



Government to sell out of RMBS

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The Commonwealth government is to offer "the entirety of the [Australian Office of Financial Management's] current holdings" of residential mortgaged-backed securities to be auctioned, "subject to reserve prices" – in a couple of weeks' time.

These holdings are the remaining investments in A Class notes made by the AOFM in 2011 and 2012 to support non-major bank mortgage providers – in this instance, two tranches from Firstmac and Wide Bay – totalling over A\$200 million and \$300 million respectively – a tranche each of AMP Bank, Bendigo and Adelaide Bank's Torren notes, and Macquarie's Puma securitisation.

The holdings are a legacy of the federal government's actions from late 2008 until 2013 to support the non-bank securitisation market by buying the majority of A-notes until investors returned to the market.

While originally totalling around A\$1 billion, some tranches have likely amortised. Nevertheless, the path and timing the government has chosen for the auction is "very smart", according to Robert Camilleri, investment manager at Realm Investment House, and a long-time buyer of RMBS paper.

"It's the right time to sell. The previous auction was into a market that was very uncertain," he said.

At the present time, though, the demand for RMBS is strong, and Camilleri expects the AOFM to clear the tranches on offer at around the levels it has indicated – averaging less than 100 basis points over par (face value).

His view, made at a preliminary stage in his team's calculations, is that the spread seems to offer fair value and, if priced as the AOFM has indicated, is likely to clear – and not just to the local Aussie dollar investors.

Overseas investors have been lining up for Australian RMBS. Actions such as quantitative easing in Europe, for example, have made the returns on Australian RMBS look very attractive to offshore investors, in the last six months to one year in particular.

"What we've seen in the last six to nine months in the credit (ie, fixed income) markets is that RMBS spreads have tightened," Camilleri said.

"Looking at where the government has set its reserve prices, the tranches on offer will be selling at a small to modest profit to what was invested. It's a good story for the government, so if it ever wanted to return to the market with a similar program, it could point to the success of the original program – the taxpayers didn't lose money, it created competition in the mortgage market, and was an overall benefit to the economy."

The AOFM said that bids will close at 11am AEDT on Thursday 23 November 2017, with results announced later that day.

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