

Kanga News

OCT/NOV 2022 SUPPLEMENT, VOL 17 ISSUE 133
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AUSTRALASIAN FIXED INCOME: GLOBAL REACH, LOCAL EXPERTISE



READY FOR THE RISE

Higher rates are setting a new backdrop for **Australasian nonbank lenders**. They are using their experience to respond.

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THINKTANK GROWS AND ADAPTS

Thinktank specialises in commercial and residential lending to the self-employed and SME sector. The company's Sydney-based treasurer, Ernest Biasi, and chief financial officer, Cullen Hughes, discuss the sector's performance through a rollercoaster set of economic conditions and the lender's funding outlook.

Thinktank was in the market in August for a new residential mortgage-backed securities (RMBS) deal. How did this experience compare with historical execution?

■ **BIASI** Thinktank priced its second RMBS for the year on 26 August 2022, upsizing the transaction to A\$500 million (US\$339.3 million) from A\$400 million. We decided quite early on in the process to limit the maximum deal size to A\$500 million and to shorten the call option date to three years – from four – given elevated pricing and difficult market conditions.

We engaged with investors early and worked closely with a small group in the lower-rated notes, ultimately deciding to pre-place these notes to manage execution risk.

Market conditions and sentiment improved as the deal came to market. Not surprisingly, the book built quickly and we were able to accelerate timing; launch, upsize and pricing happened three days after initial pricing guidance.

Is Thinktank contemplating further funding diversity?

■ **BIASI** Thinktank has issued A\$2.25 billion since August last year – A\$750 million of CMBS [commercial mortgage-backed securities] and A\$1.5 billion of RMBS – during a period of varying market conditions. Thinktank remains committed to issuing through the cycle, having established diverse funding support across our warehouse and term programmes.

Over the past 12 months, we have secured more than A\$1 billion of additional warehouse capacity coinciding with the expansion of our residential loan portfolio. We are also open to exploring alternative funding

arrangements, including private placements, should the need arise.

The additional warehouse capacity and our ability to access term markets has enabled Thinktank to continue to deliver innovative lending solutions to our self-employed, SME and SMSF [self-managed superannuation fund] customers.

How has the Thinktank residential book progressed through the hiking cycle so far?

■ **HUGHES** Thinktank's arrears are at a low level currently, which places the portfolio in a good position for anticipated rises in the coming months driven by higher rates. COVID-19 demonstrated that the SME and self-employed sectors are resilient and adaptable in changing circumstances. The self-employed are able to influence income and expenses, and to pivot their focus in the face of change.

This extends to a rising rate and inflation environment, where many self-employed people have so far been able to pass on some or all price increases to customers. Naturally, with rising rates there is an expectation of rising arrears. However, at this stage the impact has been within expectations – relatively small – and assisted by the strength of the employment market.

Data suggest the return to offices is progressing at a mixed pace. Has there been any impact on Thinktank's asset book or originations?

■ **HUGHES** The Thinktank commercial portfolio is focused on Sydney, Melbourne and Brisbane. Thinktank's largest commercial property type is industrial, which has performed well in recent years and benefited from the move to more business online as storage

and logistics has been playing a larger role in the economy. We don't expect this to shift back to pre-pandemic levels.

The portfolio has some exposure to suburban retail in the general sense, for instance properties beyond shops and cafés – such as those occupied by physios, real estate agents and the like – as well as small strata offices outside the main CBDs. These properties performed better in the pandemic than initially expected and have benefited from the work from home trend.

We don't expect a big impact on these properties as people return to the office, as it seems an element of flexibility and working from home will be with the economy for some time to come.

After debuting with a CMBS and issuing its first six public securitisation transactions in this format, three of Thinktank's last four deals have been RMBS. Does this reflect a change in focus or growth drivers at the business?

■ **BIASI** Thinktank launched its dedicated residential loan product suite in 2018. The strategy was to complement our successful commercial loan products with a residential offering to cater to our target audience – the self-employed and SME market.

Today, our residential loan portfolio has surpassed our commercial portfolio: it represents roughly 60 per cent of total assets under management and 70-75 per cent of monthly loan settlements. As a result of the change in our portfolio mix, our funding programme has naturally followed suit. Going forward, Thinktank expects to issue two RMBS transactions and one CMBS transaction each calendar year, market conditions permitting. •

THINKTANK GROUP

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| SIZE OF LOAN BOOK | A\$4.7BN |
| MAKEUP OF LOAN BOOK | COMMERCIAL MORTGAGES: 40% RESIDENTIAL MORTGAGES: 60% |
| GEOGRAPHIC DISTRIBUTION OF LOAN BOOK | AUSTRALIA: 100% |
| OUTSTANDING DEBT ISSUANCE | SECURITISATION/TERM: A\$2.4BN WAREHOUSE CAPACITY: A\$3.1BN |

About Thinktank Group

Thinktank Group is an independent nonbank financial institution specialising in SME and self-employed finance secured by first registered mortgages over standard commercial and residential property.

Established in 2006, Thinktank is wholly Australian-owned. It was created and continues to be led by a group of professionals with extensive backgrounds in financial services – specifically commercial and residential property, and self-employed and SME finance.

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

Funding strategy

Thinktank’s funding model is predicated on the principles of traditional wholesale warehouse funding and term securitisation. The company completed an inaugural, privately placed CMBS transaction in 2014, which it has followed with successive public deals in 2016 and each year thereafter, culminating in a record A\$750 million CMBS transaction in 2021.

Thinktank has continued to expand its origination and term funding arrangements with new distribution partners and an ever-broadening range of funding partners. In 2021, it completed an inaugural RMBS transaction, with further deals in 2022 and ongoing programmatic issuance expected.

Performance history

Through its 16 years of operation, Thinktank has been recognised for its conservative origination approach, leading to consistently low arrears and a negligible loss history through the cycle and no losses to date or expected relating to borrowers affected by COVID-19.

With an average loan size of around A\$600,000, a weighted LVR of about 65.6% and fully amortising loans out to 30 years, the characteristics of Thinktank’s commercial and residential book have been derived to suit the ideal characteristics of small-ticket CMBS and traditional RMBS issuance.

The underlying CMBS assets comprise a well-balanced mix of standard income-producing office, small industrial, retail and mixed-use properties, located in metropolitan and major urban areas across Australia. No specialised or remote securities, vacant land or construction and development property types

are permitted. The commercial portfolio is weighted toward standard light industrial properties.

RMBS assets are secured by standard houses and apartments located in metropolitan and other major urban areas, predominantly in the major markets on the eastern seaboard.

Thinktank offers a range of full-documentation and alternative verification loan products, and is also recognised as a market leader in self-managed superannuation fund (SMSF) lending. The SMSF business stands out due to its exceptionally low arrears and zero losses over nearly 10 years of origination.

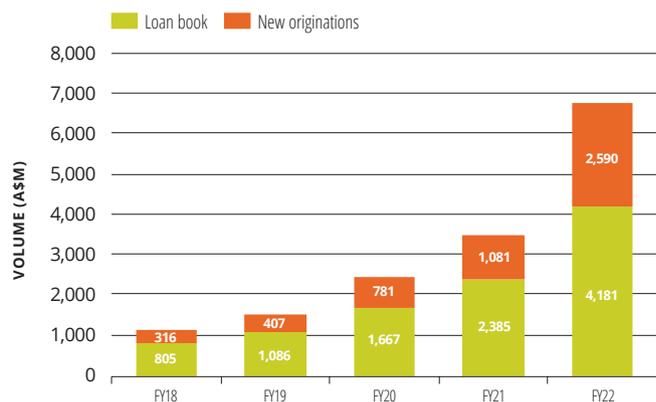
Having originated more than A\$6.5 billion of small-ticket commercial and standard residential loans, Thinktank has established an enviable track record of performance in capital markets while continuing to grow its distribution relationships organically and systematically.

Portfolio growth has been measured and strongly supported by long-term institutional and internal stakeholders. However, it has not been at the expense of credit quality. Weighted-average LVR has continued to trend conservatively over the past five years.

The business is also well progressed on its digital transformation path, having brought loan servicing in-house in late 2021 within a Salesforce-based end-to-end platform. This positions Thinktank ideally for further growth and digital enhancements.

With its portfolio surpassing A\$4.5 billion, Thinktank remains focused on further disciplined growth through investing in its relationships at origination and funding levels.

THINKTANK GROUP LOAN BOOK AND NEW ORIGINATIONS



SOURCE: THINKTANK GROUP AUGUST 2022

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