

# CBA freezes mortgage fund

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COMMONWEALTH Bank's funds management arm has again been forced to freeze withdrawals from its \$850 million mortgage income fund after being caught out by a spike in lending losses.

With rising interest rates likely to spur further mortgage stress, Colonial First State's move suggests the nation's troubled mortgage fund market could face a fresh round of problems after the \$30 billion sector was hit by the introduction of the bank deposit guarantee about 14 months ago.

Colonial last week began telling investors that an increase in bad debts had forced it to reinstate a freeze in redemptions in one of its flagship mortgage income funds.

Colonial reopened the fund to withdrawals about a month ago after a year-long freeze that was aimed at protecting the fund as jittery investors poured savings into safer bank deposits.

"Since the withdrawal offer opened on November 25, 2009, we have identified a small number of mortgages in the funds portfolio that have the potential to become bad debts," Colonial told clients.

"We have commenced a review of the fund's assets to fully assess these loans and determine the impact on the fund and investors."

Colonial plans to update investors again next month.

A Colonial spokesman yesterday confirmed the freeze had been reinstated because a "small number" of mortgage loans in the fund's portfolio had fallen behind in repayments.

The freeze was limited to only one of the eight mortgage-style funds offered by Colonial, the spokesman said.

Colonial's mortgage fund is generally regarded as one of the more conservative, investing in a broad portfolio of prime Australian mortgages.

The funds are pooled investments that have exposure to a portfolio of mortgages, which are largely made in the form of mortgage-backed securities.

Up to \$30 billion of mortgage funds were frozen last year - affecting 150,000 investors - after the Rudd Government introduced a guarantee on bank deposits that prompted a switch to the lower-risk investment.

Perpetual was forced to slow redemptions from several of its funds that had about \$2 billion invested in mortgage securities after the bank deposit guarantee sparked a mass rush to safety.

As conditions improved, some funds allowed investors to request money in small portions several times a year, in an attempt to prevent a liquidity crunch.

The pace of these requests has slowed, but analysts say delays in redeeming money will remain until market confidence in the assets lifts.

Big funds operated by companies including Perpetual, AMP and AXA Asia Pacific are moving towards a quarterly withdrawal window for redemptions.

"What they're doing is changing the nature of the redemption structure, where it can be daily liquidity to being more along the lines of a term deposit structure," said Phillip Gray, a communications manager with funds tracker Morningstar.

The value of funds under management in the sector has shrunk sharply over the past year.

Perpetual's mortgage funds have lost 25 per cent of their investors, and funds under management have fallen to \$1.7 billion from \$2 billion a year ago. Colonial's funds under management have fallen to \$2.5 billion from \$3.3 billion.

The companies that froze funds maintain that no investors have incurred losses because the capital is intact, albeit unavailable.