



MEDIA RELEASE

PEAK INDUSTRY BODY PROPOSES NEW MODEL FOR AUSTRALIA'S 'FROZEN' MORTGAGE-BACKED SECURITIES MARKET

Enhancements to Australia's current MBS model could improve liquidity and curb home loan rate rises, says the Australian Securitisation Forum (ASF)

9 April 2008 – The Australian Securitisation Forum, the peak representative body for the securitisation industry, today urged the Federal Government to enhance Australia's mortgage-backed securitisation (MBS) market to reduce mortgage rates and improve market liquidity.

The call comes as the credit crunch continues to impact securities markets around the world, with the Australian primary market for residential MBS becoming virtually frozen following investor concerns about the quality of underlying mortgages and the strength of mortgage insurers. The result has been a withdrawal of smaller banks, building societies and non-bank mortgage lenders from the market, reducing choice and competitiveness for Australian borrowers and investors.

ASF executive director and chief executive officer Greg Medcraft said Australian homebuyers were paying unnecessarily high mortgage rates, and that a better system existed. "The blow out in mortgage provider cost of funds and its resulting impact on mortgage rates highlights fundamental weaknesses in the Australian mortgage market and the need for reform," he said.

Australian financial institutions are currently experiencing high cost of funds compared to other funding models around the world. Over the past year, the global credit crisis has increased large bank five-year cost of funds (including cost of capital) to 210 basis points over five year Treasuries, which has helped push interest rates over 9%. In contrast, Canadian mortgage provider cost of funds is 60 basis points over Canadian five year Treasuries.

Mr Medcraft said the Federal Government could learn from the success of the Canadian MBS model, which continues to enjoy strong demand and liquidity despite credit market turmoil. "We believe Australia would benefit from enhancing its MBS model for prime residential mortgages by creating a new structure that would issue higher quality, government guaranteed mortgage-backed bonds," he said.

Mr Medcraft said enhancing the MBS market has the potential to deliver wide-reaching benefits – not just to homeowners but also to Australia’s fast-growing superannuation and investment sector.

“Enhancing the Australian MBS model has the potential to reduce the average home loan, helping first homeowners break into the residential property market. Investment hungry super funds and other institutional investors are also expected to benefit from an enhanced model that would deliver a new source of government guaranteed fixed income securities. Importantly, the long term stability and solvency of the financial system will be strengthened by increased competition, transparency and liquidity,” he said.

Mr Medcraft outlined the Canadian MBS model at a media briefing this morning. He explained the Canadian Mortgage and Housing Corporation (CMHC) introduced the National Housing Act Mortgage-Backed Securities program (NHAMBS) in 1985 in response to rising mortgage costs. In summary, the model involves a government agency called the Canada Housing Trust, which is managed by the CMHC, issuing Canadian Mortgage Bonds (CMB) as a 3 or 5 year semi-annual coupon fixed or quarterly coupon floating rate bullet maturity bond. CMBs are secured against pools of eligible mortgages and supported by mortgage insurance. The principle and interest payment of CMBs are guaranteed by the CMHC, which means the securities have the characteristics inherent in government bonds with a higher yield.

Mr Medcraft said the features of CMBs were highly attractive to investors, which supported market liquidity. “CMBs are government guaranteed mortgage bonds that are secured by eligibility tested mortgage pools and are included in the major fixed income index (in Canada, the Universal Bond Index). The bonds are issued quarterly with single maturities, creating large liquid issues for fixed income investors,” he said.

The Canadian experience highlights the liquidity benefits of enhancing the Australian MBS model. While other markets are frozen with the credit crisis, the CMHC priced CAD\$11 billion of CMBs during March 2008 – its largest ever quarterly issue. This follows a CAD\$9.5 billion issue in December. This compares to the Australian MBS market where issuance in the last six months of 2007 was less than A\$6 billion – a dramatic decline from the A\$45 billion issued in the first half of the year.

The ASF is meeting with key industry players including its members, the Federal Government and the institutional investment community to gather feedback and input into the proposed model. The peak body hopes to establish a taskforce of interested parties in the coming months to further research and advocate the reform opportunity with view to achieving a consensus position on a new model to enhance the Australian MBS market.

About the Australia Securitisation Forum

The ASF is the peak body representing the Australian securitisation industry. ASF represents more than 120 organisations including Australia's leading banks, non-bank mortgage providers, investment managers, ratings agencies and other organisations operating within the sector. The ASF's basic mission is:

Advocacy: To mount principled and focused efforts to improve the long term health and vitality of the securitisation market, and to advance the greater good that securitisation provides to consumers, business and the economy. This is chiefly done by interacting with appropriate governmental, regulatory, accounting, legislative and other policy making bodies.

Consensus: To build consensus within the industry on issues material to the industry.

Education: To inform and educate the securitisation community and related constituencies, and to sponsor high-quality conferences and educational programs.

More information on ASF can be found at www.securitisation.com.au

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Editors' Notes:

More information on the Canadian mortgage-backed securities program can be found by reading *The Canada National Housing Act Mortgage-Backed Securities Program* by Ian Witherspoon and published by Housing Finance International (1999) or visiting the CMHC website at www.cmhc-schl.gc.ca.

Readers are also encouraged to visit the American Securitization Forum's website at www.americansecuritization.com.

Information on the Australia's RMBS market can be found by reading the Reserve Bank of Australia's *Financial Stability Review 2008*.

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