



What are Mortgage Trusts?

Mortgage trusts allow investors to pool money in a trust to lend to individuals and companies. They secure their borrowing by a mortgage over residential or commercial properties. The trust collects the interest paid on these loans and then distributes the interest, less charges, as income to investors.

Most mortgage trusts will also invest a percentage of money in cash and fixed interest investments to maintain a cash reserve or if funds are not required for loans.

Some trusts guarantee a minimum return for a certain period. Others may provide a capital guarantee for the investment. These guarantees are only as good as the company providing them. They are not government guaranteed.

Mortgage trusts are available from life insurance companies, independent fund managers and bank owned investment groups.

Mortgage trusts should not be confused with property trusts. Mortgage trusts lend against the security of a mortgage over a property. Property trusts buy or develop property on behalf of unit holders. See NICRI leaflet - *Property Trusts*.

Features

- Generally entry fees do not apply.
- A minimum investment is generally required but may be as low as \$2 000.
- Additional deposits may be made.
- Interest (income) may be reinvested, paid into an account or paid by cheque.
- Interest may be paid half yearly, quarterly or monthly depending on the trust.
- Earnings are usually higher than from many fixed interest investments over the medium term.
- Regular statements are sent to investors.

But Remember...

- No capital growth.
- Income varies as interest rates change.
- Withdrawal time varies between trusts and may range from a few days to six months.
- Exit fees often apply.

Fees

Generally entry fees are not charged. Exit fees may be payable on withdrawal but are usually not charged after 3 years.

Management fees are normally deducted before the return (income) is declared. In times of low returns management fees may considerably reduce income.

Taxation

Interest is fully assessed for income tax in the tax year it is earned. There are generally no tax concessions or benefits and Pay As You Go (PAYG) tax may apply depending on the investor's circumstances.

Government Income Support

The total value of the investment is assessed under the assets test. Mortgage trusts are assessed for the income test under the deeming rules. For further details contact Centrelink's Financial Information Service (FIS), the Department of Veterans' Affairs or refer to NICRI leaflet *Deeming Accounts*.

Security and Risk

Mortgage Trusts, like all investments, involve some risks. Even though mortgage trusts generally invest in first mortgages, they may also invest in second or subsequent mortgages which expose the trust to additional risk. The policy of the trust should be understood and the risks accepted before investing.

The Risks

- The outstanding amount owed on a loan to the trust may exceed the value of the mortgaged property. If foreclosure is necessary and the property is sold, the trust may suffer a loss.

Security and Risk

The Risks Continued

- First mortgages give only a conditional right to the property securing the loan.
- Most mortgage trusts can borrow additional funds. A high level of borrowing increases risk. Also, the institutions lending the money to the trust may have a better claim over the mortgaged property than the trust itself.
- Mortgage loans are not easily liquidated. If the trust receives withdrawal requests in excess of what they anticipate, they may have insufficient cash and have difficulty raising further cash to meet the demand. This may result in a delay making payments or the fund being frozen for a period of time.
- The quality and features of the mortgaged properties should be considered, eg. location, stage of development, quality of tenants, security of rental income and the type of property (supermarkets, residential, offices etc).
- The lending policy of the Trustees of the fund should also be considered. This is the amount a trust will lend against the property compared to the value of that property. A high lending level (eg. greater than 60%) may indicate higher risk.
- The spread of loans is important. If the trust has lent a large amount to one borrower and they cannot repay, the trust may suffer a significant loss.

Investing With Safety

- Mortgage trusts are not risk free investments. When selecting a mortgage trust be aware that a higher return compared with current market rates might also indicate a lending policy involving a greater risk.
- Mortgage trusts should not be regarded as short term investments. Money required for ready access should not be placed in these trusts.
- Application to invest must be made on the form attached to the current product disclosure statement (PDS).
- Although the statutory information and other details in the PDS are lengthy and complicated, they should be **fully understood** before investing in this type of product.

NICRI's leaflets '*Safety, Risk & Scams*' and '*Risk Meter*' can assist in understanding risk and suitable investment time frames.

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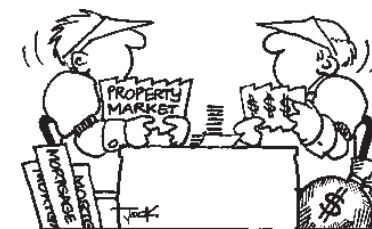
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Investment Product Series

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