

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 45

Topic: Residential Mortgage-Backed Securities

Hansard Page: Written

Senator EGGLESTON asked:

1. Firstly, how did the AOFM track the impact that the first \$7.753 billion purchase of RMBS had on the market? Can the AOFM detail how it impacted upon the market and what level of stimulus was made?
2. On 28 January, the Government announced that certain lenders had been chosen for the Government to purchase RMBS. Can the AOFM explain the process by which the lenders are chosen?
3. Was selection criteria used to choose the lenders? If so, what were the criteria?
4. AMP bank is not exactly a small lender. How does the AOFM classify a 'small lender'?
5. How many lenders made a proposal under the last round of offers under the RMBS scheme? Can the AOFM detail who they were?
6. How does the AOFM/Treasury assess whether the market needs an injection of funds?
7. When will the AOFM/Treasury assess whether the remainder of the \$8 billion will be required in the market? How often does the AOFM/Treasury conduct a review to determine whether additional purchases are needed?

Answer:

1. The AOFM monitored the extent to which private sector investors participated in primary RMBS transactions, pricing in primary and secondary markets and market sentiment (via discussions with market participants including issuers, investors and arrangers). The first \$7.753 billion in AOFM investments were accompanied by \$3.611 billion of private sector investments, and resulted in total issuance of \$11.365 billion in RMBS. Following the AOFM supported issues, in late 2009 a further \$5.315 billion in RMBS was issued by a number of ADIs without the need for AOFM support. In the first year of the Program, the primary issuance of RMBS was highly dependent on the Program and no issues were made without the AOFM's participation. There were some signs of recovery towards the end of 2009 when some issues occurred without AOFM participation. In aggregate, RMBS issuance in late 2008 and 2009 directly financed approximately \$16.68 billion of mortgage lending.
2. Issuers submitted proposals in response to a request for proposals issued by the AOFM on 8 December 2009 (Operational Notice 26/2009). The proposals were evaluated by an AOFM Selection Panel comprised by the CEO, Director, Financial Risk, and RMBS

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Portfolio Manager. The proposals were evaluated using selection criteria (refer response to Question 3 below). The proposals were ranked according to their aggregate score against the selection criteria. Issuers were chosen according to this scoring and ranking process.

3. Yes. The selection criteria for the serial investment arrangements were set out in Operational Notice 26/2009 dated 8 December 2009 as follows:

Proposals will be evaluated in terms of the contribution they will make to maintaining competition in housing lending and using the following criteria:

- The extent to which the funds raised from proposed issues under the arrangement will be used to originate new residential mortgages.
 - The extent to which the mortgage originators associated with the proposed arrangement have been largely or wholly reliant on RMBS to finance their lending for residential housing in the past.
 - The capacity of issuers and originators to finance mortgages in the interim period prior to the issue of RMBS under the proposed arrangement.
 - The expected participation of other investors in the issues proposed under the arrangement.
 - The experience, capabilities and quality of the mortgage originator and servicer.
4. The size of the issuer was not a selection criterion for serial investment arrangements. As indicated in the response to Question 3 above, one criterion used to assess proposals was the extent to which the mortgage originators associated with the proposal have been largely or wholly reliant on RMBS to finance their lending for residential housing in the past. AMP Bank met this criterion.
5. Six proposals were submitted for serial investment arrangements in response to the request issued by the AOFM on December 2009. Five of these were accepted. Parties connected with the successful proposals were AMP Bank Limited, FirstMac Limited, Liberty Financial Pty Ltd, Members Equity Bank Pty Ltd and RESIMAC Limited. Consistent with all request-for-proposals conducted by the AOFM pursuant to the RMBS program, the identity of the party connected with the unsuccessful submission has not been disclosed as this information is commercially sensitive.

It remains open for issuers to submit proposals on a reverse enquiry basis in accordance with the AOFM's invitation of 7 December 2009 (Operational Notice 25/2009). So far, six proposals have been received, of which three have been transacted, with AMP Bank, Bank of Queensland and CUA. Two transactions are currently in train and one did not meet the minimum requirements.

- 6 & 7. The objectives of the RMBS Program are to support competition in residential mortgage lending from a diverse range of lenders and to provide support for lending to small business. The AOFM and the Treasury monitor conditions in the RMBS market and trends in overall lending for housing and small business. This is undertaken on an ongoing basis and includes monitoring of the extent of private sector investment in RMBS, pricing in primary and secondary markets, and market sentiment.