Your next mortgage could be from a super fund

James Eyres – Financial Review

As cashed-up super funds consider where to invest the hundreds of billions of dollars that will flow into the sector annually in the next decade, fintech start-up Athena Home Loans says its new platform has been designed to give non-bank sources of capital the confidence to invest in mortgages directly, creating competition for the major banks in their most profitable area of lending.

The Dutch market has seen radical shifts in market share over the past 10 years – pension funds and insurance companies now fund almost 30 per cent of mortgages there – and Athena co-founder Nathan Walsh says there could be a similar shift in Australia.

Athena is in the early stages of talking to superannuation funds to convince them to invest in mortgages using the platform, which has attracted equity investment from Macquarie Bank, prominent venture capital funds Square Peg and AirTree and industry super fund Hostplus.

Athena Home Loans co-founders Nathan Walsh, left, and Michael Starkey, right, with Sam Sicilia, chief investment officer of Hostplus, which may consider lending to mortgages over the platform. *Supplied.*

Asked whether Hostplus was considering moving beyond a pure equity investment into funding mortgages over the platform, chief executive David Elia said this was possible in future.

"At this stage we have no plans to do so, but we remain open to the possibility of being a provider of debt funding to the platform," he said.

Athena is in the process of settling more than $500 million of mortgages over the platform since its launch in late February. There have been inquiries for a further $250 million of loans. It is being funded by Resimac subsidiary Homeloans, which might be joined by other lenders in coming years.

Superannuation funds have indirect exposures to mortgages via their extensive holdings in bank equities and debt, and via residential mortgage backed securities, but Athena's technology promises to cut out the intermediary. The platform creates transparency for funders by allowing them to see, in real-time, the position (but not identifying details) of every loan, including risk characteristics, geographical exposures and loan-to-value ratios.

While banks dominate the Australian mortgage market – non-banks comprise about 8 per cent – many global markets are shifting towards non-banks, including in the United States, where they comprise more than half the market. Australian banks have been under regulatory pressure, including on responsible lending following the banking royal commission, which is making them reluctant to lend, Westpac incoming retail head David Lindberg told The Australian Financial Review Banking & Wealth Summit last week.

Superannuation industry doyen Garry Weaven, also addressing the summit, said the pool of super money would grow to $6.7 trillion by 2035, meaning about $500 billion of new investments would need to be made each year by then.

This would force some investment offshore, he said, but the size of the sector "also offers an enormous opportunity for Australian governments and the business community to collaborate with the superannuation industry to achieve the maximum investment in Australia consistent with strong investment returns and sustainable social and environmental outcomes".

Regulation issues

The Summit also heard from AMP chairman David Murray that the increasing size of the super pool meant it could become the source of new systemic risk, with the potential for funds to have to liquidate investments in a crisis.

The move by super funds into mortgages could create issues for the prudential regulator, given super funds do not hold regulatory capital against investments to protect savers from macroeconomic risks – a requirement of the banks.

But in a study of risks posed by the rise of pension funds and insurance companies in the Dutch market, the fourth largest mortgage market in Europe with €702 billion ($1106 billion) of assets, its central bank was encouraged by the long-term nature of super savings being matched with mortgages, which are a longer duration asset class.

"Reduced maturity transformation makes the financial system less vulnerable to market volatility and lowers the likelihood of a financial crisis," DeNederlandscheBank said in a 2016 paper titled Loan markets in motion.

In 2008, Dutch retail banks had a market share of more than 80 per cent; the top three banks, ABN Amro, ING and Rabobank, accounted for 70 per cent of Dutch residential mortgages. However, this has fallen to 53 per cent as insurance and pension funds have lifted their market share, to 28 per cent last year.

Mr Walsh said Athena would try to drive the Australian market towards the Dutch model. “Since the [global financial crisis], banks in Australia have gone from 70 per cent to over 90 per cent of housing credit, showing a lack of competition, but that is a choice, not an inevitability. Models in other major markets around world show you can create significant competition to a strong banking system,” he said.

With Dutch banks stung by new Basel capital rules, Dutch pension funds invest in about 13 per cent of the total outstanding, and institutional investors have committed more than €13 billion to the Dutch Mortgage Funding Company, whose mortgage label MUNT Hypotheken has a market share between 5 per cent and 7 per cent.

“The trend of disintermediation, where demand and supply find each other more directly (peer-to-peer networks, Uber, Airbnb), is reaching the European financial sector," DMFCo said in a paper last month. “This model is now spreading to other countries, diminishing the dominance of retail banks in the mortgage industry."

Mr Walsh said Athena could acquire and service customers at lower costs than banks, given its lower overheads. Owner-occupier, principal-and-interest loans are being offered at a comparison rate of 3.57 per cent and existing customers are never charged more than new customers.

To reassure alternative investors regarding legal compliance, Athena has designed its platform to manage responsible lending; more than 80 rules are run over the mortgage data to ensure funders comply with responsible lending obligations.

Following the Hayne royal commission, the community was demanding substantial change, Mr Walsh said. "There is a big opportunity for other investors to provide longer-term funding for credit markets in Australia.

"We see this is a wave that is going to grow."