



Australian Government

Australian Office of Financial Management

RMBS Investment Program

Investor Update, September 2010





Important Notice

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Operational Notices on the AOFM website (www.aofm.gov.au) are the authoritative statements of the AOFM's requirements and procedures for RMBS transactions and this presentation should not be taken as modifying these Notices in any way.



The AOFM

- The Australian Office of Financial Management (AOFM) is a specialist Australian Government agency responsible for:
 - management of Australian Government debt
 - the Government's cash balances
 - investing in financial assets
- The AOFM is:
 - Part of the Treasury portfolio
 - Accountable to the Treasurer and through him to the Australian Government, the Parliament and the public



The RMBS Investment Program

- Program Chronology
- Program Objectives
- AOFM Strategy
- Program Requirements
 - Assessment Criteria
 - Minimum Eligibility Criteria
- Investment Process
- AOFM Investments (to date)
- Pricing
- Outlook



Program Timeline

	Policy	Implementation (AOFM)
Sep-Oct 2008	<ul style="list-style-type: none">Government announces a range of measures to support Australia's financial system	
3 Oct 2008	<ul style="list-style-type: none">AOFM directed to invest up to A\$4 billion in RMBS	
13 Oct 2008		<ul style="list-style-type: none">AOFM "request for proposal" / tender approach commences
16 Oct 2008	<ul style="list-style-type: none">AOFM directed to invest a further up to A\$4 billion in RMBS issued by non-ADI*	
21 Nov 2008		<ul style="list-style-type: none">Settlement of first AOFM RMBS investment
Sep-Oct 2009	<ul style="list-style-type: none">Market consultation in relation to further support for RMBS issuance	
30 Nov 2009	<ul style="list-style-type: none">AOFM directed to invest up to a further A\$8 billion in RMBS (Phase 2)	
7 Dec 2009		<ul style="list-style-type: none">AOFM "reverse enquiry" approach commences
8 Dec 2009		<ul style="list-style-type: none">AOFM "serial arrangement" RFP

* ADI = Approved Deposit-taking Institutions (prudentially regulated financial institutions)



Program Objectives

- AOFM to invest up to A\$16 billion in RMBS to support:
 - competition in residential mortgage lending from a diverse range of lenders
 - support small business lending (Phase 2)
- The AOFM does NOT:
 - Invest in secondary RMBS or ABCP
 - Invest in other classes of ABS
 - Aim to clear out mortgage warehouses
 - Support primary issues other than through direct investments



AOFM Strategy

- The primary objective is to support competition in mortgage lending and lending to small business
- Program is temporary
- Aim to meet the program objectives without “leaving a legacy in the market”
- Allow market to function as “normal” as possible
- Closely monitor market conditions
- Support structures that engage other investors



Program Requirements

- RMBS issuance is currently supported through two channels
 - Serial Arrangement
 - Reverse Enquiry
- Issuers eligible to lodge proposal
 - Have issued RMBS in Australia before
 - Intend to remain active funding new mortgages through securitisation
 - Lodged by an eligible arranger
- Proposal Assessment Criteria
- Minimum Eligibility Criteria



Serial Arrangement

- AOFM offered to invest in a series of RMBS issues
- Mandates totalling up to A\$3.4 billion allocated to:
 - AMP Bank
 - Firstmac
 - Liberty Financial
 - ME Bank
 - Resimac
- Issues must price by 15 December 2010
- AOFM can purchase up to 50% of eligible AAA securities offered, up to 75% of a tranche
- Lenders can “opt out” and use reverse enquiry channel



Reverse Enquiry

- Proposals can be submitted to AOFM when ready to go to market
- As not a tender process can have two way dialogue with issuers / arrangers on deal structures
- Program does not have an end date
- No restriction on AOFM participation volumes or % of a tranche; determined by AOFM for each proposal
- Not available to issuers with serial arrangement (though they can “opt in”)



Assessment Criteria

- The extent to which the funds raised will be used for new residential lending, or loans to small business, rather than clearing warehouses / balance sheets
- Historical reliance on RMBS
- The expected participation of other investors
- Timing of the issue to avoid congestion
- The experience and capability of the arranger
- The capabilities and quality of the asset servicer
- The overall quality of the mortgage pool and securities on offer



Minimum Eligibility Criteria

- Both channels have the same minimum eligibility criteria which include:

Minimum Eligibility Requirements	
Securities	<ul style="list-style-type: none">• “AAA” rated by at least two agencies• A\$ denominated
Mortgages (at cut off date)	<ul style="list-style-type: none">• Prime• A\$ denominated• Maximum loan size A\$750,000• Maximum LTV 95%• Maximum term to maturity 30 yrs• Maximum interest only period 10 years• Days in arrears <30 days
Low doc loans are eligible	<ul style="list-style-type: none">• Prime• Additional loan level requirements where low doc are >10% of pool<ul style="list-style-type: none">• Not a PAYG/salaried borrower, maximum consolidated borrower exposure of A\$1 million, maximum LTV of 80%, mortgage insured



Minimum Eligibility Criteria cont.

Minimum Eligibility Requirements	
Pool	<ul style="list-style-type: none">• Closed pool• Maximum 50% interest only loans
Mortgage insurance	<ul style="list-style-type: none">• Don't need to be mortgage insured but must be "Mortgage Insurable"
Audit	<ul style="list-style-type: none">• Sample audit of compliance with minimum requirements• Tie back of sample of loans in the pool to source loan documentation
Reporting	<ul style="list-style-type: none">• Monthly



Investment Process

- AOFM does not underwrite the pricing of issues. We may have discussions around price with issuers to assist them in refining the capital structure
- When we agree to support a transaction:
 - We disclose support of a transaction on our website
 - We indicate to issuer/arranger the maximum amount we may invest and any limits, including the maximum percentage or amount of a tranche we may invest (this is not disclosed to market)
- During book build we may bid for an allocation of RMBS alongside other investors in the transaction



Investment Process

- We require that for any investments by the AOFM:
 - Tranche pricing and volume is disclosed at pricing
 - AOFM website updated after settlement
- Deals to date supported by AOFM:
 - 35 issues
 - 16 lenders
 - Total RMBS issuance supported A\$23.1 billion
 - AOFM investments of A\$11.0 billion (48% of supported issuance)

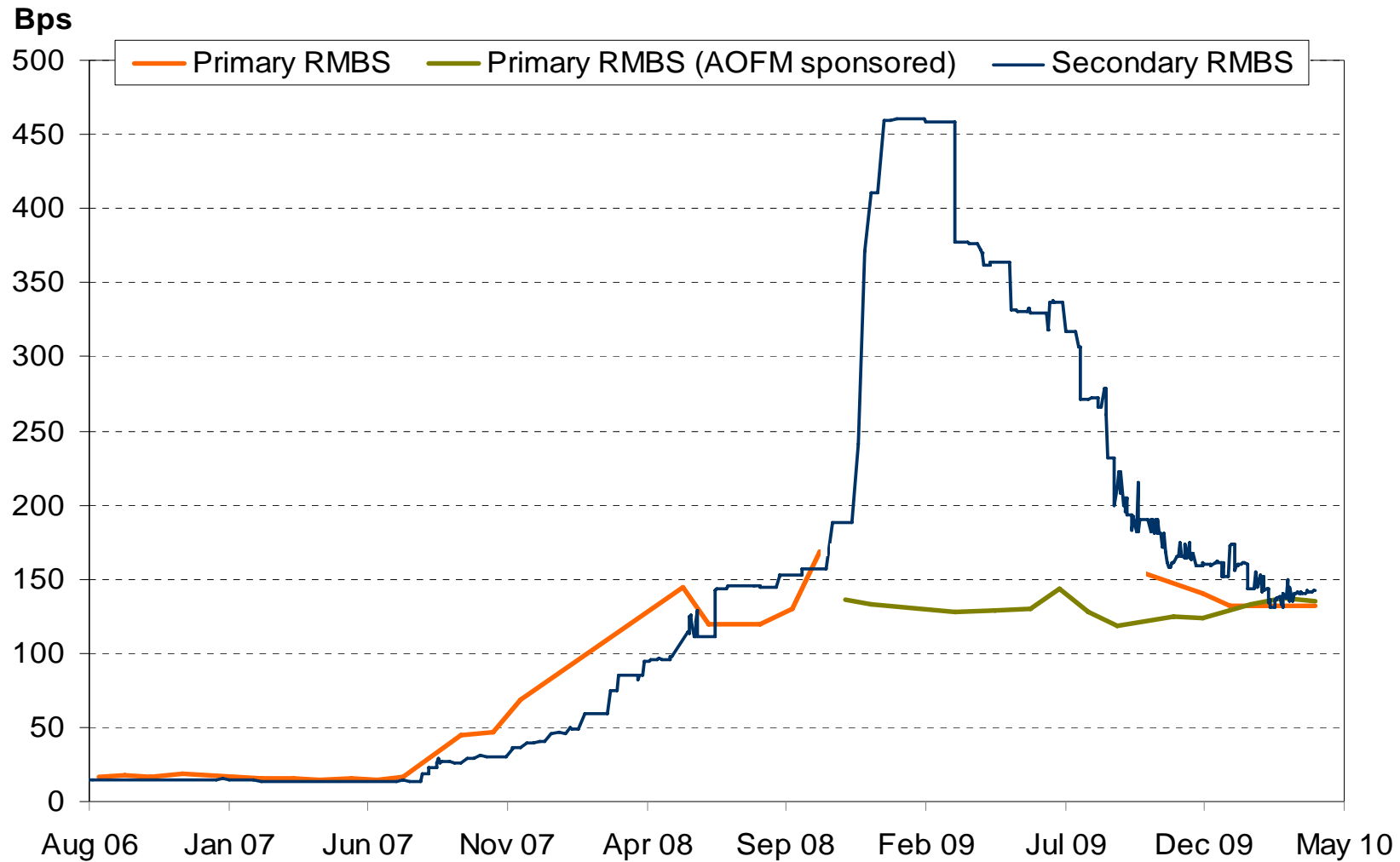


Pricing Rationale

- The volume and price bid by the AOFM for a particular security will take into account:
 - the extent to which the issue will contribute to the Program's objectives
 - credit and structural characteristics of the security
 - expected WAL
 - pricing relative to other AOFM RMBS investments
 - current market conditions
 - other investor demand for the security



Pricing – AAA senior RMBS



Source: RBA, RBS

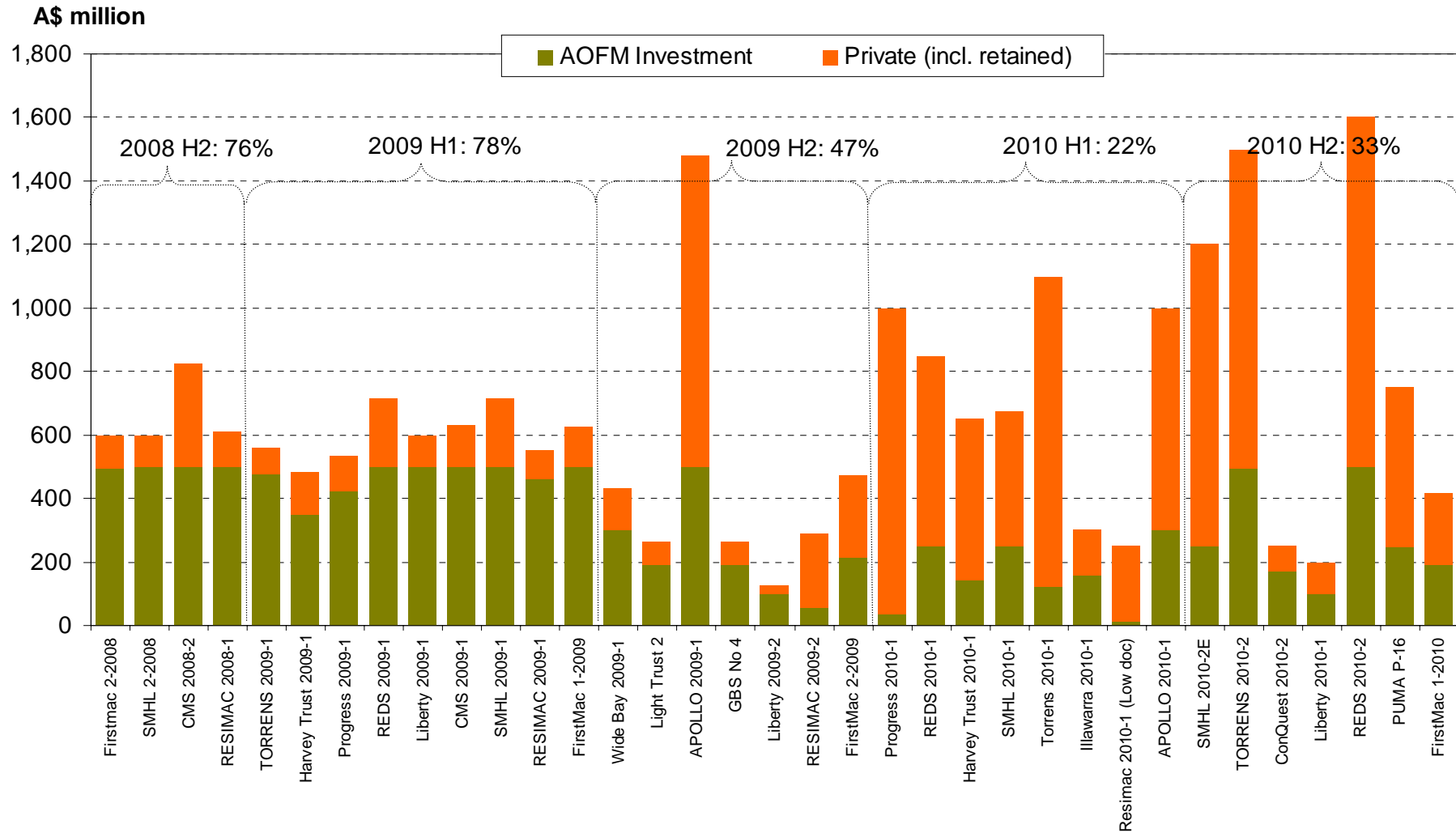


Pricing Rationale cont.

- Primary market stalled in March-April 2010
- AOFM sought to restart market in May 2010
 - Anchoring long tranches to facilitate creation of short tranches
 - Tighter pricing – driving competition in the mortgage space
- AOFM seeks to limit interest to 1 or 2 tranches
 - But will put a clearing bid into a short tranche

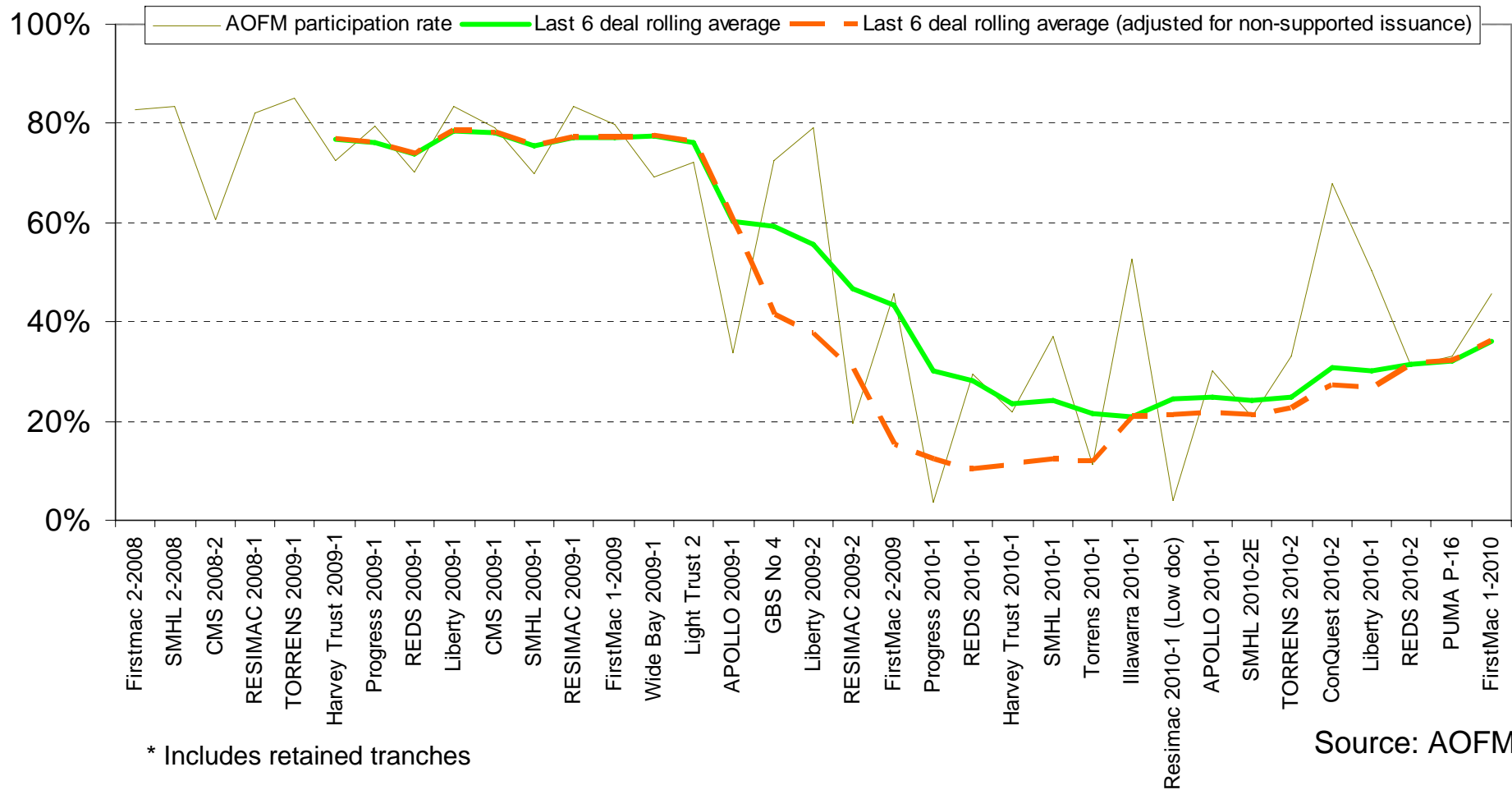


AOFM Investments





AOFM Investments - Participation Rate*

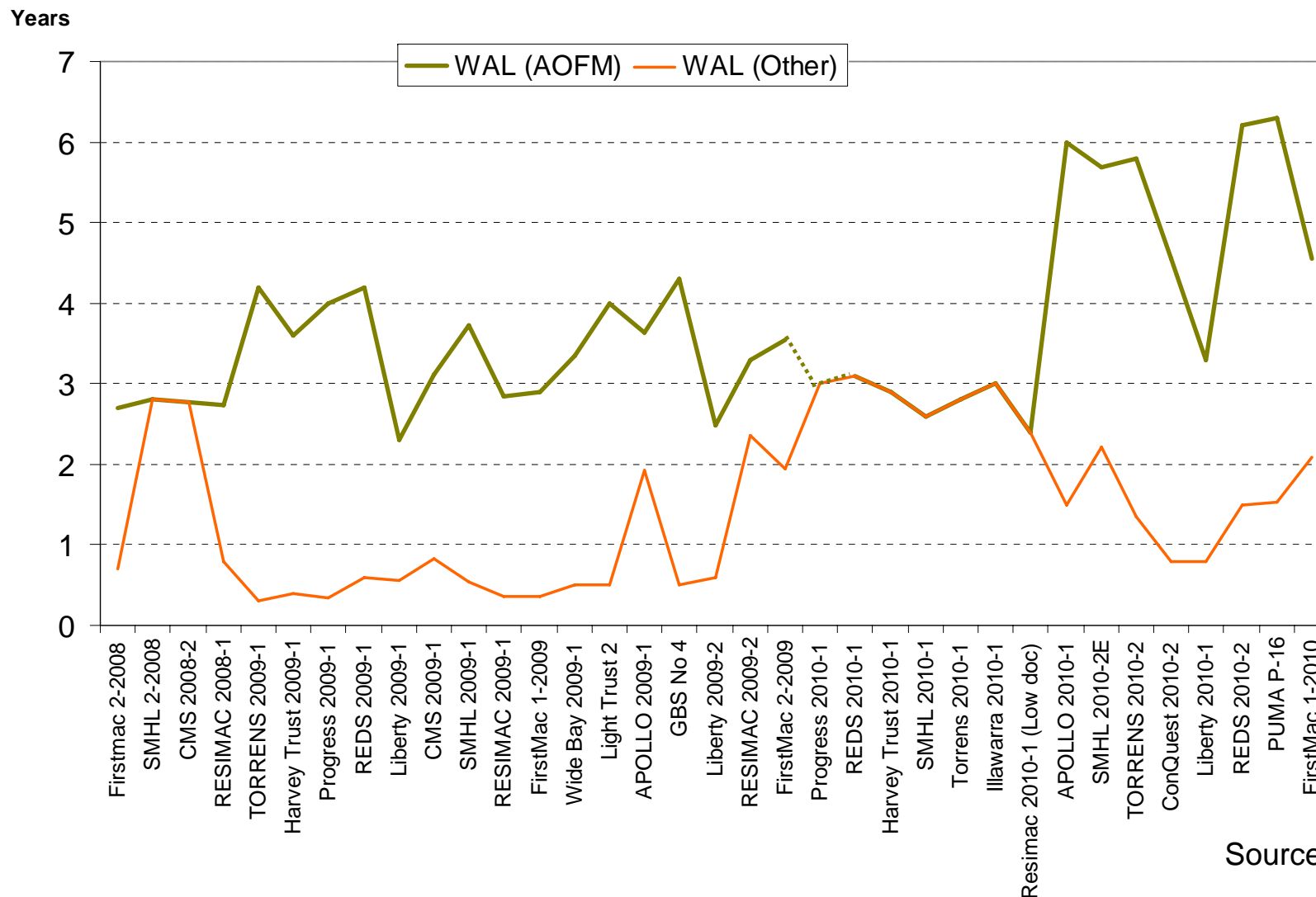


* Includes retained tranches

Source: AOFM



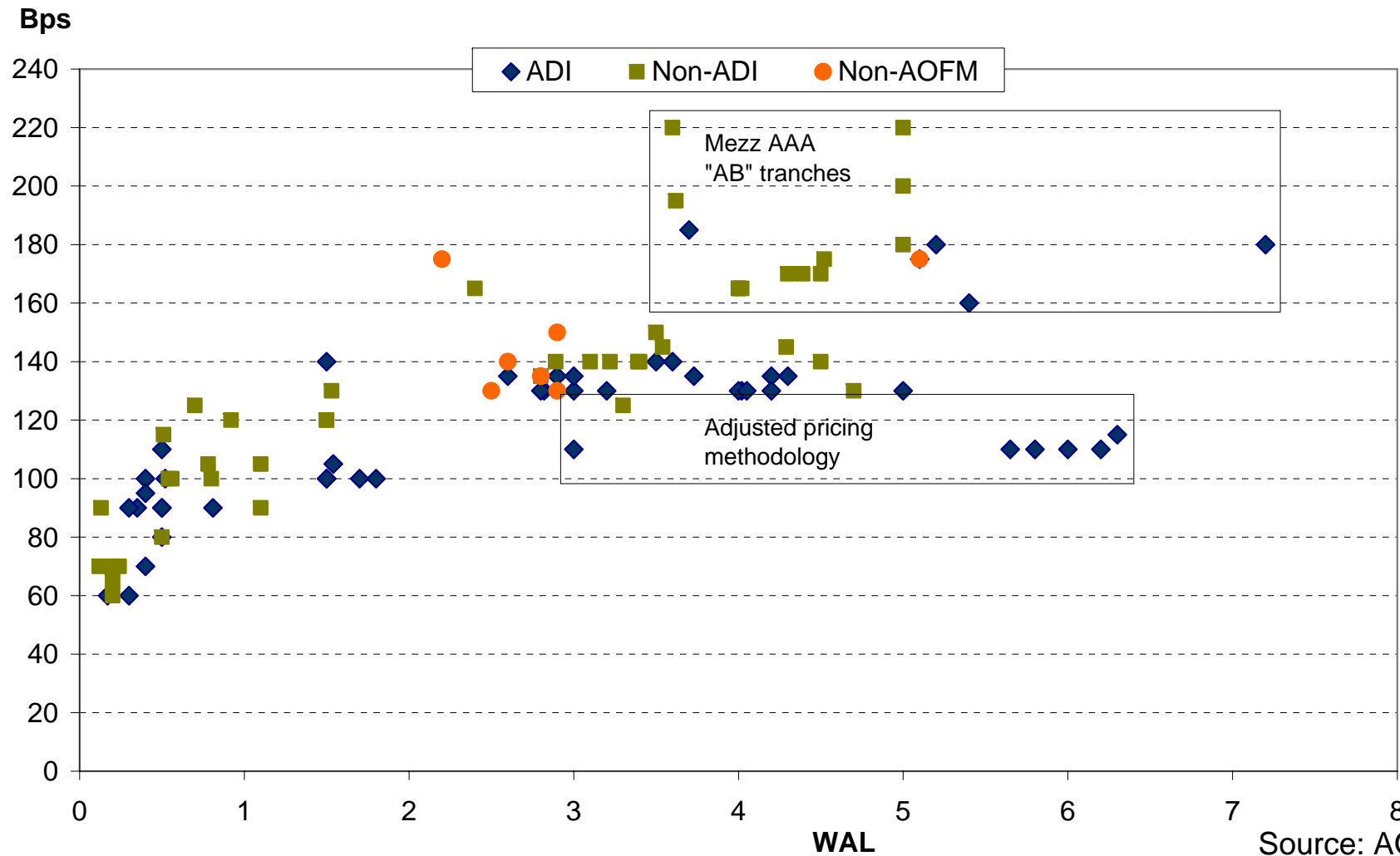
AOFM Investments – WAL (senior AAA)



Source: AOFM



Pricing – AAA RMBS



Source: AOFM



Sale of AOFM investments

- AOFM is authorised to adjust its holdings of RMBS
 - In March 2010, the AOFM sold a small portion of its holdings (A\$73.79 million) for portfolio management purposes
- After conditions in the primary market have improved, AOFM has discretion to sell or hold to maturity. Sales should be undertaken without causing market volatility
- The AOFM has no current plans to undertake further sales of its portfolio



Outlook

- AOFM has up to A\$5.02 billion remaining of the \$16 billion program to be invested (with some allocated to serial arrangements)
- AOFM is supportive of further decreases in the cost of RMBS issuance across the capital structure
 - Decrease in headline RMBS spreads
 - Capital structures to meet private investor demand with complementary investment from AOFM
 - Support for cross border / foreign currency issues (but only via A\$ tranches)
 - Other innovations will be explored as they arise



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Further Information

Website www.aofm.gov.au/content/rmbs.asp