KangaNews

Firstmac sprouts first all-green RMBS in Australia

Firstmac's entrance into green residential mortgage-backed securities issuance is a first for the Australian market as the whole deal – not just selected tranches – is in certified green format. The issuer and the deal's two investors – Norinchukin and Clean Energy Finance Corporation – say it could seed a promising future for environmentally backed securitisation in Australia.

Firstmac's A$750 million (US$570.5 million) residential mortgage-backed securities (RMBS) deal, Firstmac Mortgage Funding Trust No. 4 Series 2021-3PP, is a first for Australian securitisation. Priced on 16 June, it is the first Australian-origin RMBS to comprise exclusively green tranches.

The transaction builds on a foundation laid by National Australia Bank (NAB) in 2018, when it issued an RMBS deal that included a tranche of green notes. Firstmac will use the proceeds of its deal to fund its green mortgage product, which has already provided an initial A$520 million seed pool of existing loans and offers borrowers a substantial discount on the nonbank's standard home loan.

Grace Tam, Sydney-based director at Clean Energy Finance Corporation (CEFC), says the transaction is a positive sign for the evolution of green securitisation in Australia.

"In 2018, NAB was able to demonstrate the ability to do a green tranche as part of an RMBS transaction. This deal leads on from that, and not only demonstrates that it is possible to have the whole transaction as green RMBS but also that green securitisation will attract investors," she tells *KangaNews*.

> "Just about every bank and investment vehicle in the world has a green need so I don't think there is going to be a shortage of funding available from investors. It is more a case of getting the loans in large enough amounts to make it work – but there is huge broker demand for this type of loan and we see is as something of a frontline product going forward."
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> **KIM CANNON** FIRSTMAC

Green mortgage push

CEFC's involvement in the deal followed its mandate to catalyse capital markets to support climate finance. Its goal in investing in many of the Firstmac RMBS's junior tranches is to jumpstart green RMBS in the local market, and thus to support the spread of environmentally friendly homes.

CEFC hopes the minimum 0.4 per cent discount offered by Firstmac on its green home-loan product will help inspire borrower demand and energise the sector. It is a disparate and challenging environment that Firstmac, and now CEFC, hope to cut through with a pricing incentive.

"There are so many people involved in the residential mortgage-lending market, including the builder, developer, broker, lender, borrower, government, and councils. This makes it difficult for us to find ways to encourage participants to think about home energy efficiency since there is no single key player to work with," Tam explains. "This is unlike large-scale property development, where we can go to developers."

Through offering an attractive discount to the customer and working with lenders who are willing to learn about energy efficiency and cooperatively work on a product, CEFC believes it will be able to drive demand from home buyers.

Kim Cannon, Firstmac's Brisbane-based managing director, notes a positive response to the company's green-mortgage product that he says bodes well for the future of energy efficient housing in Australia – as well as green securitisation.

"We've been trialling this product for a number of months now through our broker network and we've been pleasantly surprised by its take-up," Cannon tells *KangaNews*. "I think we're going to see a massive shift over time as more people begin to look into these green packages."

Firstmac has been offering green car loans for several years. Cannon says the company sees itself as an innovator, especially in what it clearly believes to be a growing sector. The availability of green RMBS funding could help add scale to a lender for which diversifying and expanding the funding base is an ongoing project.

Cannon continues: "Meanwhile, just about every bank and investment vehicle in the world has a green need so I don't think there is going to be a shortage of funding available from investors. It is more a case of getting the loans in large enough amounts to make it work – but there is huge broker demand for this type of loan and we see is as something of a frontline product going forward.”

> "The strong relationship Norinchukin held with Firstmac before this transaction made this happen. Given it was the first green RMBS transaction in Australia, there were many issues regarding green standards and structures."
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> **HIDETOSHI HASEGAWA** *NORINCHUKIN*

A shared vision

Demonstrating Cannon’s view on demand, Japanese bank Norinchukin took the senior tranche in the Firstmac green RMBS via a A$637.5 million investment. CEFC backed the A-2 notes, which accounted for A$75 million of its total A$108.5 million investment in the deal.

The remaining notes were retained by Firstmac, with the Class B to E notes funded via a loan from CEFC – outside the RMBS transaction – which accounted for CEFC’s remaining investment towards the deal.

This funding approach was designed to meet the risk-retention requirement of the Financial Services Agency of Japan. Paul Eagar, Firstmac’s Sydney-based director, securitisation, explains: “Japan requires risk retention in the structure, which is consistent with what happens with US and European issuance. The requirement in Japan is that there is 5 per cent risk retention on the part of the issuer”

Firstmac, CEFC and Norinchukin collaborated on what was effectively a club-style private placement. Norinchukin was attracted to the deal both due to the high standing of Australian RMBS and the fact that the deal fell in line with the bank’s own sustainability targets.

Hidetoshi Hasegawa, Norinchukin’s Tokyo-based global head of credit and alternative investments, tells *KangaNews* the firm has set a goal of reducing the greenhouse-gas emissions of its investments by 50 per cent between financial years 2013 and 2030. Investments like the Firstmac RMBS are helping deliver that goal.

“We recognise that ESG RMBS is a promising market and we expect further growth. We believe that the spread of environmentally friendly housing this scheme will create will contribute to our target, as well as to Australia’s climate-change countermeasures,” Hasegawa adds.

Norinchukin’s existing relationship with Firstmac also aided the deal, especially given the challenges its development naturally faced. “The strong relationship Norinchukin held with Firstmac before this transaction made this happen,” Hasegawa comments. “Given it was the first green RMBS transaction in Australia, there were many issues regarding green standards and structures. We were also not able to visit Australia due to the spread of COVID-19, which made communications difficult.”

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> **GRACE TAM** CLEAN ENERGY FINANCE CORPORATION

Future prospects

While this transaction was closely marketed, deal parties are confident it marks another step on the road to a more active Australian green RMBS market. Richard Lovell, executive director, investments at CEFC in Sydney, says customer access to green home-loan products is a game-changer.

"My view is that there is strong interest in this market segment and I think we will see others seek to do something similar," he comments. "The challenge to some degree is that you have to build the asset pool. But I think that can happen once a lender has a product defined."

Having a precedent in the market can only help. Lovell says he hopes the Firstmac deal acts as a pathway for other issuers to follow. "We've done quite a bit of work around our definition of green mortgages and we're continuing to work to align our definitions with what we're seeing in global standards for this type of product," he tells KangaNews. "This is valuable because we think it will allow other issuers to take Australian green RMBS to global markets in a form that all participants can be confident has strong environmental standards."