RESIMAC

1 March 2016

Mr. Pat Brennan
General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
400 George Street
Sydney, NSW 2000

Dear Mr. Brennan,

RE: APRA Discussion Paper – Revisions to the prudential framework for securitisation

RESIMAC Limited ("RESIMAC") appreciates the opportunity to respond to the *Discussion Paper "Revisions to the prudential framework for securitisation"* (**Discussion Paper**) and the proposed changes to APS 120 released for comment in November 2015.

RESIMAC is an originator, servicer and securitiser of residential mortgages throughout all Australian states, including New Zealand. RESIMAC is a public unlisted company founded by the NSW State government in 1985 as an alternative source of housing financing. Over its thirty years of operation, RESIMAC has been able to build a comprehensive mortgage product suite that provides consumers and small business owners and competitive offering to that of the major banks. RESIMAC currently manages A$5bn of mortgages across its prime and non-conforming portfolios and has one of the lowest delinquency rates in the overall securitised market.

RESIMAC's business model is underpinned by a secured funding programme that includes warehouse lines for book build and capital markets for term funding. Prior to the financial crisis, warehouse lines were provided by Barclays, Deutsche Bank and Societe General, however, with their retreat from the Australian market, RESIMAC's short-term financing facilities are provided by three of the four major ADI's. The structure, terms and pricing of these warehouse lines bear direct outcome on RESIMAC's, and other non-ADI's, ability to provide a competitive offering to the entrenched market participants. This ensures a more competitive landscape overall.

A mortgage market where only the four major banks can flourish will see a return to the peak of the crisis where 95% of new business is written by those institutions eventually resulting in an oligopoly. This will ultimately lead to, as an oligopolistic environment does no competition and no innovation and more expensive mortgages for Australian consumers and small businesses.

RESIMAC wishes to provide comment to aspects of the proposed changes to APS120 that in the proposed form would have adverse consequences, both direct and indirect, to the non-bank mortgage sector and therefore the competitive landscape of the mortgage sector. RESIMAC has identified the following matters it wishes to highlight:

1. Removal of the Internal Assessment Approach ("**IAA**") to calculate risk capital;
2. Increased capital deductions for investments in non-senior tranches of a securitisation

1. Removal of the IAA to assessing risk capital

RESIMAC's concerns relating to the removal of the IAA largely focuses on the manner in which its ADI warehouse providers currently utilise ratings agency-calibrated credit models. It is also RESIMAC's experience that the major banks also have employed ex-ratings agency staff and evidence of success of these models is clearly demonstrated at the point of ultimate public securitisation when the ratings agency confirm the capital structure derived from the warehouse pool.

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The alternative method whereby an ADI warehouse-provider would rely on the credit assessment being undertaken by an external commercial ratings agency would create a significant impediment to the efficacy of non-bank warehouse facilities.

RESIMAC has had direct experience with externally-rated warehouses and has found that the criteria applied to a warehouse notes does not accommodate essential operational requirements such as the ability to utilise the facility for daily funding needs and applying unrealistic stressed assumptions to a warehouse rating. Importantly, the ratings agencies' criteria restricts the ADI warehouse provider's inter-creditor rights relating to control and the ability to trigger an event of default under certain scenarios. This would result in the ADI warehouse provider having a materially greater exposure and risk to what would otherwise arise in an internally-rated facility. Furthermore, the cost of engaging ratings agencies to assign ratings to warehouse notes will result in a significant expense obligation[1] that RESIMAC would pass on to its mortgage product pricing.

Given this RESIMAC encourages APRA to consider the continued use of the internal assessment approach for risk weighting securitisation exposures.

2. Increased capital deductions for investments in non-senior tranches of a securitisation

The proposal of a CET1 deduction for all non-senior securitisation exposures on the assumption that all non-senior exposures "reflect substantially all the credit risk in a securitisation". RESIMAC, and the broader non-bank market, rely on the warehouse providers' ability to fund to an attachment point that is commensurate with the underlying credit profile of the collateral and its capital model.

RESIMAC believes that the major Australian banks are very familiar and skilled in understanding the risk profile of the entire capital structure and therefore their internal assessment of that risk should be applied to the non-senior tranches. Again, we reiterate, the Australian banks have the ability and are extremely capable to invest across their portfolios in sub AAA assets (e.g. unrated corporate loans) successfully without the need for a capital deduction for each of these facilities. The imposition of a CET1 deduction on non-senior tranches for residential mortgage portfolios would be unnecessarily punitive.

The consequences of ADI warehouse providers bearing a CET1 capital charge to non-senior exposures would require the introduction of third-party (non-ADI) financiers or investors in warehouse structures. This would bear a significant additional cost and administrative burden to a non-bank warehouse and impact on the competitive positioning of the sector.

We again thank you for the opportunity to submit our comments and would welcome the opportunity to discuss any aspect of this submission in person.

Yours sincerely,

Mary C Ploughman
Executive Director, Securitisation

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[1] Ratings agency fees range from 2.5 to 4.5bps on the face value of the total warehouse limit