REGISTERED AUSTRALIAN MORTGAGE SECURITIES.

Submission to the Financial System Inquiry.

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9th September 1996.

RAMS' management believes that the Financial System Inquiry provides an excellent opportunity to explain where RAMS currently fits into and how it contributes to Australia's financial system.

The Inquiry also enables it to look at potential changes to the regulatory environment and how they should enhance the potential for organisations like RAMS to play an even larger and more valuable role in the future.

RAMS' current strategies are directly aimed at the same key criteria that have been delineated in the Inquiry's Terms of Reference as ensuring a financial system that underpins stronger economic performance.

These include:

Efficiency

RAMS is a highly specialised group that is entirely focused on residential mortgages.

All of its resources are dedicated to the origination, processing, servicing and funding of mortgages.

The group has developed an organisation and systems that allow it to tightly control costs yet maintain speed and accuracy in building and managing a rapidly growing loan portfolio.

That portfolio has, in turn, been utilised as the backing for AAA-rated bonds which have resulted in RAMS achieving among the lowest funding costs of any group in the Australian private sector.

Responsiveness

During its five years of operations RAMS has continuously fine tuned its products and procedures in response to the demands of home owners and in the face of competition from a broad array of bank and non-bank lenders.

RAMS has been able to fully utilise the capital markets for funding to provide borrowers with the finest pricing available in Australia. It has helped bring wholesale pricing to retail customers.

Competitiveness

RAMS has played a major role in redefining the market for residential finance during the past few years.

The larger mortgage managers, including RAMS, have developed new standards for mortgages in terms of price, terms and accessibility.

From nowhere a few years ago, the managers have taken a growing share from the banking industry and have, more importantly, compelled the banks to greatly improve their offerings in the marketplace to the great benefit of consumers.

Flexibility

RAMS' recent response to market demands has been the very warmly received Better Home Loan product which has combined low pricing and a wide range of amortisation, term, reborrowing, and insurance options.

It has set a new standard for flexibility in an industry that has rapidly jumped from the complete rigidity of bank and building society dominated home lending to the current mortgage manager driven variety.

RAMS, which stands for Registered Australian Mortgage Securities, is a unique group, certainly in Australia and probably anywhere in the world.

In its brief five year history RAMS has become a significant provider of housing finance throughout the nation and a major issuer of highly rated debt securities into the institutional investment market.

Within the mortgage manager industry there are a few direct lenders (most utilise regional banks and other lenders to source mortgage borrowers) and a few more who securitise loans into mortgage backed bonds (MBS) but only RAMS is a fully integrated operation with the ability to control the whole mortgage chain from a potential home buyer who sees a RAMS advertisement on television to the home owner who makes his final monthly mortgage payment after 25 years.

No other entity combines the lending and fund raising approaches of RAMS, and none has been the catalyst for new approaches and greater efficiency.

RAMS possesses a number of attributes that result in meaningful benefits for both its borrowing customers and its institutional investors. These include:

- Fully Integrated
- High Specialisation
- Customer Focus
- Financial Strength
- The RAMS Brand Name
- Experienced Management Team
- Technological Innovation

These attributes will be discussed in detail through the following sections on the mortgage lending and fund raising activities of RAMS.

The attributes have developed during the regulatory regime that currently exists in Australia.

We hope that the Inquiry will produce an environment that is equally hospitable to groups like RAMS.

1. Market Description

The residential housing finance market in which RAMS operates is the largest and most important single finance market in Australia.

Over the past decade the market has more than doubled in terms of monthly new commitments from an annual rate of approximately $15 billion in 1986 to an estimated $44 billion in 1996.

Almost the entire growth has taken place in the last few years due in large part to the activities of mortgage managers like RAMS.

The following table shows the shares of the major lending groups.

New Secured Housing Finance
1996 Estimates (based on first half)

	Amount ($ billion)	Market Share
Banks	36.7	83.0%
Building Societies	2.3	5.2
Mortgage Managers	3.3	7.6
Other	1.8	4.2
Total	$44.2	100.0%

Source: Australian Bureau of Statistics, June 1996

The table masks the rapid shift that has taken place in housing finance from the commercial banking sector to specialised mortgage managers.

Their market share, including RAMS, has grown steadily over the past few years to approximately 8.3% in June of this year (5.3% in June 1995).

RAMS itself, with estimated total commitments of $600 million, should represent about 20% of the mortgage managers' total for 1996.

During the first half of this year its $217 million in commitments was a 22% increase from the first half of 1995.

Its growth is actually accelerating as the $200 million in commitments issued in the past quarter was a 38% increase from the same period a year ago.

2. Nature of Operations

RAMS is a fully integrated financial group that provides a complete range of specialised services.

It is the only non-bank that originates, processes, manages and funds all of its mortgages, whilst other mortgage managers typically focus on one area of activity.

Integration has allowed RAMS to effectively manage each link in the mortgage chain.

Each is within the quality control of management, allowing for allocation of additional resource to potential trouble spots or in response to new demands from borrowers.

RAMS is privately owned by its senior managers, which frees it from the costs and pressures that often accompany public ownership.

More importantly RAMS is completely independent of any other organisation.

Most mortgage managers or securitisers are at least partially owned by banks, funds managers or government bodies.

Independence allows RAMS' strategies and policies to be completely directed toward housing finance and not subjected to broader corporate influences.

RAMS has for the past few years followed a strategy of originating all of its own mortgages.

Others utilise networks of independent originators, which makes those mortgage managers dependent on the skills and diligence of outside parties.

The RAMS approach assures tight control of the entire process and the maintenance of a positive working relationship with the borrowing customer.

The servicing of the mortgage portfolio is mundane but critical to its on-going collateral value and the relationships with such essential outside parties as mortgage insurers, bond holders and rating agencies.

RAMS has kept control of its servicing requirements which fortifies the strength of the entire group.

The integrated nature of RAMS operations allows it to balance and coordinate its lending and fund raising activities.

It is able to minimise the costs and exposures associated with large mismatches of growing amounts of new mortgages and additional bond issues.

The cost savings can then be passed on to borrowers through the lowest possible mortgage rates and fees.

The balance is also an important contributor to the AAA rating of RAMS' senior bonds.

3. Structure & Organisation

The corporate structure of RAMS is relatively simple and essentially reflects the divisions of functions within the group.

A public but unlisted holding company, RAMS Corporation Limited (RCL), owns two private corporations, RAMS Home Loans Pty Limited (RHL) and RAMS Management Pty Limited (RM) and the public RAMS Mortgage Corporation Limited (RMC). RHL is responsible for marketing, customer relations, administration and loan origination and servicing; RM manages the funding, treasury and liabilities and relationships with investors; RMC is a special purpose vehicle that is the issuer of the RAMS bonds.

Two senior managers, John Kinghorn and Robin Redfern, are the directors of RCL, RHL and RM, whilst there are three outside directors in addition to Messrs. Kinghorn and Redfern of RMC.

The organisational charts in Chapter VI show the legal and functional structures of the RAMS group.

They also detail the management and functional responsibilities within the group. Whilst RAMS has a relatively simple structure, it has positioned itself well to manage an expanding customer base and growing mortgage portfolio in the future.

This is reflected in significant investment in communications and computer equipment and systems as well as office premises.

There also has been a major emphasis on human resources and training for an expanding employee base and prudent additions to the executive ranks to maintain control of a rapidly expanding organisation.

The organisational charts shown in chapter VI reflect a recent restructuring of senior management responsibilities to meet the requirements of RAMS for the future.

In addition to meaningful investment in the head office there has also been expansion and fine tuning of RAMS' office network throughout Australia that will enable the group to address future growth. The network allows for sales staff and regional credit managers to be located in areas of growing mortgage demand.

1. Mortgage Products

RAMS has two primary mortgage products that meet the demands of the marketplace very well.

The Better Home Loan is state of the art in comparison to what has been available in Australia.

It includes all of the options that could be desired in a variable rate mortgage, including reborrowing, repayment frequency, prepayments, portability and associated insurance and deposit products.

Within a 25 year total life the loan can also be interest-only for five years.

The loan is priced well below (approximately 0.5% to 1% below) comparable products from bank lenders.

The rate on the mortgage is variable and generally relates to the cost of the related funding through MBS, (i.e., a spread above bank bill rates).

The fees entailed in the Better Home Loan are quite moderate in comparison to those charged by the banks.

Overall, RAMS provides all of the features offered by the major banks with pricing that generally comes only from mortgage managers. RAMS' Basic Home Loan has fewer options but an even lower (recently 0.3% lower) interest rate than the Better Home Loan.

It is one of the lowest cost mortgages available in the market. Recently about 80% of new mortgages have been through the Better Home Loan option.

2. Distribution

RAMS originates mortgages through a network of customer service centres through most of the States (RAMS uses independent agents in Tasmania and the Northern Territory).

The initial contact with the prospective borrower is usually through a Sydney-based telemarketer.

That person refers the prospect to a mobile home loan manager from a service centre who will visit the customer at home or in the office at any time during the week, including evenings and weekends.

A mortgage application is processed through the branch by the home loan manager, loan support staff and a credit manager.

Upon branch approval the application is forwarded along with supporting documents and property valuation to the mortgage insurer for their approval, which is an integral part of every mortgage commitment.

After commitment the loan is closed by a local solicitor.

With the exception of the valuer and solicitor, everyone involved in the mortgage chain works exclusively for RAMS as an employee or contractor and is subject to its continual efforts to increase the speed and accuracy of the application process.

During the past few months RAMS has supported marketing efforts with an aggressive television, radio and newspaper advertising campaign.

It has greatly increased brand awareness and dramatically produced more initial telephone inquiries.

That campaign has been the primary contributor to a tripling between April and May in the total amount of monthly commitments.

The amounts remained very high in the following months as well.

3. Competition

RAMS' primary competitors are the major commercial banks which have traditionally dominated mortgage lending in Australia.

Until recently they have been slow, expensive and inflexible.

RAMS and a few other mortgage managers have redefined the competition in the past few years by undercutting the banks with cost-based pricing, giving speedy, reasonable responses to applications and applying clear, consistent lending standards.

To a lesser extent RAMS also competes with regional banks and other specialised mortgage lenders.

Borrowing customers have greatly benefited from the entry of RAMS and other mortgage managers into the market.

This is particularly reflected in the high levels of refinancing (40-50% of new commitments) in the business done by the mortgage managers.

This amounts to home loan business taken away from the banks.

They have recently responded to the new competitive threats with more creative loan packages and lower mortgage rates.

Overall, the public is benefitting, while RAMS continues its rapid growth.

4. Regulatory environment

Whilst there is not a great deal of direct regulation of mortgage lending in Australia, RAMS is substantially influenced by a wide range of regulations, laws, market practices and investor criteria.

Most importantly RAMS is ruled by the demands of its customers and the presence of its competitors.

It is also governed by the commercial realities of its fund raising in that institutional investors, the rating agencies and the LMIs all require the highest standards of mortgage assets.

As a lender RAMS is subject to Commonwealth and state consumer credit legislation which is about to get considerably more rigorous.

These laws particularly define the disclosure that must be made in relation to new mortgage loans and the use of credit information in arriving at loan approval decisions. RAMS is also subject to various fair housing and anti-discrimination laws.

Compliance with the various regulations is the subject of numerous company policies and the result of intensive employee training.

5. Credit Criteria

The success of RAMS is largely dependent on the quality of its underwriting.

Management must constantly balance the desire to grow their business through new mortgage commitments and the costs in terms of time, collection expenses, and write-offs of making poor credit decisions.

The company has prepared detailed policy manuals and arranged for intensive training for all employees who are involved in the credit process.

Good credit practices result from clear, consistent credit standards in terms of debt seviceability, collateral value and supporting documentation.

As part of its mortgage securitisation programs to fund lending, RAMS arranges for primary mortgage insurance for each loan that it makes.

The application of consistent standards and practices by its mortgage insurers has further strengthened the company's own credit management.

Unlike many other mortgage managers, RAMS starts the lending process with its own credit approval rather than depending on the credit judgements of originators or insurance companies.

RAMS has faithfully followed a practice of not lending money to people who can't afford it.

Sound underwriting and careful documentation have produced a very impressive credit record with almost no credit losses and very manageable delinquencies.

Of a portfolio of approximately $600 million generated over the past two years, loans with a total balance of $3 million (1/2%) were in arrears at the end of this past June.

The actual amount past due was only $80,000 or 0.01% of the portfolio.

These loans have produced no foreclosures or claims against mortgage insurers.

1. Securitisation

The financing of housing through the securitisation of mortgage loans into mortgage-backed securities (MBS) is a complex but growing technique that was introduced to Australia in the late 1980s following several years of development in the United States.

The first securitisers here were associated with some of the States (e.g., FANMAC, Victorian Housing Bonds, Keystart Bonds). They were created to fund mortgages flowing from housing policies designed to expand home ownership through low income/deposit programs.

The ratings of these MBS issues were based on their governmental support and so reflected the protection from credit losses that the States provided to investors through reserves or other implied guarantees.

The ratings of these MBS were directly tied to the ratings of the States themselves. The structures, mortgage portfolio characteristics and documentation (except for that evidencing government support) of the transactions were of relatively low importance.

These programs were at least partially politically motivated and they have withered (in terms of new MBS issues) with changes in political priorities with control of governments in all of the relevant States.

There were also a few private sector securitisers that primarily funded commercial mortgages, but their programs were not as successful due in large part to their lower credit ratings or the perception of greater risk by investors.

Their loan business has gradually moved to the banks.

Coinciding with the decline in the large State-supported programs, particularly FANMAC, new private sector securitisers or mortgage managers, including RAMS, began to enter the market in 1991.

Their approach to MBS financing was more like that of securitisers in the US and UK. Their assets were almost entirely residential mortgages, and their structures were designed to achieve AAA ratings.

From a slow start they began to substantially increase their activities in 1995 and have become major factors in the Australian fixed income market.

2. Market Drivers

Overall, residential mortgage securitisation was slow in arriving and small in amounts outstanding at least in comparison to the United States. There were a number of retarding factors here that have only begun to diminish in the recent past, including:

- The absence of government supported market enhancing organisations such as FNMA in the US
- The traditionally hostile approach of the Reserve Bank to bank securitisation, displayed in part by the risk weightings assigned to MBS as opposed to the residential mortgages themselves
- The relatively strong capitalisation and profitability of the leading commercial banks
- The traditional administered interest rate approach on residential mortgages
- The very inflexible investment criteria of institutional investors
- The complete reliance on third party enhancement in early securitisation structures.

The factors meant that the mortgage assets generated in Australia were not so suitable for securitisation; the banks were unwilling to free up the assets; there was little support for secondary market liquidity and MBS didn't match the investment characteristics of government securities that the institutions were used to.

Despite significant obstacles to securitisation there was a clear demand from borrowers for new approaches to mortgage lending and a growing pool of investment funds that needed new fixed income alternatives.

The vested interests of the banks in continuing the old ways of lending gave rise to market opportunities for new non-bank institutions.

In general, these underlying market conditions have changed dramatically, except for the continuing absence of agencies like FNMA, and the environment has become quite hospitable to the securitisation of mortgages as well as other financial assets.

The mortgage managers have rapidly increased their mortgage lending and associated MBS fundings.

Informed observers expect a doubling of the MBS raised in the domestic market this year to approximately $8 billion.

The major commercial banks are also preparing to begin securitising new mortgages in the relatively near term which should give an enormous push to the MBS market.

The MBS market in Australia and New Zealand has grown sharply in the past few years to a total outstanding at 31/12/95 of approximately $7.1 billion.

New bond programs (as opposed to outstandings) more than doubled during 1995 to $3.3 billion and increased by another $1.9 billion in the first half of this year.

RAMS Mortgage Corporation's $385 million Series 1 program in 1995 represented a 12% share of the MBS market, while its $250 million Series 2 program earlier this year was a little more than 10% market share.

The increasing popularity of MBS has shown in better pricing as well as more placements and bigger programs.

RAMS' last bond placement represented the finest spreads (to bank bills) achieved by any MBS issuer to date.

It is likely that spreads will continue to narrow, reflecting growing investor demand.

3.Structure of RAMS' Issues

RAMS funds itself in the wholesale institutional investment market utilising mortgage-backed bonds.

Initially RAMS issued its bonds through trusts, but since 1995 it has used RAMS Mortgage Corporation Limited, a special purpose corporation, as the issuer of its bonds. RAMS uses a senior / subordinate pass-through structure in its bond issues, which means that most of the credit enhancement that is necessary to attain its very high AAA senior ratings is provided internally by the subordinated debt holders.

There is no need for credit and liquidity support from third parties aside from the warehouse facility provided by Bankers Trust Australia Limited (BTAL) and the insurance coverage provided by the lenders' mortgage insurers.

There is no need for reinvestment support with mortgage prepayments passed on to the investors.

Its MBS structure is consistent with RAMS operations as a fully integrated mortgage finance group.

Through its control of origination RAMS can assure that mortgages are properly evaluated and closed and are consistent with all appropriate transaction documents.

Through its management of the issuer RAMS can assure that approved mortgages are acquired with all the appropriate safeguards.

Any surplus funds are invested as required. Relationships with investors including interest resets, prepayments and scheduled amortisation are accurate and timely and again consistent with relevant documents.

The residential mortgages (the mortgage pool) that are securitised by RAMS into its MBS provide the basis for their own funding and are very significant to the continuing support from its primary mortgage insurers and the assessment of the rating agencies (see below).

The mortgage pool must meet specific criteria in terms of size, volumes, types, uses, amortisation and maturity, geographic spread and loan to value gearing.

In addition to the pool constraints each mortgage must be assessed for loan to valuation, income sufficiency, loan documentation and general insurance.

The securitisation of mortgages is an extremely legalistic, document-oriented exercise, much of which has been driven by the rating agencies.

Every aspect of the relationships between the various parties and the underlying collateral is controlled by formal agreements or the transaction documents.

The following list of documents connected with RAMS' most recent bond program is representative of most MBS issues:

- Security Trust Deed
- Warehouse Facility Agreement
- Management Agreement
- Mortgage Origination Deed
- Deed of Charge
- Deed of Priority
- Instrument
- Registry Services Agreement
- Deposit Agreement
- "Plain English" Memorandum of Mortgage, Loan Agreement and Guarantee

There would also be contractual arrangements with mortgage insurers, other insurers, placement agent, dealers, derivative counterparties and rating agencies.

4. Capital Market Presence

The Australian debt market is rapidly expanding and is increasingly receptive to issuers like RAMS.

Institutional investors place a very high priority on a high credit rating and secondary priority on the perceived liquidity of the issue.

The debt market has historically been dominated by Commonwealth and Semi-Government issuers, but with conscious efforts at budget surpluses at all levels of government their new borrowings are predicted to decline in the future

The major MBS borrowing programs have reached a scale that has also aided the liquidity of the secondary markets in their bonds.

The domestic public debt market in which RAMS funds itself is large and evolving.

Its growth will accelerate in response to enormous demands from managers of superannuation and other investment funds. In addition to the growth in total funds under management, debt securities are taking an increasing share of the total from the traditionally more popular equities and property asset classes.

During 1995-6 there was over $15 billion issued into the domestic debt market from the following sectors:

Sector	Est 95-96 Issued	Oustanding Debt
Commonwealth	$5.5 bn	$105 bn
States	2.9	58
Corporate / Banking	2.0	5
Asset Backed (include MBS)	5.0	12
Total	$15.4 bn	$180 bn

Most observers feel that the Commonwealth and States will become much less significant borrowers in the domestic market due to shrinking net borrowing requirements and more cost effective sources of funding off-shore.

Growing investor demand will be met by private sector issuers, and the preference for highly rated debt should especially benefit MBS issuers like RAMS.

5.Other Financial Factors

There are a number of outside parties that contribute to the success of RAMS' securitisation program.

The most significant of these are the LMI or lenders, mortgage insurers.

They provide 100% principal and interest coverage on each mortgage that RAMS originates.

Their support enables RAMS issues to achieve AAA ratings, and review of each mortgage originated provides a significant double check on each approved application.

In essence they help assure that original collateral values are as required and that those values will translate into sufficient principal and interest payments to service the MBS.

The LMI companies that RAMS uses in its programs include Housing Loans Insurance Corporation (HLIC), a AAA rated, Commonwealth owned and guaranteed entity that covers 80% of its portfolio, Commercial Union Australia Mortgage Insurance Corporation (CUAMIC) and Sun Alliance, both AA-rated and owned by major international insurance groups. They share the remaining 20% of the portfolio.

While the LMI insurance provides an essential credit and liquidity safety net to the RAMS program, there is little likelihood of any meaningful claims under the policies due to the very thorough and conservative underwriting standards that RAMS applies to its mortgage applications and the inherent liquidity of the mortgage portfolio.

The issuer would also be the beneficiary of the general insurance policies that have to be maintained on each property financed by RAMS.

To bolster other areas of possible risk to investors there are also a mortgage impairment policy, a fraud and unenforceability policy and a mortgage settlement indemnity policy.

Another critical player in any MBS issue is the security trustee. Its primary function is to protect the collateral interest in the mortgages of the bond investors and other lenders through the life of the issue.

It also has the important responsibility of providing a final checking of the security documentation supporting each loan and safekeeping those critical loan files.

Liquidity has been assured in the RAMS' structure through a number of methods depending upon the circumstances.

At the outset a warehouse facility was put in place by BTAL to fund mortgages before the issuance of the MBS.

BTAL has also agreed to purchase liquidity bonds to fund redraws or the additional advances under approved mortgages.

RAMS itself has agreed to maintain excess cash raised in approved investments for future needs in meeting interest payments to bond holders.

Deferral of payment of management fees and interest payments to subordinated debt holders would also produce liquidity for the benefit of senior bond holders.

Otherwise the necessary liquidity will come from the scheduled principal and interest payments on the mortgages or if they are not made under the mortgage insurance policy.

Investment of excess funds is under the advice of BTAL and is strictly limited to safe and liquid instruments

6. Credit Ratings & Ratings Agencies

The rating of any MBS issue is a lengthy and detail-oriented exercise.

In essence, it is a process of back and forth negotiations between the issuer and its advisers and the rating agency over the strengths, weaknesses and offsetting protections that are required to achieve a particular rating for the transaction.

The highest (AAA/Aaa) ratings that has been given to RAMS' senior bonds show that they have met an extremely high standard and are judged by the agencies "to be of the best quality" in comparison to any potential fixed income investments in the world.

The analysis of a new issue by an international rating agency (i.e., Moody's or Standard & Poor's) focuses on three primary areas: the structure of the transaction, the portfolio of mortgages and the documents.

The analysts review the structure to make sure that every risk element that could result in any loss or delay in the contractual payments due to the bond holders is addressed.

This includes the inherent strengths of the structure, particularly the presence of and interrelationships between the various classes of bonds.

The support that comes from outside the structure is also closely examined and, especially in the case of RAMS, the mortgage insurance arrangements

Numerous simulations of the structure are made to make sure that it can withstand severe stress from depression-like conditions on the mortgage portfolio and other elements yet still service the bonds as required.

A thorough analysis of the parameters of the mortgage pool is done in comparison to mortgage portfolio benchmarks that have been developed by each rating agency.

This provides considerable comfort that the portfolio is highly likely to produce the projected cash flow to service the bonds.

The possible occurrence and extent of arrearages and defaults are assessed in comparison to the benchmark and covered by insurance that will offset the missing mortgage payments in magnitude and timing.

An exhaustive review of the transaction documents assures that they will provide all necessary protections to the bond holders through the security trustee.

Essentially the documents will enable the structure to successfully function under any realistic scenario as expected and in accordance with the AAA rating.

The documents define the roles and duties of every relevant party to the transaction and compel them legally to fulfill their responsibilities.

The rating agency not only provides an initial credit rating on the bond issue so that it can be sold into the market.

It also has the continuing responsibility to maintain the rating through the life of the issue.

That results in a continuing need for information to be provided by RAMS to the agency so that they can always be aware of the performance of the portfolio.

The information comes through detailed and specific reporting requirements.

In addition to rating the issue, the rating agency provides considerable research and other information to investors, dealers and other market participants that will enable them to understand credit risks and protections related to the bonds.

That support to the market assists in the initial placement of the issue and helps to maintain an informed and efficient secondary market for the bonds.

In addition to information specifically about the RAMS issue the agency provides a great deal of research about the MBS market more broadly in Australia and elsewhere.

The overall market support provided by rating agencies has resulted in a broadening of the investor bases and increasing access to the market and finer interest spreads.

The AAA rating has been particularly important to the sale of bonds in Australia for a number of reasons.

MBS are complex and relatively unfamiliar so the rating provides an important definition for investors of the risks and appropriate yields. Australian fixed income investors are very familiar with Commonwealth and Semi-Govern-ment bonds which typically have very high ratings.

The AAA rating of RAMS' bonds tells investment managers that they are still in their comfort zone in terms of credit risk.

The rating also opens up the possibilities of international investors buying the bonds in the Australian domestic market or through international placements that will probably start occurring in the near future.

7. Regulatory & Legal Environment

As an MBS issuer RAMS is controlled by regulatory requirements and legal restrictions. More importantly, how-ever, are the constraints placed on RAMS by the marketplace.

Although its bonds are public debt securities (rather than private placements) their distribution is limited by the Corporations Law to sophisticated investors in relatively large amounts.

That law also results in an on-going requirement in disclosure of events or developments that might affect the value of the MBS.

RAMS' senior bonds have also met the stringent require-ments for authorised investments under the New South Wales Trustee Act 1925 MBS are strongly affected by the capital requirements that have been placed on the banks by the Reserve Bank.

In general a bank's holding of MBS must be subject to a 100% risk rating in determining the required capital to support that asset.

This reduces the potential investment market for MBS and places a higher cost of holding bonds in inventory for dealers, while the bank's own mortgages in portfolio have a 50% risk weighting that goes up to 100% for mortgages supported by less than 20% deposit from the borrower.

This tends to make the banks less competitive in higher geared mortgages.

As discussed above, its very high credit rating is a critical feature of an MBS.

In addition to meeting the requirements of the rating agency, the issuer must also satisfy the standards of specialised solicitors from major law firms, trustee companies, expert investment dealers and discriminating funds managers.

They are in turn governed by stringent standards of professionalism.

1.1.Historical Perspective

Although the banks are currently the major source of residential mortgage finance in Australia, other lenders have always existed to offer home buyers and residential investors alternative financing arrangements.

Starr-Bowkett societies, credit unions, building societies of various kinds, and solicitors have all played significant roles in making home finance available - and at times in the past more readily available than from the banks.

Indeed, many of these lenders came into existence to serve the needs of Australians who found it difficult to qualify for or obtain bank financing.

The '50s and '60s saw building societies increase their share of the mortgage market to the point where, through the '70s and into the '80s, their popularity had risen so high that the larger of them became de facto "banks", offering not only home loans but also all manner of transactions which had traditionally been handled by the banks.

With the deregulation of financial markets in the '80s, something of a vacuum was created when major building societies took the opportunity to take up banking licences.

Combined with the various bank mergers of the times, this had the effect of once again concentrating mortgage financing into the hands of banks.

Nevertheless, their treatment of prospective lenders typically remained paternalistic and condescending.

At the same time, the deregulation also opened the way for a new and different form of funding for mortgages, in the form of securitisation.

This set the scene for the emergence of the new mortgage managers, who have rapidly filled the gap left by the departure of the big building societies.

1.2.Social Changes

While the home finance market was changing, so too were Australians.

After the war, housing began to become more affordable for more and more Australians.

Their capacity to borrow was increasing, yet the banks continued to be quite restrictive in their qualification and approval procedures.

In recent decades particularly, Australians have increasingly held banks in low esteem, but without the building societies to provide an alternative, they were, by and large, "the only game in town".

They were, that is, until the new mortgage lenders arrived.

1.3.The New Lenders

Specialising in home loans, borrowing and lending more cheaply than the banks, and using streamlined distribution and delivery methods, they transformed the borrowing experience.

As the new lenders have become better known, significant numbers of new borrowers and those interested in refinancing existing loans have taken up their offerings.

At the time of writing, it is estimated that non-bank lenders accounted for approximately 17% of new mortgage finance commitments (Source: Australian Bureau of Statistics, June 1996). Their share continues to grow strongly.

1.4.Vulnerability of the Banks

The banks' vulnerability to the incursions of the new lenders was created by a combination of complacency, inflexibility, and unwieldy and costly infrastructures

That vulnerability is further evidenced by their recent round of rate reductions; by their following the mortgage managers in equalising owner-occupier and investor rates; by their new willingness to negotiate (apparently) low- or no-fee mortgages, and by their introduction of a confusing array of loan products based on "honeymoon rates".

These measures taken by the banks to combat the new competitors should not be viewed with surprise.

In any market where similar competitive forces are in play, superior (or even parity) products which offer better pricing or convenience or other benefits typically gain market share from higher-priced or less beneficial products.

Here in the residential finance market, as the non-bank lenders increase their presence, their product innovations and their marketing and distribution efficiencies, the banks will face increased pressure on their loan books and on their ability to recruit new borrowers.

In combating the new lenders, they will confront an increasingly difficult dilemma.

Remaining competitive will require either the reduction of profits and/or the reduction of costs.

Either way, as the Reserve Bank commented in its latest Annual Report, it is thought inevitable that they must also raise the level of their fees. The market has amply demonstrated the success of the mortgage managers.

They have created and are selling new and beneficial products in terms of distribution and pricing, amortisation and repayment flexibility, prepayments, re-borrowing, portability and the like, and consumers are embracing them enthusiastically.

What is perhaps more interesting is the commercial and marketing nous behind their success.

1.5.Responsiveness to Consumer Needs

In RAMS' case, beyond its understanding of the principles of effective competition, is a commitment to sound marketing principles.

In structure and methodology, RAMS set out to occupy the unique position of controlling both sides of the funding/lending equation, to give it a considerable marketing edge among the non-bank lenders.

In market evaluation and product development, the principles of consumer responsiveness are used as a matter of course: listening to the consumer, creating products they want, and delivering those products effectively and economically.

RAMS makes extensive use of market research to evaluate consumer attitudes, perceptions and needs and wants.

The RAMS products now on offer sprang directly from just such research.

1.6.Investment in Systems and Consumer Information

In systems, technology, product distribution and delivery, and staff training, RAMS has invested heavily to create and maintain efficiency while keeping costs and fees at sensible levels.

To create awareness of the company and its products (remembering that RAMS was completely unknown just three years ago) RAMS has used advertising and other marketing communication that has also been based on a well-researched understanding of the consumer.

This investment in consumer information both by RAMS and other non-bank institutions has been a major influence in creating the competitive environment that has resulted in lower home finance costs to the Australian consumer.

1.7.Pertinence of the New Lenders

Today, as in earlier times, market forces and consumer needs have combined to create a new kind of mortgage lender in Australia.

The market has voted, and is continuing to do so by awarding its business to the new entrants.

The "traditional" players - the banks - who enjoyed the absence of significant competition for so long are now encountering a consumer who is better informed, and is demanding better products and better treatment.

One might conclude (as some commentators already have) that the long-term prospects in the domestic residential mortgage market for banks as they are currently structured are not especially favourable.

With specialist skills, beneficial products, cheaper delivery and increasing consumer acceptance the prospects for RAMS in Australia are bright indeed - so long as the force of legitimate competition is maintained.

1.8.RAMS' Place in the Financial System

In RAMS,Australians have created a company which is delivering a wider choice of quality products at reduced cost to Australian consumers; a company which is contributing to greater competition and efficiencies in the domestic market; a company which is also capable of exporting Australian expertise and earning power abroad.

We believe that the time of the specialist, non-bank mortgage lender as a significant and beneficial force in financial markets has well and truly arrived in Australia, and RAMS is in the vanguard.

2. New Regulation for RAMS is Unnecessary.

The goals of regulation are commonly viewed as:

- the correction of real or prevention of potential abuses by an organisation with significant market power.
- the rectification of unsound business practices that might in some sense represent a broad danger to the community (such as to the financial system).

The performance of RAMS during the past few years can in no way be viewed as abusive or unsound, so there does not seem any justifiable cause for any new regulation.

Mortgage managers and securitisers although growing have relatively small market shares and have as an industry group little market power in comparison to their major competitors, the banks.

RAMS is already strongly impacted by general regulation and legal requirements that apply to the businesses of its operating segments of providing mortgage financing to consumers and placing debt securities with institutional investors.

These are well covered by the Trade Practices Act and the new Consumer Credit Code in the case of mortgage lending and the Corporations Law in the case of securitisation and debt placement.

The Australian Securities Commission and the Australian Competition and Consumer Commission would already have broad jurisdiction over RAMS in the application of federal law.

Whilst many of RAMS' competitors, particularly banks and non-bank financial institutions, are subject to extensive regulation and capital requirements, that is due to the inherent nature of their operations.

They rely heavily on deposits and are allowed to leverage their capital highly.

Mortgage managers and securitisers have no such liabilities and none of the inherent financial risk.

Arguments that organisations like RAMS should be subject to similar regulatory burdens or capital requirements as some competitors to assure a "level playing field" are false and self-serving.

They are aimed at protection of market position rather than market efficiency or benefits to the overall economy.

The most stringent regulation faced by RAMS is that imposed by the marketplace.

Mortgage borrowers are increasingly well informed and demanding in terms of pricing, customer service and other features of financial products.

RAMS' fund raising success in terms of access, pricing and disclosure has had to meet world standards of major market participants - institutional investors, dealers and rating agencies.

3. Support for Housing Financing

RAMS and organisations like it have played a very positive role in expanding the availability of more affordable finance for the purchase and ownership of housing.

Their growing market presence has also compelled their competitors, particularly the major banks to lift their games by reducing interest rates and generally improving their mortgage products.

RAMS has contributed to better housing lending by developing and consistently applying clear and realistic underwriting standards.

It has been a responsible lender in its approach to mortgage applications.

The FANMAC / HomeFund debacle proved the error of enabling home purchasers to finance more than they could afford.

Two critical measurements - Debt Servicing Ratio and Loan to Value Ratio are utilised to make sure that the mortgage makes sense for the borrower as well as for RAMS.

The rating agencies and loan mortgage insurers make sure that the approach also makes sense for the investors in RAMS' bonds.

In addition to helping owner-occupants, RAMS was also one of the first lenders to offer the same rate for residential investment financing aiding the purchase of rental properties.

Whilst RAMS has been a positive force in the devel-opment of housing finance, there is only so much it can do.

Specialised private sector companies like RAMS could contribute much more in the future with some support from government.

The main obstacle to home ownership is often the inability to accumulate the necessary deposit.

With mandatory superannuation becoming the prevalent form of individual savings it will become the only realistic source for the down payment.

Singapore's highly developed superannuation system has recently been modified to allow for member with-drawal for home purchase deposits, and the United States is contemplating similar changes to rules governing tax deferred savings plans.

The combination of the use of super funds for the deposit and mortgage financing from a lender of the home purchaser's choice should give a substantial boost to home ownership.

Significantly, the approach should reduce the need for government housing which could have a very positive budgetary effect through reduced construction and maintenance expenditures.

4. International Opportunities

The policies and procedures that have been developed by RAMS are directly applicable in other countries where the financing of privately owned housing is a priority.

Countries which have legal systems and institutions similar to Australia could utilise both the lending and fund raising techniques of RAMS.

Several of these, including Canada, New Zealand, Malaysia and Singapore, suffer from the worst attributes of the historic Australian approach, especially the dominance of inefficient, inflexible, protected and non-competing banks.

Countries with other legal systems such as Indonesia and China are also exploring better organised consumer lending for housing, although the full use of securitisation may require substantial legal changes.

Throughout the region the capital markets are beginning to expand beyond government finance.

The securitisation of mortgages is seen as an important step in many countries to the development of corporate bond markets.

RAMS has funded itself entirely in the domestic markets so far.

With recent changes to some of the Australian taxation policies, it is likely that RAMS and other leading securitisers will place MBS into the Eurobond market.

This new funding alternative should ultimately produce finer pricing of debt securities and lower cost mortgages within Australia.

There are still obstacles remaining to offshore debt placement, particularly into the US, which need to be addressed.

The ability to tap a wider range of funders will enhance the competition among institutional investors within Australia and abroad in bidding for RAMS' securities.

- Registered Australian Mortgage Securities -

RAMS Corporation Limited

- RAMS Home Loans Pty Limited
- RAMS Management Pty Limited
- RAMS Mortgage Corporation Limited

- Registered Australian Mortgage Securities -

Board

Managing Director

- **Director Marketing and Public Affairs**
  - *Advertising*
  - *Telemarketing*
  - *Unions*
  - *Sales*
  - *RAMS Club & Loyalty Programs*
  - *Affinity Products*
  - *Press/Public Relations (Marketing)*
  - *Trading Compliance*
- **Chief of Staff**
  - *Credit*
  - *Customer Relations*
  - *Settlements*
  - *Information Systems/DP*
  - *RHL Accounting*
  - *Human Resources*
- **Direct Funding**
  - *Funding*
  - *Mortgage Insurance & Credit Enhancements*
  - *Treasury Management*
  - *Receivables Management*
  - *Payables (Bonds) Management*
  - *RMC Accounting*
  - *Overdues Collections*
  - *Press/Public Relations (Investors)*

- Registered Australian Mortgage Securities -

- Director Marketing and Public Affairs
  - *Press/Public Relations (Marketing)*
  - *Trading Compliance*
  - Advertising
    - *Advertising*
    - *Promotions*
    - *Market Surveys*
  - GM Telemarketing
    - *Enquiries*
    - *Lead Qualification*
    - *Quality Control*
    - *Direct Mail - Sales*
    - *Cross Selling*
    - *Customer Surveys*
  - GM Sales
    - *Qld Sales*
    - *NSW(1) Sales*
    - *NSW(2) Sales*
    - *NSW(3) Sales*
    - *Sydney City Sales*
    - *NSW Agents*
    - *VIC/SA/TAS*
    - *Sales Staff Training*
  - State Manager Western Australia
    - *WA Sales*
    - *WA Operations*
  - Card & Loyalty Programmes
    - *RAMS Club*
    - *Credit Cards*
    - *Media - Other*
  - Union Relations & Affinity Products
    - *Union Relations*
    - *New Union Marketing*
    - *Affinity Product Development*

- Registered Australian Mortgage Securities -

Chief of Staff

- Office Administration
- **Credit Managers Service Centres**
  - *Mt Gravatt*
  - *Parramatta*
  - *Castle Hill*
  - *Metro 3*
  - *Sydney City/NSW Agents*
  - *Melbourne*
  - *Perth*
  - *Relieving*
  - *Policy and Procedures*
  - *Credit Code Officer*
- **RHL Accounting**
  - *RHL Accounting*
  - *RHL Cost Reports and Budgets*
- **Customer Relations**
  - **Customer Service**
    - *Customer Enquiries*
  - **Customer Support**
    - *Resolution of Enquiries*
    - *Loan Variations*
    - *Loan Increases*
- **Settlements**
  - *Settlements*
  - *Customer Relations (Settlements)*
  - *Pipeline Mgt*
  - *Securities*
- **Information Systems**
  - *System Support*
  - *System Development*
  - *MMS Development*
  - *HO Network*
  - *S C Network*
- **Human Resources**
  - *Human Resources*
  - *Payroll*

- Registered Australian Mortgage Securities -

Director Funding

- *New Business development*
- *Press/Public relations (Investors)*
- *New Product Development*

GM Finance

- *Receivables Management*
- *Receivables Reconciliation*
- *Portfolio Analysis/Reports*
- *Payables Management*
- *Payables Reconciliation*
- *Payables Analysis/Reports*
- *RMC Accounting*
- *RMC Secretarial*

Originator Relations

Overdues Collections

- *Overdues Collections*
- *Credit Insurance Claims*

GM Securitisation

- *Funding*
- *Treasury Management*
- *Risk Management*
- *Investor Relations*
- *Rating Agency Relations*
- *Mortgage Insurance*
- *Credit Enhancements*