

RECENT DEVELOPMENTS IN THE RMBS MARKET

25 March 2010

Background

Towards the end of 2009, an improvement in sentiment led to an increase in the level of private sector participation in RMBS transactions. This was documented by Guy Debelle in a speech at the Australian Securitisation Conference on November 18, 2009.

Debelle noted that private sector participation in RMBS transactions had increased from around 20 per cent (meaning that on average the private sector invested 25 cents for every dollar that the Government invested in RMBS) in late 2008 to around 60 percent (i.e. \$1.50 of private money for every dollar of public money) towards the end of 2009. These figures include only transactions that were 'supported' by the AOFM; there were also a number of standalone deals in late 2009, undertaken by Members Equity Bank, Bendigo and Adelaide Bank and Westpac Bank. Including these in the calculation, the ratio improves to about 75 per cent (i.e. \$3 of private money for every dollar of public money invested in RMBS).

Indeed, the private sector's contribution to the five RMBS deals that have priced in 2010 has been around 81 per cent, implying that over \$4.25 of private money has been invested for every \$1 of public money invested this year.

Recent Developments

With the end of the March quarter approaching, it is worth considering recent progress.

The 2010 year began well for the Australian dollar RMBS market, with AMP Bank pricing at BBSW +130 bps in late January, the same level as the Westpac deal of late 2009. Importantly, the transaction was upsized from around \$540 million to \$1 billion and the AOFM was called upon to buy only \$36 million of AB (mezzanine AAA) notes and no super-senior notes. The strength of this transaction was seen as a sign of an unambiguously improving market.

Four other transactions have been supported by the AOFM so far in 2010, namely issuance from Bank of Queensland, Credit Union Australia, Member's Equity Bank and Bendigo and Adelaide Bank. As a result of solid demand, each deal was upsized and in two cases, the AOFM's contribution was scaled back.

Despite the well documented travails experienced in global credit markets through much of March, pricing on the senior tranches of these transactions has been maintained between BBSW +130 bps and BBSW +135 bps. These levels compare favourably with the spreads seen in the secondary market through 2009, as seen in the following chart from Debelle's November 2009 speech.

AAA-rated Prime RMBS Spreads

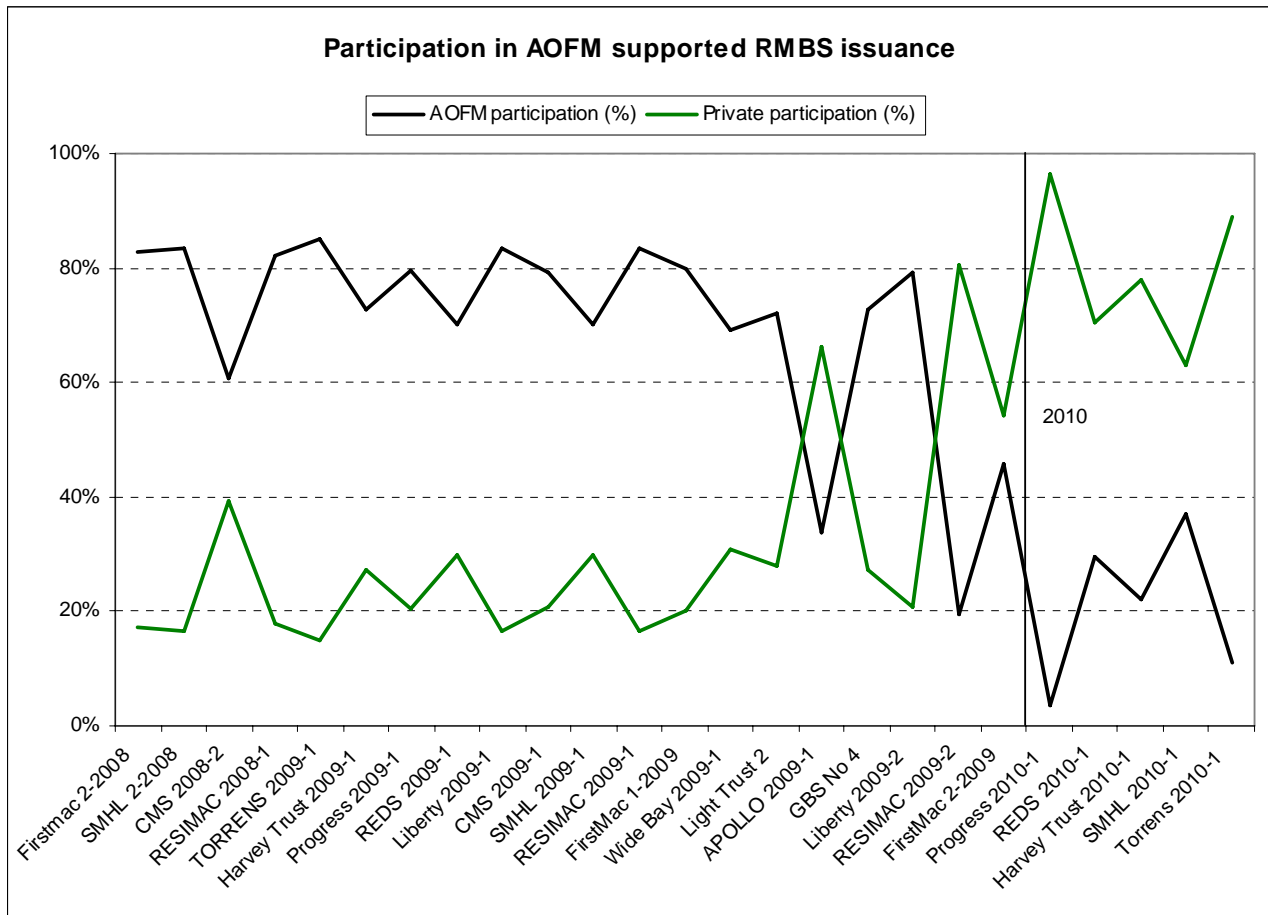


* Spread of the actual full-doc new variable mortgage rate to the 30-day bank bill rate, adjusted for 50 basis points of loan administration costs.

** Primary RMBS spreads are face value weighted monthly averages of AAA-rated RMBS with conservative average LVRs.

Sources: RBA; Royal Bank of Scotland

In addition to the secondary market spread contraction, the increased private sector participation in AOFM-supported deals through time provides a further sign of the general improvement in market conditions. The following chart supports Debelles' analysis of late last year and indicates that the positive trend has continued into the new year.



Michael Bath, Vijay Murik and David Ziegler, AOFM. 25 March 2010.