



[How will COVID-19 impact Australian RMBS?](#)

On the 25th March, 2020 Standard & Poor's released a report titled "How will COVID-19 Affect Australian Structured Finance" including Australian RMBS and ABS.

[Key points to note from the S&P report:](#)

- Several lenders (banks and non-banks) have announced various mortgage relief assistance for borrowers facing financial hardship due to the impact of COVID-19;
- Hardship assistance includes the ability to defer mortgage repayments for up to six months;
- Liquidity stress and an increased proportion of borrowers unable to make schedule loan repayments will affect the cashflows to Australian RMBS transactions;
- S&P calculate that most prime Australian RMBS transactions that they rate have liquidity reserves or facilities that would cover an average of around 9 months of senior expenses and note coupons at current interest rates, even if *cash inflows to the transaction fell to zero – a scenario that remains unlikely*;
- S&P's analysis demonstrates the robust nature of Australian RMBS.

[Borrower hardship background](#)

- The Australian Bankers Association announced on Friday 20th March that Australian Banks will provide "hardship" for small businesses who need assistance because of the impacts of COVID-19 including deferring loan repayments for six months;
- Some banks including each major bank and some non-banks have gone further and extended the new hardship for borrowers with a home loan. Hardship being offered includes the ability to defer mortgage repayments for a period of up to 6 months with the interest due to be capitalised and added to the outstanding loan balance. This is not an interest holiday or forgiveness;
- The level of hardship provided depends on the individual borrower's situation and capacity. In the first instance, all servicers will seek borrowers to pay a portion of their mortgage payments, for instance interest-only payments or some other agreed amounts.

[What is the impact on RMBS bondholders by these hardship measures?](#)

- A borrower's interest and principal repayments ("collections") are used to meet the RMBS Notes interest and principal payments;
- Hardship provided to borrowers impacted by the COVID-19 including a deferral of mortgage payments would therefore reduce the collections available in that month;
- Any deferral of interest is capitalised to the borrowers outstanding loan balance and so the primary issue is cashflow timing i.e. liquidity of the RMBS securitisation;
- Australian RMBS have structural protections against liquidity stress such as what is anticipated with the granting of hardship for borrowers impacted by the COVID-19;
- Such structural protections are sized to allow interest payments to continue to be made to the RMBS Noteholders.



[Are arrears expected to increase?](#)

- Yes, we do expect arrears to increase in the coming months as unemployment increases;
- The short-term increase in arrears for individual RMBS transaction will depend on the number of underlying borrowers in a transaction impacted by COVID-19 and the borrowers' eligibility for hardship;
- Many impacted borrowers are ahead of their scheduled payments, have offset balances or other capacity to meet their mortgage repayments and won't be eligible for hardship;
- It is expected that travel, tourism, restaurants, hospitality, transportation and retail are the most immediately affected sectors with the most at risk borrowers likely to be self-employed and SME borrowers meaning non-conforming RMBS transactions are expected to be impacted more than Prime RMBS

[Is this increase in arrears expected to roll into higher borrower defaults and mortgage losses?](#)

- Assuming the outbreak will peak mid-year and the economic recovery commences in Q3 2020, we do not believe that the expected increase in arrears will roll into either later stage arrears or eventually into default;
- A combination of the various fiscal measures announced in the last week by the Government, hardship support by lenders and the expectation of an economic recovery later in the year should stabilize borrowers' creditworthiness and capacity to pay;
- Record low interest rates assists the borrowers' affordability;
- Ultimately most borrowers have significant personal wealth tied up in their home which is another incentive not to fall into serious arrears. For example, the RMBS bonds GCI is invested in are secured by over 109,000 home loans with an average loan balance of \$482,000 and a loan to value ratio of 66% (borrower's equity of approx. \$248,000).

[Will the higher expected arrears in RMBS impact the GCI monthly distributions?](#)

- Sustainable, monthly income is a core pillar of GCI and we are not expecting any disruption to the monthly distributions.

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