Building Societies Association

York House
23 Kingsway
London
WC2B 6UJ

Telephone: 020 7520 5900
Fax: 020 7240 5290
www.bsa.org.uk

REVISIONS TO THE BASEL SECURITISATION FRAMEWORK

RESPONSE FROM THE BUILDING SOCIETIES ASSOCIATION

INTRODUCTION

The United Kingdom's Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 46 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

The core business of all BSA members lies within traditional relationship banking: personal savings, mortgage lending, money transmission, and other lending to businesses and households. BSA members are not investment banks and do not structure complex transactions for others. Moreover, building societies are obliged by law to concentrate on retail savings and residential mortgages. Consistent with the relationship approach, BSA members primarily follow the "originate to hold" rather than "originate to distribute" model. We fully recognize the problems that have arisen during the financial crisis from unwise and irresponsible use of securitisation. But some of our largest members continue to make prudent and measured use of securitisation as originators, for risk transfer and capital relief, and for longer-term matched funding, and some may also invest in MBS from time to time. The BSA therefore has an interest in maintaining an active, liquid and cost-effective market for securitisation.

GENERAL COMMENTS

Some of our leading members involved in securitisation are contributing directly to the wider-ranging responses being submitted by the Global Financial Markets Association and/or the Prime Collateralised Securities Initiative. We support in general terms the main thrust of the GFMA / PCS responses. We will not, therefore, cover the same ground in detail – rather, we will limit our response to key high-level issues of relevance to our members.

Our first concern, consistent with our members' prudent use of securitisation, is that the technique should not be broadly stigmatized, by way of over-reaction to the admittedly unwise activities by other players before the financial crisis. Where undesirable behaviours are identified, regulation should target these more closely, without overall stigmatisation of securitisation as a financing technique.

The errors exposed by the financial crisis should not lead to the conclusion that all securitisations or structure types are inherently, or equally, risky. Some types proved resilient, others proved flawed. There needs to be a better way of discriminating between the two groups, rather than a broad stigmatising of all securitisations.

Excessive capital requirements, driven and motivated by such a stigmatising approach, will be counterproductive: they may serve only to reduce or discourage the financing of the real economy that securitisation might otherwise facilitate. (Other authorities are already recognizing the potentially valuable role of securitisation in sustaining economic recovery.) This risk applies not only to our members in the United Kingdom, but across Europe. Accordingly, better calibration is essential. We find this of particular concern in relation to high-quality senior securitisation positions : the proposal substantially to increase risk weights for these positions will be especially deleterious.

Two examples of this have been widely canvassed. First, holdings of high quality (e.g. AA) senior notes appear to be treated less favourably than direct holdings of various kinds of individual loans – potentially ignoring both collateral and any credit enhancement. Second, the capital required for some securitisation tranches may end up higher than for the entire pool of underlying assets.

There are some positives too – we agree with the move away from dependence on credit ratings, and the principle of recognizing what constitutes a "high quality securitization". We also support increased transparency. But we consider that the proposals need major improvement as to both consistency (with treatment of underlying assets) and calibration.

March 2013