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Mr John Hawkins
Committee Secretary
Senate Economics References Committee
Parliament House
Canberra ACT 2600

Dear Mr Hawkins

Introduction

The Australian Securitisation Forum (ASF) would like to make a submission to the Senate Economics References Committee's inquiry into bank funding guarantees.

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 furthering the understanding of the role and benefits of securitisation to Australia's financial markets and economy. The ASF seeks active involvement and dialogue with government, regulators, investors, the public and others who have an interest in the securitisation market both here and overseas.

Securitisation involves the origination and pooling of financial assets such as residential mortgages, commercial mortgages, consumer leases, auto and equipment leases which are funded through the issuance of asset-backed securities (ABS).

Until the global financial crisis, securitisation of residential mortgages had been a major funding source for many of Australia's mortgage lenders, particularly regional banks, smaller ADIs and non-bank lenders. The major banks have also issued residential mortgage-backed securities (RMBS) as part of their funding strategies including exchanging RMBS with the Reserve Bank under repurchase facilities to gain liquidity throughout the financial crisis. The disruption in global debt capital markets has significantly curtailed the issuance of RMBS. The smaller mortgage lenders have also been adversely affected by the unintended market distortions caused by the Government's bank funding guarantee.

Purpose of this submission

The purpose of this submission is to provide to the Senate Economics References Committee a copy of recent research undertaken by Access Economics on behalf of the ASF and a proposal the ASF put to The Treasurer to make legislative changes to allow banks to issue covered bonds. A copy of the report and letter to The Treasurer are attached for the Committee's review.

The ASF strongly believes further government assistance is necessary for securitisation to allow the primary debt capital market additional time for normal trading conditions to return. The Access Economics report comments on the current state of the Australian securitisation market and analyses the various options the ASF has put to the Government to support securitisation.

Specifically the report highlights the positive impact a government guarantee of new issues of RMBS and liquidity support from the Australian Office of Financial Management (AOFM) would have on the market. A guarantee of new RMBS would apply to the debt securities (typically rated 'AAA' and supported by lenders mortgage insurance provided by APRA regulated insurers) and not the issuer. A RMBS guarantee could be applied to RMBS issued by all ADI's and non-banks. Such an arrangement would provide a "level playing field" for major banks, regional banks and non-bank lenders as the guarantee fee could be levied based on the credit quality of the debt securities rather than the issuing institution.

The introduction of a guarantee of RMBS could also be a way for the Government to exit the bank funding guarantee but still leave the option for banks and other mortgage lenders to fund through issues of RMBS guaranteed by the Government.

The ASF also believes serious consideration should be given to making legislative changes to allow banks to issue a new form of debt securities, covered bonds, to increase the number and diversification of funding options available to Australian banks.

The ASF welcomes the opportunity to make this submission and respectfully stresses the importance of having a strong financial system and sustainable securitisation market to support financial stability and underpin the prospects for continuing economic growth.

The ASF requests an opportunity to appear before the Committee to give evidence in support of this submission. Please contact Chris Dalton on (02) 8243 3906 should you have any queries in relation to this submission or the ASF's appearance before the Committee.

Yours faithfully,
For the Australian Securitisation Forum



Stuart Fuller
Chairman



Chris Dalton
Chief Executive