RESIMAC

29 September 2010

Cp40@c-ebs.org

RE: CEBS CONSULTATION PAPER ON GUIDELINES ON ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

Thank you for the opportunity to respond to the amendments to the CRD by Directive 2009-111/EC relating to securitisations.

Background on RESIMAC

RESIMAC is an independent, non-aligned organisation with 24 years experience in servicing and funding mortgages in the Australian market. It pioneered the 'originate to service and securitise' business model in 1985 and its proprietary servicing platform has been awarded a "Strong" Servicer Evaluation ranking by Standard and Poor's.

Corporate Profile

RESIMAC commenced operations in 1985, when it was established by the New South Wales state government to service and securitise residential loans for HomeFund, a New South Wales government housing programme under the name of FANMAC. Notably, RESIMAC was the first issuer of Australian residential mortgage backed securities ("RMBS").

In 1993, FANMAC established a private residential lending programme via its subsidiary Residential Mortgage Acceptance Corporation Limited. The HomeFund program ceased in 1994 and FANMAC Limited changed its name to RESIMAC Limited in July 2001. Since 1995 the RESIMAC loan book has expanded from A$600 million to over 18,000 loans worth $3.2 billion.

Ingot Capital Management ("Ingot" – a global financial services and infrastructure investment group) has been the major shareholder of RESIMAC since 1998 and is presently RESIMAC's controlling shareholder. The investment has been made for the long term and represents Ingot's confidence in the mortgage industry and securitisation.

A core part of RESIMAC's competitive advantage is its IT platform. RESIMAC has invested heavily in technology to permit the management of a greater number of loans efficiently and effectively in order to be one of the lowest cost originators and servicers in the industry. The IT platform has enabled RESIMAC to reduce its level of fixed costs and reduce error by human intervention.

With a 25 year history of funding mortgages, securitisation is a core competency of RESIMAC. Since its inaugural RMBS issue in October 1987, RESIMAC has completed 42 transactions in domestic and offshore capital markets. The six transactions currently outstanding have a total issue value of A$5.4 billion. RESIMAC maintains long-standing banking relationships and currently has five warehouse lines covering prime, non-conforming and commercial lending asset classes. The strength of RESIMAC's funding programme is best illustrated by its ability to close four transactions and successfully renew all its warehouse lines during the global financial crisis.

RESIMAC is an unlisted public company and is subject to public company reporting and audit requirements. RESIMAC holds a full service/broad Australian Financial Services License issued by ASIC.

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Funding and Securitisation

RESIMAC employs two methods to fund its mortgage book, namely, warehousing and term RMBS issuance. These financing sources offer flexibility by allowing liquidity for new mortgage originations while also giving the benefit of medium-term pricing via its securitisation programme. RESIMAC's funding basis is summarised below:

- **Warehousing** – 364 day facilities provided by 3 banks to enable liquidity for daily mortgage settlements and further advances / increases. Given the nature of the warehouse facilities, the cost of funds is higher than that of term (RMBS) funding. Warehouse facilities have an agreed set of eligibility criteria and are used to build a sufficient volume of mortgages for an RMBS issuance.

- **RMBS Issuance** – warehouses are refinanced by an issuance of RMBS for tenors between 3-5 years. RESIMAC uses its RMBS programme to issue 'AAA' and 'AA' rated bonds to an array of domestic and offshore investors. Funding via RMBS is one of the most efficient methods to fund and price a high quality mortgage portfolio.

  Its issuance programme has been particularly successful by measure of the broad investor support and pricing it has been able to achieve over the years. It is particularly noteworthy, that during the financial crisis, RESIMAC was able to issue RMBS to its core domestic investors under the government-sponsored AOFM programme. RESIMAC was one of four non-ADI financiers mandated by the AOFM on three separate occasions.

General response to guidelines on Article 122A and Retention and the Australian Application

The rationale provided for a requirement of economic retention largely centres around what the drivers are for sound underwriting standards at the inception of a mortgage and for strong servicing practices to be maintained throughout the life of the mortgage. RESIMAC contends that the structure of the Australian mortgage market and the strong regulatory environment foster robust underwriting and servicing standards

The structure of the Australian market is not fragmented as in the U.S. context, it is an originate to securitise model where the originator will also undertake servicing rights and arrange securitisations. Therefore, the party which underwrites the mortgages has responsibility for the mortgage through its life, the profitability of that organisation is directly linked to the quality of the mortgage as the return is in the form of servicing fees and net margin after the bond costs which will only be paid from performing mortgages. It is, therefore, in each underwriters' interest to originate quality mortgages and service them effectively to ensure an ongoing return.

The structure of the market mean the originator has 'skin in the game' throughout the life of the mortgage including post sale into an RMBS.

Since 1996, Australia has had in place the 'Uniform Consumer Credit Code' (recently replaced by the 'National Consumer Credit Protection Act') which protects borrowers from being provided credit on inappropriate terms and a compliance onus with recourse to the credit provider. This has also influenced underwriting standards.

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Lenders in the Australian marketplace are required to act reasonably and the results of this have been shown over recent years with strong mortgage performance and low delinquencies and defaults. These two factors, the 'ownership' throughout the life of the mortgage and the link of performance with profitability of the originator / servicer overlaid with a strong regulatory framework has meant Australia has always been and will continue to be a market with:

- Strong underwriting standards
- Comprehensive servicing
- Proactive arrears management.

We therefore believe an additional impost of 5% capital investment in an RMBS would not improve the already robust environment and possibly restrict RMBS distribution to the European bond market.

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