ANGAS prime

INVESTOR NEWS

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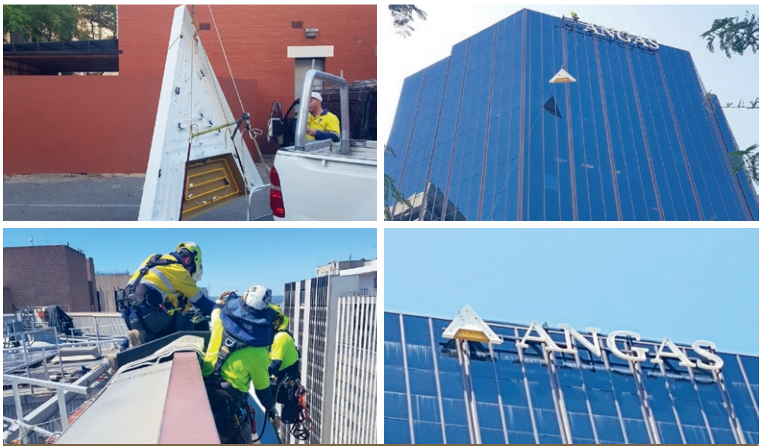
Why don't they just borrow from the banks?

People unfamiliar with commercial property finance (including a lot of so-called experts who should know better) will ask why a land holder or developer will borrow money from Angas Prime and not from a bank. It would be devasting if Australia had no banks. It would be as bad if Australia had no non-bank lenders such as Angas Prime.

Without in any way seeking to disparage banks, which Angas Prime deal with as part of its core day to day operations, this edition of Investor News will point out the long history of finance companies and other specialist lenders in Australia, the legitimate reasons why banks may prefer to lend to consumers such as residential home buyers rather than to intermediaries such as property developers, the benefits to commercial property investors in dealing with specialist non-bank lenders and the competitive benefits to the Australian economy from a strong non-bank lending sector. A case study has been included on a successful property financier that was later swallowed up by an ASX Top 20 Company. Another case study refers to recent challenges to the banks lucrative credit card businesses.

Angas Prime offers investors the convenience of using BPay to fund make initial or additional investments. To make additional deposits using BPAY simply use your BPAY Reference Number which can be easily located on your Unit Holding Certificate.

If you cannot locate your Reference Number, please contact our Investor Relations Team on 1800 010 800.



Installing the new logo

Residential Housing Loans

There have long been building societies, credit unions, finance companies and unit trusts that have funded conventional housing loans. Financial de-regulation in the 1980s freed up banks to become more competitive and assume a dominant market share.

Another consequence of deregulation was the transformation of some building societies into banks themselves, some of which have since been absorbed into the major banks. Challenger Bank, St George Bank and Bank of Melbourne all started life as building societies and were acquired by Westpac Banking Corporation.

The residential non-banking sector took off in 1992 with the establishment of 'mortgage manager' Aussie Home Loans. Using securitisation as a means to obtain readily available and cheap funding, mortgage managers were able to offer lower interest rates than the existing lenders. Within 3 years, mortgage managers accounted for almost 10 per cent of housing loans written. The increased competition within the sector, including a greater demand for housing, also opened the way for specialist mortgage advisors to enter the market – the mortgage broker. The Aussie Home Loans catchery of "We'll save you" was true. Consumers saved a lot.

In addition to lower interest rates, the non-banking sector was innovative offering many varied products such as non-conforming loans, reverse mortgages, shared equity mortgages, internet and phone banking, mobile mortgage lenders, redraw facilities, offset accounts and debit cards linked to mortgages.

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Stephen Harvey *Head of Credit*

These are all innovations that the mainstream banking industry had to adopt to remain competitive. Meanwhile, the reduction in borrowing rates enjoyed by residential borrowers was remarkable. The competitive pressure of the non-banking sector drove margins down from about 5 per cent to about 1.5 per cent.

Meanwhile, deregulation and re-regulation continued to change the market landscape. Just as a wave of building societies converted into banks, a later round of legislative easing saw a wave of credit unions convert into mutual banks or customer owned banks as they are otherwise known. Meanwhile, federal regulation designed to protect borrowers had the effect of tightening credit and pushing customers towards the bigger banks that were better resourced to deal with the enhanced regulatory burden. By 2013, 84.6% of residential mortgage lending was being written by the major banks. This had fallen to 81.2% by 2019 as the fallout from the Hayne Royal Commission hit.

Four out of five home loans are being written by the major banks. One in five Australians do not obtain a housing loan from the banks. These are individual decisions but competition is presumably at the heart of many of these decisions.

Commercial Property Loans

There is a range of understandable commercial reasons why banks are reluctant at any given time to write commercial property loans, either generally or specific deals. Likewise, there is a range of equally understandable reasons why many commercial property owners and developers prefer to deal with Angas Prime rather than a bank.

Banks are big business and big business requires a minimum return on capital. BHP has sold or floated off profitable divisions or enterprises because the profits do not meet its target rate of return. In the case of banks, there is a capital adequacy framework which is largely based on that developed internationally by the Basel Committee on Banking Supervision. APRA issues formulae for the calculation of regulatory capital that banks must hold according to the asset classes on each bank's balance sheet. Put simply, less capital is required to be set aside by a bank to write an owner-occupied residential loan than would be required to write an investor loan for the same amount over the same property. Hence, there is an inherent bias in favour of residential lending, subject to the yield or interest rate that can be charged.

The price differential between a bank and Angas Prime is often not as great as it seems at first. Banks impose a range of fees on customers over and above the head-line interest rate – remembering that interest rates charged to commercial borrowers are not the same as those published for owner-occupied residential borrowers. Banks will often charge a line fee on the unpaid portion of an approved loan. In other words, this is a fee charged on money that has not yet been advanced. These cumulative features have driven many successful borrowers to Angas Prime which delivers certainty and reliability. Another adage is that if a few percentage points to the interest rate on a twelve month loan makes a material difference to a project then the project is one that the borrower probably should not be doing in the first place.

Covid-19 Impact On Loan Approvals

The banks were overwhelmed by the response to the on-set of COVID-19 last year. Turnaround times by banks for loan applications have blown out. Many stages in the loan approval and document production processes were out-sourced off-shore by the banks to countries where coronavirus restrictions were greater than those in Australia. This situation is expected to last for the next 12 months. Angas Prime is in a much better position to deal with loan application flow in this environment.

All lenders, whether banks or Angas Prime, have high levels of data security. These have not permitted loan approvals to be processed as smoothly by bank officers working from home in the Eastern States where many CBD offices were shut for long periods during 2020. This has caused a backlog in loan applications. Angas Prime's offices in Adelaide and Perth never closed in 2020. Whilst all proper precautions were taken, lending staff worked on rotation from home some days and in the office on other days. Staff had unrestricted access when in the office.

Angas Prime has commenced 2021 in great shape with a supportive investor base, good referral networks and the ability to compete and deliver good commercial outcomes.

PROPERTY FINANCE CASE STUDY

Lensworth Finance

Angas Securities House at Flinders Street, Adelaide stands on the site of the former showroom of Lensworth Motors.

Purchasing a new Buick or Chevrolet came at quite a cost in the 1920s. Just as Harvey Norman provides "point of sale" finance facilities these days, Lensworth Finance was established to boost motor vehicle sales. The company operated for decades solely as a motor vehicle financier and out-lasted Lensworth Motors. In due course, Lensworth Finance was acquired by pastoral house Elders, was re-named Elders Lensworth Finance and provided finance for land holders and developers, just as Angas Prime does today.

By 1981, Elders IXL was created out of a series of mergers and take-overs put in place by John Elliott. Elders IXL was the second biggest company on the ASX (behind BHP) at one time. It was a conglomerate comprising pastoralism, brewing, food processing, commodities trading, resources and finance. From this peak, its component businesses were eventually floated off or sold and by 2001 the company was known as Fosters Group Limited. The Lensworth name was revived to hold a bundle of land development assets that were sold to Stockland Group in 2001 for $845M. A fitting end to a substantial enterprise.

Lensworth Finance many no longer be providing property development loans. But the commercial demand for this non-bank finance remains.

Natalie Gatis
General Counsel
& Company Secretary

CONSUMER FINANCE CASE STUDY

Buy Now - Pay Later

Credit cards came to Australia in 1974 with the shared brand Bankcard owned by the major banks. It had five million card-holders at its peak in 1984 but was withdrawn in 2006 following the introduction of Visa and Mastercard which are internationally accepted credit cards.

All banks and many other financial institutions issued these credit cards which are a lucrative source of their income and profit. Despite the Official Interest Rate being 0.1% p.a. the general rate for bank issued credit cards is 20% p.a. Customer inertia is one reason why so many Australians still operate these credit card accounts with interest bearing balances. There is a growing reluctance by younger consumers to saddle themselves with debt carrying interest at 20%. But nor are they content to save for their purchases and pay cash.

Do you remember lay-by? This was the quaint system whereby the sold goods would remain in the possession of the merchant until the price had been paid in full by instalments. There was no interest but the transaction came with delayed satisfaction. Enter Afterpay and similar businesses which offer a technological solution which brings together many of the traditional lay-by features but the customer aquires the goods immediately. There has been point of sale finance like Lensworth Motors and Harvey Norman but this required a full credit application and analysis. Instead, Afterpay and similar is a form of lay-by where no interest is charged and the customer has the goods purchased before the payment is made in full. Buy Now – Pay Later has taken Australia by storm. Afterpay alone has more than one million customers and five million transactions made since its launch in 2015. It is a winning combination of clever merchant terminals, speedy credit analysis and a desirable outcome for merchants and their customers.

Credit remains at the heart of Buy Now – Pay Later platforms. The transactions of some customers will be refused. The approval algorithm is proprietary and customers have no redress even if they have used the service before and traded within terms. Spending limits will be imposed upon account holders. Fees will be charged if payments are missed (although these fees are capped). There is no credit check before applying for an account, but the terms and conditions permit the provider thereafter to perform credit checks and report negative activity which can impact a customer's credit score. Missed payments and defaults have consequences as would be the case with traditional finance. Where to for the banks – compete or collaborate?

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The investment offer is contained in the current Product Disclosure Statement (PDS) which should be read carefully before investing. An investment in Angas Prime is not a bank deposit. There is a risk you could lose some or all of your principal and that you may receive lower than expected returns. There are certain limitations on your ability to withdraw from the Fund and withdrawal requests may take up to 12 months to process.

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