NONBANK YEARBOOK

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AUSTRALASIAN FIXED INCOME: GLOBAL REACH, LOCAL EXPERTISE

PROOF OF THE PUDDING

*For years, **Australia and New Zealand's nonbank financial institutions** have been touting their growth and resilience. The pandemic is giving them the chance to prove it – and, so far, they are taking that chance.*

KangaNews

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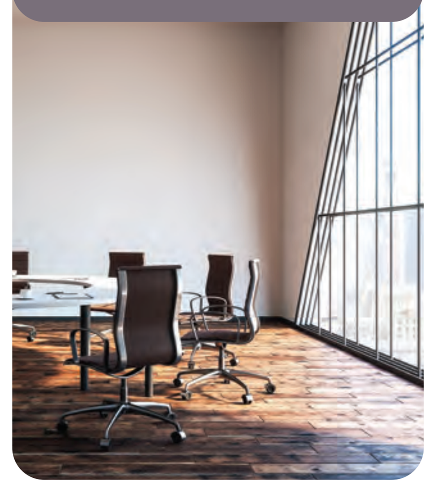

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NATIXIS

AUSTRALIAN NONBANKS' SONG REMAINS THE SAME

Every year, *KangaNews* hosts Australia's leading nonbank lenders at a sector roundtable discussion – supported since 2019 by **Natixis**. In keeping with the unique circumstances of 2020, this year's roundtable was conducted via videoconference. While market conditions have changed dramatically in the past 12 months, the sector is able to tell the same story of solid funding foundations and sound credit quality.

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MODERATOR
- **Matt Zaunmayr** Deputy Editor KANGANEWS

MANAGING THROUGH 2020

Zaunmayr Looking back to the escalation of the COVID-19 crisis in March, perhaps a good place to start would be by reviewing how nonbank balance sheets and lending books were set up to provide the resilience needed to deal with this sort of exogenous shock.

AUSTIN When you are going into a crisis it is too late to start making your balance sheet resilient – it either is at that point or it is not. We repositioned our balance sheet over the 10 years since the financial crisis to have a majority of long-term funding in our profile.

We have a cap that means we cannot allow short-term funding to be more than one-third of our balance sheet. We have also lengthened our funding to seven-year, 10 per cent clean-ups from the typical five-year, 20 per cent clean-up.

We established warehouse relationships that we thought would be less flighty in a crisis – which was something we saw during the financial crisis. Coupled with this was our approach to mezzanine funding in warehouses, where we take funding for two years rather than one. We fully draw the mezzanine piece and, while there is cost to this, it means we have term funding and a well-positioned balance sheet.

All in all, we were in a good position at the onset of the crisis in March. We managed to do a transaction late that month and were lucky that a lot of the engagement had taken place before the escalation of the crisis. It was still the most difficult deal we have ever done – the book came together and fell apart four times before we finally printed – but it was good to get it done, ultimately with a few long-term partners.

The AOFM [Australian Office of Financial Management] came into this deal within 24 hours of the structured finance support fund (SFSF) being approved. This allowed us to fill

"We have been quite surprised at how positively the Australian dollar market has rebounded. It has been resilient and demand from domestic and offshore investors has been strong. It takes a bit more time to execute deals at the moment but we have been happy to see significant volume of transactions."

FABRICE GUESDE NATIXIS

MAINTAINING INVESTOR CONTACT UNDER PANDEMIC CONDITIONS

Australian nonbank issuers have been among the nation's most active when it comes to global investor engagement. With international travel off the cards for the foreseeable future, issuers' investor-relations approach had to adapt.

ZAUNMAYR How has investor relations changed in the COVID-19 era, especially when in-person updates and roadshows are impossible?

■ **GUESDE** I have been amazed at how all players in the market, around the world, have adjusted to a new way of doing things. If you had told me a year ago that we would be having this conversation in the way we are now and it would all go smoothly I would have had doubts.

We have seen logistics slow down some processes in Japan, but appetite remains. Some areas have required rapid change, such as trading – where market users were still using stamps. This is something that cannot be done at home! Processes had to be addressed and changed.

Investors generally have been able to adjust quickly, but I think in the long run it is not sustainable to work like this. We have had long talks with some issuers on video and it does work, but there is no replacement for face-to-face meetings.

I think there will always be a place for big, in-person conferences because this is a great way for issuers and investors to meet. It will probably become more important to attend these in future, because it is also likely that the way roadshows are undertaken may not return to the way it was.

ZAUNMAYR Australian nonbanks have put a lot of effort into offshore marketing in recent years. Is there any concern that they may be losing some ground by not being able to meet physically with these investors, or are these relationships now entrenched?

■ **RIEDEL** I think relationships are well established. What has changed in the last six months is the frequency of engagement, particularly outside of new transactions.

Investors are relaxed whether the engagement is by phone or video – they just want real-time access, to understand how the business is performing and to be able to ask questions about the data we provide. I do not think we are losing any engagement from the move to a digital environment as everyone has adapted positively.

■ **MARSDEN** There is general acceptance of the current operating environment. We had calls with US investors over the past few weeks where there have been babies crying and dogs barking in the background – it is a similar situation everywhere, in other words.

We have been more active in communicating with offshore investors in the last 4-6 months than we would have been otherwise and it is all on the basis that we know we cannot travel.

■ **AUSTIN** These calls are good when you have an established relationship with investors. I cannot think of any domestic investors where it is not perfectly fine. We also did a lot of offshore calls for our last deal and it did work, but I do not think it replaces an in-person meeting and the relationship you gain from it. Perhaps meetings do not need to be as frequent, but they are invaluable – especially if you do not know the investor particularly well.

ZAUNMAYR Assuming travel is possible again, what are the elements of the new environment issuers intend to take forward with them?

■ **AUSTIN** I think the idea of a roadshow has been turned on its head and will be done mostly by video calls. Any travel would be outside of a deal window and would be for relationship building. Deal roadshows are exhausting – you usually do six meetings in a day and then fly to another country and do the same again.

■ **GUESDE** Funders and investors are sharing the same constraints with a focus on cost reduction. Having tickets for investors and funders to visit issuers and do on-site due diligence will be more challenging.

We now have the precedent for doing everything by video so I think there will be a permanent change. I agree with James Austin, though: the impetus may be less for issuers formally to visit investors.

> "WE DID A LOT OF OFFSHORE CALLS FOR OUR LAST DEAL AND IT DID WORK, BUT I DO NOT THINK IT REPLACES AN IN-PERSON MEETING AND THE RELATIONSHIP YOU GAIN FROM IT. PERHAPS MEETINGS DO NOT NEED TO BE AS FREQUENT, BUT THEY ARE INVALUABLE – ESPECIALLY IF YOU DO NOT KNOW THE INVESTOR PARTICULARLY WELL."
>
> **JAMES AUSTIN** FIRSTMAC

some small holes in the mezzanine piece and to upsize the deal to A$1 billion (US$728.4 million), which was a good result.

■ **BARRY** A lot of lessons were learned after the financial crisis and I am sure the balance-sheet strength of every nonbank here has improved markedly since then. La Trobe Financial has been operating since 1952 and has seen many business cycles. Under our business and broader planning model we have always maintained roughly 12 months of forward-funding capacity and a minimum of A$50 million free capital on any given day, while we have more than A$457 million of regulatory and shock-absorber capital across the group.

We have also had unwavering support in place from our panel of eight banks, which includes domestic and international lenders, providing broad funding depth and diversity of around A$3 billion. Our A$5 billion retail credit fund provides additional upside capacity.

> "Robust capitalisation, conservative leverage with very little mezzanine funding and long-term stable financing partnerships have been the cornerstones of building funding durability. We came into this period in a strong liquidity position and this continues to be the case."
>
> **PETER RIEDEL** LIBERTY FINANCIAL

Consequently, we had no pressing funding or liquidity needs when the crisis unfolded in March and we could ride out the storm. We continued our operations and remained open throughout the period, generating investment-grade asset originations of around A$1.8 billion in the last quarter of our financial year, with closed settled loans of around A$1.2 billion. These figures represent a 42 per cent and a 20 per cent decline from pre-COVID-19 peak volume.

■ **SCANLON** We are a relative newcomer and our funding is primarily in warehouses. We have continued to accumulate loans in these throughout the COVID-19 period. Our operations continued but there was certainly a lot more communication required with our funding partners. They provided a lot of support and information for us as well.

It has been a different experience with the mezzanine piece for us. We do not have a lot of mezzanine funding but the conversations we had about potential incoming investors were all paused.

Nonetheless, the origination side has been our primary ongoing focus – particularly looking at techniques to continue valuations and maintain origination. This has been challenging, particularly when we are unable to move around and meet physically.

■ **RIEDEL** Liberty Financial's balance sheet and funding position is long-established and diverse, and therefore durable. We manage our liquidity position so available funding does not fall below 50 per cent of total funding limits. Going into this crisis, we had nearly A$3 billion of capacity in our wholesale facilities – which is a significant level of capacity to support new customer acquisition.

We all know well that funding markets are not always stable and do not always behave in a linear fashion, so it is important to have sufficient capital to support customers during periods of uncertainty.

Once a stress period has started it is almost impossible rapidly to adjust risk-management settings without negatively affecting your business model. Liberty's capital, funding and liquidity strategy has proven effective over a long time and especially in times of economic and market volatility. Robust capitalisation, conservative leverage with very little mezzanine funding and long-term stable financing partnerships have been the cornerstones of building funding durability. We came into this period in a strong liquidity position and this continues to be the case.

Zaunmayr How does a crisis like COVID-19 affect day-to-day management in the treasury function, especially with regard to priorities and areas of focus?

■ **MARSDEN** The focus of our organisation has always been on liability management. Resimac is a listed entity so there is a more constant desire from analysts and shareholders for us to demonstrate resilience in the business.

It is important that we can show our continued ability to lend throughout challenging operating environments. Late February to early June this year was probably one of the toughest periods we have experienced. Even so, we have continued to support new business. This has been an important message to convey given people have long memories of nonbanks not being able to maintain presence and lending volume through the financial crisis.

We have shored up our funding and capital positions and have been testing our ability to bring duration into our funding mix. This is executed through RMBS [residential mortgage-backed securities] and, by and large, the market has been supportive of the nonbank sector's requirements. Investors generally acknowledge the way nonbanks have managed the credit and forbearance situations through this period.

I would not say it is back to business as usual. But the sector has done well in the sense of developing the RMBS market in light of the new environment and the lack of bank paper.

■ **TWYFORD** One thing I want to highlight is that management of a crisis like this is about writing the right volume. We are moving through dynamic credit environments and maintenance of volume is very important. We have made appropriate adjustments to our credit appetite as we have moved through this year, which fits alongside the management of liquidity risk.

The other key aspect is maintaining confidence in the go-forward position of our funding. Being well positioned includes an ability to maintain momentum in funding markets so we can come out the other side in as strong a position as we went in.

We are maintaining the confidence of our investor base, in warehouse facilities and term markets, to be able to maintain the growth capacity of the company and to take advantage of any opportunities that come to the sector. We see upside opportunities coming out of this situation and want to be able to take advantage.

> "Transparency has been required and helpful during this period. There have been some challenges, though. It is easy to account for formal enquiries and applications for support, but we are also asked for information on informal customer requests. This is much more difficult to record and track real data on."
>
> **PAUL SCANLON** PRIME CAPITAL

ASSET QUALITY

Zaunmayr How well has book quality stacked up compared with what lenders had modelled and what they expected at the start of the crisis?

■ **RIEDEL** It was challenging to anticipate the consequences of this crisis because its duration and impact were so uncertain. We are still learning every day. What we know is that the number of affected customers has reduced since the pandemic began.

At the end of April, we had provided around 11 per cent of our customers with some kind of payment arrangement. As at the end of August, 3 per cent of our customers remain on reduced-repayment arrangements.

Liberty's approach in supporting customers through this crisis is completely different from the major banks. For instance, only 0.7 per cent of our customers received a payment holiday in contrast to the banking sector at 10-15 per cent.

Also, establishing an appropriate repayment rate with customers and working with them to improve the repayment rate over time is critical to achieving the dual objective of supporting our customers and maintaining a performing portfolio. For us, the repayment rate from customers affected by COVID-19 has increased to about 85 per cent from about 60 per cent.

The two measures of a falling proportion of affected customers and an increasing repayment rate from those that are affected tells us our customers are in a significantly improved position today.

Another point worth making is that, so far, we have not seen an increase in new support for customers in Victoria since the second lockdown. We are still only three weeks in, though, so we are watching and monitoring closely.

■ **BARRY** What constituted acceptable credit significantly changed once the crisis affected employment numbers in specific industries, such as tourism and hospitality. Before COVID-19, for instance, we would have lent to an airline pilot every day of the week.

La Trobe Financial hardship numbers peaked at around 17 per cent in mid-April and we are down to just more than 5 per cent in July with an expected further reduction to around 3.5 per cent in August. We expect a slight uptick in the next period from September to December, due to the Victorian stage-four re-lockdown. But overall we expect hardship to reduce further between now and the end of the calendar year.

The key difference in Australia is the various support packages available. There is JobKeeper, JobSeeker and early access to superannuation, all of which have helped bridge the gap for customers facing repayment difficulties.

We are seeing a sector-wide improvement in the level of hardship compared with other jurisdictions, including the UK and US. In the UK, hardship was around 30 per cent and in the US around 20 per cent. This tells us the support measures in Australia have clearly worked. The the AOFM's forbearance special-purpose vehicle (FSPV) has also provided extra reassurance to investors.

Despite all this, there is talk about a cliff-edge event approaching as some of the support packages are unwound. But the federal government appears to have a preference for phasing out its support over an extended period while maintaining it for specifically affected sectors – which means this cliff won't necessarily come. We are optimistic there will be a rebound in 2021 as evidenced by increased consumer saving rates.

Zaunmayr There is a lot of discussion about what happens to the economy, and thus asset quality, as and when government support expires. How are investors thinking about this in the context of the nonbank sector?

■ **GUESDE** We talk to a lot of investors and there is a high level of engagement with the situation. We have come from a very low level of losses so there is a huge buffer in place while excess spread is quite high for nonbanks. Australia also had a soft landing from the peak of the housing market in recent years. There are a lot of positive factors for investors.

Securitisation structures are super resilient so there are not many questions around them. It is more a question of pricing. The market is repricing at the moment but investors are there.

We are even seeing investors in some deals going lower down in the capital structure than they have previously – taking more risk. In a low-rate environment, investors are looking for the best risk-adjusted returns they can find. An issuer only has to add 20-30 basis points to a deal and it will find investors, so I do not think they need to be worried about a cliff event.

What we need to realise about this crisis is that the situation is the same everywhere. It is easy to compare countries and how they have reacted, which makes the situation unique.


Investing for a
brighter future

"We are maintaining the confidence of our investor base, in warehouse facilities and term markets, to be able to maintain the growth capacity of the company. We see upside opportunities coming out of this situation and want to be able to take advantage."

ANDREW TWYFORD PEPPER

BARRY On a relative basis, Australia and New Zealand have performed much better in this crisis than the rest of the world – notwithstanding the headlines we see in the media every day. Investors realised early on that Australian assets would perform better than expected.

Our credit underwriting has been good and, at conservative loan-to-value ratios [LVRs] with federal-government support still in place, we believe Australia stands out as a safe-harbour investment on a relative basis. There are a lot of questions on how the situation in Victoria will evolve, but I think investors can see support is there and that the economy can rebound in 2021.

SCANLON The market conversations we have are really about how uncertain the future is, in the sense that we are benefiting from a large level of government stimulus in the Australian economy. This can continue for a long time, but everyone's forecasts are based around there being a vaccine as a future game-changer. None of us are medical practitioners and yet we have to take a view on how soon a vaccine comes. This shapes the view on how long government support needs to last.

TWYFORD Our banking partners in the UK have noted a couple of potential challenges are feeding into investor's minds in respect to UK assets. They have the employment furlough scheme running off as well as the end of their payment holidays, both around the end of Q3 or start of Q4.

Australian regulators extending softer views on bank capital treatment of deferred loans through to Q1 next year can be expected to result in a more controlled forbearance roll-off in Australia. It is much less likely, therefore, that we will experience a cliff event.

When we walk investors through this they appear to appreciate the difference. There are unknowns to play out in the Australian economy, but Australia appears well positioned in comparison with other jurisdictions.

AUSTIN There is a lot of alignment between the government and the regulator. We have been contacted by ASIC [Australian Securities and Investments Commission] because it wants to understand our approach to hardship, our discussions with borrowers and how we are doing everything possible to keep borrowers in their homes.

This is a strong indication that ASIC does not want to see any foreclosures happening. There is alignment with support programmes, to try to smooth out the unwind of support so we see anything but a cliff.

MARSDEN All of this plays into the relative strength of the Australian story on health and the response of government at federal and state level, as well as regulators and industry.

We are starting to re-engage with our US investors and I know there is growing concern around the November election there. Looking outwards, Australia is a robust story given the uncertainties and unknowns in global markets.

Guesde Something quite unexpected has been the level of CPRs [conditional prepayment rates] we are seeing in structures. We thought these would be much lower but they have held up well. What have been the contributing factors?

AUSTIN Saying they have held up well is probably an understatement. CPRs have massively overshot expectations. Everyone expected these to go to very low single digits but ours climbed past 30 per cent from a pre-crisis average of around 18 per cent.

This has been caused by major banks offering very attractive two-year fixed-rate mortgage deals and cash-back offers. We do not want to lose our customers and are increasing our retention efforts, but we still view this development as positive. It means the banks want these customers, which in turn indicates that they are still quality customers and there is no concern on house prices. Competition is alive and well at a time when demand for finance is a bit softer, in other words.

MARSDEN We have had a similar experience, particularly in our prime mortgage book. There is heightened competition in the prime origination market, driven by the major banks. We think this is reflective of the underlying strength of the primary sector of the economy – particularly with salaried borrowers who have not been directly affected by the economic shutdown.

The payment buffers in our prime book have increased to 40 months from 35 over the last four months as customers make additional payments against their debt. One consequence of a lockdown is people having more disposable income, which has not been fully recognised when talking about COVID-19 forbearance challenges.

RIEDEL If we are comparing the financial crisis with this pandemic, the economic factors are resulting in a completely different experience for the customer. In 2008, mortgage rates were increasing and peaked north of 10 per cent – which created significant affordability stress for affected customers.

KEEPING *WAREHOUSES STOCKED*

One of the biggest funding challenges for nonbanks during the financial crisis was the retreat of warehouse providers from the Australian market. Liquidity appears to have held up rather better this time around.

ZAUNMAYR Has there been any change in warehouse relationships so far this year?

■ **SCANLON** We are certainly talking more. A lot of work gets done by all parties to set up a funding programme and, once they are established, it can often turn into the business as usual of reporting. But now there is a lot more ongoing communication.

This has been really good. Our funding partners have been great to work with and have given us valuable information on credit and origination markets in exchange for our extra reporting. Everyone is looking for more information at the moment and we are part of this chain as well as a beneficiary.

ZAUNMAYR Warehouse funding has been a competitive space in recent years. Has the COVID-19 crisis prompted any withdrawal of liquidity?

■ **TWYFORD** A number of our facilities have been in place for a long time and we have not been looking to grow them materially, so we have not had to search for incremental liquidity.

There has certainly been a lot of enquiry, particularly from offshore banks, in recent years. There was a period in the middle of this year when these enquiries went quiet. However, in recent weeks we have experienced reverse enquiry from offshore banks looking to see if we have any requirements.

Investors are also still trying to come into the mezzanine space. As an issuer, we need to be confident on the alignment of interests between our organisation, the senior funder and mezzanine funders when setting up any new facility. It needs to be a marriage – and we like to think of marriages as long-term arrangements. They can certainly be very expensive if they do not work out!

ZAUNMAYR How does the provision of warehouse liquidity now compare with the position in the 2008 financial crisis?

■ **BARRY** There has been massive liquidity in the local banking system and it is similar offshore. As a result, we have not seen any liquidity pressure from our bank panel.

There has been a large increase in bank term deposits in Australia, which has meant the banks have had a limited draw on the Reserve Bank of Australia's term-funding facility so far. Their liquidity positions are very strong and we have had good dialogue with our panel banks, which remain very supportive.

■ **TWYFORD** I think the fact that it is not a financial-driven crisis this time around is the key element. The other point is that the banks' capital positions have completely changed since the financial crisis, as a result of a host of new regulations.

Also since the financial crisis, real-money investors have become our predominant buyers – and they have funds to deploy. While there was some choppiness in the early stages in March and April, as superannuation investors faced liquidity squeezes, fundamentally all the real money has stayed put.

Investors took the time to assess the market and become comfortable with its

> "BANKS HAVE BEEN UNDER A LOT OF REGULATORY PRESSURE TO BEEF UP THEIR CAPITAL BASES AND BE MORE LIQUID. THEY ARE NOW BEING CALLED ON TO RESCUE AND SUPPORT THE ECONOMY, AND THEY ARE FLUSH WITH LIQUIDITY. THE FOCUS NOW IS ON PRICE."
>
> **FABRICE GUESDE** NATIXIS

Today, mortgage rates are 2-3 per cent and have been falling while most borrowers' affordability was assessed at 7.5 per cent.

As such, there is a significant level of resilience built into the system notwithstanding customers being affected by income loss. We are seeing that, even if a customer is affected, most have generated resilience in their personal balance sheets to get through this period.

■ **BARRY** We have not experienced any elevation in prepayment speeds.

Zaunmayr How are issuers thinking about best practice for disclosure of hardship and other data in this period? Has a level of consistency in reporting evolved?

■ **TWYFORD** It is probably better described as transparency than consistency, in the sense that I do not think a set format or description for how reporting is to be completed has been established or sought. In other words, it is not about how information is reported but a consistency of desire to make sure investors and banks are getting all the information they are looking for.

We have tried to be as detailed and transparent as we possibly can be with the information we have. We have also been diligent in answering any additional questions investors have, as well as providing weekly updates to our warehouse providers. We are open to any investors that would like more frequent updates – not all of them want this but some are appreciative of it. As a general statement, we have not heard negative feedback, across the board, around the level of transparency provided by any issuer in the industry.

■ **BARRY** We have provided twice-monthly updates on hardship throughout this period and will continue to offer consistent foundations and assets. Since deal flow restarted they have come back in substantially.

■ **AUSTIN** At the time of the 2008 financial crisis, there were only two parties in the warehouse arrangement – the warehouse lender and the issuer with the seller note.

This time around, third parties are involved with mezzanine funding. Without AOFM [Australian Office of Financial Management] support for mezzanine warehouse funding, this crisis could have become a lot messier.

■ **GUESDE** During the financial crisis, banks' balance sheets were oversized and there was too much reliance on liquidity. It took time for central banks and governments to react to this. The question at this time for everyone was whether there would be enough liquidity. It was not a question of price, just availability. Banks were the weakest part of the chain and had to be salvaged.

It is completely different now. Banks have been under a lot of regulatory pressure to beef up their capital bases and be more liquid. They are now being called on to rescue and support the economy, and they are flush with liquidity. The focus now is on price.

In Australia, a lot of ADIs [authorised deposit-taking institutions] have relied on the US dollar market for funding because there is not enough domestic currency to fund the banking system. This was exacerbated in the financial crisis, when flight to quality meant everyone wanted to hold US dollars. The swap market then went crazy and US dollar liquidity costs rose dramatically. This showed the importance of currency diversity for nonbanks as well as banks.

In this crisis, all countries are being hit at the same time and some sectors have completely stopped. In Australia, the nonbanks have reacted in a way that has almost appeared coordinated. There has been full transparency on the level of hardship and ongoing origination. This is helpful, and we have heard from investors that they have been amazed by how consistent this has been in the sector.

Hardship levels have come down, as was expected and communicated, so there is also consistency on what has been shared and the outcomes seen. With support from the AOFM in securitisation, and the government in the wider economy, it is a very positive environment.

reporting. Our view is that issuers have an obligation to be prompt and consistent in reporting – and the investors we have spoken to are unambiguous on this front.

■ **SCANLON** Transparency has been required and helpful during this period. There have been some challenges, though. It is easy to account for formal enquiries and applications for support, but we are also asked for information regarding informal customer requests. This is much more difficult to record and track real data on.

CAPITAL MARKET

Zaunmayr How has the global securitisation market performed in the COVID-19 era so far, and how does Australia compare?

■ **GUESDE** Overall figures for global issuance show decreased volume in the first half of 2020 compared with 2019, but only by 20 per cent. There are a lot of differences by region, though.

China is a huge market and its issuance volume is almost flat compared with last year. This means the rest of the world has come down more significantly. Issuance in the US is down by some 30 per cent, in Europe it is around 25 per cent down and in Australia the market was around 42 per cent down in the first half.

There are a variety reasons for this slowdown. Australia of course has a specific situation under which ADIs [authorised deposit-taking institutions] have not issued. This accounts for most of the decline in issuance. Transaction volume has actually been quite resilient in the nonbank sector.

The CLO [collateralised loan obligation] market is a useful benchmark because it is in some ways the only 'pure' securitisation market – in the sense that banks are not as active as investors. On a year-on-year basis, CLO issuance volume is down by 46 per cent.

So volume is definitely down overall. We expect it to continue to pick up in the second half of the year, though, and think at the end of the year it will only be 25-30 per cent down.

Pricing has widened virtually across all markets and asset classes, by on average 20-30 basis points. We saw the largest increase in pricing in March – CLO margins went to around 275 basis points from 125 basis points. Pricing has recovered significantly since then, however.

We have been quite surprised at how positively the Australian dollar market has rebounded. It has been resilient and demand from domestic and offshore investors has been strong. It takes a bit more time to execute deals at the moment but we have been happy to see significant volume of transactions in the primary market.

"We have continued to support new business. This has been an important message to convey given people have long memories of nonbanks not being able to maintain presence and lending volume through the financial crisis."

ANDREW MARSDEN RESIMAC

INTRODUCING THE *FSPV*

The next stage of government support for the nonbank sector is the Australian Office of Financial Management (AOFM)'s forbearance special purpose vehicle (FSPV) (see p30). Issuers welcome its role as a backup but say they hope not to have to draw funds.

ZAUNMAYR How do issuers expect to interact with the FSPV? It has been described as a backstop by some issuers and analysts, but what conditions might trigger a need to access the fund and how likely are they to occur?

■ **MARSDEN** For our sector particularly, the FSPV provides an element of confidence on the basis that it is a backstop if there is a prolonged impact from forbearance exposure through payment deferrals. I do not think any of Resimac's structures will require it, though.

■ **AUSTIN** We completed a trade in early July and in the lead up completed a lot of Zoom calls with investors. Questions around the FSPV came up in just about every call – there is a lot of interest in it. The mere fact it is there provides confidence to the market. We will not be using it but it is a good thing for the industry. Offshore investors may be a little more distant and not have the full details of what is going on in the market. In this context, it is very positive if they know a facility such as this is available.

RIEDEL Would any investors have declined to participate in the Firstmac deal if it were not for the existence of the FSPV?

■ **AUSTIN** I don't think so. The FSPV was not operational at the time and this did not stop investors coming into the deal. A lot of the questions were from investors in the UK, which probably speaks to their experience of this crisis.

ZAUNMAYR Are there any other issuer perspectives on the FSPV?

■ **SCANLON** We had a certain amount of tension in deciding whether or not we should sign up for FSPV eligibility.

As the manager of our programmes we thought it was absolutely the right thing to do to ensure those programmes had the facility available to them. However, as an originator to these programmes we did not want to use the facility. We have reconciled this tension by applying for FSPV eligibility but so far have not used it.

■ **BARRY** The AOFM put the facility in place very quickly and should be commended for doing so. It has been a very fast implementation and it is pleasing to see the industry, led by the Australian Securitisation Forum, come together to work through the various documentation and get this outcome.

The FSPV has been a global-leading initiative, which is unparalleled. It has given investors further impetus to participate and is very welcome. As we have seen a healthy recovery in hardship levels in our portfolios, we do not anticipate drawing on the FSPV. But we will remain engaged with the AOFM and we are FSPV-eligible.

In the unlikely event hardship became greater than, say, 30 per cent, we would consider the merits of formally drawing.

This is based on our internal modelling and on what rating agencies have said about Australian residential mortgage-backed security structures being robust and able to withstand a high level of non-paying loans. Things would need to get a lot worse for many of the nonbanks to draw on the facility.

Comparing the COVID-19 crisis with the 2008 financial crisis, a key point is that during the financial crisis it was the mortgage-backed market as a whole that scared people. It is a different story this time around and RMBS is proving to be some of the most resilient assets.

Zaunmayr AOFM support has been crucial. Its role has evolved from providing direct support in primary and secondary markets to warehouse investment and now the FSPV. How do issuers assess this evolution?

■ **MARSDEN** The speed and responsiveness of the AOFM in March was crucial. I summarise the AOFM's role as having effectively shored up confidence and injected positive sentiment into the market. By this I mean the broader wholesale lending market as well as securitisation.

The offshore banks with which we have balance-sheet relationships derived a lot of comfort from the mere backstop presence of the AOFM, in secondary markets and through the FSPV. We should also not underestimate the effectiveness of the AOFM's initial participation in the secondary market, because issues here could have caused real liquidity problems for the sector. But we saw the AOFM executing secondary-market switches. This allowed primary issuance to restart within the confines of a very challenging time in April and May.

We were making contingencies for primary markets to stay closed for 4-6 months but I genuinely believe the AOFM's participation kickstarted the market much earlier than anyone expected.

■ **BARRY** It became evident through April and into May that global investors were comfortable – first with the health outcomes in Australia and second with the quality of Australian mortgage collateral. Diverse granular mortgages, low LVRs and relatively low levels of hardship contributed to this. The AOFM's support gave further confidence for investors to re-enter the market.

Accordingly, we were able to proceed with a A$1.25 billion RMBS transaction in May – the first to price without direct AOFM support since the crisis began. We were fully funded without primary support or cash from the AOFM. This was another first – although the AOFM supported the deal via secondary direct switches with investors for A$120 million. The

> "I think, with pricing in all sectors crunching in, it is probably only a matter of time before there is a step down in margin. ADI issuance will remain low and the bank term-funding facility may be extended and even tightened."
>
> **JAMES AUSTIN** FIRSTMAC

final book comprised 25 investors split evenly between local and offshore.

■ **RIEDEL** We had a similar experience to Firstmac early in the crisis in that we had a deal ready to go in early March that we put on pause. This was eventually executed in early May, with the AOFM supporting the part of the capital structure where risk-adjusted demand was weaker.

We then issued in June with the AOFM supporting in the short-dated triple-A note to facilitate an upsize. This was important to enable a larger allocation to investors elsewhere in the capital structure where demand was strong. Most recently, we issued an SME-backed deal in September without any AOFM support. The evolution of AOFM's participation is evident but has been important for our market.

I feel the senior triple-A market is still delicately poised. There is good engagement from Europe but the participation is not as broad as it was last year. Similarly, engagement from Japanese investors is more subdued. This means deals are being successfully placed but at smaller volume than pre-COVID-19 – driven by the size of the demand for triple-A notes.

Zaunmayr What is the level of confidence from issuers with regard to the robustness of investor demand as we move into what is traditionally a busy issuance season toward the end of the year?

■ **BARRY** We are unlikely to see the major banks come into the market for senior funding in any size over the near term since

> "It became evident through April and into May that global investors were comfortable – first with the health outcomes in Australia and second with the quality of Australian mortgage collateral. Diverse granular mortgages, low LVRs and relatively low levels of hardship contributed to this."
>
> **MARTIN BARRY** LA TROBE FINANCIAL

they are saturated with central-bank liquidity and customer deposits.

Bank and nonbank RMBS have slightly different investor pools. But the dramatic reduction in bank flow creates an opportunity for nonbanks to fill the demand for high-quality paper.

■ **AUSTIN** The nonbanks are providing the overwhelming majority of supply and margins seem to be holding quite wide. The iTraxxx index is at 65 basis points and senior-unsecured bank debt is also around this level. I think, with pricing in all sectors crunching in, it is probably only a matter of time before there is a step-down in margin. ADI issuance will remain low and the bank term-funding facility may be extended and even tightened.

■ **TWYFORD** Relative value to Europe and the UK remains attractive at the moment, which is bringing in a pleasing level of interest from some of the larger UK-based investors. Those that are capable of investing in Australian dollars can get a pick-up of 15-20 basis points.

Maintaining our stability in these economic conditions is vital for these investors, though. If there is a material push out in negative headlines, or a precipitous jump in COVID-19 cases or unemployment with a flow through to property prices, the precarious situation Peter Riedel mentions may fall the wrong way. If we can hold firm on these elements, though, we offer relative value to knowledgeable investors that are aware conditions will ebb and flow.

Zaunmayr Prime Capital has not yet issued a public RMBS deal. How does the current situation change the equation when it comes to make a capital-market debut in future? Might this happen in 2020?

■ **SCANLON** We have two existing warehouse programmes and no plans for a term-out of either in the short term. Receivables in these pools are relatively short duration – less than three years – and high credit quality, so sufficient liquidity is being produced from borrower repayments.

Of late, we have been in discussions regarding a longer-term principal-and-interest product and an associated new warehouse facility. COVID-19 has slowed down these conversations, though, as we all take a wait-and-see approach on where the pandemic leads us.

Zaunmayr How has the mix and number of investors in securitisation deals changed through this crisis?

■ **TWYFORD** We saw a pleasing mix of investors in our PRS26 and PRS27 deals, which came in quick succession in June and August. There was crossover of investors between the deals. We had no bank involvement other than the banks that pressed strongly for allocations. We could have traded away from banks in both deals, and it is pleasing not to be reliant on balance-sheet bids.

Overall, we saw a good breadth of investors from around the world. Even so, some familiar names are not present at the moment. We are in discussion with a few of these and have a line of sight to where they are sitting.

If you were to tell me in March, at the start of the crisis, that we could complete these two deals with the books we achieved, I would have taken it. We have aspirations to be in the market again in 2020 and have a pipeline building that will allow this. We will need to be thoughtful on how we execute future deals but, to date, we have been pleased with the breadth and depth of investor appetite.

The belly of the mezzanine segment is exceptionally well bid at the moment and it was pleasing to see interest growing in the lower-rated tranches between our PRS26 and PRS27 transactions.

■ **BARRY** The investor base has been robust. Our experience is that demand has been relatively evenly split between domestic and offshore accounts, which is pleasing. The point has been made on relative value – Australian paper is still very attractive to offshore investors. This has helped encourage investors into the sector, though obviously we'd like to see the premia reduce.

■ **GUESDE** Triple-A demand from offshore is more about price than risk. Issuers just need to strike the right balance between pricing and volume. If they increase the price sufficiently they will find demand.

As I mentioned, the benchmark for global investors has always been the CLO market – and this has repriced drastically upwards and then readjusted. Last year, Japanese banks were massive CLO buyers but they have now almost stopped. They were also buyers of ADI prime RMBS but this is no longer available, so some are adjusting and looking at nonbank issuance. There is potentially interest but it is a question of pricing – and it will take time. •

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FEATURE

The housing highway

Most analysts anticipated the Australian housing market would take a hammering from COVID-19. More than six months into the crisis, house prices have held up better than expected and experience suggests the sector will be among the leaders of a future economic recovery.

BY LAURENCE DAVISON

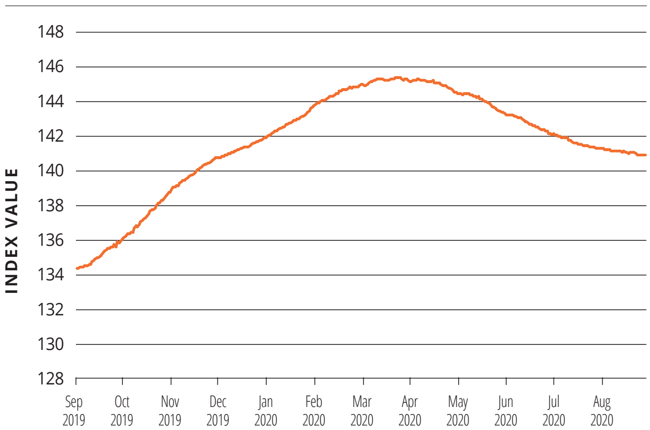
The Australian housing picture is unusually murky. Pandemic is the new backdrop for economic modelling while fiscal and monetary conditions are close to unique. Projections have to take account of things like an expected protracted fall in net migration caused by something other than the economic outlook.

Australian regional outcomes, meanwhile, are more divergent than at perhaps any other time. In late September, Melbourne remains in full lockdown and all expectations are for the state of Victoria to underperform even though it appears gradually to be winning its battle with a second wave of COVID-19. Western Australia (WA), by contrast, has been without community spread of the virus for nearly six months and could be set finally to pull out of its post-mining-boom housing doldrums.

There are outliers on both sides of the housing outlook – some who never predicted a crash and others who still believe a protracted price decline is the most likely path. But the most common trend among forecasters in the third quarter of 2020 is for revising projections on the upside. As with the public-health crisis – and with the same proviso that things can get worse in a hurry – the nearest thing to a consensus suggests Australian housing is, once again, doing better than bearish expectations.

No-one is suggesting COVID-19 has had anything other than a deleterious impact on the Australian housing market. It is down significantly from its most recent peak, just before the pandemic hit (see chart 1) and even the more optimistic observers are not ready to say the Q3 stabilisation leads to a straight-line recovery.

CHART 1. AUSTRALIAN HOME VALUE INDEX (FIVE CAPITAL CITIES BASIS)



SOURCE: CORELOGIC 20 SEPTEMBER 2020

On the other hand, what is happening in the pandemic era could serve as another rebuttal of the most common concern voiced about Australian housing over the past decade or more. Having not crashed, as many of its peers did, during the financial crisis, many observers feared Australia's high household indebtedness made its property market a bubble waiting to burst.

An orderly if limited correction from late 2017 did little to quell this fundamental concern as it was driven primarily by a regulatory handbrake and not by the most commonly expressed harbinger of doom – a jump in unemployment.

This has now happened: Australian unemployment reached a two-decade high in July 2020, rising to 7.5 per cent from around 5 per cent going into the COVID-19 crisis. The house-price index is down by only just more than 2 per cent, however – and the August unemployment number, at 6.8 per cent, recorded an unexpected upside surprise.

Despite the spike in unemployment, the first six months of COVID-19 had a smaller impact on Australian house prices than the Australian Prudential Regulation Authority's 2017 decision to restrict banks' provision of credit to housing investors. By late September, the CoreLogic house-price index was only slightly down on it historical high-water mark, and still 5.3 per cent higher year-on-year.

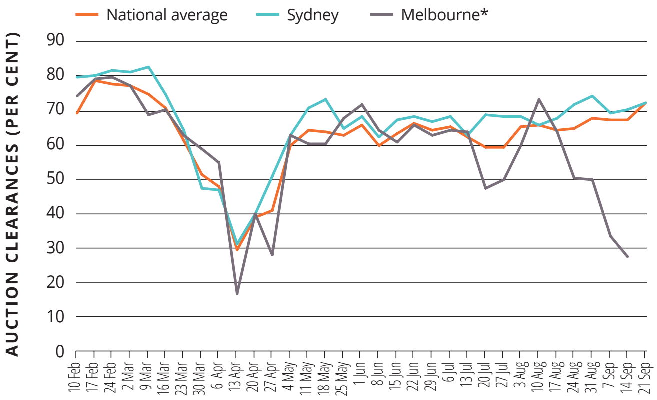
The question is whether market resilience can hold up indefinitely in the face of protracted unemployment, the impact of second and subsequent waves of the virus – should they occur – and the gradual withdrawal of government income support. A growing weight of opinion is coming round to the idea that, to at least some extent, yes it can.

EARLY IMPRESSIONS

This positivity was not always the case. As Australia went into lockdown in March, analysts scrambled to work out just how bad the coming housing-market decline could be. To take just one – hardly unique – example, on 15 April ANZ research predicted a 10-15 per cent price fall by the end of 2020, "with downside risk", on the back of a forecast 8-10 per cent drop in national GDP.

All the leading indicators were pointing in the same direction. Lending for housing fell in February, for the first time in nearly

CHART 2. HOUSING AUCTION CLEARANCE RATE, 2020



* Insufficient data to provide a Melbourne result for 22 September.

SOURCE: CORELOGIC 21 SEPTEMBER 2020

a year, as the "time to buy" dwelling index dropped into deeply negative territory. Quite apart from anything else, the mechanics of home buying became next to impossible as social-distancing rules banned open-home inspections and on-site property auctions.

Gareth Aird, head of Australian economics at Commonwealth Bank of Australia (CBA) in Sydney, tells *KangaNews*: "When the lockdowns came in we predicted a 10 per cent decline in the housing market from peak to trough, which we thought would occur over a six-month period. We saw auction rates and new lending drop dramatically in April, and sentiment looked really dire. This led us to expect a sharp contraction in prices but with the bulk of the damage being done by the back end of the year."

The 10 per cent figure emerged as a consensus position for housing-market forecasts. National Australia Bank (NAB) economists expected this level of decline by the end of 2020 – driven by unemployment peaking at 11.7 per cent at the end of June and falling only as far as 7.2 per cent by year-end – with further decline in H1 2021 before finally reaching the bottom.

Westpac Banking Corporation's outlook was only slightly more optimistic: a 10 per cent decline by June 2021, which it also anticipated would be the bottom of the market.

It did not take long for signs of resilience to emerge, though. In part, this was down to better-than-expected outcomes on the public-health front. Having initially warned the population to be prepared for the COVID-19 lockdown to continue for six months, tentative but the significant steps toward reopening the government was taking as early as mid-May, as daily new-case numbers dropped into the teens.

Aird now notes: "We – like a lot of others – have been surprised at how little prices have fallen nationally." He points to lending activity being close to back to its pre-COVID-19 level, other than in Victoria, having begun to bounce as early as June. Meanwhile, the auction clearance rate has firmed in Sydney in particular (see chart 2), although turnover is still low on a historical basis.

CHEAP CREDIT

The emerging view seems to be that the housing market is on a hair trigger to rebound thanks to extraordinarily supportive monetary policy, related credit-market conditions and the relative lack of appeal of alternative investment markets. It is not so much that policymakers have cleared a path for the property market as that they have laid a 10-lane highway and removed the speed limits. If owners and investors are ready to get back on this metaphorical road, the way seems clear for them to make rapid progress along it.

At base level, the Australian cash rate at an unprecedented low of 0.25 per cent underpins cheap mortgage debt. Aird points out that the housing-market correction that began in 2017 halted and reversed – at an increasingly rapid rate – after the Reserve Bank of Australia (RBA) cut rates in June, July and October 2019. He also argues the reserve bank gets more bang for its buck from cuts as the headline rate gets closer to zero.

He explains: "It is not just the fact that mortgage rates are falling that matters but the percentage change. As the cash rate gets lower, each 25 basis point cut has a bigger impact on interest repayments. It might feel that there isn't a lot of stimulus from rate cuts when there isn't a large number of cuts, but there is actually a huge impact on interest payments the closer the rate gets to zero."

Bill Evans, chief economist, managing director and global head of economics and research at Westpac, suspects a new mindset is emerging among borrowers. While the RBA has only cut the cash rate by 0.5 per cent in response to the pandemic, he argues that it is now so close to zero – and fixed-rate home loans are being offered at such attractive rates – that borrowers may feel they are seeing the best lending conditions they are ever likely to. This can only have a positive impact on the time-to-buy equation.

At the same time, the relative appeal of property as an investment option is likely increasing. Low yield makes fixed-income and term deposits unattractive absolute-return options,

"It wouldn't surprise us to see prices starting to accelerate over the second half of 2021 even if the economy is still operating well below its capacity. The acceleration could be quite rapid if the economic direction is at all positive, simply because of how low the interest rate is."

GARETH AIRD COMMONWEALTH BANK OF AUSTRALIA

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THE MIGRATION EQUATION

A closed border and ongoing economic weakness even when it reopens means net migration to Australia is likely to be in the doldrums for some time. How significant an impact this will have on the housing market is a subject of debate.

Immigration had already slowed prior to the outbreak of the pandemic and it plunged as the health crisis led to strict controls on international travel.

The Australian government predicted in May that immigration would fall by 15 per cent in the year to 30 June and by a further 85 per cent in the next 12 months. This would represent a fall of almost 200,000 permanent arrivals relative to June 2019 and mark the lowest level of net immigration since June 1993.

Fitch Ratings research suggests this type of outcome will inevitably have a substantial follow-on impact on the housing market. The most recent Australian census, held in August 2016, showed the average Australian household had 2.6 people. If this ratio holds for immigrants, the reduction in net inflow between 2019 and 2021 would imply demand for around 76,000 fewer dwellings than would have been the case otherwise.

Assuming the natural population increase remains similar to previous years, Fitch estimates population growth for Australia will reach just 0.7 per cent in 2020 – a level lower than any seen in the past 40 years and down from 1.4 per cent in 2019.

It is important to separate the two main drivers of reduced net migration. The halt in movement of people as a consequence of closed borders enforced as a virus-management measure might be expected to unwind quickly once the pandemic is under control globally.

By contrast, a weaker Australian economy, and in particular elevated unemployment, can be expected to keep migration numbers down even after the national border reopens. Commonwealth Bank of Australia's head of Australian economics, Gareth Aird, says: "We expect net overseas migration to lift again as soon as the international borders reopen – which we have pencilled in for the second half of 2021. But we're not expecting it to go back up to the pre-COVID-19 level. This is because we also expect un- and underemployment to remain elevated. It doesn't make sense to boost labour-market supply when there are still a lot of Australians looking for work."

There is some expectation that the main impact of lower migration will be on the supply of housing rather than prices. Developers, in other words, will reduce their building plans in anticipation of lower demand.

This aspect of the housing market had started to turn around. Building approvals rebounded by 12 per cent in July, including an 8 per cent bounce in house approvals and a 20 per cent spike in the apartment sector. It is hard to be confident about the sustainability of this recovery in the context of the migration outlook, however.

ANZ senior economist, Felicity Emmett, and economist, Adelaide Timbrell, write: "We believe this bounce will be eroded by low confidence and weaker outlooks for population growth and income growth, the latter exacerbated by Melbourne's second lockdown."

Aird agrees, suggesting the outlook is for less building and more renovation. He comments: "The shock to population growth due to the plunge in net overseas migration is unprecedented and will dramatically reduce underlying demand for new housing. The upshot is we believe we will see an unusual disparity open up between new residential construction and renovation activity over H2 2020 and 2021."

while the economic downturn is crushing dividend yield and capital gains in the equity market. Rental yield is also down, but with cheap debt and the potential for positive gearing available there are still grounds for investor housing demand.

Economists see no reason to expect supply of credit to dry up. There is speculation the RBA will keep an increasingly close eye on inflation, but it seems the reserve bank is willing to play its part in stimulating the economy for the time being. In particular, it has expended the supply of cheap funding into the banking sector via the term-funding facility (TFF).

This lends three-year money to banks at a fixed rate of 0.25 per cent and, together with massive deposit inflows, has caused a surplus of liquidity in the banking system and thus a hunt for assets. "The TFF has been expanded and the banks will draw it down," Evans insists. "They have to do something with this money – and one thing they could do is start offering incredibly cheap fixed-rate mortgages. If this is the case it could be quite a stimulus to the housing market."

Nonbank lenders have already observed heightened price competition from Australia's major banks (see p4), noting both

"Our high-frequency data – for instance credit-card turnover – and Apple's mobility numbers for July-August are saying even the 9 per cent contraction we were expecting in Victoria just isn't going to happen. People are finding ways to spend money even though they are stuck at home."

BILL EVANS WESTPAC BANKING CORPORATION the challenge this poses to their own business growth and the positive signal it sends about confidence in the housing market.

Nor is there any sign of the government and reserve bank turning the taps off. The extension to the TFF the RBA announced on 1 September is perhaps the most significant move in this space. It extends the deadline for banks to draw the facility's A$68 billion (US$49.5 billion) additional funding allowance by three months, to the end of June 2021, and makes A$57 billion of supplementary funding available to be drawn by the same date. By 1 September, Australian banks had drawn A$52 billion under the TFF according to the RBA.

This is not the only government measure designed to encourage credit supply to households and SMEs. Most recently, on 25 September, the Commonwealth treasurer announced plans to implement various reforms to "simplify the provision of credit to consumers and small businesses" by overhauling responsible-lending rules.

A Treasury statement says: "The prescriptive approach in responsible-lending obligations guidance and internal lenders' systems developed to comply with the guidance leaves borrowers and lenders facing a 'one-size-fits-all' approach… As a result, obtaining credit has become more burdensome for borrowers, irrespective of the risks they face, and significantly increased the time needed to gain credit approvals."

According to Ken Hanton, director, client management and execution at NAB in Sydney: "A key feature of the government's proposed reforms will be allowing lenders to rely on information provided by borrowers with borrowers to be made more accountable for the information provided for a lending decision. This is intended to replace the current practice of 'lender beware' with a 'borrower responsibility' principle."

REVISED OUTLOOK

The policy side of the equation is relatively conventional, albeit operating at its extremes in the extent to which it has been stretched to facilitate economic – and thus housing-market – recovery. But the circumstances that have led to massively accommodative monetary and fiscal settings are unusual in the extreme. Predicting the medium-term pandemic outlook is key to understanding the extent to which traffic will rejoin the housing highway.

"A lot of the models we have tended to use just aren't particularly helpful at the moment because of the unique nature of what we are going through," Aird admits. "Unemployment normally rises very quickly in a recession but there isn't typically the short, sharp rebound in employment we saw when the economy reopened. There are so many novel dynamics to the COVID-19 situation – JobKeeper is another new feature, for instance."

Net migration – another historically supportive input for Australian house prices – has effectively been decoupled from the economic trajectory as the local border remains all but closed as a pandemic-management measure. Opinions differ on how significant the collapse in migration will be for the housing market (see box on facing page).

There is also the issue of regional variation, which is producing the greatest diversity of outcomes across Australia since at least the mining boom of the early 2010s. Westpac, for instance, started basing its house-price forecasts on a combined state-by-state basis rather than a national average – simply because the range of outcomes is so wide.

The biggest outlier is Melbourne. The Victorian government imposed a new lockdown in July as COVID-19 cases spiked to a high of more than 700 a day – almost twice as many as the worst of the first wave, with many times more cases of community transmission. The data has improved markedly and the government announced a path of eased restrictions on 27 September, but state economic activity has been battered for a second time.

The threat is that protracted second, third and subsequent lockdowns could start to have a longer-term impact on capacity, eroding the supply side of the service sector in particular as a growing number of businesses capitulate in the face of revenue being cut off. Evans says this is something to keep an eye on but, so far, Victorians appear to have adapted their economic behaviour to lockdown conditions.

"Our high-frequency data – for instance credit-card turnover – and Apple's mobility numbers for July-August are saying even the 9 per cent contraction we were expecting in Victoria just isn't going to happen," he explains. "People are finding ways to spend money even though they are stuck at home."

This, Evans continues, means it is "pretty hard" to get the national number for house-price decline to 10 per cent on a state-by-state basis. "It's possible, but it would need a disaster in Victoria – something like a 20 per cent fall, which would be 4-5 per cent nationally. On the other hand, WA has the lowest exposure to tourism and overseas students, but has worked through its housing oversupply and has its best ever affordability."

> "We believe house prices will face downward pressure nationwide, as supportive factors will be outweighed by the impact of the change in net immigration along with high unemployment and general economic uncertainty. Indeed, risks to our forecast for house prices are skewed to the downside."
>
> **BEN MCCARTHY** FITCH RATINGS

FISCAL CLIFF MAY BE A MYTH

One of the biggest fears about Australian economic prospects is what happens when massive fiscal support is withdrawn – originally expected to be at the end of Q3 2020. Economists say the idea of a short, sharp withdrawal of government support was always implausible, though.

When COVID-19 lockdowns hit, the Australian federal government responded with a raft of support measures for people whose income otherwise would have been slashed. In particular, it increased regular JobSeeker payments to the unemployed and offered the JobKeeper subsidy to employers suffering a 30 per cent or greater decline in revenue but which kept staff on.

These measures were initially available until the end of September 2020, and were described by government as a "bridge" to the other side of the pandemic. Although COVID-19 has so far been well controlled in much of Australia, its economic consequences are ongoing – and the government has responded by prolonging support measures.

JobKeeper and JobSeeker have been extended, albeit in somewhat mitigated form, until the end of Q1 2021. Economists say this was always a more likely outcome than an immediate withdrawal at the earliest opportunity.

"We were never overly concerned about the supposed fiscal cliff at the end of September," says Gareth Aird, head of Australian economics at Commonwealth Bank of Australia. "We always thought it was more likely than not that the government would extend the COVID-19 income supplements – JobKeeper and JobSeeker – if needed, as indeed it did."

Aird points to one of the more embarrassing moments the federal government has experienced in the crisis – the miscosting of the initial phase of JobKeeper by A$60 billion (US$43.7 billion) as evidence the government was always prepared to provide a larger volume of fiscal support if required.

Aird continues: "'Relaxed' is probably the wrong word but we are taking some comfort from the fact the government is committed to keeping the fiscal tap running if need be. We expect it to take more of a tapering approach, of withdrawing stimulus at a rate commensurate with economic improvement. The idea is to have a handover effect from government support back to private demand, in a staged process that avoids income shocks."

This may be just as well, as there is little sign the economy is ready to survive without government stimulus.

Bill Evans, Westpac Banking Corporation's chief economist, tells *KangaNews*: "We expect the ongoing use of JobKeeper to be a lot greater than the government expects. It is forecasting renewal at the end of September to be 1.4 million – down from 3.4 million. We expect there will be 1 million users in Victoria alone, as businesses around the country – in particular in New South Wales – continue to be affected by social-distancing restrictions."

Westpac and CBA are among the houses that have revised their property-market outlooks to the upside, the revisions coming in September in both cases. Westpac's forecast is now for just a 5 per cent national price decline from the start of the COVID-19 crisis to the end of June 2021, nearly half of which has already occurred.

The bank sees this market cycle playing out in three phases from late 2020 onwards. The first, which it expects to take place in Q4 2020 and Q1 2021, is relative market stability and even a slight rebound, at least outside Melbourne. Later in 2021, Westpac's economists anticipate renewed downward pressure as borrowers that have been on hardship assistance struggle to return to normal repayments and some forced selling emerges. This, however, is the extent of the so-called "fiscal cliff" they foresee emerging (see box on this page).

Once this supply overhang clears, sustained low interest rates, regulatory support, improved affordability and an economic recovery should see housing back on an upward trajectory by early 2022, according to Westpac.

CBA's outlook revision is similar. On 9 September, it published an update note saying: "We continue to expect prices to ease. But we are now looking for a national peak-to-trough fall of 6 per cent versus our previous call of 10 per cent. We now expect that trough to arrive in Q1 2021 versus end 2020 previously. And we expect a much larger disparity between outcomes by capital city than initially forecast."

The central scenario is for dwelling prices to plateau in Q2 2021 before rising over the second half. CBA's forecast is for solid price growth in H2 2021 as the economic recovery gains traction and incredibly low interest rates once again become the dominant influence on dwelling prices.

Some are less convinced about the improving picture. Ben McCarthy, managing director, structured finance at Fitch Ratings in Sydney, tells *KangaNews*: "We believe house prices will face downward pressure nationwide, as supportive factors will be outweighed by the impact of the change in net immigration along with high unemployment and general economic uncertainty. Indeed, risks to our forecast for house prices are skewed to the downside, and price falls could exceed 10 per cent if our assumptions about the path of the pandemic prove to be overly optimistic."

The biggest challenge in calling the market may be how dependent it is on sentiment and how hard it is to predict this aspect given the unprecedented nature of the pandemic situation. Aird says it is possible that house prices could decouple from the economic trajectory entirely, at least for a time, thanks to asset-price inflation driven by ultra-accommodative monetary policy.

"It wouldn't surprise us to see prices starting to accelerate over the second half of 2021 even if the economy is still operating well below its capacity," he reveals. "The acceleration could be quite rapid if the economic direction is at all positive, simply because of how low the interest rate is." •

New Zealand housing keeps its head above water

House prices in New Zealand have risen over the COVID-19 period, defying the expectations of many in the early stages of the pandemic. The prospect of negative interest rates should buoy the sector further, though there are still plenty of headwinds to navigate.

BY CHRIS RICH

New Zealand is among the countries to have fared best on the health front during the COVID-19 crisis. It was restriction- and virus-free for several months before an outbreak in Auckland in August. But cases are on their way to being corralled under the aggressive, and unusual, elimination strategy the local government has pursued from the outset.

Like other nations, however, New Zealand has not been able to escape the economic wrath the crisis has wrought. New Zealand's GDP for the second quarter fell by 12.2 per cent – a figure that is actually slightly worse than the OECD average of 10.6 per cent but better than the Reserve Bank of New Zealand (RBNZ)'s forecast 14.3 per cent drop and New Zealand Treasury's 16 per cent expectation.

The consensus of economists is for a gradual recovery in growth in the second half of the year with a return to pre-COVID-19 output further down the track. The housing market, meanwhile, has forged its own rather different path.

The August iteration of Real Estate Institute of New Zealand (REINZ)'s monthly house-price index – the same month of the Auckland outbreak – showed prices up by 1.9 per cent. This was the third consecutive monthly rise after decreases in April and May, while year-on-year growth is 10 per cent. From March to August, house prices rose by 3.2 per cent (see chart 1) – or 2.6 per cent on a seasonally adjusted basis, according to Westpac New Zealand.

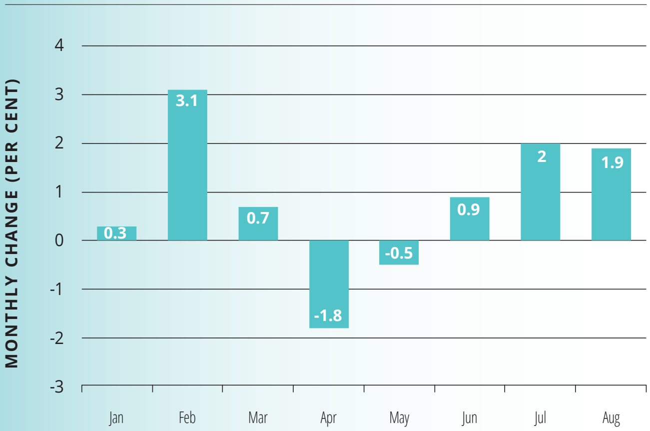
In its latest semiannual financial-stability report released in May, the RBNZ's baseline scenario for stress testing banks' resilience to COVID-19 estimated a cumulative house-price decline of 9 per cent. This is now looking too pessimistic, and all four of the local major banks' economics teams have upgraded their view on the housing market's prospects.

ASB Bank is forecasting a 2.8 per cent fall in house prices by March 2021, upgraded from a predicted 6 per cent drop earlier in the year that already acknowledged there were upside risks to this assessment. ANZ sees house prices falling 6 per cent, upgraded from a 9 per cent fall forecast previously.

No change in outlook has been as dramatic as Westpac's, though. In July, the bank's economics team was forecasting a fall of 2.5 per cent over the second half of 2020. It is now expecting an increase of 3.5 per cent from March to year-end with an annual increase of 8 per cent for 2021.

While it remains to be seen what effect the end of the government's wage subsidy will have on the economy, unemployment and house prices, the impact of COVID-19 on the housing market has so far not been as severe as first thought.

CHART 1. NEW ZEALAND HOUSE PRICES 2020



SOURCE: REAL ESTATE INSTITUTE OF NEW ZEALAND 21 SEPTEMBER 2020

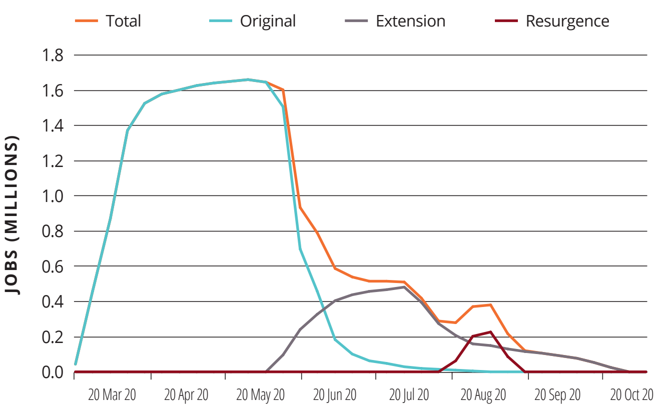
RATES ENVIRONMENT

In mid-August, the RBNZ expanded its large-scale asset purchase programme to NZ$100 billion (US$66.8 million) from NZ$60 billion and turned even more dovish on its economic outlook. This led major-bank economists universally to lock in a negative official cash rate (OCR) projection to their 2021 outlooks.

Most observers agree ultra-low rates – which in large part have filtered through to the home-loan market – are playing a significant role in propping up house prices even in the face of a significant economic downturn.

As well as providing cheaper money for owner-occupiers, to refinance or to upsize their current dwellings, and allowing first-home buyers to get a foothold, the property market is likely to hold even greater appeal to investors looking for return in the yield-constrained environment.

CHART 2. NEW ZEALAND JOBS PROTECTED BY GOVERNMENT COVID-19 SUBSIDY



SOURCE: MINISTRY OF SOCIAL DEVELOPMENT 21 SEPTEMBER 2020

"New Zealand's tax system, where income is taxed but capital gains are not, tends to exaggerate the attractiveness of land-based assets even further when interest rates fall," Dominick Stephens, chief economist at Westpac, explained in a 14 September research note.

Stephens says Westpac's earlier expectation that house prices would fall in the second half of 2020 was predicated on the recessions of the early 1990s, 1998 and 2008, in which there was a clear relationship between rising unemployment and falling house prices.

"But all those past recessions were preceded by a rapid increase in interest rates, whereas the current recession was not," he argues. "This unusual feature of the current recession may be teaching us that interest rates play an even more powerful role in determining house prices than previously appreciated."

It is not just the fall in interest rates in 2020 that has led to an increase in house prices, though. Lending data suggest the recent market rebound has not been accompanied by an undue increase in household risk, according to ANZ's analysts.

This reflects a protracted period of high demand for housing and consistently insufficient supply. ANZ research says enduring land-use constraints, regulatory restrictions and slow responsiveness of new building are the most significant supply limitations in New Zealand, while demand has accumulated through migration and increased credit availability.

DARK CLOUDS AHEAD

The biggest question for the New Zealand housing market is whether what has been experienced in the June-August period is reflective of true resilience or is merely a temporary reprieve before the dark economic clouds produce an anticipated storm. A key factor could be the end of government support and the impact of its withdrawal on households' ability to service debt, even at lower interest rates.

The local wage subsidy has been extended but is due to expire in September while income relief payments extend only as far as October. Views that the housing market are not out of the woods largely rest on an expectation that it could start feeling the impact of the weaker economy from the latter months of the year.

Unemployment is yet to bite hard in New Zealand. The June 2020 quarter number, 4 per cent, actually marks a 0.2 per cent improvement from three months earlier and is barely half the Australian figure. On the other hand, New Zealand's participation rate has also fallen significantly, while the underutilisation rate rose by 1.6 per cent to 12 per cent with the total number of weekly hours worked falling by 10.3 per cent.

New Zealand Treasury's pre-election economic and fiscal update (PREFU) projects the unemployment rate gradually to increase to a peak of 7.8 per cent in the March 2022 quarter – an improvement on the 9.8 per cent forecast in May's budget – before easing to 5.3 per cent by June 2024.

"Job losses have been reduced and delayed by the wage subsidy and its subsequent extensions, though impacts of the downturn on the labour market cannot be avoided indefinitely," ANZ research argues. "Mortgage deferment and the uptake of interest-only payments serve to increase debt burdens in the long run, and defer difficult decisions."

Uncertainty in assessing the environment abounds, making any house-price forecast extremely volatile. The bottom line – as BNZ research points out – is that the PREFU indicates that the economy is doing better than was initially feared. BNZ analysts say the number of jobs on the COVID-19 wage subsidy undershooting expectations is another promising indication that the New Zealand economy is holding together well.

The total, as at 11 September, of 216,969 is well down on the 1.7 million peak at the end of May. The Ministry of Social Development predicts it will be down to 50,000 by mid-October (see chart 2).

The degree of bounce back from the impact of COVID-19 is difficult to estimate. While a significant rebound is all but locked in for the third quarter, BNZ expects New Zealand GDP over the six months to September to be down 7 per cent on the corresponding six-month period last year, and fourth quarter GDP to be down 6 per cent on last year.

Nevertheless, the most concerning long-term, structural problems in the housing market do not seem likely to correct any time soon. Falling mortgage rates have not improved New Zealand's enduring household indebtedness problem.

Household debt as a proportion of nominal disposable income was 163.8 per cent for the June quarter, more than 5 per cent higher than during the worst of the financial crisis according to RBNZ data. Given the fall in rates, though, households' spending on debt servicing has fallen to its lowest level in more than 20 years – safeguarding any immediate risk but cementing a long-term issue.

Nor is housing affordability, one of the country's most pressing issues, likely to improve for long. ANZ research forecasts the house price to income ratio to decline, but not materially so. "We don't see the current crisis, or the dramatic change in the stance of monetary policy that has occurred, as being a game changer for housing affordability in either direction," ANZ analysts say. •

The support band: AOFM's SFSF and FSPV

The Australian Office of Financial Management (AOFM) has intervened in the Australian securitisation market since March through its structured finance support fund (SFSF), which facilitated significant securitisation deal flow in the mid-part of 2020. The AOFM is further enhancing its market support with the introduction of its forbearance special-purpose vehicle (FSPV).

BY MATT ZAUNMAYR

The SFSF is designed specifically to help nonbank and smaller bank lenders access funding during the COVID-19 crisis. It has been flexible to meet industry needs and was quickly deployed, with nearly a quarter of its A$15 billion (US$10.9 billion) allowance invested by the start of September.

The SFSF was one of a suite of government and central-bank stimulus measures announced on 19 March to help bridge Australia's economy to the end of the COVID-19 pandemic. The enabling legislation received royal assent within a week.

The purpose of the SFSF investment is to maintain the flow of credit to smaller bank and nonbank lenders that depend primarily on securitisation markets for wholesale funding. The goal is to make it possible for these lenders to continue supplying credit to the wider economy.

The current crisis is not the first time the AOFM has supported wholesale funding in the securitisation space. It intervened in the Australian securitisation market during and after the 2008 financial crisis, purchasing asset-backed deals in the primary market from issuers other than Australia's big-four banks and Macquarie Bank.

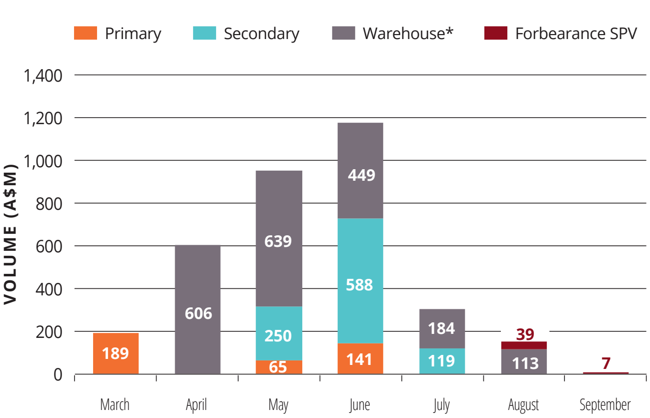
This time around, the government debt-management agency's remit is targeted at smaller credit providers that do not have access to the cheap debt funding of the Reserve Bank of Australia's term-funding facility.

So far, the SFSF has primarily invested in nonbank securitisation structures. Only one authorised deposit-taking institution has been funded through the SFSF – neobank lender, Judo Bank.

The AOFM's investment scope for the SFSF is also broader than it was during the financial crisis. The earlier programme could only buy residential mortgage-backed securities (RMBS) issued in the primary market, and then only at triple-A level. In 2020, the investment mandate allows allocations in the secondary market, to warehouse vehicles, across asset classes as long as they meet SFSF investment guidelines (see box on facing page), and at any place in the capital structure of deals aside from first-loss notes.

More recently, the AOFM has also been empowered to support existing securitisation structures through the FSPV.

SFSF INVESTMENT ACTIVITY



*April and May warehouse figures include additions made in July.

SOURCE: AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT 11 SEPTEMBER

EVOLVING TASK

The AOFM's focus has evolved rapidly since it first deployed SFSF funds in March, in line with priorities dictated by the COVID-19 crisis. The first investment, in a Firstmac RMBS deal, came the day after legislation was passed by federal parliament.

The initial priority was to help get transactions that were close to execution when the crisis hit over the line. To achieve this, the AOFM targeted SFSF investments at gaps in structures in such a way as not to crowd out third-party investors.

From May, the agency focused its efforts more in the secondary market (see chart) – where an overhang of paper was preventing investors from considering participation in new deals or in warehouse vehicles.

Real-money accounts have played a more significant role in Australian warehouses in recent years, picking up the slack where banks have had to withdraw from mezzanine exposures in particular. Issuers say third-party investors sought warehouse exits during the height of the crisis, however – creating a gap the AOFM sought to help fill.

Pressure on secondary and warehouse securitisation markets persisted in April and May even as March's market volatility subsided. This was largely a by-product of the call superannuation funds made on investment managers to provide early access to retirement savings – an additional part of the government's COVID-19-relief suite of measures.

Liquidity demands from superannuation funds have eased since June, market users report, at the same time as loan quality has rebounded. This picture of improvement on both sides of the book, with a backstop of support from the SFSF, has allowed for a steady pipeline of securitisation transactions – primarily from nonbank lenders – and across multiple asset classes including auto and commercial-mortgage loans.

Most deals have priced without direct SFSF involvement and, since July, without even AOFM support of secondary-market switches. However, *KangaNews* understands the AOFM continues to be prepared to get involved in the issuance market as and when it is needed again.

SFSF INVESTMENT GUIDELINES

The Structured Finance Support (Coronavirus Economic Response Package) Act 2020 established the Structured Finance Support Fund (SFSF) and states its objectives as ensuring continued access to funding markets affected by the economic effects of COVID-19 and mitigating these effects on competition in consumer- and business-lending markets.

The *SFS Act* states that the SFSF must make its investments according to government direction regarding strategies and policies, decision-making criteria, and risk and return.

Under its strategies and policies direction, the SFSF must make investments that provide support for smaller lenders that have lost access to reasonably priced funding, maintain and encourage investment by the private sector in the securitisation market, promote competition in the securitisation market for smaller lenders, and not adversely affect the capacity of smaller lenders to provide credit.

Furthermore, investments must be structured not to restrict renegotiations of arrangements for making payments under contracts for credit and must allow lenders to provide forbearance to debtors.

The investment decision-making criteria include consideration of whether the investment affects other participants in the securitisation market for smaller lenders, whether the rate of return is less than the market rate, and whether it is reasonably required.

Finally, SFSF investments must have an acceptable level of risk, including to the Commonwealth balance sheet, and aim to achieve a positive net financial return over the medium-to-long term.

BACKSTOP ONLY

The FSPV is the most novel component of the SFSF remit. It allows the AOFM to inject liquidity into securitisation structures that are affected by the provision of hardship arrangements to nonbank lenders' customers. The FSPV became operational in August following a rapid implementation period since the idea was first floated and an Australian Securitisation Forum (ASF) working group established to assist its development in the early months of the crisis.

The catalyst for establishing the vehicle was a March decision by government, regulators and industry bodies to provide leeway to lenders as they provide their customers with payment holidays or other forbearance arrangements. The ASF was keen for nonbank lenders to be able to provide this support to customers without imperilling the quality of existing securitisation trusts, which could be subject to downgrades or losses in the event of large-scale disruption to cash flows.

The AOFM worked with the ASF and other stakeholders to devise a vehicle that would provide the greatest good to the greatest number in the market. It settled upon a single SPV to cater to all lenders and asset classes as long as they meet the SFSF's investment criteria, including its stipulation that funds deployed must be investments rather than grants.

Crucially, this means the AOFM will not engage in support for structures where it deems there is a risk of lenders not being able to repay the funds invested by the SFSF.

The FSPV has a class A variable funding note with an interest rate of 5 per cent, to which the SFSF is the sole subscriber. Meanwhile, participating lenders will subscribe to a class B note, the size of which is determined by the commitment required by the individual lender.

The amounts subscribed to in the class B note effectively act as a first-loss collateral account, but funds contributed by lenders are not available to other originators. The FSPV will cover up to 90 per cent of missed interest payments on loans directly affected by COVID-19 but not missed principal payments, fees or other charges.

Eligible lenders can draw on the FSPV until 30 March 2021, but eligible loans must have been originated prior to 30 September 2020. After 30 March 2021, participating lenders will begin paying back the committed funds.

Many nonbanks have highlighted the value of the FSPV as an emergency backstop that provides confidence to investors while also stating that their goal is not to draw on it. Several lenders have gone through the process of applying for eligibility to draw FSPV finds while stating that this is purely a precautionary measure (see p4). As of mid-September, the FSPV had committed a total of just A$45.5 million across four lenders. •

SIZEABLE BUT NIMBLE: A SPECIALISED TRUSTEE OFFERING

Equity Trustees is Australia's only publicly listed trustee company specialising solely in fiduciary services. Its size allows it to offer a full suite of trustee and agency solutions to a broad range of clients, while its focus on fiduciary services means it can be flexible to meet niche demands.

The trustee space in Australian debt capital markets and securitisation has become increasingly competitive in recent years, in line with the growing size of the overall Australian dollar market. Of the relatively newer players in the debt markets and securitisation sphere, Equity Trustees is perhaps the most experienced fiduciary, particularly in the Australian market.

Its USP is the scale it brings to a focused business model. Equity Trustees is an experienced, large, Australian Securities Exchange (ASX)-listed and Australian-headquartered trustee company. James Connell, general manager, corporate trust and securitisation at Equity Trustees in Sydney, says providing trustee and agency services are in its DNA. The firm has been in operation for more than 130 years including providing corporate-trustee services for more than 20 years. Over this time, it has perfected its model of discharging fiduciary services and it applies this experience, dedication and attention to detail to its debt-market and securitisation services – including for nonbank lenders.

It has offices in Sydney, Melbourne, Brisbane and Perth to service local clients, as well as offices in London and Dublin to assist domestic clients exploring offshore opportunities and to originate work from Europe and the UK into Australia.

LARGE BUT NIMBLE

Part of Equity Trustees' competitive advantage is that it combines being large enough to provide the full range of trustee services its clients need with a sufficiently specialist focus to be flexible in its core service offering. Connell says this business model has been developed to serve specific client requirements rather than to provide off-the-shelf solutions.

The debt capital markets services Equity Trustees offers include note and bond trustee, issuing, calculation and paying agent, registrar, security trustee, and process agent. In addition, for securitisation, Equity Trustees can act as issuer trustee, security trustee, standby servicer, document custodian, trust manager and trust accountant.

The firm has a full-service trustee offering it can apply to simple bond transactions from local issuers, Kangaroo bond transactions, public securitisations and private warehouse securitisations alike.

This offering contributes to Equity Trustees' standing in the Australian debt market. Louise McCoach, Sydney-based special counsel at Gilbert + Tobin, says: "We like to work with trustees that are commercial, flexible and approachable. It is also essential that they can perform their core roles with competence and professionalism. In particular, their back-office function needs to be 100 per cent reliable. Equity Trustees has an excellent track record on all these fronts."

McCoach adds that Equity Trustees has proven particularly adept in navigating Austraclear settlement procedures, allowing for the timely delivery of deals with novel structures.

Meanwhile, Phil Harvey, partner at King and Wood Mallesons in Sydney, says: "When our issuer and intermediary clients are considering trustee services, technical proficiency in all facets is taken as a given and the Equity Trustees team certainly delivers. The manner of its service delivery and responsiveness is fantastic. It is always a pleasure to work with the Equity Trustees team."

Responsiveness and operational stability have been crucial in recent months as many of Equity Trustees' clients, in the nonbank lending market and elsewhere, face a difficult, and constantly evolving, operating and market environment. The

"Equity Trustees was very good in setting up the waterfall modelling for the warehouse facility. We had some one-on-one sessions to run through this process and to tie it all back to the documents. The firm was very quick and responsive to our requests."

BRIDGET KEATING, SCOTTISH PACIFIC

focus for Equity Trustees – which moved to working from home arrangements across its offices in March in response to the pandemic – has been delivering a business-as-usual operating environment for its clients.

"We are continuing to support our clients by providing our services uninterrupted and seamlessly. This is exactly what a trustee should be doing in times such as this. No matter what is happening in the global economy or the uncertainties a client faces, the trustee should always be rock solid," Connell explains. "Equity Trustees presents safe options for trustee and agency services during choppy markets."

CASES IN POINT

Equity Trustees provides services in traditional securitisation and debt capital markets transactions, such as those for residential mortgage-backed securities (RMBS). But it can also provide solutions for more complex financial transactions. Two of its clients, Australian Secure Capital Fund (ASCF) and Scottish Pacific, are testament to this.

ASCF provides bridging loans to finance the purchase of new property, self-managed super fund investor loans and other specialised lending products. The company's Brisbane-based chief executive, Richard Taylor, says Equity Trustees was recommended to ASCF for the issue of a A$35 million (US$25.5 million) bond in 2018.

"The main requirements we have of our trustee relate to response times in dealing with requests, having a practical approach to issues, a strong reputation in the marketplace, and robust and efficient IT systems," Taylor says.

He adds: "I think it is the experience behind Equity Trustees and its personnel that set it apart. The firm is extremely knowledgeable across all regulatory and legal issues that may arise and is readily accessible to deal with time-sensitive matters. The team can think outside the box when required to resolve issues, which in our opinion makes all the difference."

For instance, Taylor explains, on a recent consent matter Equity Trustees resolved the issue quickly with minimal fuss and a practical commercial approach.

Connell says Equity Trustees weighs and investigates solutions to problems, rather than looking for the easiest or quickest way out. "We will always do the right thing by our clients and beneficiaries but will work harder to get the best result rather than the easiest. We want to find practical, commercial solutions to any problem a client may have and will always explore options to find the best way of achieving them."

Scottish Pacific is another client Equity Trustees has recently served. The nonbank lender provides invoice financing to support small businesses. Scottish Pacific approached Equity Trustees to provide trustee services for an equipment-finance receivables warehouse in 2019.

Equity Trustees acts as issuer and security trustee, trust manager and accountant, and backup servicer provider for the warehouse facility. Bridget Keating, Sydney-based senior treasury manager at Scottish Pacific, says the company put a request for proposal to the market's best-known trustees when it was setting up the warehouse facility.

Equity Trustees laid out its service offering and proved competitive on price, so Scottish Pacific decided to award the contract and diversify its trustee service providers, explains Keating.

The assets that Scottish Pacific originates into its warehouse facilities are not vanilla securities, such as residential mortgages or credit-card receivables. Connell says the services Equity Trustees provides to this warehouse exemplify its ability to adapt its structures, processes, and service delivery to whatever mould its client requires.

He adds that a partnership with Moody's Analytics allows Equity Trustees to provide easily accessible, rich data sets for its clients' warehouses.

Keating says: "Equity Trustees was very good in setting up the waterfall modelling for the warehouse facility. We had some one-on-one sessions to run through this process and to tie it all back to the documents. The firm was very quick and responsive to our requests and has maintained this standard for any document amendments we have had."

ASCF and Scottish Pacific provide vital funding sources in their respective industries outside the traditional securitisation mainstream. Connell says providing trustee and agency services to these clients so they can continue to run their businesses with no impediments is key to the Equity Trustees offering.

"It is remarkable to see the breadth of enquiries that come across our desks and know confidently that we can do what our clients require of us because we have the systems, processes and expertise readily to hand," explains Connell. •

EQUITY TRUSTEES IN BRIEF

Equity Trustees was established in 1888 and is listed on the Australian Securities Exchange. It is one of Australia's largest trustee companies and the leading specialist in this unique and complex area of service, with just more than A$100 billion (US$72.8 billion) in funds under management as at 30 June 2020.

It has provided corporate-trust services in Australia for more than 20 years, making it one of the longest-serving providers in the domestic market.

Former premier of Victoria, the honourable Jeffrey Kennett, is the current chairman of the Equity Trustees board, with Reserve Bank of Australia board member Carol Schwartz due to take over the chair position at the October annual general meeting. Managing director, Mick O'Brien, has led the company for the past five years.

For any enquiries related to debt capital markets and securitisation services, please contact James Connell, general manager, corporate trust and securitisation.

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UP TO ***THE CHALLENGE***

Australian banks have thrown down the gauntlet in the mortgage space but **Athena** is taking up the challenge. The company's Sydney-based cofounder and chief operating officer, **Michael Starkey**, tells *KangaNews* how its unique value proposition will allow it to succeed on the banks' home turf of prime mortgage origination despite a revved-up competitive environment.

Athena's customer acquisition is focused on refinancing rather than new lending. How is loan origination tracking during COVID-19 – noting that this seems to have been a particularly hot area for major banks?

■ Overall demand for refinancing has been resilient through the crisis, though Athena did suffer a hit to volume when funding markets were disrupted in April and May. Thankfully, we have since received strong support from new and existing funding partners, and origination volume has started to recover.

We are certainly finding the competitiveness in fixed-rate products offered by the major banks much more challenging than last year. This appears to be attributable directly to the large distortion introduced by the Reserve Bank of Australia's term-funding facility (TFF). The TFF is now extending into next year and the market will remain very challenging until this subsidy is removed or extended to include nonbanks.

How is Athena responding to this enhanced competitive environment? Have the company's growth forecasts been revised?

■ We are getting sharper. We have been watching closely the funding markets and judging where they are going to land. Athena has a unique offering in that we have made a front-book, back-book promise – we do not charge our existing customers more than we are charging our new customers.

It is a powerful strategic position to have with our customers, but it means we have to be a little more careful around tactical things like cashback offers. We are circumspect about deploying aggressive tactics through a volatile period.

On the other hand, we forecast subdued funding costs and conditions over the long term and we are starting to position ourselves for the new environment. We recently put some price changes into the market, which is an indication of our willingness to compete for volume a little bit harder.

In June, Athena disclosed deferred payments on just 0.15 per cent of its total mortgage book. Can you give an update on hardship numbers and a view on how book performance stacks up with peers?

■ The major banks have been relatively public in stating their numbers, which are that 7-10 per cent of their mortgages are in payment deferral. This means hundreds of thousands of Australians are currently not making mortgage repayments.

At Athena, we have 3,500 customers and only eight of them are on payment holidays – which is about 0.2 per cent of our book. Another set of 12 customers is paying interest only, bringing the total percentage of loans in hardship to about 0.6 per cent.

To what do you attribute this low level of hardship?

■ It is a combination of things. We focus on super-prime customers and we have very tight technology and operational processes to ensure our lending aligns with policy.

From a credit appetite point of view, we have had limited demand for the segments that have been hardest hit by COVID-19 – for instance self-employed borrowers. To date, we have mainly focused on PAYG customers.

Another segment we have steered clear of is customers who are heavily reliant on uncertain income. This includes commissions, bonuses and casual work. These are the first types of income to be affected in difficult economic times.

In July, Athena introduced the AcceleRATE loan: a mortgage where the rate falls as the borrower pays down the loan. What is the rationale behind the product?

■ We have brand positioning around helping customers pay back their home loan faster. We like to substantiate this positioning so it is more than just words. For example, when a customer refinances with us we encourage them to pick up where they left off and not to extend back out to a 25- or 30-year term if they only have 15 years to go on their mortgage.

As part of looking to get sharper, rather than introducing a flat pricing change we looked to do something innovative in line with the brand – which is an automatic reduction in rate as the loan-to-value ratio (LVR) declines. We think we are the first lender to offer a rate that reduces automatically over time. What is different from other lenders offering similar products is that we are committed to lowering the price automatically as the LVR changes.

The product allows us to be more aggressive on our pricing, too. It helps support volume growth and our customer proposition. •

ATHENA

SIZE OF LOAN BOOK	A$1.4BN
MAKEUP OF LOAN BOOK	PRIME RESIDENTIAL MORTGAGES: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	PRIVATE BILATERAL WAREHOUSE FACILITIES: A$1.8BN

About Athena

Athena is delivering a better value mortgage to borrowers and investors alike. Athena is powered by Australia's first cloud-native mortgage platform, radically simplifying the mortgage value chain and delivering breakthrough efficiency, client experience and agility.

Athena is building toward improved customer lifetime value and aiming to cut costs by 70% versus big-bank legacy processes. The savings are passed back via great mortgage rates for borrowers and superior returns for investors.

Ownership and history

Athena was founded in July 2017 by Nathan Walsh and Michael Starkey. Since public launch in February 2019, seamless digital experience and highly competitive interest rates have resonated with customers as Athena received more than A$7.5 billion of applications in its first 18 months of operation.

Athena is led by an executive team with deep experience in financial services and delivering innovative customer propositions. The company is backed by a leading group of strategic partners including Macquarie Bank, Square Peg Capital, Hostplus, AirTree, Resimac, Apex Capital and Rice Warner.

Target market and asset performance

Athena competes head-on with major Australian banks for prime mortgages in capital cities and major regional centres. Loans are strictly lower than 80% LVR with restrictions on postcodes and apartment lending.

A focus on super-prime mortgages coupled with tight operations has resulted in very strong performance in light of the challenging economic circumstances. To date, Athena has seen no arrears beyond 30 days past due while loans in COVID-19-related payment moratoriums represent less than 0.5% of the total book.

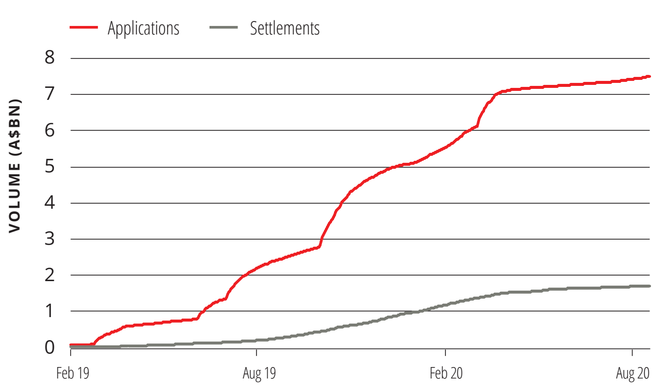
Funding strategy

Athena has developed a flexible funding model backed by a funding-aware platform that can cater to different types of wholesale investor and provide them with real-time portfolio reporting.

Athena has established four separate warehouse facilities with major domestic wholesale banks and one foreign bank. Support from existing investors remained strong through the recent market disruption and has recently been extended. The company is well progressed in its strategy to diversify its funding sources, with new institutional mezzanine investors coming on board and significant interest from other institutional buyers seeking to acquire loan portfolios.

The group is aiming to progress toward a first public RMBS deal in 2021 and continues to build out products designed to allow a broad range of wholesale investors to access high-quality mortgage assets directly.

ATHENA SETTLEMENTS AND APPLICATIONS



SOURCE: ATHENA SEPTEMBER 2020

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AVANTI MOVES FORWARD

New Zealand nonbanks have largely had to go it alone in the COVID-19 era, at least in the sense of not enjoying the same type of government support afforded their Australian peers. Even so, **Paul Jamieson**, group treasurer at **Avanti Finance** in Auckland, says the lender has managed well and maintains a positive outlook on funding and lending.

How has Avanti's origination fared in 2020?

■ Originations dried up almost completely at the end of March except for a few mortgage originations that were started prior to the COVID-19 crisis. We had about 20 per cent of our usual origination level in April and May.

After the lockdown ended, however, our auto originations rebounded strongly in New Zealand and Australia. June and July were two of our biggest-ever months in this part of the book.

The mortgage part of our business grew steadily through this period, too. There was a slight dip in early September due to the second Auckland lockdown. However, this was a blip in the progress made since June.

Somewhat counterintuitively, we have actually seen an improvement in our arrears profile. Some of this is due to customers saving during lockdown and not wanting to spend as much in the months since. Instead they are more readily repaying debt obligations.

Our mortgage strategy is to offer a range of products from near-prime to specialist, with a focus on more high-quality originations. In autos, we offer a full range of products from tier-one new to used auto loans. Diversity of offering is important to us and will be a driver of growth going forward.

New Zealand-based nonbanks have not had the same kind of government support as their Australian peers. Has this been challenging?

■ In March, we began running stress tests in our portfolios and funding vehicles to see how they would deal with lower repayments and higher arrears. The lower-repayments component was because, like the banks, we were offering deferred or reduced payments to our customers.

Our structures have a decent level of excess spread so they can handle a large decrease in income collections and increases in arrears, and still function properly.

What eventuated was no marked increase in arrears and only a small decrease in income collections. The decrease was offset by base rates also falling, which meant we had lower expenses through the waterfall and maintained strong excess spread in our structures.

We lobbied our regulators in April and May to get support akin to that provided by the AOFM [Australian Office of Financial Management]. This did not eventuate, but we are keeping the dialogue open. It has turned out that, for Avanti at least, government support was not needed. However, we are conscious of potential future issues that could arise from the economic situation we are in.

How have you approached funding during the crisis?

■ We began talking to our funding banks in March around their ongoing support for our business and, once the first lockdown ended, their appetite to support our growth plans going forward. We extended a number of our facilities and increased some by a small amount. We are pleased with the support we received from our funders.

We are also raising capital to support our growth forecasts over the next three years. We are front-loading capital because we think there will be unique opportunities we can take advantage of in the near and medium term, as well as bolstering the balance sheet from a defensive point of view.

What opportunities do you see coming out of the COVID-19 crisis?

■ Increased capital requirements coming for New Zealand banks could lead them to tighten lending over the next few years, with nonbanks potentially the beneficiaries. Anecdotal evidence suggests this is already happening, though not necessarily driven solely by future capital requirements.

It is currently a 2-3 week turnaround to obtain a mortgage with a big-four bank in New Zealand. We have a strong service proposition with a turnaround time of 48 hours. As rates go down, banks' net-interest margins are being squeezed so they are likely to look at cutting costs – which could further affect their servicing capability.

Many nonbanks can price mortgages competitively at around the bank floating rate and a lot of customers like the options and solutions we provide.

Finally, the nonbank sector is only around 1 per cent of the market in New Zealand compared with around 8 per cent in Australia. As consumers become more aware of the sector we think it will grow, and if we maintain or build our share we will grow too.

What is your sense of the outlook for securitisation in New Zealand?

■ We have met with investors recently and we, along with our arranger, are cautiously optimistic about demand. A few new investors are looking at securitisation, including some KiwiSaver funds. This is being driven by investors looking for yield and diversity – and it is very encouraging. •

AVANTI FINANCE

SIZE OF LOAN BOOK	NZ$1.2BN
MAKEUP OF LOAN BOOK	RESIDENTIAL MORTGAGES: 47% MOTOR-VEHICLE LENDING: 33% CONSUMER LOANS: 16% BUSINESS LENDING: 4%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	NEW ZEALAND: 93% AUSTRALIA: 7%
OUTSTANDING DEBT ISSUANCE	SECURITISATION: NZ$215M SECURITISED WAREHOUSE FACILITIES: NZ$735M CORPORATE FACILITIES: NZ$140M

About Avanti Finance

Avanti Finance is a well-established New Zealand-based finance company with a number of subsidiaries that focus on four distinct sectors: residential mortgages, motor-vehicle finance, consumer finance and SME lending. Avanti has been lending to New Zealanders since 1991 and more recently to Australians, through its BFS subsidiary. Avanti has a history of profitable growth and increasing market share, achieved by following conservative and responsible lending practices.

Avanti's target market is middle New Zealand and Australia, and includes borrowers whose financing needs are not always catered for by the tighter credit criteria of the major banks or other mainstream financial institutions. This builds into Avanti's mantra, to be the "first nonbank choice" for borrowers across a wide range of lending products.

New lending is sourced predominantly through a network of introducers – primarily brokers, advisers and motor-vehicle dealers. Avanti has established strong relationships through these channels, many of which have worked with Avanti for many years. In addition, Avanti generates significant repeat business from existing customers and direct enquiries, which currently accounts for approximately 20% of new business by number of loans.

Ownership and capital structure

Avanti is privately owned with a majority interest held by its founder, Glenn Hawkins, supported by a range of private investors. Avanti is strongly capitalised with a conservative dividend policy, and as such the company's capital base has grown steadily since inception. It raised additional capital to support strong growth, in 2016 and 2019.

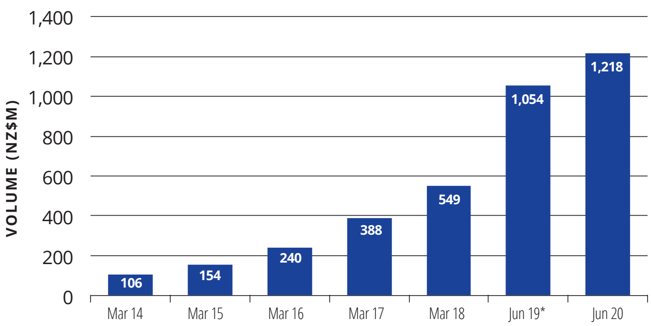
Funding strategy

Avanti's funding is provided by a considered mix of shareholder equity, secured medium-term notes from private investors, and structured bank and third-party funding.

Avanti has ABS and RMBS warehouse facilities in place for its mixed consumer-loan portfolio, motor-vehicle book and residential mortgage-backed loans.

In June 2018, Avanti successfully undertook its first public issuance in the form of a NZ$200 million RMBS transaction, following this in 2019 with another NZ$200 million term RMBS deal. Avanti intends to be a regular issuer of RMBS and, in time, ABS as part of its growth strategy.

AVANTI FINANCE RECEIVABLES



*Avanti moved to June year-end in 2019.

SOURCE: AVANTI FINANCE SEPTEMBER 2020

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KangaNews and DIVERSITY

Ninety-six per cent of respondents to the **KangaNews Women in Capital Markets Survey**, conducted in August 2020, believe giving profile to female leaders in media and industry events supports gender diversity in financial services.

As the only media and events business devoted to the Australasian debt markets, KangaNews is keen to use its voice and the forums it provides to further industry diversity. This includes promoting female voices in its editorial coverage and on its event agendas. The *KangaNews* Women in Capital Markets Yearbook, published for the first time in September 2020, is one sign of this effort coming to fruition.

View the yearbook at **www.kanganews.com/magazine**

If you have any suggestions about how KangaNews can help progress toward a more diverse industry, please contact **Helen Craig** on +61 2 8256 5533 or via hcraig@kanganews.com.

Bluestone.

BLUESTONE MORTGAGES

SIZE OF LOAN BOOK	A$2.8BN
MAKEUP OF LOAN BOOK	PRIME AND NONCONFORMING RESIDENTIAL MORTGAGES: 90.7% REVERSE MORTGAGES: 9.2% COMMERCIAL MORTGAGES: <0.1%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 92% NEW ZEALAND: 8%
OUTSTANDING DEBT ISSUANCE	RMBS: A$2.3BN

About Bluestone

Bluestone Mortgages provides mortgages in Australia and New Zealand to prime borrowers as well as those who fall outside traditional bank criteria. Bluestone was established in Sydney in early 2000 and has expanded to become a significant lending and asset-management business employing more than 220 staff and with more than A$10.1 billion of assets under management.

The business has developed a suite of industry best-practice systems and processes that have enabled it consistently to originate quality assets at equity-accretive margins.

In Australia, the group has operated a successful mortgage-lending platform for more than 15 years with no loss to any institutional investors.

Ownership and capital structure

In March 2018, entities associated with Cerberus Capital Management completed a transaction with Bluestone Group to purchase Bluestone's Asia-Pacific operations. As a result, Bluestone Asia Pacific is no longer related to Bluestone UK.

The strategic focus of the group has reduced risk on both sides of the balance sheet, shifting lending focus toward lower credit-risk assets and reducing structural leverage. Bluestone has no debt at corporate level.

Asset performance

Bluestone maintains a disciplined underwriting and pricing policy to generate superior risk-adjusted returns. Bluestone's cumulative loss in Australia since it recommenced lending in 2013 is 0.15%.

Bluestone's portfolios are built on conservative security criteria with an average LVR ratio of 66.9%, a focus on higher-population metropolitan securities and a majority of owner-occupied principal-and-interest borrowers.

Funding strategy

Bluestone has a wide investor base that consistently supports its securitisation programme, and warehouse facilities from Commonwealth Bank of Australia, Deutsche Bank, Macquarie Bank and National Australia Bank with additional facilities being added. The Sapphire securitisation programme has issued more than A$9.4 billion of bonds domestically and offshore.

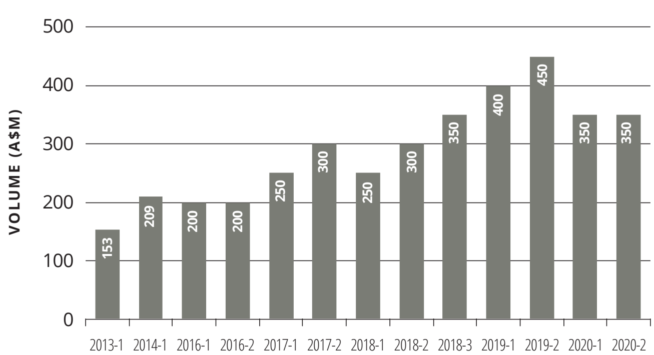
Bluestone is a frequent issuer in the Australian RMBS market with 31 public securitisation trusts since 2002, including 13 transactions from 2013 to 2020. To date, all securitisations have been in the nonconforming space. However, Bluestone's origination profile has an increasing portion of prime loans including 64% in the Sapphire 24 RMBS. Going forward, Bluestone expects to issue at least two securitisations per year, in increasing size as the business continues to grow.

Business performance

The Bluestone business is performing strongly after re-entering mortgage origination in Australia in 2013 and New Zealand in 2017. Having invested heavily over the last five years, Bluestone is generating strong financial performance with significant uptake of product by brokers.

Bluestone maintains strict discipline around pricing, ensuring all products deliver the required risk-adjusted returns. Bluestone will continue expanding its product range and operational jurisdictions, continuing the growth it has seen since returning to the market.

BLUESTONE SAPPHIRE RMBS ISSUANCE SINCE 2013



SOURCE: BLUESTONE MORTGAGES SEPTEMBER 2020

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BRIGHTE LIGHTS THE PATH TO GREEN EVOLUTION

In September, **Brighte** mandated Australia's first-ever all-green securitisation. **John Rohl**, the company's Sydney-based head of corporate development, discusses its funding journey so far and how it is faring in a challenging economic environment.

The space Brighte plays in seems more discretionary than other types of lending so a crisis like COVID-19 could be challenging for origination volume. How has loan book growth been in 2020?

■ The majority of Brighte's loan book comprises solar and solar-related products, such as batteries. Despite nationwide lockdowns and economic downturn, the residential solar PV and battery market has proven resilient throughout COVID-19. Australian solar PV installations accelerated in Q2 2020, according to the Clean Energy Regulator's June 2020 quarterly carbon market report – a year-on-year increase of 41 per cent in installed capacity.

The strong performance is twofold. First, people are working and studying from home, which has contributed to significant increases in energy bills. Many Australians are looking at ways to reduce their household costs and an investment in solar energy is one mechanism to achieve short and long-term energy-bill savings. Peak energy consumption coincides with solar-generation daylight hours.

Second, economic uncertainty has meant households want affordability and transparency more than ever. Investing in solar energy is an economic decision that makes sense – households can access solar energy today and finance the investment over time, reducing their total energy costs sooner. With significant savings a reality, investing in solar energy shifts from being a discretionary purchase for many families.

In addition to financing solar and batteries, Brighte payment plans and loans can be used to finance home improvements. The spend in this space has also increased, largely because people are working from home and want to make their homes more comfortable and sustainable.

How seasonal is the solar-installation business?

■ Brighte has been financing solar installations since 2016. What we've found is that the industry is not seasonal with regards to weather. Instead, it's 'microseasonal', based predominately around people's availability to be at home for the work to be done.

For instance, we expect demand to be lower during school holiday periods as many families go on holiday and therefore are not around for the installation to happen. Trends also suggest there is a mad rush before and after Christmas, and often we see business ramp up toward the end of winter after households have received significant energy bills from heating their homes and look to switch to solar as a result.

How has warehouse liquidity stood up for Brighte during the COVID-19 crisis and what measures did the company take to ensure stability of funding?

■ We moved decisively and quickly to identify potential risk scenarios and impacts of the COVID-19 pandemic amid the rapidly developing economic crisis in mid-March 2020.

We acted early to guarantee security of funding supply so we could continue to support our vendor partners and homeowners, and we did not pull back originations because of lack of capital.

National Australia Bank and our mezzanine funders provided excellent support to ensure our warehouse was large enough to maintain our growth trajectory. Providing certainty to our vendor partners and homeowners in the most uncertain time was critical, so we prioritised securing funding lines early.

Brighte expects to launch its first public securitisation transaction within five years of foundation. What have rating agencies and potential investors asked for when it comes to asset-performance history and scale? Do you expect to be able to offer a triple-A note?

■ From Brighte's inception, the intention has been to access cost-effective and scaleable debt funding, and the business has been built to ensure entry into the securitisation market. This has been a long-term strategy and we made sure the business would be in a position to meet the rating agencies' governance, processes and data-access requirements.

Additionally, our loss performance has been exceptionally strong. The credit quality of our homeowner applicants is very solid when compared with the market as a whole, as demonstrated by our consistently low level of arrears – 30-plus day arrears are less than 1 per cent. The resilience of the book is also demonstrated by exceptionally low levels of hardship throughout COVID-19.

Current guidance indicates our top note will be rated double-A, which is a fantastic result. This milestone speaks to the maturity of the business we're building, the quality of our customers and the future opportunities ahead. •

BRIGHTE

SIZE OF LOAN BOOK	A$200M+
MAKEUP OF LOAN BOOK	CONSUMER LENDING: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIAN HOMEOWNERS: 100%
OUTSTANDING DEBT ISSUANCE	PRIVATE BILATERAL WAREHOUSE FACILITIES: A$275M+

About Brighte

Brighte is an innovative digital-payment platform, connecting homeowners with solar and home-improvement businesses by offering affordable and convenient finance at the point of sale.

Brighte's purpose is to enable a brighter future today. It believes every Australian family deserves access to an affordable, sustainable and comfortable home. The company is a proud fintech, leveraging technology to solve problems for its customers, remove friction at the point of sale and deliver best-in-class service.

Founded by Katherine McConnell in 2015, Brighte has enabled more than 1,700 solar and home-improvement businesses to offer finance to more than 60,000 Australian households. In four years, Brighte has approved A$500 million in finance. In the first half of 2020, one in 15 residential solar installations in Australia used Brighte to fund their purchase.

Ownership, history and capital structure

As a private company, Brighte has demonstrated strong investor support by successfully raising capital each year. Brighte's list of high-quality investors include Atlassian co-founders Mike Cannon-Brookes and Scott Farqhuar – through Grok Ventures and Skip Capital (headed by Kim Jackson) respectively – AirTree Ventures, Singaporean venture-capital firm Qualgro VC, and other high net-worth investors.

Brighte is led by a senior executive team and board with deep experience in finance, technology and delivering innovative customer solutions.

Target market and asset performance

Brighte's customers are Australian homeowners with high-quality credit who are financing an average A$8,000 purchase over 4-5 year term.

Brighte's loan book has shown strong performance over time with 30-day-plus arrears of less than 1%. The resilience of the book has also been demonstrated by exceptionally low levels of hardship in the COVID-19 environment.

Funding strategy

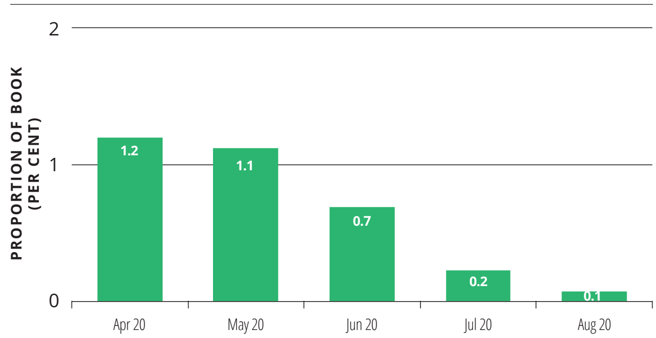
Brighte has established two warehouse arrangements to support its product offerings. They include a combination of Australian domestic banks and private mezzanine investors. The next phase of its funding journey will include establishment of public ABS issuance, giving access to a broader investor base. Brighte mandated a debut public ABS in September 2020.

Recognition

Brighte has been recognised with several awards, including:
- 2020: Green Lender of the Year (Finder Green Awards).
- 2019: Best Use of AI in Fintech (Australian FinTech Awards).
- 2019: Best Fintech-Bank Collaboration (Australian FinTech Awards).
- 2019: Deloitte Asia-Pacific Technology Fast 500 (fourth fastest-growing tech company in the Asia-Pacific region and second fastest-growing in Australia).

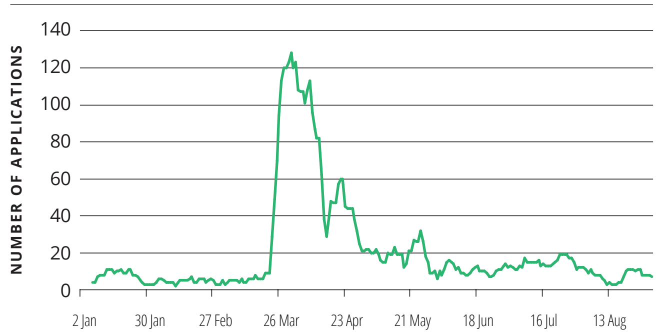
Katherine McConnell, Brighte's chief executive and founder, has received the following individual recognition:
- 2020: Medium to Large Business Award (Telstra New South Wales Business Women's Awards).
- 2020: Green Leader of the Year (Finder Green Awards).
- 2019: Tech Fast 50 Female Award (Deloitte Fast Technology 50 Australia).
- 2019 finalist: Alumni Award for Innovation and Entrepreneurship (University of Wollongong).
- 2018: Outstanding FinTech Leader of the Year (Finnies – Fintech Australia Awards).

BRIGHTE END-OF-MONTH COVID-19 HARDSHIP RATE



SOURCE: BRIGHTE SEPTEMBER 2020

BRIGHTE ROLLING SEVEN-DAY HARDSHIP APPLICATIONS 2020



SOURCE: BRIGHTE SEPTEMBER 2020

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BRIGHTEN'S GROWTH FOCUS

Adam Moore, director, head of funding and securitisation at **Brighten Home Loans** in Sydney, discusses the market entrant's funding journey so far and plans for public securitisation issuance.

What is the Brighten business story?

■ Brighten is an Australian-owned and regulated nonbank lender, responsible for the origination, underwriting, servicing, and funding of its mortgage portfolio. The business was established in 2017 and is wholly owned by Real Asset Management (RAM).

We saw an opportunity in the nonbank space as a result of regulatory changes in 2016 and 2017 that favoured the sector and we launched with an innovative product offering that includes home loans for nonresident borrowers. It was becoming increasingly difficult for existing lenders in the space to fund these loans, so there was an opportunity to enter the market in a profitable, high-margin niche, supported by the backing of RAM and its asset-management expertise.

We have grown the portfolio profitably and invested in processes, people, and technology solutions that will allow us to expand the business further. Our end-to-end digital mortgage platform gives us cost and service efficiencies and the flexibility that comes with not having any legacy issues.

We have broadened our product range to offer prime and near-prime, nonresident and construction loans, growing our assets under management to more than A$500 million (US$364.2 million). We are actively recruiting and investing in the growth of our broker network, including aggregator channels, in support of achieving a targeted A$2 billion loan book in two years.

What challenges has COVID-19 brought for Brighten's origination and how has the company responded?

■ There were challenges across the board. However, we were able to respond rapidly and put the necessary adjustments in place with minimal disruption to the business.

We have a cloud-based mortgage platform so could shift quickly and seamlessly to working remotely. Our team is already located in five locations so it was not too much of a hurdle to overcome.

From a credit perspective, we have been monitoring our borrowers' situations very closely. We have also been careful with new origination and tightened our servicing criteria to include additional tests on rental reliance, as well as additional underwriting and verification steps.

We did not make any material policy changes but did look at how some of our policies were implemented. We communicated these changes to brokers and did not have to close any of our distribution channels, while still ensuring we write quality business. The credit quality of the portfolio is demonstrated by the excellent asset performance since inception.

How has Brighten funded its lending to date and what plans do you have for the short and medium term?

■ We have two warehouse-funding arrangements in place with international investment banks. We also have funding diversification through a wholesale credit fund on the asset-management side of the business.

This reliable and stable funding platform gives us flexibility in the types of loans we write.

The short-to-medium term plan is to build our funding lines as we believe it is an ideal time to expand our lending business into the growing prime and near-prime loan segments. We believe we will be able to compete through a combination of streamlined product offering, simple and competitive pricing structure, and superior service proposition.

While we have proven capability in originating, servicing and funding, we understand the need to show track record as we move into new products. Fortunately, Brighten has celebrated several milestones including the formation of partnerships with leading mortgage aggregators and some of Australia's best-known brands, which will help build the portfolio and further demonstrates our capability and commitment to becoming a major nonbank lender.

We are actively engaging potential funders to develop new funding lines, which will enable us to scale our growth and enter new product segments. While we can fund the initial growth period ourselves, our development is focused on securitisation-friendly products, as we see securitisation as the platform for funding growth.

Nonresident residential mortgage-backed securities (RMBS) issuance is a nascent product in Australia. Have you had much interaction with institutional investors on this type of lending?

■ We now have a solid track record with our nonresident loan book and a portfolio that is nearing sufficient size to engage the market on a public transaction. Brighten will be a first-time issuer so we are embarking on the education process to help investors and other market participants understand our model.

Our first public securitisation deal will be a nonresident RMBS. However, as the portfolio grows we also plan to be a regular issuer in the domestic space. •

BRIGHTEN HOME LOANS

SIZE OF LOAN BOOK	A$500M
MAKEUP OF LOAN BOOK	RESIDENTIAL MORTGAGES: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	WAREHOUSE FACILITIES: A$750M CREDIT FUND: A$180M

About Brighten Home Loans

Brighten Home Loans is an Australian-owned and regulated nonbank lender with offices in Sydney, Melbourne, Brisbane, Hong Kong and Shanghai. Brighten was established and commenced lending in 2017. It had an innovative product offering from the outset, including home loans for nonresident borrowers. Brighten has since broadened its product range to offer prime and near-prime, nonresident and construction loans, growing its assets under management to more than A$500 million.

Brighten is a full-service nonbank provider, responsible for the origination, underwriting, servicing and funding of its mortgage portfolio. With an end-to-end digital mortgage solution platform that drives innovation to achieve cost and service efficiencies, as well as an experienced leadership team, Brighten is well placed for growth.

Ownership, history and capital structure

Brighten is a 100% owned entity of the Real Asset Management Group (RAM), an Australian-owned wealth- and asset-management firm with a focus on the credit and fixed-income, real-estate, and private-equity asset classes.

Brighten benefits from the strong support of RAM along with the experienced leadership and institutional relationships that have been developed over RAM's 10-year history.

Business performance

Through its focus on profitable niches in the initial growth stage, Brighten has been able profitably and sustainably to grow its mortgage portfolio since inception.

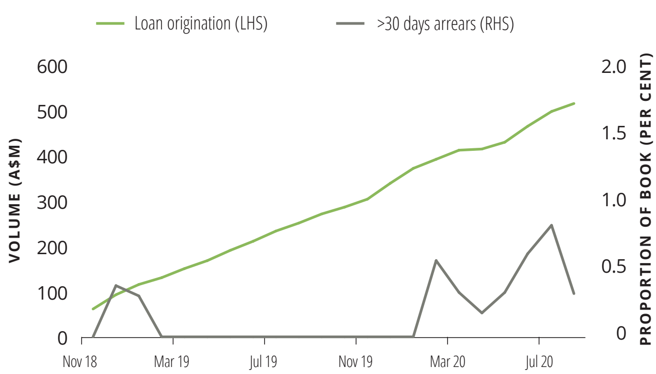
Brighten is generating strong financial performance following significant investment in its digital mortgage-solution platform, having expanded capabilities in key areas such as its mortgage-distribution platform, and origination and underwriting systems. From this strong financial position, Brighten is well placed sustainably to scale its business.

Funding strategy

Brighten has established two warehouse-funding arrangements with global investment banks, with further funding diversification provided through a wholesale credit fund.

Brighten's long-term focus is to develop a sustainable RMBS programme and, to this end, the company takes a proactive approach to its funding arrangements through early engagement with investors, auditors and rating agencies.

BRIGHTEN RMBS PORTFOLIO ORIGINATION AND ARREARS



SOURCE: BRIGHTEN HOME LOANS SEPTEMBER 2020

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COVID-19 HARDSHIP TRANSPARENCY A STANDOUT FOR *FIRSTMAC*

Firstmac has been forthright about disclosing detailed COVID-19 hardship data on its loan book. **James Austin**, Firstmac's Brisbane-based chief financial officer, says the transparency has been well received by investors during a time of uncertainty.

Firstmac elected to be very transparent about COVID-19 hardship numbers in its loan book. What was the thinking behind this approach and how have investors responded?

■ Transparency is very important. There is very little historical data to predict what may or may not happen with a pandemic so we thought it was prudent to be granular and transparent about our data.

This has been well received by investors, particularly offshore – the same level of transparency in their respective markets has been less than forthcoming. We will continue to provide this data on the first of every month until we see the end of COVID-19.

What is the hardship data telling you about asset quality?

■ We peaked at 5.7 per cent hardship in mid-June and it has been slowly, but steadily, correcting since then. It is now down to 4.6 per cent. All states are improving apart from Victoria – and even Victoria is not doing too badly.

This tells us the book is in good shape, which is perhaps a barometer for the wider economy – although likely benefiting from government stimulus. It is hard to say what will happen next year but the dire expectations of a house-price crash and high unemployment are unlikely to transpire.

Do you have a sense of what the effect of tapering government support will be?

■ The steady drop in outstanding hardship assistance is a good sign especially as borrowers are aware government assistance is coming to an end. This said, a core of borrowers is likely to have problems. We separate borrowers who have arrangements with us from those in hardship, with the former making some type of repayment while the latter does not. Our best estimate at this stage is that perhaps 2.5 per cent of the wider portfolio may have issues getting back on track.

The major banks have been pricing mortgages aggressively this year. Given Firstmac's focus on the prime space, how significantly is this affecting growth potential?

■ Very significantly. It is not so much the pricing as the A$4,000 (US$2,914) cashbacks that are blinding customers. They are receiving a honeymoon rate that the banks will reset to their high standard variable rates.

It is very difficult to retain customers when they are being offered these inducements. It is affecting our new originations and, just as importantly, our back books and conditional prepayment rate (CPR) levels. In fact, for the past four months our balance sheet has been going backwards.

We are focused on improving our retention practices. We were having some success with this in August, when we brought our CPR rate down, but it seems to be spiking again in September. We are looking at various ways to address it.

Firstmac has explored the idea of getting authorised deposit-taking institution (ADI) status. Can you give an update on business plans?

■ We had approval from the federal treasurer to acquire 100 per cent of an ADI in 2017. We pursued this strategy but, in 2019, the Australian Prudential Regulation Authority changed its approach to ADI entrants so the proposition was quite different. We are now capped at 20 per cent ownership or more of an alliance model.

This is something we are considering but it is quite a different proposition from what was originally approved. It is ongoing as a potential strategy, but our objectives remain the same: to achieve consistent, diversified funding through the cycles.

Firstmac acquired carloans.com.au and Georgie in May, adding to its car-loan portfolio. Does Firstmac intentd to securitise these assets?

■ Yes. We have been originating car loans through our retail brand and brokers for four years. Our portfolio is now A$250 million and still has some growth to achieve.

Both these businesses fit well into our existing operation, especially when it comes to referrals. The combination of these businesses will work very well for us. We are putting a lot of strategic effort into car-loan origination and will look at further acquisitions going forward should the opportunity arise.

I expect to see Firstmac issuing auto asset-backed securities in the future, potentially in the next calendar year. •

FIRSTMAC

SIZE OF LOAN BOOK	A$13BN EQUIVALENT
MAKEUP OF LOAN BOOK	PRIME RESIDENTIAL MORTGAGES: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 98% FOREIGN RESIDENTS: 2%
OUTSTANDING DEBT ISSUANCE	SECURITISATION: A$10BN EQUIVALENT SECURITISED WAREHOUSE FACILITIES: A$2.5BN EQUIVALENT

About Firstmac

Firstmac is Australia's leading online mortgage originator and one of the country's largest nonbank prime mortgage lenders. Firstmac originates and services prime residential mortgages in Australia. It has written more than 100,000 mortgages in the past 25 years.

Firstmac has a long history of participation in the mortgage industry, having originally commenced as a mortgage-originator manager of bank balance-sheet funded loans before establishing its own securitised home-loan funding programme.

The company's distribution model has evolved from 100 per cent third party to now being predominantly retail through its online platform, www.loans.com.au. Firstmac has also diversified its business to include auto and equipment financing, and managed-funds investments.

The company originates only prime loans and uses its best-in-class credit practices and risk-management framework to ensure the quality of its portfolio. Less than 0.5 per cent of the Firstmac loan portfolio is at 30-plus days in arrears and 90 per cent of its loans have LVRs of less than 80 per cent.

Ownership and capital structure

Firstmac is a privately owned company headquartered in Brisbane with offices in Sydney, Melbourne and Manila.

Funding strategy

Firstmac's policy is to ensure a minimum of two-thirds of its loan portfolio is funded by way of term match-funded RMBS, with the remainder funded through short-term warehouse facilities.

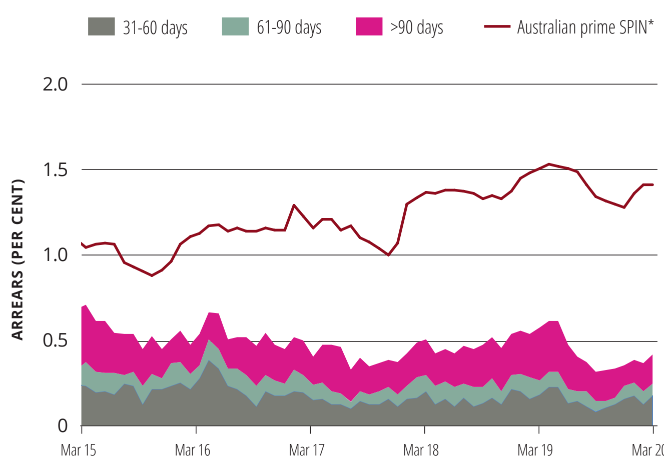
Firstmac has been a regular issuer of RMBS in the Australian domestic and offshore markets having undertaken 47 publicly and privately rated transactions since 2003. Total issuance amounts to approximately A$28 billion, of which 8% is denominated in foreign currencies.

WHAT IS FIRSTMAC?

RMBS transactions over 17 years (with A$10bn across 23 deals outstanding)	**A$28bn**	RMBS issuance history	**17 years**
Home loans over 17 years	**70,000**	Servicer ranking (S&P)	**Strong**
Balance Sheet	**A$13bn**	1.2% of Australian residential mortgage originations	**Prime only**

30+ days arrears as at 31 March 2020
Firstmac = 0.42% | Prime SPIN = 1.41% | Major banks = 1.87% | Regional banks = 2.36%

FIRSTMAC LENDING PORTFOLIO ARREARS PERFORMANCE



*Including non-market trades.

SOURCE: FIRSTMAC SEPTEMBER 2020

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HUMM'S THE WORD

Flexigroup is unifying its suite of consumer-finance products and its successful buy-now, pay-later (BNPL) brand – humm. **Bianca Spata**, Sydney-based group treasurer, discusses ongoing BNPL growth opportunities in Australia and New Zealand.

Flexigroup recently announced a rebrand to humm. What was the rationale for this and what is changing?

■ The decision to rebrand flexigroup to humm is a further simplification of the business and a means of unifying our value proposition of interest-free instalment payments for consumers and SMEs. We have seen real brand-equity build in humm, so it makes sense to bring all our offerings under our most loved brand.

There are no changes to our product offering just yet. However, a move to bring all our products under this one brand will offer a seamless checkout solution for merchants. It will also become a single platform serving everyone from generation Z and millennial spenders to young families and small businesses, financing everything from life's little luxuries to significant purchases.

The BNPL space is quite competitive in Australia. How do you intend to continue growing this product?

■ Flexigroup has been in the BNPL space for a long time and we have seen very strong growth since rebranding our BNPL offering to humm early in 2019, despite the increase in competition in the market. COVID-19 has further solidified the presence of BNPL in the market.

We are the third-largest player in the Australian market, with more than 17 per cent market share. Our key differentiator is our dominance in transactions over A$1,000 (US$728).

This will be a core focus of the growth strategy and, in support of this, we formally launched humm in New Zealand on 14 September. This is the first BNPL product in the New Zealand market to finance transactions up to NZ$10,000 (US$6,677).

We also see opportunity through innovation and have seen strong take-up of our buy-anywhere, pay-later product, bundll, which was launched as a market first earlier this year.

How has flexigroup's range of consumer-finance products been affected by the COVID-19 crisis, and have any outperformed expectations?

■ The general theme across all our products is that, to date, COVID-19 has not had the impact on performance we thought it might have had back in March. Like any business, we took a fairly conservative approach when we forecast what could eventuate and the reality so far has proved more favourable.

We were quick to review and boost our hardship programmes so they could be extended to affected customers. Since peak levels in April, the number of customers seeking hardship arrangements has returned to pre-COVID-19 levels and we continue to see hardship trend downward as a proportion of all portfolios.

We also made pre-emptive adjustments to our credit decisioning in March, which have contributed to positive performance and will naturally improve the credit quality of our portfolios going forward. A great deal of uncertainty remains and we will continue to remain conservative in our approach, while staying focused on credit and collections.

How has this affected your capital markets intentions for 2020, and does the emphasis on BNPL have any impact on issuance plans?

■ COVID-19 took our attention away from capital-markets issuance for a period. Our immediate priority was ensuring we had sufficient headroom across warehouse facilities in case we were unable to access markets for a prolonged period.

We were quite fortunate to have accessed markets for significant volume in 2019 so we did not require immediate warehouse increases. We were also focused on ensuring our warehouse funders and investors across our programmes were comfortable with the approach we were taking to hardship.

It has been pleasing to see increasing issuance and confidence in primary markets in recent months, and we have turned our attention to our own capital-markets plans. We are certainly hopeful of accessing markets this year.

BNPL is an asset class we have been terming out since 2011, with more than A$2.5 billion of ABS issued in this space. It is a key asset class for our public transactions and will continue to be.

Have flexigroup's green receivables continued to grow through the COVID-19 crisis and are you expecting to continue growing the volume of green tranches you take to market?

■ Yes. Consistent with market trends, we have seen a general pick-up in home-related spending and we have continued to see strong growth in solar receivables.

We issued green tranches across the capital stack in our most recent securitisation deal and this was very well received by investors. It would be great to continue the momentum we have built in the green ABS space when we next come to market. •

FLEXIGROUP

SIZE OF LOAN BOOK	A$2.6BN
MAKEUP OF LOAN BOOK	CREDIT CARDS: 50% BUY-NOW, PAY-LATER: 25% COMMERCIAL AND LEASING: 25%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 65% NEW ZEALAND AND IRELAND: 35%
OUTSTANDING DEBT ISSUANCE	PUBLIC ABS TRANSACTIONS: A$1BN PRIVATE SYNDICATED AND BILATERAL FACILITIES: A$1.3BN

About flexigroup

Flexigroup is a diversified full-service payments company with leading offerings in buy-now, pay-later (BNPL), revolving credit and SME finance. Serving a broad footprint of millennial spenders through to young families and SMEs, it facilitates purchases for 2.3 million customers.

Since announcing its transformation strategy in 2019, flexigroup has delivered on key strategic pillars including simplifying the business and achieving double-digit volume growth across its continuing products. As the final step in the simplification journey, flexigroup products will unify under the company's most recognised and loved brand, humm.

Ownership and history

Flexigroup is a diversified financial-services company listed on the Australian Securities Exchange since 2006. Its beginnings were as an issuer of a simple lease product to Australian SMEs through office-equipment vendors. It has grown to offer a range of payment solutions to individuals and businesses across Australia, New Zealand and Ireland.

Asset performance

Flexigroup's asset portfolio is well diversified across its key product offerings. Asset performance has been strong and stable across asset types and geographies for an extended period. This includes the assets securitised under its public securitisation programmes – Flexi ABS and Q Card Trust – which have shown extremely stable performance over a number of years.

In response to COVID-19, flexigroup took a proactive approach to assisting customers, including an outbound contact programme for those who requested hardship assistance to discuss their financial position and offer support. The number of customers seeking hardship relief has returned to pre-COVID-19 levels with more than 50% of those who entered hardship as a result of COVID-19 resuming normal payment arrangements as at flexigroup's FY20 results announcement.

Flexigroup continues to focus on developing new and innovative market opportunities to drive growth and further diversify its asset portfolio. Its latest payment solution, bundll, launched in Australia in February 2020 as the first BNPL product allowing customers to buy everything, everywhere and pay later.

Funding strategy

Flexigroup maintains a conservative yet dynamic funding strategy to retain committed, flexible and cost-effective funding facilities for all scale businesses, combined with an active debt capital markets presence in Australia and New Zealand.

Flexigroup has strong relationships with domestic and international banking institutions that provide a range of committed funding facilities. It also has well-established public securitisation programmes in Australia and New Zealand.

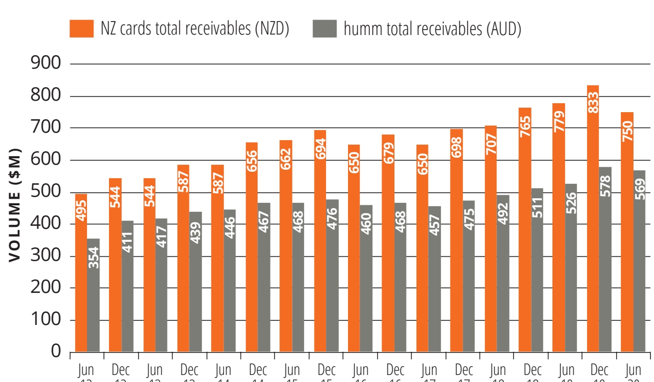
In Australia, flexigroup has been a regular issuer of ABS under its Flexi ABS programme. It securitises assets from its consumer BNPL and its commercial SME portfolios.

In 2016, flexigroup was the first Australian nonbank corporation to issue green ABS certified by Climate Bonds Initiative. Flexigroup has now issued more than A$375 million of certified green bonds across five capital-markets transactions and has continued to bring innovative deals to the green-bond market. This includes the first Australian securitisation transaction to offer green bonds across all rated tranches.

In New Zealand, flexigroup's Q Card Trust programme provides capital-efficient funding to support its New Zealand credit-cards business. The programme continues to be well supported by a growing investor base with more than NZ$1.2 billion of issuance to date. Flexigroup's NZ$300 million transaction under the Q Card Trust programme in August 2019 is the largest transaction executed under the programme and in the New Zealand ABS market as a whole.

Flexigroup continues to explore opportunities to strengthen its capital-markets offering and further diversify investor appetite for Australian and New Zealand ABS transactions.

FLEXIGROUP RECEIVABLES BOOK VOLUME



SOURCE: FLEXIGROUP SEPTEMBER 2020

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HIGH-QUALITY GROWTH AT LA TROBE FINANCIAL

La Trobe Financial continues to experience solid growth in assets under management (AUM) while approaching risk and liquidity in a disciplined manner. The company's Sydney-based chief financial officer, **Martin Barry**, tells *KangaNews* growth is being driven by high-quality prime customers.

What are the main drivers of asset growth?

■ There has been a significant recalibration of competitive forces in Australia's A$360 billion (US$262.2 billion) annual residential-mortgage market in recent years, with nonbank market share growing as banks skew towards a more vanilla customer base due to regulatory changes.

Further policy and process adjustments during COVID-19 market disruption have resulted in bank loan-approval turnaround times elongating. This was particularly evident through the March-June period in which several bank and nonbank lenders with offshored loan processing struggled to turn around applications in a timely manner as those overseas jurisdictions imposed lockdowns on offshored business operations.

La Trobe Financial is 100 per cent onshore and headquartered in Melbourne, with 150 dedicated mortgage underwriters. The company has seen more than A$3 billion of net-asset growth across all aspects of its business in the last year without major changes to credit parameters or relative pricing.

Of course, we applied a COVID-19 underwriting overlay in March. But, due to our A$5 billion funding diversity, we were able to remain open for business uninterrupted as other lenders withdrew or reduced their profile. This, coupled with our high service level, enabled the business to capture growth opportunity while at the same time managing the group's risk profile.

Over the past five years, our book quality has markedly improved with specialist loans as a percentage of La Trobe Financial's overall AUM decreasing to 9 per cent in favour of growth in prime and super-prime assets, which constitute roughly 40 per cent. We expect this trend to amplify as a consequence of the COVID-19 disruption as other lenders focus on hyper-rate-sensitive borrowers.

Overall, our asset quality remains robust with our portfolios comprising granular diversified loans written at low loan-to-value ratios that average 68 per cent and have a maximum of 80 per cent.

How has La Trobe Financial managed liquidity and capital through 2020?

■ We have always maintained roughly 12 months of forward funding capacity and a minimum of A$50 million free capital on any given day. This framework has served us well over 68 years of operation including the shock of COVID-19 lockdowns and economic retraction.

We had a conservative and strong balance sheet and were able to weather the storm without a pressing funding need. In addition, our large and strong bank panel was very supportive with no interruption to limits.

Even so, we took the view it was prudent and conservative to proceed with a capital raising in late April further to bolster our already-strong group liquidity profile. We were able to proceed with a digital roadshow for investors and a A$1.25 billion residential mortgage-backed securities deal, which was oversubscribed and priced on 12 May. Notably, this transaction had no primary-market support from the Australian government.

Today, the group has A$457 million of shock-absorber and regulatory capital, making La Trobe Financial one of the strongest nonbanks in Australia.

La Trobe Financial's credit fund has been a major funding differentiator. How has the credit fund fared through COVID-19?

■ La Trobe Financial's A$5 billion retail credit fund has been a key component of the group's funding strategy for more than three decades. The initial strategy was to deliver a diversified funding base for the business to the benefit of all our investors. Today, the fund comprises around half our AUM and makes the business dramatically more resilient to the funding shocks that periodically disrupt financial markets.

Just as importantly, the credit fund is a very flexible funding source. Its 47,000 registered investors allocate to residential, commercial, and construction and development loans across Australia. Our broad product set is a key point of difference for our broking and borrowing partners and ensures a continued flow of high-quality assets into the business.

The COVID-19 period has had relatively little impact on credit-fund operations. Its investor base has a longstanding relationship with La Trobe Financial and we have invested for many years in building market-leading transparency into our offering.

We did see an increase in redemption activity in March and April as investors drew down to meet their other commitments, such as supporting their own businesses. But by May we had returned to solid organic AUM net growth and this has continued since. •

LA TROBE FINANCIAL

SIZE OF LOAN BOOK	A$11BN
MAKEUP OF LOAN BOOK	SUPER PRIME MORTGAGES: 14.3% PRIME MORTGAGES: 22.8% NEAR-PRIME MORTGAGES (LVR <70%): 24.6% NEAR PRIME MORTGAGES (LVR >70%): 22.9% SPECIALIST MORTGAGES: 9.3% COMMERCIAL MORTGAGES: ~19%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	RMBS: A$4BN INSTITUTIONAL MANDATES: A$4BN RETAIL CREDIT FUND: A$4.8BN

About La Trobe Financial

La Trobe Financial has been in continuous operation for almost seven decades and is recognised as a good steward of investor capital. It operates as Australia's premium nonbank, dedicated to providing financial solutions for borrowers and investors whose investment and borrowing needs are under-served by traditional institutions.

La Trobe Financial specialises in originating, underwriting and managing granular secured first-registered mortgage assets, including traditional residential and commercial mortgage loans. It has A$11 billion of assets under management and has offices in Melbourne, Sydney, Shanghai and Hong Kong.

La Trobe Financial has assisted more than 180,000 individuals obtain mortgage finance and has cumulatively managed investment funds for wholesale and retail global investors in excess of A$26 billion. This has been carried out without loss to any institutional or pooled retail investors.

La Trobe Financial has experienced net growth through the COVID-19 period, capturing market share as major banks and other lenders focus on vanilla credit. Loan products have a group maximum LVR of 80%.

Ownership and capital structure

Private equity firm Blackstone LP acquired 80% of La Trobe Financial in December 2017 from its president and CEO, 35-year industry veteran, Greg O'Neill OAM – who retained 20%.

La Trobe Financial is overseen and governed by an independent board of directors. The board has a diverse set of skills and experience relevant to the underlying business.

The business maintains a strong capital structure with A$457 million in regulatory and shock-absorber capital as at 30 June 2020, plus additional free capital.

Asset performance

La Trobe Financial's assets perform in line with the nonbank nonconforming Australian market with a better-than-average loss experience among its peer group. The company believes this is a function of conservative underwriting and LVR maxima. As well as its credit analysts and underwriters, it has the largest nonbank underwriting team in Australia and a compliance, internal-audit and risk-management team exceeding 36 staff.

Funding strategy

La Trobe Financial has one of the most diversified funding programmes of all nonbanks operating in Australia. This comprises:

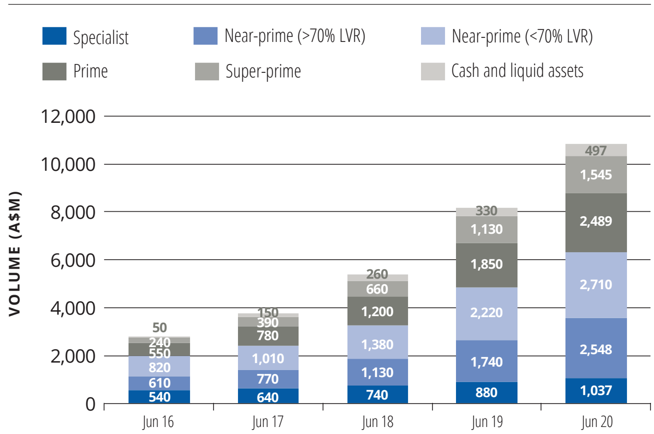
- A$4 billion of term-debt mandates and facilities from local and international banks and finance houses.
- A$4.8 billion of independently rated retail credit-fund investments featuring a range of investment terms and incorporating Australia's largest peer-to-peer investment option.
- Approximately A$4 billion of complementary publicly rated RMBS transactions.

La Trobe Financial successfully reopened global RMBS markets for nonbanks in May 2020 with no direct government support. The business expects continued growth in all three of its funding sources. It has a targeted desire to grow the RMBS proportion, market cycles and timing permitting.

Business performance

La Trobe Financial's business has consistently performed well. In recent years, it has experienced elevated but controlled growth through targeted initiatives such as broker awareness, adding experienced senior staff and developing a direct-to-consumer channel. Growth has continued in 2020 despite difficult market conditions caused by COVID-19.

LA TROBE FINANCIAL AUM QUALITY



SOURCE: LA TROBE FINANCIAL SEPTEMBER 2020

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LATITUDE **STAYING AHEAD**

COVID-19 has significantly altered consumers' spending behaviour. **Eva Zileli**, treasurer at **Latitude Financial Services** in Melbourne, speaks to *KangaNews* about the challenges the pandemic presents and how the lender is staying ahead of its competitors.

Australians have been increasing their savings as COVID-19-related uncertainty extends further into the future. How have Latitude's receivables been affected by COVID-19 and how does this affect business strategy?

■ Consumers appear to be using their savings and superannuation to pay down debt. What is positive is that we are seeing higher-risk customers paying down the most, which means we continue to improve the quality of an already strong loan book. Delinquencies during COVID-19 are the lowest we have recorded.

At the same time, we have seen strong growth in our interest-free shopping business, as Australians have shifted their spending to the home including to set up offices and make other improvements. This is why we have reset our strategy around the strengths of our many retail partnerships and to take advantage of consumer preferences for interest-free shopping.

It has been a little over a year since Latitude Pay, the buy-now, pay-later (BNPL) product, was launched. How is this product performing in a congested field during COVID-19?

■ The rollout is progressing well and the product has exceeded our expectations for take-up, with about 500,000 users already and an expanding list of retail partners. In a recent survey we commissioned around brand recognition for BNPL products, Latitude Pay came in at number three. It is a great effort considering we only launched a year ago.

Latitude secured nearly A$1.4 billion (US$1 billion) in warehouse funding in June, which included A$237 million from the Australian Office of Financial Management. How has COVID-19 affected the way Latitude accesses funding and what plans do you have for terming out the new facility – as well as any other securitisation issuance?

■ The current conditions reinforce the fact that market access and liquidity are not always there when you need them. Latitude has always believed it is prudent to access financing well in advance of scheduled maturity dates – and COVID-19 has proved why this is so important.

The process for the new warehouse funding began in March for a maturity that wasn't due until September. We completed the refinancing six months ahead of its due date and it was oversubscribed by more than A$200 million. We are currently working on other warehouse refinancings that mature early next year.

When it comes to terming out those facilities, it could be something we look at as market conditions improve but there are no immediate plans. Our focus has been to refinance the warehouses as our base funding platforms before looking for opportunities in public funding markets.

Offshore investor engagement has been a big part of Latitude's investor-relations strategy. How have you managed this during the pandemic period, especially as the business has not had a capital-markets transaction to offer?

■ Very few face-to-face meetings are being undertaken in any case and we have conducted investor engagement via VC or telephone. There has been a ramp up in investor engagement since the onset of COVID-19. We have reached out to offshore investors to inform them of the impact of the coronavirus on Australia.

We enhanced our hardship reporting as investors are very focused on the number and value of approved hardship applications. Delinquencies are well down on where they were last year and the volume of hardship, though elevated from pre-COVID-19, is not excessive. All in all, investors have been very comfortable with our performance.

There has been particular interest in what will occur in September and October as federal government stimulus was set to unwind. Pleasingly, the government extended the support into next year although offshore investors remain interested in how it will eventually be scaled back.

With a challenged economy and ample liquidity in the banking sector, has Latitude changed its views on growth potential?

■ Challenges also provide opportunities, particularly in the interest-free-payment space – which is rapidly evolving. This in turn is driving product innovation and we will soon launch a new big-ticket BNPL product.

We have the benefit of a large customer base, many of whom have been Latitude customers for more than 10 years. We have longstanding relationships with merchants and continue to work with them on product enhancements that support them and our customers.

COVID-19 hasn't reduced our appetite for growth. We are transforming the business to ensure we stay ahead of the competition. •

LATITUDE FINANCIAL SERVICES

SIZE OF LOAN BOOK[1]	A$7BN
MAKEUP OF LOAN BOOK[1]	CREDIT CARDS: 62% PERSONAL AND AUTO LOANS: 38%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK[1]	AUSTRALIA: 79% NEW ZEALAND: 21%
OUTSTANDING DEBT ISSUANCE[2]	PUBLIC ABS TRANSACTIONS: A$2.6BN PRIVATE SYNDICATED AND BILATERAL FACILITIES LIMIT: A$5.8BN

(1) Gross loan receivables as at 30 June 2020.
(2) As at 30 June 2020.

About Latitude Financial Services

Latitude Financial Services is a leading consumer-finance business in Australia and New Zealand, with 2.7 million open customer accounts as at 30 June 2020 and a wide range of finance products including credit cards, interest-free promotional and retail offers, personal loans, and insurance.

Across Australia and New Zealand, the business employs more than 1,600 staff and services its customers through a network of retailer partners, brokers, phone and the internet.

The company offers financing solutions for retail partners, managing credit applications and authorisation, billing, remittance and customer-service processing. Its products include LatitudePay, Gem Visa, GO MasterCard and 28 Degrees Platinum MasterCard.

In 2019, Latitude generated A$9 billion of volume. Receivables reduced to A$7 billion at 30 June 2020.

Ownership and history

Latitude comprises the Australian and New Zealand consumer-finance businesses established by GE Capital in the 1990s, which have since grown organically and through acquisitions.

GE Capital sold its Australian and New Zealand consumer-finance businesses (now Latitude) in November 2015. The business is now owned by a consortium comprising Deutsche Bank and funds managed by Värde Management and KKR & Co.

Asset performance

Latitude has a well-diversified, granular portfolio across Australia and New Zealand. The business has seen stable asset performance over an extended period, signifying its experience in operating in both jurisdictions for a number of years. The business has also operated profitably through a range of operating environments, demonstrating its core ability to manage credit risk.

Funding strategy

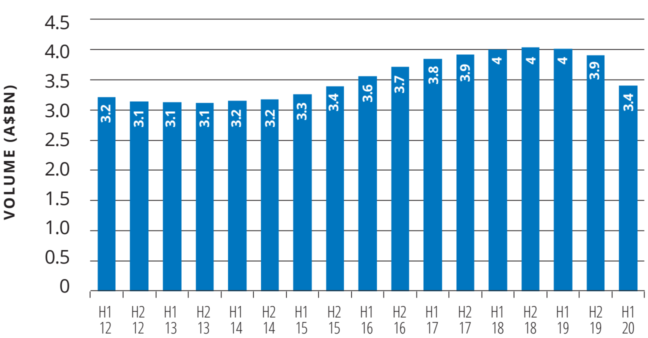
Latitude's funding strategy aims to provide the business with funding diversity across multiple financiers, markets and facilities. This provides scalability and stability as well as a balanced maturity profile.

Latitude has a well-established funding platform supported by a number of major financial institutions on- and offshore. It has augmented this with the establishment of public ABS transactions, giving the company further access to an increasing investor base and helping balance its maturity profile.

In 2017, Latitude was recognised with several awards including:

- KangaNews Awards: Australian Securitisation Deal of the Year.
- Finance Asia Awards: Best Debt Finance Deal, Most Innovative Deal and Financial Issuer of the Year.
- IFR: Best Structured Finance Issue of the Year.

LATITUDE FINANCIAL SERVICES
AUSTRALIAN CREDIT-CARD RECEIVABLES OUTSTANDING



SOURCE: LATITUDE FINANCIAL SERVICES SEPTEMEBER 2020

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LIBERTY KEEPS UP THE ISSUANCE PACE

Liberty Financial has historically been one of Australia's most active nonbank securitisation issuers across multiple asset classes. **Peter Riedel**, Melbourne-based chief financial officer at Liberty, explains how the company has maintained market access amid difficult conditions in 2020.

What has the market environment been like for Liberty?

■ We have executed four secured and one senior-unsecured transactions so far in 2020 and each has a unique story. In February, we issued in auto asset-backed securities format and had a tremendous response from investors around the world.

We benefited from being one of the first transactions in the market for the calendar year. We have traditionally executed our auto deals late in the year but this experience means we will aim to issue early in the calendar year moving forward.

Our second deal, which had the entire triple-A note denominated in yen, was delayed until May after being a week from launch when the COVID-19 crisis hit. This was a very important transaction for us as Japan is an increasingly important market for the nonbank sector.

The third was our first all-domestic public residential mortgage-backed securities (RMBS) deal in 2020. The trade, which priced in June, was missing some pockets of support we typically see in our RMBS deals and some domestic investors did not participate or only came in for lower volume.

This was likely due to superannuation funds still requiring liquidity to support members as part of the COVID-19 relief programme. Nevertheless, the A$800 million (US$582.7 million) deal demonstrated strong support from investors around the world. Our September SME deal, at A$600 million, was the largest we have ever issued in this asset class, which in this environment exceeded expectations. Demand was largely from domestic investors, which participated in greater volume than they did in our last RMBS deal.

Having issued yen this year and euros in the past, where does foreign-currency fit into Liberty's funding strategy?

■ We want to issue notes in the denomination investors are seeking. We are confident demand in Japan will remain deep after COVID-19 and we will continue to engage and explore opportunities with these investors. Many Japanese investors have supported our Australian dollar deals. But if we can build a market for Australian collateral in yen it opens a much wider network of potential investors.

Most large European asset managers are very comfortable buying Australian dollar notes so our need to diversify into euros is not as strong. However, we will continue to engage these investors to understand their demand in euros.

It is important for us to know the relative value of our product and we have no hesitation offering foreign-currency tranches if it makes sense at the time.

What has been the impact of COVID-19 across the various parts of Liberty's lending book?

■ We have sought to understand the unique circumstances faced by each customer – and these stories have evolved for a lot of customers since March. We have tailored a solution to support each individual customer through this period and increased our service-staff numbers to do so.

In servicing our customers, rather than taking a one-size-fits-all approach such as providing payment holidays, we tailor a payment arrangement consistent with the customer's ongoing income generation and spending patterns.

At the end of April, we supported about 8,000 customers affected by COVID-19 – but only 0.4 per cent were on payment holidays. The major banks have reported payment holidays in the 10-15 per cent range. At the end of August, we had fewer than 5,000 customers on payment arrangements.

We can confidently say now that the consequences of COVID-19 have been at the industry level rather than a result of borrowers' circumstances when they applied for a loan. Our portfolio shows very little difference between groups such as prime and nonconforming borrowers, loan-to-value ratio cohorts or loan purpose and geography.

We have continued to support customers with new lending throughout the crisis. But we have been discerning in provision to self-employed borrowers and to those working in affected industries such as travel, hospitality and retail.

What have been the effects of COVID-19-related payment arrangements on Liberty's public securitisation structures?

■ The liquidity coming into trusts from our borrowers has remained steady, which is testament to the fact that we have not provided payment holidays and have encouraged customers to continue making loan repayments they can reasonably afford. Investors have seen this, and it continues to improve as the months go by. •

LIBERTY FINANCIAL

SIZE OF LOAN BOOK	A$11.8BN
MAKEUP OF LOAN BOOK	PRIME RESIDENTIAL MORTGAGES: 66% NONCONFORMING RESIDENTIAL MORTGAGES: 5% SME MORTGAGES: 21% CONSUMER LOANS: 7%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 98% NEW ZEALAND: 2%
OUTSTANDING DEBT ISSUANCE	SECURITISATION: A$8.1BN CP (INCLUDING ABCP): A$400M SENIOR-UNSECURED BONDS: A$875M

About Liberty Financial

Liberty Financial is a mainstream speciality-finance group that champions free thinking. Since 1997, Liberty has helped more than 600,000 customers "get and stay financial".

Liberty provides a wide range of products and services comprising home, car, commercial, SMSF and personal loans, and investment and deposit products. Liberty also offers consumer loan-protection solutions via its group companies ALI Group and LFI Group.

A multichannel distribution strategy supports Liberty's loan-origination activity. Liberty offers products through mortgage and motor-vehicle-finance brokers, financial planners and direct to consumers. Liberty also distributes products and services through three company-owned networks: Liberty Network Services (more than160 advisers) and National Mortgage Brokers (more than 450 brokers) in Australia and Mike Pero Mortgages (more than 60 franchisees) in New Zealand.

Liberty provides solutions to a wide range of customers, from people who could be serviced by mainstream providers to those who need or are searching for a customised solution. Since its formation in 1997, Liberty has consistently applied technological advances to pursue multiple markets through its customised risk-management and operational practices. Customised technology is not only necessary properly to conduct a diversified-finance business but it also enables Liberty to design its financial products and services to evaluate, assess, arrange and manage solutions effectively for customers.

Liberty deploys its own capital in its operations, thereby reducing financial and operating leverage. By aligning its interests to the way its long-term assets perform, Liberty is dedicated to deciphering the fundamental relationship between risk and return. In so doing, the company's loan performance is best in its class.

Liberty has a "strong" servicer ranking for prime and nonprime mortgages, auto loans and commercial-mortgage servicing, all from S&P Global Ratings (S&P).

Ownership and capital structure

Liberty is Australia's only investment-grade rated nonbank issuer (BBB-, outlook stable by S&P).

Liberty is a privately owned company. The shareholders who established the business are the same to this day. They have never received a dividend, preferring to reinvest the company's earnings to fund future business growth. The shareholders are committed to the business, mirroring the long tenure of team members. Many have more than 10 years' service.

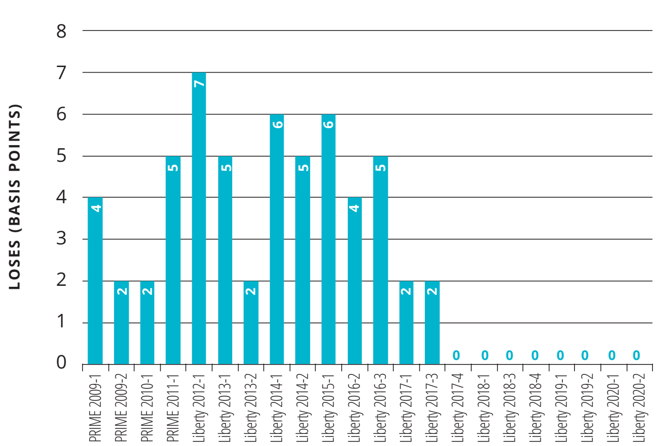
An independent board of directors with decades of relevant financial-services and insurance experience oversees Liberty's operations.

Funding strategy

Liberty has established and maintains a flexible, durable and diversified funding programme. The company has multiple sources of funding. It has approximately A$1 billion of equity capital, approximately A$5 billion of wholesale-funding limits and A$875 million of outstanding medium-term notes. It is the only Australian nonbank financial institution that has a senior-unsecured funding programme.

Liberty's term-securitisation programme provides investors the opportunity to buy fixed-income securities in prime and nonconforming RMBS, auto ABS and SME formats. Liberty has raised more than A$28 billion in domestic and international capital markets across 61 transactions. Liberty has an unblemished capital markets track record whereby its rated notes have never been charged off, downgraded or placed on negative watch.

LIBERTY FINANCIAL RMBS LOSSES BY POOL



SOURCE: LIBERTY FINANCIAL SEPTEMBER 2020

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PEPPER SPREADS THE NET

Pepper believes its diverse product offering and global reach put it in the best position to navigate the challenging waters of 2020. **Andrew Twyford**, Pepper's Melbourne-based treasurer, explains how.

The scale of Pepper's global business is unique in the Australian nonbank sector. How has the group gone about managing its global funding in the COVID-19 era?

■ We have a coordinated global funding strategy including ongoing dialogue with our investor base, centrally managed through our Australian team. These ongoing discussions with investors inform our issuance plans and schedule. This has continued during the COVID-19 period.

Asset-class and currency diversity gives us access to a really wide investor universe. These discussions have enabled us to introduce Australian options to offshore investors that may have been more focused on one of our offshore platforms. This is one of the main means by which we have built out our investor base over the years.

How does global appetite for Australian assets compare with international equivalents?

■ Demand for UK residential mortgage-backed securities (RMBS) has been strong but supply has been limited as bank issuers are funding via other means. We have completed two UK deals in the past eight weeks, both of which had pleasing results. This is despite the fact that the UK is facing more potential headwinds.

The global investor base certainly views Australian housing as a strong and stable proposition. Concern about the Australian housing market was really when it continued to grow uninterrupted – it was around when the bubble was going to burst. We saw house prices drop roughly 10 per cent in Australia from late 2017 to mid-2019 and then, up to April 2020, bounce back close to the prior peak. The market view is that any falls as a result of COVID-19 are not expected to be as much as the recent drop, which should further underpin a positive view of Australian assets.

A year or so ago, one of the main questions for Australia's biggest nonbanks was whether funding capacity was an inhibitor of growth ambitions. Is liquidity a constraint on growth in 2020?

■ Emphatically, no. Liquidity management is a focus for all lending businesses, but Pepper certainly has more than enough capacity to fund even our stretch targets over our forecast period. This is while maintaining significant liquidity buffers.

Excess liquidity in the Australian financial system is making the major banks aggressive in their loan pricing. Does this move the dial for Pepper's growth aspirations or specific areas of focus?

■ We can originate a very diverse portfolio of assets, which is a good starting point. The larger bank lenders' appetite tends to ebb and flow – including getting very aggressive in times like these, when volume aspirations have not been met.

What the major banks tend to do is get their brands at the front of borrowers' minds by offering very eye-catching headline rates. At the same time, however, they can alter their credit scorecards so the volume they receive may not align directly with the rates they are offering.

This can result in disappointment for some borrowers and for the brokers that are helping the borrowers find the right product and who make up such a significant part of the marketplace nowadays. What borrowers and brokers both like is certainty – knowing they will get a loan at the rate they expect.

When this doesn't happen, we think it opens an opportunity for Pepper – especially thanks to our breadth of offering, turnaround times and consistency of credit.

In the longer term, COVID-19 will see some borrowers moving into the near-prime space, for instance – of which we were the initial architect. We have a cascading credit model that naturally suits borrowers looking for certainty in an uncertain marketplace.

How would you compare origination and asset performance in Pepper's other lending books to the mortgage space?

■ We have been really pleased with growth in the asset-finance business, which has just passed A$5 billion (US$3.6 billion) of assets settled. It is a growth opportunity for the Pepper business and we did our first public securitisation from it, under the SPARKZ banner, in 2019.

We have maintained origination volume at close to the pre-COVID-19 level and any volume adjustments were about making sure we had the right credit settings in place. As we get more economic certainty we can start to return these settings to where they were before the pandemic, although this will take a little while to play out. We certainly expect to be back to pre-COVID-19 volume by the end of 2020 ahead of a strong growth year in 2021.

We have also just added a novated-lease product, which we look forward to rolling out more broadly in the market and which will help us further grow the motor-vehicle asset book. •

PEPPER GROUP

SIZE OF LOAN BOOK	A$20.5BN EQUIVALENT (GLOBAL)
MAKEUP OF LOAN BOOK	PRIME RESIDENTIAL MORTGAGES: 32% NONCONFORMING RESIDENTIAL MORTGAGES: 39% PERSONAL LOANS, ASSET FINANCE AND OTHER: 29%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 67% OFFSHORE (SPAIN, SOUTH KOREA, UK): 33%
OUTSTANDING DEBT ISSUANCE	VALUE: A$19.9BN NUMBER OF TRANSACTIONS: 37

About Pepper Group

Pepper Group is a specialist residential-mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally. Many of these segments are under-serviced by traditional bank and other prime lenders.

Pepper was established in 2000 and commenced operation as a specialist residential-mortgage lender in the Australian market in March 2001.

Pepper offers a broad range of lending products including residential mortgages, small-ticket commercial-real-estate-backed loans, auto and equipment finance, point-of-sale finance and personal loans. Pepper provides loan servicing for its own products as well as for third parties across residential mortgages, unsecured and secured consumer loans, and commercial-real-estate-backed loans. Pepper has become a specialist-lending and loan-servicing group through a combination of organic growth and targeted global acquisitions.

At 30 June 2020, Pepper had more than A$83.5 billion of assets under management.

Ownership and capital structure

Pepper is majority owned by leading global investment firm KKR & Co and by management.

Funding strategy

Pepper's lending businesses have adopted a diversified approach to funding strategy, ranging from on-balance-sheet wholesale capacity through retail deposits in its South Korean mutual savings bank to traditional securitisation technology.

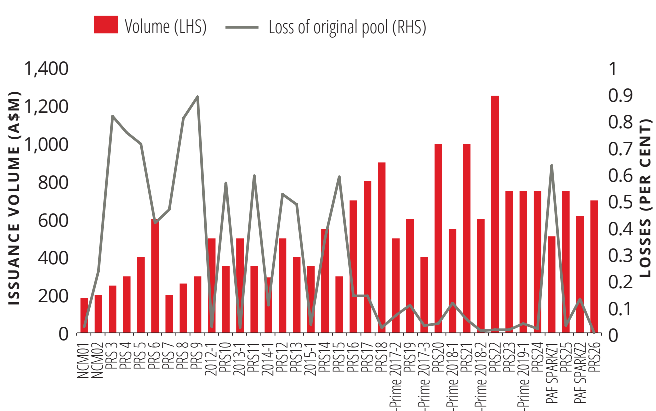
Pepper's approach to securitised debt funding is to be a frequent issuer in benchmark size into a globally diversified investor base, across a number of asset classes and geographies. As part of this strategy, Pepper issues in a variety of tenors, currencies and repayment formats. Pepper began issuing in 2003 and the company has a 100% track record of calling every deal at the first available call date.

Pepper operates a proactive engagement model with its global investor base. This has included, over many years, face-to-face and other forms of one-on-one engagement to provide the current and prospective investor base the opportunity to meet and discuss all relevant topics including updates on corporate strategy, an indication of the issuance pipeline for the next 12-18 months and any new asset classes or platforms that will be coming to market.

This work is augmented with deal-specific roadshows when required. While face-to-face opportunities are likely to be limited in the near term, Pepper remains committed to meeting with investors at all times via videoconference or teleconference, to answer any questions they have and provide insights into Pepper's programmes and the broader market.

Pepper issues Australian RMBS off two public platforms: Pepper I-Prime and Pepper Residential Securities (PRS). It issues ABS off its SPARKZ platform. It has a UK RMBS platform (Polaris), a UK second-lien RMBS platform (Castell) and a Spanish consumer ABS platform (Iberia).

PEPPER GROUP RMBS ISSUANCE HISTORY AND POOL PERFORMANCE



SOURCE: PEPPER GROUP SEPTEMBER 2020

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PRIMING THE PUMP

Prime Capital is an experienced nonbank lender specialising in originating mortgages to SME clients. **Paul Scanlon**, the firm's Sydney-based chief executive, discusses the approach it takes to lending, funding and business management – including how it has adapted to the unique circumstances of 2020.

As this is the first time Prime Capital has participated in the *KangaNews* Nonbank Yearbook, can you give a brief overview of its lending business and how it differentiates from other players in the market?

■ Prime Capital was established in 1997 to focus exclusively on the niche of providing mortgages to SME clients, and we remain focused on this niche today. By going deep in this category, we have developed a high level of specialisation in origination, servicing and capital management for the sector.

It is a common theme to suggest such clients are under-serviced, but our experience shows them to be highly sophisticated customers, based on their own experiences operating businesses. They typically require high service levels and relevant products, which we are able to provide.

When these expectations are achieved our experience also shows this category of borrower to be very loyal, and we work hard to maintain high NPS [net promoter score] ratings with them.

Prime Capital only distributes mortgage products through mortgage brokers. We have more than 1,000 active brokers, including 68 of the MPA [Mortgage Professional Australia] top 100.

What are the key points institutional investors should know about Prime Capital as an institution and its business philosophy?

■ One of the critical targets we operate toward in our business is zero losses. We have had zero losses of principal since inception in 1997. This culture is linked to our founding shareholders, who remain shareholders today, and their original relationships as custodians of superannuation funds for working-class Australians.

We know this cannot last forever, but the team never wants today to be the day the record is broken.

How has Prime Capital been funded to this point and what are its funding plans?

■ For our first decade or so, our funding was primarily sourced from Australian industry superannuation funds. We started looking abroad for funding from around 2006. We built great relationships with European reinsurance companies, which lasted until around 2015 when geopolitical changes related to conflict in Ukraine and the potential exit of Greece from the EU made capital flows shift directions.

We are now focused on warehouse funding in the Australian securitisation market.

Can you give an overview of Prime Capital's warehouse-funding relationships, how these have changed through the current crisis and whether there are any plans to term out warehouses?

■ Any crisis tends to highlight the strengths or cracks in relationships, and we have been really impressed with and grateful for the response of our current warehouse partners.

Prior to the crisis, our focus had generally been on business as usual, with reporting and drawdowns occurring at required intervals. As the reality of the crisis set in, however, contact shifted to weekly discussions and more detailed information sharing.

This went both ways, meaning our warehouse partners also provided us with valuable information and insights that helped us successfully navigate originations, collections and customer-service levels through the period.

The business and our warehouse partners are happy with existing warehouse arrangements so there are no term-outs proposed in the short term. However, in response to demand from brokers and clients, we are exploring the possibility of establishing a third warehouse to assist high-quality clients in our current pools with longer-term mortgage options.

The COVID-19 crisis has clearly been tough on Australian businesses. How has Prime Capital responded in its existing lending arrangements?

■ COVID-19 has been very challenging operationally, as we have seen in the uptick in demands on both sides of the loan portfolio. New loan enquiries have risen sharply as credit availability reduced across the market, and at the same time customer-service work within existing portfolios has increased.

We have no external shareholders so at this stage we have prioritised servicing existing customers and protecting existing investor capital over loan-book growth.

What measures does Prime Capital have in place to ensure newly originated loans are insulated from the COVID-19 crisis, and are there any particular segments that can be regarded as relative safe havens?

■ No-one is truly insulated from this crisis. For us, it is back to basics and doing what we do best. This means we are sticking to our niche for now, with even more detailed focus on high-quality execution of credit and service systems. •

PRIME CAPITAL

SIZE OF LOAN BOOK	A$400M
MAKEUP OF LOAN BOOK	SME MORTGAGES : 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	WAREHOUSES: 100%

About Prime Capital

Prime Capital provides mortgages to SME clients throughout Australia. The business originates receivables exclusively though mortgage brokers and is proud to support more than a thousand active brokers across all states and territories, including 68 of the Mortgage Professional Australia Top 100.

Ownership, history and capital structure

Prime Capital was founded in 1997 by its current shareholders. Since inception, the business has remained solely focused on SME mortgages. Its distribution, servicing and capital-management systems have therefore become highly specialised within this market segment, resulting in high-quality service levels for borrowers, brokers and capital providers.

Prime Capital is grateful for the funding support it has received over the years from Australian industry superannuation funds and European reinsurance companies. More recently, the business has transitioned to the Australian securitisation market with the establishment of two warehouse programmes.

Target market and asset performance

The business is focused on mortgages for SME business clients distributed through the Australian mortgage-broker network. Prime Capital has had zero losses of principal since inception in 1997.

Funding strategy

Funding is sourced from three key areas:

- Two existing warehouses.
- Debt of A$50 million of Austraclear notes.
- Equity from an initial share subscription of A$10 million and a zero-dividend policy that has resulted in accumulated profits over 23 years.

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REDZED LENDING SOLUTIONS

SIZE OF LOAN BOOK	A$1.6BN
MAKEUP OF LOAN BOOK	RESIDENTIAL AND COMMERCIAL MORTGAGES, ASSET FINANCE: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	RMBS: A$1.3BN

About RedZed Lending Solutions

RedZed was founded in 2006. It is a national provider of financial solutions to the self-employed in Australia.

RedZed specialises in originating, underwriting and managing residential and commercial loans with a focus on empowering the self-employed market segment ranging from clear credit to mild credit impairment. RedZed has a deep understanding of the needs and risks of the self-employed segment, and a track record of prudent underwriting principles and a disciplined collections approach.

RedZed has originated more than A$3.6 billion of residential and commercial finance secured by real property and equipment assets. It has issued more than A$2.5 billion of debt-market securities via nine public securitisations, with more than A$1.6 billion of assets currently under management.

Ownership and capital structure

RedZed is a privately owned company.

Funding strategy

RedZed sources its warehouse funding through longstanding relationships with two major banks and an institutional investor. It has successfully placed nine RMBS deals. The most recent was a A$400 million transaction in September 2020.

Business performance

RedZed continues to deliver growth with a strong focus on delivering solutions to the self-employed. This positioning, along with an increased distribution model of accepting loans directly or through accredited mortgage-origination partners, allows the company control over the type of business it originates that is unique in the Australian marketplace.

RedZed expects to generate more than A$1.3 billion of assets in the current financial year.

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RESIMAC SEEKS SMOOTHEST PATH

As one of Australia's most experienced nonbank originators, **Resimac** is well positioned to ride out the storm of 2020. **Andrew Marsden**, the firm's Sydney-based general manager, treasury and securitisation, discusses its funding and lending strategy.

Resimac has remained very active in funding markets throughout 2020. What approach has it taken to funding this year?

■ Resimac has been public in stating that its focus was to manage the business in a way that there would be minimal disruption to its ability to offer mortgage products, in light of a COVID-19-affected marketplace.

While we have been more selective in the type of credit we have been underwriting, by and large volume has remained at pre-COVID-19 levels. We are now re-engaging with offshore investors, including the US dollar 144A market.

Has COVID-19 altered the strategy for accessing offshore markets?

■ Yes, it has – both the timing and format of our offerings. Throughout the height of COVID-19, we always wanted to tread carefully in the markets in which we operate. At the same time, we needed to be consistent with our issuance patterns, particularly in the US dollar market.

As far as contingencies are concerned, we deferred a US dollar transaction we were marketing in February and executed in Septmber. During March, our focus turned to strengthening our bank facilities for the possibility that capital markets would be constrained, or even closed, for a period of time. We think we have a relatively strong level of bank support if any challenges arise in issuing in public capital markets.

The major banks have significantly dropped their interest rates for prime mortgage borrowers. How is Resimac responding to this competition?

■ As far as our prime origination strategy is concerned, we remain competitive on price with the major banks particularly in the variable-rate segment of the market.

The positioning of our prime business is such that we offer similar products and prices to those of the major banks but our service proposition is generally better, with the ability to turn around credit decisions within 24 hours in most instances. The prime business is a critical part of our growth strategy so it's vital we maintain our presence even though we have a small comparative market share.

Throughout COVID-19, we have refocused our positioning in the prime offering space to the lower-LVR [loan-to-value ratio] segment of the market. We have distinct price points now at 60-70 per cent LVR and we have been reasonably successful in maintaining, if not increasing, volume in this part of the market.

Resimac recorded home-loan portfolio growth of 21 per cent in the 2019/20 financial year. Circumstances for credit provision are likely to be very different this year, however. Do you have a target level of growth and how are you ensuring the quality of borrowers remains robust?

■ The forecast for growth will largely be in line with system credit growth. We expect there will continue to be challenges and opportunities in the origination market over the course of the year and we will look to pursue production opportunities where we are comfortable with the risk and funding.

We are fortunate to have an adaptive business model where we can be defensive or strategic in the way we face competitive challenges in origination markets.

As far as the quality of our book is concerned, we have one of the most stringent approaches to underwriting – including the prime and nonconforming spaces. We have effective tools to respond to changes in the lending market and can be quick to change credit policy if we see a deterioration in the busines cycle or housing sector. This has been key to our asset-liability management focus throughout COVID-19.

Resimac printed the first New Zealand securitisation deal in 2020, in September. How is the New Zealand side of the business performing?

■ We remain very excited about prospects in the New Zealand market. There are reasonable growth opportunities, particularly in the prime sector. We think the economic recovery from the pandemic will be more pronounced than the one in Australia, which should play into the way we originate and issue residential mortgage-backed securities (RMBS) in New Zealand.

We will continue to strengthen our origination, servicing and funding capabilities to maintain a prominent profile in the nonbank sector. New Zealand is a naturally fertile fixed-income market with comparatively strong retail awareness of debt products. We believe this dynamic should foster domestic support for RMBS, particularly as local superannuation and annuity funds grow. •

RESIMAC

SIZE OF LOAN BOOK	A$13BN EQUIVALENT
MAKEUP OF LOAN BOOK	PRIME RESIDENTIAL MORTGAGES: 75% NONCONFORMING RESIDENTIAL MORTGAGES: 25%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 95% NEW ZEALAND: 5%

About Resimac

Resimac is a leading nonbank financial institution that commenced operations in 1985. It was established by the New South Wales (NSW) state government to service and securitise residential loans for HomeFund, a NSW government-housing programme under the name of First Australian National Mortgage Acceptance Corporation.

Resimac is an Australian-owned company that has grown immensely and now offers a suite of prime- and specialist-lending products tailored to the residential market in Australia and New Zealand. Resimac's assets are originated from a distribution network of online and direct business-to-consumer proprietary channels, aggregators, mortgage managers and retail sources, and through select portfolio acquisitions.

Resimac's asset-origination and servicing capabilities are best reflected by the performance of its portfolio, which has default and loss levels well below its peers. Resimac's asset-servicing credentials are recognised by a "strong" servicer ranking from S&P Global Ratings.

Resimac's capital-market activities are core to its enterprise strategy and it remains one of the most prolific Australian nonbank issuers. Resimac was the first Australian RMBS issuer, in 1988, and since this time has issued more than A$30 billion equivalent in domestic and offshore deals including in Europe, the US and New Zealand.

Ownership and capital structure

Resimac is an Australian Securities Exchange-listed nonbank lender with a nationwide presence. Since its origin in 1985, Homeloans has grown to become a leading alternative provider of residential-mortgage finance.

Resimac/Homeloans prides itself on its standard of corporate-governance practices. It has a highly experienced board with longstanding industry and financial-services experience.

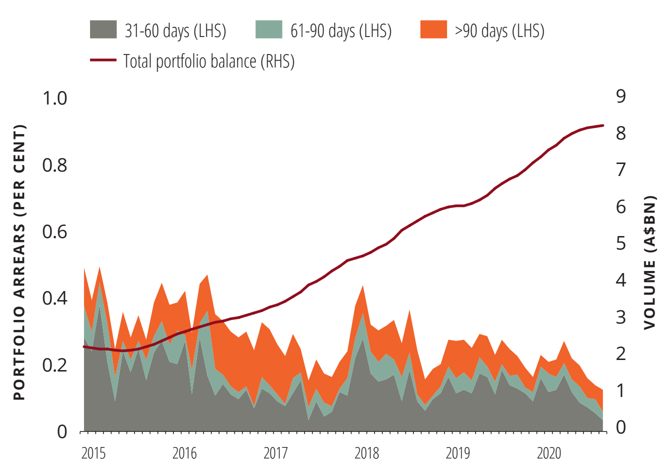
Funding strategy

The Resimac funding programme encompasses short- and long-term funding tenors across four distinct shelves: the Premier, Bastille and Avoca programmes, and prime and nonconforming programmes in New Zealand. The various funding sources provide diversification and a global investor base, enabling Resimac to fund its mortgage portfolio efficiently.

Warehouse facilities support production and acquisition opportunities while capital-market issuance allows Resimac to secure medium-to-long term funding. Resimac maintains strong relationships with a range of domestic and offshore institutional investors and each asset is underwritten with the end investor in mind.

As part of its diversification strategy, Resimac launched a US 144A programme in 2012 under its Premier shelf, which has allowed it to increase volume and achieve diversification of funding. Since then, it has issued US$8 billion in 144A-compliant US dollar transactions and in doing so has developed a broad array of US investors. Resimac also completed its inaugural Bastille nonconforming 144A-compliant US dollar transaction in August 2018.

RESIMAC PRIME RMBS PORTFOLIO HISTORICAL ARREARS



SOURCE: RESIMAC SEPTEMBER 2020

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THINKTANK STEERS THROUGH THE STORM

Commercial property has been one of the hardest hit sectors in the COVID-19 crisis. But **Jonathan Street**, chief executive at **Thinktank Commercial Property Finance** in Sydney, says the firm is well placed for structural change in the era of home working.

How do you assess the state of Australia's commercial-property sector at present?
■ There is little doubt the commercial-property market has felt some of the most acute impacts of COVID-19. Thus far, though, we have observed a price decline of no more than about 10 per cent while the majority of sales have achieved their previous valuation or higher – noting gross volume of transactions is noticeably lower at present.

We continue to assess owner-occupied and investment properties for location, associated industry, and the status and outlook for the businesses. We calibrate our views with where the economy is placed and the role of fiscal and monetary stimulus.

We expect the commercial market to be on the softer side, and to be cautious on credit-risk appetite, for 12-24 months before conditions trend up again on the back of economic recovery and ongoing low interest rates.

What insights can you give around the demand for credit in the sector since March?
■ Credit demand has been somewhat weaker over the past six months as businesses and investors work through the prevailing uncertainties. We have seen ongoing strong demand for property purchases, though, split between direct and self-managed super funds (SMSF). The latter has performed particularly well through the cycle.

Does Thinktank expect longer-term structural changes in commercial property as a result of the pandemic?
■ We expect the most profound structural changes over the coming years to emerge toward the larger end of the market: in office towers, shopping centres and major industrial. We anticipate less change in the nature and performance of the market at the smaller end of the scale, where Thinktank is positioned.

With the prospect of more decentralised working, suburban industrial, retail and strata offices may see some benefits flow from a shift in economic activity away from inner-city and CBD locations. Much will only reveal itself over time, however.

Our lending strategies remain focused on credit quality and understanding the property location, industry, business, cash flow, and the people and their objectives – all in the context of the market. We have seen considerable sectoral and structural change over our 40-plus years in the industry and we are well placed to contend with what may now lie ahead.

How has COVID-19 affected Thinktank's lending book?
■ Entering COVID-19, Thinktank's 30-plus day arrears were very low, at less than 1 per cent. Currently, arrears excluding hardship sit at less than 0.5 per cent. With around 90 per cent of our borrowers in the SME and self-employed segment, we naturally experienced a high degree of enquiry for assistance. This peaked in April at just more than 20 per cent but has since declined consistently to less than half that rate now.

In line with Australian Prudential Regulation Authority reporting on authorised deposit-taking institutions, we have observed slightly higher levels of hardship among commercial borrowers compared with residential. Interestingly, SMSF borrowers have required significantly less in the way of support to date.

Overall, the loan book has performed exceptionally well over the course of this period. It has demonstrated a high degree of resilience and its borrowers' ability to respond constructively to conditions.

What are Thinktank's funding plans?
■ Having become a programmatic issuer from 2014 onwards, we plan to be in the market again this year and follow our trend of an increase in transaction size year-on-year. In support of our ongoing growth profile, we are otherwise continuing to add to our warehouse relationships and overall capacity – all of which remain based on repeat issuance in term markets.

Thinktank recently exceeded A$2 billion (US$1.5 billion) in assets. What are the main areas for future growth?
■ Thinktank's growth strategy has centred around building strong relationships in the third-party distribution channel and this has underpinned the success we have managed to achieve to date.

These relationships continue to expand and have been further supported by the broadening of our product range into the self-employed and SME sectors over recent years, to encompass commercial, residential and SMSF loan product alternatives. This positioning affords us a large market and we are seeing further high-quality opportunities present themselves. •

THINKTANK GROUP

SIZE OF LOAN BOOK	A$2BN EQUIVALENT
MAKEUP OF LOAN BOOK	COMMERCIAL MORTGAGES: 70% RESIDENTIAL MORTGAGES: 30%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	SECURITISATION: A$2BN WHOLESALE WAREHOUSE FACILITIES: A$1.3BN EQUIVALENT

About Thinktank Commercial Property Finance

Thinktank Commercial Property Finance is an independent nonbank financial institution specialising in SME finance secured by first-registered mortgages over commercial and residential properties.

Ownership and capital structure

Established in 2006, Thinktank is wholly Australian-owned and was built by a group of finance professionals with extensive backgrounds in financial services – specifically commercial property, and self-employed and SME finance.

With an exacting focus on maintaining the highest standards of corporate governance and compliance, the Thinktank board comprises a mix of the founders of the business and independent professional directors who contribute further diversity of experience and multisector disciplines to the ongoing growth and direction of the business.

Funding strategy

Thinktank's funding model has been predicated from commencement on the principles of traditional wholesale warehouse funding and term securitisation.

The company completed an inaugural privately placed securitised transaction in 2014, which has been followed by successive public deals in 2016 and each year thereafter.

Having become recognised as Australia's leading programmatic issuer in domestic small-ticket CMBS, Thinktank has continued to expand the nature and sources of its origination and term-funding arrangements.

Performance history

Through 15 years of operation, the performance of Thinktank's portfolio has been consistent with that of near-prime RMBS securities.

With an average loan size of around A$600,000, a weighted LVR of around 64% and fully amortising loans out to 30 years, the characteristics of Thinktank's book demonstrate a close correlation with prime and near-prime residential lending.

The principal divergence lies with the underlying securities, which comprise a mix of income-producing standard office, small-industrial, retail and residential properties all located in metropolitan and major urban areas across Australia.

Having now originated more than A$3 billion of these small-ticket commercial loans, Thinktank has established an enviable track record of performance with very low arrears and negligible losses.

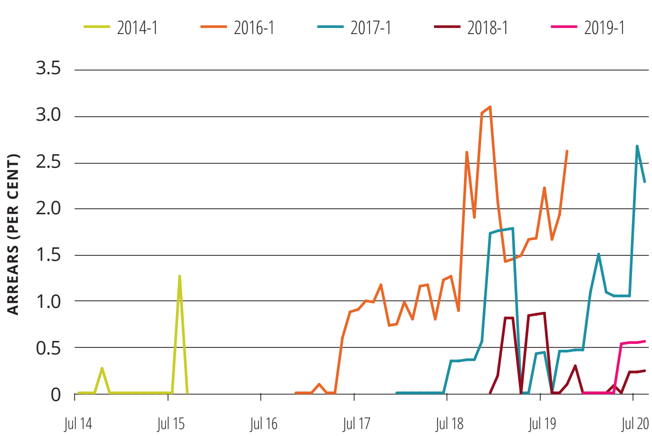
The background for such performance can be traced directly to the deep and varied experience of the business's founders. Sound risk-based disciplines and industry best practice, combined with constructively managing credit and risk through numerous property and economic cycles, has coalesced into a highly professional team that is closely attuned to the state of the market at all times.

Although Thinktank offers a range of full-doc and alternate-verification loan products, the portfolio is skewed toward the former – between standard full-doc and loans to self-managed superannuation funds that stand out due to very low arrears and zero losses over more than seven years of origination.

Portfolio growth has been measured and strongly supported by long-term institutional and internal stakeholders. It has not been at the expense of credit quality. Weighted-average LVR has trended conservatively over the past five years.

With its portfolio surpassing A$2 billion, Thinktank remains focused on further disciplined growth by capitalising on the quality nature of its relationships at origination and funding levels, amplified by a strategic partnership with Australia's largest aggregation group formalised in 2018.

THINKTANK TERM DEAL 60+ DAY ARREARS HISTORY



SOURCE: THINKTANK GROUP SEPTEMBER 2020

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WHEELS KEEP TURNING

Toyota Finance Australia (TFA) has expanded its funding and lending presence in recent years – and continues to do so despite the impact of COVID-19 on the auto industry. **Carol Lydford**, TFA's Sydney-based treasurer, discusses funding plans including the potential for a public, green-labelled securitisation.

TFA's term funding so far in 2020 includes a euro senior bond deal priced in April. How has COVID-19 affected funding plans and outlook?

■ TFA made several strategic funding decisions in response to COVID-19, to shore up readily available liquidity to manage through the disruption in capital markets.

These include bringing forward and increasing the target volume of our euro transaction, which was always in our plans to refinance upcoming redemptions. The pricing and volume we achieved in this transaction demonstrate strength of support from our investors despite turbulent market conditions.

The euro transaction provided necessary liquidity, not only to fund normal business operations but also for TFA to provide much needed support to our finance customers, fleet customers and dealers – some of which continue to be negatively affected by COVID-19.

Second, we reduced our operational funding reliance on CP markets, where we are frequent issuers in Australia, the US and Europe. These markets were disrupted to varying degrees, which affected the reliability of rolling over existing funding.

We remain committed to our strategy of maintaining a strong presence in domestic and offshore capital markets. We will certainly be looking to take advantage of Australian market conditions, which have been supported by the lack of supply from major banks and strong investor demand. We have a specific near-term focus to issue frequently into the Australian dollar bond market.

Does bringing a public asset-backed securities deal to market still have a place in TFA's future funding plan? What else can you say about what a potential deal might look like?

■ Yes, our plan remains to incorporate an expanded securitisation capability into our funding mix. We are progressing well with our system-capability upgrades to continue our journey of public asset-backed issuance, including the potential for ESG [environmental, social and governance] format. Our focus is on the domestic market in the near term and many of our existing investors are eager to see a TFA public securitisation deal.

How have you managed investor relations during the COVID-19 crisis?

■ The investor-engagement strategy we have applied in recent years has really paid off during COVID-19. We recognise the need to develop and maintain open and informative communications with our investors and stakeholders. Over the past few years we have been engaging in regular investor meetings domestically as well as in Europe and Asia – where we are also very active. We also maintain company information on our investor-relations website.

This enables our investors to stay up to date with our strategy, operations and financial performance. It is critically important to maintain frequent dialogue and connection. This helps immensely when an issuer is looking for investor participation in its bond issuance, not only in times of strong liquidity but also when markets are stressed.

We are also very fortunate to be part of a globally recognised and respected brand, with strong capital-markets capabilities and performance. We launched and priced a very successful transaction in Europe in April, at the beginning of the COVID-19 crisis. Investor participation in this deal was particularly pleasing, not only with repeat investors but a significant proportion of investors that placed orders and were subsequently allocated bonds who were new to the TFA name.

TFA's lending was on a fairly strong upward trajectory prior to the crisis. What has been the approach to origination since the pandemic hit?

■ TFA continues to expand its lending platforms and seek growth opportunities. COVID-19 has had an impact on the auto industry globally, including here in Australia, but our operating business model has not changed and is resilient. TFA has always maintained a disciplined approach to lending including best-in-class automated credit-decision tools, and dedicated credit and lending teams.

How is the auto-loan space performing during the crisis?

■ It is too early to tell at this stage as government support has provided much-needed financial support to many Australians. We did, however, witness a significant increase in the number of calls to our contact centre as customers sought to clarify their options – including whether formal hardship arrangements were available to them.

TFA continues to work with its consumer, commercial and fleet customers, as well as the dealers that play an important role in the auto industry in Australia, and is offering support packages where necessary. •

TOYOTA FINANCE AUSTRALIA

SIZE OF LOAN BOOK	A$19.6BN
MAKEUP OF LOAN BOOK	TERM LOANS: 71% BAILMENT: 14% OPERATING LEASES: 8% FINANCE LEASES: 4% TERM PURCHASE: 3%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	AUSTRALIA: 100%
OUTSTANDING DEBT ISSUANCE	CP: A$4.2BN EMTN: A$9.8BN DMTN: A$2.1BN SECURITISATION WAREHOUSE FACILITIES (PRIVATE): A$3BN OTHER: $1.5BN

About Toyota Finance Australia

Toyota Finance Australia (TFA) is a leading provider of automotive finance and insurance in Australia. TFA is an automotive financier with strong market share that creates value for the Toyota group through the One Toyota value chain.

TFA supports the sale of vehicles through its retail lending and fleet-management offerings, as well as marketing and distribution of vehicles by providing dealer financing.

TFA was incorporated as a public company in New South Wales in 1982 and is part of the Toyota global group of entities. The principal activities of TFA, which are an integral part of the Toyota group's presence in Australia, are:

- Financing the acquisition of motor vehicles by retail and commercial customers by way of commercial leases, and consumer and commercial loans.
- Providing bailment facilities and commercial loans to motor dealers.
- Providing vehicle and equipment finance, and fleet-management services to government and corporate customers.
- Selling retail insurance policies underwritten by third-party insurers.

In January 2019, Australian Alliance Automotive Finance, a wholly owned subsidiary of TFA, entered a strategic alliance with Mazda Australia to provide financial services to Mazda dealers and customers. The first Mazda Finance-branded vehicle-financing loan was issued in July 2019.

Ownership and capital structure

TFA is a wholly owned subsidiary of Toyota Financial Services Corporation (TFSC) and TFSC is a wholly owned subsidiary of Toyota Motor Corporation (TMC). TMC is a Japanese corporation with annual turnover of more than ¥30 trillion, that manufactures 9 million vehicles per year from more than 60 manufacturing facilities, sells vehicles across 190 countries and employs a workforce of 370,000 people. TFSC is a Japanese corporation that manages TMC's worldwide financial-services operations.

Debt securities issued by TFA have the benefit of a credit-support agreement (CSA) with TFSC, which in turn has a CSA with TMC.

Funding strategy

TFA focuses on funding diversity and liquidity in a variety of markets, currencies, products and investor groups. TFA has a range of funding platforms and processes in place that provide flexibility to react to opportunities and volatility, including:

- CP (domestic, euro and US).
- Securitisation.
- Domestic and euro MTN programmes issuing into Australia, Europe, the UK and Asia.
- Bilateral bank-loan funding with long-established relationships.
- Uridashi (Japanese retail bond) issuance.

TFA continues to look for new sources and types of funding as part of its diversification strategy and to keep up with changes in investor preferences.

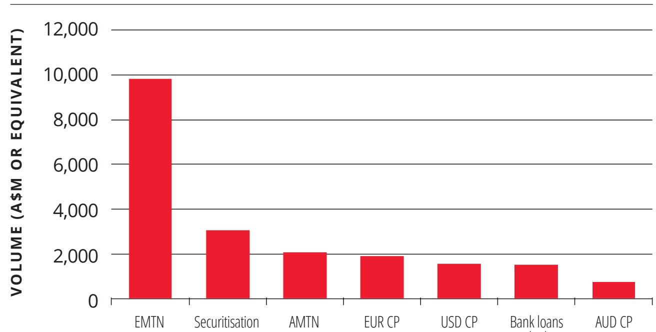
Prudent risk management is a core part of TFA's funding strategy. TFA actively manages its funding to secure liquidity in the near term and target a sustainable maturity profile, while ensuring efficient and competitive funding by balancing cost and duration. At the same time, TFA coordinates funding-market access with other key TFS subsidiaries across the globe.

TFA's credit rating allows it to access funding at levels competitive with Toyota's global credit curve. TFA's bonds and CP are rated by S&P Global Ratings at A+/negative/A-1+, and by Moody's Investors Service at A1/negative/P-1. TFA's ratings are equalised with TMC, as it is a core subsidiary and benefits from CSAs.

AUD activity

The Australian dollar market is TFA's home market and remains one of its core funding options. TFA consistently issues in Australia and maintains an active investor-relations programme, domestically and offshore, to foster its global investor base.

TOYOTA FINANCE AUSTRALIA TOTAL DEBT OUTSTANDING BY PRODUCT



SOURCE: TOYOTA FINANCE AUSTRALIA SEPTEMBER 2020

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KangaNews Nonbank Yearbook
Issuers' public capital-markets transactions 2015-2020 YTD

ISSUE DATE	SPONSOR	POOL NAME	CURRENCY	TOTAL VOLUME ($M)	DEAL TYPE * INCL GREEN TRANCHE(S)
10 Mar 15	Resimac	Resimac Premier Series 2013-1 R	AUD	238	RMBS
20 Mar 15	Resimac	Resimac Bastille Trust Series 2015-1NC	AUD	375	Nonconforming RMBS
9 Apr 15	Liberty Financial	N/A	AUD	100	Unsecured bond
10 Apr 15	Pepper Group	Pepper Residential Securities Trust No.12 R	USD	97	Nonconforming RMBS
24 Apr 15	flexigroup	Flexi ABS Trust 2015-1	AUD	210	ABS
27 Apr 15	Pepper Group	Pepper Prime Private Placement 2015-1	AUD	350	RMBS
28 Apr 15	Liberty Financial	Liberty Series 2015-1	AUD	500	Nonconforming RMBS
4 May 15	Toyota Finance Australia	N/A	AUD	200	Unsecured bond
21 May 15	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 1-2015	AUD	1,000	RMBS
4 Jun 15	La Trobe Financial	La Trobe Financial Capital Markets Trust 2015-1	AUD	250	Nonconforming RMBS
12 Jun 15	Pepper Group	Pepper Residential Securities Trust No.14	AUD	550	Nonconforming RMBS
19 Jun 15	flexigroup	Flexi ABS Trust 2015-2	AUD	285	ABS
26 Jun 15	Firstmac	Firstmac Mortgage Funding Trust Series 1A-2014	AUD	298	RMBS
24 Jul 15	Pepper Group	Pepper Prime 2013-1 Trust R	AUD	138	RMBS
19 Aug 15	Resimac	Resimac Premier Series 2015-1	AUD	500	RMBS
17 Sep 15	RedZed Lending Solutions	RedZed Trust Series 2015-1	AUD	250	Nonconforming RMBS
22 Sep 15	Liberty Financial	Liberty Series 2015-1 SME	AUD	300	CMBS
2 Nov 15	Pepper Group	Pepper Residential Securities Trust No.15	AUD	300	Nonconforming RMBS
19 Nov 15	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2015	AUD	500	RMBS
4 Dec 15	Liberty Financial	Liberty Series 2015-1 Auto Trust	AUD	200	ABS
16 Mar 16	Liberty Financial	Liberty Series 2016-1	AUD	300	Nonconforming RMBS
31 Mar 16	Pepper Group	Pepper Residential Securities Trust No.16	USD	280	Nonconforming RMBS
			AUD	332	
11 Apr 16	Pepper Group	Pepper Residential Securities Trust No.12 R	AUD	60	Nonconforming RMBS
27 Apr 16	flexigroup	Flexi ABS Trust 2016-1	AUD	260	ABS*
28 Apr 16	Resimac	Premier Series 2016-1	USD	265	RMBS
			AUD	595	
5 May 16	Bluestone Mortgages	Sapphire XIV Series 2016-1	AUD	200	Nonconforming RMBS
26 May 16	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2016	AUD	500	RMBS
8 Jun 16	La Trobe Financial	La Trobe Financial Capital Markets Trust 2016-1	AUD	250	Nonconforming RMBS
10 Jun 16	Firstmac	Firstmac Mortgage Funding Trust Series 1E-2013	AUD	150	RMBS
27 Jun 16	Firstmac	Firstmac Mortgage Funding Trust Series 1A-2014	AUD	298	RMBS
11 Aug 16	Resimac	Bastille Trust Series 2016-1NC	AUD	750	Nonconforming RMBS
23 Sep 16	Liberty Financial	Liberty Series 2016-1 SME	AUD	400	CMBS
28 Sep 16	Toyota Finance Australia	N/A	AUD	150	Unsecured bond
10 Oct 16	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 3-2016	AUD	600	RMBS
13 Oct 16	Pepper Group	Pepper Residential Securities Trust No.17	USD	233	Nonconforming RMBS
			AUD	494	
18 Oct 16	Pepper Group	Pepper Residential Securities Trust No.15 R	AUD	58	Nonconforming RMBS
25 Oct 16	Liberty Financial	Liberty Series 2016-2	AUD	500	Nonconforming RMBS
4 Nov 16	Think Tank Group	Think Tank Series 2016-1 Trust	AUD	280	CMBS
15 Nov 16	Bluestone Mortgages	Sapphire XV Series 2016-2 Trust	AUD	200	Nonconforming RMBS
25 Nov 16	Firstmac	Firstmac Mortgage Funding Trust Series 2E-2013	AUD	145	RMBS
8 Dec 16	Resimac	Resimac Premier Series 2016-2	AUD	500	RMBS
21 Dec 16	Liberty Financial	Liberty Series 2016-3	AUD	500	Nonconforming RMBS
17 Feb 17	flexigroup	Flexi ABS Trust 2017-1	AUD	265	ABS*
14 Mar 17	Pepper Group	Pepper Residential Securities Trust No.16 R	USD	170	Nonconforming RMBS
22 Mar 17	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 1-2017	AUD	1,706	RMBS
23 Mar 17	La Trobe Financial	La Trobe Financial Capital Markets Trust 2017-1	AUD	300	Nonconforming RMBS
27 Mar 17	Liberty Financial	Liberty Series 2017-1	AUD	800	Nonconforming RMBS
29 Mar 17	Pepper Group	Pepper Residential Securities Trust No.18	USD	272	Nonconforming RMBS
			AUD	548	
6 Apr 17	Latitude Finance Australia	Latitude Australia Credit Card Loan Note Trust Series 2017-1	AUD	1,100	ABS
6 Apr 17	RedZed Lending Solutions	RedZed Trust Series 2017-1	AUD	300	Nonconforming RMBS
13 Apr 17	Resimac	Resimac Premier Series 2017-1	USD	400	RMBS
			AUD	470	
19 May 17	Toyota Finance Australia	N/A	AUD	300	Unsecured bond
23 May 17	Bluestone Mortgages	Sapphire XVI Series 2017-1	AUD	250	Nonconforming RMBS
1 Jun 17	Liberty Financial	N/A	AUD	200	Unsecured bond
13 Jun 17	Pepper Group	Pepper Residential Securities Trust No.14 R	AUD	96	Nonconforming RMBS
20 Jul 17	Toyota Finance Australia	N/A	AUD	250	Unsecured bond
26 Jul 17	Liberty Financial	Liberty Series 2017-3	AUD	956	Nonconforming RMBS
			EUR	165	

ISSUE DATE	SPONSOR	POOL NAME	CURRENCY	TOTAL VOLUME ($M)	DEAL TYPE * INCL GREEN TRANCHE(S)
3 Aug 17	Resimac	Resimac Premier Series 2017-2	AUD	750	RMBS
15 Aug 17	flexigroup	Q Card Trust 2014-2 R	NZD	89	ABS
17 Aug 17	Pepper Group	Pepper I-Prime 2017-2 Trust	AUD	500	RMBS
1 Sep 17	Liberty Financial	Liberty Series 2017-1 SME	AUD	500	CMBS
7 Sep 17	Latitude Finance Australia	Latitude Australia Credit Card Loan Note Trust Series 2017-2	AUD	500	ABS
14 Sep 17	Toyota Finance Australia	N/A	AUD	100	Unsecured bond
22 Sep 17	La Trobe Financial	La Trobe Financial Capital Markets Trust 2017-2	AUD	520	Nonconforming RMBS
3 Oct 17	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2017	AUD	1,000	RMBS
12 Oct 17	flexigroup	Q Card Trust	NZD	120	ABS
26 Oct 17	Resimac	Bastille Trust Series 2017-1	AUD	750	Nonconforming RMBS
2 Nov 17	Pepper Group	Pepper Residential Securities Trust No.19	AUD	280	Nonconforming RMBS
			USD	250	
8 Nov 17	Blusetone Mortgages	Sapphire XVII Series 2017-2 Trust	AUD	300	Nonconforming RMBS
16 Nov 17	Resimac	Versailles Trust Series 2017-1	NZD	250	Nonconforming RMBS
17 Nov 17	Liberty Financial	Liberty Series 2017-4	AUD	1,115	Nonconforming RMBS
			EUR	57	
29 Nov 17	Latitude Finance Australia	Latitude AUPL 2017-1 Trust	AUD	651	ABS
30 Nov 17	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 3-2017	AUD	600	RMBS
5 Dec 17	Liberty Financial	Liberty Series 2017-1 Auto	AUD	300	ABS
6 Dec 17	RedZed Lending Solutions	RedZed Trust Series 2017-2	AUD	250	Nonconforming RMBS
7 Dec 17	Toyota Finance Australia	N/A	AUD	175	Unsecured bond
11 Dec 17	Think Tank Group	Think Tank Series 2017-1 Trust	AUD	300	CMBS
14 Dec 17	Pepper Group	Pepper I-Prime 2017-3 Trust	AUD	400	RMBS
12 Jan 18	Resimac	Premier Series 2017-3	AUD	1,000	RMBS
27 Feb 18	Bluestone Mortgages	Sapphire XVII Series 2018-1 Trust	AUD	250	Nonconforming RMBS
13 Mar 18	Pepper Group	Pepper Residential Securities Trust No.16 R	AUD	124	Nonconforming RMBS
16 Mar 18	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 1-2018	AUD	370	RMBS
			USD	180	
27 Mar 18	Latitude Finance Australia	Latitude Australia Credit Card Loan Note Trust Series 2018-1	AUD	500	ABS
28 Mar 18	Pepper Group	Pepper Residential Securities Trust No. 20	AUD	805	Nonconforming RMBS
			USD	150	
9 Apr 18	Liberty Financial	N/A	AUD	150	Unsecured bond
12 Apr 18	La Trobe Financial	La Trobe Financial Capital Markets Trust 2018-1	AUD	750	Nonconforming RMBS
4 May 18	Liberty Financial	N/A	AUD	75	Unsecured bond
8 May 18	Liberty Financial	Liberty Series 2018-1	AUD	1,367	Nonconforming RMBS
			EUR	83	
9 May 18	flexigroup	Flexi ABS Trust 2018-1	AUD	300	ABS*
24 May 18	Resimac	Premier Series 2018-1	USD	210	RMBS
			AUD	476	
30 May 18	Pepper Group	Pepper I-Prime 2018-1 Trust	AUD	550	RMBS
15 Jun 18	Avanti Finance	Avanti RMBS 2018-1	NZD	200	Nonconforming RMBS
20 Jun 18	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2018	AUD	1,000	RMBS
31 Jul 18	Pepper Group	Pepper Residential Securities Trust No. 21	AUD	660	Nonconforming RMBS
			USD	250	
14 Aug 18	Toyota Finance Australia	N/A	AUD	600	Unsecured bond
15 Aug 18	flexigroup	Q-Card Trust	NZD	150	ABS
16 Aug 18	Liberty Financial	Liberty Series 2018-1 SME Trust	AUD	450	CMBS
16 Aug 18	Resimac	Bastille Trust Series 2018-1NC	USD	394	Nonconforming RMBS
			AUD	475	
6 Sep 18	Bluestone Mortgages	Sapphire XIX Series 2018-2 Trust	AUD	300	Nonconforming RMBS
10 Sep 18	Liberty Financial	N/A	AUD	100	Unsecured bond
20 Sep 18	RedZed Lending Solutions	RedZed Trust Series 2018-1	AUD	375	Nonconforming RMBS
9 Oct 18	Liberty Financial	Liberty Series 2018-3	AUD	652	Nonconforming RMBS
			EUR	60	
11 Oct 18	Pepper Group	Pepper I-Prime 2018-2 Trust	USD	253	RMBS
			AUD	252	
25 Oct 18	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 3-2018	AUD	1,000	RMBS
22 Nov 18	La Trobe Financial	La Trobe Financial Capital Markets Trust 2018-2	AUD	750	Nonconforming RMBS
22 Nov 18	Toyota Finance Australia	N/A	AUD	575	Unsecured bond
23 Nov 18	Think Tank Group	Think Tank Series 2018-1 Trust	AUD	315	CMBS
26 Nov 18	Resimac	Resimac Premier Series 2018-2	USD	352	RMBS
			AUD	248	
6 Dec 18	Pepper Group	Pepper Residential Securities Trust No. 22	AUD	571	Nonconforming RMBS*
			USD	370	
			EUR	110	
12 Dec 18	Liberty Financial	Liberty Series 2018-1 Auto	AUD	250	ABS

ISSUE DATE	SPONSOR	POOL NAME	CURRENCY	TOTAL VOLUME ($M)	DEAL TYPE * INCL GREEN TRANCHE(S)
13 Dec 18	Latitude Finance New Zealand	New Zealand Credit Card Master Trust Series 2018-1	NZD	200	ABS
14 Dec 18	Bluestone Mortgages	Sapphire XX Series 2018-3 Trust	AUD	350	Nonconforming RMBS
15 Feb 19	flexigroup	Q Card Trust 2014-1 & 2016-1 R	NZD	153	ABS
27 Feb 19	Pepper Group	Pepper Residential Securities Trust No. 23	AUD	325	Nonconforming RMBS*
			USD	190	
			EUR	100	
7 Mar 19	Liberty Financial	N/A	AUD	200	Unsecured bond
28 Mar 19	flexigroup	Flexi ABS Trust 2019-1	AUD	300	ABS*
29 Mar 19	Resimac	Resimac Premier Series 2019-1	AUD	600	RMBS
10 Apr 19	Bluestone Mortgages	Sapphire XXI Series 2019-1 Trust	AUD	400	Nonconforming RMBS
17 Apr 19	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 1PP-2019	AUD	445	RMBS
17 Apr 19	Pepper Group	Pepper I-Prime 2019-1 Trust	USD	267	RMBS
			AUD	375	
29 Apr 19	Resimac	Resimac Versailles Trust Series 2019-1	NZD	250	Nonconforming RMBS
8 May 19	La Trobe Financial	La Trobe Financial Capital Markets Trust 2019-1	AUD	750	Nonconforming RMBS
23 May 19	Pepper Group	Pepper Residential Securities Trust No. 24	USD	150	Nonconforming RMBS*
			AUD	373	
			EUR	100	
30 May 19	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2019	AUD	1,400	RMBS
30 May 19	Liberty Financial	Liberty Series 2019-2	AUD	1,400	Nonconforming RMBS
20 Jun 19	Avanti Finance	Avanti RMBS 2019-1	NZD	200	Nonconforming RMBS
10 Jul 19	Pepper Group	Pepper Sparkz Trust No.1	AUD	512	ABS
1 Aug 19	RedZed Lending Solutions	RedZed Trust Series 2019-1	AUD	400	Nonconforming RMBS
15 Aug 19	flexigroup	Q Card Trust	NZD	300	ABS
29 Aug 19	Resimac	Resimac Premier Series 2019-2	USD	315	RMBS
			AUD	550	
6 Sep 19	Liberty Financial	N/A	AUD	200	Unsecured bond
13 Sep 19	Latitude Finance Australia	Latitude Australia Credit Card Loan Note Trust Series 2019-1	AUD	750	ABS
1 Oct 19	Bluestone Mortgages	Sapphire XXII Series 2019-2 Trust	AUD	450	Nonconforming RMBS
10 Oct 19	Liberty Financial	Liberty Series 2019-1 SME Trust	AUD	550	Nonconforming RMBS
15 Oct 19	Pepper Group	Pepper Residential Securities Trust No. 19 R	AUD	169	Nonconforming RMBS
15 Oct 19	Pepper Group	Pepper I-Prime 2018-2 Trust R	USD	181	RMBS
16 Oct 19	La Trobe Financial	La Trobe Financial Capital Markets Trust 2019-2	AUD	1,250	Nonconforming RMBS
17 Oct 19	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 3PP-2019	AUD	500	RMBS
24 Oct 19	Resimac	Bastille Trust Series 2019-1NC	AUD	630	Nonconforming RMBS
			USD	250	
1 Nov 19	Think Tank Group	Think Tank Series 2019-1 Trust	AUD	350	CMBS
7 Nov 19	Pepper Group	Pepper Residential Securities Trust No. 25	AUD	368	Nonconforming RMBS*
			USD	150	
			EUR	100	
28 Nov 19	flexigroup	Flexi ABS Trust 2019-2	AUD	265	ABS*
12 Dec 19	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 4-2019	AUD	1,100	RMBS
30 Jan 20	Pepper Group	Pepper Sparkz Trust No.2	AUD	617	ABS
7 Feb 20	Liberty Financial	Liberty Series 2020-1 Auto	AUD	300	ABS
17 Feb 20	Toyota Finance Australia	N/A	AUD	325	Unsecured bond
26 Feb 20	Latitude Finance Australia	Latitude Australia Credit Card Loan Note Trust Series 2020-1	AUD	500	ABS
26 Feb 20	Liberty Financial	N/A	AUD	250	Unsecured bond
27 Feb 20	Toyota Finance Australia	N/A	AUD	75	Unsecured bond
16 Mar 20	Pepper Group	Pepper Residential Securities Trust No. 20 R	AUD	103	Nonconforming
2 Apr 20	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 1-2020	AUD	1,000	RMBS
14 Apr 20	Pepper Group	Pepper I-Prime 2019-1 Trust R	AUD	272	RMBS
12 May 20	Firstmac	Firstmac Mortgage Funding Trust No.4 1-2015 R	AUD	101	RMBS
15 May 20	Liberty Financial	Liberty Series 2020-1	AUD	125	Nonconforming RMBS
			JPY	26,300	
19 May 20	La Trobe Financial	La Trobe Financial Capital Markets Trust 2020-1	AUD	1,250	Nonconforming RMBS
3 Jun 20	Resimac	Resimac Premier Series 2020-2	AUD	500	RMBS
18 Jun 20	Pepper Group	Pepper Residential Securities Trust No. 27	AUD	700	Nonconforming RMBS
25 Jun 20	Liberty Financial	Liberty Series 2020-2	AUD	800	Nonconforming RMBS
25 Jun 20	RedZed Lending Solutions	RedZed Trust STC Series 2020-1	AUD	300	CMBS
8 Jul 20	Bluestone Group	Sapphire XXII Series 2020-1 Trust	AUD	350	Nonconforming RMBS
16 Jul 20	Firstmac	Firstmac Mortgage Funding Trust No. 4 Series 2-2020	AUD	1,300	RMBS
30 Jul 20	Resimac	Resimac Bastille Trust 1NC Series 2020-2	AUD	1,000	Nonconforming RMBS
20 Aug 20	Pepper Group	Pepper Residential Securities Trust No. 27	AUD	1,000	Nonconforming RMBS
10 Sep 20	Liberty Financial	Liberty Series 2020-1 SME	AUD	600	CMBS
10 Sep 20	Bluestone Group	Sapphire XXII Series 2020-2 Trust	AUD	350	Nonconforming RMBS
10 Sep 20	RedZed Lending Solutions	RedZed Trust Series 2020-2	AUD	400	Nonconforming RMBS
10 Sep 20	Resimac	Resimac Versailles Trust Series 2020-1	NZD	300	Nonconforming RMBS

SOURCE: KANGANEWS 20 SEPTEMBER 2020