



**Australian  
Competition &  
Consumer  
Commission**

GPO Box 520  
Melbourne Vic 3001

Level 35, The Tower  
360 Elizabeth Street  
Melbourne Vic 3000

tel: (03) 9290 1800  
fax: (03) 9663 3699

[www.accc.gov.au](http://www.accc.gov.au)

Our Ref: 50476  
Contact Officers: Narita Nagin (03) 9290 1936  
Lauren Roy (03) 9290 1823

11 January 2013

Dear interested party

### **Commonwealth Bank Australia – proposed acquisition of Aussie Home Loans**

The Australian Competition and Consumer Commission (**ACCC**) is currently reviewing the proposed acquisition by Commonwealth Bank of Australia (**CBA**) of 67% of the issued capital of AHL Holdings Pty Limited (**AHL**) (**the proposed acquisition**). CBA currently holds 33% of the issued capital of AHL so the proposed acquisition would result in CBA holding all of the issued capital in AHL.

The ACCC is considering the proposed acquisition under section 50 of the *Competition and Consumer Act 2010* (**the Act**). Section 50 of the Act prohibits mergers and acquisitions that substantially lessen competition in a market, or are likely to do so.

The ACCC is seeking comments from market participants and interested parties to assist with its review and would welcome any comments that you have in relation to the competitive effects of the proposed acquisition. A background to the proposed acquisition is at **Attachment A** to this letter. Specific issues and questions that you may wish to address are set out in **Attachment B**.

Comments and submissions are requested by close of business **Thursday 31 January 2013**. Submissions should be sent electronically (preferably in PDF format) to [mergers@accc.gov.au](mailto:mergers@accc.gov.au) with the title "Submission re: CBA's proposed acquisition of AHL (attention Narita Nagin / Lauren Roy)". Alternatively, submissions may be sent by facsimile to (03) 9663 3699.

Please contact us if you require an extension of time. You are also welcome to discuss the matter by telephone if that is more suitable or convenient by contacting Narita Nagin on (03) 9290 1936 or Lauren Roy on (03) 9290 1823.

If the information provided is of a confidential nature, you can be assured that the details provided by you will be treated confidentially. That is, the ACCC will not disclose the confidential information to the merger parties or other third parties, other than advisors or consultants engaged directly by the ACCC, without first providing you with notice of its intention to do so, such as where it is compelled to do so by law. Please note that any information provided which you believe to be of a confidential nature should be clearly marked or identified as confidential.

Updates regarding the ACCC's assessment of this matter will be available on the ACCC's public Mergers Register ([www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister)). For details on this merger, scroll down and click on the link titled *Commonwealth Bank of Australia – proposed acquisition of AHL Holdings Pty Limited*.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Rami Greiss', with a stylized, cursive script.

Rami Greiss  
General Manager  
Merger Investigations Branch

## **CBA**

CBA supplies a wide range of financial services and products which includes personal and business banking, corporate and institutional banking, wealth management and insurance, superannuation, investment and share broking services. Relevant to the proposed acquisition CBA supplies:

- branded retail banking products, including home loans, directly to consumers through its branches, its mobile lenders, online channels and phone, and also through indirect channels or intermediaries such as mortgage brokers; and
- a warehouse funding facility and white labelling arrangement to intermediaries, which allows intermediaries to provide self-branded mortgage offers in the market.

## **AHL**

AHL was established in 1992 as a home loan originator, supplying AHL-branded home loans to borrowers that were funded by Macquarie and ANZ. AHL diversified into third party mortgage distribution in 2002 and commenced the rollout of a franchise broker network in 2005.

AHL is primarily a mortgage distribution services provider that offers support services, such as a panel of lenders, technology and administrative support, education and training and marketing assistance to mortgage brokers. The mortgage brokers act as an indirect distribution channel for bank and non-bank lenders. AHL provides mortgage distribution services to:

- the AHL mortgage franchise group comprising 363 brokers across 139 retail store fronts;
- 384 mobile brokers (these are independent contractors); and
- 165 mortgage brokers through National Mortgage Brokers (nMB), a mortgage broker head group acquired by AHL in April 2012.

AHL also offers AHL-branded retail banking products within its total loan portfolio, including mortgages, personal loans, credit cards and insurance products. The AHL-branded retail banking products are funded through warehouse funding facilities and white labelling arrangements with third party banks.

## **The proposed acquisition**

CBA currently owns 33% of the shares in AHL. Pursuant to an agreement between the parties, CBA will acquire the remaining 67% of issued capital in AHL in two stages. In the initial stage, CBA will acquire a further 47% resulting in CBA holding 80% of the shares in AHL, with a right to acquire the remaining 20% to be exercised on or before 31 August 2018. CBA intends to exercise this right.

**Areas of overlap**

The parties both supply the following products and services:

- Retail banking products, including mortgages, personal loans, credit cards and insurance products.
- Mortgage distribution services – CBA owns Finconnect, a provider that services mainly accounting firms and professionals.

### Questions for market participants

1. Please provide a brief description of your business or organisation including your relationship to CBA or AHL (eg. customer, competitor, supplier or interested third party).

#### *Relevant markets*

2. In its assessment of previous mergers in the banking and finance sector, the ACCC considered the following markets to be relevant:
  - a national market for the supply of home loans, including mortgage lending by banks, building societies, credit unions and other financial institutions as well as mortgage brokers; and
  - separate national markets for the supply of personal loans, credit cards and other retail banking products.

In addition, arising from CBA's ownership of Finconnect, the ACCC also intends to examine the market for the supply mortgage distribution services, which includes providing mortgage brokers with access to a panel of lenders, technology and administrative support, education and training and marketing assistance.

The ACCC seeks comment as to the relevance of the above market definition to the proposed acquisition. If you consider these markets are not relevant or accurately described, which market(s) do you consider relevant and why?

#### *Barriers to entry/expansion*

3. Please comment on the barriers to entry and/or expansion in the supply of mortgage distribution services.

In responding, you may wish to have regard to the following:

- a. the current economic climate and wholesale funding conditions;
- b. regulatory or legal barriers;
- c. the extent of sunk costs or capital requirements;
- d. brand loyalty;
- e. any other barriers to entry/expansion.

#### *Is AHL a vigorous and effective competitor?*

4. Please comment on whether AHL is a particularly unique or a vigorous and effective competitor in the relevant market/s. For instance, is AHL a leader in price competition or does it offer attractive non-price terms in relation to retail banking products such as home loans? Do you consider that this may change as a result of the proposed acquisition?
5. Are there any other institutions who you consider to be particularly vigorous and effective competitors in the relevant markets? If so, please identify those

parties and describe the key factors that make them vigorous and effective competitors.

*Price and quality of products and/or services*

6. Do you consider that the proposed acquisition is likely to provide the merged entity with an ability or incentive to increase prices or profit margins or decrease the quality of products and/or services offered? If so, please provide supporting reasons.

*Mortgage Distribution Services*

7. Please comment on the degree of competition that currently exists between Finconnect and AHL in the provision of mortgage distribution services.

*Distribution of home loans*

8. Do you consider that the proposed acquisition will result in CBA having the ability and incentive to use its position to originate a larger share of home loans through AHL's mortgage broker platforms post-acquisition?
9. Do you consider that the proposed acquisition will result in CBA having the ability and incentive to foreclose its banking competitors from accessing its mortgage distribution services?
10. Do you consider that the proposed acquisition will result in CBA having the ability and incentive to foreclose its mortgage broking competitors from accessing its warehouse funding facility and/or white labelling services.

*Other*

11. Please provide any other comments or information that you consider may be useful to the ACCC in its assessment of the competitive effects of the proposed acquisition.