

## CREDIT UNION BAYWIDE

### SECURITISATION PROGRAMME SUMMARY

#### ***Background***

As part of a merger between Credit Union Baywide, Credit Union South, Credit Union Central and Aotearoa Credit Union, on 1 May 2019, a Securitisation Programme established by Credit Union South was transferred from Credit Union South to Credit Union Baywide (trading as NZCU South, NZCU Central and Aotearoa Credit Union).

The Securitisation Programme was originally established by Credit Union South in February 2016, with the aim of introducing another form of funding to complement Member shares, increasing the resilience of the credit union and improving its ability to grow and build its reserves.

As a credit union, Credit Union Baywide is unable to raise funds from a bank directly without granting a prior charge. A prior charge ranks ahead of the security granted by Credit Union Baywide to its supervisor, Trustees Executors Limited (**Supervisor**) for the benefit of all Members' deposits. Prior charges are limited under the trust deed of Credit Union Baywide dated 22 August 2016 (**Trust Deed**).

The Securitisation Programme diversifies Credit Union Baywide's funding by enabling us to access committed funding of up to \$25 million from Westpac New Zealand Limited (**Westpac**) for certain eligible loans. It is anticipated that the amount of available funding could be increased as the need arises.

The way in which the Securitisation Programme operates is described in more detail below under the heading "Securitisation Programme".

#### ***Approvals and consents***

At the Special Meeting in March 2019, the Members of Credit Union Baywide (prior to the merger of the credit unions described above) approved changes to Credit Union Baywide's Rules which permit it to operate the Securitisation Programme.

The transfer of the Securitisation Programme from Credit Union South to Credit Union Baywide was approved by the Board of Credit Union Baywide and the Supervisor has consented to Credit Union Baywide operating the Securitisation Programme, subject to certain conditions as summarised below under the heading "Supervisor consent to the Securitisation Programme". The transfer of the Securitisation Programme to Credit Union Baywide also required Westpac's approval as the arranger of the Securitisation Programme.

#### ***Effect on Members***

The Securitisation Programme does not result in any change to the terms of the Members' shares or interest rate Credit Union Baywide pays Members for their funds.

Amounts owed to Members continue to be secured by a first ranking security granted by Credit Union Baywide over its assets and business to the Supervisor.

The amount of assets that secure the Member's shares will continue to be greater than the sum of all of our funds and other liabilities.

We must continue to comply with the financial covenants set out in our Trust Deed, the Non-Bank Deposit Takers Act 2013 and its associated regulations.

## **Securitisation Programme**

### Overview

The Securitisation Programme uses a special purpose trust, called the Credit Union Warehouse A Trust (**Trust**) that purchases loans from Credit Union Baywide. The Trust is separate to Credit Union Baywide, but is able to purchase loans from Credit Union Baywide by borrowing from Westpac and Credit Union Baywide. Currently, only qualifying loans that have been agreed under the NZCU South loan approval process can be purchased by the Securitisation Trust.

Westpac provides up to 80% of the required funding for the Trust and Credit Union Baywide provides the balance of the funding, generally at a minimum level of 20%, by way of a loan. Credit Union Baywide's loan is subordinated to Westpac's funding (meaning it gets repaid after Westpac's funding) (**subordinated debt**). These relative funding levels may be varied in some circumstances. For further details, see under the heading "Risks of the Securitisation Programme".

If there are losses in the pool of loans held by the Trust in excess of the available income of the Trust, the subordinated debt provided by Credit Union Baywide will be written off to the extent necessary to cover the losses. If the Credit Union Baywide subordinated debt is reduced to nil, then the senior debt provided by Westpac will be reduced to cover any further losses.

This means that in the event that some borrowers default in repayment of their loans held by the Trust, Credit Union Baywide's subordinated debt may not be repaid in full. The scale of any loss would determine the extent to which Credit Union Baywide may not be repaid.

Loans sold to the Trust meet certain specified eligibility criteria, which assists in minimising the risk of loan default.

### Contractual Documents

The Securitisation Programme was created by relevant parties entering into certain contractual arrangements. The contractual framework for the Securitisation Programme comprises twelve documents, all executed on or about 9<sup>th</sup> February 2016. The contractual documents were subsequently amended, on or about 1 May 2019, to replace Credit Union South with Credit Union Baywide in order to reflect the transfer of the Securitisation Programme described above.

A summary of the key terms of those contracts that are material are:

- a) Master Trust Deed; parties The New Zealand Guardian Trust Company Limited (**Guardian Trust**) and Credit Union Baywide; establishes a generic trust structure suited to the Securitisation Programme
- b) Master Security Trust Deed; parties Guardian Trust, NZGT Security Trustee Limited, Credit Union Baywide; establishes security arrangements in favour of the Secured Creditors of the Trust, including the debt facility provider, Westpac
- c) Supplemental Deed; parties Guardian Trust, Credit Union Baywide, Westpac; provides for the particular arrangements for this Securitisation Programme, including criteria for eligibility for loans that can be sold into the Programme, the order of allocation of income and principal proceeds received by the securitisation trust, the circumstances that would trigger a stop funding event or other events of default, and the consequences should any such event occur
- d) Master Receivables Acquisition Deed; parties Guardian Trust, Credit Union Baywide; defines the basis on which loan receivables are acquired from Credit Union Baywide by the securitisation Trust
- e) Master Servicing Deed; parties Guardian Trust, Credit Union Baywide; defines Credit Union Baywide's loan servicing obligations

- f) Warehouse Facility Agreement; parties Guardian Trust, Credit Union Baywide, Westpac, defines the basis for debt funding by Westpac
- g) Subordinated Facility Agreement; parties Guardian Trust, Credit Union Baywide; defines the basis for subordinated debt funding by Credit Union Baywide

#### Supervisor consent to the Securitisation Programme

The Supervisor provided its consent to the transfer of the Securitisation Programme to Credit Union Baywide on 23 April 2019. This was subject to the following key conditions:

- a) Credit Union Baywide will provide the Supervisor with a copy of Westpac's consent to the transfer of the Securitisation Programme to it from Credit Union South, including any conditions or revised terms.
- b) Credit Union Baywide will provide the Supervisor with a copy of NZGT's consent to the transfer of the Trust (or confirmation no consent is required) and to the change in the Trust's name (from the "Credit Union South Warehouse A Trust" to the "Credit Union Warehouse A Trust").
- a) That Credit Union Baywide must disclose of the Securitisation Programme in its PDS so that the risks are clear and understandable to investors. The disclosure is subject to Supervisor approval.
- b) That Credit Union Baywide obtains prior written consent from the Supervisor of any change to the Securitisation Programme other than the extension of the Securitisation Programme in the ordinary course of business, or where the change is not material or adverse and is in the best interests of Credit Union Baywide's members.
- c) Credit Union Baywide complies at all times with all obligations and restrictions under its Trust Deed.
- d) The minimum capital adequacy ratio of Credit Union Baywide must not be less than 8.5%.
- e) Credit Union Baywide must give prior written notice to the Supervisor of any transfer of loans to the Trust.
- f) Credit Union Baywide must immediately notify the Supervisor of any default or review event or other material event or circumstance arising in relation to the Programme.

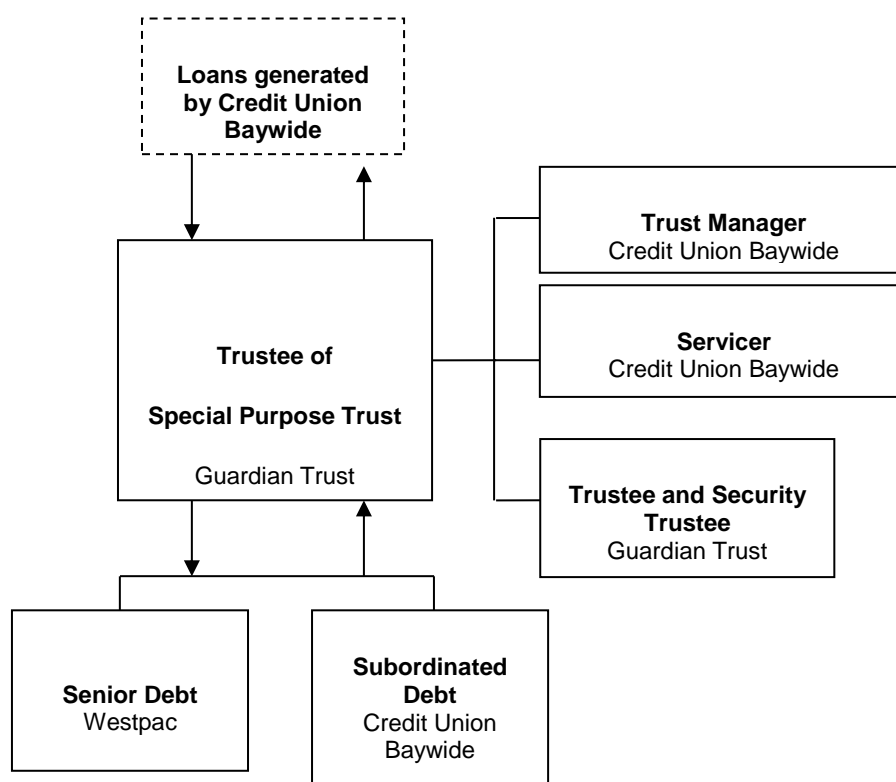
#### Summary description of how the Securitisation Programme works

The main elements of the Securitisation Programme, arising collectively from the suite of contractual documents noted above, are:

- (a) Credit Union Baywide sells loans that meet the eligibility criteria in the Supplemental Deed to the Trust, in accordance with the Master Receivables Acquisition Deed. Once the loans are sold to the Trust, they no longer form part of the assets over which Members' deposits are secured pursuant to the Trust Deed. In the course of the sale of the loans, the Supervisor must consent to the release of these assets from its security. A financing statement has been registered against Credit Union Baywide in favour of the trustee of the Trust in respect of all loans sold to Trust and the proceeds of those loans. The Trust is separate to Credit Union Baywide, but as Credit Union Baywide retains some control over the receivables sold and retains some exposure to their risks and rewards, the Trust is consolidated with Credit Union Baywide for accounting purposes.
- (b) To fund the purchase of loans, the Trust raises senior debt from Westpac in accordance with the Warehouse Facility Agreement and subordinated debt from Credit Union Baywide in accordance with the Subordinated Facility Agreement. The subordinated debt investment is part of Credit Union Baywide's property and forms part of the assets over which Members' deposits are secured pursuant to the Trust Deed.
- (c) The Trust pays Credit Union Baywide for the loans it purchases. Credit Union Baywide receives a net cash payment from the Trust equal to the value of senior debt raised from Westpac at the time of the sale and purchase of the loans. Credit Union Baywide holds subordinated debt for the balance of the principal value of those loans.

- (d) The proceeds of the sale of the loans are used by Credit Union Baywide for its usual business purposes, including making loans to Members and paying out maturing Member deposits.
- (e) The Trust repays the funding provided by Westpac and Credit Union Baywide over time using the principal payments it receives on the loans it buys, in accordance with the cash allocation sequence set out in the Supplemental Deed.
- (f) Credit Union Baywide acts as the Servicer for the Trust in accordance with the Master Servicing Deed with day-to-day responsibility for managing the loans according to the same policies and procedures applying to its own loans, and as the Trust Manager for the Trust.
- (g) The security trustee of the Trust is The New Zealand Guardian Trust Company Limited (**Guardian Trust**) in accordance with the Master Security Trust Deed.

The following diagram shows how the Securitisation Programme works:



### ***Risks of the Securitisation Programme***

The Directors consider that the Securitisation Programme has the following principal risks:

#### **Smaller pool of loans legally owned**

The Programme gives Credit Union Baywide access to additional funding up to an agreed proportion of eligible loans, to a maximum of \$25 million. This means that the total principal value of loans which Credit Union Baywide could sell to the Trust would be limited to the extent of Trust funding capacity and the extent of loans meeting the eligibility criteria.

The size of the Securitisation Programme is likely, subject to Westpac credit approval, scalable as the need arises. The amount of loans sold to, or held by, the Trust will be determined over time to achieve the optimal liquidity and cost of funding outcomes for Credit Union Baywide.

Following the sale of a loan to the Trust which meets specified eligibility criteria, including loan portfolio concentration parameters, there will be:

- (a) an increase in the cash holdings of Credit Union Baywide which it can commit to its business, including additional lending; and
- (b) a reduction in the size of the pool of "prime" loans legally owned by Credit Union Baywide.

The remaining pool of loans still legally owned by Credit Union Baywide would have fewer mortgage loans and less diversification of risk.

#### Prior ranking debt of the Trust

The majority of the Trust's funding is provided by Westpac. That funding is senior first ranking debt, and is repaid in priority to the subordinated debt provided by Credit Union Baywide. This debt structure helps the Trust to achieve economically viable pricing for Westpac's bank debt. Although Credit Union Baywide's loan to the Trust is subordinated to Westpac's loan, the high quality of the loans sold to the Trust, and the capacity for the cost of some initial loan losses to be met from available Trust income means that Credit Union Baywide considers that a material loss on that subordinated debt investment is unlikely.

#### Risk of additional funding for the Trust

Credit Union Baywide has no legal obligation to contribute additional funding to the Trust for loans already sold to the Trust beyond the amount of subordinated debt provided at the time the relevant loan is sold into the Trust. However, the subordinated debt arrangement is dynamic, as the amount of subordinated debt required could increase. While the subordinated debt requirement is initially set at 20% of the principal amount of loans in the Trust, this requirement would rise, according to an agreed formula, in the unlikely event of severe degradation of the credit performance of the loans held by the Trust. The "top up" mechanism triggers an option, which if not taken up would result in the Securitisation Programme continuing but becoming closed to new sales in of loans, until remedied.

There may be commercial pressure to provide additional funding to prevent a closure of the Securitisation Programme in this event. The provision of such funding could adversely affect the financial position of Credit Union Baywide and such decisions will only be made following careful consideration of Credit Union Baywide's own financial position.

#### Effect on Capital Ratio of Credit Union Baywide

Immediately following the sale of loans to the Trust, Credit Union Baywide's capital ratio will be slightly diluted as the funds received will increase the asset base, inclusive of the loans securitised, which will continue to be counted for capital adequacy purposes in accordance with applicable regulations. To the extent the funds received are applied to new lending, there would be a further reduction in the capital adequacy ratio as bank deposits with a low risk weighting are replaced with lending at higher risk weightings. This is expected to be offset over time with an increase in retained earnings increasing the capital base.