THINKING ABOUT AN EVOLUTION

***Thinktank** has five years' edge on ASJ as the nonbank lender is celebrating its 15th anniversary in 2021. **Jonathan Street**, Thinktank's Sydney-based chief executive, reflects on the company's evolution in the commercial-mortgage space and its future, which includes a forthcoming debut in residential mortgage-backed securitisation.*

How did Thinktank start and what have been the key landmarks in its journey?

◆ Thinktank had its genesis in 2006, when four experienced finance professionals with extensive backgrounds in commercial-property finance, small business, consumer and corporate banking, and finance broking came together. At that time, banks dominated lending to self-employed borrowers, particularly for commercial property. It was also a slow, complex, onerous and frequently expensive experience for borrowers.

We sought profoundly to change this by applying established securitisation principles to the funding of commercial mortgages. At the same time, we greatly simplified and enhanced the underlying products and adapted them for broad-based distribution via the third-party channel. We maintained embedded discipline around credit-risk appetite.

We settled our first loan a year before the 2008 financial crisis, and despite market turmoil our experiences in the ensuing years only served to make the business and its proposition stronger.

We have grown organically through the years to the point where Thinktank now has 125 people employed across offices in Sydney, Melbourne and Brisbane, as well as a sizeable loan book that has performed extremely well.

How has the core book – commercial mortgages – grown over time?

◆ We have recorded consistent growth of around 30 per cent in loan originations, year-on-year. This is reflected in the size of our term deals, which have progressively stepped up to A$600 million (US$459.7 million) in November 2020 from our A$280 million public debut in 2016. The size of the last transaction was influenced by COVID-19, but we expect to be back in the market again in 2021 with a similarly sized CMBS [commercial mortgage-backed securities] deal.

The backdrop for this is continual growth – in size and effectiveness – of our origination and distribution partnerships. In recent years, these have broadened to encompass the provision of white-label loan-product solutions with the country's largest and highest-calibre finance-broker aggregation groups.

While this distribution approach has implications for marketing, each of the critical functions attached to credit-policy setting, underwriting and collections activities remain entirely in-house.

How has the depth of the investor base and volume available in CMBS transactions evolved?

◆ Our evolution in wholesale funding and term markets has been a function of strong and enduring institutional partnerships. These began in 2006 through our initial warehouse with a domestic major bank, which remains in place to this day.

Our strategy was predicated on progressively expanding our core funding relationships over time as the business demonstrated consistent growth. These partners, on- and offshore, have worked with us to support and extend CMBS in Australia. They continue to grow with us.

We have been a repeat issuer since 2016 and have had success in attracting several new accounts with each successive deal, leading to strong coverage across tranches.

An element of our success has been investors seeking diversification from residential mortgage-backed securities (RMBS), and auto and equipment asset-backed securities.

Small-ticket CMBS offers investors a different asset class with yield similar to nonconforming RMBS but accompanied by slightly higher credit support. It is also packaged in a manner that offers investors the familiarity of the same underlying borrowers, as well as similar loan products, security and enforcement profiles, transaction structures and ratings methodologies.

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JONATHAN STREET THINKTANK

How well have Thinktank's CMBS transactions performed through market cycles since the first deal in 2014?

◆ From our first rated private placement in 2014, for A$114 million, through to last year's A$600 million deal, Thinktank's CMBS assets have performed in a manner that is arguably more consistent with prime and near-prime RMBS. Arrears of more than 30 days have tracked in low single digits while we have not recorded a single loss or charge-off in any term transaction.

While we maintain a conservative approach to loan loss provisioning in accordance with international accounting standards and industry practice, we do not have a single exposure within the entire loan book where a principal shortfall is expected. Accordingly, while the asset class was less recognised in earlier years – with spreads beginning a little wider – our performance and deal visibility means spreads have consistently tightened to sit around or just inside nonconforming RMBS.

Thinktank has expertise in lending to self-employed and self-managed super fund (SMSF) borrowers. How do these customers perform compared with, for example, salaried borrowers?

◆ Approximately 90 per cent of Thinktank loans are advanced to self-employed and SME borrowers, which affords us excellent visibility of this group's performance over an extended period. While it is worth noting that these borrowers feature in a wide range of transactions from numerous issuers in the market, it is a useful exercise to reflect on what we have observed relative to the larger PAYG [pay-as-you-go] cohort.

To some it is a surprise, but clean-credit self-employed and SME borrowers have demonstrated a close correlation in arrears and CPR [customer prepayment rate] performance compared with prime PAYG borrowers. In Thinktank's case, the underlying assets have produced equally good outcomes in losses, which have been negligible to date.

The data suggest that, if anything, SMSF borrower performance has been superior to PAYG with immaterial arrears and no losses since commencement in 2013. In large part we credit this to prudent lending practices borne of more than 40 years' experience in the sector and sensible credit-policy settings that adjust with conditions, delivered by a professional, experienced team.

The business and its leadership have generally exhibited a growth mindset since inception, but this has never been at the expense of credit quality or stakeholder interests.

How is Thinktank evolving its business to continue building on what has been achieved in the last 15 years?

◆ To see consistent growth and scale materialise, the business has been compelled to evolve at different junctures. The pillars of this evolution have been built on ensuring we have the right people in key executive positions, who can build high-quality teams and lead successful transformation in small and large projects.

This has been implicit across each of the principal areas of the business, including sales, credit, treasury, finance, people and culture, and IT. We are currently focused on digital transformation, which extends throughout the business and will lead to significantly enhanced outcomes for internal and external stakeholders.

Overall, we are well placed to maintain a sound growth profile while equipping the business to contend effectively with the full range of present and future challenges.

Thinktank has flagged its intention to bring a new RMBS programme to the securitisation market. What is the driver for this?

◆ Although our initial proposition in 2006 was to focus almost exclusively on commercial-property borrowers, the self-employed and SME sector is broad and naturally gives rise to a mix of finance requirements. The largest of these lies in residential mortgages.

We have been lending against all types of residential property since early in our history, but in recent years enquiry and demand from our distribution partners and borrowers has led to the introduction of a wider product set aligned to the same borrower segment of commercial, residential and SMSF mortgage-finance solutions. All of these are consistent with existing bank and nonbank origination and issuance.

This has developed to the point where we now have multiple discrete RMBS warehouses to complement our commercial-mortgage warehouses. The time is fast approaching to launch our inaugural RMBS transaction, which we have planned for 2021.

This wider product range allows us effectively to be part of the deepest pool when it comes to self-employed and SME borrower needs. It also neatly corresponds with our relationship-based approach in the third-party channel, where finance brokers and aggregators operate to source and deliver upon wider needs.

What will be the key characteristics of Thinktank's first RMBS pool?

◆ Thinktank's initial RMBS transaction will reflect our historical domain, with self-employed borrowers representing most of the pool – primarily on an alternate-verification basis. Other attributes include a maximum loan-to-value ratio (LVR) of 80 per cent, weighted-average LVR of less than 70 per cent and average loan size of A$650,000. Nearly 90 per cent of loans are in metro areas and approximately 20 per cent are to SMSFs. Two-thirds of the pool will be owner-occupiers and most securities will be standalone houses.

How frequently might Thinktank issue RMBS transactions, and does this development affect the strategy for ongoing CMBS issuance?

◆ We plan to come to market once this calendar year and once or twice in 2022, with similarly sized RMBS deals. This programme is separate from our CMBS programme, from which we expect to continue issuing once per year, likely in larger size. ■