Investment & Financial Services Association Limited
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28 April 2009

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
Parliament House
CANBERRA ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Hawkins

Re: Senate inquiry into the Australian Business Investment Partnership Bill 2009

I write to you regarding the Senate's current inquiry into the Australian Business Investment Partnership Bill 2009. In light of the current economic volatility, we would be grateful if the Senate Standing Committee on economics considered our submission in finalising its report.

IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. IFSA has over 140 members who are responsible for investing over $950 billion on behalf of more than nine million Australians.

IFSA is supportive of the government's ongoing actions to stabilise financial markets, restore the flow of market liquidity and support domestic economic growth. While it is imperative that liquidity support is directly provided for viable commercial property assets via the Australian Business Investment Partnership, we strongly believe that the scheme should be expanded to support the mortgage fund sector.

Mortgage fund's role in the commercial lending sector

Mortgage funds are an important source of funding for the commercial lending sector, primarily commercial property, and have played a critical role in creating competition in this market. The sector lends approximately $8 billion per annum to viable commercial property investors and has provided funding for many businesses which has usually not been available in the banking sector.

The current bank deposit guarantee arrangements and economic volatility have contributed to a significant increase in redemptions and a cessation of new investment monies/applications flowing into the mortgage fund market.

As a result of these two factors mortgage funds are currently facing liquidity constraints which means they are unable to provide funding for new commercial loan arrangements, roll-over their maturing book of loans or to meet (in full) redemption calls from investors. Ultimately, these issues have adversely impacted competition in the commercial lending market.

To support the industry in recommencing and renegotiating commercial lending arrangements and to ease liquidity pressures to facilitate redemptions (and assist investors), we propose that the Government temporarily invest directly in eligible mortgage funds.

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Interim relief to support mortgage funds and commercial lending arrangements

Subject to the establishment of an appropriate eligibility criteria, we propose that the Government (via the Australian Business Investment Partnership scheme) purchase units in eligible mortgage funds. Under this proposal mortgage funds would apply directly to the Australian Business Investment Partnership to invest in existing funds or new funds presented by an existing mortgage fund provider. Consistent with previous initiatives, the eligibility criteria should be fair, transparent and open to all mortgage funds to apply.

This investment action would immediately provide a source of capital facilitating the refinancing of maturing commercial loans from existing mortgage funds and facilitate the funding of new commercial loan arrangements in either existing or new mortgage funds.

We note that there will continue to be circumstances where redemption requests exceed available liquidity and the legal requirements of a responsible entity in an existing fund would restrict the ability to facilitate new commercial loan arrangements via the new funding. For that reason we have also proposed that the investments in these circumstances may need to be made in eligible new funds (presented by an existing mortgage fund provider).

In order to promote ongoing stability in the mortgage fund and commercial lending markets, the investment should be on at least a medium term basis and reviewed in line with market conditions and the operation of the Government's guarantee and Australian Business Investment Partnership.

As markets stabilise and investors return to the mortgage fund sector we expect that the Australian Business Investment Partnership would seek to redeem its units. Appropriate redemption arrangements, however, would need to be agreed so as to avoid a recurrence of the type of liquidity problems currently being experienced. For example, a fixed term investment structure or securitisation model may be appropriate. For the same reason, we would expect that the new funds presented by an existing mortgage fund provider would have redemption arrangements for retail investors which would reflect the medium to long term nature of these investments.

Financial impact

The final financial impact of the arrangements will depend on a range of factors including the number of funds approved. If this solution is of interest, we would welcome the opportunity to further discuss the level of funding that is required to inject sufficient liquidity to assist this important part of the commercial property market (which currently does not have access to other government liquidity support arrangements).

We also note that monthly distributions will be made to the scheme and shareholders in line with the returns on these funds.

We believe our recommendations provide responsible policy options for addressing the current issues and, if you are not already aware of them, that they should form part of a broader Government agenda to address the credit issues currently being faced by Australian business and the community generally.

Please do not hesitate to contact myself or Joseph Sorby on (02) 9299 3022 if you wish to discuss these matters further or require any additional information.

Yours sincerely

Richard Gilbert
Chief Executive Officer