LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION

Mr Mills to Treasurer

TIO's Banking Division - Exposure to Sub-prime Lending

Mr Mills to TREASURER

Treasurer, as you are the sole share holder of the Territory Insurance Office, can you reassure Territorians that the TIO's banking division is not exposed to the sub-prime lending crisis that has manifested itself in recent weeks.

If the TIO is exposed, to what degree and what safeguards are in place to protect the TIO?

ANSWER

TIO Banking is not exposed to direct financial risk as a result of the sub-prime lending crisis that has manifested over the past couple of weeks.

There has been a lot of comment in the media on the difficulties being experienced by US lenders that have focused on home loans to the sub-prime market. Sub-prime loans are high risk loans to people on low incomes with incomplete credit histories. Lenders to the sub-prime market in the US are experiencing difficulties due to increasing interest rates and reducing property values. TIO Banking does not lend to the sub-prime market.

In some cases, lenders to the sub-prime market in the US have been offering Low Doc loans. These are loans where no proof of income, employment or assets is required. It has since transpired that many of these loans have been made to borrowers with no income, no job and no assets (so called NINJA loans). TIO Banking does not offer Low Doc Loans.

TIO Banking does not hold any mortgage backed securities issued by lenders to the US sub-prime market.

TIO Banking funds its loans from retail deposits, wholesale deposits and securitisation. Unlike other institutions that directly sell mortgage backed securities into the market, TIO Banking's securitisation program involves the sale of loans to an independent third party that then sells mortgage backed securities into the market. Under TIO Banking's securitisation contract the funding cost to TIO Banking is expressed as a fixed margin over the Bill/Swap rate. TIO Banking is therefore not affected by the recent increase in costs arising from the sale of mortgage backed securities.

TIO Banking's liquidity ratio, calculated in accordance with Australian Prudential Regulation Authority (APRA) standards, is currently running at 19 per cent against a minimum required level of 9 per cent. This is more than sufficient to deal with any short term liquidity shortages if they were to occur in the Australian market.