

1999 Year In Review and 2000 Outlook: Record Market Growth Accompanied By New Asset Classes

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REVIEW AND OUTLOOK

Overall 1999 volumes of Australian structured finance securities surged by nearly 66% to A\$17.2 billion, a sizeable increase from 1998's approximate A\$10 billion. As the new century begins in 2000, we expect that MBS issuance will continue to dominate the Australian structured finance market, together with increased ABS issuance and the introduction of more new products (such as commercial mortgage backed securities and corporate loan backed transactions).

The 1999 increase in volumes was attributable to several factors, including the following:

- **Continued Dominance of Mortgage Backed Securities:** A continuation in the issuance of mortgage backed securities (MBS) by repeat issuers, including Westpac, St George, PUMA, RAMS, and the Superannuation Members Home Loans program, helped MBS to maintain market position.

MBS accounted for approximately 82% of total issuance in Australian structured finance securities. Approximately A\$14.2 billion of mortgage backed securities were issued, an increase of 51% from 1998's A\$9 billion. As major lenders continued to diversify their funding base in search of a broader investor base, cross-border MBS issuance rose by 87% to approximately US\$5.8 billion (60% of total MBS issuance) from approximately US\$3.1 billion in 1998.

- **Increased Momentum of Asset Backed Securities:** For the first time since 1995, asset backed securities (ABS) were important contributors to the overall structured finance market growth, accounting for approximately 16% of total structured finance issuance. 1999 ABS volumes more than doubled, increasing by 121% to A\$2.6 billion from 1998's A\$1.2 billion, driven primarily by auto loans and lease transactions.



Moody's Investors Service

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- **Emergence Of New Asset Classes:** Australia's 1999 structured finance market marked a year of new beginnings, with the emergence of non-conforming mortgage loans, credit-linked corporate loans, and commercial mortgage loans. Growing interest from domestic investors in these new asset classes, particularly the non-investment-grade mezzanine and subordinated classes (tranches), played an important part in the development of these new market segments. Acceptance of these new asset classes is likely to encourage issuers to introduce more new issues into the market.

MORTGAGE BACKED SECURITIES

Emergence of Non-conforming MBS in A\$ Market

MBS issuance represented 82% of all Australian structured finance securities issued in 1999. The increase to approximately A\$14.2 billion from A\$9 billion in 1998 can primarily be attributed to non-bank lenders' picking up their 1999 MBS issuance activities, following a drop in 1998. (see Figure 1). MBS issuance by non-bank lenders in 1999 contributed 61% of the total volume. PUMA, RAMS, AMS, and Superannuation Members Home Loans dominated the non-bank lenders market, issuing A\$ (equivalent) for a total of \$6.7 billion (see Figure 2).

Additionally, Moody's believes that MBS volumes will be boosted in the coming year, as the major and regional banks continue to use securitisation as part of their balance sheet and liquidity management. Bank lenders, such as Westpac and St George, continue to focus on funding diversification by issuing securities in the offshore market in search of a broader investor base.

FIGURE 1: MBS ISSUANCE ACTIVITIES BY SECTOR

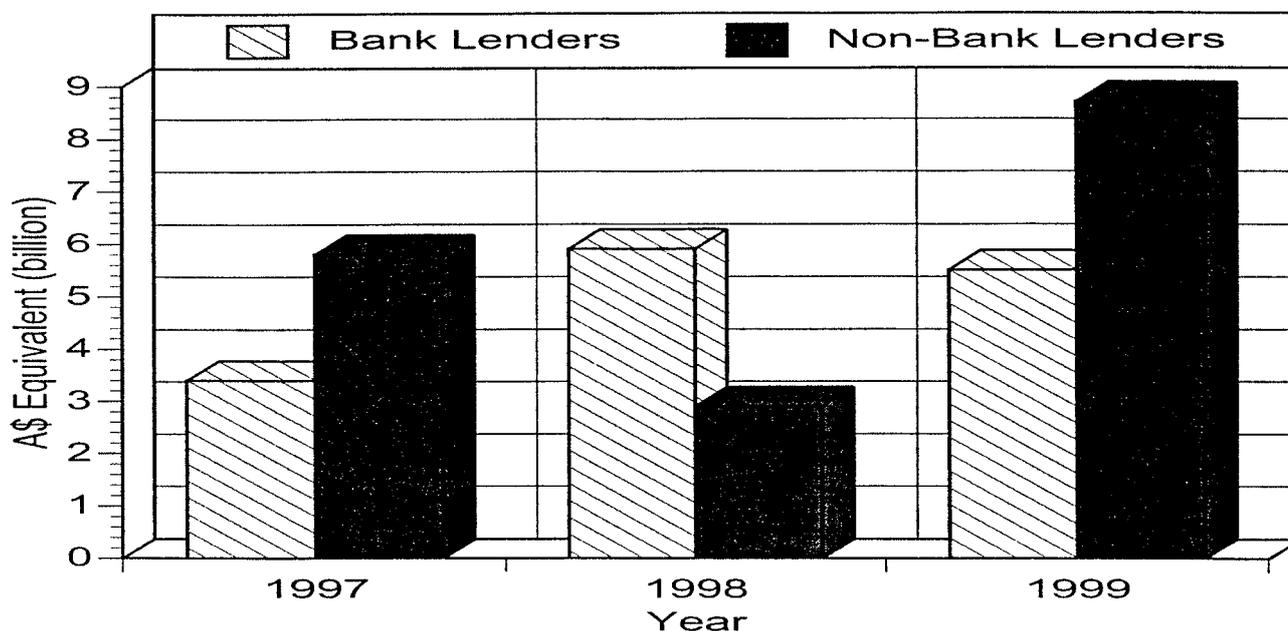


FIGURE 2: MAJOR AUSTRALIAN MBS ISSUERS IN 1999

ISSUERS	Domestic A\$ Issue (A\$ million)	Cross border US\$ or Euro Issue* (A \$million)	Market Share (A\$ equivalent) %
Macquarie - PUMA	-	2,042	14.4
Westpac - WST Trusts	157.5	1,881	14.3
RAMS Mortgage Corporation	-	1,955	13.7
St George - Crusade Trusts	9	1,534	10.8
AMS - ARMS II	600	750	9.5
National Mutual - SMHL	1,329		9.3

*A\$equivalent

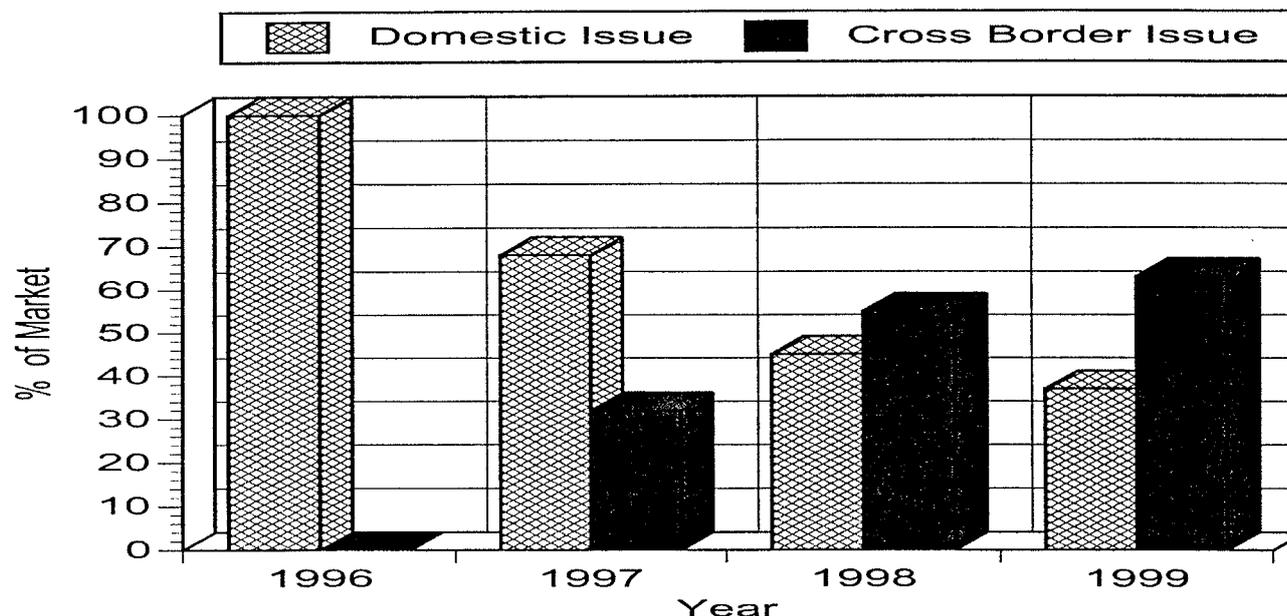
Cross-Border MBS Issuance Surges Ahead

Several Australian MBS issuers, including ARMS II Euro Fund, Colonial State Bank, and Resimac, marked their first entry into the Euro MBS market in 1999. St George Bank also made its successful debut in the global MBS market.

Cross-border MBS issuance increased substantially to US\$5.8 billion, up by 87% from US\$3.1 billion in 1998, as major MBS issuers continued to diversify their funding base away from the domestic market.

Cross border issuance now represents approximately 63% of total MBS issuance, up from 55% in 1998 (see Figure 3). Due to the potential MBS supply held by the major lenders, the trend toward larger issuance size, and the current lack of depth in the Australian market, Moody's anticipates that the major Australian MBS issuers will continue their cross-border focus as a way to diversify their funding base in year 2000.

FIGURE 3: MBS ISSUANCE ACTIVITIES BY MARKET



Nonconforming MBS Enters Market

In 1999, two non-conforming MBS issues--Series 1999-1 HLC Trust and Liberty Funding Series 1999-1--made their entry into the domestic MBS market. Although the non-conforming MBS sector was a small segment of the overall market in 1999, we expect that the increased sophistication of domestic MBS investors should encourage the entry of more issuers into the market in the near term.