

Asset Covered Securities Bill, 2001



- new mortgage bond legislation in Ireland

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Secretary

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EUROPE



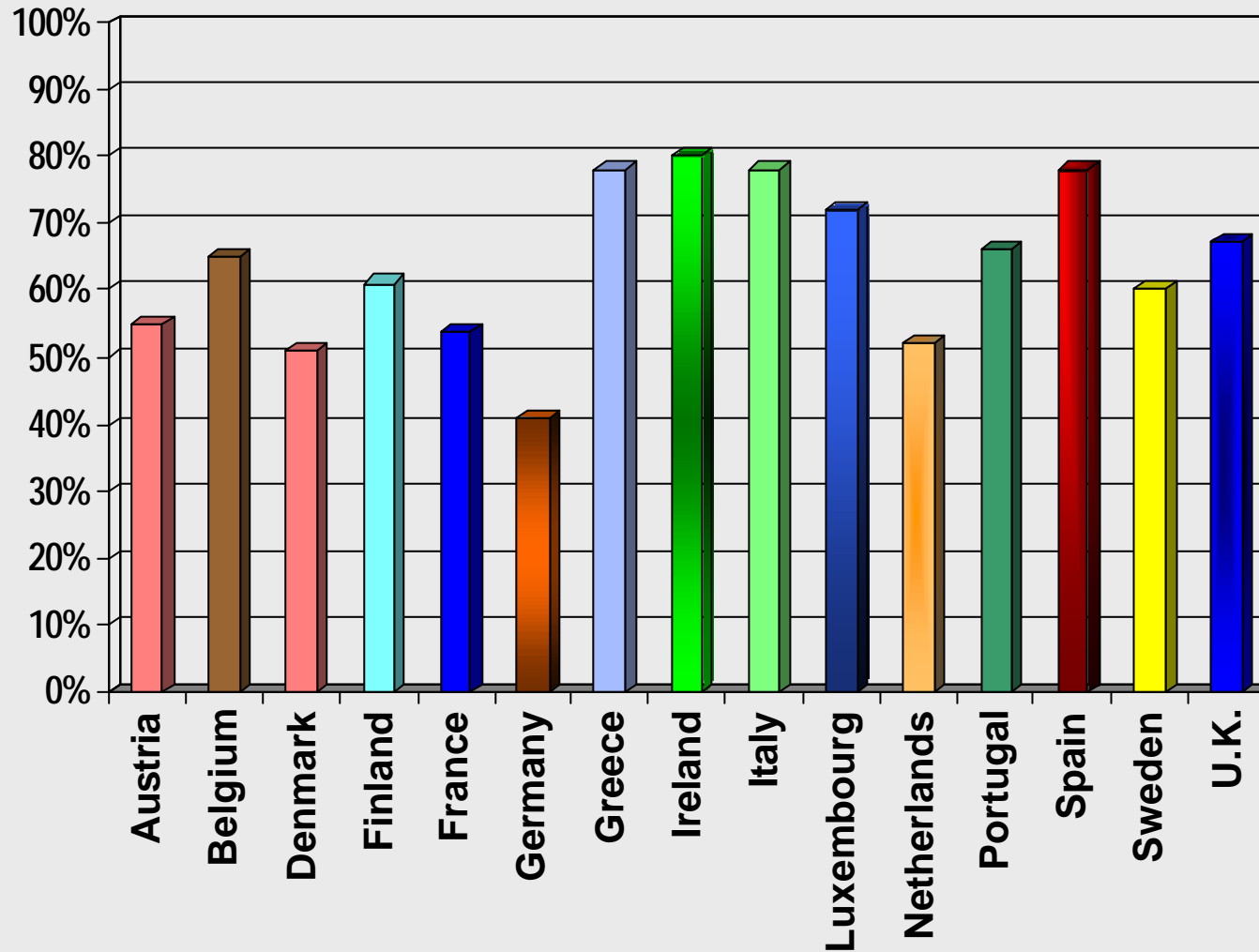
Ireland



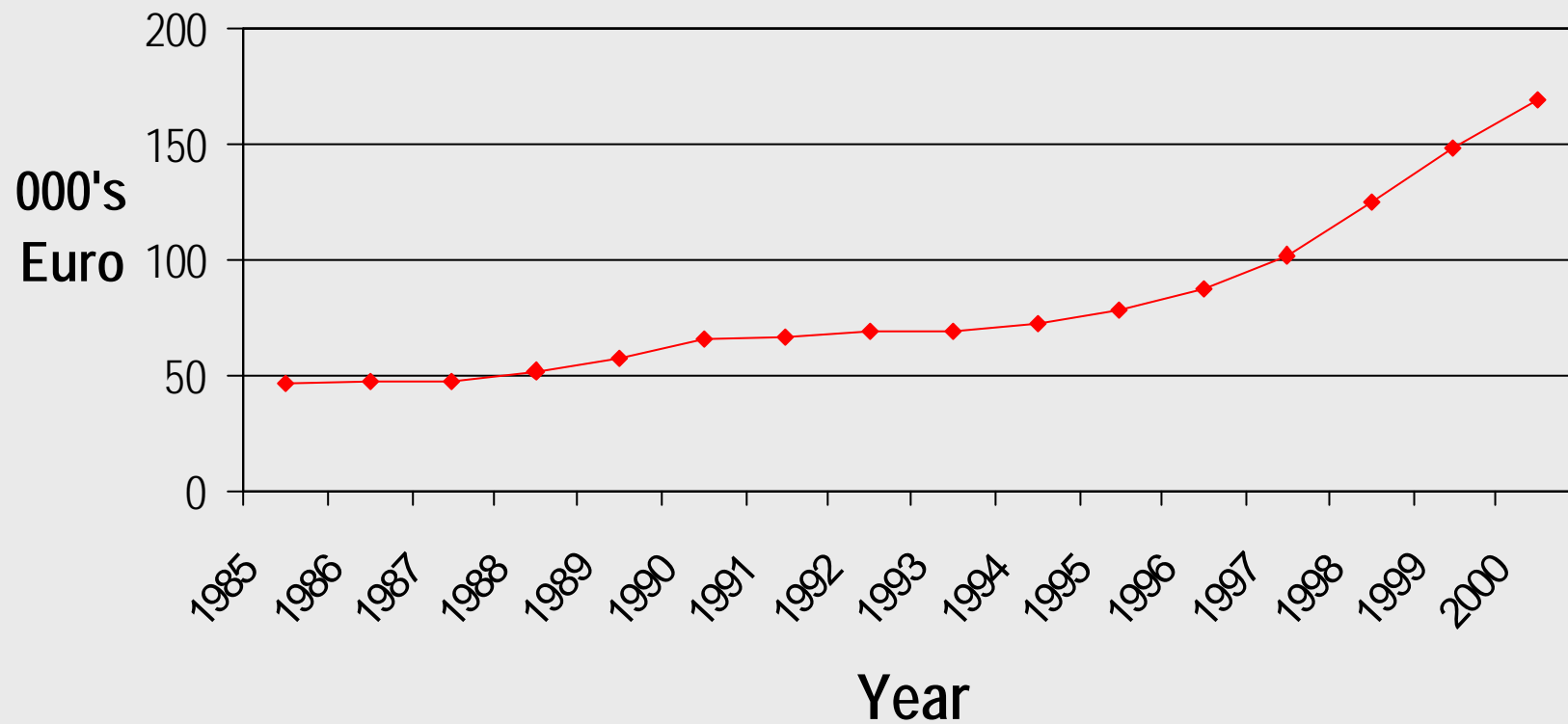
- Population: 3.6 million
- Residential Mortgages Outstanding: Euro 37 bn
 - **...of which circa Euro 4 bn is securitised**

Home Ownership

- % of owner occupation in Europe



Average New House Price, Rep. of Ireland (1985-2000)



Source: Department of the Environment Housing Bulletin

Why mortgage bonds?



- Diversification of funding sources
- Euro
- Elimination of competitive disadvantage

Process:



- Research
- IFSC based German Banks
- Joint Steering Committee
- Consultation

Result:



- Asset Covered Securities Bill, 2001

- Website link to legislation:

www.gov.ie/bills28/bills/2001/4401/default.htm

Objective:



- To facilitate the issuance of securities which accommodate the features of the Irish market, are comparable to pfandbriefe, and are capable of achieving a AAA rating.

Specialisation:

- *permitted business activities*

- (a) providing mortgage credit and dealing in and holding mortgage credit assets;
- (b) dealing in and holding substitution assets;
- (c) dealing in and holding assets of a kind that, in accordance with a requirement of the Authority made under the supervisory enactments, designated mortgage credit institutions are required to hold for regulatory purposes;
- (d) dealing in and holding credit transaction assets, i.e. a financial asset or a deposit with a credit institution
- (e) dealing in and holding tier 2 assets;
- (f) engaging in activities connected with financing or refinancing assets, including taking deposits or issuing asset covered securities.
- (g) entering into contracts for the purpose of hedging risks
- (h) engaging in activities that are incidental or ancillary to carrying on any other activity mentioned in *paragraphs (a) to (g)*.

Cover Assets Pool




- Duration

- Principal


- Interest

- Currency



- Cover Asset Hedge Contracts

- Substitution Assets

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- Loan to Value (LTV) limits
 - Limit on Commercial Mortgages - 10% of pool
 - Exclusion of development property


Location of Assets

EEA Countries	Category A Countries	Category B Countries
All EU Member States & Liechtenstein, Norway and Iceland.	Canada, Japan, The Swiss Confederation, USA, or a Country specified by Ministerial Order	A non EEA, non Category A country that is a full member of the OECD, which has not rescheduled its external debt during the previous 5 years
No limit in pool	Limited to 15% of Pool	Cannot be included in pool (unless a Ministerial Order is made)
Total business – No limit	Total business – no limit	Total Business – Limited to 10% of assets

Valuation



- Underlying market valuation carried out by professional valuer at point when mortgage is approved.
- Indexation of this valuation to reflect change in market conditions between that point and the point when a mortgage is included in the cover assets pool.
- Application of equilibrium modeling to remove any speculative element from the value.

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- a) Cover Assets Monitor
 - b) Alternative Service Provider
 - c) Disclosure
 - d) Effect of a potential insolvency process
 - e) Superpriority

Preferred Creditors



- a) The holder of an outstanding asset covered security issued by the institution
- b) A person (other than the holder) who has rights in respect of such a security by virtue of any legal relationship with the holder
- c) If the institution has entered into a cover assets hedge contract, the party with whom the institution entered into the contract.
- d) Any cover assets monitor appointed in respect of the institution
- e) Any Manager appointed in respect of the institution

Areas still under discussion:



- LTV for residential properties
- Insurance - Credit Enhancement
- Mortgage backed securities
- Preferred liquidity contracts

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