

Fund breaks mortgage mould

Ben Wilmot

The traditional Australian mortgage could change radically with the launch today of a \$1 billion Macquarie Bank-backed fund that will offer a new style of loan in which banks become something like part owners of the home, sharing in capital gains and losses.

Macquarie Bank and a company called Rismark International will announce the fund and promote it to superannuation institutions as a way for them to invest efficiently in residential property.

The fund plans to start offering the so-called equity finance mortgages in early 2006 through major lending banks, and has plans to place 17,000 equity loans across \$5 billion of residential property in major cities around Australia in the first year.

The new mortgages promise to make buying a first property more affordable and allow existing home owners to purchase more expensive homes — although at the cost of sacrificing any windfall profits if there is a repeat of the house price boom of the past decade.

Typically, a home buyer would go to a mortgage broker and borrow 20 per cent through an equity finance mortgage and just over 70 per cent through a traditional mortgage. A deposit of just under 10 per cent would be paid.

When a home was sold, a borrower would repay the balance on their traditional mortgage. But the amount to be repaid under the equity finance part of the loan would either increase or decrease depending on whether the value of the property had gone up or down.

The investors in the equity finance mortgage would share in either 40 per cent of any appreciation or 20 per cent in the fall in the value of the home.

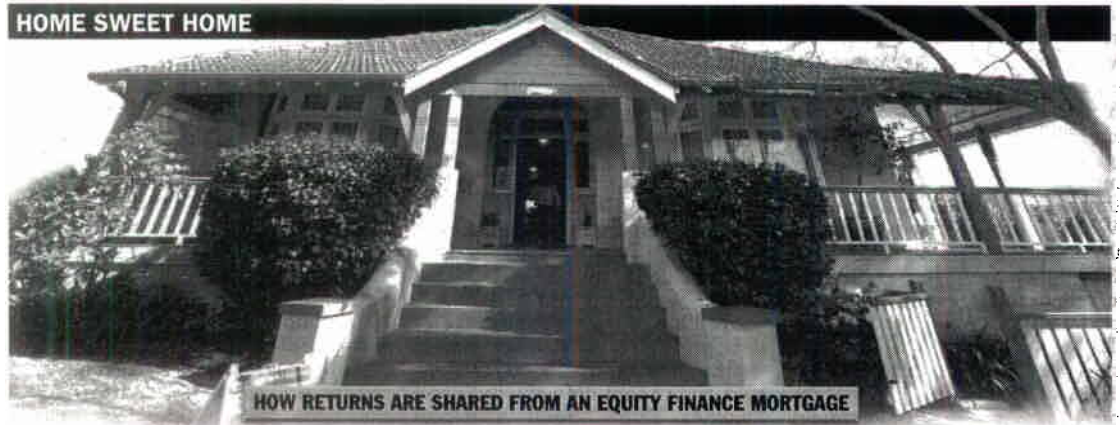
Rismark, run by Christopher Joye, the architect of the Prime Minister's home ownership task force, is planning a series of funds.

Mr Joye said now was a good time to launch the product because house prices were close to the bottom.

"Our view is the bubble has burst and that is pretty much unambiguous," he said.

"From an investment perspective that's a positive thing, as we'll be sourcing these assets in the next one to two years in what is universally viewed as the down phase."

Rismark executive director Ric-



Equity finance mortgage of \$100,000 on property with value of \$500,000.
(Remainder from standard mortgage and deposit.)

Case 1	Case 2	Case 3
At time of sale or disposal, property is worth \$500,000	At time of sale or disposal, property is worth \$450,000	At time of sale or disposal, property is worth \$550,000
<ul style="list-style-type: none">• No profit• Borrower repays \$100,000 (ie \$100,000 principal)• Saves 20% of the interest and principal payments on first mortgage for duration of holding period	<ul style="list-style-type: none">• Loss of \$50,000• Borrower repays \$90,000 (ie \$100,000 principal less 20% of \$50,000)• Reduces loss realised on property by 20%• Saves 20% of the interest and principal payments on first mortgage for duration of holding period	<ul style="list-style-type: none">• Profit of \$50,000• Borrower repays \$120,000 (ie \$100,000 principal plus 40% of \$50,000)• Still makes profit of \$30,000• Saves 20% of the interest and principal payments on first mortgage for duration of holding period

Source: Rismark International.

KEY POINTS

- Rismark has already tied up two of the top 10 financial institutions.
- It now has patents pending in Australia and overseas.

hard Facioni predicted the new form of loan would be a hit.

"I think you will find equity fund mortgages will be a very entrenched form of housing finance and a readily available product — in the same way a few years ago you had your bank lenders and then you had non-bank lenders," Mr Facioni said.

Technically, home-owners will keep all of the equity in their homes — the fund's share of their property will be held as a second mortgage — and are required to repay the mortgage only when they sell their property.

The Rismark product won't pay institutional investors a yield but they will receive a capital gain on the proportion of the properties they hold — and Rismark is optimistic about the market in the medium term.

"There is this quite profound demand-supply disconnect, particularly in NSW and Queensland, and it's much pronounced," Mr Joye said.

The Rismark mortgage scheme

dates back to work carried out by Mr Joye when he led the home ownership task force in 2003.

It is understood that government is aware of the fund and has responded favourably to its potential to tackle the housing affordability crisis.

Macquarie Bank has a 20 per cent stake in Rismark and holds convertible notes which give it the opportunity to lift its interest to 50 per cent.

Rismark was in the final stages of negotiating a deal with investment bank UBS to launch a series of funds when Macquarie Bank swooped earlier this year, following delays by UBS head office.

While Rismark was negotiating with UBS, it tested investor interest for a \$500 million fund in December. The response from institutions was positive, with UBS insiders tipping an even larger fund at the time.

Ord Minnett chairman Russell Aboud is a founding investor in Rismark and has acted as an adviser to Rismark. The former head of Macquarie Bank's principal transactions group Richard Facioni is now Rismark's executive director.

Liberal MP Malcolm Turnbull has also backed the idea which was first conceived as a Menzies Research Centre paper by Mr Joye.

Macquarie Bank and Rismark believe they have won a significant first-mover advantage over smaller schemes being mooted locally.

Deutsche Bank and boutique fund manager SAITEysMcMahon are backing a product developed by property information group Residex and listed Affiance Group. However, they are planning to raise only an initial \$50 million in equity.

Greenway Capital, led by former Rothschild and Sagitta Wealth Management chief executive Peter Martin, is also planning to raise funds.

It is planning a trust to provide loans to be known as Greenway equity mortgages. It plans to securitise these brand-name mortgages in the same way that many banks take loans off their balance sheets, but has only just received a tax ruling for its product.

The intellectual property, initially in Mr Joye's report but increasingly in the sophisticated funds management model that Rismark is putting in place, have been the group's key advantage.

It now has patents pending in Australia and overseas.

On top of facing regulatory and tax hurdles rivals, must also confront the fact that Rismark has tied up at least two of the top 10 financial institutions.