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To
Director
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Dear Director

ABS Review – Submission by Judo Bank Pty Ltd

As Australia's only challenger bank purpose-built for small and medium businesses, Judo Bank (Judo) supports the initiative of the Australian Office of Financial Management (AOFM) to establish the Australian Business Securitisation Fund (ABSF). Judo believes that the principles, processes, and legislative settings for the ABSF remain relevant and appropriate.

Judo received the ABSF's first tranche of investment via a Judo Bank sponsored warehouse facility. This investment has provided an important additional source of committed funding, in addition to deposits and other warehouses during the scale up of the SME loan portfolio.

Whilst Judo is aware that a range of industry wide responses are being sought, this response is specific to Judo's experience and observations of the ABSF.

Response to Questions

Access and cost of SME Finance

How has the ability of lenders to provide SME finance improved and to what extent can this be attributed to the ABSF?

The establishment of the ABSF has supported Judo's capacity to provide SME financing. This has been primarily through the direct investment in a Judo warehouse, and thereby supporting lending growth to SME businesses. The ABSF also supported the entry of a global bank as a warehouse provider to this asset class through their collaboration on a Judo warehouse. This global bank has become a significant partner to Judo in a range of funding channels, further supporting funding diversity and surety.

Following the execution of the ABSF funded warehouse, Judo has established a SME self-securitisation, providing access to the Term Funding Facility. It has also achieved an Investment Grade Credit Rating. These milestones have facilitated greater funding diversity and capacity, further enhancing the Bank's ability to provide lending to SMEs. Whilst the impact of the ABSF warehouse on these milestones is difficult to measure, it's likely to have enhanced perceptions on Judo's overall funding profile.

To what degree has the ABSF influenced SME lending rates?

It is difficult to identify any direct impact on SME lending rates resulting from the ABSF at this early stage.

A range of factors contribute to SME lending rates, however the establishment of a deep and competitive securitisation market will provide support for this. The ABSF is supporting this development, however the market for SME securitisation is still in the early stages of its evolution domestically.

Developing the securitisation market

What effect has the ABSF had on the viability of securitisation funding for SME lenders in terms of cost and assets that can be funded in this way?

The ABSF provided securitisation funding to Judo during the early stages of the Bank's maturity where alternative securitisation funding opportunities were limited. This has supported Judo's growth and capacity to develop the track record required to achieve securitisation funding from a broader base of funding banks.

Has the ABSF had the effect of crowding in third-party investors to the SME securitisation market?

Judo's experience has been very positive, with the ABSF funding providing meaningful support in onboarding a global banking partner to provide warehouse funding.

Further, a potential warehouse funding provider has indicated that the ABSF's participation in the Judo warehouses provides additional confidence in their credit decisioning.

What contribution will standardised data reporting make to the development of the SME securitisation market?

Judo anticipates that standardised data reporting will support the development of the SME securitisation market in following ways:

- Consistent framework for investors and ratings agencies to undertaking their credit analysis of SME pools
- Focuses on the commonalities across the SME asset class whilst providing flexibility for the nuances of asset class subsets
- Supports the automation of data analysis

Industry implementation of the reporting template and building a critical mass of rated transactions will be key to leveraging the benefits.

Investment principles and process

Are the investment principles and process established for the ABSF by the AOFM appropriate to meet the objectives of the ABSF Act and have these been abided by in ABSF investments to date?

Judo believes the principles and processes remain appropriate and have been abided by in ABSF investments to date. Noting that these comments are limited to those ABSF investments that Judo has been involved in.

Legislative settings

Do the ABSF's legislative settings and mandate remain appropriate for the ABSF to achieve its objectives?

Yes.

Please let me know if you would like further information in respect to this submission.

Regards

Michael Heath
Treasurer - Judo Bank