

# Wholesale Funding Project

Overview and Work Program

AMI Conference Canberra  
March 2009

# BACKGROUND

1. **Large super funds seeking high quality assets and keen to invest in Credit Unions**
2. **But investors required aggregated Credit Union structure**
3. **Group Project initiated in July 2008 to explore options**

# GROUP COMPOSITION

1. **25 CUs totalling over \$8 billion in assets**
2. **Aggregate member deposits around 85% of assets**
3. **Small funding pool established to examine options**
4. **Strong support for aggregation and benefits of “pooled risk”**

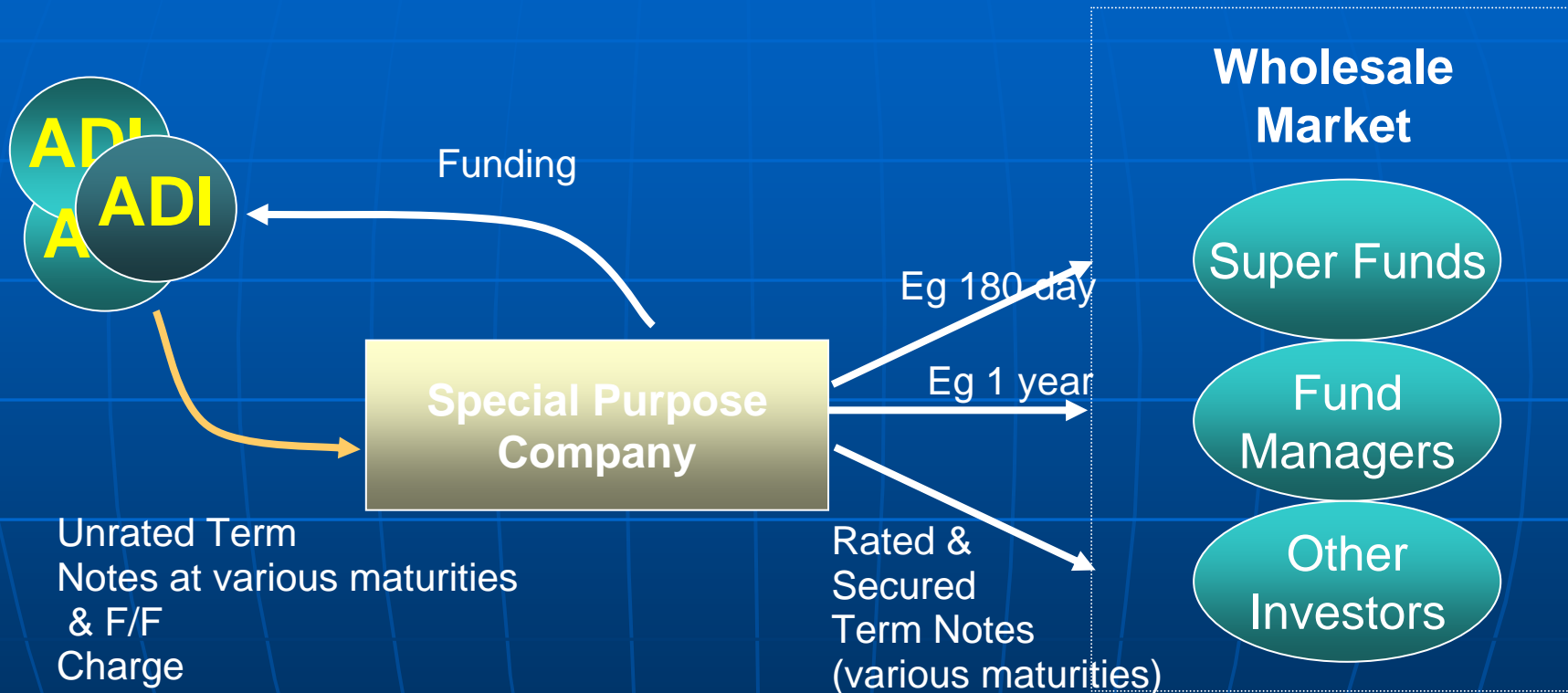
# OBJECTIVES

1. **Improve funding access to support lending and liquidity**
2. **Reduce average cost of funding and mitigate risk to profits/capital from margin compression**
3. **Reduce reliance on member deposits by diversifying funding sources**
4. **Enable greater leverage of CU capital**
5. **Enhance protection for depositors by increasing effectiveness of “depositor priority” provisions**

# PROGRESS TO DATE

1. **Researched CU needs and investor requirements**
2. **Developed indicative funding structure (see next slide)**
3. **Potential for \$1 billion+ of wholesale funding**
4. **Engaged Mallesons and prepared draft Terms Sheet**
5. **Commenced discussions with APRA and S&P on regulatory issues and rating requirements**

# Draft Program Structure



# KEY DESIGN FEATURES

1. **Desired rating/pricing requires SPV to hold first-ranking charge (subject to depositor priority) over CU assets**
2. **Quality and diversification of issuer pool will drive S&P ratings**
3. **Funding volume dependent on size of pool and aggregate security value**
4. **Flexible funding duration (30+ days) and fixed/variable options**

# **DIFFICULT ISSUES / CHALLENGES**

- 1. Granting of charge by CUs to SPV will require many CU participants to review the charge currently held by CUSCAL**
- 2. Determining CU participation criteria and trading covenants (eg minimum capital, liquidity, deposit / asset ratios)**
- 3. Securing attractive S&P ratings for program structure – which in turn will drive pricing to CUs and investors**
- 4. Obtaining APRA approvals re provision of charge to SPV**

# NEXT STEPS

1. **Conceptual framework sound but viability will ultimately depend on rating levels**
2. **Investors strongly supportive but need to assess quality of Credit Union pool**
3. **Secure formal commitments from CU Group**
4. **Further consultation with APRA and S&P to confirm requirements**
5. **Test interest levels from other CUs and building societies**

# INDICATIVE TIMETABLE

1. **Determine conceptual feasibility by end March 2009**
2. **Six month period to obtain S&P ratings, confirm regulatory approvals, restructure CU security and settlement arrangements, and establish SPV (including appointment of SPV Manager, liquidity provider, dealer panel, etc)**
3. **Target launch of structure between Sept 09-Dec 09**
4. **Note that further deterioration in financial markets may influence implementation timeframes**