

**Ambac**

Ambac Financial Guarantee Marks First Ever Use Of Wrap For Australian RMBS

A\$980,000,000

Torrens Trust 2004-2 (W)

Australian Residential Mortgage-Backed Securities

Residential home mortgages are an important business segment for Adelaide Bank, a major financial institution in Australia. In recent years, low-documentation ("LoDoc") loans have become a growth area for Adelaide's mortgage business. With LoDoc loans, borrowers certify their own income and do not need to submit tax returns or salary verification as part of the loan approval process. LoDoc loans are fairly new in the Australian home market, thus loan performance history is limited in the asset class. As a result, Australian mortgage-backed securities investors tend to view these types of loans more critically. With extensive experience in the mortgage-backed securities market worldwide, Ambac Assurance approached Adelaide Bank in March 2004 about the possibility of structuring a large MBS deal comprised solely of LoDoc loans, wrapped with an Ambac guarantee to achieve triple-A ratings on the transaction. For Adelaide, the securitization issue would strengthen the bank's balance sheet and convey a positive equity story with some analysts concerned about the growing percentage of LoDoc loans on the bank's books.

After receiving the mandate in mid-April, Ambac underwriters in Australia began working with the guarantor's experienced MBS team in the U.S. to analyze the loans and structure the bond issue. Ambac's history with low-documentation loans in the U.S., combined with a proven ability to evaluate and identify strong mortgage-servicing operations, enabled Ambac to develop an attractive deal structure that met Adelaide's needs. Speed was an important requirement, as Adelaide wanted to close the transaction in the second quarter. By coordinating between teams in Sydney and New York, Ambac's MBS team was able to work on the deal virtually around the clock.

Investors reacted positively to the roadshow presentations. In addition to reassuring investors as to the credit quality of the LoDoc loans, Ambac's guarantee mitigated risks associated with any possible downgrades to the major mortgage insurance providers active in the Australian market (virtually all home mortgages in Australia are insured by one of two mortgage insurance companies). Strong investor demand led Adelaide Bank to increase the size of the planned offering - to \$1 billion from \$800 million. Even so, the triple-A-rated Torrens Trust LoDoc transaction was more than two times oversubscribed when it reached the market in mid-June. The bonds proved attractive to investors in Australia, Europe and Asia and enabled Adelaide Bank to expand their investor base.

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