



9 October 2008

Mr Neil Hyden  
Chief Executive Officer  
Australian Office of Financial Management  
Treasury Building  
Langton Crescent  
Canberra ACT 2600

Dear Mr Hyden

Thank you for the opportunity to present the views of the Australian Securitisation Forum (ASF) on the proposal by the Australian Office of Financial Management (AOFM) to purchase Australian Residential Mortgage Backed Securities.

The ASF was formed in 1989 to promote the development of securitisation in Australia. As the peak industry body representing the securitisation market, the ASF performs a pivotal role in the education of government, regulators, the public, investors and others who have an interest or potential interest both in Australia and overseas, regarding the benefits of securitisation in Australia and aspects of the securitisation industry.

We would be pleased to offer whatever assistance you need in working through the issues associated with this matter. This may include access to any of our members to work through the mechanics or access to the many information resources of our members.

It appeared from our discussions that the main areas for discussion centre around the issuance process, the eligibility of issuers, the allocation process and the eligibility of mortgages. We have summarised for your reference the core recommendations of the ASF in these areas.

### **Issuance Process**

- We recommend that rather than a reverse auction process, the government be a cornerstone investor in normal market transactions up to either a minimum amount per transaction or a percentage of each issue up to a cap. This has the following advantages;
  - provides a “multiplier” effect on the amount invested by the Government ;
  - encourages other investors back into the market, the ultimate goal for us all;
  - leads to better price discovery; and
  - will make it easier for the AOFM to exit the market in futures years.

- We suggest an approach for participation by the government be along the following lines;
  - 100% for the first 50m;
  - 50% of issue above \$50m;
  - Subject to a cap of \$250m per issue.

A mechanism along these lines will allow small issuers the ability to access the scheme, whilst encouraging co-investor participation.

- Pricing should be set by normal book build process with investors knowing that the government is the cornerstone, either at the total deal level or specifically within one tranche exclusively. This will allow the government to determine how influential it wishes to be in the pricing process and have flexibility of pricing at a market clearing price or a price that they perceive is in their best interests in meeting their long term objectives.

### **Issuer Eligibility**

To participate in the program issuers should demonstrate that the support they are seeking meets the AOFM's long term objectives. We'd suggest the following should be demonstrated;

- A commitment to establishing or continuing securitised funding programs; and
- A commitment to ensuring that the funds flow through to new lending.

### **Allocation Process**

There are two potential means of allocating funds to eligible issuers which in the short term could work independently or in combination with the main objective to avoid a "bottleneck" of issuers coming to market at the same time. In time these measures may be watered down or disregarded as the issuance cycle becomes more regular and the process becomes better understood amongst market participants.

#### ***Alternative 1            "Barrel Draw"***

Issuers are continually drawn from the barrel until their proposed issuance targets equal the AOFM's investment target. This has the following advantages and disadvantages;

- It is "non political" i.e. doesn't favour one sector or type of issuer over another, however
- It is possibly too "random"

## **Alternative 2                      Criteria Based**

Having criteria upon which to make a decision potentially allows the AOFM more control over achieving its objectives to promote competition in the mortgage sector. The ASF represents participants in the market including all issuers and so we do not feel we can recommend one set of criteria over another. However, criteria that the AOFM may wish to take into consideration include;

- Size of issue
- Need
- Capacity remaining (percentage of warehouse utilised)
- Dollar of origination per month
- Sub sector based on perceived benefit to increased competition

### **Execution**

A suggested method of executing is;

- Issuers are ranked according the selection criteria;
- Each issuer has 15 working days to complete their co-investor marketing and subordinated debt placement;
- On the 10<sup>th</sup> day, they notify the AOFM whether they were successful in arranging the deal and firm up the AOFM's allocation, settlement and issuance;
- If any issuer cannot complete a deal within this window the allocated funds then go back to the pool for the next issuer to be drawn from the barrel, until all issuers are exhausted and a second round of applications can be considered;
- The second and subsequent issuers are contacted in 5 day windows;
- An issuer can only issue or attempt to issue once in any one round;
- This process is completed until all funds are exhausted in the allocation period;
- The AOFM can determine if this execution window is exclusive to one or many issuers and should be reviewed regularly to avoid bottlenecks.

### **Mortgage Eligibility Criteria**

- The criteria at a minimum should be consistent with RBA repo eligibility otherwise there is not a level playing field between those institutions that can access the repurchase arrangements through the RBA versus those that can't;
- Eligibility of low doc could be assessed on total portfolio basis which would allow issuers that do 100% low doc to participate in the program;

- Consideration should be given to the eligibility of all types of collateral as responsible lending practices extend beyond the prime sector. The low doc and uninsured sectors have contributed to product innovation and competition in this country and service the contractor and self employed borrower. The AOFM would need to be mindful of the potential impact on competition should this sector not be supported. To assist in the assessment of this type of collateral consideration could be given to the engagement of an asset manager.

The above points present key feedback from our members and will enable the AOFM to reach a good cross section of the origination community across the bank, building society, credit union and non-bank sectors.

We welcome any feedback on any of the above issues. Please contact us at the numbers below should you wish to discuss.

Thanks



Phil Vernon  
Chairman  
**Australian Securitisation Forum**

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