



US financial crisis impact revealed

Australian issuers of mortgage-backed securities have been caught up in the US mortgage market crisis

THE US mortgage market crisis has caused a lot of institutional investors to withdraw from the residential mortgage-backed securities market, says Mortgage Ezy general manager Garry Driscoll.

Mr Driscoll said the institutional investors had been burned in the US so they had made a decision to stay out of the market for a while.

“Unfortunately, even though the mortgages that we originate are prime loans and problem in the US revolves around a totally different animal – sub-prime loans, Australian issuers of mortgage-backed securities have been caught up in the whole mess,” he said.

“Australians are going to be affected by this because funders who securitise either won’t be able to get enough investors to buy their bonds or they’ll have to pay higher returns to investors to get them interested.”

Mr Driscoll said obviously, this increased their cost of funds, so they had to either take the hit themselves or pass it on to the end borrower.

“But in reality this is only a short term reaction as a result of the liquidity issue

from investors refusing to take part in any new bond issues until they know the extent of the problem in the US sub-prime mortgage market,” he said.

“Organisations similar to Mortgage Ezy, which have the capacity in their balance sheet-funded warehouses, won’t feel an immediate impact and should be unaffected for quite a few months, by which time the market would have settled down.

“Non-bank lenders are reportedly the first to have been affected, yet Mortgage Ezy, unlike securitised lenders, remains largely unaffected by this crisis.

“We are primarily funded by balance sheet lenders, hence we do not bear any costs that are incurred through securitisation.

“In fact, despite the current situation, Mortgage Ezy experienced a record week even after the recent RBA rate increase.”

Mr Driscoll said following the turmoil in the US, the Australian media had made sub-prime loans synonymous with lo-doc loans.

“This is not the case,” he said.

“Sub-prime loans are for an easy way out for borrowers with poor credit history, or those that have had previous loans that they did not repay.

“These loans are often even given out to people who have previously defaulted or been bankrupt.

“A sub-prime loan often exceeds the value of the property and may even be taken out over run-down properties or homes in poor locations that are difficult to sell.”

Lo-doc loans are actually prime loans where less documentation is required, as the name implies.

Mr Driscoll said lo-doc loans enabled



borrowers to buy a property or refinance for any purpose earlier as some standard requirements call for evidence of financials over a long period of time.

“These loans also offer flexibility to the self employed who may have had a lag in finalising their financials or whose affairs are structured in such a way that may not necessarily reflect their true income on paper.

“It may simply be a case that a borrower has multiple companies and trusts and simply wants to cut through the bureaucratic red tape.”

Mortgage Ezy can lend up to \$5 million on these loans.

Mr Driscoll said in fact, the company’s lo-doc 80 allowed clients to capitalise all fees including mortgage insurance up to 83 per cent.

“If you have a non-conforming or sub-prime loan, then the likelihood of your rates rising is far greater,” he said.

“However, for people with a standard home loan in a bank or non-bank, there should be little or no impact in the short to medium term as it is unlikely that funders will increase rates on their existing loans.”



General manager Garry Driscoll

