



13 October 2008

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

Dear Mr Hyden

Further to our letter of 9 October, we offer the following additional comments following further discussion with some of our members;

Our previous letter to the AOFM by the ASF suggested a co-investment model where the AOFM would invest at a market clearing price along with other investors. However, the AOFM would be cognisant of the fact that the market clearing price in the current market may not be economic for some issuers and as a result a regime where the price paid to the AOFM for its investment is market based may dampen the effectiveness of the program and result in under delivering on the objective of increasing competition in the mortgage sector.

One suggestion is for the AOFM to agree to purchase a set amount of RMBS at a pre-determined price. If this option were chosen it is expected that issuers may still choose to issue further in the public markets in excess of the AOFM investment but the market, at least in the near future, would likely price a transaction at a wider spread than the level contemplated above and as a result the issuer would need to balance the blended cost of the various tranches.

Such a mechanism may be better in allowing the AOFM to be more prescriptive in directing funds to certain issuers or sectors of the market at an economic level whilst also delivering to the market the benefits that acting as a cornerstone investor delivers.

A further mechanism that has been suggested is for the AOFM to also purchase the "junior" AAA tranche of a super senior structure at a price set by the AOFM. This would provide more enhancements to the senior AAA class and allows for the subordinated class to be reduced, making the economics of retaining the subordinated tranche more achievable for more capital constrained issuers. This would significantly benefit a large segment of the market that can provide future competition. The super-senior tranche could then be offered to the market as described above and could be sized depending on demand for a particular issue.

The advantages of such a process are;

- It meets the AOFM's mandate of investing only at the AAA level;
- It provides the ability for the AOFM to have further positive impact from their investment in deals;
- It provides a strong message to the market overall as well as for the individual issue brought to market with the AOFM investment attracting other AAA investors to participate in the relevant deal;
- Provides added surety of deal closure- with the junior tranche adding protection to the senior investors' participation;
- Based on current pricing levels of subordination, has the potential ability of margin compression.

As you will appreciate, the ASF as an organisation is made up of members with a wide variety of ideas on access and implementation and I understand many of our members have been in contact with your office directly. If you would like any further assistance or any feedback on the likely outcome of any chosen course of action we will be happy to assist.

We look forward to hearing from you



Phil Vernon
Chairman
Australian Securitisation Forum

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