

**THE CHANGING LANDSCAPE OF THE AUSTRALIAN SECURITISATION
MARKET AND THE ROLE OF CORPORATE TRUSTEES**

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Macquarie Graduate School of Management

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CERTIFICATION

I certify that the work in this thesis entitled THE CHANGING LANDSCAPE OF THE AUSTRALIAN SECURITISATION MARKET AND THE ROLE OF CORPORATE TRUSTEES has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree to any other university or institution other than Macquarie University.

I also certify that the thesis is an original piece of research and it has been written by me. Any help and assistance that I have received in my research work and the preparation of the thesis itself have been appropriately acknowledged.

In addition, I certify that all information sources and literature used are indicated in the thesis.

The research presented in this thesis was approved by Macquarie University Ethics Review Committee, reference number HE23JUN2006-D04751 on the 8TH November 2006.

A handwritten signature in black ink, appearing to read 'Robert McCabe', with a stylized, cursive script.

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ABSTRACT

There are many different definitions for securitisation and there are many different business models for the participants that comprise the market. The rapid growth of the industry and the increasingly complex structured solutions on offer has increasingly blurred the definition and scope of securitisation itself. The mortgage value chain, as the largest component of securitisation, is also undergoing significant change as competition increases and profit margins decline.

Australia's preference for the Trust structure in securitisation has given Corporate Trustees a prominent role in transactions that is unique and central to the Australian industry. The role of the Trustee to act on behalf of investors while also facilitating the complex nature of securitisation funding and financial transaction flows has given it a position that can be seen to act as providing a fiduciary duty while being commercially successful at the same time.

The growth of securitisation and increased level of importance to the provision of asset funding as a means to fund business growth has created opportunities for mortgage manufacturers to avail of and be part of the funding component of the value chain while increasing their overall profits from mortgages. Mortgage Brokers have an increasingly important role in the mortgage industry's distribution channels, and lenders are trying to improve the structure of broker commissions in order to improve loan profitability within this sector. Despite advances in technology and the proliferation of internet and telephone capability in financial services, the proverbial "high street branch" has a very important part to play given the size of the financial transactions involved and the preference that consumer's have for face-to-face contact. Increasingly sophisticated customer requirements, and the desire to contain costs and add efficiency has brought about much change in the

mortgage process. Increasingly, the need to push more of the mortgage processing work closer to the initial contact points with the customer in order to turn information into electronic formats that can be quickly dispersed to other parties, and the desire to quicken funding decisions has taken precedence over having a sequential set of stages in the securitisation value chain of events. The complexity and fragmentation of the Australian securitisation market is fuelling opportunities as well as challenges for its members and participants.

Technology in the securitisation industry 10 years ago was largely centralised and based on in-house systems that were designed to meet the needs of one party. Things have changed since then as technology in the securitisation industry is being driven by the extensive changes taking place at an industry level. Increased competition, value chain fragmentation, demand for improved and increased services, increasingly complex financing structures, and more regulated lending practices are all contributing to the changes in technology use.

The use of integrated technology that is delivered in modules is becoming more important given the need to meet demand quickly, provide electronic data exchange with different stakeholders and provide an efficient service. The fragmentation of the industry means that participants do not have to build end-to-end market solutions to operate in the industry but can instead concentrate on their own area as long as they can link to other parties in the industry. However, industry participants increasingly have to make choices when deciding on their technology strategy and when making decisions as to whether to use technology to outpace, keep up or stay behind the rest of the industry.

Traditionally the Trustee role has been carried by professional Corporate Trustees that were valued for their independence and specialist skills. The expansion and increased complexity

of the securitisation market has allowed the Corporate Trustees to find commercial success and build a specialist outsourced administration service.

The unbundling of the securitisation value chain and the opening up of the administration services part of the market is creating opportunities for parties such as Corporate Trustees to provide more specialist administration services. Administration is no longer tied to securitisation funding, and improvements in technology have allowed Corporate Trustees to provide services that are more closely tied to the value chain.

Corporate Trustees have built up a range of securitisation and administration skills. These skills, along with investments in technology, can be positioned to also add on new administration services creating an attractive outsourcing option for asset funders and product manufacturers. The Corporate Trustee has a unique opportunity to build upon its current position in the securitisation industry, while balancing its fiduciary obligations, to meet the commercial demands that will exist.

The Corporate Trustee business model has played an important role in the Australian securitisation market since its inception. The majority of programs now use a Trust structure.

This research highlights that the current process around securitisation is complex and involves a number of manual steps. As part of the review of this process, this thesis aims to clarify the Trustee's role regarding the steps that should be taken during an on-going securitisation program. This thesis is divided into a number of sections covering the Trustee's legal obligations, the role of the Trustee, the securitisation distribution current process, the role of technology, options for the future, and concluding recommendations.

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GLOSSARY OF KEY TECHNICAL TERMS

COLLATERALISED DEBT OBLIGATIONS (CDO) – This refers to securitisation transactions that are secured by debt assets which are pooled together and then funded by the issuing of debt securities

COLLATERALISED MORTGAGE OBLIGATIONS (CMO) – These are a follow on from mortgage pass-through securities that had first appeared in the early 1970s, and have tranching arrangements collateralised with pools of residential mortgages

COMMODITISATION – Refers to the proliferation of new products in a market that contribute to making existing products more homogeneous

CORPORATE TRUSTEES – These are professional companies that provide the services to establish and maintain Trusts or Special Purpose Vehicles

CREDIT DEFAULT SWAPS (CDS) – Assets in a securitisation collateral pool can range from cash instruments (for example residential mortgages, credit card receivables, loans and bonds) or have a synthetic exposure which are known as credit default swaps

FIDUCIARY DUTY – Corporate Trustees have a general fiduciary duty to act in the best interest of trust beneficiaries, to effectively monitor a company such that is a debt issuer or a fund manager, and to be able to act independently in accordance with the relevant trust deed

MORTGAGE BACKED SECURITIES (MBS) – These are securities that are collateralised by mortgages that are packaged into a securitisation funding program that is then issued through bonds to the capital markets

MORTGAGE MANUFACTURER – This refers to an organisation that designs and offers mortgage products for distribution

OUTSOURCE – This refers to a commercial arrangement where one party will allow another party to perform a service on their behalf which the initial party could have done themselves

RESIDENTIAL MORTGAGE BACKED SECURITIES (RMBS) – These are securitisation transactions that have packed residential mortgages with collateralised obligations issued in the form of bonds

SECURITISATION – This can be defined as a means of providing funding through a process aimed at creating a liquid market for assets, such as mortgages and credit card loans. The relevant assets are pooled into a special purpose vehicle (SPV) or Trust which is funded by issuing securities backed by the cash flows of the asset pool

SERVICE LEVEL AGREEMENTS (SLA) – This refers to an agreement that defines service standards and expectations between different parties

SPECIALISED PURPOSE VEHICLE (SPV) – This is a legal entity, either a company or trust, that is set-up for a specific purpose. In securitisation SPVs are used pool assets which then funded by issuing securities backed by the cash flows of the asset pool

STRUCTURED FINANCE – Can be defined as a form of financial intermediation, based upon securitisation technology, which involves the pooling of assets and the subsequent sale to investors of claims on the cash flows backed by these pools

STRUCTURED FINANCE INSTRUMENT – This usually involves a complex debt instrument involving medium term note which the issuer enters into one or more swap arrangements to change the cash flows it is required to make

TRUSTEE- This usually refers to a relationship in which a person, called a trustee, holds title to property for the benefit of another person called a beneficiary

VALUE CHAIN - The mortgage value chain concept refers to the main end to end activities associated with offering mortgages. Value chain analysis is a technique that disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation.

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