

APPENDIX B

RESIDENTIAL MORTGAGE OBLIGATIONS (RMO) ("RMO FRAMEWORK")

KEY TERMS AND CONDITIONS SUMMARY OF COMMENTS AND MARK-UPS RECEIVED

Please note:

This document includes specific mark-ups and comments received on the key terms and conditions reflecting the opinions of their submitting parties. The Reserve Bank has not made any decisions at this stage about individual comments or specific mark-ups made as being in line with its policy objectives. Until an update has been published the reference document remains the key terms and conditions as published by the Reserve Bank in November 2018.

AUGUST 2019

Outline

Chapter 1:	Parties to a transaction
Chapter 2:	Portfolio guidelines
Chapter 3:	Capital structure and classes of notes
Chapter 4:	Credit enhancements
Chapter 5:	Waterfalls
Chapter 6:	Repo-eligibility
Chapter 7:	Disclosure
Chapter 8:	Operations
Chapter 9:	Documentation
Chapter 10:	Terms and Conditions Effective Date
Appendix	Schematic diagram of waterfalls

#	ITEM	REVISED PROPOSAL	COMMENT
Chapter 1: Parties to a transaction			
1.	Seller	<p>The Seller of the mortgage loans securitised may be:</p> <ul style="list-style-type: none"> a) the Originator; or b) a warehouse entity. <p>The Seller is a New Zealand incorporated legal entity and operates its core functions out of New Zealand.</p>	
2.	Originator	<p>In the case where there is no warehouse entity, the Originator in respect of a series of notes is the legal entity that:</p> <ul style="list-style-type: none"> a) originated the mortgage loans in the pool; b) owns the mortgage loans at the time of sale to the Issuer; and c) will hold the Class C notes issued by the Issuer for the life of the transaction. <p>In the case where there is a warehouse entity acting as the Seller, the Originator in respect of a series of notes is the legal entity that:</p> <ul style="list-style-type: none"> a) originated the mortgage loans in the pool; b) owned the mortgage loans at the time of sale to the warehouse entity; c) holds the risk retention notes issued by the warehouse entity or the lowest ranked subordinated loans provided to the warehouse entity; and d) will hold the Class C notes issued by the Issuer for the life of the transaction. <p>The Originator is a New Zealand incorporated legal entity and operates its core functions out of New Zealand.</p> <p>If there is no entity that falls within these definitions (for example, if some of the mortgage loans in the pool were acquired from a third party), this will need to be discussed and agreed with the Reserve Bank at the relevant time.</p>	

3.	Servicer	<p>The Servicer of the securitised loans may be:</p> <ul style="list-style-type: none"> a) the Originator; or b) a qualified third party entity. <p>The Servicer will meet the servicer requirements as specified by the relevant rating agency to achieve a AAA rating for the most senior note class.</p>	
4.	Issuer	<p>The legal entity that issues a series of notes may be any of the following under New Zealand law:</p> <ul style="list-style-type: none"> a) a SPV trust (issuing a single series of notes); b) a SPV trust structure, which is able to establish multiple trusts from time to time (issuing each series of notes in a separate trust); or c) a non-bank non-deposit-taking funding entity ("other Funding Entity") established with the approval of the Reserve Bank to facilitate funding for multiple Sellers and/or Originators (issuing each series of notes in a separate trust). <p>Where the Issuer is a SPV trust, the trustee of that trust ("Trustee") will be a New Zealand registered corporate trustee company or a NZ SPV company established by a NZ registered corporate trustee company.</p> <p>Based on the transaction documents of the relevant series, the Issuer must deliver to the Reserve Bank a legal opinion confirming that its assets and liabilities would not be clawed back in the insolvency of the Originator(s). The Issuer shall be financially and organisationally disassociated from an Originator of the mortgage loans to an extent that allows it to control all of its functions and operations independently.</p> <p>In addition, the SPV trust may only carry on the business of acting as the "entity" that issues notes under the transaction (including any business incidental to that purpose) and does not carry on any other kind of business.</p>	<p><u>The preferred approach would be to make legislative changes similar to those made for covered bonds in the Reserve Bank of New Zealand Act 1989 and Companies Act 1993. This would give legal certainty as to the bankruptcy remoteness of the Issuer and enable a subsidiary of the Originator to be the Manager.</u></p> <p><u>Without this legal certainty, investors are</u></p>

likely to treat RMOs unfavourably compared to covered bonds and RMBS from other jurisdictions (such as Australia), given New Zealand's unique statutory management regime.

It is not clear whether the sentence "The Issuer shall be financially and organisationally ..." is intended to impose additional requirements on the operations of the Issuer. This should not be relevant so long as it is bankruptcy remote from the Originator and its business activities are limited. Both of

<p>5. Manager</p>	<p>The Issuer appoints a "Manager" charged with the Issuer's administration and operation. The Manager may be:</p> <ul style="list-style-type: none"> a) a subsidiary of the Originator or a sister company of the Originator; or b) a qualified third party manager. <p>The Manager chosen and any delegations by the Manager must not affect the Issuer's ability to deliver to the Reserve Bank a legal opinion (based on the transaction documents of the relevant series) confirming that its assets and liabilities would not be clawed back in the insolvency of the Originator(s).</p> <p>The Manager may delegate (including by power of attorney) operational tasks to the Originator or a subsidiary of the Originator. Such delegations are documented in a service level agreement.</p> <p>Provisions need to be in place to replace a Manager.</p>	<p><u>these concepts are covered by the remaining language in item 4. In addition, under the RBNZ Act, s 139B(d) only requires the SPV to not carry on any other kind of business. Adding this sentence adds uncertainty as its intention is not clear.</u></p> <p><u>Some current structures have the originator as the Trust Manager. We believe this should be left in the term sheet as an option to cater for situations where this can be done without compromising the ability to deliver a legal opinion around bankruptcy</u></p>
--------------------------	--	--

			<p><u>remoteness/insolvency or if statutory management legislation changes. Obviously if there was to be an issue with the bankruptcy remoteness/insolvency by having the Originator itself as Manager then the next paragraph acts to not allow this to occur and the other options come into play.</u></p>
6.	Security Trustee	<p>The Security Trustee will hold the security granted by the Issuer on trust for the secured creditors.</p> <p>The Security Trustee will be:</p> <ul style="list-style-type: none"> a) a New Zealand registered corporate trustee company; or b) a New Zealand SPV company established by a New Zealand registered corporate trustee company. <p>Where a Security Trustee faces a conflict of interest, it must give priority to the interest of the most senior outstanding note class.</p>	
7.	Arranger/ Manager/	<p>The Arranger/Manager/Dealer in a new series of notes may be:</p>	

	Dealer	<ul style="list-style-type: none"> a) the Originator <u>or an associate of the Originator</u>; b) the Seller; and/or c) an appropriately qualified third party entity. 	
8.	Swap Counterparty	<p>The Swap Counterparty may be:</p> <ul style="list-style-type: none"> a) the Originator <u>or an associate of the Originator</u>; and/or b) a qualified third party entity. <p>The Swap Counterparty will meet the long-term and short-term (if any) credit rating requirements specified by the relevant rating agency to achieve an AAA rating for the most senior note class.</p>	
9.	Account Bank	<p>The Account Bank provides the Issuer with all relevant bank accounts.</p> <p>The Account Bank may be the Originator, <u>an associate of the Originator</u> or a third party deposit taking entity independent from the Originator.</p> <p>The Account Bank will meet the long-term and short-term (if any) credit rating requirements specified by the relevant rating agency to achieve an AAA rating for the most senior note class.</p> <p>The Account Bank will meet all operational requirements as laid out in the transaction documents.</p>	
10.	Paying/Calculation Agent	<p>The Paying/Calculation Agent will distribute all relevant payments to the noteholders on behalf of the Issuer.</p> <p>The Paying/Calculation Agent may be:</p> <ul style="list-style-type: none"> a) a company (including the Originator); b) a corporate trustee; <u>and/or</u> c) a deposit taking institution. 	<p><u>We have inserted "and/or" here because if non-NZD denominated notes are also issued, there is likely to be more than one paying agent.</u></p>

		<p>The Paying/Calculation Agent will be a New Zealand registered company <u>or, where the notes are not denominated in NZD, an overseas entity that performs such roles.</u> It will cross-check the calculations performed by or on behalf of the Issuer in respect of any interest payments due on the notes.</p>	<p><u>Some banks are not incorporated as a company and would appreciate if this wording could accommodate different legal structures and not preclude certain legal incorporation types acting as paying/calculation agent.</u></p>
11.	Registrar	<p>The Registrar will maintain a register of the legal owners of the notes.</p> <p>The Registrar shall be a New Zealand registered company that customarily provides registrar services <u>or, where the notes are not denominated in NZD, an overseas entity that performs such roles.</u></p>	<p><u>This wording should not preclude an Originator from acting as Registrar where this does not create any issues from a rating agency point of view.</u></p>
12.	Central Depository	<p>NZ Clear<u>NZ Central Securities Depository (NZCSD)</u> (or any entity that replaces NZ Clear) acts as the central depository for all NZD-denominated notes issued and any such notes issued shall be:</p> <p>a) Lodged immediately on their issue date with the Central Depository, with the Central Depository's nominee company (<u>currently, being New Zealand Central Securities Depository Limited ("NZCSD")</u>) as the sole legal noteholder;</p>	

	<p>b) Held by the Central Depository in security accounts of the relevant participants; and</p> <p>c) Cleared through the Central Depository with regard to any changes in rights to, or transfer of, the securities held by the Central Depository.</p> <p>Any payment, lodgement, change or transfer shall be in accordance with the rules of the Central Depository. Issuers of NZD-denominated RMO senior notes shall <u>clear these notes through NZ Clear, use NZCSD as the sole their Depository and legal holder of notes, and their beneficial note-holders</u> remaining free to assign, pledge or transfer their <u>beneficial</u> interest or ownership in the notes as required, <u>in accordance with the rules of the Central Depository.</u></p>	
13. Reserve Bank	<p>The Reserve Bank provides a pre-approval for a RMO programme and an approval for any new series of notes to become repo-eligible upon issuance. Details of the Reserve Bank's approval process is set out at item 60.</p>	
14. Data Repository	<p>The Data Repository shall:</p> <p>a) provide all "interested parties" (as detailed at item 17) with safe means to collect and process loan level data, including being customisable to allow data users to use and analyse such data;</p> <p>b) allow:</p> <p style="padding-left: 40px;">(i.) prior to issue of a series of notes, the Seller; and</p> <p style="padding-left: 40px;">(ii.) after issue of a series of notes, the Servicer or Manager (on behalf of the Issuer),</p> <p style="padding-left: 40px;">control over the access to such data for interested parties; and</p> <p>c) supply loan level data at a granular level so as to allow independent analysis based on raw data, in particular performance and scenario analysis on mortgage loan and pool level.</p> <p>The Data Repository provider will be designated by the Reserve Bank, <u>following a tender process.</u></p>	<p><u>This should be subject to ongoing discussions at the LLD workshops. In particular, how this would operate from a privacy/data protection perspective and the system changes that would be required to be implemented.</u></p> <p><u>As discussed with the Reserve</u></p>

15. Residual Beneficiary	<p>The Residual Beneficiary receives any residual funds not distributed in a transaction and may be selected by the Originator. The Residual Beneficiary is a charitable trust or charity subject to applicable legislation.</p>	<p><u>Bank, the Term Sheet should be finalised contemporaneously with the LLD workstream as they dovetail together. Inconsistency between the Term Sheet and the LLD requirements would create uncertainty for all parties.</u></p>
16. Rating Agency	<p>The Rating Agency provides independent judgement on risks in a series of notes and will be selected by:</p> <ul style="list-style-type: none"> a) the Originator (in its role as a sponsor of the transaction); or b) if the Originator is unable to do so or if a perfection of title event has occurred, the Issuer. <p>The Class A notes and Class B notes will carry ratings from at least one major rating agency <u>(being Fitch, Moody's and S&P).</u></p>	
17. Interested Parties	<p>Interested parties include the transaction parties and any parties with a genuine commercial interest in:</p> <ul style="list-style-type: none"> a) purchasing notes from a new or existing transaction as part of their business purpose; or b) valuing or benchmarking existing or new transactions as part of their business purpose. 	<p><u>There are concerns around who may fall within the ambit of "interested parties", as</u></p>

The transaction documents of the relevant series may set out additional interested parties as part of the transaction.

currently contemplated.

In addition, while such parties may sign non-disclosure agreements, this would only help with the protection of the disclosed information and may not necessarily overcome privacy and data protection laws, as this will depend on the original terms and conditions between the bank and the obligor and the information that is required to be disclosed (which is not yet finalised). Given that the Reserve Bank's data requirement are more extensive

than those of most investors, it would be helpful if the extra information required by the Reserve Bank only needs to be provided to the Reserve Bank. This would also limit the information that could be at risk from the perspectives of confidentiality, privacy and data protection.

As discussed with the Reserve Bank, the Term Sheet should be finalised contemporaneously with the LLD workstream as they dovetail together. Inconsistency between the Term Sheet and the LLD

			<u>requirements would create uncertainty for all parties.</u>
Chapter 2: Portfolio Guidelines			
18.	Eligible Loans	<p>The series of notes is secured against a pool of residential mortgage loans, <u>each of which must be an "Eligible Loan" meet the following criteria as at the relevant sale/closing date. In order to be an Eligible Loan, a mortgage loan must be a:</u></p> <ul style="list-style-type: none"> a) mortgage loans s that has have been originated by a single originator; b) mortgage loans in New Zealand dollars with <u>a</u> variable rates or fixed rates; c) mortgage loans to NZ citizen(s) or to obligor(s) with a permanent resident, or resident visa <u>or other visa with the right to live in New Zealand (including student, visitor and work visas) status as at the origination date of the relevant mortgage loan;</u> d) mortgage loans where the land subject to the related mortgage has a residential dwelling erected on it: <ul style="list-style-type: none"> i. which is not under construction; or ii. which is in the final stage of completion (meaning that the construction work is completed and the obligor is awaiting a code of compliance certificate); or iii. which is undergoing renovations as permitted by the terms of the mortgage documents or the Servicer's servicing standards or policies; e) mortgage loans secured by a related mortgage that is: <ul style="list-style-type: none"> i. a first ranking mortgage over land in New Zealand; or ii. a second ranking mortgage <u>over land in New Zealand</u> where (A) the Seller is also the first ranking mortgagee and the first ranking mortgage is also being acquired by the Issuer or (B) the first ranking mortgage is already held by the Issuer; f) mortgage loans that is are fully repayable within 30 years of the closing date; g) mortgage loans that are is not in default; h) mortgage loans that is are fully drawn, or, where a residential dwelling is in the final stage of completion or undergoing renovations, are is drawn > 80%; i) mortgage loans where an obligor has made all scheduled interest payments due and payable over the last 90 days; 	<p><u>(c) - This information is only obtained at the time of origination and may change over time. Accordingly, this should only be required on origination. In addition, mortgage loans to holders of other visa types such as student, visitor and work visas should also be permitted, given these people have a right to live in New Zealand.</u></p> <p><u>Our preference would be that loan indexation is</u></p>

- j) mortgage loans ~~that carries~~ carry a loan level indexed LVR of not more than 80%;
- k) mortgage loans ~~with~~ with a current principal balance outstanding of not more than 2 million New Zealand dollars;
- l) mortgage loans ~~that complies~~ comply in all material respects with all applicable laws;
- m) mortgage loans ~~that is~~ are not a "low doc" or "no doc" loans (in each case, being loans where the Originator has not been provided with any documentary evidence of the obligor's ability to repay the mortgage loan); and
- n) mortgage loans ~~that is~~ are assignable without the consent of the related obligor.

not compulsory. We would recommend that this requirement is noted as "where available".

In relation to item (a), if the mortgage loans were originated by multiple originators, this will need to be discussed and agreed with the Reserve Bank at the relevant time.

"closing date" means the date on which the initial sale of mortgage loans takes place.

"indexed LVR" means the loan to value ratio, calculated by reference to the latest valuation held on file as adjusted in accordance with a particular house price index.

"sale date" means the date on which the relevant mortgage loans are sold into the pool, being: (a) the closing date; or (b) where an Issuer opts to replenish the pool, each date on which a mortgage loan is sold into the pool during the Replenishment Period.

19. **Portfolio limits**

At the closing date the following portfolio guidelines and ratios apply to the pool:

LIMIT TYPE	POOL LEVEL	LOAN LEVEL*
Nature of loans and obligors	NZ residential mortgages	NZ C itizen, NZ resident or NZ residents holder holder of a visa with the right to live in NZ
Pool and loan size	>= NZD 100 million	<= NZD 2.0 million
Obligor concentration (by principal balance outstanding)	Top 10 obligors: <= 5 % Top 50 obligors: <= 10 % Min. # of loans: 500	N/A
Loan level indexed LVR	Weighted average LVR: <= 60% LVR bucket 70-80%: <= 30%	LVR <= 80%

There does not need to be a portfolio limit in respect of investment or interest only loans, as these types of loans do not present a significant increase in credit risk. If limits in respect of these

<p>20. Loan warranties</p>		LVR bucket up to 60%: >= 50%		
	Investment or Interest-only loans	<= 25%	N/A	<p>loans are to be retained, then these should be separate buckets with a cap for each requirement that is higher than 25%.</p> <p>If investment or interest only loans portfolio limits are to be retained, these should be tested only as at the origination date of the relevant mortgage loan.</p> <p>(o) – We have tweaked item (o) to reflect discussions at the LLD workshops regarding off-set loans. Such mortgage loans can only be included in the pool where the seller tops-up any offset.</p>
	Legal maturity	N/A	<= 30 years	
	Loan seasoning (item 18(i))	N/A	>= 90 days	
	<p>*The "Loan Level" information in this item is subject to the detailed provisions of item 18.</p>			
<p>Repo-eligibility is dependent on the pool complying with these requirements at the closing date or and, where an Issuer opts to replenish the pool, on each replenishment date. Other than <u>on those dates</u> that the pool quality may deviate from these initial requirements.</p>				
<p>In summary, any mortgage loan included in a pool underlying a series of notes shall comply with the following warranties as at the <u>relevant sale</u>closing date:</p> <ul style="list-style-type: none"> a) the mortgage loan complies in all material respects with all applicable laws; b) the mortgage loan is enforceable in accordance with its terms against the relevant obligor; c) the mortgage loan satisfies the eligibility criteria; d) at the time the mortgage loan was entered into, the mortgage loan was originated in the ordinary course of the Originator's (or the original lender's (if applicable)) business; e) at the time the mortgage loan was approved, the Originator (or the original lender (if applicable)) had not received any notice of the insolvency or bankruptcy of the obligor or that the obligor did not have the legal capacity to enter into the mortgage loan; f) the Seller is the sole legal and beneficial owner of the mortgage loan and to its knowledge no prior ranking encumbrance exists in relation to its right, title and interests in the mortgage loan; 				

- g) to the best of its knowledge and belief, the Originator holds, or the Servicer or a custodian (if applicable) holds, in accordance with the servicing procedures, all documents (whether in paper or electronic form) necessary to enforce the provisions of, and the security created by, the mortgage loan and each related security (if any);
- h) other than in respect of priorities granted by statute, to the best of its knowledge and belief, it has not received notice from any person that claims to have an encumbrance ranking in priority to, or equal with, the related mortgage or other related security;
- i) except if the mortgage loan is subject to a fixed rate of interest at any time and except as may be provided by applicable laws or any binding provision, the interest payable on the mortgage loan is not subject to any limitation and no consent, additional memoranda or other writing is required from the obligor to give effect to a change in the interest rate payable on the mortgage loan and any change will be effective on notice being given to the obligor in accordance with the terms of the mortgage loan;
- j) the mortgage loan and related securities are assignable without the consent of the relevant~~related~~ obligor;
- k) upon the acceptance of the offer made by the Seller, beneficial ownership of the mortgage loan will vest in the Issuer free and clear of all encumbrances;
- l) the terms of the mortgage loan, and each related security, have not been impaired, waived, altered or modified in any respect, except by a written instrument forming part of the mortgage documents;
- m) the Seller holds all consents, licences, approvals, authorisations and exemptions from any governmental agency required as at the sale~~closing~~ date for, or in connection with, performance and enforceability in respect of the mortgage loan which, in accordance with the servicing standards, it should hold in relation to the mortgage loan as at the sale~~closing~~ date;
- n) the sale, transfer and assignment of the Seller's interest in the mortgage loan will not constitute a breach of its obligations or a default under any security interest binding on the Seller or its property; and
- o) the terms of the loan agreement relating to the mortgage loan require payments in respect of the mortgage loan to be made to the Originator free of set-off, unless prohibited by law or the mortgage loan is a permitted set-off loan.

The loan warranties are given when the relevant mortgage loans are sold into the pool (ie. on the relevant sale~~closing~~ date). If a loan warranty is found to have been breached at that time, subject to the following

	<p>sentence and any other regulatory requirements applicable to the Originator or its parent, the Seller will be required to repurchase the relevant mortgage loans.</p> <p>Where the Seller is a warehouse entity, the warranties and buy-back obligation will not sit with the Seller but with another appropriate entity as agreed with the Reserve Bank.</p> <p><u>"permitted set-off loan" means a mortgage loan which allows the relevant obligor to link the mortgage loan with certain accounts held by the Seller for the purpose of offsetting interest, where the Seller covenants to credit to the Issuer an amount equal to the unpaid interest.</u></p>	
<p>21. Product Switches, Further Advances, Redraws, Payment Holidays</p>	<p>In respect of any mortgage loans that are subject to a product switch, further advance, redraw or payment holiday, the Issuer may have the option to (1) require the Seller and/or the Originator to repurchase such mortgage loans <u>(subject to any other regulatory requirements applicable to the Originator or its parent)</u>, and/or (2) if required, to fund these through:</p> <ul style="list-style-type: none"> a) the principal waterfall; or b) a redraw facility provided by the Originator; and/or c) the issuance of additional redraw notes by the Issuer. <p>The Originator shall determine which of these options (1) or (2) (or a combination of the two) to include in a transaction. If such mortgage loans may remain in the pool, the information memorandum and the relevant transaction documents of the relevant series of notes must specify the maximum percentage of mortgage loans (calculated by reference to the initial principal balance of the pool) that could be subject to a product switch, further advance, redraw or payment holiday. <u>This maximum percentage may be 100%.</u></p>	<p><u>The requirement to specify a maximum percentage should be removed as cannot be known at the closing date.</u></p>
<p>22. Replenishment</p>	<p>The Issuer will have the option to replenish the pool:</p> <ul style="list-style-type: none"> a) within a two year period from the closing date ("Replenishment Period"); and b) by reinvesting principal collected from the mortgage loans into new mortgage loans from the same originator Originator. <u>Such principal collected may be retained by the Issuer for up to six months prior to being used to acquire mortgage loans.</u> <p><u>During the Replenishment Period, the Seller may also, subject to the following sentence and any other regulatory requirement applicable to the Originator or its parent, have the general ability to offer to</u></p>	<p><u>For monthly payment notes during the Replenishment Period, this would force mortgage loans to be sold in on a monthly basis.</u></p>

repurchase a mortgage loan (which the Issuer shall be under no obligation to accept). Where the Seller is a warehouse entity, the ability to offer will not sit with the Seller but with another appropriate entity as agreed with the Reserve Bank.

Following the Replenishment Period, the pool will be closed. The Issuer has to disclose the new mortgage loans as part of investor reports.

Any mortgage loan entering the pool as part of the replenishment process must, as at the date it is sold to the Issuer, meet the criteria as set out in item 18, and provide that immediately after a replenishment, the pool quality shall remain within the portfolio guidelines including a weighted average indexed LVR of 60%.

The loan representations and warranties in respect of that mortgage loan must also be given when the mortgage loan is sold to the Issuer. Replenished mortgage loans that fail to comply with the loan warranties must, subject to the following sentence and any other regulatory requirements applicable to the Originator or its parent, be purchased back by the Seller. Where the Seller is a warehouse entity, the warranties and buy-back obligation will not sit with the Seller but with another appropriate entity as agreed with the Reserve Bank.

This will create additional complexities for the Originator/Service er. More flexibility may be needed to manage the pool appropriately – for example, it is more common to replenish on a quarterly basis. This also assists with processes with the rating agencies. The Banks therefore suggest principal can be trapped in the trust for up to six months to fund replenishments.

In addition, during the Replenishment Period there should be a general ability for the Seller to offer

			<p><u>to repurchase a mortgage loan (which the Issuer shall be under no obligation to accept). This allows the pool to be managed as necessary, by the Seller repurchasing mortgage loans.</u></p>
<p>23.</p>	<p>Perfection of legal title</p>	<p>On the relevant sale<u>closing date</u>, the mortgage loans will be transferred by statutory assignment to the Issuer from the Seller. However, if:</p> <ul style="list-style-type: none"> a) the Originator is the Servicer and there is a servicer default event; b) an insolvency event occurs in respect of the Originator; or c) the Issuer is required to do so by law or court order, <p>the Originator must perfect the Issuer's title to the mortgage loans and related security.</p> <p>In any case, <u>at the closing date</u> the Issuer will hold an irrevocable power of attorney to perfect the legal title to the mortgage loans and related security at the closing date<u>on the occurrence of any of (a), (b) or (c) above</u> for any mortgage loans that are sold as part of a new series being issued (including those sold during the Replenishment Period).</p>	
<p>Chapter 3: Capital structure and classes of notes</p>			
<p>24.</p>	<p>General Requirements</p>	<p>A series of notes may be considered as RMO<u>high-grade RMBS</u> subject to:</p> <ul style="list-style-type: none"> a) a minimum subordination level for senior note classes through subordinated note classes; b) the Originator holding the minimum risk retention set out in this term sheet; c) all senior note classes obtaining an <u>AAA</u> rating by the relevant rating agency; and 	

		<p>d) all senior note classes being confirmed as repo-eligible by the Reserve Bank.</p> <p>Transactions may vary with regard to the individual capital structure and note classes offered as part of a transaction.</p> <p>Each note class will be denoted by its own ISIN (<u>International Securities Identification Number</u>).</p> <p>"Senior note classes" refer to the Class A notes, or Class A1 and A2 notes and "subordinated note classes" refer to all other classes of notes.</p>	
25.	Class A notes	<p>Class A notes shall comprise of either of the following two structures:</p> <ul style="list-style-type: none"> a) one senior tranche ("Class A"); or b) two senior tranches ("Class A1" and "Class A2"), such that the waterfalls provide for the Class A1 notes to be paid senior to the Class A2 notes but that any charge-offs and carryover charge-offs are incurred on a pari passu basis. <p>The total Invested Amount (being, the then current principal amount outstanding) of:</p> <ul style="list-style-type: none"> a) Class A notes, or b) Class A1 and A2 notes <p>shall not exceed 90% and Class A1 notes shall not exceed an initial Invested Amount of 75% of the aggregate Invested Amount of the series of notes on the issue date.</p>	
26.	Class B notes	<p>Class B notes may be issued optionally and comprise one or more note classes that are senior to Class C notes.</p> <p>The Invested Amount of Class B notes shall not be subject to the minimum subordination and minimum risk retention requirements set out at items 28 and 29. less than 2% of the aggregate Invested Amount of the series of notes on the issue date.</p>	<u>See comment at item 29.</u>
27.	Class C notes	<p>Class C notes must comprise of a single note class, may only be issued for purchase by the Originator of the loans and be the lowest ranking note class in a series of notes.</p>	

		The Invested Amount of Class C notes shall not be less than 8% of the aggregate Invested Amount of the series of notes on the issue date.	
28.	Minimum Subordination	<p>The minimum subordination required for senior note classes is defined as the greater of:</p> <ul style="list-style-type: none"> a) 10% of the aggregate Invested Amount of the series of notes on the issue date; and b) the level of subordination required to mitigate credit losses and write-offs subject to <u>achieve a AAA rating requirements as set out</u> by the relevant rating agency. <p>During periods of financial instability or during a prolonged economic downturn, the Reserve Bank may require greater levels of subordination to achieve repo-eligibility for new transactions. The Reserve Bank will give registered banks prior written notice if it proposes to exercise this right. Where the Reserve Bank exercises this right, it will agree the required level of subordination with the Originator.</p>	<p><u>(b) – The requirement should be just obtaining the AAA rating. The rating agencies already analyse the pool, including the risk of write offs, when rating the notes.</u></p>
29.	Minimum risk retention	<p>The Originator will hold a minimum risk retention in each series of notes issued subject to:</p> <ul style="list-style-type: none"> a) where an issuer <u>chooses</u> to issue only one subordinated tranche, the Invested Amount of Class C notes being not less than 10% of the aggregate Invested Amount of the series of notes on the issue date; or b) <u>where the issuer chooses to issue more than one subordinated tranche, the Invested Amount of Class C notes being not less than 8% points of the aggregate Invested Amount of the series of notes on the issue date; and the <u>aggregate Invested Amount of the Class B notes and Class C notes being not less than 10% of the Invested Amount of the series of notes on the issue date adding at least 2% points to the subordination total on the issue date.</u></u> <p><u>In each case:</u></p> <ul style="list-style-type: none"> b)<u>c)</u> the risk retention being the Class C notes only; <u>and</u> e)<u>d)</u> the Originator being the beneficial owner of the Class C notes throughout the entire life of a transaction. 	<p><u>(b) – We have updated this to reflect that the intention is to require an overall 10% subordination level in each case, rather than a mandatory 2% mezzanine tranche.</u></p>

		The minimum risk retention will require a seller of the loans <u>the Originator</u> to be exposed to the first losses from a mortgage loan portfolio <u>the pool</u> . Obtaining insurance from a third party for <u>mortgage</u> loans that are part of the securitised mortgage pool will not qualify as being in compliance with the minimum risk retention criteria.	
30.	Calculation Dates, Collection Periods, Payment Dates, Closing Dates, Cut-off Date	<p>Calculation dates, collection periods, payment dates and swap payment dates must be consistent with the notes' offered principal and interest payments schedule.</p> <p>The closing dates and cut-off date for a series of notes must:</p> <ul style="list-style-type: none"> a) be consistently defined for the series; and b) comply with the master document general definitions. 	
31.	Payment dates and interest rate	Interest payments on a series of notes will be on a floating or fixed rate basis, with monthly or quarterly payment dates.	
32.	Step-up margin	<p>Any series of notes that are issued with a date based call option to terminate the transaction is required to specify a step-up margin in the case the option is not exercised.</p> <p>The step-up margin compensates a noteholder for the extension risk based on the longer expected life.</p> <p>The differentiation in step-up margins refers to the difference in change of expected life in each note class.</p>	
33.	Payment of interest	<p>Notes will pay interest in arrear based on the following conventions:</p> <ul style="list-style-type: none"> a) interest payments are based on a note's Invested Amount at the start of the interest period; and b) unpaid interest remains outstanding, will itself bear interest and, subject to the waterfalls, is payable on subsequent payment dates. 	

34.	Payment of principal	<p>The "Stated Amount" of a note is the difference between the Invested Amount of a note and the amount that has been charged-off against that note and which has not yet been reimbursed.</p> <p>Notes will pay principal based on the following conventions:</p> <ul style="list-style-type: none"> a) principal collected from the pool is passed-through on each payment date in accordance with the principal waterfall; b) principal payments are made in a strictly sequential manner unless pro-rata conditions are fulfilled; and c) the most senior class of notes outstanding receives all available principal unless pro-rata conditions are fulfilled. 	
35.	Pro-rata trigger	<p>Subject to any stricter requirements imposed by the relevant rating agency, principal payments may change from sequential to pro-rata subject to:</p> <ul style="list-style-type: none"> a) <u>the pro-rata trigger will only apply after some period (eg 2 years) from the closing date and before the relevant call option dates; and</u> b) <u>some percentage of the senior notes to have amortised (measured by way of the amount of subordination sitting below the senior notes); and</u> a) there being no carryover charge-offs in respect of any class of notes. b) an interval of 5 years having passed since the issue date; and c) there being no charge-offs or carryover charge-offs in respect of any class of notes. 	<p><u>We question the purpose of (a) as, if that criteria was met, the Issuer could simply exercise the clean-up call. We have proposed a more usual set of criteria, subject to the rating agency's requirements.</u></p>
36.	Call options	<p>Notes may include the right to exercise a clean-up or date-based call option subject to:</p> <ul style="list-style-type: none"> a) the outstanding principal balance of the pool being less than or equal to 10% of the initial principal balance of the pool at the closing date ("clean-up call option"); or b) an interval of 5 years has passed since the issue date ("date-based call option"), <p>in each case, subject to:</p>	

		<p>c) the Issuer receiving the fair market value of the mortgage loans as of the call date; d) the Manager confirming that the proceeds from selling mortgage loans will be sufficient to redeem all <u>or the specified class(es) of notes in full; and</u> e) <u>all other secured creditors ranking in priority to₁ or equally with₁ the notes being paid in full on the relevant date; and-</u> e)f) <u>any other regulatory requirements applicable to the Originator or its parent.</u></p> <p>These call rights can be exercised on any payment date on or after the relevant conditions are met.</p>	
37.	Early redemption events	<p>A series of notes may include early redemption events relating to:</p> <p>a) changes in tax law that affect the tax treatment of the notes; or b) regulatory reasons, that would influence the senior note classes' status qualifying for re-eligibility,</p> <p>in each case, subject to:</p> <p>c) the Issuer receiving the fair market value of the mortgage loans; d) the Manager confirming that the proceeds from selling mortgage loans will be sufficient to redeem all <u>or the specified class(es) of notes in full; and</u> e) <u>all other secured creditors ranking in priority to₁ or equally with₁ the notes being paid in full on the relevant date; and-</u> e)f) <u>any other regulatory requirements applicable to the Originator or its parent.</u></p> <p>These early redemption rights can be exercised on any payment date on or after the relevant condition is met.</p>	
38.	Charge-off	<p>Notes may only be written down subject to realised losses in a payment period based on the following principles:</p> <p>a) losses being recorded against the most junior note class first; b) remaining losses being recorded against each next most junior note class thereafter; and c) losses being accounted against the most senior note class last (for A1/A2 structures, on a pari passu basis).</p>	

		<p>Any write down is subject to moneys being available under the interest waterfall on that payment date to satisfy the losses. If there are sufficient amounts available under the interest waterfall to off-set the relevant losses, there will be no charge-off.</p>	
39.	Principal Deficiency Ledger	<p>A Principal Deficiency Ledger will record charge-offs and reimbursements (as set out in items 38 and 40), by recording:</p> <ul style="list-style-type: none"> a) all losses on the pool as write-downs against the Stated Amount of the notes; and b) notional reimbursements of the write-downs in accordance with cash allocated under the interest waterfall by way of reimbursement of charge-offs and carryover charge-offs. 	
40.	Reinstatement	<p>A class of notes may be written up subject to the cash flows from recoveries being treated as income receipts in that same period and applied in accordance with the income waterfall. The income is then applied to reimburse charge-offs and carryover charge-offs.</p> <p>Where this occurs, the Principal Deficiency Ledger is updated by reimbursing:</p> <ul style="list-style-type: none"> a) the most senior note class first (in the case of an A1/A2 structure, on a pari passu basis); b) followed by the next most senior class; and c) the most junior class of notes last. 	
41.	Hedging	<p>The Issuer shall enter into relevant hedges to mitigate basis, interest-rate, currency and timing risks, subject to:</p> <ul style="list-style-type: none"> a) swap agreements being documented under ISDA documentation; b) swap positions being consistent with payment dates; c) rating agency requirements for a swap counterparty's minimum short-term and long-term ratings being fulfilled; and d) any measures taken to that effect being disclosed at least quarterly <u>confirmation of the swap agreements that are then in place in respect of the series.</u> 	

42.	Denomination and selling restrictions	<p>Note allotments shall be:</p> <ul style="list-style-type: none"> a) made to domestic and offshore wholesale investors only; and b) denominated according to wholesale market conventions. <p>Legal documentation for the offer should include appropriate wholesale selling restrictions.</p>	
43.	Currency	<p>Notes may be issued in domestic (NZD) or foreign (FX) currency subject to:</p> <ul style="list-style-type: none"> a) Class A notes being issued in New Zealand dollars or FX subject to appropriate hedging; b) Class B notes being issued in New Zealand dollars or FX subject to appropriate hedging; and c) Class C notes being issued in New Zealand dollars. 	
44.	Placement of notes	<p>Notes may be placed subject to:</p> <ul style="list-style-type: none"> a) the Issuer providing potential wholesale investors with an information memorandum; b) the Arranger facilitating an orderly book building or auction process where the notes are sold on arm's length terms; and c) compliance with any relevant selling restrictions. 	
45.	Market Information	<p>Upon issuance of the notes, market information systems (e.g. Bloomberg) are provided with:</p> <ul style="list-style-type: none"> a) ISIN (International Securities Identification Number) b) Notional issued c) Pool factor, being the amount of the outstanding Invested Amount of the notes compared to the initial Invested Amount d) Bond specification e) Issue price 	
Chapter 4: Credit enhancements			
46.	Principal Draw	<p>An Issuer must make a Principal Draw:</p>	

47. **Liquidity Reserve/
Liquidity Facility**

- a) if available interest in the current period would not cover senior expenses from the transaction; and/or
- b) if available interest in the current period would not cover interest payments to Class A notes or, if specified in the transaction documents of the relevant series, some or all of Class B notes.

Any previous Principal Draws will be reimbursed from interest becoming available in future periods in accordance with the interest waterfall.

A liquidity reserve in the amount of 1% (or any higher amount as required by the rating agency) of the aggregate Invested Amount of the series of notes on the issue date will be held in support of a series of notes during the Replenishment Period (if any)~~for an initial period of 2 years since the issue date~~, and will be established or maintained through:

- a) over-issuing an amount of notes; and/or
- b) collecting excess spread.

Following the Replenishment Period (if any) or, if there is no Replenishment Period, the issue date, ~~initial period~~ the required amount of the liquidity reserve will reduce to 1% (or any higher amount as required by the rating agency) of the aggregate Invested Amount of the series of notes on each payment date.

The liquidity reserve will be invested in Authorised Investments.

The liquidity reserve will be released in full upon redemption of all of the notes senior to the Class C notes.

As an alternative to the liquidity reserve, a Liquidity Facility may be used instead, where:

- a) the Liquidity Facility provider may be the Originator or another third party that meets the long term credit rating as specified in the transaction documents for the relevant series, which will reflect the relevant rating agency's rating criteria to achieve a "AAA" rating for the senior notes; and
- b) if the Liquidity Facility provider's rating falls below the threshold set by the relevant rating agency, the fully committed (but undrawn) amount must be collateralised in a bank account of the Issuer with the Account Bank.

The Liquidity Reserve should amortise as the notes amortise after the end of the Replenishment Period (if any). There does not seem to be any reason to continue to maintain a fixed size of Liquidity Reserve when the Invested Amount of the notes is decreasing, and this would give rise to negative carry in the structure and is essentially an additional layer

	<p><u>If a Liquidity Facility is used, it would amortise in the same manner as contemplated for the liquidity reserve.</u></p>	<p><u>of credit enhancement.</u></p>
48. Liquidity Draw	<p>If there are insufficient funds following a Principal Draw, a draw on the liquidity reserve <u>or Liquidity Facility (as applicable)</u> ("Liquidity Draw") must be made:</p> <ul style="list-style-type: none"> a) if available interest and the Principal Draw in the current period would not cover senior expenses from the transaction; and/or b) if available interest and the Principal Draw in the current period would not cover interest payments to Class A notes or, if specified in the transaction documents of the relevant series, some or all of Class B notes. <p>Any previous Liquidity Draws will be reimbursed from interest available in future periods in accordance with the interest waterfall.</p>	<p><u>As an alternative to the Liquidity Reserve, a Liquidity Facility should be able to be used instead, given the liquidity requirements that banks must already comply with.</u></p>
49. Capital reserve	<p>The Issuer may optionally provide for a capital reserve (in the amount of 1% of the aggregate Invested Amount of the series of notes on the issue date), in addition to the other credit enhancements or risk retention provided, through collecting excess interest or excess principal after any payments to Class A notes and Class B notes and before any payments to Class C notes.</p> <p>The capital reserve may be invested in Authorised Investments.</p>	

50.	Capital reserve Reserve drawDraw	<p>If the Issuer maintains a capital reserve, the Issuer may consider a draw on the capital reserve ("Capital Reserve Draw") if available interest, the Principal Draw and the Liquidity Draw in the current period do not cover:</p> <ul style="list-style-type: none"> a) senior expenses from the transaction; b) interest payments to Class A notes or, if specified in the transaction documents of the relevant series, some or all of Class B notes. <p>If the Issuer maintains a capital reserve, a Capital Reserve Draw is reimbursed from excess interest or excess principal available before payments to Class C notes.</p>	
51.	Authorised Investments	<p>Available balances held in the Issuer's bank account will be invested in the following:</p> <ul style="list-style-type: none"> a) interest bearing deposit with the Account Bank; b) NZD sovereign and quasi-sovereign bonds (e.g. Kauri/LGFA), Reserve Bank Bills or an Exchange Settlement Account System (ESAS) deposit held <u>by the Account Bank</u> with the Reserve Bank; or c) during the Replenishment Period, eligible mortgage loans. <p>Investments of available balances in Authorised Investments under (c) will be limited in each period to the total principal collected on the mortgage loans in the pool in the same period.</p>	
Chapter 5: Waterfalls			
52.	General requirements	<p>Waterfalls shall be conditional on:</p> <ul style="list-style-type: none"> a) A pass-through of all principal collections in the period received and not re-invested in mortgage loans; b) A pass-through of all interest collections in the period received after servicing senior expenses; c) A strictly sequential cash-flow waterfall structure, unless pro-rata trigger conditions are met. <p>No further options shall be included as part of the waterfall structure.</p>	

<p>53. Income Collection</p>	<p>In summary, income distributed under the income waterfall includes the following amounts received by the Issuer:</p> <ul style="list-style-type: none"> a) Scheduled mortgage loan interest payments (including delayed interest); b) Net receivable swap amounts; c) Principal Draws; d) Liquidity Draws; e) (if relevant) Capital Reserve Draws; f) Interest and principal recoveries, subject to any all moneys mortgage trust; g) Any payment in the nature of interest from the Seller <u>or Servicer</u> for a breach of loan-warranty or any other claim under the mortgage sale agreement <u>or servicing agreement (as applicable)</u>; h) Any interest arising from deposits in bank accounts or Authorised Investments; and i) Any other income of the Issuer that is not distributed under the principal waterfall. <p>An "all moneys mortgage trust" is a trust established under the transaction documents of the relevant series, in respect of an all moneys mortgage, on the date an all moneys mortgage is sold by the Seller to the Issuer.</p> <p>Where the Seller is a warehouse entity, (g) will need to be discussed and agreed with the Reserve Bank at the relevant time.</p>	
<p>54. Income Distribution (Pre-enforcement interest waterfall)</p>	<p>In summary, any income is distributed in accordance with the following order of payments (subject to appropriate adjustments to reflect other elements of this term sheet, such as the issuance of non-NZD denominated notes and related swap payments, a build-up of the liquidity reserve and/or a capital reserve, and Capital Reserve Draws, <u>the use of a Liquidity Facility and/or a redraw facility and/or the issue of redraw notes</u>):</p> <ul style="list-style-type: none"> a) Any interest adjustments for acquired mortgage loans; b) Taxes. c) Payments to Trustee, Manager, Security Trustee, Registrar, Paying/Calculation Agent, and Servicer, and other expenses of the Issuer if incurred in accordance with the transaction documents of the relevant series; d) Swap payments and breakage costs, unless they arise by reason of the swap counterparty's fault or are not recovered from obligors; 	

		<ul style="list-style-type: none"> e) Current and unpaid coupon-interest payments to Class A notes; f) Current and unpaid coupon-interest payments to Class B notes; g) Replenishment of any Principal Draws; h) Replenishment of any Liquidity Draws; i) Reimburse any charge-offs and any carry over charge-offs to the Class A notes first (as contemplated by item 40), then the next most senior class (other than the Class C notes) on a sequential basis; j) Swap breakage costs if they arise by reason of the swap counterparty's fault or are not recovered from obligors; k) Reimburse any charge-offs and any carry over charge-offs to the Class C notes; l) Current and unpaid coupon-interest payments to the Class C notes; <u>l) Swap breakage costs that arise by reason of the swap counterparty's fault or are not recovered from obligors;</u> m) Subordinated servicing fee to the Servicer or deferred consideration to the Originator; and n) Residual Beneficiary. 	
55.	Principal Collection	<p>In summary, principal to be distributed under the principal waterfall includes the following amounts received of the Issuer:</p> <ul style="list-style-type: none"> a) Scheduled principal payments; b) Any non-interest items on the mortgage loans; c) Capitalised fees; d) Principal prepayments; e) Principal Draw replenishment; f) Charge-off reimbursements; g) Any payment in the nature of principal from the Seller <u>or Servicer</u> for a breach of loan-warranty or any other claim under the mortgage sale agreement <u>or servicing agreement (as applicable)</u>; h) Any principal arising from Authorised Investments; i) Any excess amounts released from the liquidity reserve, <p>less any amount used to acquire mortgage loans during that current period.</p> <p>Where the Seller is a warehouse entity, (g) will be discussed and agreed with the Reserve Bank at the relevant time.</p>	

<p>56. Principal Allocation (pre-enforcement principal waterfall)</p>	<p>In summary, any principal is distributed according to the following order of payments (subject to appropriate adjustments to reflect other elements of this term sheet such as the issuance of non-NZD denominated notes and related swap payments, building up and reimbursing a capital reserve <u>and/or the issue of redraw notes</u>):</p> <ul style="list-style-type: none"> a) For issues which include a Replenishment Period, during the Replenishment Period, to the Seller to pay the purchase price of any mortgage loans acquired on that payment date <u>or retained by the Issuer in allowance for any mortgage loans to be acquired before the next date on which mortgage loans are to be acquired</u>; b) Principal Draw (if required); c) Principal payments to Class A notes; d) Principal payments to Class B notes; e) Principal payments to Class C notes; and f) Residual Beneficiary. <p>This order of priority is subject to the pro-rata trigger conditions being met, in which case payments of principal on the Class A notes and the Class B notes will be made on a pari passu basis.</p>	<p><u>See comment at item 22.</u></p>
<p>57. Post-enforcement proceeds</p>	<p>Post-enforcement, all proceeds of enforcement will be distributed through a post-enforcement waterfall.</p>	
<p>58. Proceeds Distribution (Post-enforcement proceeds waterfall)</p>	<p>In summary, any post-enforcement proceeds collected will be distributed according to the following order of payments (subject to appropriate adjustments to reflect other elements of this term sheet such as the issuance of non-NZD denominated notes, and related swap payments, <u>the use of a Liquidity Facility and/or a redraw facility and/or the issue of redraw notes</u>):</p> <ul style="list-style-type: none"> a) Taxes, fees and expenses of the Security Trustee and the receiver; b) Payments to Trustee, Manager, Registrar, Paying/Calculation Agent and Servicer, and other expenses of the Issuer if incurred in accordance with the transaction documents of the relevant series; c) Swap payments and breakage costs, unless they arise by reason of the swap counterparty's fault or are not recovered from obligors; d) Current and unpaid interest payments to Class A notes; 	

- e) Principal payments to Class A notes;
- f) Current and unpaid interest payments to Class B notes;
- g) Principal payments to Class B notes;
- h) Swap breakage costs that arise by reason of a swap counterparty's fault or are not recovered from obligors;
- i) Payments to any other secured creditor to the extent not already paid under this order of distribution;
- j) Current and unpaid interest payments and principal payments to the Class C notes;
- k) Deferred consideration to the Originator or subordinated servicing fee to the Servicer; and
- l) Residual Beneficiary.

Chapter 6: Repo-eligibility

59. Utilisations

Senior note classes may be used for any of the following at any one point in time:

- a) as security underlying a repurchase and reverse repurchase transaction; or
- b) as security being pledged as collateral for margining purposes as part of market operations; or
- c) as primary liquidity asset in fulfilment of regulatory liquidity requirements.

A noteholder may utilise a senior note for regulatory liquidity, repo or margining purposes, subject to:

- a) in the case of NZD-denominated notes, the relevant notes being lodged and settled in the Central Depository;
- b) the relevant notes being valued, priced and confirmed as of the effective trade date by the Reserve Bank prior to being used for repo or margining purposes;
- c) the notes being confirmed by the noteholder as being free of any third party interests in respect of them.

60. Approval

Approval of RMO programme

An Issuer or Originator shall request approval from the Reserve Bank for setting up a RMO programme prior to marketing ~~the new programme~~ a series of notes under the RMO programme to potential investors. Reserve Bank approval of the RMO programme is only required on establishment of the RMO programme.

It would be useful to understand the availability of Reserve Bank's resources and indicative

The Reserve Bank endeavours to provide an approval in a [reasonable period of time] after it has been provided with all necessary master transaction documents (including a "bankruptcy remoteness" legal opinion) for the proposed RMO programme.

The approval of the RMO programme shall be documented on the Reserve Bank website. The approval may be referred to when marketing the notes.

Approval of each issuance

Prior to issuance of each new series of notes, the Issuer or Originator shall notify the Reserve Bank that a new issuance is proposed.

Immediately prior to the issue date, the Issuer or Originator shall request approval for the new series and provide the Reserve Bank with:

- (a) the term sheet for the new series of notes;
- (b) a confirmation that the transaction documents comply (or will comply on issuance) with this term sheet and the Master Documents; and
- (c) the loan level data for the pool underlying the new series of notes.

~~The Reserve Bank reserves the right to review the final documentation provided after the issue date. If a transaction is found to be materially non-compliant, the Reserve Bank will inform the Issuer and Originator. If the non-compliance cannot be remedied through amendments in the transaction documents for the series, the Reserve Bank, depending on the materiality of the breach, may remove the notes from the list of repo-eligible securities.~~

Upon issuance, the approval of the new series of notes ~~RMO programme~~ for repo-eligibility shall be notified on the Reserve Bank website as at the issue date. Repo-eligibility may be referred to when marketing the notes, provided it is accompanied by a disclaimer that the Reserve Bank does not assume any duty to investors and that approval for repo-eligibility should not be construed as legal, investment or other advice.

timeframes for the Reserve Bank's approval of an RMO programme, given the fixed transition period. For example, the Reserve Bank had 60 working days to consider an application for registration of a covered bond programme, with additional timeframes for consideration of further information if required.

(b) - Certain requirements (for example, the ratings of notes) would only be satisfied on issuance;

The approval of the RMO programme

61. Repo-Limits and Haircuts	<p>The Reserve Bank reserves the right to review the final documentation provided for a new series of notes after the issue date. <u>If a transaction is found to be materially non-compliant, the Reserve Bank will inform the Issuer and Originator. If the non-compliance cannot be remedied through amendments in the transaction documents for the series, the Reserve Bank, depending on the materiality of the breach, may remove the notes from the list of repo-eligible securities.</u></p> <p>The minimum haircuts applied by the Reserve Bank to a class of notes will be based on the relevant weighted average life of the notes:</p> <table border="1" data-bbox="450 512 1771 826"> <thead> <tr> <th rowspan="3">NOTE CLASSES</th> <th rowspan="3">LIMIT PER ISIN AND SERIES ISSUED</th> <th colspan="3">MIN HAIRCUT AT REPO</th> </tr> <tr> <th colspan="3">Weighted Average Life</th> </tr> <tr> <th><= 1y</th> <th>>_1 y</th> <th>> 5y</th> </tr> </thead> <tbody> <tr> <td>Class A1</td> <td>Up to 100% issued amount per ISIN</td> <td>3%</td> <td>4%</td> <td>5%</td> </tr> <tr> <td>Class A and Class A2</td> <td>Up to 100% issued amount per ISIN</td> <td>6%</td> <td>7%</td> <td>8%</td> </tr> <tr> <td>Class B</td> <td>Not eligible</td> <td colspan="3">N/A</td> </tr> <tr> <td>Class C</td> <td>Not eligible</td> <td colspan="3">N/A</td> </tr> </tbody> </table> <p>The Reserve Bank reserves the right to deviate from the above limits and haircuts as required.</p>	NOTE CLASSES	LIMIT PER ISIN AND SERIES ISSUED	MIN HAIRCUT AT REPO			Weighted Average Life			<= 1y	>_1 y	> 5y	Class A1	Up to 100% issued amount per ISIN	3%	4%	5%	Class A and Class A2	Up to 100% issued amount per ISIN	6%	7%	8%	Class B	Not eligible	N/A			Class C	Not eligible	N/A			<p><u>would already be on the RBNZ website, see above.</u></p>
NOTE CLASSES	LIMIT PER ISIN AND SERIES ISSUED			MIN HAIRCUT AT REPO																													
				Weighted Average Life																													
		<= 1y	>_1 y	> 5y																													
Class A1	Up to 100% issued amount per ISIN	3%	4%	5%																													
Class A and Class A2	Up to 100% issued amount per ISIN	6%	7%	8%																													
Class B	Not eligible	N/A																															
Class C	Not eligible	N/A																															
Chapter 7: Disclosure																																	
62. Information requirements	<p>The Servicer or Manager (on behalf of the Issuer) provides initial and ongoing information, including:</p> <ol style="list-style-type: none"> supplying loan level data ("LLD") based on a standardised "LLD RMBS template" prior to issuance and thereafter for the lifetime of the transaction on at least a quarterly basis; enabling access to LLD to interested parties on request through electronic means or through a service provider, allowing interested parties to perform independent analytical exercises; providing the Reserve Bank with a final pool-cut as of the closing date and a monthly pool cut to process valuations, surveillance and regulatory reporting; and providing all interested parties with at least quarterly investor reports including stratified loan performance data, delinquencies, defaults and the balance of the principal deficiency ledger. 	<p><u>In addition to privacy and data protection law concerns, any banks that are part of the same 'group' as an Australian bank are likely to be subject to the Australian</u></p>																															

Where required to protect third party interests or to comply with privacy or confidentiality laws, interested parties shall be required to sign a non-disclosure agreement before being provided with the respective transaction information. Interested parties may be required to undertake their analysis via a secured data service provider.

Prudential Regulation Authority ("APRA") requirements. Of particular importance is the recent APRA prudential standard CPS 234 relating to Information Security (which comes into force on 1 July 2019) and, to a lesser extent, CPG 235 relating to Managing Data Risk. One of the requirements of CPS 234 is that, where any information (including customer information) is provided to third parties (including service providers or outsourced business systems), the entity has an

obligation to assess whether the third party has sufficient information security capabilities. Specifically, the entity must evaluate the design of that party's information security controls that protects the information assets of the APRA-regulated entity (CPS 234 at [22]). From a practical perspective, this means that the Banks are required to ensure that the Reserve Bank and any of the "interested parties" that have access to LLD have sufficient information security

capabilities. To date, we have not seen any consideration by the Reserve Bank of the information security requirements, but these are essential when considering the LLD requirements.

As discussed with the Reserve Bank, the Term Sheet should be finalised contemporaneously with the LLD workstream as they dovetail together. Inconsistency between the Term Sheet and the LLD requirements would create uncertainty for all parties.

63. **RMBS-LLD
RMBS
template and
data storage**

The Servicer or Manager (on behalf of the Issuer) will supply LLD in accordance with requirements for the ~~RBNZ RMBS-LLD~~ RMBS template. Any data shall:

- ~~b)~~a) accurately reflect the specifications of the mortgage loans at the relevant time ~~of the pool cut~~;
- ~~e)~~b) be (using reasonable endeavours) delivered free of processing errors and checked for consistency;
- ~~d)~~c) be provided in commonly accepted machine readable formats ~~that do not restrict a user's or service provider's applications~~;
- ~~e)~~d) be compliant with the ~~RBNZ-LLD~~ RMBS template's definitions and data formats;
- ~~f)~~e) be protected or redacted to the extent necessary to comply with New Zealand law; and
- ~~g)~~f) centrally supplied through a data repository as designated by the Reserve Bank.

The data repository or loan level data service provider will provide for functionalities that allow restricting access to data or withholding or redacting data where required to comply with relevant New Zealand law.

This should be subject to ongoing discussions at the LLD workshops.

(a) - We understand LLD is to be supplied during the life of the transaction.

(c) – It should not be necessary to cater for every user's systems, so long as the data is provided in a commonly accepted format.

As discussed with the Reserve Bank, the Term Sheet should be finalised contemporaneously with the LLD workstream as they dovetail together. Inconsistency between the

Term Sheet and the LLD requirements would create uncertainty for all parties.

Chapter 8: Operational Requirements

64. Functional separations

All parties to the transaction are defined with regard to their operational functions and separation requirements:

KEY PARTIES	KEY FUNCTIONS	REQUIREMENTS
a. Obligor	the borrower under a mortgage loan (owner occupier, investor)	identifiable borrower or jointly and severally liable group
b. Originator	the Originator of mortgage loans in the pool	
c. Servicer	the Originator or a third party facilitating the loan servicing	subject to rating agency requirements
d. Arranger	the Originator or a third party that coordinates an issue	
e. Issuer	the legal entity that issues a series (SPV trust)	"bankruptcy remote" from the Originator, as set out in item 44
f. Manager	the party facilitating Issuer's operations	must not be an entity that impacts the "bankruptcy remoteness" of the Issuer in relation to the Originator, as set out in item 5
g. Trustee	a corporate trustee or a NZ SPV company established by a corporate trustee	
h. Security Trustee	a corporate trustee holding security for the benefit of all secured creditors (including the noteholders)	acts in a fiduciary capacity for secured creditors

		<table border="1"> <tbody> <tr> <td>i. Account Bank</td> <td>the Originator or a third party providing the Issuer bank accounts</td> <td>subject to rating trigger</td> </tr> <tr> <td>j. Swap Counterparty</td> <td>the Originator or a third party providing IR or FX swaps</td> <td>subject to rating trigger</td> </tr> <tr> <td>k. Central Depository</td> <td>a third party facilitating the depository and settlements</td> <td><u>in respect of NZD-denominated notes only</u>, system provider designated by the Reserve Bank</td> </tr> <tr> <td>l. Registrar</td> <td>a third party holding record of the registered noteholder</td> <td></td> </tr> <tr> <td>m. Paying/Calculation Agent(s)</td> <td>a party checking interest payment calculations and facilitating payments <u>on notes</u></td> <td></td> </tr> <tr> <td>n. Rating agency</td> <td>a third party assessing the credit risk in the transaction</td> <td>separation from the Originator and Issuer</td> </tr> <tr> <td>o. Data Repository</td> <td>a third party facilitating secure data management</td> <td>system provider designated by the Reserve Bank</td> </tr> <tr> <td>p. Central bank</td> <td>public agency facilitating the repo-eligibility and valuation</td> <td>separation as per RBNZ Act and applicable legislations</td> </tr> <tr> <td>q. Dealer</td> <td>the Originator or a third party facilitating orders and sales</td> <td></td> </tr> </tbody> </table> <p>Where a separation is conditional on requirements or a rating trigger, the process for addressing a future separation is documented in the transaction documents of the relevant series.</p> <p><u>Additional parties may be required to reflect other elements of this term sheet such as the use of a Liquidity Facility and a redraw facility.</u></p>	i. Account Bank	the Originator or a third party providing the Issuer bank accounts	subject to rating trigger	j. Swap Counterparty	the Originator or a third party providing IR or FX swaps	subject to rating trigger	k. Central Depository	a third party facilitating the depository and settlements	<u>in respect of NZD-denominated notes only</u> , system provider designated by the Reserve Bank	l. Registrar	a third party holding record of the registered noteholder		m. Paying/Calculation Agent(s)	a party checking interest payment calculations and facilitating payments <u>on notes</u>		n. Rating agency	a third party assessing the credit risk in the transaction	separation from the Originator and Issuer	o. Data Repository	a third party facilitating secure data management	system provider designated by the Reserve Bank	p. Central bank	public agency facilitating the repo-eligibility and valuation	separation as per RBNZ Act and applicable legislations	q. Dealer	the Originator or a third party facilitating orders and sales		
i. Account Bank	the Originator or a third party providing the Issuer bank accounts	subject to rating trigger																												
j. Swap Counterparty	the Originator or a third party providing IR or FX swaps	subject to rating trigger																												
k. Central Depository	a third party facilitating the depository and settlements	<u>in respect of NZD-denominated notes only</u> , system provider designated by the Reserve Bank																												
l. Registrar	a third party holding record of the registered noteholder																													
m. Paying/Calculation Agent(s)	a party checking interest payment calculations and facilitating payments <u>on notes</u>																													
n. Rating agency	a third party assessing the credit risk in the transaction	separation from the Originator and Issuer																												
o. Data Repository	a third party facilitating secure data management	system provider designated by the Reserve Bank																												
p. Central bank	public agency facilitating the repo-eligibility and valuation	separation as per RBNZ Act and applicable legislations																												
q. Dealer	the Originator or a third party facilitating orders and sales																													
65.	Governance framework	<p>Any notes issued are operated and supervised under equivalent standards, requiring that:</p> <p>a) all parties to a transaction engage staff that are qualified for their roles, and all parties shall make required systems, processes and resources available to perform their roles;</p>	<u>(d) - It is not clear what "standing and qualification" is intended to refer to, and so</u>																											

		<ul style="list-style-type: none"> b) a Security Trustee holds the security on behalf of all secured creditors, and if at any time there is a conflict between the duties owed to secured creditors, the Security Trustee must have regard only to the interests of the most senior outstanding note class; c) a Manager is appointed to facilitate the day-to-day operations of the Issuer, and holds authority subject to (if required) the Issuer approving the required actions; d) a Servicer with a sufficient credit rating standing and qualification is mandated for the servicing of the pool; e) a Swap Counterparty with a sufficient credit rating is mandated to provide the Issuer with swaps that mitigate risks in the structure; f) an Account Bank with a sufficient credit rating is engaged to provide an Issuer with bank accounts, as required for its operations; g) a Paying/Calculation Agent(s) is <u>are</u> mandated to make payments due on each payment date on each note class, in accordance with waterfalls; h) a rating agency is engaged by the Originator or the Issuer to assess a transaction, assign a rating for note classes other than Class C notes, and provide regular rating reports. 	<p><u>we have replaced this with the more usual requirement of sufficient credit rating.</u></p>
66.	Account Management	<p>Any amounts collected on behalf of the Issuer from the mortgage loans in the pool will be held on trust for the Issuer in a transaction account of the Originator.</p> <p>The amounts held on trust for the Issuer in the transaction account will be swept at least monthly to the Issuer's bank account, such that the Issuer's bank account holds all funds collected as at the monthly sweep date.</p> <p>The Issuer will ensure that available remaining balances (other than de minimis amounts) on an Issuer's bank account are invested in Authorised Investments within one month and before the next payment date unless the monthly sweep date falls within 3 business days of the next payment date.</p>	<p><u>Funds collected in days following the end of a collection period and before the next payment date should not be paid on that payment date but only on the following payment date to ensure consistency between payments in any collection period.</u></p>

67.	Standard of servicing	<p>All mortgage loan credit administration and workout:</p> <ul style="list-style-type: none"> a) should at all times be conducted in accordance with reasonable and prudent standards; b) adhere to at least the same standards that apply in the course of the regular business of the Originator or the Servicer (where the Originator is not the Servicer); c) be supervised by professional credit administration staff with demonstrable experience in mortgage servicing; and d) comply with the CCCFA in all material respects. 	
68.	Servicing agreement	<p>The servicing agreement will define the responsibilities and remuneration of the Servicer, including:</p> <ul style="list-style-type: none"> a) the Servicer's obligations to service the pool; b) that the Servicer complies with its servicing standards; c) the rating agency undertaking a servicer review (optionally including the Reserve Bank); and d) how a back-up servicer would gain access to systems and resources that are required to service the pool, if requested by the relevant back-up servicer and, where the Servicer is the Originator, under circumstances that allow the Servicer to continue to service its non-securitised mortgage loans. 	
69.	Replacement of Servicer	<p>The appointment of the Servicer may be terminated if:</p> <ul style="list-style-type: none"> a) the Servicer fails to remit, or pay, any amount due by it in accordance with the transaction documents of the relevant series; b) an insolvency event occurs in respect of the Servicer; c) the Servicer fails to observe or perform any term, covenant, condition or obligation imposed on it under the transaction documents of the relevant series; d) any representation, warranty or certification made by the Servicer is incorrect when made and is not waived; or e) it becomes unlawful for the Servicer to perform the services under the servicing agreement. <p>Items (a) to (e) are subject to the grace/remedy periods or materiality requirements set out in the transaction documents of the relevant series.</p>	

		In general, a servicer termination and transfer of servicing to a replacement servicer will take place within two months after the termination notice has been sent. Until the servicing has been transferred to a replacement servicer, the Issuer must act as the servicer.	
70.	Replacement servicer facilitator	The Issuer will mandate a corporate trustee or other facilitator with: <ul style="list-style-type: none"> a) the responsibility to co-ordinate the change of a servicer, if required; and a)b) the authority, together with the Issuer and the Manager, to re-document the servicing agreement, if required. 	
Chapter 9: Documentation			
71.	Master Documents	<p>For each approval of a RMO programme, the Issuer provides the final draft and execution copies of Master Documents to the Reserve Bank, including:</p> <ul style="list-style-type: none"> a) a transaction summary (such as an offering circular, information memorandum or a presentation) that includes the risks and returns arising from the transaction ("information memorandum"); b) a catalogue of definitions including functional or technical terms used, so as to allow a general understanding of their meaning in the transaction; c) a schedule listing all legal documents, whereby the standard documents of a transaction shall be identifiable against transaction-specific documents (if any); and d) a "bankruptcy remoteness" legal opinion in relation to the RMO programme. <p>For each new series of notes, the Issuer or the Originator shall, immediately prior to the issue date, provide the Reserve Bank with:</p> <ul style="list-style-type: none"> (a) the final term sheet for the new series of notes on offer; (b) a confirmation that the transaction documents for the series comply with this term sheet and the Master Documents; and, (c) the loan level data for the pool according to the disclosure requirements. 	<p><u>(b) – while it is possible to produce a standalone catalogue of definitions, there does not seem to be any benefit in doing so given that any relevant terms in the information memorandum will be defined in the information memorandum, and the list of legal documents at (c) will include a definitions</u></p>

72.	Legal Disclaimer	<p>The disclaimer in the information memorandum summarises:</p> <ul style="list-style-type: none"> a) the general risks associated with purchasing any of the notes offered; and b) the wholesale nature and qualifications required to analyse any of the notes instruments offered. 	<p><u>schedule for the legal documents.</u></p> <p><u>(b) - It is not clear what "qualifications" may be required, and is not something that is usually included in an information memorandum. The selling restrictions in the information memorandum will establish the wholesale nature of the notes.</u></p>
73.	Ongoing review	<p>The Reserve Bank will review the terms and conditions in this term sheet regularly. The Reserve Bank will give registered banks prior written notice if it proposes to amend this term sheet, and <u>any such amendments shall be in respect of new transactions only and will not impact the approval or utilisation of any existing transactions.</u></p> <p>In addition to the Reserve Bank's ongoing review, Originators may approach the Reserve Bank seeking approval for alternative structures for new transactions if market conditions <u>(including the availability of appropriate mortgage loans)</u> or investor requirements change.</p>	<p><u>As previously submitted, as a new instrument the RMO may need to be further refined in the future. An example is if house prices in New Zealand fall, an originator may have limited stock of mortgage loans</u></p>

that meet the
current portfolio
limits.

Chapter 10: Terms and Conditions Effective Date

74. **Effective Date** The terms and conditions herein align with the respective policy being effective and binding as of 1 July 2019.

APPENDIX

Schematic diagram of waterfalls

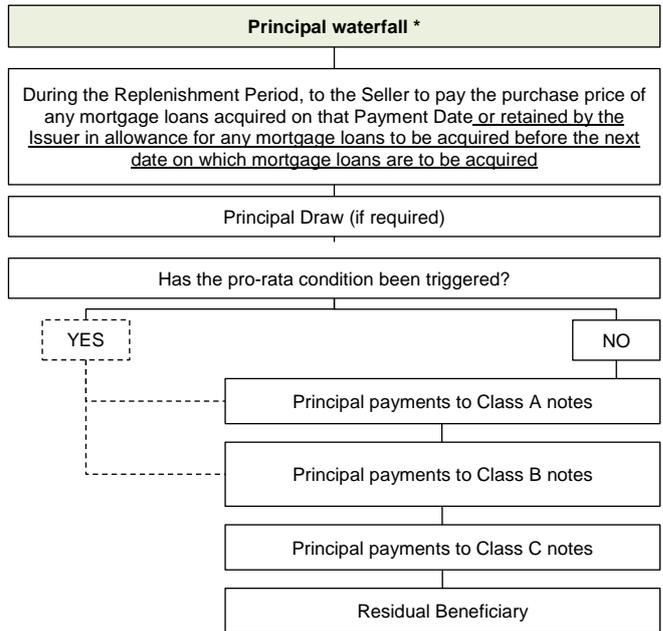
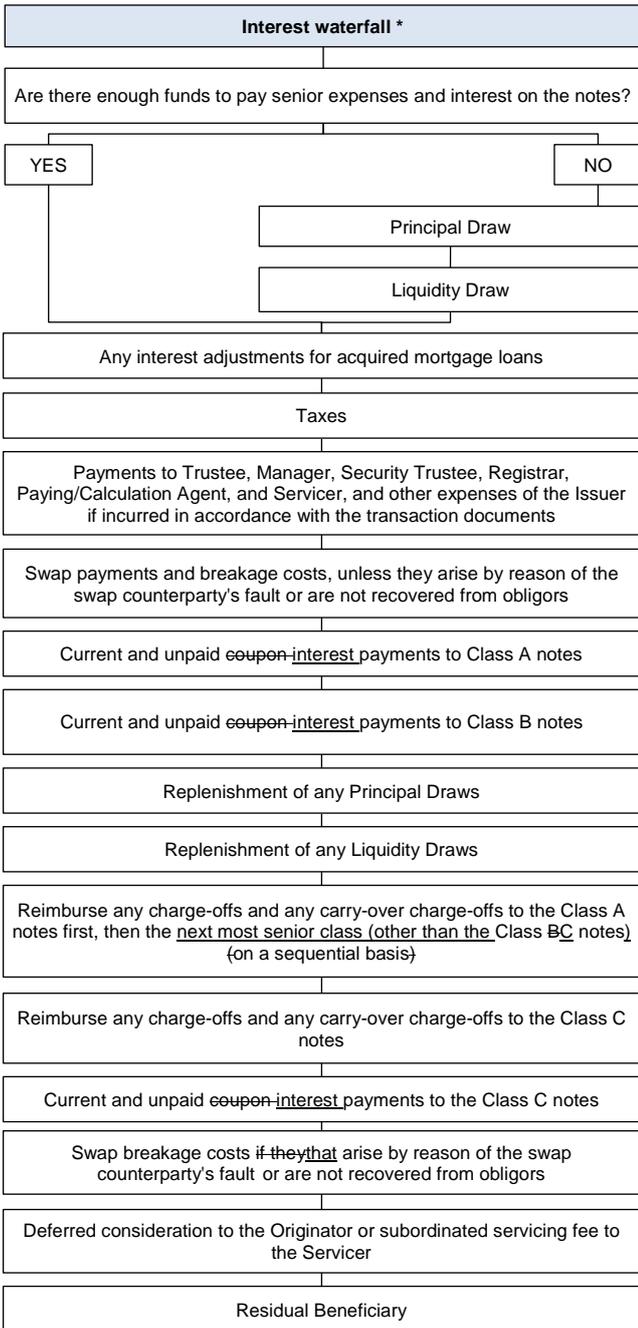
The interest waterfall distributes the following amounts:*

- (a) Scheduled interest payments (including delayed interest payments).
- (b) Net receivable swap amounts.
- (c) Principal Draws.
- (d) Liquidity Draws.
- (e) Interest and principal recoveries, subject to any all moneys mortgage trust.
- (f) Any payment in the nature of interest from the Seller or Servicer for a breach of warranty or any other claim under the mortgage sale agreement or servicing agreement (as applicable).
- (g) Any interest arising from deposits in bank accounts or Authorised Investments.
- (h) Any other income of the Issuer that is not distributed under the

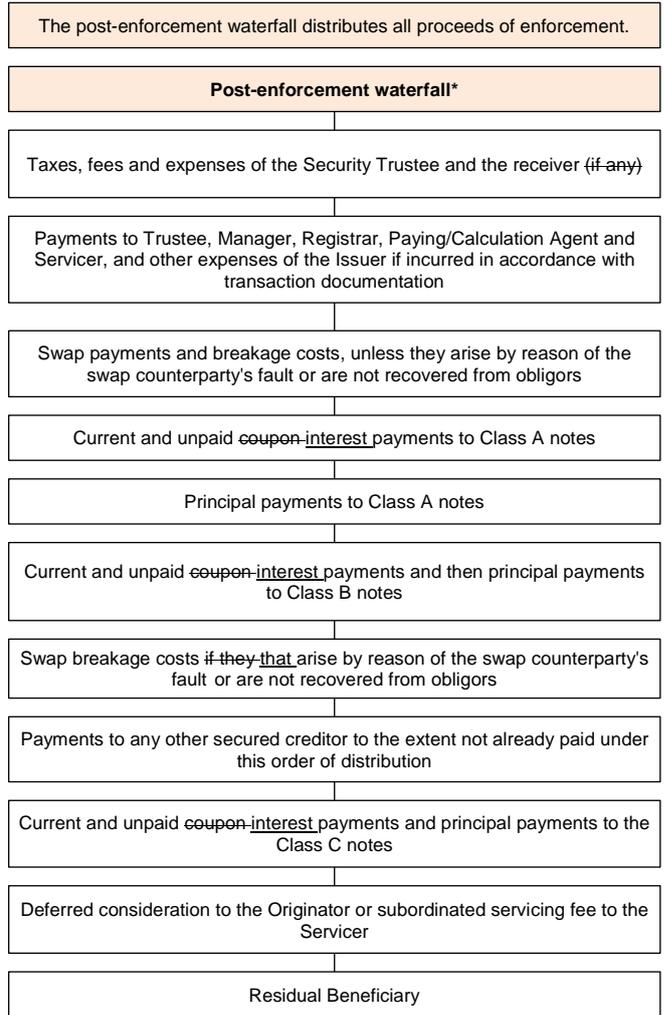
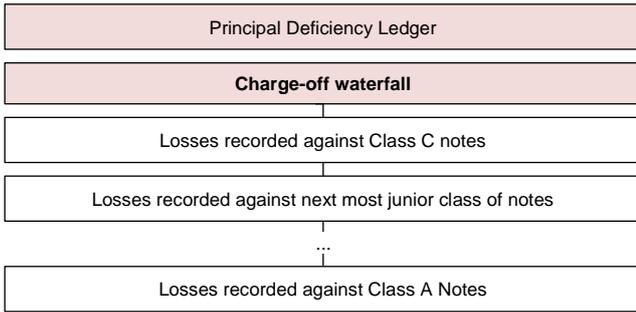
The principal waterfall distributes the following amounts:

- (a) Scheduled principal payments.
- (b) Any non-interest items received on the mortgage loans.
- (c) Capitalised fees.
- (d) Principal prepayments.
- (e) Principal Draw replenishment.
- (f) Charge-off reimbursements.
- (g) Any payment in the nature of principal from the Seller or Servicer for a breach of warranty or any other claim under the mortgage sale agreement or servicing agreement (as applicable).
- (h) Any principal arising from Authorised Investments.
- (i) Any excess amounts released from the liquidity reserve.

Less any amount used to acquire mortgage loans during that current period.



* Subject to adjustment if required to reflect other features of this term sheet



* Subject to adjustment if required to reflect other features of this term sheet