



# SQM Research releases its 2019 Australian Mortgage Trusts Sector Review

Monday 3 June 2019

- **Funds Under Management has experienced another year of significant expansion**
- **Arrears remain at low levels, albeit some slight rises compared to 2018**
- **Number of funds has increased**
- **Ongoing tight lending restrictions by major banks creating opportunities.**

As part of its annual domestic mortgage trust sector review, SQM Research has today released a sector report covering 12 recognised Australian Mortgage Trusts.

Managing Director of SQM Research, Louis Christopher said, *“Australia’s mortgage trust sector has continued to record rapid growth over the past 12 months. We estimate the rise has been some 61% taking funds under management for the sector to over \$10 billion dollars.*

*In our view, arrears in the sector have remained low, keeping overall default risk at bay. On a state basis, Western Australia is recording the highest arrears rates but it is the state with the lowest percentage exposure between the various funds*

*While the lending book of mortgage trusts are dominated by Interest Only loans, the strict lending criteria applied by mortgage trusts reduces refinancing risk. LVRs are considerably lower compared to the broad market and the scrutiny applied on the borrower is also significantly higher.”*

*Overall, we have been impressed by the operation of the sector. Our view is that it is likely that a number of the currently rated funds may well receive ratings upgrades presuming a stable economy over the next six to twelve months.*

The Mortgage Trust sector report has been split between pooled mortgage funds, contributory mortgage funds (peer-to-peer mortgage funds) and other related funds. Of the funds reviewed, five managers operate pooled mortgage fund structures and four managers operate contributory mortgage fund structures. One manager operates an RMBS while a final manager operates a mortgage insurance premium related fund.

## **Key points:**

- Arrears overall for the mortgage market remain muted with a low level of bad debt and non-performing assets was less than 2% of total loans. It is noted that arrears are higher on elevated risk oriented funds such as funds with a high construction loan exposure
- There has been an increase in pooled mortgage products while peer to peer mortgage funds have received additional investor interest.



<b>Mortgage Trusts</b>	<b>2019</b>	<b>2018</b>
La Trobe Australian Credit Fund – Pooled Mortgages Option	4.25	4.25
EQT Wholesale Mortgage Income Fund	4.00	4.00
Trilogy Enhanced Cash	4.00	3.75
Trilogy Monthly Income Trust	4.00	4.00
AIMS Commercial Mortgage Fund	3.75	3.75
Boston Private Income Fund	3.75	3.50

The following four funds operate contributory mortgage related structures (mortgage peer-to-peer).

<b>Contributory Mortgages / RMBS / Other</b>	<b>2019</b>	<b>2018</b>
Australian Unity Select Mortgages Fund	4.00	4.00
Balmain Private (Balmain Discrete Mortgage Income Trusts)	4.00	4.00
First Mac High Livez (RMBS)	4.00	4.00
La Trobe Australian Credit Fund – Select Mortgages Option (SMO)	4.00	4.00
Clearmatch Premium Funding *	3.75	
Eclipse Prudent Mortgage fund *	3.50	

\* inaugural review

A contributory mortgage fund (otherwise known as peer to peer) is structured to allow investors to acquire a fractional interest in a specific mortgage of their choosing. The structure allows investors to individually control their investments and invest only in a mortgage that matches individual risk and return profiles.

An RMBS is a residential mortgage backed securities fund where the underlying assets are a basket of tradable mortgages categorised into various risk tranches. The securities are usually issued by recognised banks and financial lending institutions.

**For further information and access to the sector report please contact:**

Louis Christopher  
 Managing Director  
 SQM Research  
 Tel: (02) 9220 4603  
 Email: [info@sqmresearch.com.au](mailto:info@sqmresearch.com.au)

**About SQM Research**

SQM Research Pty Ltd is an investment ratings and forecasting research house which specialises in providing accurate investment related advice, research and data to financial institutions and investors.

For more information please visit [www.sqmresearch.com.au](http://www.sqmresearch.com.au)



## Research Methodology

In general, the assessment approach adopted by SQM Research incorporates a combination of qualitative and quantitative research techniques to assess property investment products.

Information generated is passed through the SQM Research assessment model at the completion of the assessment process. The assessment model generates a product score, which correlates to a specific star rating (out of a maximum of five stars). Each star rating covers a scoring range, allowing products to be ranked within quarter star increments.

Following are descriptions for each of the star ratings, which have been developed as a guide for dealer group research teams and investment committees:

<b>4.5 stars and above</b>	<b>Outstanding.</b> Highly suitable for inclusion on APLs.
<b>4 stars to 4.25 stars</b>	<b>Superior.</b> Suitable for inclusion on most APLs.
<b>3.75 stars</b>	<b>Favourable.</b> Consider for APL inclusion.
<b>3.5 stars</b>	<b>Acceptable.</b> Consider for APL inclusion, subject to advice restrictions.
<b>3.25 stars</b>	<b>Caution required.</b> Not suitable for most APLs.
<b>3 stars</b>	<b>Strong caution required.</b> Not suitable for most APLs.
<b>Below 3 stars</b>	<b>Avoid or redeem.</b> Unapproved.
<b>Hold</b>	The rating is currently suspended until SQM Research receives further information. A rating is typically put on hold for a period of 2 days to 4 weeks.
<b>Withdrawn</b>	The rating is no longer applicable. Significant issues have arisen, and investors should avoid or redeem units in the fund.