COPUBLISHED FEATURE

AVANTI'S WIDER AND DEEPER NICHE

The growth opportunity for New Zealand's nonbank lenders is not fundamentally dissimilar to their Australian peers: to capture market share in types of lending in which banks are either less competitive or less interested. New Zealand has its own local nuances, but the bottom line is a positive outlook for the nonbank sector and its funding need.

The nuts and bolts of the New Zealand nonbank story mirror developments in Australia fairly closely. Both countries had relatively diverse and healthy nonbank sectors ahead of the global financial crisis, which were then decimated by the liquidity squeeze before beginning a steady but increasingly successful climb back to prominence in the past decade.

A raft of players fell by the wayside in the financial-crisis era, but those that came through have seen increasing opportunities to take market share in areas where regulation has made banks less competitive – specifically specialist mortgage lending and some forms of personal finance. The nonbanks have also honed service offerings they believe better serve borrowers, in areas like processing speed and detailed understanding of credit specifics.

On the other hand, the New Zealand nonbank sector is not identical to Australia – and this shows in the pace at which its growth opportunity has evolved. Where Australian nonbanks have been eyeing market-share growth with increased optimism for at least half a decade, the story has been somewhat slower to unfold on the other side of the Tasman Sea.

To some extent this is simply a product of the relative pace of regulatory change. A major driver of growth opportunities for nonbanks has been banks pulling back from – or at least revising their pricing regime for – certain types of lending due to revised regulatory and capital requirements. The final form of bank capital regulations took slightly longer to finalise in New Zealand, as naturally did the accompanying remodelling of bank balance sheets.

LOCAL SPECIFICS

But New Zealand also has some of its own idiosyncrasies. For one thing, says Paul Jamieson, group treasurer at Avanti Finance in Auckland, the nonbank sector started from a lower base before the financial crisis. With a lower high-water mark even in the pre-crisis environment, the idea of getting a home or even a car loan from a nonbank is simply a less familiar concept to many New Zealanders.

This lower level of sector recognition is exacerbated by norms of product distribution and type. Jamieson explains that, historically, only around a third of New Zealanders sourced their home loan through a broker – barely half the proportion of Australian borrowers who use an intermediary. With brokers being nonbank lenders' primary means of customer acquisition, the share of new business available to the sector has naturally been smaller.

The typical New Zealand mortgage is also much more likely to be in a format that is typically hardest for nonbank lenders to compete with on price: fixed-rate loans. Jamieson says around 90 per cent of New Zealand mortgages are fixed rate and this proportion has been stable for some years.

While the proportion of fixed-rate loans is much lower in Australia, that market also saw a significant move from floating to fixed in 2020 – with a concurrent spike in prepayment for nonbank lenders as mortgage holders refinanced with banks. The cohort of loans that nonbanks can target in New Zealand may be smaller but its size is also arguably more stable.

Finally, the impact of the financial crisis itself was arguably deeper and more long-lasting for New Zealand nonbanks even than their Australian peers. This is because of the country's 'financial crisis before the financial crisis', the collapse of nearly 70 local finance companies between mid-2006 and the end of 2012. Not only did lenders like South Canterbury Finance and Bridgecorp fail but in many cases they took with them the deposits and debenture investments of local retail investors.

The crisis cast a long shadow over the nonbank sector in New Zealand, even for unaffected lenders. "The terms 'finance company' and 'nonbank' have since been associated with that crisis," Jamieson explains. "Even the companies that came through that period, survived and thrived – like ourselves – have

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PAUL JAMIESON AVANTI FINANCE

to some extent been tarred by the same brush. It is taking some time for consumer perception of the sector to improve."

OPPORTUNITY KNOCKS

Taken together, these challenges mean the opportunity for nonbank lender growth has been slower to emerge in New Zealand. But the opportunity has arrived, including in the mortgage space.

"Capital rules are clearly influencing the banks and driving them to focus on the highest-quality borrowers. Nonbank lenders are now also competitive on price with most bank floating-rate mortgages," Jamieson tells *ASJ*. "Customers also increasingly recognise the nonbank service offering on things like turnaround time and our understanding of credit specifics."

Avanti started as a personal lender to borrowers who were unable to access bank loans and then expanded initially into the auto space. Jamieson says the credit discipline the company developed in the nonconforming market over 30 years combined with the growing opportunity has sparked an evolution in strategy. Avanti is now focused primarily on auto and mortgage lending but has increased its breadth of offering within both.

"As we have gained scale and investors have built confidence in our credit decisioning, we have been able to diversify our product set – first into autos and short-term mortgages, and now into long-term mortgages," Jamieson reveals. "We are also widening our product offering within each of these products where we see the greatest opportunities, which in this case means near-prime mortgages and prime autos."

The goal is not to be a full-service player but to maximise the competitive offering in the parts of the market it makes most sense for Avanti to target. In this respect, the lender is enjoying something of a win-win situation: its niche is growing but it retains the advantages of specialism.

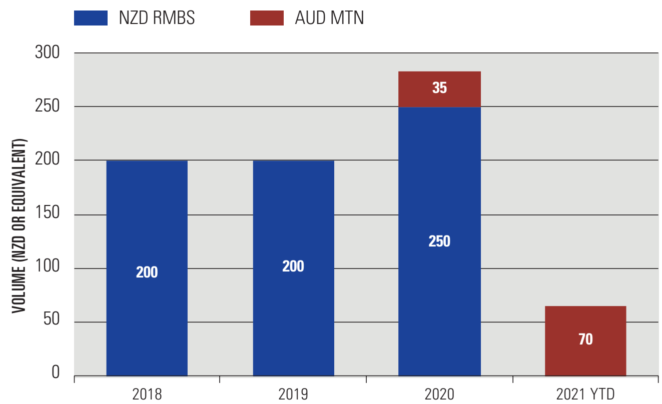
For instance, Jamieson says Avanti is used to, and comfortable with, relatively elevated prepayment rates in its mortgage book. Brokers tend to recommend Avanti loans to their customers based on the lender's wide range of solutions and as a means of establishing or re-establishing sufficient credit credentials to refinance with a bank. Jamieson says when this happens it reaffirms Avanti's own credit assessment of borrowers who would have likely received a flat 'no' from the bank sector in the first instance.

FUNDING GROWTH

Avanti's ambitions bring with them a larger funding requirement. Here, again, the nonbank lender faces challenges that have traditionally existed in the New Zealand market but does so with a degree of confidence about the future. In this case, the relatively smaller nonbank sector in New Zealand – and an almost complete lack of bank issuance – means a relatively less developed local securitisation market.

Nonetheless, Avanti completed its third public residential mortgage-backed securities (RMBS) transaction in the pandemic year of 2020, and also supplemented this deal – its largest ever – by debuting as an issuer of Australian dollar-denominated MTNs (see chart).

AVANTI WHOLESALE TERM-DEBT ISSUANCE



SOURCE: KANGANEWS 8 JUNE 2021

There are signs that New Zealand securitisation is ready to take a major step forward. These were evident even in advance of the pandemic: at the start of 2020 local market participants were quietly confident that the year would bring an unprecedented quantity and volume of deal flow. COVID-19 dashed those hopes, but the market rebounded quicker than anyone expected and expectations are high that the second half of 2021 will see issuance return to its previously expected trajectory.

In the wake of Avanti's 2020 RMBS, which priced in October, Jamieson said the issuer was pleasantly surprised to have been able to print a transaction it had earlier in the year all but abandoned hope of bringing to market in 2020 – although he acknowledges that pricing was relatively elevated.

The even better news was that, despite the backdrop of the pandemic, a larger group of investors than ever engaged with and bought Avanti's RMBS. Jamieson says the 2020 transaction had a book of 16 investors, roughly twice as many as its deal from 2019. This included domestic fund managers that were new to the issuer and, Jamieson believes, quite possibly securitisation as a whole. Avanti also found demand outside Australasia for the first time.

"Australian pension funds have been involved in securitisation for some time but we are now seeing some New Zealand superannuation funds getting comfortable with the asset class," Jamieson reveals. "As a funding model, securitisation works for us and I think it will continue to work. In fact, I think there is more demand out there than supply so – at least in the short-to-medium term – I don't foresee any issue matching funding to lending."

In practice and market conditions permitting, this means annual RMBS issuance from Avanti with the potential to increase frequency as the mortgage book grows. The nonbank also expects to become a regular issuer of nonmortgage asset-backed securities – albeit probably not starting in the next 12 months – and to retain or grow its access to the Australian dollar and New Zealand dollar MTN markets. ■