



MONEY DUE REWARDS:



Greg Southwell

Mortgage Trusts: Safe as Houses?

Many people see property as the ultimate “safe” investment, and this is reflected in our investment markets, with both listed and unlisted property trusts being forever popular, particularly among “Mum & Dad” investors. Mortgage trusts, being interest bearing loan investments secured by property mortgages are viewed similarly – as conservative and safe investments offering good, steady yields, although without the same potential for capital gain.

Recently, however, there has been something of a shock wave through the mortgage sector with the collapse of the Perth-based Westpoint Group. Some commentators are suggesting that this may be the start of a wider collapse in the unlisted property market in a similar way that the Estate Mortgage and Pyramid Building Society collapses heralded a major downturn in the last cycle.

So how could this happen? The answer here is that whereas mortgage trust investments have traditionally been structured very safely, this is no longer true in all instances. The “old style” mortgage trust is usually secured by first registered mortgages for 70% or less of the value of the properties, thus giving a full 30% safety margin for investors. In addition, the properties themselves are usually multi-purpose offices, shops, factories and warehouses which can readily be let to others if the original tenant defaults.

By contrast, a new breed of mortgage trust has now arisen where many of the old standards go out the window! Where the old-style funds only lend 70% of the property value, some of the new breed will lend up to 90%. Similarly, while first mortgages used to be the rule, it has become more commonplace to rely on second mortgages or even to lend without security. The properties which are financed have also changed, with many managers funding higher risk “single-use” properties such as service stations, hotels and cinemas and in some cases financing the construction stage as well. All these changes have added a much higher level of risk to what used to be a fairly safe investment sector. Of course, the promised returns are also higher, but perhaps not high enough given the level of risk.

For Westpoint investors, no doubt some of the blame will be reserved for the investment advisors and dealer groups who recommended the product. The story is now emerging that the upfront commission for “selling” some of the Westpoint products was as high as 12.5%. In addition, a “marketing allowance” was apparently paid to advisors for holding client events at which the Westpoint marketing representatives were given a prominent speaking spot.

Only time will tell as to where the blame actually lies, as it may take several years for the various court proceedings to be finalised. In all fairness, I have to say that this sort of situation is not typical of what I have seen of the advice industry, and probably only represents a very small minority.

So what can we learn from all this? For a start, I think it is imperative that you take advice from an advisor who has high ethical standards and sticks to them. Many advisors would refuse to recommend a product with a 12.5% commission as a matter of principle!

The other key point is that high returns will always involve higher risks. Even fixed interest type investments can often be deceptively risky, and it is important to have access to professional research from someone who can properly assess those risks.

Greg Southwell and Dawson & Partners Financial Services are authorised representatives of Lonsdale Financial Group Ltd, an Australian Financial Services licensee. Greg is also a SMSF SPECIALIST ADVISOR™, a CA – FINANCIAL PLANNING SPECIALIST, and a director of Dawson & Partners, a Cootamundra based accountancy and financial advisory firm, which was established in 1913. Dawsons have a division specialising in self-managed superannuation and sharemarket investing. The information in this article is general advice only and has been prepared without taking into account your objectives, financial situation or needs. It is recommended that you should seek professional advice prior to making a financial decision or acquiring a financial product.

SMSF SPECIALIST ADVISOR™ is a mark owned by the SMSF Professionals' Association of Australia Limited (SPAA), and is awarded to individuals who successfully comply with all the initial and ongoing accreditation requirements of the SPAA Specialist Accreditation Council.