THE FINANCE BROKING INTELLIGENCE REPORT

Powered by TrailBlazer Finance

TrailBlazer Finance

Intro

TrailBlazer Finance is proud to present *The Finance Broking Intelligence Report*:

A comprehensive analysis of trail book valuations and sales activity derived from our unique expertise and a deep dive into over 300 valuations and 40 trail book sales conducted in FY23, FY24 and FY25.

This report provides finance brokers with unparalleled insights and actionable data to help grow and optimise their businesses.

As a highly specialised non-bank lender dedicated to serving the broking community, we are committed to equipping you with the knowledge to navigate and thrive in today's market.

Contents

1. Trail Book Valuations: Key Trends

Our extensive analysis reveals the latest trends shaping trail book valuations.

These data points highlight the health and dynamics of trail books, providing brokers with the insights needed to assess and improve the performance of their own books.

Over the past decade trail book valuations have continued to increase. However, not all trail books are created equally, and an informed market is increasingly being educated to understand the difference between high-quality books, for which a premium is paid, versus below-average books, where far more caution needs to be applied, as these are often proving to be sub-optimal, or negative yielding investments.

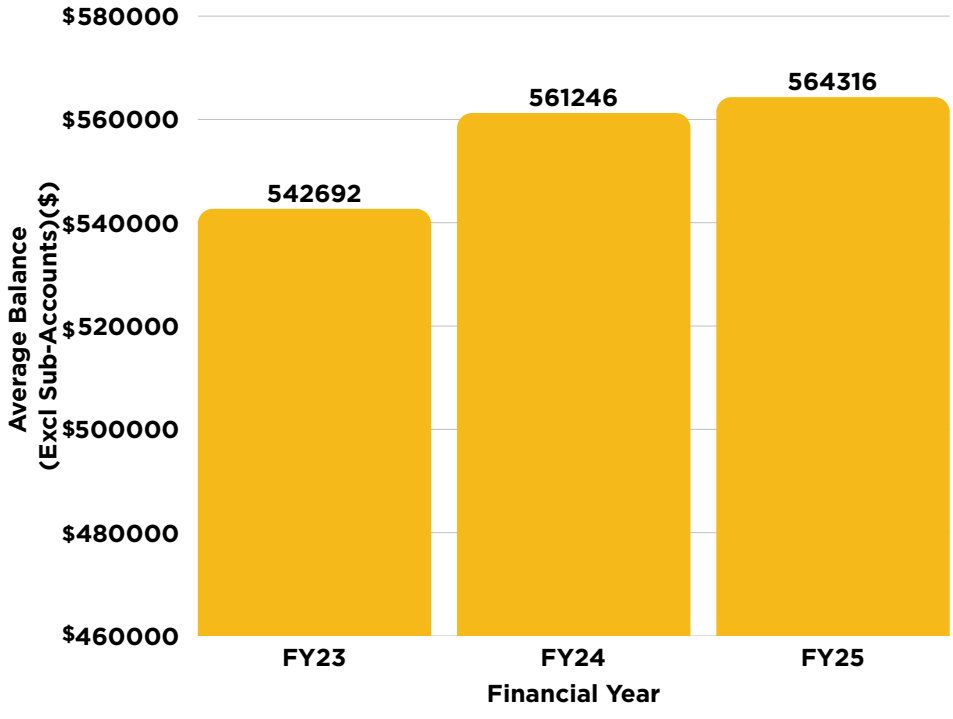
Average Loan Balance

Understanding the typical loan size within a portfolio offers critical insights into scalability and borrower demographics. The larger your average loan size, the fewer loans you need to write to achieve the same loan balance, which is what determines your trail income. How would your loans stack up against the industry average?

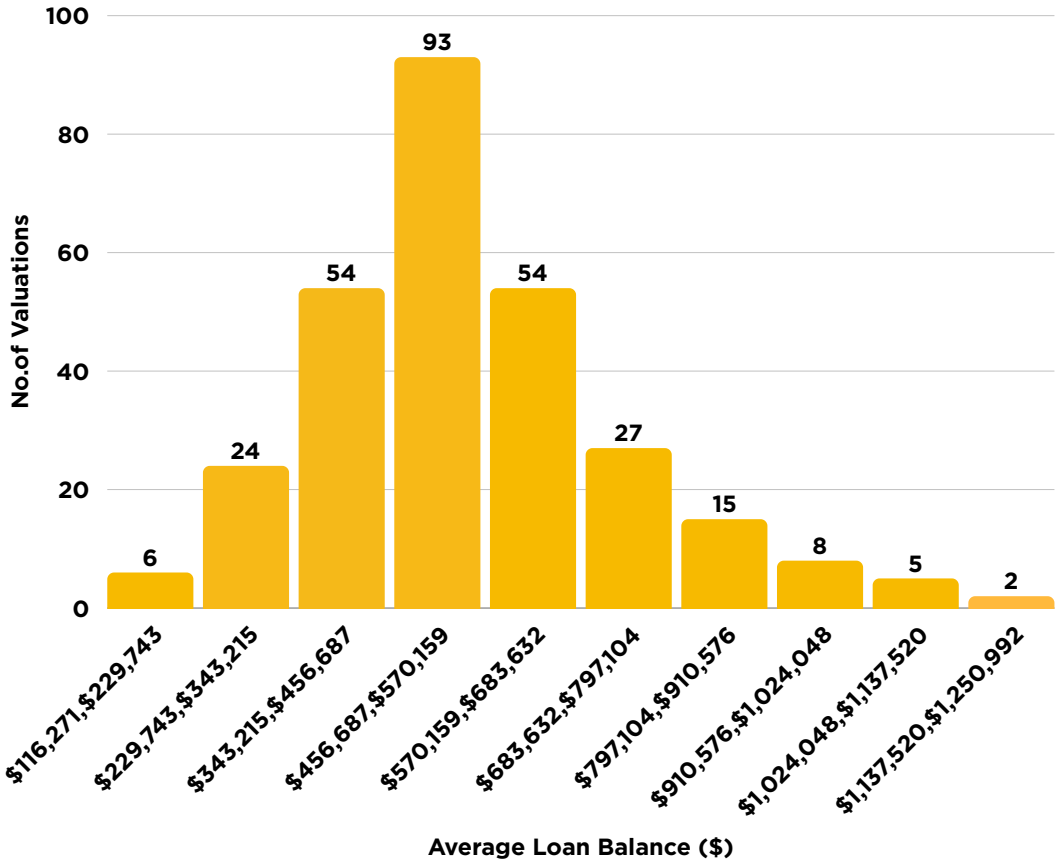
What is often missed is that a trail book may not have any real underlying growth in the number of new loans written. All of the growth could be coming from increased average loan sizes. This, in turn, may occur because property prices have increased, and therefore the same 65% LVR mortgage has resulted in a larger loan and a larger trail commission.

What if property prices cease to go up? Or, what will happen to that trail book's value when property values and loan sizes go down in a particular area or demographic? This is where it's really important to understand the trend in terms of loan sizes and how it compares historically.

1a. Average Loan Balance ($) - FY23 vs FY24 vs FY25



1b. Average Loan Balance ($) - FY23 to FY25



Average Age of Loans

When looking at the age of your loans, you want the majority to be 'well-seasoned'. This means, ideally, the loans will be more than two years old so they're out of the clawback period and not too old, as the principal gets paid down faster as the loan ages.

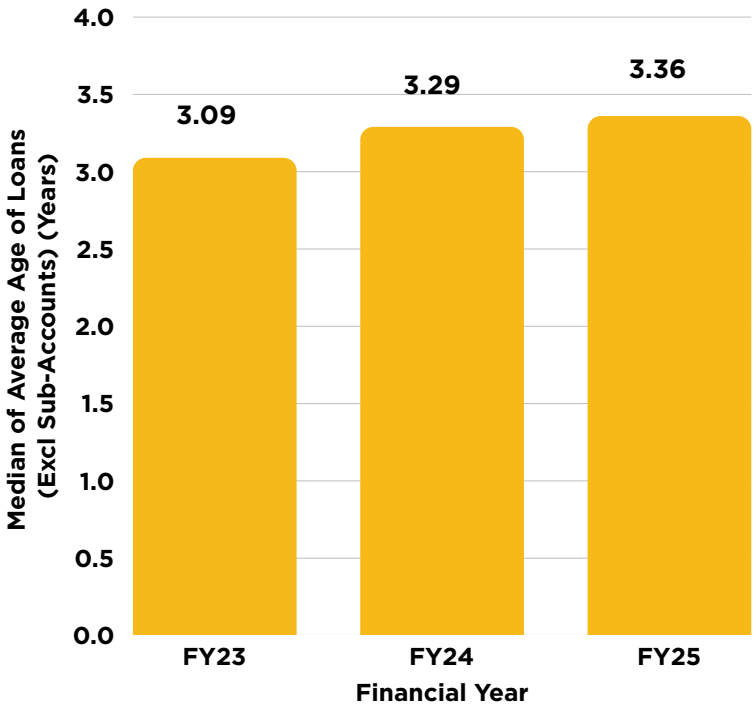
An average loan age of 3-5 years is optimal. In chart 2a, you can see the median of average loan age was 3.36 years in FY25, a 8.74% increase from FY23.

A simple way to understand the age of underlying loans is to think of them in human terms. You can multiply the age of the loan by 10 to get the equivalent age of a person, e.g., a 3-year-old loan is like a 30-year-old person.

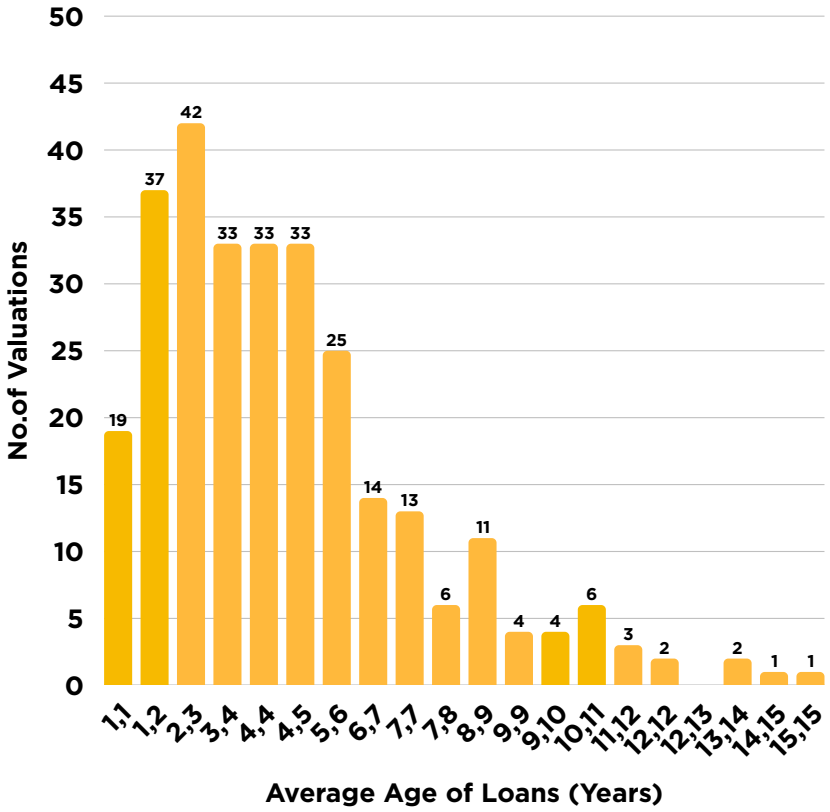
If you have an employee in a company who is between 30 and 50 years old and has been loyal and remained with the company for many years, they may still have 20 or more years of service to provide. What if that same employee had already worked for the company for 60 years? How many more years of strength and good service could reasonably be expected? It is the same with a loan in a trail book - over time, the loan is paid down, its "strength" diminishes as principal is repaid, and with time, circumstances change.

Borrowers move out of large homes into apartments and from apartments into retirement villages, and loans are repaid. Therefore, when assessing a loan book, quantifying the average age of the underlying loans will give a great insight as to the likely future cash flow that can be derived from those loans by way of trail income.

2a. Median of Average Age of Loans (Years) - FY23 vs FY24 vs FY25



2b. Average Age of Loans (Years) - FY23 to FY25



Loan Balance Run-Off Rate

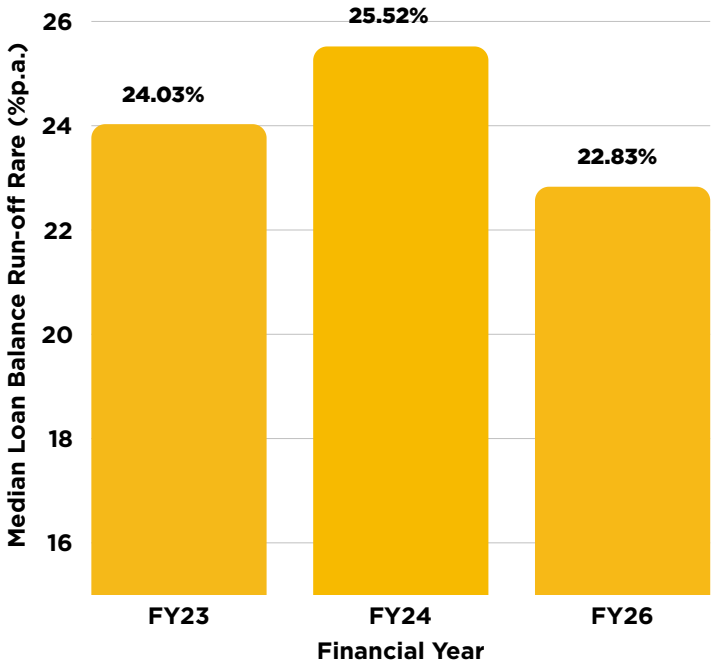
Monitoring this metric helps identify patterns in borrower retention and refinancing trends.

Run-off rates in FY23 and FY24 were concerningly high, suggesting that brokers would need to write a significant volume of new loans just to keep their trails steady. Fortunately, in FY25 we saw run off rates reduce a little to 22.83%, this is still considered high but the trend downwards is promising.

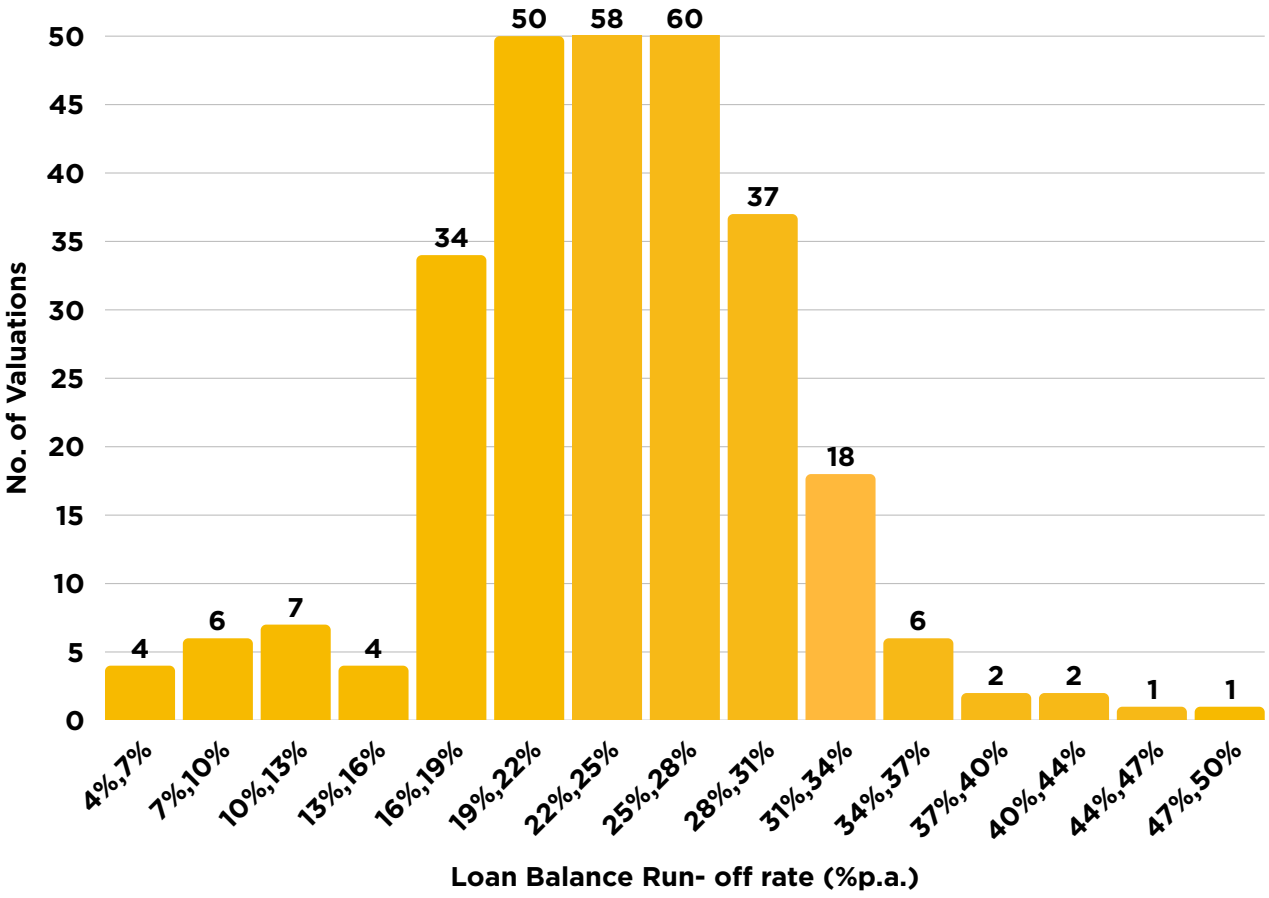
The exceptionally high run off rates in FY24 were influenced by changing interest rates and the cash-back offers that were previously available. Still, run off should be a concern and a focus for all brokers.

*It's important to note that these figures are not 'normalised' to account for brokers refinancing the same client and keeping them in their book, but with a new loan.

3a. Average Loan Balance Run off Rate (%p.a.) - FY23 vs FY24 vs FY25



3b. Loan Balance Run off Rate (%p.a.) - FY23 to FY25

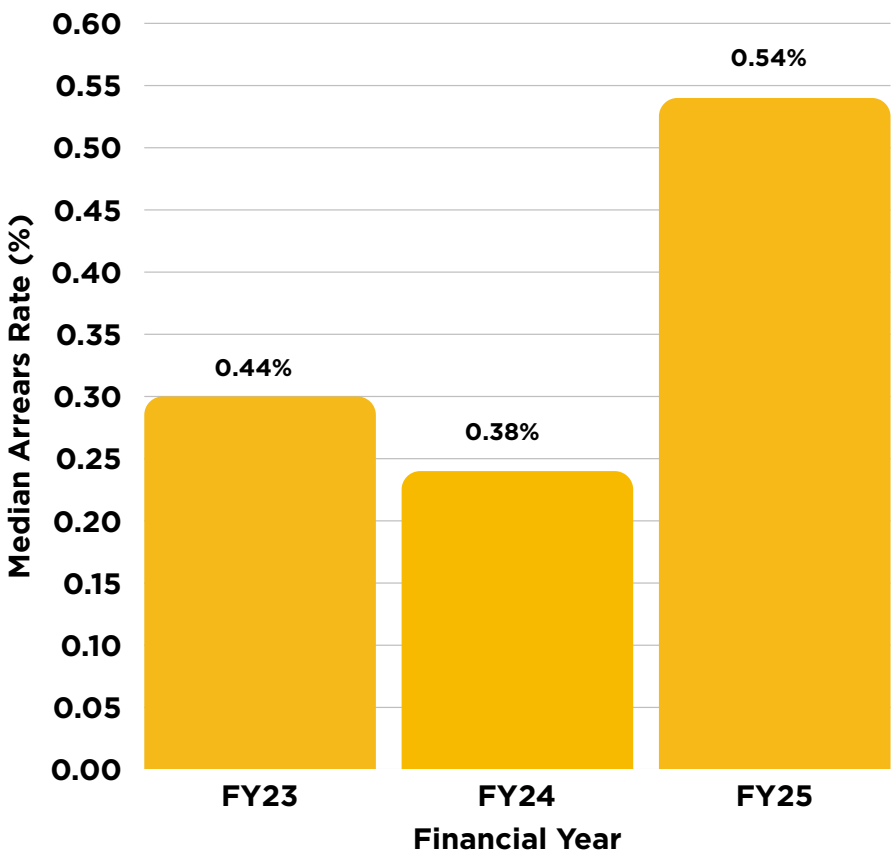


Arrears Rate:

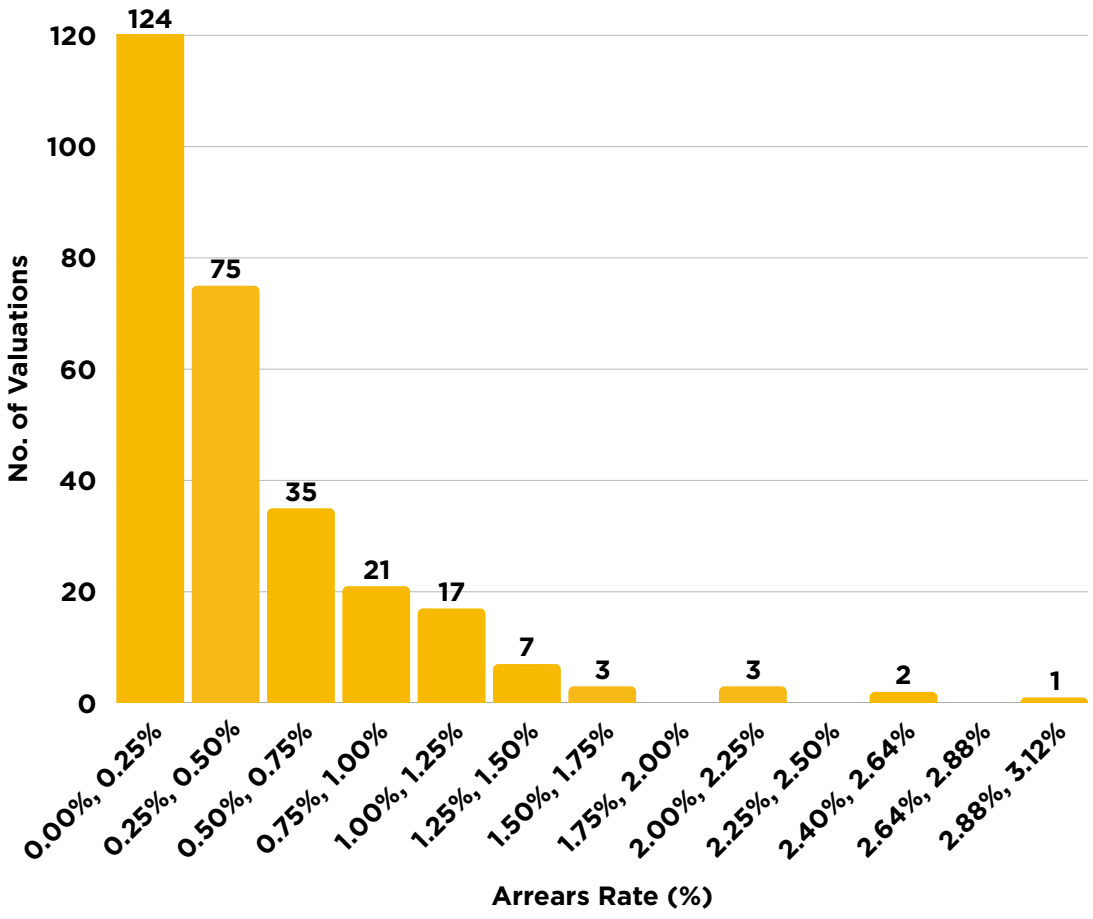
The arrears rate through the broker channel remains low, reflecting the high-quality loans being written by brokers, despite an uptick in FY25.

Arrears is, of course, a critical metric for brokers, because when a loan enters into arrears, the bank stops paying trail. In FY25 we saw a 50% increase in the arrears rate compared with FY24, this is reflective of a tougher economic climate and should be a concern for brokers.

4a. Average Arrears Rate (%) - FY23 vs FY24 vs FY25



4b. Arrears Rate (%)



Clawback Rate

Minimising clawbacks protects your bottom line and boosts valuation potential.

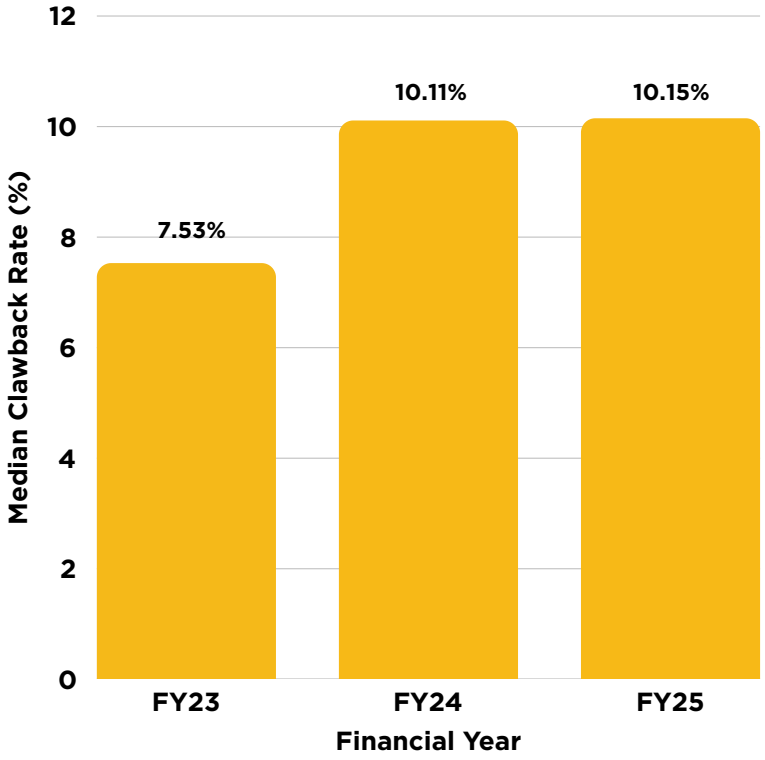
Every broker knows how much it hurts to get a clawback, and with average clawbacks over 10% in FY24 and FY25 they have become an increasing concern for brokers.

The price many brokers have paid for swapping clients between lenders who offered cash back incentives is that if the client had been with that lender for less than two years, the broker suffered a clawback of some form.

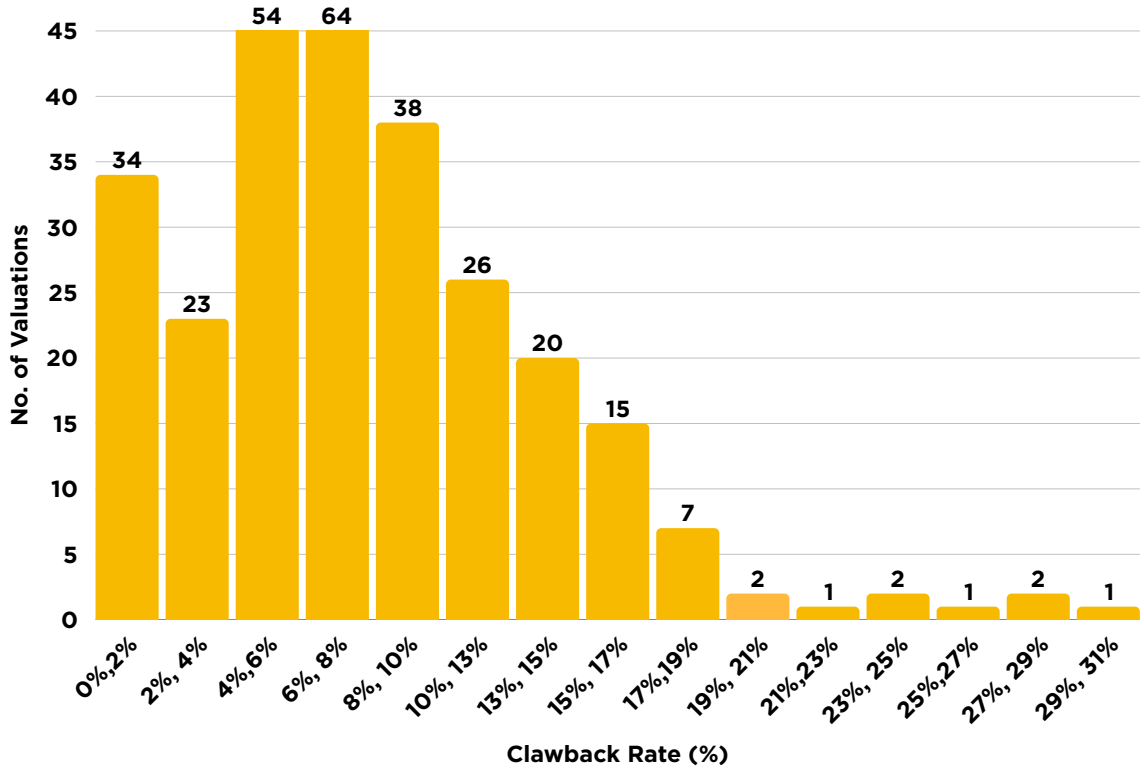
In other words, to retain the client, the broker has done twice the amount of work for no additional real income. It is hardly surprising that clawbacks are the bane of the broker community. It is even worse when buying a trailbook where the original owner was paid the upfront commission, and now the buyer faces a slew of clawbacks, yet never earned the original upfront.

Often, the clawbacks are large enough to wipe out all trail in some months. The increase in clawback rates in the past years has been such that only a reckless buyer, or one without the requisite experience, will undertake an acquisition without a detailed understanding and analysis of historic clawbacks and the rate of growth in clawbacks in that book.

5a. Average Clawback Rate (%) - FY23 vs FY24 vs FY25



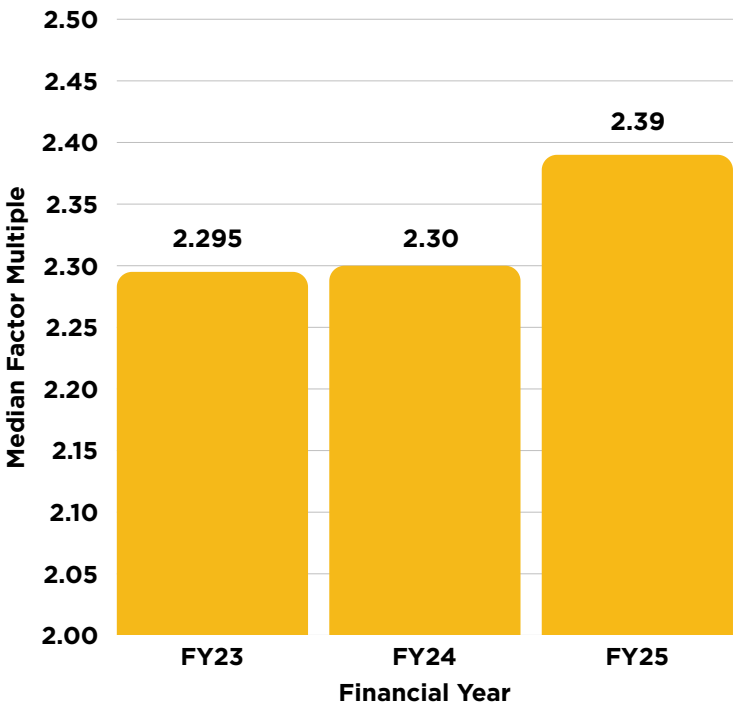
5b. Clawback Rate (%) - FY23 - FY25



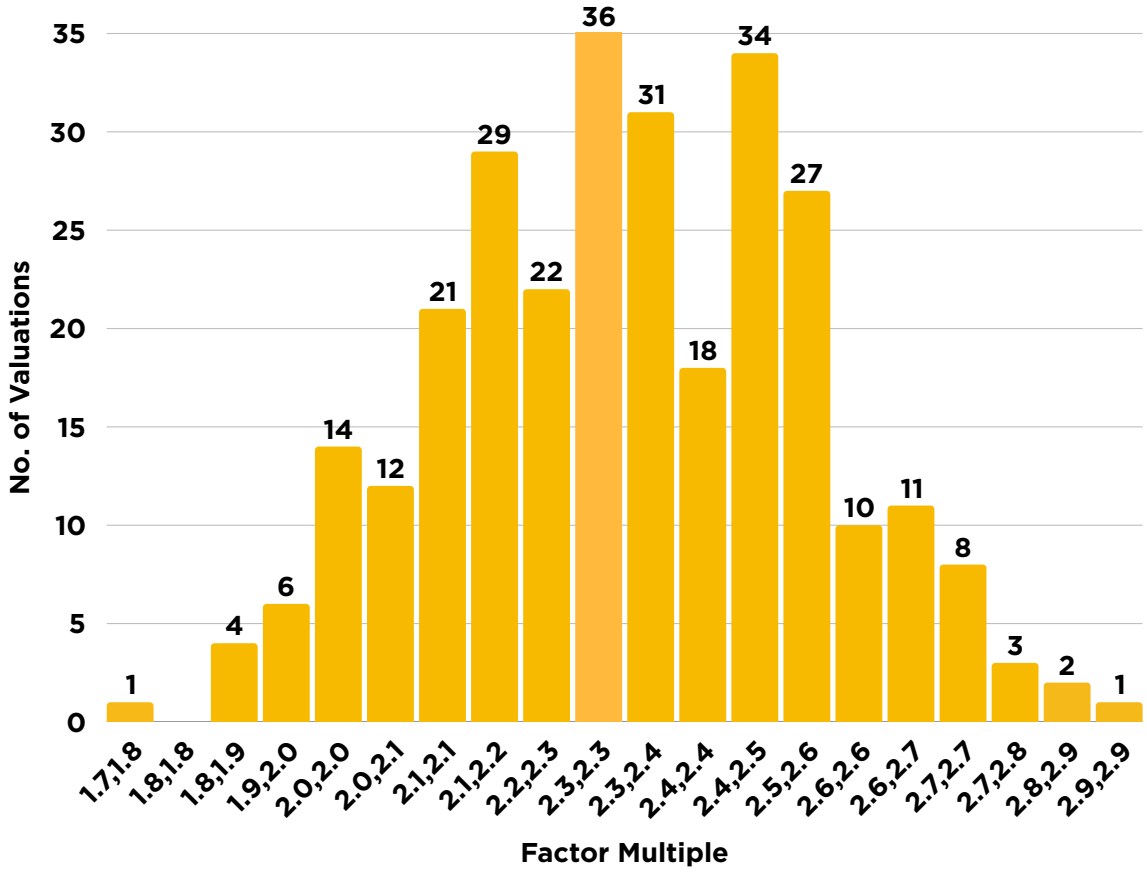
Factor Multiple

This multiplier is a key determinant of valuation figures, directly influenced by book quality and revenue stability. We saw stable median valuation multiples across FY23 and FY24. In FY25 we saw a 3.91% increase in median valuation multiples relative to the previous year. This increase reflects a step-up in the quality of books owned by the broker cohort for whom we performed valuations.

6a. Median Factor Multiple - FY23 vs FY24 vs FY25



6b. Factor Multiple - FY23 to FY25



Valuation Figure

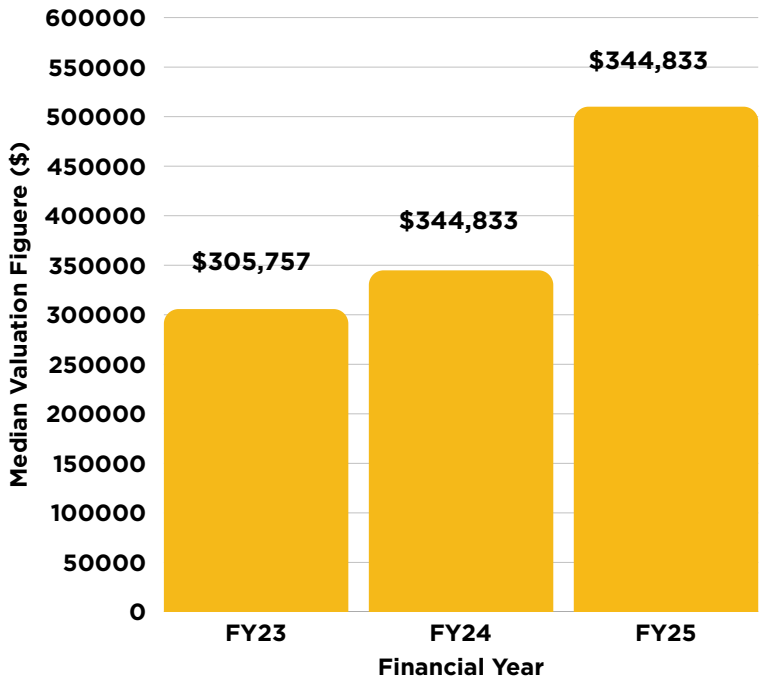
This reflects the overall worth of trail books under current market conditions.

The median valuation figure in our valuations increased by 11.4% from FY23 to FY24 and then another 47.91% from FY24 to FY25. As the factor multiple was reasonably stable during this period, on average, the loan balance in each trail book increased significantly from FY23 to FY25; this may be in part due to an increase in property prices.

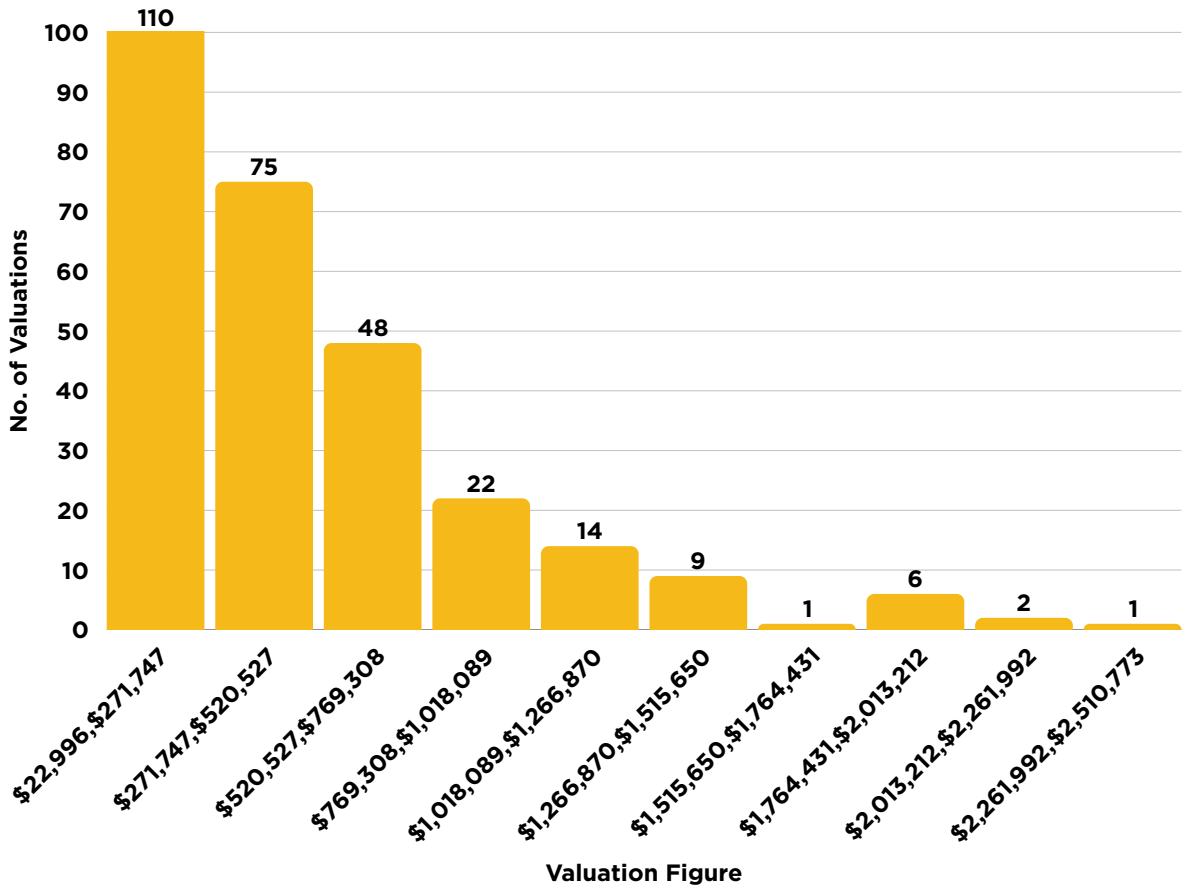
Expressed differently, the value of trail books increased in the past two years, not because the multiple that people would pay increased, but because average loan balances have increased. Simply, brokers have written larger loans.

Almost all of the increase in value of trail books that we've witnessed is a function of an increasing property market, rather than investors paying high multiples for trail books in the past year.

7a. Median Valuation Figure ($) - FY23 vs FY24 vs FY25



7b. Valuation Figure ($) - FY23 to FY25



2. Marketplace Activity: What's Driving Demand?

The marketplace for trail books is dynamic, with numerous factors influencing activity levels, pricing, and overall demand.

Our findings shine a light on the patterns that matter most. TrailBlazer has been involved in buying and selling trail books for more than 13 years. Over this period, we've seen trail books steadily increase in value to the point where they are now a robust asset with real value.

The demand from interested buyers continues to exceed the number of trail books available for sale by several fold. In most cases, there are six to seven interested buyers for every book offered for sale. Over time, this will lead to higher multiples being paid, until there is a supply-demand balance.

The increase in the amount buyers are willing to pay is being driven by a numner of factors:

- The availability of funding secured against trail books by specialist funders such as ourselves.
- The credit worthiness of the intermediary aggregator who in most cases has become far more financially robust.
- The emergence of investor buyers simply looking for an alternative predictable asset class like trail income.
- A maturing market of informed buyers who have grown to understand how to use valuations and to discern good trailbooks from those that are of lesser quality.

Bids & Enquiries

Tracking the volume of buyer interest reveals the competitiveness of the marketplace.

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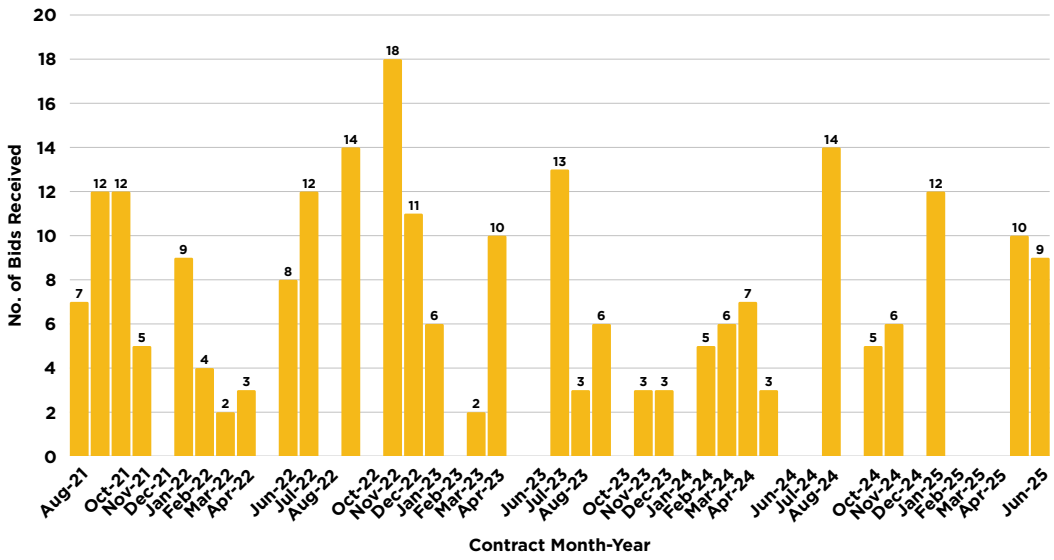
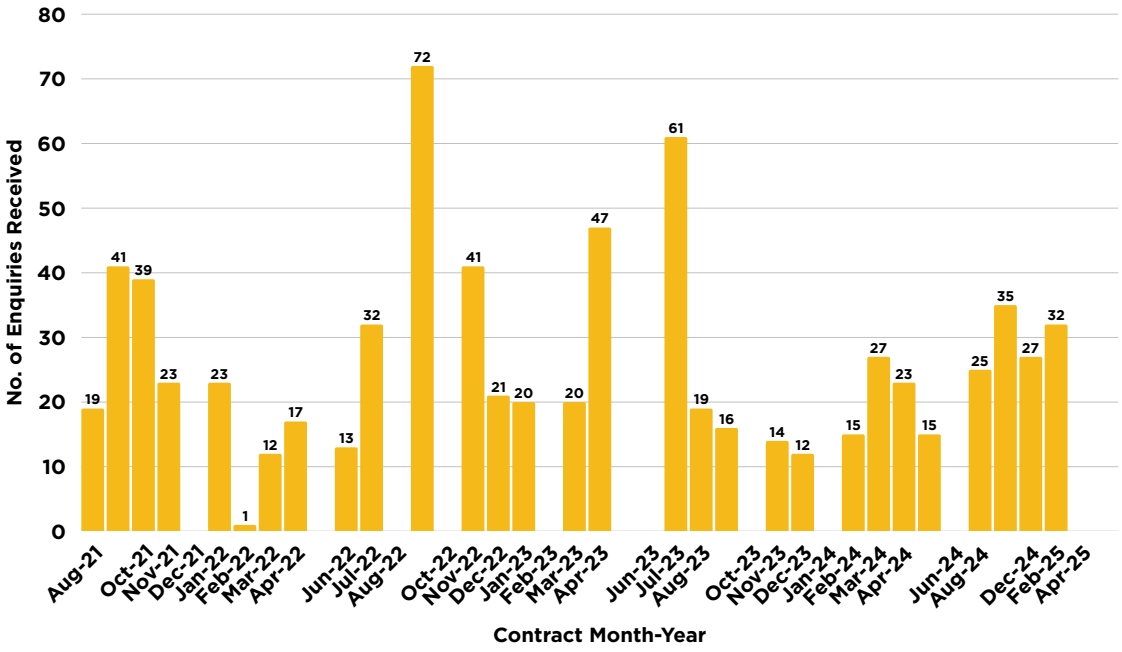
8a. Bids Received - FY22 to FY25



An interesting trend that has developed is that as the market for trailbooks has become more informed and prices have risen. The number of bids received for each sale has started to moderate i.e. many of those who attempted to throw in lowball bid to see if the could "get lucky" have left the market. Those who remain tend to be well informed bidders who have done their homework and utilised valuations to provide competitive bids and thereby have outbid and driven out time wasters.

8b. Enquiries Received - FY22 to FY24

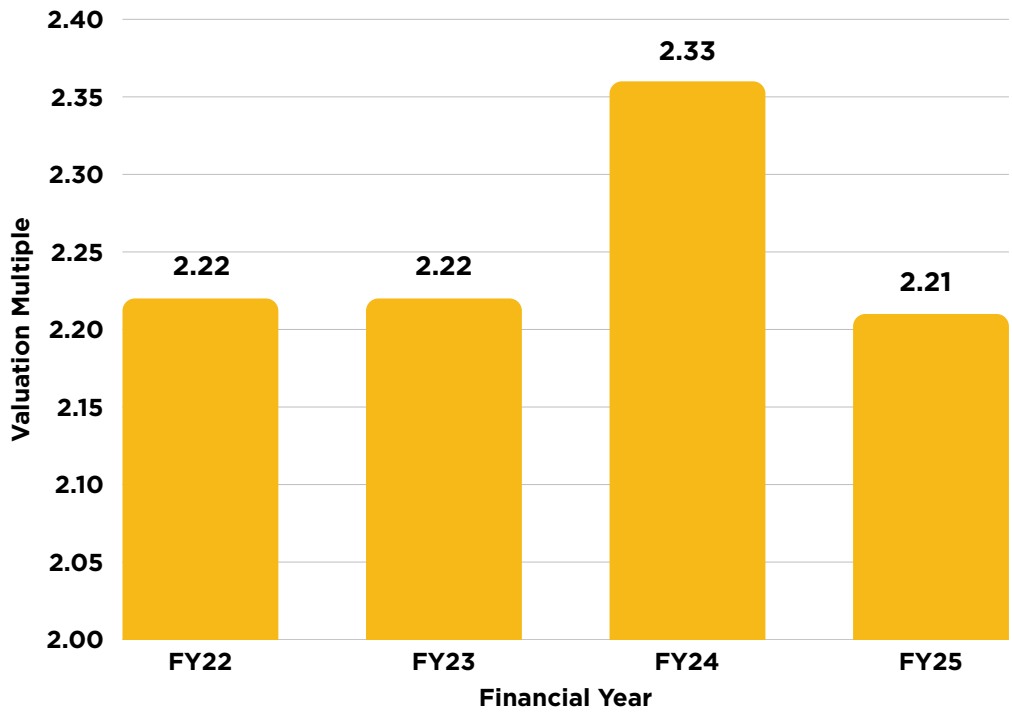


Valuation Multiple

This metric looks at the median valuation multiple, providing an insight into the quality of trail books going through the marketplace.

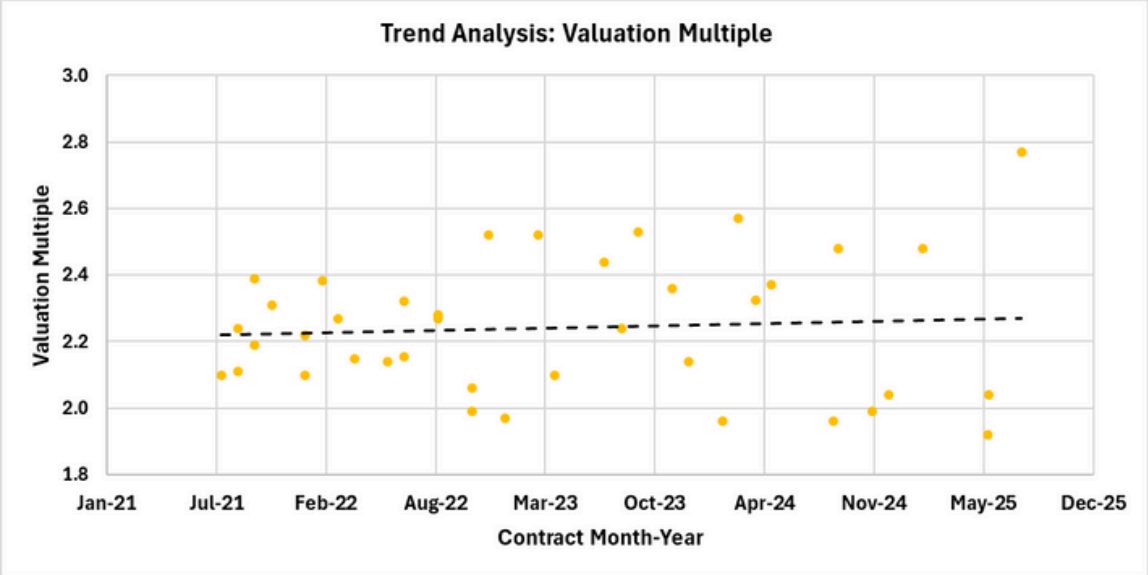
We've seen the median valuation multiple of books that entered our trail book marketplaces increase by around 7% in FY24 and then return to a normalised level of 2.21.

9a. Average Valuation Multiple - FY22 to FY25



Outside of a slight increase in FY24, this data indicates we're seeing trail books of a consistent quality enter the marketplace.

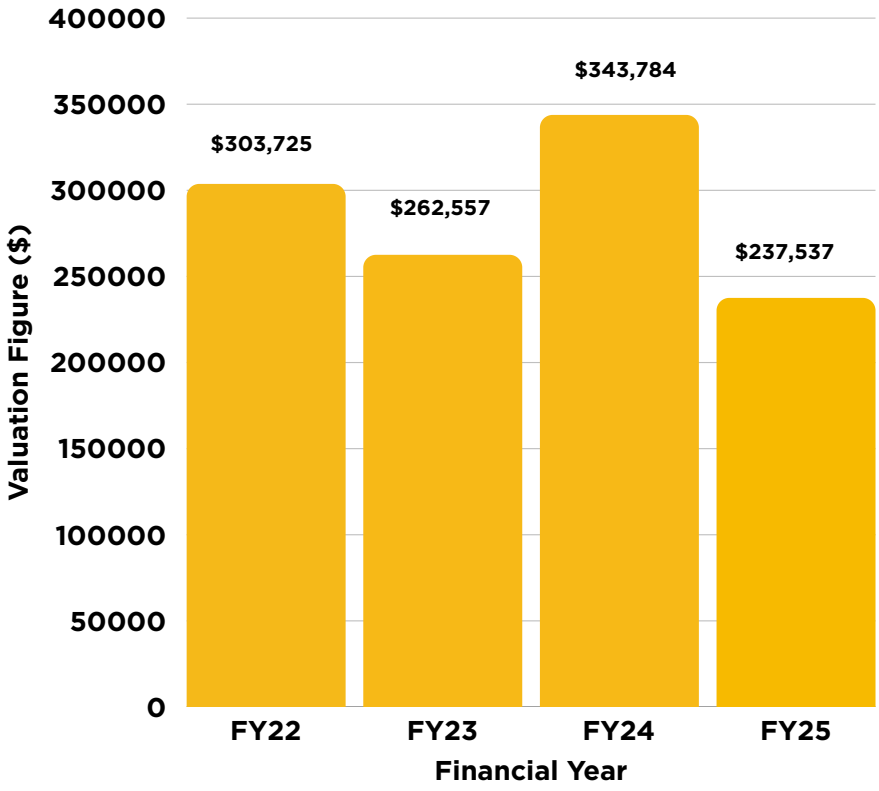
9b. Trend Analysis: Valuation Multiple



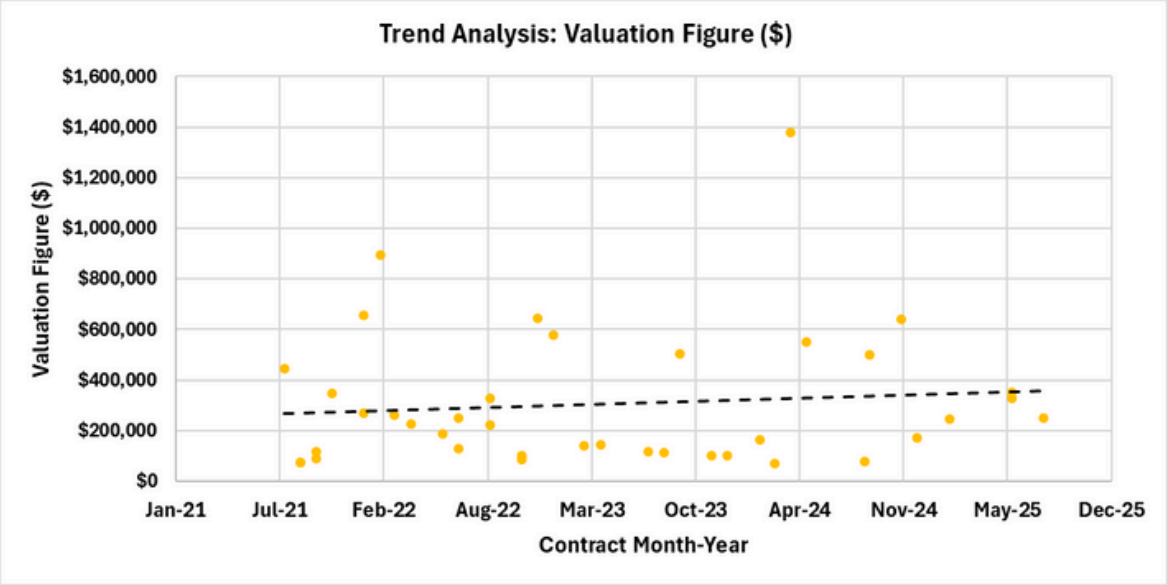
Valuation Figure

Aggregated valuation data highlights broader market trends. Smaller books are coming through the Marketplace on average.

10a. Average Valuation Figure ($) - FY22 to FY25



10b. Trend Analysis: Valuation Figure ($)



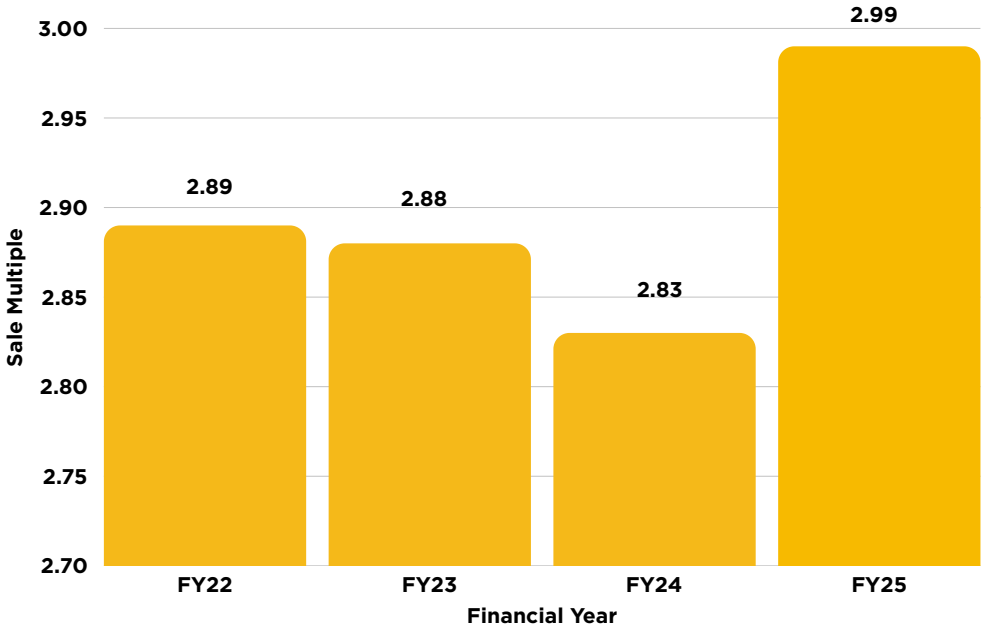
Sale Multiple

Real sale multiples offer a benchmark for understanding actual market value. What these graphs show is that buyers continue to pay a sizable premium to the underlying fair market value of the valuation (See Average Valuation multiple Graph on page 19).

This is probably the most accurate indication of the strong demand for this asset class. While the purchase multiples did not increase from FY22 to FY24, the multiples paid remained strong. Then from FY24 to FY25 we saw a 5.65% increase in multiples paid reaching an average sale multiple of 2.99x annual trail income.

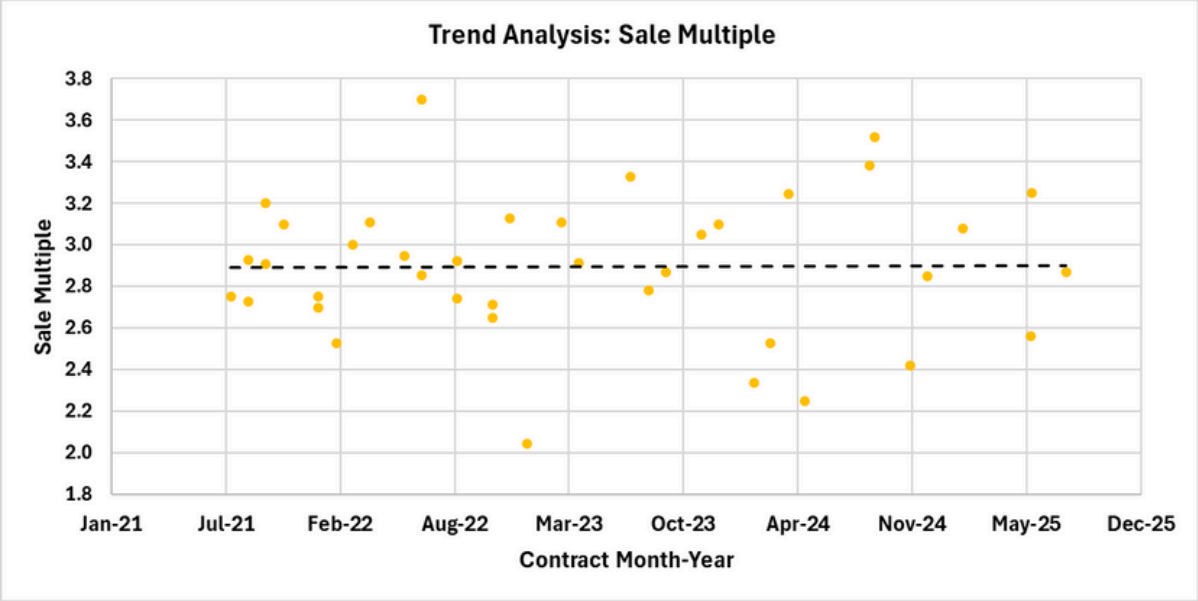
This data is a testament to what has become a very strong market for trail books.

11a. Average Sale Multiple - FY22 to FY25



Average sale multiples have been stable with an increase in FY25 reflecting the growing demand for trail books and the evolution of trail books as a legitimate asset class.

11b. Trend Analysis: Sale Multiple



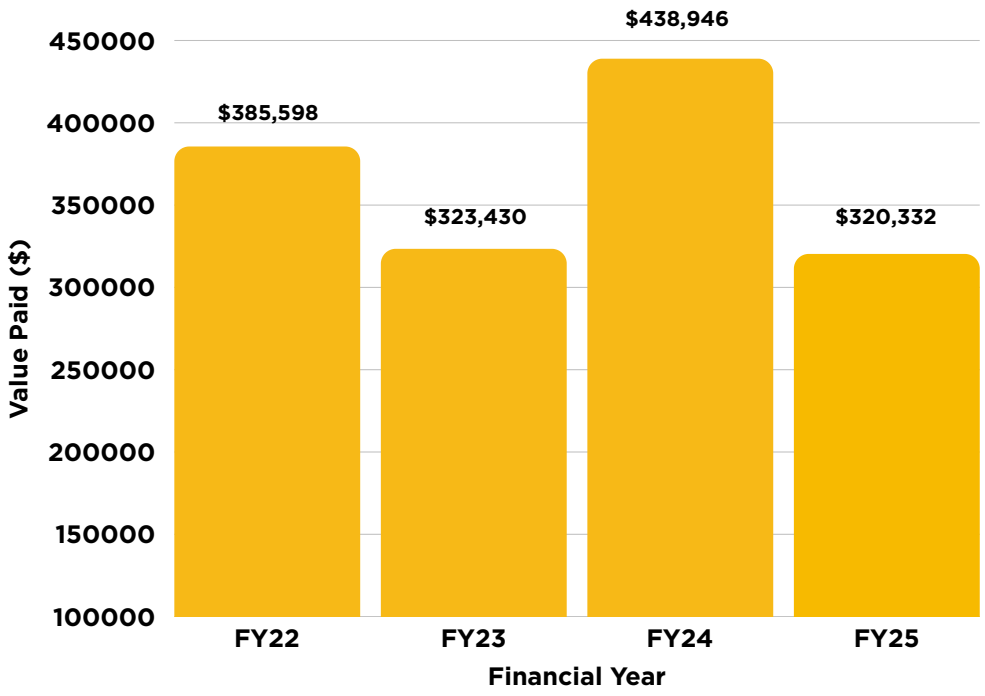
Value Paid

Final sale prices demonstrate how market forces translate into tangible outcomes for sellers.

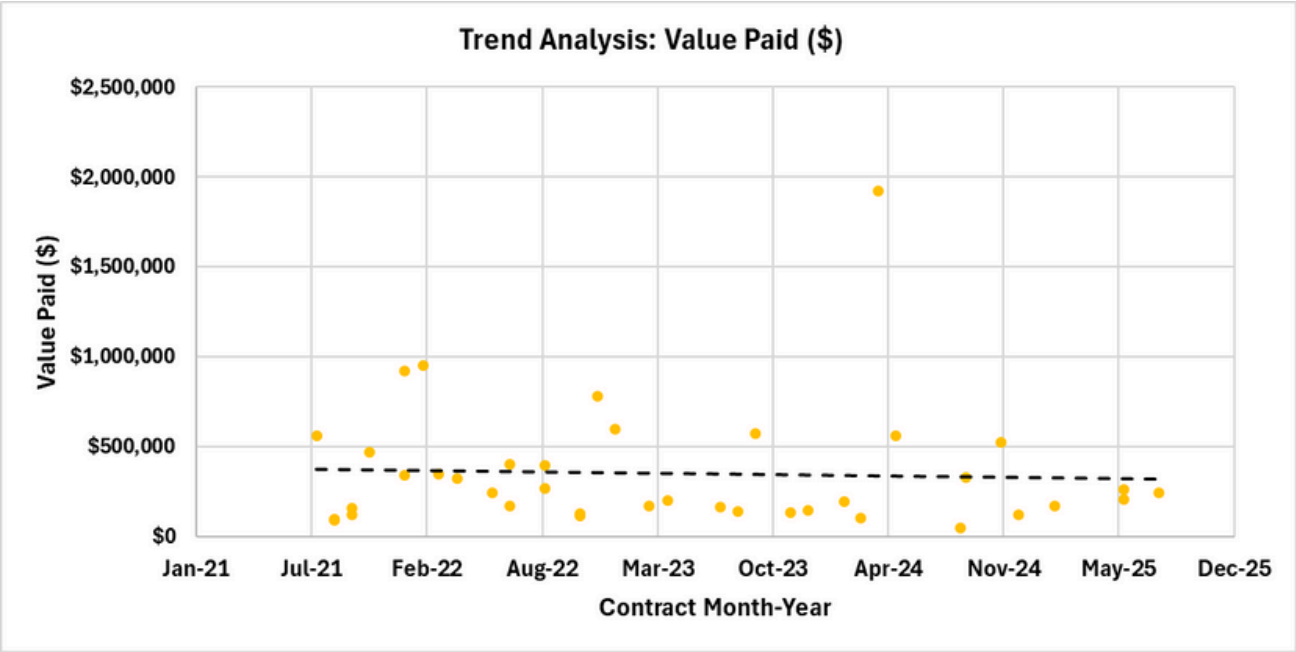
We've seen continuing consolidation in the mortgage broking industry, leading to an increase in small brokers exiting the industry and larger players purchasing these smaller books.

One reason for this is the increase in interest rates leading to more refinancing and therefore more work for brokers, which many simply couldn't handle in terms of capacity or justify as it doesn't lead to a direct increase in their business. Inflation and a rising cost of living has put further pressure on smaller operators and encouraged the trend of consolidation.

12a. Average Value Paid ($) - FY22 to FY25



12b. Trend Analysis: Value Paid ($)



3. Practical Implications for Mortgage Brokers

Maximising Your Valuation:

- Focus on growing your average loan balance.
- Bring new loans/clients into your network to achieve true growth.
- Minimise your loan balance run-off rate to enhance your book's stability and appeal.
- Minimise arrears and clawback rates to improve revenue predictability and attract premium valuation multiples.

Navigating the Marketplace:

- Stay informed about current valuation and sale multiples to benchmark your trail book effectively.
- Monitor market demand indicators, such as bids and enquiries to time your sale strategically.

Leveraging Expert Guidance:

In the past 14 years, we have seen a variety of trail book sales and assisted many buyers and sellers in structuring their transactions. No two trail books are the same and resultantly no two transactions are identical. This is a customised asset written by a unique brokerage and often acquired by an even more unique purchaser. We attempt to bring this cumulative knowledge and understanding to every transaction. If we can share knowledge, we help to make for a more informed marketplace and thereby help over time to increase the value for all market participants.

Partner with TrailBlazer Finance for tailored advice and funding solutions that align with your goals. Our team is here to support you every step of the way.

4. Conclusion

The insights in this report underscore TrailBlazer Finance's commitment to empowering mortgage brokers with the knowledge and tools they need to succeed.

By analysing over 300 valuations and 40 trail book sales (or by analysing FY23, FY24 and FY25 valuations and trail book sales), we have distilled the key trends and actionable strategies that will help you optimise your business for growth and profitability.

For more information, personalised advice, or to discuss how we can support your business, contact us today. Let's navigate the future of mortgage broking together.

TrailBlazer Finance is a specialist funder that works with Finance Brokers, Financial Planners, Accountants and Property Managers, assisting them with funding and valuations.

If you're ready to explore an acquisition opportunity you can reach out to our team for a free confidential discussion about your situation. Just mention this eBook and we'll look after you.

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