Does Jackson observe any reluctance on

the part of advisers to embrace such new opportunities? Are there advisers who are too set in their ways to consider broadening their scope to include the burgeoning non-bank market?

If there is any such reluctance, Jackson hasn't encountered it. He says the role of an adviser entails being adaptive and creative. It's part of the job description.

"We see advisers of all different ages and stages. And they're going through a lot of changes themselves in terms of regulations that affect them. Anyone who doesn't adapt to changing circumstances will struggle. Knowing

about non-banks is one of those crucial adaptations to the market that advisers need to be aware of. Because if you don't know about non-bank products, you can be sure there's an adviser down the road who does."

### Cooperation is key

Stephen Massey, head of consumer at Avanti Finance, is the first to admit that non-banks don't have all the solutions, either individually or collectively. "Not one of us has all the solutions, but between us we offer a lot of really great solutions."

He believes the competition among and between non-banks and banks doesn't have to be a zero-sum game. Banks have their place in the market, and the successful non-banks often bring different strengths and specialisations to the table. The expansion of non-banks and their product



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offerings provides complementarity as well as competition.

“The banks provide a lot of great services for people. But the proportion of people they’re not able to help is growing. So that’s where we are able to step in and offer innovative solutions, and if we can’t do it, there’s a good chance another non-bank will be able to. For instance, some of the other non-banks are really strong in the investor space, which is not an area we specialise in, and others are really good in the construction space, offering great products to builders and small-time developers. Avanti looks to specialise in helping hard-working Kiwis.

Avanti is proud of its unique range of lending products, but as with Liberty and Resimac, it is just as interested in the overall success of the non-bank sector.

“There genuinely has been a very cooperative relationship between the non-banks, because we all want to see the sector grow, and to have it recognised for what it



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**Stephen Massey, head of consumer, Avanti Finance**

can do, and so we’re always working hard to educate and work with advisers to help them.”

In addition to their participation in broker speed-dating events hosted with other non-banks, Avanti also distributes newsletters to disseminate product information and case studies that illuminate the special advantages it offers in various scenarios. As Massey puts it, “Case studies are a great way to illustrate what we do and how it can help customers,

and help advisers to solve customers’ needs.” Because Avanti, like other non-banks, assesses applications on a case-by-case basis, these case studies are vital for broadening brokers’ and clients’ perspectives beyond the narrow, scorecard-determined lending products typically on offer from banks.

“In a traditional bank environment there may just be one element that doesn’t get over the line, or doesn’t tick the box,

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## THE KEYS TO AVANTI'S SUCCESS



"The diversity of our product range provides resilience to our business – it allows Avanti to use our wide range of solutions to meet ever changing needs. That means that we don't tend to overreact to sudden changes in the marketplace. Additionally, our advisers love the consistency we show in the marketplace. We're not in and then out. We have brokers and advisers that have been working with us for over 15 years. It's that consistency and stability that is really powerful. We have 160 staff now. And aside from that, we've really enjoyed being a part of the New Zealand marketplace. In simple terms, we want to help hard-working Kiwis. We're very much aimed at seeing middle New Zealanders achieve their financial needs."

and regardless of the fact that everything else about the deal may be perfect or very strong, the bank is forced to say no. That can be very frustrating for customers; very frustrating for advisers. And I think that between us – across the whole non-bank sector – we can accommodate those customers who fall just outside of strict bank criteria."

But Massey again underscores that it's not an either/or proposition pitting banks against non-banks.

"There are also customers who already maintain a banking relationship for some of their needs, but they also want a separate, alternative funding line so that they don't have all their eggs in one basket."

Above all, Avanti is unafraid to devise novel solutions to client-specific needs. Sometimes that means using more than one product in combination, or supplying borrowers with lending products that complement and support loans already acquired from major banks. Massey provides

the following hypothetical as an illustration.

"For example, an adviser is told by a client that they need \$40,000 to solve a tax bill for their business. They've got their first mortgage for half-a-million dollars with a major bank; they go to the bank and try to refinance \$540,000 but the bank won't do it, so they come along to a non-bank lender to see if we can help. And we might take a look and say, 'Well, we could do the whole lot, but it would make better sense for the client to preserve their \$500,000 bank mortgage, and we'll just do the \$40,000 as a caveat loan.'"

This is part and parcel of Avanti's desire to put the customer first by assessing their situation holistically, providing an end-to-end service and solving problems in a pragmatic fashion as they arise.

"We know how to look after the customer not just up to settlement but through post-settlement too. Avanti remains flexible and customer focused through the life of their loan," Massey says. **NZL**