



The Role of Securitisation in Australia's Financial Markets

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Securitisation in Australia

1. Role of Securitisation in the Australian Financial Market
2. The Australian Securitisation Market Pre Financial Crisis
3. Current State of the Securitisation Market
4. Regulatory Developments affecting Australia
5. Securitisation Market Outlook



Introduction to ASF

- § Formed in 1989 – the first!
- § Preceded the establishment of the European and American Securitisation Forum
- § Membership includes major banks, regional banks, smaller ADIs, NBFIs, trustees, accountants, lawyers and CRA
- § ASF objectives
 - Advocacy
 - Build industry consensus
 - Education



Role of Securitisation

- § **Securitisation - simply another way to fund income producing assets**
 - ABS are debt securities backed by a segregated pool of receivables with credit enhancements where the cash flows from the asset pool are distributed to meet the interest and principal payments due to holders of the debt securities.
- § **GFC created gave securitisation tarnished reputation**
 - Australian securitisation has not had the credit problems of the US and some European markets
 - Credit performance of Australian RMBS, ABS (incl. ABCP) and CMBS has been stellar
 - Super trustees and investors have an aversion to structured credit
 - Losses incurred by (unsophisticated) buyers of CDO's damaged the brand
- § **Important to remember benefits of securitisation**
 - Augments credit available through the banking system
 - Provides competition in a consolidating banking sector
 - An important part of development of the domestic debt capital market
 - Provides a investment suitable for pension and annuity funds
- § **Importance and role of securitisation endorsed by IMF and Australian regulators**





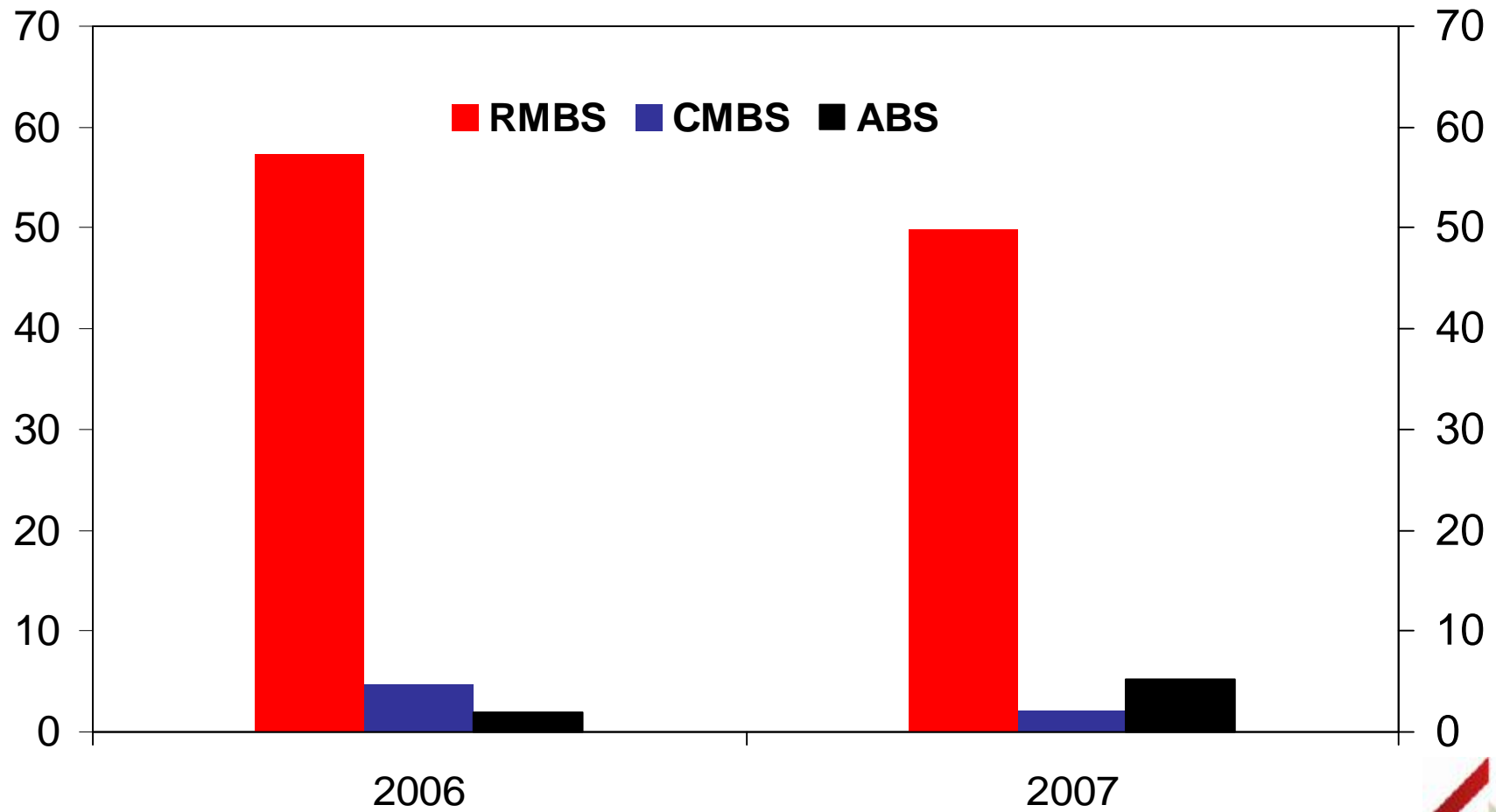
State of the Market Pre-Crisis

§ A significant market

- Residential mortgages were the dominant asset class
- Commercial mortgage-backed securities were issued by A-REITS
- Asset-backed commercial paper funded bank sponsored conduits
- Variety of term asset-backed securitisation (auto and equipment leases)

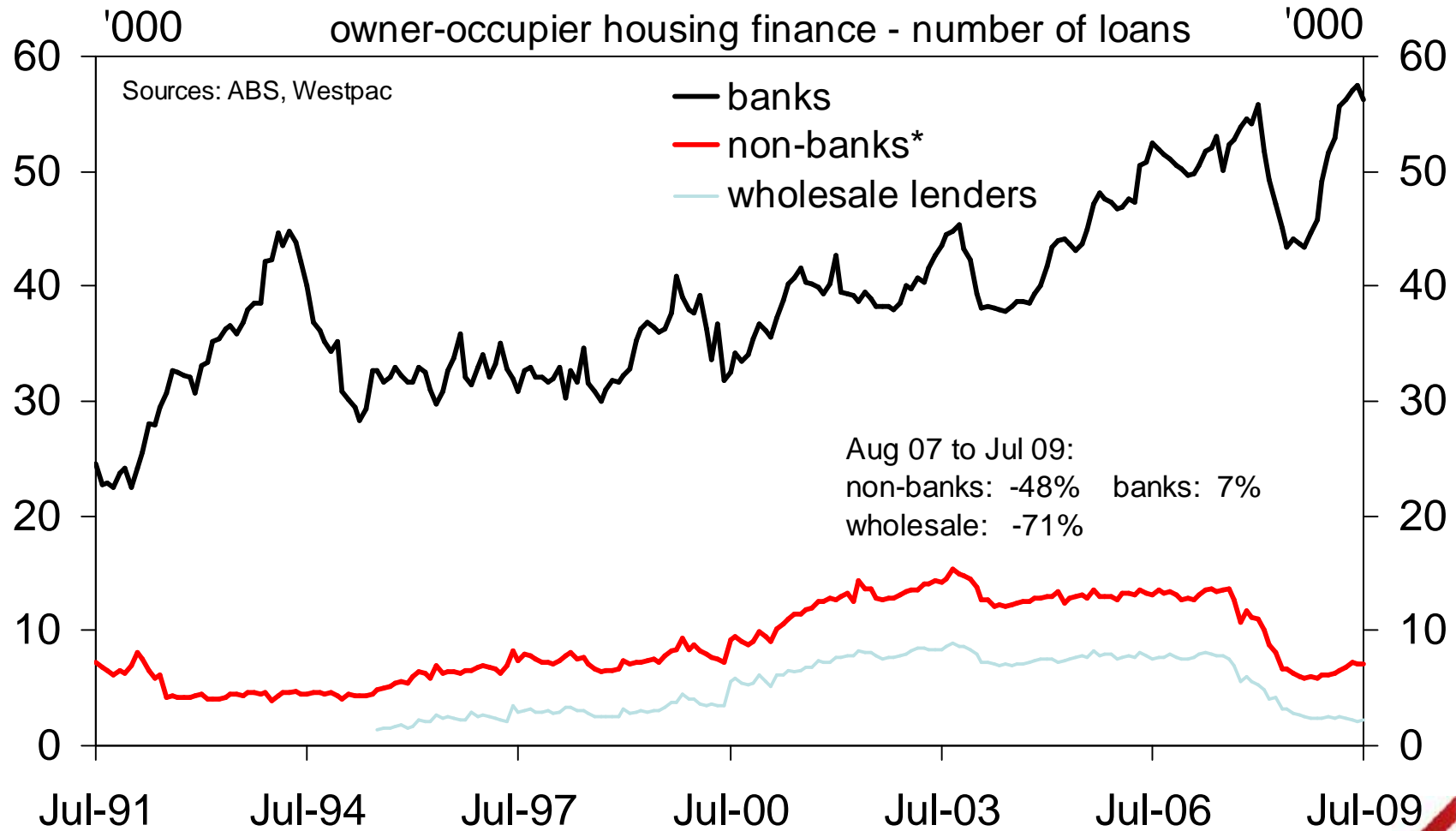


Issuance type 2006 – 2007





Non-bank Lending hit by 'Credit Crunch'





Current State of the Market

§ Impact of Financial Crisis

- Securitisation market froze in mid 2008
- Liquidity disappeared
- Offshore structured investment vehicles (SIVs and hedge funds) became distressed sellers
- Market to market accounting created paper losses for holders of RMBS
- Many cash enhanced trusts caught with illiquid securities
- Government reacted quickly to set up AOFM RMBS investment program
- Future Fund purchased a substantial amount of deeply discounted RMBS

§ Consolidation of RMBS Sector

- St George Bank and RAMS acquired by Westpac
- Macquarie closed its PUMA RMBS program
- Wizard sold to CBA's subsidiary Aussie Home Loans
- BankWest acquired by CBA
- Challenger's mortgage business acquired by NAB

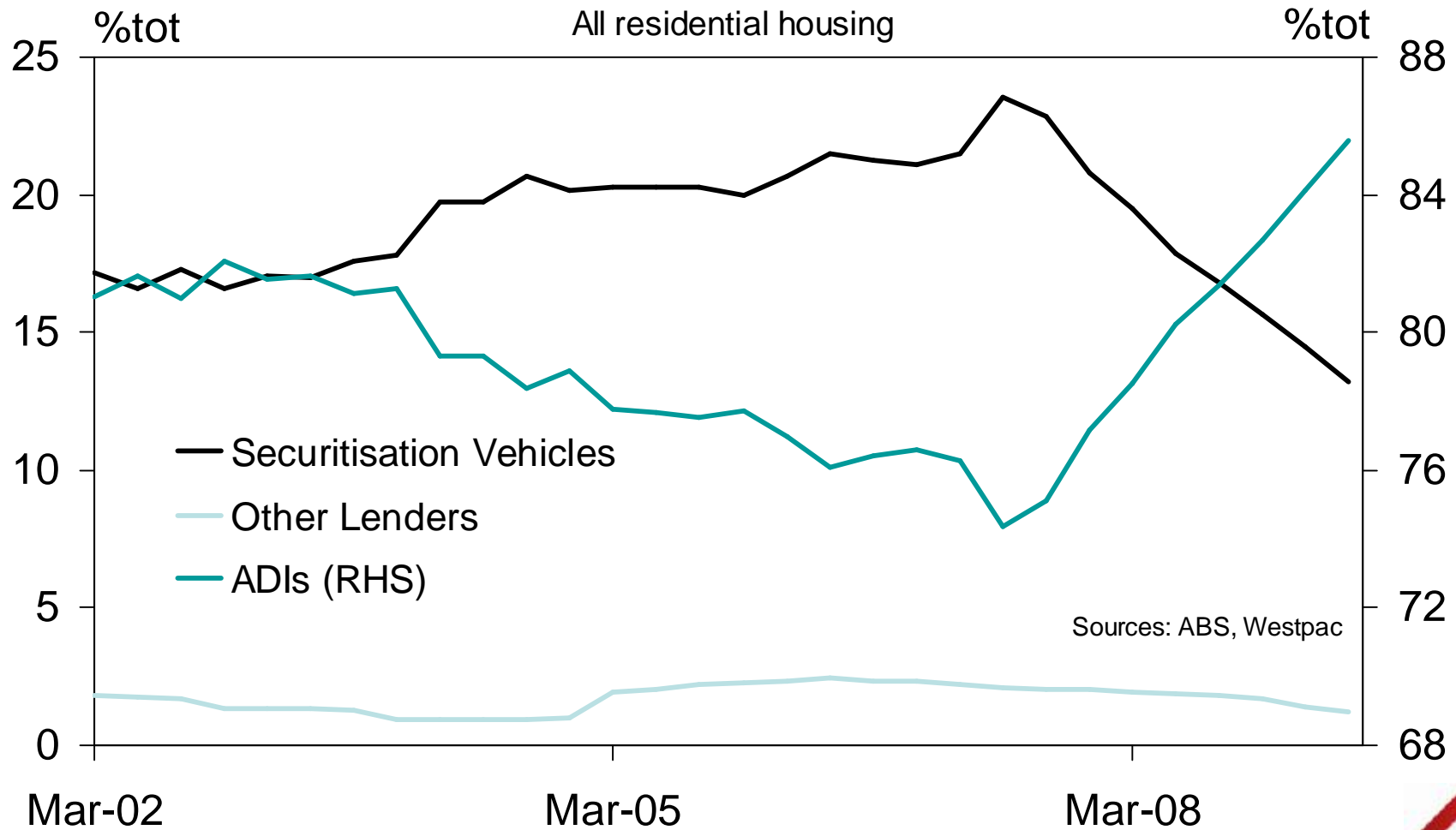
§ ASF Response

- Advocacy of continuing government support
- Developed a framework for covered bonds
- New ABS disclosure standards



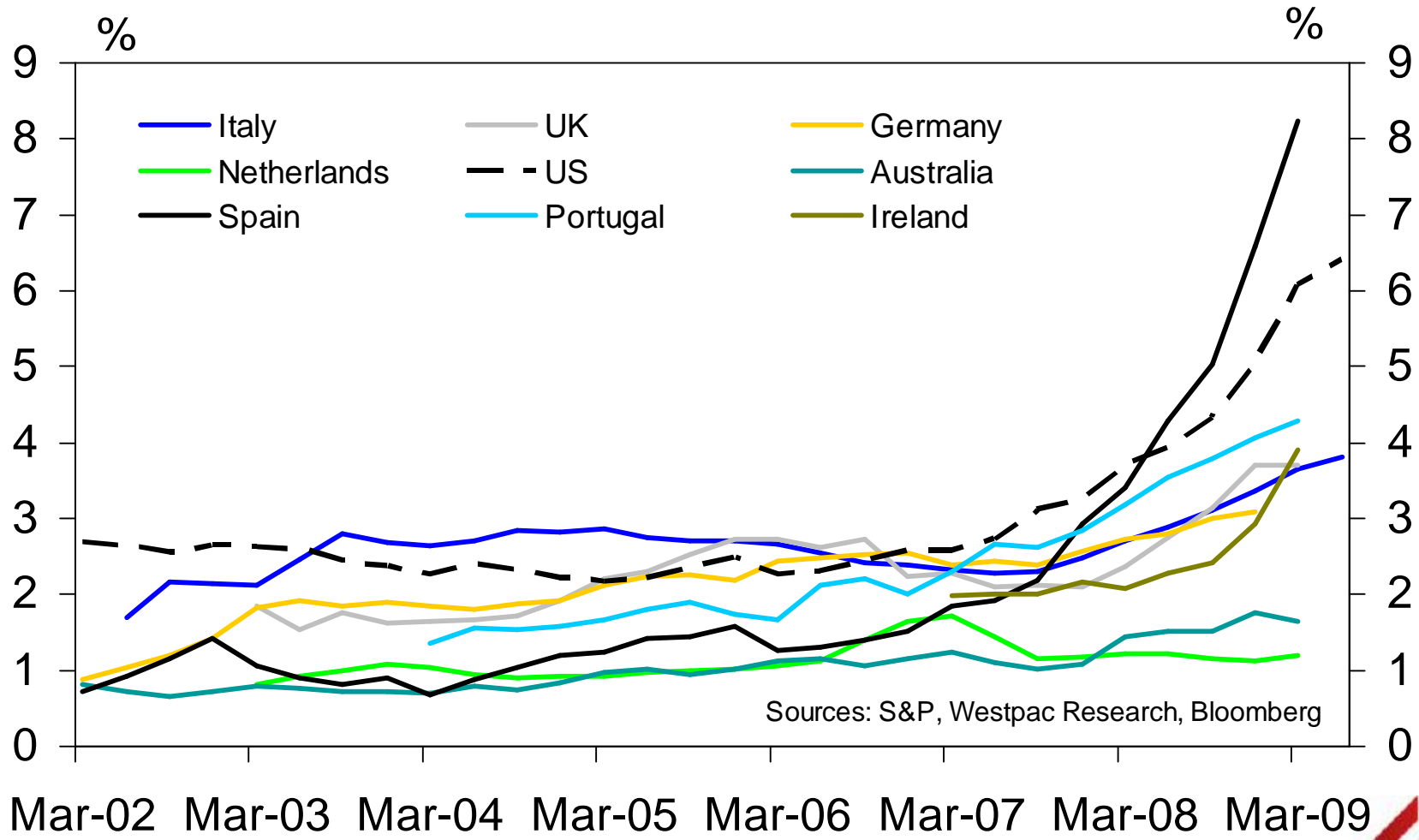


Market Share of Residential Lending Stock



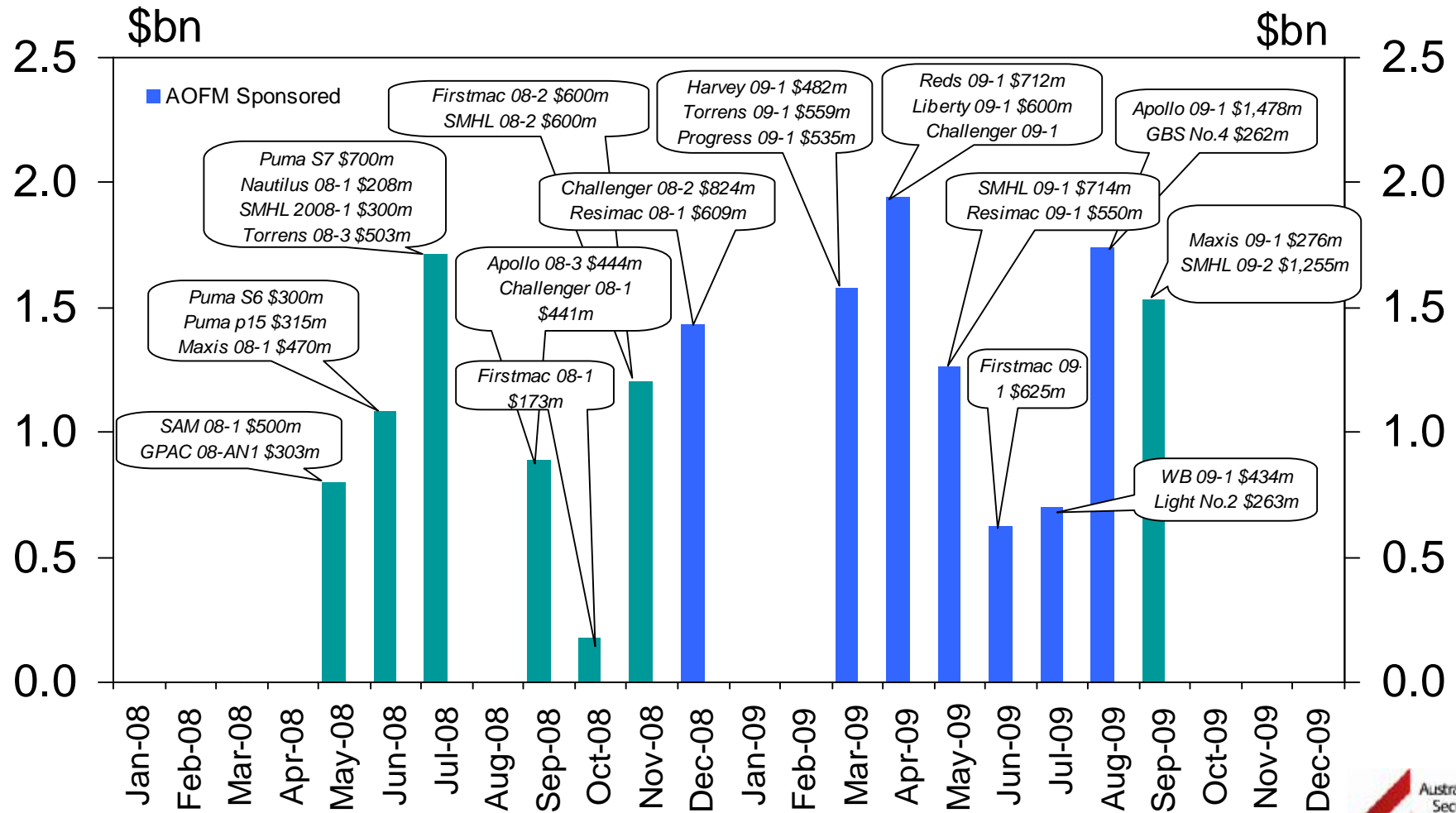


30+ Day Prime Arrears By Country





RMBS Issuance 2008 – 2009



Sources: S&P, Fitch, Bloomberg, Westpac, AOFM





Regulatory Developments

- § G20 meeting in London sought ways to help securitisation markets recover
- § IOSCO established a taskforce on unregulated markets and products
- § IOSCO recommendations for securitisation issued in August
 - Alignment of interests - “skin in the game”
 - Disclosure standards
 - On-going reporting standards
 - Improved analytical tools for investors
 - Involvement and certification by external, independent experts
- § Significant new Australian legislation affecting securitisation
 - Uniform Consumer Credit Code
 - National Unfair Contract Terms Law
 - Personal Property Securities Law





Recent ABS issues

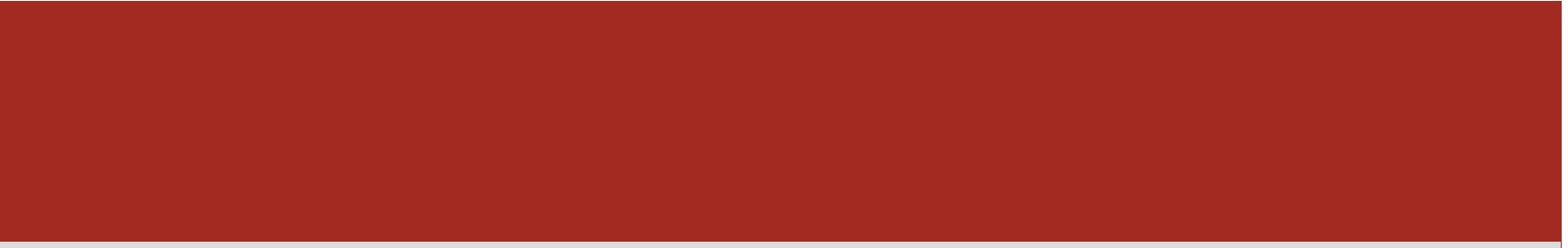
- § Investors distinguishing between RMBS issued by bank and non-bank financial institutions
- § Successful A\$1.25 bill RMBS issue by Suncorp
- § Two non-AOFM supported issues by Members Equity Bank
- § ANZ Bank led issue of ABS of equipment lease receivables originated by Case New Holland
- § Issue of CMBS by Macquarie Countrywide Trust
- § Investor appetite is currently in shorter dated tranches



Market Outlook

- § “Vanilla is the new black”
 - Straight forward structures
 - ASF disclosure and reporting guidelines
- § Pre-requisite for securitisation is a normalisation of conditions in credit markets and a return of investors seeking pick-up in yield
- § Credit spreads need to contract below 150bps for RMBS to be economical
- § Issuance to return slowly with smaller transaction sizes
- § Domestic investors likely to be major buyers initially (swap costs need to fall)
- § Risk to Australian issuers and investors from uncoordinated regulations between the US and EU





www.securitisation.com.au