Council of Mortgage Lenders

Revisions to the Basel Securitisation Framework

Response by the Council of Mortgage Lenders
to the Basel Committee for Banking Supervision Consultative Document

Introduction

1. The CML is the representative trade body for the first charge mortgage lending industry that includes banks, building societies and specialist lenders. Our 114 members currently hold around 95% of the assets of the UK mortgage market. In addition to lending for home-ownership, the CML's members also lend to support the social housing and private rental markets.

2. We are grateful for the opportunity to respond to the consultation document issued by the Basel Committee for Banking Supervision on "Revisions to the Basel Securitisation Framework" published on 18 December 2012.

3. We are supportive of the Committee's goal in making the capital requirements for securitisations more prudent and risk-sensitive. Likewise, we welcome the approach to reduce the reliance on credit rating agencies (CRA) and the sharp change in capital requirements (the "cliff effect") when external ratings change. We are however concerned that concurrently the proposals will negatively affect the continuing recovery of the high quality securitisation market and specifically UK Residential Mortgage Backed Securitisation (RMBS).

4. Our response is structured to provide some general comments on the proposals contained in the consultative document reflecting the importance of the securitisation market and specifically the RMBS market, to the UK mortgage lending industry.

Comments

5. As currently outlined, the proposals would result in substantially higher capital requirements for most securitisation positions. In particular, we are concerned that the higher quality, senior tranches would attract additional capital requirements. While the proposals reduce the reliance on CRA, the proposals are underpinned by the BIS ratings based approach. The net result we believe is that CRA will continue to have a significant and material impact on the determination of risk weights for securitisations.

6. The securitisation market, and specifically the RMBS market for UK mortgage lenders, has played an integral part of the funding profile of UK mortgage lenders (alongside other forms of funding e.g. covered bonds and senior unsecured), more so than other jurisdictions. We believe that going forward the RMBS market will also have a significant role in the economic recovery, providing lenders with an alternative source of funding. Therefore, any regulation that inhibits lenders from accessing this market or raises the cost of accessing this market would have a proportionately bigger negative impact on UK lenders.

7. We would emphasise that financial stability is enhanced by the ability of firms to access a diversified sources of liquidity and that the RMBS market has a role to play in this. This is also at a time when some other sources of liquidity are harder or more costly to access. For example, the discussion over the ability to "bail-in" senior unsecured debt under various recovery and resolution regimes, has influenced both the cost of senior unsecured debt and caused the universe of investors for this type of security to shrink. RMBS can offer firms a powerful tool in diversifying their funding base. Raising the cost of issuance is likely to channel firms into other funding markets thereby reducing the benefit firms get from securitisation in terms of both risk transfer but also investor diversification.

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8. Higher risk weights for higher quality senior positions are likely to limit the ability of lenders to access the RMBS market. Furthermore, they will increase the cost of issuing RMBS and therefore potentially have a negative impact on the real economy.

9. By making the issuance of RMBS more expensive for financial firms, we are concerned that this will reverse the trend recently seen of a shrinking shadow banking sector and encourage this form of asset financing to pass into the shadow-banking universe where it is harder to monitor or regulate.

10. We would also draw the Committee's attention to the performance of specifically UK RMBS. UK RMBS has shown a very strong performance compared to other securitisation products. We believe the proposals do not give sufficient recognition to the underlying quality of some securitisation products e.g. UK RMBS, and that the imposition of higher risk weights for these type of products would unfairly penalise high quality, performing asset books.

11. In addition, the proposals as outlined do not take into account that largely, the use of securitisation by firms, has changed. Pre-crisis, securitisation was used by some lenders as part of the overall business strategy i.e. "the originate and distribute model" and allowed for some capital arbitrage. Post crisis most issuers have used the securitisation market to fund asset books i.e. as a source of liquidity rather than for capital arbitrage purposes.

12. If you have any comments or queries regarding this submission, please contact Jon Saunders, jon.saunders@cml.org.uk or +44 207 4388934.