

JAMES AUSTIN, CHIEF FINANCIAL OFFICER
PAUL EAGAR, DIRECTOR, SECURITISATION

NONBANK IN FOCUS: **FIRSTMAC**

Firstmac is unusual in the Australian nonbank space because of its exclusive focus on prime mortgage lending, and because of the extent of its online distribution profile. The company's Brisbane-based chief financial officer, **James Austin**, and its Sydney-based director, securitisation, **Paul Eagar**, review this strategy.

What is the rationale behind Firstmac's domestic-market focus?

■ **AUSTIN** Our

strategy is to reach the online domestic consumer. The fact that we have a small percentage of this market – at 1 per cent – means we have a long way to grow and a large sandpit to play in. We don't need to look overseas or into different sectors for growth.

■ **EAGAR** The financial crisis challenged traditional nonbank business models. There was an aggregation of business, particularly to the major banks, and nonbanks found origination of prime home loans far more difficult than ever before. To meet this challenge we reassessed the ongoing viability of our business model and decided to focus on an innovative approach that targeted the opportunity we identified in online home-loan lending.

Online distribution is an obvious focus for Firstmac. What role does technology play in the business more broadly?

■ **AUSTIN** To be a competitive online player demands the most efficient and cost-effective lead acquisition and loan-processing functions. This means there is no room for middle people: the funder must be the direct lender. This type of customer demands efficiencies, not just in the lead capture but also in conversion and ease of use.

This includes credit assessments. A lot of credit-division resources can

easily be wasted on poorer credit, but we get some of this time back by using an auto-declining system. Efficiencies are improved by accepting and processing only premium credit-quality customers.

Can you describe the history and progress of Firstmac's offshore investor-relations drive?

■ **AUSTIN** Roughly half our funding to date is from offshore investors, either via domestic or foreign-currency issuance. We have readily engaged with investors and we continue to do so with every transaction. Whether or not we are able to achieve this is driven almost entirely by the cross-currency basis swap. My view is that there is a deep acceptance of Australian issuers and a ready pool of investment – if the economics line up.

There are two important aspects to note around the currency swap. The first is the basis swap itself, namely whether the economics stack up. The other relates to regulations governing currency swaps: the capital that is applied and the rating agencies' approaches to currency swaps. These often make it difficult for currency-swap providers to deliver an efficient product. This is particularly the case with collateral-sharing agreements.

Can you share some colour on the media reports around Firstmac seeking inward investment – specifically the fact that this is to help fund growth?

■ **AUSTIN** The growing success of our retail online lending business has caused us to seek out ways to harness our

increasing market share. But to be able to grow incrementally beyond our current level of settlements each month requires senior funding – not equity capital.

We received interest from a number of parties but this was predominantly focused on an equity-capital stake, including an entire business purchase, for what were reasonable valuations. We rejected these opportunities on the basis that they did not include senior funding.

Now it is business as usual. We have a strong business that continues to grow, with A\$20 million (US\$15.1 million) profit per year and an A\$8 billion balance sheet. We continue to look for opportunities to grow our senior funding.

Does this mean Firstmac has outgrown the securitisation market?

■ **AUSTIN** We see additional sources of senior funding as being incremental to what we can source via securitisation. Securitisation is strategically important to us and will always be so. What we are seeking is the incremental funding over and above what we are raising through current sources.

■ **EAGAR** We also remain optimistic that there is considerable untapped funding potential in the domestic securitisation market. A number of investors do not invest in nonbank issuance. Additional capacity may become available to us were they to recognise the relative value inherent in a Firstmac deal by way of increased credit enhancement, quality of collateral and proven performance, as well as margin pick-up. •

FIRSTMAC PROFILE

SIZE OF LOAN BOOK	A\$7.8BN EQUIVALENT
MAKEUP OF LOAN BOOK	• PRIME RESIDENTIAL MORTGAGES: 100%
GEOGRAPHIC DISTRIBUTION OF LOAN BOOK	• AUSTRALIA: 98% • FOREIGN RESIDENTS: 2%
OUTSTANDING DEBT ISSUANCE	• SECURITISATION: A\$5.9BN EQUIVALENT • SECURITISED WAREHOUSE FACILITIES: A\$1.9BN EQUIVALENT • VANILLA BONDS: ZERO • CP (INCLUDING ABCP): ZERO

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 innovation in the mortgage industry, having originally commenced mortgage management before evolving to self-funding through securitisation 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 was 30-plus days in arrears and 85 per cent of its loans have loan-to-value ratios of less than 80 per cent, as at August 31 2016.

Ownership and capital structure

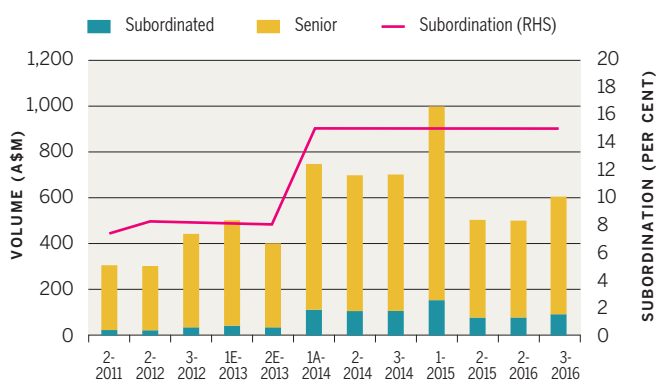
Firstmac is a privately owned company headquartered in Brisbane.

Funding strategy

Firstmac's policy is that a minimum of two-thirds of funding will be sourced in term match-funded RMBS, with the remaining maximum third sourced from short-term warehouse facilities.

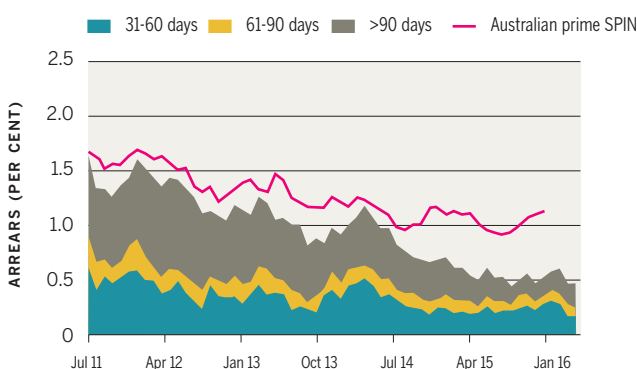
Firstmac has been a regular issuer of RMBS in the Australian domestic and offshore markets, having issued more than A\$16 billion since 2003.

FIRSTMAC RMBS RECENT ISSUANCE



SOURCE: FIRSTMAC OCTOBER 2016

FIRSTMAC LENDING PORTFOLIO ARREARS PERFORMANCE



SOURCE: FIRSTMAC OCTOBER 2016

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