

Peter Pang: Hong Kong Mortgage Corporation mortgage-backed securities issues

Speech by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority and Executive Director of the Hong Kong Mortgage Corporation Limited, at the signing ceremony for the HK\$2 billion mortgage-backed securities issue drawn under the US\$3 billion Mortgage-Backed Securitisation Programme Bauhinia MBS Limited, Hong Kong, 27 November 2006.

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Good afternoon, ladies and gentlemen,

Let me first extend to all of you a very warm welcome to today's signing ceremony. Today's issue of mortgage-backed securities (MBS) under the Bauhinia Mortgage-Backed Securitisation Programme of the Hong Kong Mortgage Corporation (HKMC) is unique in two ways.

First, this is the first time the HKMC has sponsored an MBS issue as a triple-A rated institution. On 30 October, Moody's announced the upgrade of the HKMC's domestic currency rating to Aaa and the HKMC's foreign currency rating to Aa1. The HKMC has therefore made history as the first entity in Hong Kong, and so far the only one, to have a triple-A rating.

The upgrade in credit ratings reflects the financial strength of the HKMC and the strong support of the Hong Kong SAR Government for the Corporation. With this strong credit rating, the HKMC is well positioned to play a more active and strategic role in promoting the development of the debt and securitisation markets in Hong Kong.

Secondly, today's issue of two billion dollars marks the launch of the first-ever partially un-guaranteed MBS sponsored by the HKMC.

The nine MBS issues sponsored by the HKMC so far, totalling \$11 billion dollars, have all been guaranteed by the HKMC. These issues were all welcomed by investors. The HKMC prides itself on being a financial institution that spearheads product innovation in Hong Kong's capital markets. For this issue, after consulting the market, the HKMC has decided to adopt a MBS structure along the lines of a Collateralised Mortgage Obligation. The CMO structure divides the pool of underlying mortgage assets into credit tranches or classes with different tenors and interest rates to suit the appetites of a wider range of investors in Hong Kong and the region.

In today's two billion dollars MBS issue, the Class A portion accounts for 87% of the issue and does not carry any guarantee. Class B accounts for 13% of the issue and is guaranteed by the HKMC. Class A has been assigned a triple-A rating by both Moody's and S&P's. The award of this top rating to Class A reflects the good credit quality of the underlying mortgage pool and the credit enhancement through subordination provided by Class B, which absorbs the first loss in the mortgage pool. The low level of subordination at 13% reflects the high quality of the collateral, the innovative structuring of the issue and market's confidence in the HKMC's ability to manage the credit risk of the mortgage portfolio.

While there have been other un-guaranteed MBS transactions in Hong Kong, today's issue sponsored by the HKMC is the largest un-guaranteed Hong Kong dollar MBS in Hong Kong. Moreover, it is the first-ever un-guaranteed Hong Kong dollar MBS that carries a triple-A rating. I believe that the HKMC's introduction of triple-A-rated MBS through credit tranching will become a benchmark for other MBS issuers in Hong Kong.

With today's MBS issue, the HKMC now accounts for about a quarter of the total securitisation transactions in Hong Kong in the past ten years and is the largest issuer of asset-backed securities in Hong Kong. For the future, the Corporation has plans to expand the scope of its business to cover non-mortgage assets and selected overseas markets – as always, in a prudent commercial manner. These new business initiatives will help to further broaden the local debt market, and strengthen Hong Kong's role as an international financial centre and funding hub in the region.

We are grateful for the enthusiastic response of the banks joining the management group for this issue and find it very encouraging. We are also very pleased to learn that a diverse group of investors including retirement funds, insurance companies, banks and other institutional investors have shown a keen interest in the issue.

Let me conclude by thanking HSBC, the sole arranger and lead manager, for their highly professional work to make this issue a great success. I would also like to thank the Co-lead Managers, DZ BANK AG, Hong Kong Branch, ICBC (Asia) and BMO Capital Markets Corp and Co-Managers, ANZ Investment Bank and Commonwealth Bank of Australia, for managing and distributing the issue.

I look forward to your continuing support of our Corporation and its debt issuance activities. Thank you.