



DIRECTION ON INVESTMENT IN RESIDENTIAL MORTGAGE-BACKED SECURITIES 2009

I, WAYNE MAXWELL SWAN, Treasurer of the Commonwealth, give this Direction under section 62A of the *Financial Management and Accountability Act 1997*. This Direction is to provide guidance to persons to whom I have delegated powers to invest under subsection 39(2) of the Act. Delegates are required to comply with this Direction, which is to be read in conjunction with my Directions of 3 February 2009 which were tabled in Parliament on 11 March 2009.

Objectives

Over the past 15 years, the market for residential mortgage-backed securities (RMBS) has provided an important source of funding for new and smaller mortgage lenders to compete with the major banks. However, developments in international capital markets since mid-2007 have reduced liquidity in the RMBS market and constrained the ability of lenders to access funding from this source.

In view of these developments, on 3 October 2008 and on 16 October 2008 I directed the Australian Office of Financial Management (AOFM) to invest up to \$8 billion in Australian RMBS to support competition from a diverse range of lenders during the present market dislocation. To date, this initiative has assisted 13 lenders to raise almost \$11.4 billion in funding, with the AOFM investing in \$7.8 billion of RMBS.

However, the RMBS market remains dislocated and continues to be affected by the fallout from the global financial crisis. Pricing and volumes have not yet improved sufficiently to accommodate new issuance from a variety of smaller lenders.

I am now directing the AOFM to invest up to an additional \$8 billion in Australian RMBS and the remaining \$0.246 billion from my initial Directions, subject to market conditions. These investments aim to further support competition in residential mortgage lending from a diverse range of lenders.

Small businesses make an important contribution to national prosperity and to supporting jobs. As the economy recovers from the impact of the global financial crisis and global recession, it is important that small businesses continue to have access to competitive funding sources to support growth and investment in this sector. In light of this, an additional objective of these investments is to provide support for lending to small business, through participating lenders using some of the proceeds of the AOFM's investment for lending to small business.

Directions

I direct that:

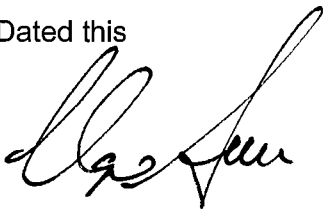
1. Delegates invest up to \$8.246 billion in Australian residential mortgage-backed securities rated AAA or equivalent by one of the major credit rating agencies.

2. The AOFM is to manage the investments in the residential mortgage-backed securities made under this Direction. The securities purchased under this Direction are to be held in a portfolio separate to the AOFM's cash and long-term debt portfolios. The performance of this portfolio will be evaluated separately.
3. The AOFM may enter into repurchase arrangements using residential mortgage backed securities purchased under this Direction, or other securities purchased under my Directions of 3 February 2009, for short term financing in its management of Official Public Account balances.
4. The AOFM may adjust its holdings of securities purchased under this Direction to take account of changes in their characteristics and credit quality or to provide better balance in its holdings of these securities.
5. After conditions in the primary residential mortgage-backed securities market have improved, securities purchased under this Direction may be realised or, at the AOFM's discretion, may continue to be held as part of its total investment portfolio, taking account of the objectives of this Direction and the expected return and risk on these securities in relation to the management objectives of its total portfolio. Sales of the securities should be undertaken without causing market volatility. Note that this direction does not limit directions 3 and 4.

In the event that an investment made in accordance with these Directions and my Directions of 3 October 2008 and 16 October 2008 ceases to meet the specified credit rating requirements, it may continue to be held to maturity or until it can be sold at an acceptable price.

Pursuant to paragraph 62A(5)(b) of the Act, I direct that delegates must comply with any instructions relating to administrative arrangements, procedures, limits, controls or other matters of detail relating to investment within the framework established by this Direction and my Directions of 3 February 2009, where those instructions are given in writing by the Secretary to the Treasury or by the Chief Executive Officer of the Australian Office of Financial Management.

Dated this 30th day of November 2009



WAYNE MAXWELL SWAN
Treasurer of the Commonwealth of Australia