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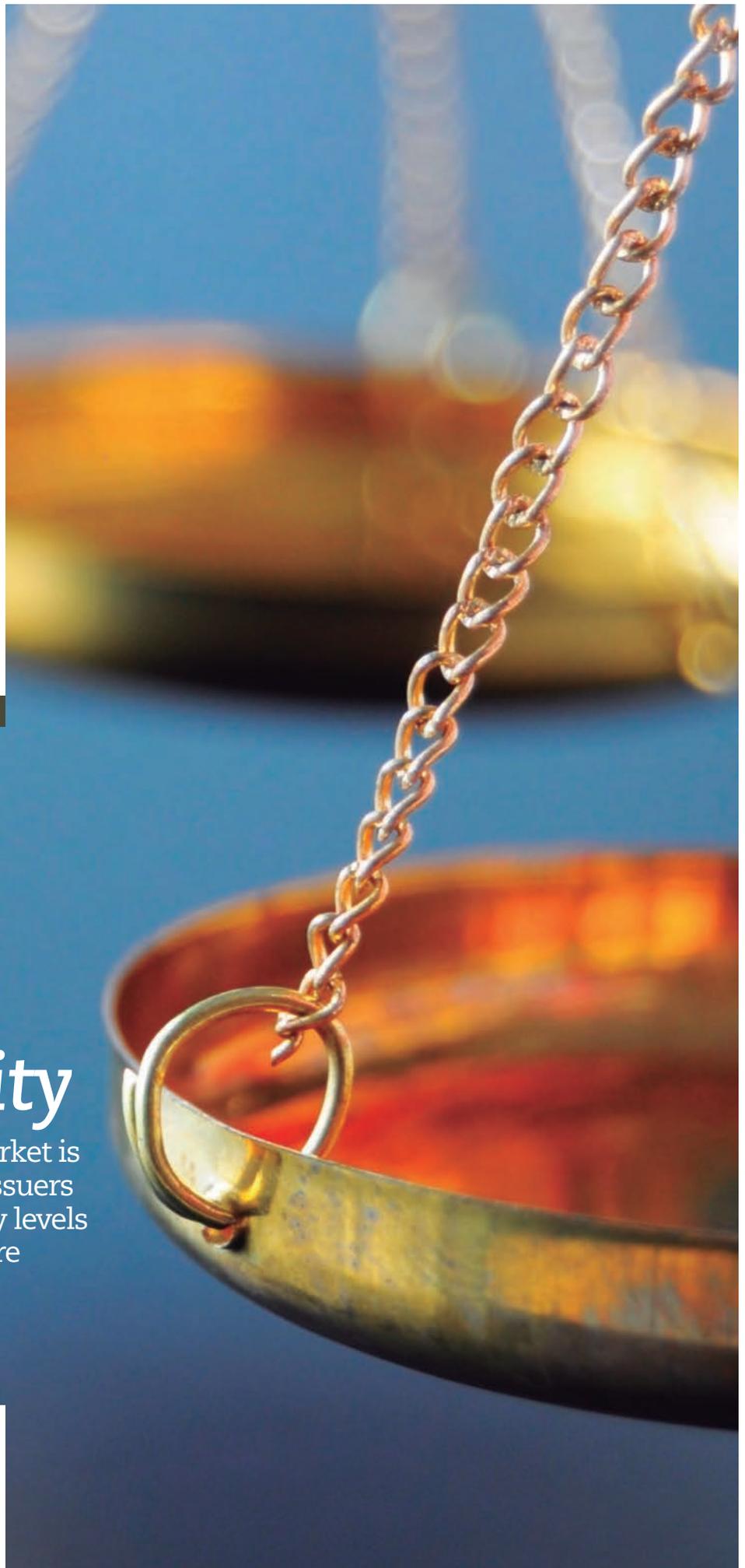
## AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian  
Securitisation & Covered Bonds

>> Issue 11 • 2017

## Weighing Australian asset quality

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Incorporating Australian  
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>> Issue 11 • 2017

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Australia A 2016-1

Loan Level Analysis | Ratings & Portfolio Level Analysis | Stratification | Interactive Charts | Deal Compare

Portfolio Size: All Loans

Rating: AAA

	%Portfolio	Fitch Criteria	User Adjustment	PD	EL	PD	EL	PD	EL
<b>Fitch Portfolio</b>				0.2%	0.8%	0.2%	0.8%	0.2%	0.8%
<b>Business Types</b>									
Excluded	31.0%	5.00		11.0%	11.0%	2.0%	15.0%	32.7%	3.0%
Self-Insured	0.2%	0.25	1.2%	14.0%	14.0%	5.7%	21.0%	11.0%	0.3%
Full-Service	1.2%	1.10	1.1%	11.0%	11.0%	3.1%	10.0%	10.0%	3.2%
<b>Product Types</b>									
Interest Only	14.0%	1.10	2.0%	14.0%	14.1%	0.0%	20.1%	14.0%	1.2%
Interest-Only Loan	14.7%	1.10	1.2%	16.0%	16.0%	0.0%	24.7%	14.0%	1.4%
Forward Discounted Loan	0.0%			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Australia A 2016-1

Loan Level Analysis | Ratings & Portfolio Level Analysis | Stratification | Interactive Charts | Deal Compare

Results shown from Full Portfolio Run

Rating Category:

	PD	Fitch Criteria	EL	PD	User Adjusted	EL
AAA	0.2%	0.8%	0.8%	0.2%	0.2%	0.2%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	1.0%	1.0%	1.0%	0.4%	0.0%	0.0%
BBB	0.4%	0.3%	0.3%	2.0%	0.2%	0.2%
BB	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Class	Fitch Rating	Rating User Adjustment	CC	Fitch Loss Cover	Loss Cover User Adjustment
P1	AAA	AAA	15%	27.5	23.5
P2	AAA	AAA	10%	37.5	33.5
P3	AAA	AAA	15%	37.5	33.5
A1	AAA	AA	10%	25.0	19.7
A2	AA	A	4%	15.0	7.8
B	BBB	BBB	3.5%	2.0	1.8
C	BBB-	BBB-	0.5%	2.0	1.8
D	NR	NA	0.2%	0.5	0.4
E	NR	NA	0%	NA	NA

Australia A 2016-1

Loan Level Analysis | Ratings & Portfolio Level Analysis | Stratification | Interactive Charts | Deal Compare

Portfolio Size: All Loans

	%Portfolio	AAA CLVR	90% Default CLVR	Current Interest / 90% Default CLVR	90% Breaching Interest	Ass. Loss Rate	Loss Rate - 90% Default	Interest Only	Interest-Only Loan	Self-Insured	Forward Discounted
<b>All Loans</b>	100.0%	84.2%	34.3%	16.8%	0.4%	17.3	281.233	16.8%	16.4%	16.7%	0.2%
<b>Business Types</b>											
Excluded	31%	89.0%	36.0%	11.0%	0.2%	11.0%	206.300	10.7%	10.2%	10.0%	0.0%
Self-Insured	7%	85.0%	11.0%	12.0%	0.0%	12.0%	171.357	20.0%	11.0%	100.0%	0.0%
Full-Service	2%	72.0%	22.0%	25.0%	0.0%	17.0%	202.827	0.0%	10.0%	1.0%	100.0%
<b>Product Types</b>											
Interest Only	14%	73.0%	15.0%	13.0%	0.0%	13.0%	240.431	11.0%	10.0%	10.0%	0.0%
Interest-Only Loan	14%	73.0%	15.0%	13.0%	0.0%	13.0%	240.431	11.0%	10.0%	10.0%	0.0%
Forward Discounted Loan	0%										
<b>Loan Portfolio</b>											
A	20%	75.0%	13.0%	16.0%	0.0%	16.0%	114.711	0.7%	0.0%	10.0%	0.0%
B	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%
C	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%
D	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%
E	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%



# FROM THE CHIEF EXECUTIVE

**P**rimary-market activity for residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) has been more subdued during 2016 than prior years, reflecting volatile market conditions and use of alternative funding options by regulated banks. While total issuance in 2016 is expected to be below recent years, new issuance continues to represent a cross section of the industry.

The widening of credit spreads on RMBS in the early part of 2016 prompted the Australian Office of Financial Management to maintain the suspension of its divestment of RMBS. The original portfolio of A\$15.5 billion (US\$11.8 billion) of prime RMBS has now reduced to less than A\$2.2 billion either through amortisation or secondary-market sales. The programme's resumption will be dependent on market conditions and whether fair value can be achieved given the government's investment.

The performance of Australian RMBS and ABS continues to be strong albeit with a slight uptick in arrears for both RMBS and ABS throughout 2016. A key issue for investors continues to be the direction of the residential property market and the correlation of Australia's economic growth to the health of the Chinese economy.

A core part of the Australian Securitisation Forum (ASF)'s strategy is to provide high-quality professional-development opportunities. As part of the commitment to quality, the ASF has refreshed this content and, in 2017, will offer Securitisation Fundamentals, Securitisation Professionals, Applied Securitisation and Securitisation Trust Management courses in Australia. A tailored course will also be offered in New Zealand in the first half of 2017.

APRA's release of the of the new securitisation prudential standard, APS 120, will set the framework for securitisation activity by Australian regulated banks. A key to supporting an active and efficient market is a standard reflecting appropriate regulatory-capital risk weights for securitisation exposures. The ASF's position is that regulatory risk weightings should not disadvantage banks that seek funding or invest in high-quality Australian securitisations.

The ASF's advocacy efforts in 2016 have concentrated on a submission to APRA's consultation on APS 120, the reform of the OTC derivative markets, and proposed changes to Australia's insolvency laws on securitisation vehicles.

A new initiative of the ASF in 2016 has been the genesis of the Future Leaders and Young Professionals Group, which aims to promote securitisation as an attractive and long-term career for new and younger employees. Meanwhile, the New Zealand market subcommittee is working to further advance the benefits of securitisation. A key initiative has been engagement with the Reserve Bank of New Zealand to discuss the potential role of RMBS.

Finally, we welcome Robert Gallimore, the ASF's new policy executive, to the ASF's Sydney office. His responsibilities include working with members on developing policy as well as other member-engagement matters. Robert was most recently a director of primary markets at RBS and he was previously senior corporate counsel at ABN AMRO. He has extensive experience in securitisation and a deep knowledge of Australia's regulatory framework governing securitisation. Robert can be contacted on +61 2 8243 3900 or via email at [rgallimore@securitisation.com.au](mailto:rgallimore@securitisation.com.au).

In 2017, the ASF will remain focused on its core and longstanding objectives to provide the Australian market with a platform to discuss market and regulatory matters, advocate on behalf of members, provide a comprehensive suite of professional-development programmes, improve market standards and practices, and promote the market to global investors and policymakers. I look forward to an active 2017 for the Australian, New Zealand and global securitisation markets.



**CHRIS DALTON**  
CEO, AUSTRALIAN SECURITISATION FORUM

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# AUSTRALIAN ASSET QUALITY IN DEPTH

*The local housing market is the single largest focus of investors in Australian securitisation – especially those based offshore. ASJ looks at the data and hears the views of domestic analysts and investors to gauge the state of play. The consensus seems to be that the undeniable stress points are likely manageable, at least in the sense of their potential impact on residential mortgage-backed securities (RMBS) markets.*

BY LAURENCE DAVISON AND LUCY SYMONDS

**S**crutiny of the Australian housing market tends to come down to the unusual confluence of factors simultaneously at play. The cash rate and, to a slightly lesser extent, mortgage costs are at historically low levels. But at the same time house prices in the most populous parts of the country continue to rise seemingly without ceiling. As a result, housing affordability is at an all-time low and the home-ownership rate is sinking, but loan serviceability is better than ever.

This collection of inputs is far from unique to Australia. Ultra-low rates are the norm across the developed world while property markets in internationally preferred urban locations continue to soar. But Australia is in some ways the victim of its own success: with no protracted or severe correction in the wake of the financial crisis, Australian housing has started its latest climb from a high base.

Australian regulators have moved to try to normalise housing-market growth with subdued economic performance elsewhere. The most high-profile development is tighter monitoring of high loan-to-value ratio (LVR) lending by the Australian Prudential Regulation Authority (APRA). This has had a definite impact on lending standards at the margin. However, Australian banks say, and analysts tend to agree, that local lending has always been conservatively conducted. APRA has also been clear that its moves are designed to preserve stability in the banking sector, not to do the Reserve Bank of Australia's work for it.

Meanwhile, many market participants argue that one of the biggest drivers of house-price growth in Australia – inward property investment, especially from Asian buyers – exists largely outside the sphere of influence of local lenders.

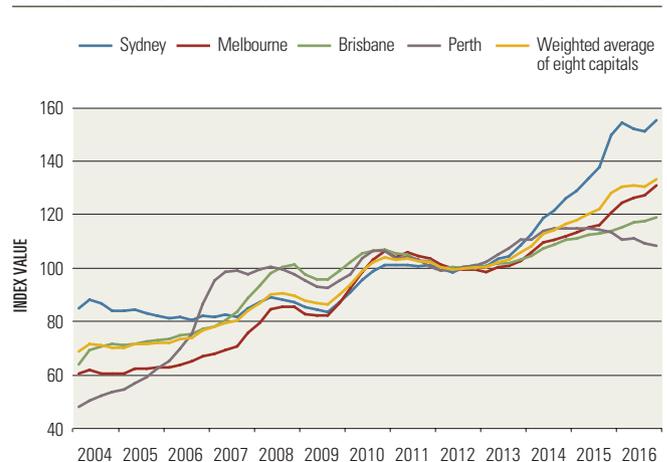
In this sense, a large part of the concern some observers have about some segments of Australian housing is the potential for a double impact from international economic influences. The importance of the resources sector to Australian housing is already clear in data from states with high contributions to their economies from mining – most notably Western Australia (WA), where house prices have been falling as the resources investment boom as cooled.

A hard landing in China has the potential to seriously adversely affect the international demand for Australian property. The most noticeable impact is expected to come in the desirable urban centres of Melbourne and Sydney. It could also cause a spike in domestic unemployment – and the protracted low level of Australian unemployment has been one of the most important foundations of a buoyant housing market.

## PERFORMANCE SO FAR

What is clear is that Australian house prices have risen largely unimpeded since shortly after the financial crisis, at

### AUSTRALIAN RESIDENTIAL PROPERTY PRICE INDEX



SOURCE: AUSTRALIAN BUREAU OF STATISTICS SEPTEMBER 19 2016



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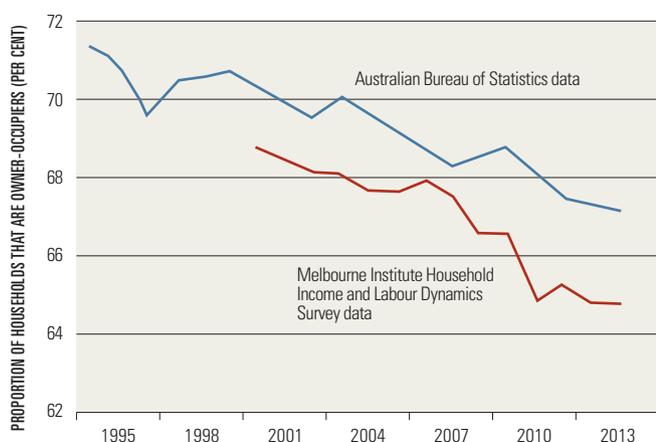
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## AUSTRALIAN HOME-OWNERSHIP RATE



SOURCE: AUSTRALIAN BUREAU OF STATISTICS, COMMONWEALTH BANK OF AUSTRALIA, MELBOURNE INSTITUTE AUGUST 11 2016

least in the east-coast capital cities where the majority of the population resides (see chart on p6). Sydney has clearly led the way, with its median house price growing by more than 50 per cent in less than five years according to Australian Bureau of Statistics (ABS) data. Melbourne and Brisbane have followed the same trend to a somewhat less emphatic degree, while Perth is off its mining-boom peak but is yet to experience a drastic correction to date.

The ABS figures go to the mid-point of 2016. Early indications are that the trends have not slowed. However, there are signs that Sydney's explosive growth may have eased in the near term. CoreLogic data suggest house prices nationally rose by a further 0.7 per cent in July and 1.1 per cent in August.

Meanwhile, Sydney-based Commonwealth Bank of Australia (CommBank) economist, Kristina Clifton, wrote on September 20: "Other indicators of activity in the housing market also remain firm. Auction-clearance rates have risen again to be close to their recent peak and dwelling approvals also have a second wind. However, the volume of transactions and number of listings is lower than a year ago."

This growth is not taking place in a vacuum, though. Australia's GDP number for the second quarter of 2016 confirmed that the country has now enjoyed 25 years of consecutive growth. And while the expansion seen in the mining-boom years has eased, there is a positive story especially in the service-economy driven states.

Andrew Steel, managing director and head of Asia-Pacific corporate ratings group at Fitch Ratings in Singapore, comments: "Ultimately it is a complicated equation even within individual cities. But services businesses in Sydney and Melbourne are experiencing very positive conditions and in the medium-to-long term Australia has a favourable demographic trend. This makes the cities attractive places to live and provides supportive fundamentals."

There are pockets of concern even in the context of the favourable rates and employment environment Australia is enjoying in late 2016. Mortgage arrears rates are climbing in aggregate, with resources-focused states the worst affected. S&P Global Ratings (S&P) data to the end of June 2016 show arrears in WA reaching 1.95 per cent – up by nearly a third, year on year. S&P attributes the deterioration to "pronounced lower wage growth" in WA, likely caused by a transition away from high-paying, high-participation jobs in the resources sector.

This trend is well established and widely understood, though. Another has only more recently established itself as a focus for analysts, and the extent of its impact continues to unfold. This is the suggestion that residential construction in the urban apartment sector has swung into full-blown oversupply mode, with a potentially significant impact on house prices as this supply hits the market.

Again, offshore purchasers add an element of uncertainty to the picture. Many apartment developments were planned several years ago in response to international demand, but anecdotal evidence suggests tighter lending standards are forcing offshore buyers dependent on third-party finance out of planned purchases. Some may have bought off the plan, helping give developers the confidence to proceed, but by completion have found loans harder or impossible to come by.

An October 10 Moody's Investors Service (Moody's) report notes: "Sydney, Melbourne and Brisbane are particularly exposed to a potential oversupply of residential apartment units due to new expected supply, against the backdrop of falling migration and tightened lending restrictions, particularly for foreign buyers who, to date, have comprised a large percentage of residential property investors."

Bill Evans, Sydney-based chief economist, managing director and global head of economics and research at Westpac Banking Corporation, suggests that, with 110,000 dwellings currently under construction, high-rise apartments are the key driver of the contemporary construction. "Apartment oversupply remains the critical uncertainty for the next few years," he says. "Around 44,000 apartments are under construction in New South Wales and 35,000 in Victoria, most of them in Sydney and Melbourne. This is up 42 per cent on a year ago – a very rapid increase indeed."

While market participants almost universally agree that foreign investment trends are worth watching especially as they relate to apartment supply trends, they also tend to counsel against assuming all inward investment is inherently unstable. Phil Miall, Brisbane-based head of credit research and strategy at QIC, comments: "Foreign purchasers are not necessarily speculative. While some may well fail on settlement, it is reasonably likely that a good proportion of buyers are doing so because they view Australia as a favourable location. Their investments may be sticky, even if the properties they acquire have fallen in value since their pre-sale."

## AFFORDABILITY ISSUES

In the context of supply questions, Australia's housing affordability situation is a blessing and a curse for the local market. Some analysts argue that the affordability squeeze suggests a clear and critical overvaluation of local property. On the other hand, the fact that many domestic buyers appear to be increasingly squeezed out of home ownership entirely implies a robust foundation of latent domestic demand should prices fall back into a reasonable affordability band.

An August housing-trend report authored by Michael Workman, senior economist at CommBank in Sydney, focuses on declining home-ownership rates in Australia. Workman attributes this trend in part to demographic change but also, and significantly, to economic and affordability factors. The report cites data indicating that the home-ownership rate has been on a downward trend since the mid-1990s (see chart on p8) while the proportion of renter households has been on the rise.

Much of the commentary on the falling home-ownership rate has focused on the statistics on younger age groups. Workman acknowledges an "intergenerational wealth transfer that will, in all likelihood, never be reversed for a significant proportion of the population". He also highlights the trend for people to get married and start families later in life as "factors that would tend to reduce home purchase in the younger age groups".

There is an even wider trend at play, though. Workman points out that home ownership has fallen across most age groups in the past decade, with affordability factors the main driver. In this context, the conservative lending criteria practiced by Australian banks and now demanded by their regulator have noticeably reduced the proportion of households able to own their own homes.

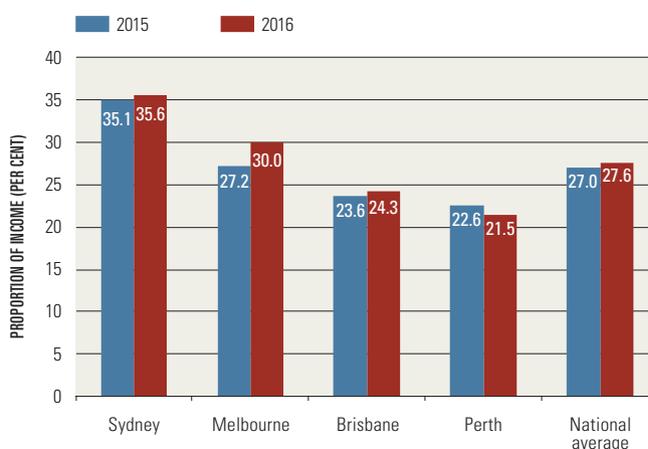
"Relatively high deposits, sometimes up to 20 per cent of the house price, are correctly seen as the major barrier to home purchase by all age groups," Workman writes. "The problem with higher house prices is that the dollar value of the 20 per cent deposit rises with the lift in house prices. The 20 per cent deposit currently required is the equivalent to a whole year's average household disposable income. It obviously is taking longer to meet [this] requirement because house prices are rising much more quickly than household disposable incomes."

## SERVICEABILITY REMAINS HIGH

There are also challenges for existing home owners. While these are at the margin so far, the fact that they exist at all in an environment of ongoing cash-rate cuts speaks to the low level of wage inflation and the unwillingness or inability of lenders to fully pass through rate cuts to mortgage holders.

In a May report, Natsumi Matsuda, analyst, structured-finance group at Moody's in Sydney, stated that Australian home-loan serviceability has deteriorated over the past year,

## PROPORTION OF INCOME REQUIRED TO MEET MORTGAGE REPAYMENTS



SOURCE: MOODY'S INVESTORS SERVICE MAY 2016

with home owners having to spend a larger proportion of their income on monthly mortgage repayments. "Australian households spent an average of 27.6 per cent of their monthly income to meet monthly mortgage repayments, compared with a rate of 27 per cent in 2015," Matsuda wrote.

Sydney was the least affordable capital city, with home owners paying 35.6 per cent of their income towards their mortgage obligations, followed by Melbourne at 30 per cent according to Moody's data (see chart on this page).

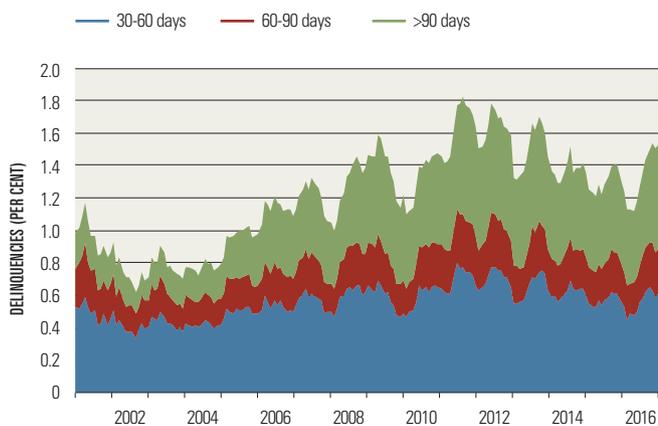
Overall, however, low rates and unemployment are helping support Australian home-loan serviceability – assisted by a regulator with a close eye on high-LVR lending. S&P's RMBS performance watch report for the period to the end of June 2016 states: "Debt serviceability levels are exacerbated in more subdued economic climates when refinancing opportunities are limited... because lenders invariably tighten their lending criteria. We believe Australian regulators' focus on prudent lending standards while interest rates and unemployment are low provides an important safeguard because borrowers still have an opportunity to build equity."

The data on Australian household positioning are mixed. The same S&P report points out that the average household debt-to-income ratio has more than doubled – to 180 per cent – over the past two decades. The housing contribution has followed the same trajectory to reach 120 per cent. Meanwhile, despite the caution around high-LVR lending, S&P reports that 17 per cent of loans in RMBS portfolios have LVRs of more than 80 per cent.

"We believe borrowers with loans in higher LVR categories are more likely to be feeling the pinch of lower wage growth and, depending on where the property is located, less bullish property price growth compared with a few years ago," the rating agency suggests.

By contrast, there are also signs in some areas that lender caution is being mirrored in the household sector. S&P's

## AUSTRALIAN PRIME RMBS DELINQUENCIES



SOURCE: MOODY'S INVESTORS SERVICE SEPTEMBER 12 2016

report continues: “More generally we believe that, across RMBS portfolios, home owners have been taking advantage of low interest rates to pay down their mortgages faster, building up buffers. The weighted average LVR across all RMBS portfolios of around 60 per cent indicates that a significant portion of these borrowers can withstand a moderate level of property price depreciation.”

What appears to be going on is a bar-belling of housing debt. New market entrants confronting the affordability crisis are taking on the highest LVR levels lenders will make available – supplemented in many cases by lenders’ mortgage insurance – and thus fall squarely into the higher-stress bracket. Longer-established home owners, meanwhile, have taken advantage of low rates to get ahead of mortgage payments and thus significantly improved their serviceability.

### OUTLOOK DIVERGENCE

In these circumstances, getting a read on the likely direction is hard. It is difficult to make a call on whether the extent of stress to the pointy end of the mortgage market – new buyers in a poor affordability scenario and investors, including those from offshore – will in any plausible economic downturn be offset by the cohort of borrowers that have improved their position during the period of favourable conditions.

Toni Spencer, head of credit research at Colonial First State Global Asset Management in Sydney, says it is hard to ignore the note of concern being sounded. “It’s hard not to worry that maybe the Australian housing market is in a bubble,” she comments. “Certainly everyone outside the country is telling us we’re wrong – and while we may say they’re wrong, so does everyone who is in a bubble. I take some comfort from the fact that while affordability is low, at least serviceability is high.”

QIC’s Miall adds: “We are cautious about the housing market and prices are certainly high – it would be hard to justify significant further growth from here. But equally it is

clear that households are, in general, not overly stretched at present. While we retain good employment and low interest rates we don’t think there is heightened risk of a sharp correction, either.”

Miall’s view seems to match a market consensus: that Australian house prices may be at or near a cyclical high, but absent a severe employment downturn or a rapid reversal of the downward rates trend – neither of which are in many base cases – any forthcoming correction is most likely to be relatively gentle. Indeed, it may already have started.

In June, Ken Hanton, director, capital financing at National Australia Bank in Sydney, wrote: “From looking at both securitisation-specific data and bank regulatory disclosures, it would appear that, following the improvements the market has experienced over the last five years, Australian mortgage arrears are now on the rise. Aggregated bank data... have yet to show the same when it comes to actual impaired mortgages. However, if the arrears data continue to evolve as they are appearing to, a drift up in mortgage impairments is likely to follow.”

The arrears uptick is both recent and small, though. Moody’s data indicate RMBS arrears hit three-year highs in mid-2016 and are elevated relative to most of the past 15 years. But seasonality makes it too early to confirm a longer-term trend (see chart on this page).

### RMBS IMPLICATIONS

The analyst community appears to be very confident about the likely level of resilience of Australian structured finance to any housing-market downturn of plausible scale. S&P notes the risk factor posed by higher-LVR loans written in strong property markets, which can lead to falling borrower equity and thus lender losses in default should the market turn. But the rating agency also emphasises that it believes the risk of a sharp, disorderly Australian housing-market correction to be relatively low.

S&P adds: “Most AAA-rated tranches of Australian RMBS are well placed to withstand a moderate decline in property prices, given the credit support available to them and the relatively modest LVR of the majority of loans underlying RMBS transactions.”

Hanton is also confident about Australian structured finance even if the potential housing market downturn he identifies comes to pass. He writes: “With an anticipated rise in mortgage arrears... recent historical RMBS performance data suggest RMBS losses will be minimal and [confined] mostly to unrated notes from nonconforming transactions. A possible combination of risks to securitisation stakeholders is that mortgage arrears levels rise sharply and at the same time the Australian housing market experiences sudden price falls greater than those seen over the last 10 years. While the risk of these events shouldn’t be dismissed, they probably aren’t in the majority of base case expectations either.” ■

# GLOBAL INVESTOR INTELLIGENCE

In the third quarter of 2016, **Perpetual Corporate Trust** (Perpetual) responded to the expressed desire of its securitisation clients to learn more about global investor perspectives on the Australian industry. To find these insights, Perpetual conducted extensive interviews with 16 investors from around the world, and has compiled their views in a new report. ASJ presents a flavour of the report through the views of its participants and also speaks to Perpetual about the survey's aims and takeouts.

◆ **GARY LEMBIT**, SENIOR MANAGER, CLIENT INSIGHTS AND ANALYTICS ◆ **RICHARD MCCARTHY**, GENERAL MANAGER, SALES AND PRODUCT

**W**hat was the rationale behind the survey? Specifically, what were you trying to achieve and what led you to go about it the way you did?

◆ **MCCARTHY** Perpetual provides a broad range of services to the securitisation market – in areas including trustee services, trust management and data management.

Given our market position and the client feedback we have received requesting greater insights from Perpetual, we committed to completing an investor study to explore buy-side behaviour and attitudes, and understand their needs when making investment decisions. Additionally, we wanted to understand how they evaluate their investments and their views on the Australian market.

**How did you go about identifying the investors you wanted to speak to for the project?**

◆ **MCCARTHY** We wanted to represent the geographical regions around the world. Our starting point was our existing understanding of the investor base for securitisation in Australia, followed by interaction with ABSPerpetual – the data warehouse for the Australian securitisation market.

## INVESTOR RESPONSES



## VIEWS ON AUSTRALIA

 “We take a top-down approach to investment destinations. It has to be a market with fundamentals that myself and my team think are reasonable. Within such a market we focus on issuers in a strong competitive position. The next level is the transaction itself – that it’s adequately structured for the type of collateral risk we would be holding.” US INVESTOR

 “Melbourne and Sydney have some risks. The picture on money from foreign investors is not clear – how leveraged this money is and how much has come into the new housing market. We’ve seen tremendous growth in the Australian housing market but

*we are worried about a downturn if there is a bigger slowdown in China.”* ASIAN INVESTOR

 “‘Bubble’ is probably a little too strong, but there are certainly areas of housing-market stress in Australia that need to be watched. For the RMBS market this of course creates sentiment problems, but I don’t believe it creates structural problems.” AUSTRALIAN INVESTOR

 “I’d rather be investing in Australian RMBS than in bank unsecured paper, for instance.” EUROPEAN INVESTOR

## CREDIT WORK

 “If we don’t have conviction there’s no point us going further – it doesn’t really

We identified users of the data warehouse to understand which institutions were monitoring their investments.

We also talked to the Australian Securitisation Forum and a number of intermediary banks to help us understand who were the biggest buyers, domestically and offshore, of securitisation product. We were happy to achieve participation from 16 institutions in four regions – Europe, the US, Asia and Australasia.

**Were the investors you spoke to all securitisation specialists, or were some or all of them engaged with Australian-origin issuance across other products – such as senior-unsecured debt or covered bonds?**

◆ **LEMBIT** From our research, as much as one might search for investors that are active in many different products, the reality is investors in residential

mortgage-backed securities (RMBS) markets tend to be relatively specialised. In many cases, even if they are working in a larger team, their specialisation is either or both of RMBS and asset-backed securities (ABS), and they are typically the only person in the team covering this sector.

Overseas investors all provide global perspectives while Australian investors are more likely to be operating primarily in the domestic market. We sought a spread of investors in assets-under-management from those investing US\$2 billion to those investing US\$100 billion in RMBS, and to a lesser extent ABS, product worldwide.

All investors in the study buy Australian RMBS. Fewer invest in ABS due to the size and supply of Australian ABS transactions, although we have seen significant growth in the ABS market subsequent to the financial crisis. This is an encouraging sign.

**Across the interviews you conducted, what were your top takeouts in terms of what investors want to see from Australian issuers and product?**

◆ **LEMBIT** Demand is very high on the list for both RMBS and ABS – investors have deep pockets and they are willing to invest more in Australia than they are currently able to. Liquidity is also a big issue. Typically investors are buy and hold but they become concerned about tail risk if deals are not called.

◆ **MCCARTHY** Investors called out master trusts with soft-bullet maturities as a product they would like to see from Australia. This would improve demand and increase the universe of investors in the market. They believe master trusts would help with the basis swap, liquidity and tail risk.

◆ **LEMBIT** There is also clear frustration around transparency in secondary markets, even for certain deals investors have bought in the primary market. The

*matter what the spread is. Our philosophy is not ‘there is no such thing as a bad bond, just a bad price’. We believe that if it’s a bad bond, it’s a bad bond and we don’t buy it no matter what the price.”* AUSTRALIAN INVESTOR

 *“The lack of a standardised, downloadable format for reporting makes it almost impossible to get the information we need. We have to go through individual PDFs, which is a nightmare, and then for individual issuance we have to rely on the specific bank ‘being nice’ on a particular day.”*

ASIAN INVESTOR

## LOAN-LEVEL DATA

 *“We are mainly a senior-level investor so loan-level data is not particularly important except for some aspects of collateral distribution. But what we have seen of loan-level data [globally] is brought down by documentation and legal agreements that are*

*overly punitive. I don’t know if it’s a regulatory or an issuer problem.”*

ASIAN INVESTOR

 *“In general, issuers out of Australia are pretty good at accommodating requests for information or doing more bespoke work. In the US, there is a group of issuers that will give you loan-level information and then there’s a very large part of the market that won’t. Whereas I can’t recall not getting loan-level information whenever I’ve asked for it from an Australian issuer.”* US INVESTOR

 *“I always said data provision was reasonable but I think it has actually deteriorated in the last year. Surprisingly, I think this is actually because of the Reserve Bank of Australia and its new reporting requirements. Standardisation has not been available to us as investors and we have had a lot of additional complexity and time wasted on trying to get issuers to give us, for example, pool data on a line-by-line basis.”*

AUSTRALIAN INVESTOR

fact that investors lose sight of relative value in the secondary space is a real issue.

They say this is why data is so important. It provides transparency around the way markets are operating in the various countries in which they are active. Investors tell us that accessing the right kind of information in Australia is particularly difficult.

The lack of visibility around a potential issuance pipeline over the next 12 months is also a common theme. Without this investors have no sense around issuers' commitment to the market or their issuance needs for the coming year. This drives investors to look at alternative markets, where they can more easily source this information.

**Did you ask about relative interest in Australian product denominated in Australian dollars versus the same issuers in other currencies?**

◆ **LEMBIT** There is no doubt that everyone we spoke to is very open to investing more heavily in Australia. This is not just about the availability of master trusts and loan-level data. It is also the fact that Australia is a consistent market and they understand it well when it comes to individual deals. They are receiving good-quality information at deal level and thus are in a position to be able to evaluate their investments effectively.

In some cases, and partly due to the relationships they have developed, investors have been able to ask for and receive more bespoke solutions via reverse enquiry. There is definitely strong demand and little way of further increasing it other than with additional supply.

**What sense did you get from investors you spoke to around their level of comfort with the underlying**

**asset quality of the housing market in Australia?**

◆ **LEMBIT** Investors are keen to source any information they can on this topic. They have good, solid reasons for believing that – while there is always a risk in the housing market and the potential for a downturn – any correction will not be dramatic or have a material effect on the RMBS market specifically.

Investors continue to see potential even though they have a degree of caution on property, specifically around apartments and overseas investment into the Australian market.

**How optimistic are you about offshore demand for Australian product based on the study findings – and how would you define 'optimism' in this context?**

◆ **LEMBIT** Investors are very optimistic. There is latent demand and the only

 *“Australia’s data availability is quite similar to Europe before the crisis. Even in Spain, post-crisis deals offer loan-level data on every interest payment date. Obviously you have to be significantly more comfortable to invest in securities when you have that much less data.”* EUROPEAN INVESTOR

 *“The data consistency across issuers hasn’t perhaps been at the same level as with the European Data Warehouse. This has provided a whole lot of analysis and comparison tools – which make it a ‘deeds toy box’.”* EUROPEAN INVESTOR

*they will need to do a little bit more in the way of regular updates – getting in front of the key investors offshore to make sure they are up to speed.”* EUROPEAN INVESTOR

 *“The way the whole soft-sounding process you get in Australia works is very different from the rest of the world, and we’ve got around this effectively by signing NDAs. We can then be involved in soft-sounding prior to the official launch. This is important to us because when we first went back into the Australian market we were not getting enough time to actually do our analysis on deals.”* EUROPEAN INVESTOR

## TALKING TO ISSUERS

 *“We would invest more in Australia if we knew what was coming, and if more was available overall.”* ASIAN INVESTOR

 *“As offshore investors become more important to Australian issuers, perhaps*

 *“In the wake of the crisis, there was a slight sense of ‘why does it look like Australia has got off so lightly – what are we missing?’ The Australian banks, the big banks I was dealing with, did a great job of supplying enough macro information to get me comfortable.”* US INVESTOR

factor holding this back is supply. There are some barriers – the introduction of master trusts, availability of loan-level data and so forth – and removing some of these barriers could further increase demand.

What investors really covet, though, is certainty around what deal flow is coming to market. The term ‘pipeline’ was mentioned over and over again. This was not in the sense of pre-announcing deals but meaning more clarity about issuers’ expectations and plans in general terms.

The size of investment in Australian RMBS relative to the size of investment these organisations have around the world is small, so there is clearly an inherent risk that the larger overseas markets become relatively more attractive.

This means Australia has to use all its capabilities to engage the audience, and reducing certainty is not going to help.

It is about sending key messages that the Australian market is open for business and it wants to grow.

**If you were to give one piece of advice to Australian securitisers based on the findings of the survey, what would it be?**

◆ **MCCARTHY** The ideal characteristics identified by investors are for Australian securitisers to be accessible and available, and willing to discuss their business, transactions and pipeline. Improved transparency through the delivery of quality reporting, including loan-level data, is key, as well as the ability to answer questions quickly and in full.

There is also a sense that Australia operates as a group of individual issuers, and this is also a key takeout for securitisers. Investors see quite distinct differences between issuers in terms of the extent to which they are ready and

willing to engage with investors. Finally, it is important to ensure investors understand your commitment to the market as an issuer.

**What does the Australian market as a whole need to do to improve offshore investor engagement?**

◆ **LEMBIT** Improvements flagged by investors are for more certainty of issuers’ pipelines, improved transparency through the delivery of loan-level data and better reporting – to help investors in advance of transactions and throughout the life of the deal – improved liquidity, and the introduction of master trusts.

IF YOU WOULD LIKE MORE INFORMATION ABOUT THE SURVEY OR A COPY OF ITS FULL FINDINGS, PLEASE CONTACT:

**Richard McCarthy**  
General Manager, Sales and Products  
Perpetual Corporate Trust  
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*“Sometimes the impression we’ve seen from the majors is, with so many funding options available to them, that they will only do something if it absolutely suits them. Which almost by definition means it won’t suit us.”* AUSTRALIAN INVESTOR



*“The best [Australian] originator we’ve seen by far is a nonbank lender. But we’ve also seen nonbank lenders that don’t give us as much confidence as some of the major banks.”* EUROPEAN INVESTOR



*“A lot of the time when a new deal is done the coupons on the mezzanine tranches won’t be disclosed. I don’t quite understand this: it just seems that the attitude of ‘default minimal transparency’ is only going to hinder liquidity.”* US INVESTOR

## MARKET FORMAT



*“Liquidity in the Australian market is significantly more limited than what we see in the US. If the Australian market were to grow in any meaningful way, it would need*

*the support of the main players there in making markets and keeping adequate levels of liquidity.”* US INVESTOR



*“From a spread perspective there seems to be value in Australia but liquidity has not really improved, particularly secondary liquidity. There is no transparency around it, either.”* ASIAN INVESTOR



*“The ability to put master trusts in place surely improves the cost efficiency of cross-currency swaps. The ability to issue in investors’ base currency, whether that be US dollars, euros, yen or whatever, will definitely help improve the market.”*

EUROPEAN INVESTOR



*“I think we really need to make an effort to finalise the whole master-trust regulation and start tapping the international market. The quality of the assets, issuers and market is there and Australia has a great story. It’s just making sure that you can be consistently present in the US market.”*

US INVESTOR

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# CONFERENCE SESSION PREVIEW: LENDING, SECURITISATION AND TECHNOLOGY

As part of its gold-level sponsorship of this year's Australian Securitisation Forum (ASF) conference, **Commonwealth Bank of Australia** (CommBank) is hosting a panel discussion on how technology can have a practical and productive impact on lending and securitisation. The session's themes tie in with CommBank's event exhibition presence, as its securitisation team explains.

If fintech is not the number one talking point in capital markets today it is certainly the one that has the greatest combination of opportunity and challenge for market participants. Automation and disintermediation offer the prospect of a more efficient future lending environment and hugely enhanced investor engagement for financial institutions, while at the same time individuals and firms fear the potential downside of missing the boat.



*"We want to talk about the practical application of technology. We know audience members don't spend their days coding – they see technology purely in the context of its value as a tool."*

SOPHIE GILDER COMMONWEALTH BANK OF AUSTRALIA

The characteristics of the lending and securitisation markets mean they have the opportunity to be at the forefront of developments. Capturing, processing and manipulating large quantities of data for risk-management and investment purposes is absolutely critical to loan origination and securitisation. Enhancing data-related functions could be a game changer.

"From the absolute top level, what we want to do is initiate a conversation about what the future of securitisation will look like," says Rob Verlander, CommBank's Sydney-based head of debt markets securitisation. "Securitisation, more

than any other funding market, provides the bridge to enable advances in technology to effect new more effective funding solutions for clients."

Verlander says CommBank does not see its role as defining a future state for market participants, but rather helping them engage with the inevitable industry changes ahead. Meanwhile, Sophie Gilder, head of blockchain at CommBank in Sydney, emphasises that the bank is laser focused on real-world application from the earliest stages of fintech discussions with clients.

"We want to talk about the practical application of technology," she explains. "We know audience members don't spend their days coding – they see technology purely in the context of its value as a tool. So we are taking a pragmatic approach, by looking at real-world examples of how technology can change – and is already changing – our sector."

As an example, Gilder says CommBank's ASF conference session will explore the idea of technology as a facilitator of enhanced loan origination. "It's a lot broader than just data," she adds. "Many of our clients, for instance, rely heavily on brokers as their main channel for originating loans – they may have digital channels, but these usually deliver a minority of business. However, digital would be the cheapest origination channel if it could generate significant volume."

To this end, CommBank is tying together agenda content with its exhibition space at the ASF event. Justin Mineeff, executive director, debt markets securitisation at CommBank in Sydney, says the bank's exhibition space will allow visitors to explore themes driven by its innovation lab, specifically around how the lab is helping clients improve their businesses through technology.

"If you get the technology piece right you can provide better service to your customers and increase the efficiency of your own business," Mineeff says. "Securitisation is an important aspect of the funding mix for the products we are talking about so the technological interface with our clients is important. We want to ensure our clients are aware of market developments."

CommBank's ASF event session will bring together stakeholders from various parts of

the industry – including a range of originators from the bank, nonbank and disruptor sectors. Verlander says the peer-to-peer lending model will be examined in the context of the nature of its challenge to established players.

Technology has the ability to enhance securitisation's visibility and value proposition to the buy side in particular, Mineeff suggests. He says: "We all want securitisation to be a product that works best in capital markets – we believe it's a logical way for the assets to be funded. What we're talking about is the ability of investors to have better, more transparent and more timely information." ■



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**Commonwealth**Bank  
of Australia



# CONFERENCE SESSION PREVIEW: GROWING THE ASSET CLASS

Gold sponsor **Westpac Institutional Bank** (Westpac) has run an investor session at the Australian Securitisation Forum (ASF) conference for a number of years. James Kanaris, Sydney-based director, structured finance at Westpac, offers a taste of buy-side feedback on the market today.

**How do you read the mood among domestic real-money buyers in 2016 relative to past years, and are there any signs of demand growth?**

◆ It remains positive and constructive, with stronger demand for the asset class in the second half of the year from both domestic real-money and offshore investors.

Some of this growth has come from new investment mandates targeted at residential mortgage-backed securities (RMBS) and asset-backed securities (ABS). This is a function of attractive relative value in Australian ABS and RMBS.



*“Interest from boutique funds has been developing over a number of years and domestic real money is now also starting to look at some lower-rated tranches. This combination should provide solid momentum.”*

JAMES KANARIS WESTPAC INSTITUTIONAL BANK

Primary securitisation volume in 2016 to early October has lagged previous years, although supply has been augmented during the second half of the year. The positive theme emerging from recent Westpac-led transactions is that these deals were not only upsized but also achieved final pricing inside indicative guidance. We expect this strong momentum to feed through to the end of 2016.

**Is liquidity still the greatest challenge securitisation faces in attracting real-money investors? What can be done by industry to bridge the gap?**

◆ There is still work to do, but the market is moving in the right direction. We think the key will be the availability of standardised information to assist investors when making

trading decisions. The Reserve Bank of Australia’s loan-level data reporting allows standardised, pooled information to be provided to investors, which is a step in the right direction.

Westpac itself continues to help drive liquidity by making markets in Australian and New Zealand securitised product. The bank has an extensive secondary-trading platform providing liquidity to its investor clients.

The introduction of master trusts to the Australian market, with the ability to provide soft-bullet bonds, may also pave the way for new investors to participate.

**One liquidity driver could be a wider base of active, or at least engaged, investors. How would you characterise the level of interest from new liquidity pools?**

◆ Interest from boutique funds has been developing over a number of years. These funds have a good understanding of the credit metrics and risks associated with RMBS and ABS, and they remain attracted to the yields on offer. Domestic real money, which has traditionally played mainly in the senior space, is now also starting to look at some lower-rated tranches. This combination should provide solid momentum for transactions.

We are also seeing increased interest in mezzanine and junior tranches from offshore investors. Finally, we remain hopeful that eventually Australia will have a retail market for securitised product.

**Which themes stand out as areas of focus for domestic buyers?**

◆ Seasoning remains a key focus. Investors continue to be attracted to strongly seasoned portfolios and lower weighted-average loan-to-value ratios (LVRs).

Investment loans are prevalent, along with the level of foreign buyers in the Australian market – although RMBS portfolios rarely have a big concentration of foreign-buyer loans. Regulatory positioning has played a part in alleviating some of these concerns,

particularly the tightening of debt-serviceability assessments by Australian banks, LVR caps on certain mortgage products and verification of offshore income.

**What else are you hoping to get out of this year’s conference session?**

◆ The industry has worked hard to address reporting issues so we look forward to hearing insights around the extent to which investors can make informed decisions based on the level of transparency in, and availability of, useful data.

Leading on from this is a discussion on how we continue to attract new investors into Australian securitised product, including whether master trusts can act as a catalyst to attracting new investors. ■

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# CONFERENCE SESSION PREVIEW: SECURITISATION GOES GREEN

With a first deal now complete and ahead of a session at the Australian Securitisation Forum conference, **Jacqui Fox**, general manager, investment-grade originations at **National Australia Bank (NAB)** in Melbourne, discusses green securitisation.

**F**ox explains that NAB's market leadership in the green-bond space is an extension of the bank's broader support for environmental, social and governance (ESG) initiatives. This includes its corporate commitment to financing the national transition to a low-carbon economy. "Clean energy is a mega-trend that includes but goes beyond Australia's borders, and at NAB we believe the financial sector has an important role to play," Fox comments.

Green bonds, and green securitisation more specifically, of course cannot be the only part of the financial sector's contribution. But Fox believes the asset class will help fund borrowers' own clean-energy and sustainability agendas. NAB



*"Thinking from a pure securitisation perspective, the potential to recognise the energy efficiency of the largest consumer asset – the home loan – could provide significant scale."*

JACQUI FOX NATIONAL AUSTRALIA BANK

has already made a significant contribution via its role in a clutch of breakthrough deals (see box on this page).

So far, green-bond issuance in Australia has been at the margin. "In some ways it has been a niche product and will probably remain so unless there is an economic incentive for green issuance or an economic penalty for nongreen issuance," Fox acknowledges. "But we think it will have growing influence over time even if deals price in line with nongreen issuance. The impetus will continue to be issuers' own ESG agendas."

When it comes to securitisation in particular, Fox says the biggest challenge at present may be persuading issuers

## NAB's green-bond breakthroughs

Key green transactions issued or arranged by National Australia Bank (NAB).

- ◆ NAB, A\$300 million seven year, priced December 2014. The first green bond from an Australian domestic issuer.
- ◆ Hallett Hill No.2 Wind Farm, A\$206 million equivalent 12 year, priced March 2015. First green US private placement deal from an Australian issuer.
- ◆ FlexiGroup, A\$260 million asset-backed securities including A\$50 million green tranche, priced April 2016. Australia's first green securitisation tranche.
- ◆ Treasury Corporation of Victoria, A\$300 million five year, priced July 2016. First green bond from an Australian semi-government issuer.

with assets suitable for green financing to use the asset class. "I have a positive mindset with respect to the potential opportunity, and there are probably 3-5 customers for which green securitisation may make sense now," she reveals. "At the end of the day, though, many borrowers will have other financing options available to them. The options may include green senior bonds and green securitisation, but they won't be limited to green issuance."

One reason for issuers to explore green funding is a key advantage the asset class offers: investor diversification. Green debt securities typically rank *pari passu* with the same issuers' nongreen securities, and mainstream investors should therefore be indifferent between the two when priced equally. But green issuance opens the door to the growing cohort of specialist socially responsible investment funds.

Looking further ahead, the key medium-term challenge for the green-bond market, including in securitisation, will be finding suitable assets to fund. Fox comments: "I think evolution in issuer type would be very positive. We have seen the Australian green market evolve from the supranational sector to bank issuance and, more recently, securitisation and state-government deals. Seeing an Australian energy company or major corporate with a strong sustainability agenda issue green bonds would be a natural progression, be it in senior-unsecured or securitised format."

Residential might be the holy grail for green securitisation. "The Dutch have achieved the recognition of energy-efficient home loans via the Storm 2016 residential mortgage-backed securities deal. Australia could do this too," Fox says. ■

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# MARKET SECTOR FOCUS: ABS DEVELOPMENT IN AUSTRALIA

*Facilitating Australia's asset-backed securities (ABS) market is a strategic focus for ANZ. The bank's Sydney-based global head of structured capital markets, **Graham Metcalf**, discusses growth aspirations.*

**Promoting and growing the ABS market is obviously a goal at ANZ. But is your focus more on bringing extra issuers into the fold or increasing investor engagement?**

◆ Currently the balance is that we need more ABS issuance rather than more investor engagement.

ANZ is a firm believer in the asset class and considers securitisation to be a very efficient funding solution for auto and equipment loans. The market would benefit from a larger number of issuers. However, the reality is that the sector is quite concentrated and likely to remain so. Corporate activity offers some possibilities, including loan books changing hands from owners that do not use the securitisation to ones that do. This can go the other way as well, though.



*“The market would benefit from a larger number of issuers. However, the reality is that the sector is quite concentrated and likely to remain so.”*

GRAHAM METCALF ANZ

On the investor side, we have seen great engagement this year from locally based fund managers and from investors in Asia, New Zealand and the northern hemisphere. Having internationally recognised issuers active in Australian dollars certainly helps with broader investor engagement.

**The flat curve should make ABS assets – which are traditionally shorter dated – appealing to investors. How do you market ABS to investors, and how much success are you having?**

◆ The point about the appeal of the securities is absolutely right. Relatively short-dated, floating-rate assets that amortise quickly, offer good credit margins and traditionally hold their

capital value during the life of the note certainly tick a lot of boxes in the current investment climate.

When ANZ is lead managing ABS transactions we highlight the fundamental quality of the sponsor or servicer, the collateral characteristics and the structural enhancements available to protect investors – balanced of course by the key investment risks.

In recent years, domestic real-money investors have found this asset class to be an attractive risk-return proposition as they get the relative value of shorter weighted-average lives and more predictable prepayment rates.

The global investors that are active in our market like Australia, including our rules and regulations. But there is a question of how much attention they can pay when issuance is modest. Investors are certainly very aware of the spread pick-up to residential mortgage-backed securities, though.

**You have mentioned consolidation in the auto market in particular. How do you see issuer diversity developing?**

◆ We have seen quite a wide range of finance companies being attracted to the yields available from auto lenders. In several instances, these companies have existing direct and broker origination channels, servicing, and collection platforms that can be modified to add auto lending to mortgage lending.

It is an interesting competitive landscape because there are two auto lenders that have grown, organically and through acquisition, in recent years to be very strong market participants. They also have a knowledge and experience advantage over smaller lenders and new entrants in dealing with consumer regulation. This suggests that the existing large players will be strong contenders on any future loan-book sales.

The finance arms of the large offshore car manufacturers are of course another important category of ABS issuer, and we are hopeful that several of these will follow Volkswagen Financial Services's lead and use the Australian capital markets for future funding requirements.

**What are the prospects for other – including new – assets to be used as the basis of securitisation transactions in Australia?**

◆ A perennial question. Lottery receivables, solar, student loans, 'green' and whole-business securitisation are among the periodically mentioned new asset classes that don't seem to quite make it to market. We like to stay optimistic on these. But we also have to recognise that many stakeholders, including regulators and risk departments, are trending towards simpler rather than more complex securitisations.

Credit-card securitisation is another asset class that is established offshore but not here. We see this asset class as a prospect for the Australian capital markets. ■

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# WHERE NONCONFORMITY PAYS OFF

Australia's nonconforming residential mortgage-backed securities (RMBS) market never suffered the same credit damage as the US subprime sector – largely because the Australian market has a radically different profile from that of the US. **Macquarie Bank's** securitisation specialists explore the nonconforming asset class to explain its growing appeal to investors.

**N**onconforming issuance is the growth segment of the Australian RMBS market, unlike its older sibling, prime RMBS. Indeed, the success shown by issuers over recent years belies the fact that nonconforming is often equated with the riskier subprime mortgage market. Canny investors are exploiting the differences between the two sectors to diversify and enhance their portfolio returns.

By the end of the third quarter of 2016, nonconforming issuance was well on the way to a record year in Australia in terms of RMBS market share, if not aggregate volume (see chart 1). Even so, outright issuance this year is set to exceed that of any year since the financial crisis.

Subprime in a US context principally refers to loans where the borrower has had a prior credit event, has a weak or poorly substantiated credit profile, or is looking for higher-than-average leverage. In Australia, nonconforming lending not only includes subprime but, crucially, also extends to

'alternative-documentation lending' and low-documentation lending at less risky loan-to-value ratio levels.

## AUSTRALIAN PRODUCT

Importantly, Australian nonconforming lending is generally biased away from 'prior credit-event lending', to the extent that many public RMBS issues supported by nonconforming mortgages have less than half their pools' borrowers affected by prior credit events.

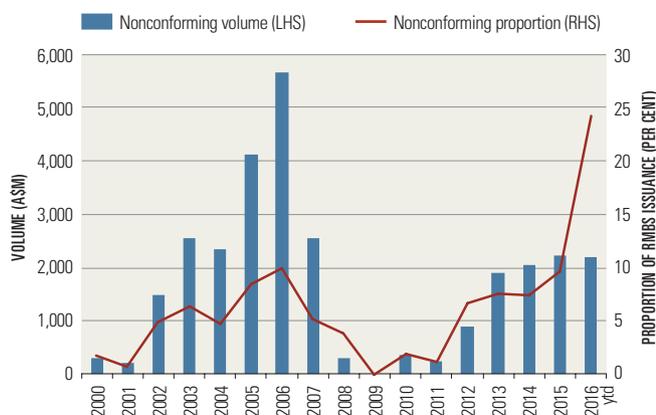
Two recently completed Australian-origin nonconforming RMBS issues demonstrate this fact. Resimac Bastille Trust Series 2016-1NC priced total volume of A\$750 million (US\$568.8 million) in August based on a pool including just 20.6 per cent of credit-impaired loans according to Fitch Ratings. Pepper Australia (Pepper) priced the A\$800 million equivalent Pepper Residential Securities Trust No.17 (PRS17) in early October – roughly a third of which was denominated in US dollars – with 42.3 per cent of its pool comprising credit-impaired loans according to Moody's Investors Service.

Australian nonconforming product tends to be originated by nonbank issuers, with the current state of the market driven by authorised deposit-taking institutions (ADIs) progressively tightening their consumer options in this sector.

Nonbanks themselves say it is not the case that they are aggressively chasing market share from the ADIs in the nonconforming space. Instead, they report that their risk-based pricing has become more competitive organically as ADIs have progressively repriced their own offerings back towards the nonbanks.

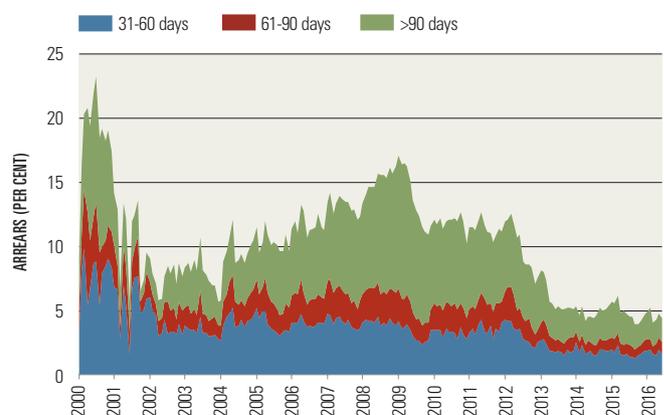
Loss rates for nonconforming loans relative to comparable full-doc prime residential mortgages are higher. But risk is offset by higher interest margins and greater effective returns to lenders. To date, losses in Australian nonconforming have been very well contained despite higher arrears than more vanilla RMBS. House-price rises certainly contributed to this

CHART 1. AUSTRALIAN NONCONFORMING RMBS ISSUANCE



SOURCE: MACQUARIE FIXED INCOME AND SECURITIES, SECURITISATION 2016

CHART 2. AUSTRALIAN NONCONFORMING RMBS ARREARS



SOURCE: S&P GLOBAL RATINGS OCTOBER 2016

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US Solar Energy Renewable Certificate Financing

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2016

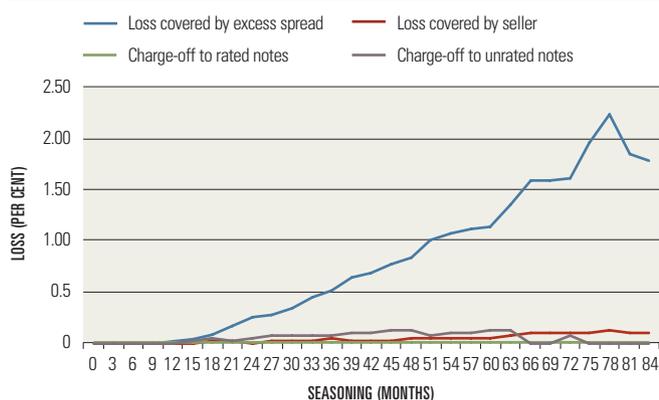
For more information, contact Alan Cameron on (02) 8232 8427 or Kevin Lee on (02) 8232 8577.

**AUSTRALIAN RMBS SENIOR NOTE ISSUE MARGINS AND CREDIT SUPPORT JANUARY 2015 TO OCTOBER 2016**

	Average senior note margin (bp/1m BBSW)	Average senior note required credit support (per cent)	Average actual senior note credit support (per cent)
Prime ADI RMBS	103	4.63	8.00
Prime non-ADI RMBS	126	5.54	13.15
Nonconforming RMBS	138	16.03	31.64

SOURCE: MACQUARIE FIXED INCOME AND SECURITIES, SECURITISATION 2016

**CHART 3. AUSTRALIAN NONCONFORMING RMBS LOSS COVERAGE**



SOURCE: MACQUARIE FIXED INCOME AND SECURITIES, SECURITISATION; S&P GLOBAL RATINGS 2016

outcome. But underwriting standards – reflected as low losses, as well as high-intensity servicing – and managed losses are the key components of delivering quality risk-adjusted return.

Nonconforming lenders’ focus on underwriting and servicing is emblematic of the sector. Indeed, the business model is centred on the borrower as a unique individual rather than as part of a ‘class’ of borrowers. Issuers understand the need to focus on the specifics of a borrower’s finances and requirements rather than just pigeonholing them according to a generic risk profile. This focus on the borrower continues past origination and through the life of the servicing process.

Nonbanks stand on their performance history and advanced risk pricing at the origination end of their businesses. As evidence of this, arrears in the nonconforming sector as a whole have been subdued for the past four years (see chart 2).

**INVESTOR ATTRACTION**

Whatever the extent to which asset performance, risks and processing are individually and specifically resonating with investors, the nonconforming product is clearly gaining traction with both borrowers and institutional investors. While not quite a record year for issuance, nonconforming RMBS issuance relative to vanilla RMBS is well ahead of pre-financial-crisis levels.

Investors in nonconforming deals are compensated for the higher risk profile of the underlying assets both through

higher pricing (see table) and structural enhancements. Performance data suggest spreads tend to comfortably compensate buyers for losses (see chart 3). Credit-enhancement levels, as determined by the rating agencies, are significantly higher in nonconforming transactions than for prime deals.

In addition to the higher credit-enhancement levels required by rating agencies, the triple-A portion of nonconforming deals is typically split into super-senior, class A1 notes with credit enhancement well in excess of that required by the rating agencies, and class A2 notes close to the required rating-agency credit-enhancement level but where investors earn a higher margin.

Typically, principal is allocated pro-rata between the class A1 and class A2 notes, but the class A1 notes rank ahead of the class A2 subsequent to enforcement. Recent transactions have also included time tranching within the class A1 notes. This feature allows issuers to create a short-dated class A1a note targeted at investor funds with short-duration mandates.

Nonconforming issuers will generally issue across the capital structure, with notes at the single-B or even unrated level available for sale. These notes offer potentially attractive returns to investors that have the capacity to assess such tranches. To address any potential liquidity issues within the trust caused by the high-margin junior notes, a number of nonconforming issuers include an excess spread trap or some form of reverse turbo, where a portion of excess spread is used to repay the most junior note.

As unregulated entities, nonconforming issuers have greater flexibility on call dates. Most nonconforming transactions include a call date and the percentage-based clean-up call often occurs above the 10 per cent level. Nonconforming transactions will typically include some features to incentivise the issuer to call. The measures vary but they include step-up margins, a turbo of excess spread, and turning off of the coupon on the issuer-held notes.

The growth opportunities for nonbank lenders in Australia means security and diversity of funding is increasingly vital. Developing the investor base is therefore a clear priority for issuers and their intermediaries.

Local investors have investment capacity up to a certain limit. So issuers see further development of offshore markets as a key priority. Offshore issuance, however, offers multiple challenges. Elevated swap costs relative to prior levels, nonresident investors operating under their own regulatory constraints and casting off the US subprime product taint are among the range of challenges faced by issuers. But there has been some nonconforming issuance activity into offshore markets. This is a promising sign of future potential.

The Australian nonconforming RMBS market continues to see growing activity, subdued arrears performance and increased traction with investors as the sector offers diversity to the Australian securitisation market. ■



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# AUP REPORTS IN SECURITISATION DEALS

*An agreed-upon procedures (AUP) report is a common feature of modern securitisation deals, but aspects of these reports are often not well understood.*

*Deloitte and PwC shed some light.*

**A**UPs generally comprise a series of testing procedures, to be undertaken by an assurance practitioner, that are determined by the users of each report. These procedures are usually very tightly worded, partly to ensure readers clearly understand the procedures undertaken and partly to enable a purely fact-based finding by the assurance practitioner. A key feature of AUPs is that they do not accommodate judgement. Intended users must draw their own conclusions based on factual findings reported combined with other information they have obtained, and consider if the sample size meets their needs.

The Australian standard that governs this kind of reporting – ASRS 4400 – requires that the findings of the procedures are reported factually and that no conclusion or opinion is expressed by the assurance practitioner. As such, and consistent with global equivalents, no assurance is provided by the assurance practitioner in an AUP report. This makes it unlike an audit or assurance engagement.

Typically, only the parties to the AUP engagement letter can access and rely upon the report. Certain other parties may, at the discretion of the assurance practitioner, obtain a copy of the report on a nonreliance basis by signing a hold-harmless letter or nonreliance letter to protect the assurance practitioner from claims in connection with the AUP report.

The kinds of tests we normally see in AUP reports for securitisation deals typically involve the checking of certain fields from the pool data cut for the deal to underlying source documents such as contracts, valuation reports or invoices, and recalculation of stratification tables in the prospectus. Offshore securitisation deals often involve additional procedures, for example the checking of historical information, delinquency, weighted-average lives and the cash-flow-waterfall model included in the prospectus.

The nature of assets being securitised can influence the procedures performed. In Australia, where residential mortgage-backed securities and auto asset-backed securities dominate issuance, procedures are relatively homogenous between issuers. The focus is on the accuracy of key data points disclosed to potential investors in deal documentation.

The market into which the deal is being issued also affects AUPs, particularly regarding sample sizes and the extent of

procedures performed over the prospectus. For example, US 144A issuance typically involves procedures on certain data contained in the prospectus that would generally not apply in a domestic deal.

Deals in the UK generally tend to require a 99 per cent confidence level compared with 95 per cent in Australia, using a methodology broadly based on statistical sampling. The US, meanwhile, does not tend to apply a confidence-level approach and instead applies sample sizes specified by engaging parties' – typically the arrangers' – risk-management frameworks.

The most recent change to the way AUP reports are used in securitisation came from the US. New rulings – rule 15Ga-2 and rule 17g-10 – released in 2015 for rated US securitisation deals require third-party providers of due-diligence services, which include elements of the AUP report, to make their reports publicly available on the Securities and Exchange Commission and deal websites.

Coupled with the Reg AB II changes, we are seeing a trend for higher compliance requirements aimed at better informing market users and securitisation participants. As such, we would not and should not be surprised if this trend trickles into the Australian market. ■

## Issuer tips for a successful AUP

Deloitte and PwC recommendations for agreed-upon procedures (AUP) reports.

- ◆ Prior to commencing the procedures, walk through an example loan file to identify potential issues upfront. Data and processes are different between organisations, therefore the procedures will need to be tailored.
- ◆ Ensure teams outside of the treasury function are involved. This includes the IT team, to ensure adequate system access, and the credit or servicing team, to explain the processes and documentation.
- ◆ Agree who needs access to the report upfront and negotiate any hold-harmless letters well in advance of deal closing, especially with international arrangers.
- ◆ Learn from AUP findings – these can be an early indicator of control weaknesses in other areas of the business.

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# ALL I WANT FOR CHRISTMAS IS RISK RETENTION?

*By Christmas Eve 2016, credit risk-retention requirements will be in effect for all applicable asset classes in the US.<sup>1</sup> Leading US law firm **Mayer Brown** talks through the key considerations that may be relevant to Australian-origin issuers.*

On October 22 2014, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Securities and Exchange Commission (SEC), the Federal Housing Finance Agency (FHFA) and the Department of Housing and Urban Development (DHUD) jointly announced that the six federal agencies had approved a joint final rule implementing the credit-risk requirements of Section 15G of the Securities Exchange Act of 1934, as amended.

While risk-retention rules in the US will take effect at the end of 2016, and already have been in effect for residential mortgage-backed securities (RMBS) since the end of last year, the European market has grappled with its own risk-retention rules since 2009. In fact, many European securitisations have complied with the US requirements. Although some aspects of the European and the US risk-retention rules overlap, a noteworthy distinction is that the European rules place the regulatory burden on compliance with the investor while the US rules place the onus on the securitiser.

Section 15G, which was added pursuant to Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, generally requires the six overseeing agencies to jointly prescribe regulations to require any securitiser<sup>2</sup> of asset-backed securities (ABS) or its majority-owned affiliate to retain at least 5 per cent of the credit risk of the assets supporting its securities.

Section 15G also provides that its regulations prohibit the sponsor from eliminating or reducing its credit exposure by hedging or otherwise transferring its retained credit risk. Section 15G exempts certain types of assets from the risk-retention requirements, and authorises the implementing agencies to exempt or establish a lower risk-retention requirement for other types of assets and to establish separate rules for different asset classes.

## FOREIGN-ORIGIN TRANSACTIONS

The agencies also exempted predominantly foreign-related transactions from the risk-retention requirements. The exemption, however, is not meaningful to any of the recent Australian transactions issued into the US because, to receive the benefit of the exemption, certain requirements must be satisfied.

These requirements are that the securitisation transaction is not registered under the Securities Act of 1933, that no more than 10 percent of the ABS interests are sold into the US, that neither the sponsor of the securitisation nor the issuing entity is chartered, incorporated or organised under the laws

1. Risk retention was in effect in the US for RMBS as of December 24 2015.

2. Section 15G defined a “securitiser” as either an issuer of an asset-backed security or a person who organises and initiates an asset-backed securities transaction by selling or transferring assets, either directly or indirectly, including through an affiliate, to the issuer. Section 15G(a)(3) of the Exchange Act.

of the US, and that no more than 25 per cent of the assets collateralising the ABS sold in the securitisation were acquired by the sponsor from a consolidated affiliate of the sponsor or an issuing entity that is located in the US.

Credit-risk retention was first proposed in April 2011 and re-proposed with significant revisions in August 2013. It underwent a comment process among agencies and industry groups in the US over the years since its original proposal. The Australian Securitisation Forum and Mayer Brown advocated on behalf of Australian industry participants for relief from the final rule for Australian home-loan securitisations on the basis that the home loans securitised by Australian market participants were already regulated by robust Australian regulations that protect securitisation investors from significant adverse risks.

These home-loan regulations are similar to the US qualified-mortgage regulations that exempt some US residential-mortgage-loan securitisations from the final rule. After extensive discussions with both the SEC and the FHFA, these agencies were not willing to provide further exemptions to grant Australian home-loan securitisations relief from the application of the final rule.

Since the final rule has been in place for securitisers of RMBS, many in the industry have analysed the basic risk-retention requirements. Generally, the sponsor of a securitisation transaction must retain 5 per cent of the credit risk of the securitised assets – determined as of the closing date of such securitisation transaction – in accordance with one of the standard risk-retention options described in the final rule or one of the specialised risk-retention options available for specific classes of assets.

The standardised risk-retention options include eligible horizontal residual interest (EHRI), eligible vertical interest (EVI) or a combination of both an EHRI and an EVI. In lieu of retaining an EHRI, the sponsor may cause to be established an eligible horizontal cash reserve account (EHCRA) in an amount equal to the fair value of all or a portion of such EHRI.

Generally, the restrictions on the hedging or transfer of a sponsor's retained risk will expire on the latest of two years after closing, when the principal balance of the pool is 33 per cent or less than the original balance, or when the unpaid principal amount of the related ABS interests is 33 per cent or less than the original amount.

## MAYER BROWN PARTNERS



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STUART LITWIN

For RMBS transactions, the final rule imposes restrictions on hedging or transfer of a sponsor's retained risk until the later of five years or when the principal balance of the pool is 25 per cent or less than the original balance but in any event not longer than seven years after closing.

### EHRI RETENTION

A sponsor may satisfy its risk-retention requirement by holding an EHRI, the fair value of which is to be determined using a fair-value measurement framework under generally accepted accounting principles used in the US. The final rule adopts the definition of EHRI substantially as re-proposed.

An EHRI is defined in the final rule as an ABS interest in the issuing entity and may be an interest in a single class or multiple classes, provided that each interest meets, individually or in the aggregate, all the requirements of the definition of EHRI. The EHRI must have the most subordinated claim to both

principal and interest in the securitisation transaction and therefore shortfalls must reduce amounts paid to the EHRI prior to any other ABS. These requirements can be achieved by a variety of means including contractual provisions such as the priority of payments.

### USING AN EHCRA

In lieu of holding an EHRI, the sponsor can cause to be established and funded, in cash, an EHCRA at closing in the same dollar amount as would be required if the sponsor held an EHRI. Such account must be held by a trustee for the benefit of the issuing entity.

The final rule also includes several restrictions and limitations on the EHCRA. The agencies stated that the intention of these restrictions is to ensure amounts in the

*“After extensive discussions with both the SEC and the FHFA, these agencies were not willing to provide further exemptions to grant Australian home-loan securitisations relief from the application of the final rule.”*

account would be available to absorb losses to the same extent as an EHRI.

Funds on deposit in an EHCRA can only be invested in “cash and cash equivalents”. Although “cash and cash equivalents” is not defined in the final rule, the release states: “The agencies view ‘cash equivalents’ to mean high-quality, highly liquid short-term investments the maturity of which corresponds to the securitisation’s expected maturity or potential need for funds and that are denominated in a currency that corresponds to either the securitised assets or the ABS interests.”

The release gives the following as examples of investments that, depending on the specific funding needs of a particular securitisation, might be considered cash equivalents: “[Insured deposits, certificates of deposit issued by a regulated US financial institution, obligations backed by the full faith and credit of the US, investments in registered money-market funds, and commercial paper.”

Amounts in an EHCRA may be released only to satisfy payments on ABS interests on any payment date on which the issuing entity has insufficient funds from any source to satisfy an amount due on any ABS interest.

*“The industry will have to decide whether satisfaction of risk retention via EHRI is practically feasible. Those in the Australian RMBS market might consider this their Christmas present if an approach is adopted for satisfaction of risk retention through EHRI.”*

### ELIGIBLE VERTICAL INTEREST

An EVI can be either a single vertical security or an interest in each class of ABS – regardless of whether the class of interests has a face or par value, was issued in certificated form or was sold to unaffiliated investors – issued as part of the securitisation transaction that constitutes the same proportion of each such class.

A single vertical security is defined in the final rule as: “An ABS interest entitling the sponsor to a specified percentage of the amounts paid on each class of ABS interests in the issuing entity (other than such single vertical security).” If a class of interests has no face value, the sponsor will have to hold an interest in 5 per cent of the cash flows paid on that class.

### FINANCING RISK RETENTION

The final rule is clear that retained risk, whether in the form of an EVI or EHRI, can be financed by the sponsor of the securitisation or its majority-owned affiliate that is holding the retained interest.

The final rule, however, is very specific that nonrecourse financing arrangements that effectively transfer the risk of ownership of the retained risk to the funding party violate the final rule’s prohibition on transferring or hedging the retained risk to or with a third party.

As a practical matter, this means that the sponsor or its majority-owned affiliate that is retaining the risk must have more assets at risk in the financing beyond simply the retained risk in order to satisfy the final rule, or that the financing must be supported by a guaranty from a creditworthy entity.

Our experience is that lenders have been willing to offer attractive financing on retained interests, particularly EVI, so long as the structure of the financing does not violate the prohibitions on transferring or hedging the retained risk.

Even repurchase facilities are expressly permitted as eligible financing facilities under the final rule. Leveraging the retained risk, particularly EVI, can reduce some of the economic impact of complying with the final rule.

### FINAL THOUGHTS

Although the final rule presents various options to securitisation issuers when it comes to satisfaction of risk-

retention requirements, Australian RMBS transactions brought to market this year have satisfied risk retention by holding an EVI. While arguably not as economically appealing as using EHRI, satisfying risk-retention requirements via EVI does have the advantage of sidestepping the requirement

to calculate the fair value of the EHRI.

Many in the industry are concerned with this calculation from both a proprietary and confidentiality point of view as well as for risk-based disclosure concerns. Underwriters are also concerned with comforting the data presented in the offering document for disclosure of EHRI and fair-market-value calculations.

These concerns aside, we have recently seen some US mortgage-loan transactions use EHRI to comply, so perhaps Australian securitisations in the coming year will also be structured to comply. With the implementation of risk retention for all eligible classes of ABS set to take effect on Christmas Eve 2016, the industry will have to decide whether satisfaction of risk retention via EHRI is practically feasible. Those in the Australian RMBS market might consider this their Christmas present if an approach is adopted for satisfaction of risk retention through EHRI. ■

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## MACQUARIE GROUP



**M**acquarie Group (Macquarie) is a global financial-services provider. Founded in 1969, the firm employs more than 14,300 people in 28 countries. At the end of March 2016, Macquarie had assets under management of A\$478.6 billion.

In fixed-income markets, Macquarie's commodities and financial-markets division arranges and places primarily securitised debt for clients in the UK and Australia. It also provides secondary-market liquidity as well as interest-rate risk-management services via structured solutions and derivative-based products.

### ◆ CONTACT DETAILS

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## NATIONAL AUSTRALIA BANK



**N**ational Australia Bank (NAB)'s operations in Asia, Australia, New Zealand, the US and the UK serve more than 11.5 million banking and wealth-management clients, providing access to international financial markets and a range of specialised funding, liquidity, investment, asset-services and risk-management capabilities.

A committed participant in the securitisation market, NAB's team has cemented its position as a key arranger and lead manager of deals. This has placed NAB at the top of the securitisation league tables (KangaNews Q1-Q3 2016) and winner of the Australian Securitisation House of the Year award (KangaNews Awards 2012, 2013, 2014 and 2015).

### ◆ CONTACT DETAILS

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## WESTPAC INSTITUTIONAL BANK



### **Institutional Bank**

**W**estpac Institutional Bank (Westpac) delivers a range of financial services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand.

Westpac operates through dedicated industry-relationship and specialist-product teams with expert knowledge in transactional banking, financial and debt capital markets, specialised capital and alternative-investment solutions.

Customers are supported through branches and subsidiaries located in Australia, New Zealand, the US, the UK and Asia.

### ◆ CONTACT DETAILS

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## ASHURST



**T**he Ashurst securitisation team has had leading roles in the key market transactions this year, including on the GE portfolio sales, as well as on fintech, covered bonds and green securitisations. The team has recently worked on many innovative warehouse transactions and quasi-securitisation deals in the domestic and offshore markets, involving a range of asset classes and structures.

The Ashurst securitisation team is one of the largest in Australia and is connected to a network of specialists in its offices in New York, London and continental Europe, and Asia – including Hong Kong, Singapore and China.

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# BLOOMBERG

## Bloomberg

**B**loomberg's collateral-analytics, scenario and credit-analytics tools empower investors to quickly determine the profile of a portfolio and understand where the true risk lies in securitised mortgage investments. Bloomberg analytics power Bloomberg's portfolio and position-keeping systems and can also be accessed programmatically to feed third-party applications.

Bloomberg has also partnered with price makers across Australia to aggregate pricing on a single platform. In addition, it provides clients with independent pricing of Australian RMBS alongside topical research and indices on the Australian real-estate market.

### ◆ CONTACT DETAILS

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# DELOITTE

## Deloitte.

**U**nderstanding the needs of clients and responding to them quickly with consistent, knowledgeable advice and strategic ideas is the cornerstone of the client-service philosophy at Deloitte.

Deloitte's securitisation practice has global reach and capabilities which allows it to leverage work performed in other jurisdictions and to access the most up-to-date market practices from around the world.

Deloitte's designated Australian securitisation advisory team works closely with many industry participants on a range of projects including issuance, debt advisory, due diligence and system-advisory projects – including its proprietary specialist securitisation software, ABS Suite.

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# CLAYTON UTZ

## CLAYTON UTZ

**C**layton Utz has a long history in the domestic and international securitisation markets, being there from the beginning and maintaining a leading reputation with a band-one ranking in *Chambers Global*. Its leading practitioners advise on a high volume of transactions including many of the significant securitisation deals in recent years. They have also played a key role in the development of Australia's covered-bond market and advise on a broad range of portfolio disposals and acquisitions.

Clayton Utz has a strong sponsor client base and significant experience acting for a range of other participants – including arrangers, lead managers, facility providers, rating agencies, investors and trustees across all asset classes.

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# FITCH RATINGS

## FitchRatings

**F**or 100 years, Fitch Ratings has been making the future a little more predictable through independent and prospective credit ratings, commentary and research. The firm's global expertise draws on local market knowledge and spans the fixed-income universe. The additional context, perspective and insights Fitch Ratings provides have helped the world's investors fund a century of growth.

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## GENWORTH



**G**enworth is a leading provider of lenders' mortgage insurance (LMI) in Australia. LMI has been an important part of the Australian residential mortgage-lending market since it was introduced by the Australian government in 1965.

Genworth believes the provision of LMI to lenders has contributed to comparatively high levels of Australian home ownership and residential mortgage accessibility, supporting the housing market in Australia.

Genworth has commercial relationships with more than 100 lenders across Australia. Many of these relationships have spanned decades.

## ◆ CONTACT DETAILS

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## KING &amp; WOOD MALLESONS



**A**s the first and only global law firm to be headquartered in Asia, King & Wood Mallesons (KWM) is connecting Asia to the world and the world to Asia. Strategically positioned in the world's growth markets and financial capitals, its securitisation team has acted on almost every landmark securitisation transaction in the Australian market and an increasing number in Asia.

KWM's clients value its global network, legal expertise in key disciplines and strong relationships with regulators and market participants. Whether you are an arranger, lender, originator, trustee or rating agency, KWM can help you anticipate and avoid execution, regulatory and compliance risks.

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## HERBERT SMITH FREEHILLS



HERBERT  
SMITH  
FREEHILLS

**H**erbert Smith Freehills (HSF) is one of the world's leading professional-services businesses, with more than 2,800 lawyers in 26 offices around the globe.

HSF's securitisation and structured-finance team offers comprehensive multijurisdictional coverage on a broad spectrum of matters including many first-of-a-kind and innovative transactions. The team advises arrangers and lead managers, corporate issuers, originators, credit enhancers, trustees, rating agencies and other market participants.

## ◆ CONTACT DETAILS

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## MINTER ELLISON

## MinterEllison

**M**inter Ellison has a strong securitisation practice with broad market coverage. Its team advises financiers, originators and trustees across a variety of asset classes including residential mortgages, trade receivables, auto receivables and lease receivables.

Minter Ellison has been heavily involved in the securitisation industry's response to the proposed regulation of OTC derivatives.

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# MOODY'S INVESTORS SERVICE



**M**oody's Investors Service is a leading provider of credit ratings, research and risk analysis. The firm's commitment and expertise contributes to transparent and integrated financial markets, and its ratings and analysis track debt covering approximately 120 sovereign nations, 11,000 corporate issuers, 21,000 public-finance issuers and 72,000 structured-finance obligations.

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# PERPETUAL CORPORATE TRUST



**P**erpetual Corporate Trust (Perpetual) is a leading provider of corporate fiduciary services to the Australian securitisation industry, administering more than A\$600 billion on behalf of clients. Services include trustee, trust management, document custody, data services and standby servicing.

Having been involved in the Australian securitisation industry since its inception in the 1980s, Perpetual plays a leading role in growing the industry and managing regulatory and technological change. The firm's extensive knowledge of financial markets, its trustee heritage and the expertise of its team ensures Perpetual is a trusted partner to its clients throughout the lifecycle of a securitisation programme.

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**P**wC has a specialist team consisting of more than 200 professionals around the world. The team has the skills to support structured-finance transactions from start to finish. It provides coordinated structuring, accounting, legal, tax, finance, technology-advisory and risk-management capabilities.

During the past 20 years, PwC has assisted clients in virtually every aspect of structured-finance deals and has earned a reputation for professional excellence and leadership by developing innovative, cost-effective solutions to complex problems. The firm's team is unique in its approach to blending and managing all the skills necessary to service this dynamic and fast-changing market.

#### ◆ CONTACT DETAILS

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# S&P GLOBAL RATINGS



**S**&P Global Ratings is a leading provider of independent credit-risk research. The company publishes more than a million credit ratings on debt issued by government, corporate, financial-sector and structured-finance entities and securities.

With approximately 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, the firm offers a unique combination of global coverage and local insight. Its research and opinions about relative credit risk provide market participants with information that helps support the growth of transparent, liquid debt markets worldwide.

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## AMP BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PROGRESS

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	16%
NUMBER OF SECURITISATIONS ISSUED	18
TOTAL VOLUME ISSUED	A\$16BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	72% DOMESTIC 28% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.8BN

Formed in 1849, AMP Group is Australia and New Zealand's leading independent wealth-management company, with an expanding international investment-management business and a growing retail-banking business in Australia.

Specifically, AMP Bank is an Australian retail bank offering residential mortgages, deposits, transaction banking and self-managed superannuation fund products, with around 100,000 customers. It also has a small portfolio of practice-finance loans. AMP Bank distributes through brokers, AMP advisers and directly to retail customers via phone and internet banking.

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## ANZ BANKING GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	KINGFISHER

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	INTERNAL (FOR RBA REPO PURPOSES)
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	ZERO
NUMBER OF SECURITISATIONS ISSUED	4
TOTAL VOLUME ISSUED*	A\$4.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE*	24% DOMESTIC 76% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES*	ZERO

\* Excluding internal securitisation transactions. The last public RMBS issued by ANZ was in 2004.

ANZ Banking Group (ANZ) is one of the four major banking groups headquartered in Australia. ANZ provides a broad range of banking and financial products and services to retail, small business, corporate and institutional clients in Australia, New Zealand and the Asia-Pacific region. The bank began its Australian operations in 1835, its New Zealand operations in 1840 and has been active in Asia since the 1960s.

ANZ is one of only a small number of banks globally which has maintained a double-A rating from all three main credit-rating agencies. It is a true global issuer with a wholesale funding portfolio which is well diversified by currency, product and tenor.

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## AUSTRALIAN FINANCE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	AFG

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	38%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$875M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$392M

Australian Finance Group (AFG) is one of Australia's leading companies when it comes to financial solutions. Founded in 1994, AFG has grown to become one of the largest mortgage-broking groups in Australia with a loan book of more than A\$114 billion. Listed on the Australian Securities Exchange in 2015, AFG has in excess of 2,600 brokers across Australia distributing more than 1,450 mortgage products supplied by AFG's panel of more than 40 lenders.

AFG leverages its tier-one technology platform to proactively manage its relationship with lenders, brokers and customers.

AFG commenced offering its own securitisable home loans in 2007. These home loans are funded by multiple warehouses and term transactions.

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# AUSWIDE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	WB

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	67%
NUMBER OF SECURITISATIONS ISSUED	12
TOTAL VOLUME ISSUED	A\$3.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$388M

**A**uswide Bank became Australia's 10th, and Queensland's third, Australian-owned bank, listed and trading on the Australian Securities Exchange, on April 1 2015. However, the company has operated as a building society since 1966.

Auswide Bank has Australian credit and financial-services licences issued by the Australian Securities and Investments Commission, and is an authorised deposit-taking institution supervised by the Australian Prudential Regulation Authority.

Auswide Bank offers Australians an extensive range of personal and business-banking products and services issued directly or in partnership with leading service providers via branches, strategic relationships and online and digital channels.

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# BANK OF QUEENSLAND



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	REDS (RMBS), REDS EHP (ABS), IMPALA (ABS)

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
PROPORTION OF OUTSTANDING FUNDING SOURCED VIA SECURITISATION	9%
NUMBER OF SECURITISATIONS ISSUED	38
TOTAL VOLUME ISSUED	APPROX. A\$22.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 91% DOMESTIC 9% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$4.1BN

**B**ank of Queensland (BOQ) is a public company incorporated with limited liability under the laws of Australia. BOQ is domiciled in Australia, is listed on the Australian Securities Exchange and is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution. The bank has total assets under management of A\$50.9 billion.

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# BLUESTONE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	SAPPHIRE, EMERALD

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, REVERSE MORTGAGE
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	68%
NUMBER OF SECURITISATIONS ISSUED	21
TOTAL VOLUME ISSUED	A\$6.3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	94% DOMESTIC 6% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$576M

**B**luestone Group (Bluestone) is a dynamic financial-services business with more than 260 employees and operations in Asia Pacific, the UK and Europe. The business is backed by Macquarie Bank and LDC, the UK's largest mid-market private-equity house.

In 2000, Bluestone began originating mortgages in the Australian market. In 2013, the company recommenced mortgage origination and has issued two Australian RMBS transactions since this time. With vast experience in the nonconforming mortgage space, Bluestone is excited to offer its mortgage products to the retail market and continue its issuance of RMBS.

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## COLUMBUS CAPITAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	TRITON

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	53%
NUMBER OF SECURITISATIONS ISSUED	7
TOTAL VOLUME ISSUED	A\$2.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$878M

Columbus Capital was established in 2006 as a nonbank wholesale funder. In 2012 it acquired Origin Mortgage Management Services, its third-party wholesale lending business, from ANZ Banking Group.

Columbus Capital has Australian credit and financial-services licences issued by the Australian Securities and Investments Commission.

The company offers an extensive range of white-label home-loan products via strategic relationships and also via its online channel focused solely in the prime mortgage space. Columbus Capital also offers third-party servicing capabilities covering home loans, consumer-finance, lease and commercial-ABS products.

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## COMMONWEALTH BANK OF AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	MEDALLION

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	5%
NUMBER OF SECURITISATIONS ISSUED	22
TOTAL VOLUME ISSUED	A\$56BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$13BN

Commonwealth Bank of Australia is Australia's leading provider of integrated financial services including retail, premium, business and institutional banking, funds-management, superannuation, insurance, investment and share-broking products and services.

The bank's approach to wholesale funding is to remain diversified across markets and to maintain a degree of flexibility in terms of transaction timing. Wholesale funding is complemented by securitisation issues through the Medallion programme.

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## CREDIT UNION AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	HARVEY

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	52%
NUMBER OF SECURITISATIONS ISSUED	11
TOTAL VOLUME ISSUED	A\$6.8BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.5BN

Credit Union Australia (CUA) has a long and proud history of providing banking and financial services to Australians. CUA is Australia's largest customer-owned financial institution with nationwide representation through branches in Queensland, New South Wales, Victoria and Western Australia.

CUA is an authorised deposit-taking institution and is regulated by the Australian Prudential Regulation Authority.

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# FIRSTMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FIRSTMAC MORTGAGE FUNDING TRUST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	70%
NUMBER OF SECURITISATIONS ISSUED	34
TOTAL VOLUME ISSUED	A\$17.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	89% DOMESTIC 11% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$5.5BN

Firstmac is a leading online mortgage originator and one of Australia's largest nonbank prime mortgage lenders. It originates and services prime residential mortgages in Australia.

Firstmac has a long history of innovation in the mortgage industry. It originates only prime loans and uses its best-in-class credit practices and risk-management framework to ensure the quality of its portfolio. Less than 0.5 per cent of its portfolio is more than 30 days in arrears, and 85 per cent of its loans have LVRs of less than 80 per cent as at August 31 2016.

Firstmac has been a regular issuer of RMBS in the Australian domestic and offshore markets since 2003.

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# FLEXI CARDS



AUSTRALIAN ADI	NO, NZ FINANCIAL SERVICES
SECURITISATION PROGRAMME NAMES	Q CARD, RFS TRUST 2006-1

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	>80%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	NZ\$500M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	80% DOMESTIC (NZ) 20% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	NZD500M

Flexi Cards (previously Fisher & Paykel Finance Group) has provided financial products and services to New Zealanders for more than 40 years. The company funds a large portion of its credit-card receivables through two constantly revolving structures: Q Card Trust and RFS Trust 2006-1.

Q Card Trust (2014) combines aspects from US and UK master-trust deals with those from New Zealand-style ABCP programmes to permit ongoing issuance of term notes backed by revolving assets. Q Card Trust is designed to continually purchase receivables.

RFS Trust 2006-1 is also a revolving structure, issuing ABCP to fund its Farmers Finance Card credit-card receivables.

Flexi Cards is a subsidiary of FlexiGroup.

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# FLEXIGROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FLEXI ABS

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	30%
NUMBER OF SECURITISATIONS ISSUED	9
TOTAL VOLUME ISSUED	A\$1.9BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	>90% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$362M

All data as at September 2016.

An Australian Securities Exchange 200-listed Australian public company, FlexiGroup is a diversified financial-services group providing point-of-sale interest-free, no-interest-ever, leasing and vendor programmes to consumers and businesses. FlexiGroup operates in Australia, New Zealand and Ireland.

FlexiGroup operates under a number of brands including Flexirent, FlexiCommercial, Certegy, Once, Lombard and Q Card. The latter is new to the group following the acquisition of the New Zealand entity, Finance and Paykel Finance, in March 2016.

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## HERITAGE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	HBS

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	APPROX. 43%
NUMBER OF SECURITISATIONS ISSUED	11 PUBLIC DEALS, 3 AUD WAREHOUSE ARRANGEMENTS, 1 AUD INTERNAL SECURITISATION ARRANGEMENT, 1 AUD PRIVATE DEAL
TOTAL VOLUME ISSUED	APPROX. A\$6.1BN EQUIV.
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 59% DOMESTIC*, 41% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$450M EQUIV.

\* By original issuance. Only domestic issues remain.

**H**eritage Bank (Heritage) is Australia's largest mutual bank, with approximately A\$8.4 billion in total consolidated assets as at June 30 2016. It is a public company, limited by shares and guarantee, which operates as a mutual organisation. The mutual business structure is an integral component of Heritage's operating philosophy.

Heritage is an authorised deposit-taking institution, regulated by the Australian Prudential Regulation Authority.

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## IMB



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	ILLAWARRA

### USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS/CMBS (SMALL TICKET)
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	33%
NUMBER OF SECURITISATIONS ISSUED	6 RMBS, 3 CMBS
TOTAL VOLUME ISSUED	A\$3.3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$535M

**E**stablished in 1880, IMB has been helping people achieve their financial goals for 136 years. IMB offers a full range of banking solutions including home and personal lending, savings and transaction accounts, term deposits, business banking, financial planning and a wide range of insurance and travel products.

IMB is regulated by the Australian Prudential Regulation Authority and the Australian Securities and Investment Commission. It is a member of the Customer-Owned Banking Association – an independent organisation representing mutual banks, building societies and credit unions.

IMB has more than 180,000 members and total assets in excess of A\$5.2 billion.

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## ING BANK (AUSTRALIA)



Spend your life well

AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	IDOL

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	32%
NUMBER OF SECURITISATIONS ISSUED	10
TOTAL VOLUME ISSUED	A\$9.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	98% DOMESTIC 2% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.7BN

**ING DIRECT** – the trading name of ING Bank (Australia) – is a branchless retail bank. It is part of the world's leading direct savings bank and is wholly owned by ING Group. It offers products in retail mortgages, transactional banking, retail savings, specialised commercial-property markets and retail superannuation.

With more than A\$34 billion in retail deposits, A\$39.6 billion in mortgages and 1.6 million customers, ING DIRECT is one of the largest home lenders in Australia.

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# LA TROBE FINANCIAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	LA TROBE FINANCIAL CAPITAL MARKETS

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALF FUNDING SOURCED VIA SECURITISATION	<15%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$600M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	80% DOMESTIC 20% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$420M

La Trobe Financial is a leading credit specialist focused on residential and commercial assets. It offers credit solutions for prime and alternate-income-verification consumers who mainstream providers do not accommodate. Formed in 1952, La Trobe Financial has lent more than A\$12 billion in mortgage loans for institutional and retail clients.

La Trobe Financial's diversified funding and capital-raising programme incorporates large term-debt facilities from local and international banks, an A\$1.2 billion retail credit fund, and now a larger and complementary RMBS capital-markets programme. The company is well positioned for funding to support its strategic growth plans.

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# LIBERTY FINANCIAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	LIBERTY

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	ABS, CMBS, RMBS
PROPORTION OF OUTSTANDING WHOLESALF FUNDING SOURCED VIA SECURITISATION	56%
NUMBER OF SECURITISATIONS ISSUED	39
TOTAL VOLUME ISSUED	A\$15BN+
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	86% DOMESTIC 14% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	> A\$2.5BN

Liberty Financial (Liberty) is a leading mainstream speciality-finance company. Its businesses include residential and commercial mortgages, motor-vehicle finance, personal loans and investments in Australia and New Zealand. Liberty has raised more than A\$15 billion in domestic and international capital markets. Since 1997, Liberty has helped more than 210,000 customers achieve their financial goals.

Liberty is also Australia's only investment-grade-rated nonbank issuer (BBB- with positive outlook, by S&P Global Ratings). It is also one of only a few lenders with an unblemished capital markets record, with no ratings downgrades or charge-offs ever, experienced by its originated securities or programmes.

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# ASF EDUCATION SYDNEY COURSE DATES 2017

## Securitisation fundamentals

MARCH 8

## Securitisation professionals

FEBRUARY 23-24

JUNE 15-16

## Securitisation applied

MARCH 30-31

## Trust-management master class

MAY 24

## Special workshops on APS 120 and master trusts

WILL BE SCHEDULED FOR Q2

Detailed course information and registration are available on the ASF's website: [www.securitisation.com.au](http://www.securitisation.com.au)

Additional courses will be scheduled for 2017 – check the ASF's website for further details.

[www.securitisation.com.au](http://www.securitisation.com.au)



# MACQUARIE GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	SMART, PUMA

**M**acquarie Securitisation (manager of the PUMA RMBS programme) and Macquarie Securities Management (manager of the SMART auto- and equipment-lease programme) are wholly owned subsidiaries of Macquarie Bank, which is a regulated authorised deposit-taking institution and part of the Macquarie Group.

Macquarie Group is a global financial-services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Founded in 1969, Macquarie Group now employs more than 14,300 people in 28 countries around the globe. As at March 31 2016, the group has total assets of A\$196.8 billion and total equity of A\$15.7 billion.

Macquarie Group is listed in Australia and is regulated by the Australian Prudential Regulation Authority as the owner of Macquarie Bank.

## SMART PROGRAMME

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
NUMBER OF SECURITISATIONS ISSUED	30
TOTAL VOLUME ISSUED	A\$23BN EQUIV.
CURRENCIES ON ISSUE	USD, AUD, EUR
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$5.1BN EQUIV.

## PUMA PROGRAMME

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	60
TOTAL VOLUME ISSUED	A\$54BN EQUIV.
CURRENCIES ON ISSUE	AUD
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$7.8BN EQUIV.

# ME



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	MAXIS, SMHL

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED*	45
TOTAL VOLUME ISSUED	A\$43.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	A\$27.0BN US\$10.4BN €2.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.21BN

\*Combined Members Equity Bank Limited and historical mortgage-origination business.

**M**E, which was rebranded from ME Bank in May 2015, was created 21 years ago to provide low-cost home loans and banking products to members of industry superannuation funds and unions.

ME is 100 per cent owned by 29 industry super funds which created the bank to help Australians get ahead. Recently, ME opened its product offering to the broader Australian population and is committed to providing products which are straightforward and easy to understand. ME, which prides itself on its provision of great customer service, has a philosophy of supporting, educating and empowering its customers to achieve their financial objectives.

ME's new brand represents a modern, strong, innovative and secure bank in the digital era.

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# MOTOR TRADE FINANCE



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	MTF

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	AUTO-BACKED ABS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	68%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	NZ\$520M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	72% DOMESTIC 28% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	NZ\$388M

**M**otor Trade Finance (MTF) was formed in 1970 to enable selected New Zealand dealers to finance sales of motor vehicles to the public. MTF is one of New Zealand's largest motor-vehicle financiers, operating in all major centres - from Kaitaia to Invercargill.

MTF originators are made up of a dealer network of 261 that sell motor vehicles and motorcycles in conjunction with financial services, and 42 MTF franchises that only sell financial services. Each originator participates in the profit of the business in proportion to the volume of business written, providing a compelling financial interest in the quality of the business originated and the ongoing success of MTF.

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# MYSTATE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	CONQUEST

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	53%
NUMBER OF SECURITISATIONS ISSUED	4 EXTERNAL RMBS
TOTAL VOLUME ISSUED	A\$1.2BN*
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$382M

\*Includes the joint securitisation undertaken by MyState and Queenslanders Credit Union in 2007.

**M**yState Bank is a wholly owned subsidiary of MyState Limited - a national diversified financial-services group approved by the Australian Prudential Regulation Authority and listed on the Australian Securities Exchange.

MyState Bank predominately operates in Tasmania with 10 branches servicing 120,000 customers. The Rock - a division of MyState Bank - predominately operates in central Queensland with seven branches servicing 40,000 customers. Both brands also provide lending and deposit-taking services via indirect channels.

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# NATIONAL AUSTRALIA BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	NATIONAL RMBS

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
OUTSTANDING SECURITISATIONS ISSUED	5 EXTERNAL RMBS
TOTAL NUMBER ISSUED	APPROX A\$16BN (EXCLUDES RETAINED DEALS)
TOTAL DOMESTIC ISSUES	A\$3.6BN
TOTAL CROSS-BORDER TRANCHES	7

**N**ational Australia Bank (NAB) is a major financial-services organisation in Australia and New Zealand with more than 10 million customers and 35,000 employees. It operates more than 1,000 retail branches and business-banking centres.

Following the demerger of Clydesdale Bank, NAB's operations are primarily based in Australia and New Zealand but it also continues to have a presence in Asia, the UK and the US, in each case predominantly for wholesale banking and institutional-markets business and treasury activity. The London branch of NAB also continues to operate for this purpose.

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## PEOPLE'S CHOICE CREDIT UNION



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	LIGHT

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	37%
NUMBER OF SECURITISATIONS ISSUED	5
TOTAL VOLUME ISSUED	A\$2.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$689M

**A**ustralian Central Credit Union, trading as People's Choice Credit Union (People's Choice), is Australia's second-largest credit union, with approximately A\$9.6 billion of total assets under advice and management. People's Choice has 346,000 members serviced through branches in South Australia, the Northern Territory, Victoria, Western Australia and the Australian Capital Territory.

People's Choice is an authorised deposit-taking institution, is subject to prudential supervision under Australia's Banking Act, and is regulated by the Australian Prudential Regulation Authority.

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## PEPPER GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	PEPPER RESIDENTIAL SECURITIES (PRS), PEPPER PRIME

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	16 PRS (7 OUTSTANDING, 9 CALLED) 4 PEPPER PRIME (ALL OUTSTANDING)
TOTAL VOLUME ISSUED	A\$7.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	81% DOMESTIC, 19% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.1BN, US\$413M

\* Two issues in the Pepper Prime series and two issues in the PRS series have included a USD 2a7 tranche, with the balance of the notes in AUD.

**E**stablished in 2001, Pepper Group (Pepper) is a leading Australian-headquartered financial-services group, with businesses in Australia, Asia and Europe. The businesses encompass lending, asset servicing and corporate real-estate advisory. Pepper has expanded from being a nonconforming residential-mortgage lender to also offer prime residential mortgages, auto and equipment leasing, and personal loans.

Pepper is a third-party servicer and asset manager across a range of asset classes.

Pepper is listed on the Australian Securities Exchange and has more than A\$53 billion in assets under management as at June 30 2016.

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## P&N BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PINNACLE

### USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	26%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	A\$575M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$148M

**P**&N Bank (P&N) is Western Australia's largest locally owned and managed bank. Operating under a customer-owned model, P&N's primary focus is its 90,000 plus members. With no conflict from third-party shareholders, P&N aims to provide a genuine banking alternative for people who value competitive and convenient banking products, outstanding customer service and community spirit.

With assets of A\$3.6 billion, P&N is Australia's fifth-largest mutual bank as at June 2016.

P&N is an authorised deposit-taking institution regulated to the same high standards as the major banks by the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Transaction Reports and Analysis Centre and the Australian Competition and Consumer Commission.

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# REDZED LENDING SOLUTIONS



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	REDZED

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	45%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$480M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	80% DOMESTIC 20% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$250M

Founded in 2006, RedZed Lending Solutions (RedZed) is a provider of specialist residential and commercial lending products primarily focused on meeting the needs of the self-employed. It works with a limited range of introducers selected for their expertise in the specialist-lending market.

RedZed has completed three RMBS transactions, the most recent of which took place in September 2015 for A\$250 million.

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# RESIMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	RESIMAC PREMIER, RESIMAC BASTILLE, RESIMAC AVOCA, RESIMAC VERSAILLES, RESIMAC UK RMBS

## USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, NIM BOND
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	63%
NUMBER OF SECURITISATIONS ISSUED	36
TOTAL VOLUME ISSUED	A\$19.8BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	55% DOMESTIC 45% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.5BN

Resimac celebrates its 31st anniversary in 2016. The Australian-owned nonbank lender has grown immensely since inception. It now offers a suite of both prime and specialist-lending products tailored to the residential markets in Australia and New Zealand. Resimac's mortgages are originated from a distribution network of online and direct business-to-consumer proprietary channels, aggregators, mortgage managers and retail sources, and through select portfolio acquisitions.

Resimac's capital-markets activities are core to its enterprise strategy and it remains one of the most prolific Australian nonbank issuers.

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# SUNCORP GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	APOLLO

## USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	12.1%
NUMBER OF SECURITISATIONS ISSUED	20
TOTAL VOLUME ISSUED	A\$22.53BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	78% DOMESTIC 22% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.44BN

\* Based on notes only.

Suncorp Group is a top-20 Australian Securities Exchange-listed company with A\$96 billion in assets. The company has evolved into a unique franchise, delivering highly valued banking, wealth and insurance products and services across Australia and New Zealand.

The group employs approximately 13,500 employees and serves approximately nine million customers through its trusted brands. Suncorp Bank is one of Australia's leading banks with a million personal, SME and agribusiness customers.

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# ASF EDUCATION MELBOURNE COURSE DATES 2017

## Securitisation professionals

MARCH 23-24

## Trust-management master class

JUNE 1

## Special workshops on APS 120 and master trusts

WILL BE SCHEDULED FOR Q2

Detailed course information and registration are available on the ASF's website: [www.securitisation.com.au](http://www.securitisation.com.au)

Additional courses will be scheduled for 2017 – check the ASF's website for further details.

[www.securitisation.com.au](http://www.securitisation.com.au)



## ISSUER PROFILES

# WESTPAC BANKING CORPORATION



**Institutional  
Bank**

AUSTRALIAN ADI	YES
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**W**estpac Banking Corporation (Westpac) is Australia's second-largest banking organisation and one of the largest banking organisations in New Zealand. The bank provides a broad range of banking and financial services in these markets, including retail, business and institutional banking, and wealth-management services.

As at March 31 2016, Westpac had total assets of A\$832 billion. Westpac's ordinary shares and certain other securities are quoted on the Australian Securities Exchange and, as at March 31 2016, the bank's market capitalisation was A\$101 billion.

## RMBS PROGRAMME

### USE OF SECURITISATION

SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION (WST), CRUSADE RMBS
TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION <sup>1</sup>	4.3%
NUMBER OF SECURITISATIONS ISSUED	42
TOTAL VOLUME ISSUED <sup>2</sup>	APPROX. A\$78.6BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE <sup>3</sup>	86% DOMESTIC 14% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$9.1BN

<sup>1</sup> Includes RMBS and ABS.

<sup>2</sup> Approx. 50% Crusade RMBS, 50% WST RMBS.

<sup>3</sup> Based on issues currently outstanding.

## ABS PROGRAMME

### USE OF SECURITISATION

SECURITISATION PROGRAMME NAME	CRUSADE ABS
TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION <sup>1</sup>	4.3%
NUMBER OF SECURITISATIONS ISSUED	7
TOTAL VOLUME ISSUED <sup>2</sup>	APPROX. A\$6.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE <sup>3</sup>	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$2.6BN

<sup>1</sup> Includes RMBS and ABS.

<sup>2</sup> 100% Crusade ABS.

<sup>3</sup> Based on issues currently outstanding.

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# BNY Mellon Corporate Trust

Global Execution,  
Local Partnership

## CORPORATE TRUST IN AUSTRALIA

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## WE ARE INVESTED IN AUSTRALIA

As your long-term partner, we are committed to providing you the best-in-class service and continually earning our reputation as the gold standard.

Corporate Trust is our core business and competency. With global execution and local partnership, we deliver full range solutions that help you navigate vanilla to complex securitisation structures. Our size and scale give you access to resources that are unrivalled in the marketplace.

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- Expertise
- Prestige
- Scale
- Trust
- Exceptional Experience

## CORPORATE TRUST

From core capabilities including trustee, administration and agency services, to enhanced offerings such as reporting and compliance solutions, we provide the infrastructure, technology and processing services to help you expertly navigate the ever-changing debt capital markets.

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## BNY MELLON

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<sup>1</sup> Global Finance Magazine

<sup>2</sup> Current ratings for The Bank of New York Mellon Corporation and its principal subsidiaries are posted at [www.bnymellon.com/investorrelations/creditratings.html](http://www.bnymellon.com/investorrelations/creditratings.html)

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