



HD Moody's expects strong Australian RMBS, ABS and covered bonds performance in 2015

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Moody's Investors Service says that Australian **residential** mortgage backed securities (RMBS), asset backed securities (ABS) and covered bonds will continue to perform well in 2015, despite a deterioration in the quality of new collateral in an environment of low interest rates and rising house prices.

"Australia's historically low interest rate environment and steady economic growth will underpin the performance of the securitization markets in 2015, ensuring that delinquencies and defaults remain low," says Alena Chen, a Moody's Assistant Vice President and Analyst.

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"However, the credit quality of new collateral is expected to deteriorate, owing to an increase in investment and interest-only loans in the mortgage sector and a shift in the type of assets securitized in ABS," adds Chen.

Chen was speaking on Moody's "2015 Outlook - Australian RMBS, ABS and Covered Bonds". The outlook reflects Moody's expectation for fundamental business conditions in the industry over the next 12 to 18 months.

House prices in Australia have risen by an average of 9.3% over the past year, triggering concerns about the sustainability of the **property** market and leading home buyers to take on bigger debts, a negative for the RMBS market.

However, regulators have already raised the possibility of "macro-prudential" policies to curb riskier lending, which would mitigate the threat and be credit positive for RMBS in 2015.

Moody's expects Australia's GDP growth rate to be in the range of 2.5% to 3.5% in 2015 -- similar to 2014 -- which should support steady performance of the securitization markets. Unemployment is expected to remain steady at around 6% through 2015.

Moody's also expects the official interest rate to rise from the current record-low level of 2.5%, with a possible 25 basis points increase forecast for Q3 2015, followed by another 25 basis points rise in Q4. Even at 3%, however, interest rates would remain at historically low levels.

Against this backdrop, Moody's expects RMBS will continue to perform well in 2015. But the credit quality of new mortgages underwritten in the historically low interest rate environment will be weaker than for older mortgages.

Furthermore, the quality of collateral in new ABS will deteriorate slightly, due to the continued diversification of the underlying assets away from stronger-performing auto loans. However, delinquencies and defaults will remain at current low levels, reflecting stable economic growth and unemployment levels.

Moody's further notes that the high credit quality of all Australian and New Zealand covered bond programs will also continue, reflecting the strong financial standing of issuers and the quality of the mortgage collateral.

Subscribers can access the report at
http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_1000316.

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