

UK signals seen as positive, but playing field skewed

www.coveredbondnews.com

Thursday, March 25, 2010

Representatives from the mortgage industry discussed the UK authorities' approach to improving the funding environment for lenders at a conference yesterday (Wednesday) where a new industry body, the Mortgage Funding Group, was launched.

Tony Ward, vice chairman of the Intermediary Mortgage Lenders Association and CEO of Home Funding, welcomed the way in which officials such as Bank of England governor Mervyn King and Financial Services Authority chairman Adair Turner had given "positive signals" that they recognise the importance of the securitisation and covered bond markets. Ward cited a speech given by Lord Turner last week in which he said: "It seems highly likely that securitisation will continue to play a significant role in the credit intermediation process, and with appropriate regulation and market discipline, could perform a socially useful function of enabling improved risk management."

However, the lack of action from the authorities in support of wholesale funding markets was criticised by some speakers at the conference.

Rob Thomas, senior policy advisor – funding, at the Council of Mortgage Lenders, said that the emergency policy response to the crisis was necessary but is having the serious unintended consequence of reducing competition because support was so focused on the larger institutions.

Thomas said that – not just in the UK – the crisis had meant that a "retail funding is good, wholesale funding is bad" mentality had set in among regulators. To support this argument he pointed out that the FSA wants any reliance on wholesale funding scaled back, and he also cited the regulator's limit on covered bond issuance to 20% of a bank's total assets.

Meanwhile, said Thomas, Chancellor Alistair Darling had tilted the playing field in favour of retail deposits when he had effectively nationalised savings when saying, in the wake of the run on Northern Rock, that the government would guarantee deposits. He highlighted how much this had affected the retail/wholesale funding debate by suggesting that had Darling offered a similar guarantee for RMBS then that market would have quickly stabilised, too.

Thomas also contrasted the lack of action on wholesale funding in the UK with the European Central Bank's Eu60bn covered bond purchase programme, which he said had sent a "fantastic signal", and the Term Asset-Backed Securities Loan Facility in the US.

Robert Plehn, head of structured securitisation and covered bonds at Lloyds Banking Group, did, however, note that while a RMBS guarantee scheme set up by the UK had not been able to be put into practice, it did represent a "tipping point" for investor sentiment towards UK RMBS as it had demonstrated that the government was willing to act in support of the asset class.

Ward said that the consultation paper released by the Bank of England last week on extending eligibility for its Discount Window Facility was also encouraging and very welcome but, being short term by nature, does not help solve the core liquidity problem.

However, Ward said that the industry is not asking for guarantees.

What speakers considered to be the most important action the authorities could take to ease the looming funding gap was for the Bank of England to extend in some way the Special Liquidity Scheme.

A building society treasurer highlighted the hump in UK financial institutions' refinancing needs in 2012 as the biggest problem facing UK mortgage lenders and other speakers criticised the Bank of England for being so adamant that the SLS will not be extended. One contrasted this approach with that of the ECB, which is gradually tightening the terms of its operations rather than closing them suddenly.

Plehn suggested that while the tripartite authorities are strengthening regulations they could offer the industry a carrot in the form of including covered bonds and asset-backed securities in the liquidity buffers that are being introduced.

Speaking shortly after Darling had delivered the budget, Plehn said that on a macroeconomic level the best thing the UK government could do would be to get its house in order, i.e. tackle the deficit. He said that negative sentiment about this – expressed, for example, by Pimco's Bill Gross in February when he said that Gilts were sitting on "a bed of nitroglycerin" – made going on a roadshow trying to sell UK mortgage risk more complex.

Meanwhile, Ward said that the newly formed Mortgage Funding Group – which brings together banks, building societies and non-bank lenders – would try to take up the challenge put down by the authorities.