

Lodged with the ASX Online

16 May 2019

The Manager  
Company Announcements Office  
ASX Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000  
Australia

Dear Sir/Madam

## YBR MARKET STRATEGY UPDATE

Yellow Brick Road Holdings Limited (ASX:YBR) (**YBR** or the **Company**) today announces that the new strategy and structure for the YBR Group will be a much simpler business offering which will consist of:

- **Mortgage Distribution:**

The distribution of mortgage products through its existing well-established distribution businesses being:

- The Yellow Brick Road branded “shop-front” style franchise network. As at 30 April 2019, there were 115 YBR branches with 140+ accredited business writers who were originating an average of circa \$170m in mortgage settlements per month. The underlying mortgage book associated with this channel is currently circa \$7.6b (in drawn outstandings). The present value of the net trail commission receivable (ie after pay-away to franchisees) from the underlying mortgage book as at 31 December 2018 (being the last date of assessment) was circa \$15.7m, and is included within YBR’s balance sheet; and
- The Vow Financial independent mortgage aggregator network. As at 30 April 2019, there were 505 broker firms with 1,000+ accredited business writers who were originating an average of circa \$785m in mortgage settlements per month. The underlying mortgage book associated with this channel is currently circa \$39.8b (in drawn outstandings). The present value of the net trail commission receivable (ie after pay-away to brokers) from the underlying mortgage book as at 31 December 2018 (being the last date of assessment) was circa \$13.6m, and is included within YBR’s balance sheet.

These existing businesses are intended to remain within the Group as they offer significant distribution leverage into the market.

- **Mortgage Servicing:**

The “manufacturing” of mortgage products and “servicing” of mortgage originations through its existing Resi Mortgage Corporation business. Importantly, this business contains:

- A sales team that sources and services:
  - mortgage distribution networks, including the in-house YBR and Vow distribution networks, but also third party distribution networks such as Connective, Fast & Choice; and

- mortgage funding entities and programmes. At present, Resi has wholesale funding lines with Bendigo and Adelaide Bank, Advantedge, Pepper and Resimac. It is here that the YBR Group's intended securitisation programme will "plug" into.
- A credit team that can perform the credit assessment and underwriting functions necessary for mortgage approvals and settlements. It is intended that this team undertakes the credit function for the YBR group's intended securitisation programme.
- In its own right, this division (under the Resi and Loan Avenue brands) has a current underlying mortgage book of circa \$1.8b (in drawn outstandings). The present value of the net trail commission receivable (ie after pay-away to distributors) from the underlying mortgage book as at 31 December 2018 (being the last date of assessment) was circa \$18.5m, and is included within YBR's balance sheet.

This existing business allows us to more closely manage and track mortgage application and approval times and outcomes and assist in directing flow to the most appropriate funding sources and is an essential component of the mortgage value chain, particularly in the post Hayne Royal Commission period. It allows us to bring our distribution partners closer to the process of approving loans.

- **Mortgage Funding and Securitisation:**

Our intended mortgage funding and securitisation programme, which has been the subject of previous ASX announcements over the last 9 months, whereby YBR, in joint venture with a major US alternative asset manager, intend to manufacture and fund mortgage products for our in-house and third party distribution outlets. YBR is in the later stages of final due diligence and negotiation and documentation in this long and complex process with multiple parties.

Our research shows that there is a deep and broad market for mortgage products that satisfy borrowers who now tend to fall just outside current bank prime mortgage lending eligibility criteria. These categories of borrower and mortgage product include, but are not limited to:

- Self-employed lending
- SME business lending
- >80% LVR loans
- Investor loans
- Interest only loans
- SMSF loans
- Loans to foreign residents and expats
- Other specialist lending products.

Our objective is to meet that growing demand. Our distribution networks are telling us that these products are in heavy demand but largely under-served in the market.

## **Wealth Restructure**

In order for us to concentrate our efforts as a mortgage distribution, servicing and manufacturing group, the YBR Board has decided to commence a process to dispose of, outsource or otherwise restructure the head office wealth business functions.

YBR franchisees will still be able to distribute wealth products and give wealth advice to their existing and future clients, but it is intended that such would be done under a separate Australian Financial Services Licence (AFSL) with one or more third parties. Going forward, the cost of maintaining YBR's AFSL and associated compliance functions and liabilities would then no longer be borne by the YBR Group. The restructure of the wealth business is expected to significantly reduce our cost base allowing us to run a leaner and more cost-effective organisation.

This will result in a headcount reduction to the business overall. A clear objective is to reduce significantly the cost to income ratio of the business.

Given the above intended changes:

- I, as Executive Chairman, will oversee the transition of the YBR Group to the new streamlined business structure; and
- Frank Ganis will step down as Group CEO, to a part-time role where he will consult to the group on a number of initiatives, including building our securitisation programme and funding partnerships, growing our brands, continue operational and customer service improvements, and industry advocacy.

The Company notes that there is no certainty that the securitisation initiative or the wealth restructure process will result in a definitive proposal or transaction, however YBR will continue to implement the operational improvements and the restructure of key operational roles.

For and on behalf of

**YELLOW BRICK ROAD HOLDINGS LIMITED**



Mark Bouris  
Executive Chairman

ENDS