

THINKTANK'S RESIDENTIAL ELECTION

Over its 16-year history, **Thinktank** has built a reputation for its commercial mortgage funding solutions for SME and self-employed borrowers. It has also established itself as a programmatic issuer of commercial mortgage-backed securities. Thinktank's Sydney-based chief executive, **Jonathan Street**, chief financial officer, **Cullen Hughes**, and treasurer, **Ernest Biasi**, discuss the nonbank lender's 2021 debut in residential-mortgage securitisation, the COVID-19 crisis and the importance of digital enablement.

Book performance was a major topic particularly during the first year of the pandemic, when an expected deterioration largely did not come to pass. How has the Thinktank book fared in its three key segments – commercial, residential and self-managed superannuation fund (SMSF) – over the past year?

♦ **STREET** The portfolio performed strongly in all three segments during 2021, with no impairments or losses resulting from any pandemic-affected loan. The 2021 lockdowns saw only a small rise in hardship incidence – in stark contrast to the lockdowns in 2020, when hardships increased driven by an element of fear and uncertainty.

Our key observation on 2021, apart from the impressive resilience of the SME and self-employed sector, was the significant and effective change in behaviour of borrowers between the lockdowns in 2020 and 2021.

Many assumed the type of borrowers Thinktank specialises in – SMEs and the self-employed – would have been the most exposed to pandemic risk. Why were they able to cope so well?

♦ **HUGHES** The pandemic revealed some interesting themes in the self-employed and SME sector. The first is that this sector is resilient and has can change behaviour in a way that affects their income and expenses. Self-employed people were able during the pandemic to pivot business models, move

online, adapt practices, serve new niches and demonstrate that business operators are resourceful and determined in the face of unexpected stresses.

Performance varied based on various factors but industry classification was not necessarily the greatest driver. Business performance was in many cases heavily affected in certain industries to which Thinktank has historically had small exposures. But other industries had either mixed or strong performance after benefiting from new opportunities arising from the pandemic.

For industries that had mixed performance, geographic location was a more discernible driver. Businesses based in the suburbs performed well while those in recognised CBDs suffered.

The final key factors affecting performance were the reduction in interest rates and the mix of intervention measures taken by the government. These helped borrowers generally while indirectly supporting property values. The few borrowers that did have issues were able to sell and exit without loss.

Has Thinktank's origination approach changed based on the market and economic backdrop?

♦ **STREET** Our origination strategy has remained very consistent in recent years

through our focus on building out scalable, long-term relationships among the largest and most respected aggregation groups in the third-party channel.

While we have extended our addressable market reach into relevant product adjacencies, our core business is still centred on servicing the mortgage finance needs of the self-employed and SME sector. This forms a large and critical part of the domestic economy and we have been supporting it successfully through cycles for nearly 20 years.

While we are known to adjust our credit risk appetite proactively based on current and forecast conditions, we see considerable further potential in the main sector we serve. However, we are comfortable to play a long game when required.

Thinktank has enjoyed strong business growth since its inception, and in particular since making its public securitisation debut in 2016 with a A\$280 million (US\$219.1 million) commercial mortgage-backed securities (CMBS) deal. What is the growth plan from this point forward?

♦ **STREET** We have established and prosecuted our business model based on steady, sustainable organic growth

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JONATHAN STREET THINKTANK



intrinsically supported by the quality relationships we have built among our principal stakeholders. The continuing involvement of the founders and early senior management in the business and a carefully considered expansion of the executive and leadership team have made this organic growth possible over time.

For our part, growth and success are primarily a function of respecting and investing in quality relationships internally and externally.

Digital transformation is a priority for Thinktank. What is the value of an enhanced digital operation?

◆ **HUGHES** It is generally accepted that successful digital enablement is a critical task for all contemporary financial services businesses. Thinktank has substantially progressed a digital roadmap that now extends to nearly every area of the business.

The central proposition begins with delivering relevant products and services to the market. We achieve genuine efficiencies and productivity gains through better technology and automation, enabling scale to be achieved more seamlessly, reducing operational risk, enhancing compliance competencies, and exponentially lifting data and reporting capabilities.

Lenders typically say digitisation allows more efficient origination and better risk pricing. Given the credit environment, does it become a case of growing smart rather than growing fast for Thinktank?

◆ **BIASI** There is no reason why the two propositions need to be mutually exclusive – although growing smart always ranks as a priority for us above just growing fast. As we see it, digital enablement offers greater potential for sustaining manageable growth by supporting enhanced visibility over origination and enabling us to tightly calibrate our underwriting practices to our prevailing credit risk appetite.

Data visibility is one of the fastest-evolving areas of our business and is

materialising at a particularly pertinent time. With 40 years of combined experience in the SME and self-employed sector across our leadership, our expanding digital capability has us well placed to manage the present and emerging credit environment and associated economic conditions prudently.

A year ago, Thinktank was preparing to launch a new residential mortgage-backed securities (RMBS) programme to complement its CMBS offering. The company executed its inaugural RMBS deal in August 2021. How was that experience?

◆ **STREET** Thinktank's primary focus is to support and service the self-employed, SME and SMSF markets by offering innovative and competitive commercial and residential loan products. Last year, Thinktank established two new dedicated residential loan warehouses off the back of strong growth in residential origination, with a view to creating a standalone RMBS issuance platform that would sit adjacent to our CMBS platform.

Thinktank has been committed to maintaining a programmatic issuance profile in the capital markets, executing a small-ticket CMBS transaction each year dating back to 2016 after doing an initial private placement in 2014. In December 2021, we printed a record A\$750 million CMBS.

We completed our inaugural RMBS transaction last August, with a A\$500 million deal that was upsized and very well received by the market. We have welcomed new investors into the RMBS programme that had not previously participated in our CMBS deals and we enjoy continued participation from a long-term investor base that has supported Thinktank for many years.

The experience was good and, while it was an inaugural RMBS issue, investors were able to see Thinktank's long and successful track record in the CMBS space and analyse the transaction accordingly.

We followed the December RMBS transaction with a further A\$500 million RMBS issue in April 2022 – with

participation from 15 investors, including three new names to the Thinktank programme.

What does Thinktank's issuance profile look like now it has expanded its origination offering?

◆ **BIASI** Thinktank's residential origination portfolio has now surpassed its commercial portfolio – which is not surprising given the relative sizes of the residential and commercial mortgage markets. We expect to see solid growth in both segments in 2022.

Having now established a standalone residential programme, we aim to issue at least twice a year in RMBS format and annually under our CMBS programme. As we grow, we will explore other funding avenues – such as private placements and offshore issuance – to supplement our domestic offering. We intend to execute additional deals in 2022 in RMBS and CMBS formats, so the year is shaping up to be our largest yet on the issuance front – market conditions permitting.

Market participants expected funding conditions to be more challenging in 2022 – and that was before the emergence of geopolitical turmoil and significant cost-of-living pressures. How would Thinktank compare its experience in funding markets this year to last?

◆ **STREET** We completed our most recent RMBS in more challenging conditions than our two transactions last year. RMBS margins have adjusted materially as a result of global inflationary impact and uncertainty surrounding geopolitical events.

In volatile markets, investors are naturally more cautious and defensive. To improve execution certainty for the April deal, we worked closely with our longstanding investors and funding partners. We were pleased with the support for the deal, which was a key step in demonstrating that Thinktank can access markets through the cycle and has the support of a diverse range of investors under all market conditions. ■



Quiet achievement, high performance

Thinktank has built a strong track record over 15 years as a leading originator, servicer and securitiser of commercial and residential mortgages.

Supporting every day Australian borrowers with finance secured by standard property types:

- Conservatively set credit policy and loan products
- Steady, organic growth profile over time
- Leading SMSF specialist
- Repeat issuer in global markets since 2014
- No term deal charge offs or ratings downgrades

Thinktank..

Into people. Not just transactions.

For more information contact Cullen Hughes, CFO: chughes@thinktank.net.au | +61 2 8669 5518
or Ernest Biasi, Treasurer: ebiasi@thinktank.net.au | +61 2 8000 7885