

## FUNDING FOR LENDING PROGRAMME TERMS

*1 December 2020*

The Reserve Bank of New Zealand (the Bank) has responsibility for formulating and implementing monetary policy directed to the economic objectives of achieving and maintaining stability in the general level of prices over the medium term, and supporting maximum sustainable employment.

To this end, the Bank has established a Funding for Lending Programme (the FLP) in accordance with its purposes set out in section 1A of the Reserve Bank of New Zealand Act 1989. The FLP offers secured term central bank funding to registered banks, with the aim of lowering funding costs to stimulate lending growth across the economy and help reduce interest rates for borrowers.

Under the FLP, the Bank will offer 3-year funding to eligible institutions. The funding will be structured as floating rate Repurchase Transactions priced at the Official Cash Rate (OCR), each for a term of three years. Participants may access the funding over a 2-year transaction period. The Bank reserves the right to extend (but not shorten) the transaction period.

The Bank may otherwise make additions, modifications, or amendments to these terms at any time by updating the relevant page on the Bank's website.

### 1. PROGRAMME OPERATIONAL WINDOW

#### *1.1. Transaction Period*

Access to FLP funding is available over a 2-year period from 7 December 2020 to 6 December 2022, subject to any extension by the Bank. A participant may access funding up to the value of its Funding Allocation (comprising an Initial Allocation and an Additional Allocation), on the terms set out in clause 9 below.

The Initial Allocation will be available for the first 18 months from 7 December 2020 to 6 June 2022. The Additional Allocation, based off the participant's lending growth, is available over the full 2-year period from 7 December 2020 to 6 December 2022.

#### *1.2. Transaction Governance*

Repurchase Transactions are to be governed by the 2011 Global Master Repurchase Agreement (2011 GMRA) signed between the Bank and the participant, as modified by these terms. Terms that are capitalised but not defined in these terms have the meaning set out in the 2011 GMRA. In the event of inconsistency between these terms and the 2011 GMRA, these terms shall take priority.

#### *1.3. Facility Operational Window*

The FLP will be available on the days prescribed in clause 1.1, and will operate under the following framework:

Facility operational window	9:00 am – 12:00 pm, NZ business days
Settlement date	Next business day (t+1)

The Bank reserves the right to alter the date, time, and settlement of the facility operational window at any time.

## 2. PARTICIPATION RULES

### 2.1. Telephone Requests

Following the opening of the facility operational window, participants wishing to enter a Repurchase Transaction may telephone (04) 472 0074 / (04) 472 0075 or a dedicated line where applicable.

Requests must be made by currently authorised dealers.

All requests must be read back and confirmed for validation. Failure to affirm offers will result in the request being rendered void and disregarded. In the case of dispute, the request that was read back and agreed will stand as final.

Once a request has been placed and confirmed it may not be cancelled, amended, or withdrawn.

### 2.2. Transaction Terms

Pricing Rate	Floating rate, equal to OCR.
Pricing Rate fixing frequency	Refixed on each date that a revised OCR comes into effect (OCR Effective Date), except where an OCR Effective Date falls within 3 business days prior to the Repurchase Date (in which case the OCR prior to that OCR Effective Date continues to apply).
Eligible Securities	<p>Tier 1 securities (New Zealand Government Securities, acceptable Kauri issues), and Residential Mortgage Backed Securities (RMBS).</p> <p>The Bank may amend the list of eligible securities from time to time, including those securities which qualify as Tier 1.</p> <p>The Bank will publish any updated list on its website (<a href="https://www.rbnz.govt.nz/markets-and-payments/domestic-markets/repo-eligible-securities-and-haircuts">https://www.rbnz.govt.nz/markets-and-payments/domestic-markets/repo-eligible-securities-and-haircuts</a>).</p>
Minimum request size	NZ\$1,000,000 cash
Request multiples	NZ\$1,000,000 cash
Repo Term	3 years.
Security maturity date	Securities must have a maturity date that is at least 3 business days after the repurchase date (i.e. 3 years plus 3 business days).

The total funding accessed by a participant may not exceed the Funding Allocation permitted under clause 9.

### 2.3. Calculation of Price Differential

The Price Differential for each Repurchase Transaction (being an amount akin to interest) will be calculated on a daily basis, based on a weighted average of the Pricing Rate fixings.

The Repurchase Price shall be calculated as follows:<sup>1</sup>

$$\text{Repurchase Price} = \text{Purchase Price} \left( 1 + \frac{\left( \frac{R_1.D_1 + R_2.D_2 + \dots R_n.D_n}{N} \right) N}{100.B} \right)$$

where  $R_1$  is the initial Pricing Rate fixing<sup>2</sup>

$R_2$  is the second Pricing Rate fixing

$R_n$  is the  $n^{\text{th}}$  Pricing Rate fixing

$D_1$  is the number of days to which Pricing Rate fixing  $R_1$  applies

$D_2$  is the number of days to which Pricing Rate fixing  $R_2$  applies

$D_n$  is the number of days to which Pricing Rate fixing  $R_n$  applies

$N$  is the number of days in the term of the Repurchase Transaction

$B$  is the annual basis (i.e. assumed number of days in the year). The Bank's annual basis is 365, as set out in Annex 1 of the 2011 GMRA.

The Bank will send an affirmation to the participant 3 business days prior to the Repurchase Date, advising the final Repurchase Price.

## 3. VALUATION OF SECURITIES

All securities will be valued at Market Value, except for RMBS which will be valued at par or as otherwise determined by the Bank.

### 3.1. Haircuts

The value of the securities sold to the Bank will be calculated using the haircuts defined on the Bank's website (<https://www.rbnz.govt.nz/markets-and-payments/markets/repo-eligible-securities-and-haircuts>).

### 3.2. Income Payments

Should the Bank receive, or become entitled to, any income payment from the securities during the term of a Repurchase Transaction, the value of the coupon will be transferred to the participant as specified in paragraph 5 of the 2011 GMRA, on the date the income payment is received by the Bank.

## 4. SUBSTITUTIONS

The parties may agree to substitute securities under paragraph 8 of the 2011 GMRA.

Substitution where Bank is the Seller: The Bank does not envisage that it will request substitution in normal circumstances.

Substitution where the participant is the Seller: The fee for substitution is \$100.00

<sup>1</sup> Adapted from ICMA Group's floating-rate repo conventions.

<sup>2</sup> By way of example, where  $R_n$  represents a Pricing Rate at OCR of 0.25% per annum,  $R_n = 0.25$  in the specified formula.

per request, payable to the Bank. In principle the Bank will accept a substitution request, provided the following conditions are met:

- Substitutions must be made using a similar type of security sold under an existing Repurchase Transaction, NZ Government Securities, or Acceptable Kauri issues.
- Participants can only substitute RMBS with another RMBS.
- The substitute security must have a maturity date that is at least 3 business days after the Repurchase Date.
- The participant must give notice of its substitution request to the Bank by no later than 11:00am on the proposed day of substitution.

The Bank may decline substitution requests that fail to meet any of the above conditions, or where the Bank determines (in its sole discretion) that the substitution request is unreasonable, including without limitation where the participant requests a high volume of substitutions.

## 5. MARGIN MAINTENANCE

Under paragraph 4 of the 2011 GMRA, the Bank and the participant each have the right to make a margin call when the Net Exposure in respect of the other party exceeds the amount specified in Annex I of the 2011 GMRA. The value of the margin call is such that the Net Exposure is eliminated.

If a party makes a margin call before 2:00pm on any business day, the margin called (in terms of additional security or cash) must be delivered by 4:45pm on the same day. If a party makes a margin call between 2:00pm to 5:00pm, the margin called must be delivered by 12:00pm noon on the next business day.

Failure to comply with these timeframes is deemed to be an event of default under paragraph 10 of the 2011 GMRA.

## 6. ACCEPTANCE/REJECTION OF REQUESTS

The Bank reserves the right to reject any request, or part thereof, for any reason.

## 7. DATA COLLECTION

Participants are required to provide the Bank with interest rate data in relation to their loan activity, in the format and frequency and as otherwise advised by the Bank.

## 8. PUBLICATION OF FLP USAGE

The Bank will publish data relating to FLP usage on its D12 statistical table on a daily basis and on its statistical table a month in arrears. The Bank may also publish other information collected during the course of the FLP, including the volume of funds not used, in summary form.

## 9. FUNDING ALLOCATIONS

### 9.1. Calculation of Funding Allocations

Participants may access funding up to their Funding Allocation. Where two or more participants form part of the same banking group,<sup>3</sup> the Bank will calculate a single Funding

Allocation for the banking group to be pooled across those participants.

The Funding Allocation for each participant comprises an Initial Allocation and an Additional Allocation. This clause defines how each allocation is calculated and updated.

- Initial Allocation is equal to 4% of the participant's Eligible Loans as at 31 October 2020.
- Additional Allocation is equal to 50 cents for every \$1 of net growth in Eligible Loans in the period commencing 1 November 2020,<sup>4</sup> up to a maximum of 2% of Eligible Loans as at 31 October 2020.<sup>5</sup> The minimum Additional Allocation is \$0.

For the purpose of this clause, Eligible Loans means gross resident loans and advances to households, non-financial businesses, and non-profit institutions serving households.<sup>6</sup>

Funding Allocation amounts will be determined using data available to the Bank from existing reporting in the Bank Balance Sheet Survey. Additional Allocations will be calculated monthly on the 1<sup>st</sup> day of each month using the latest reported data. The Bank reserves the right to recalculate any Funding Allocation amounts, where it determines that any reported data in the Bank Balance Sheet Survey is incorrect. Any such recalculations will apply to the calculation of the facility fee set out in clause 10.

## 9.2. Access to Funding Allocations

An overview of a participant's Funding Allocation follows:

- 7 Dec 2020 to 6 Jun 2022: Both the Initial Allocation and the Additional Allocation are available. Funding accessed will initially be against a participant's Initial Allocation, with funding over and above this amount against the Additional Allocation.
- 7 Jun 2022 to 6 Dec 2022: The Initial Allocation ceases to be available. Only the Additional Allocation is available.

## 10. FACILITY FEE

A facility fee will apply where the participant's total funding level against its Additional Allocation exceeds its Additional Allocation. The facility fee shall be calculated on a daily basis, using the following formula:

*Facility Fee = (Drawings against the Additional Allocation – Additional Allocation) Daily Rate*

where Daily Rate = (100/365) basis points as at the date of these terms. The Bank may revise the Daily Rate upon giving participants not less than 30 days' notice.

The minimum facility fee is \$0.

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<sup>3</sup> i.e. The same financial reporting group.

<sup>4</sup> Any lending entered into in connection with the New Zealand Government's Business Finance Guarantee Scheme (BFGS) will be excluded for the purpose of calculating net lending growth under Additional Allocations. The Bank has made the Term Lending Facility available for the purpose of supporting BFGS lending.

<sup>5</sup> See above footnote.

<sup>6</sup> The Bank's "[Procedures and definitions for completion of the monthly Balance Sheet Survey](#)" sets out further detail on which assets are considered to be loans or advances, and definitions for households, non-financial businesses and non-profit institutions serving households.

The facility fee will be charged on a monthly basis, with fee notices issued in months where the facility fee exceeds \$0. The facility fee will be invoiced on a monthly basis, for months where the fee exceeds \$0. Payment of the fee is due within 10 business days of the Bank issuing a fee notice to the participant.

The Bank reserves the right to suspend a participant's ability to access FLP funding, in the event that the participant fails to pay the facility fee in full by any due date. The suspension period may commence from the due date for payment, and end on such date the facility fee has been paid in full (or any period between those dates).

## 11. TERMINATING A REPURCHASE TRANSACTION

### *11.1. Termination Request*

A participant may submit a request to terminate any Repurchase Transaction (in whole or in part) before its Repurchase Date.

To submit a termination request, the participant must contact the Bank's Market Operations desk with details of the transaction value that it wishes to terminate and the reason for seeking termination. The Bank will confirm whether it accepts the participant's request or not, and set out the processes for termination if accepted (subject to clause 11.2 below).

Terminated funding will continue to count towards uptake of the participant's Funding Allocation. By way of example, where the participant has accessed funding up to its total Funding Allocation, and then (with the Bank's acceptance) terminates \$10m of funding, the \$10m will not become available again as part of the Funding Allocation.

### *11.2. Termination Processes*

In event of termination under clause 11.1, the Bank shall confirm the Market Value of the Equivalent Securities and any Equivalent Margin Securities to be transferred, the amount of any Cash Margin (including the amount of interest accrued) to be transferred, and the Repurchase Prices and Cash Equivalent Amounts to be paid by each party as at the agreed early termination date.

The Bank shall not charge any 'break costs' in relation to the termination process (i.e. admin fees, or any amounts associated with the loss/expense incurred or which are likely to be incurred by the Bank in entering into replacement or hedging transactions).

## 12. SETTLEMENTS

Confirmations will be sent to successful participants. Physical settlement is by delivery versus payment through NZClear.

### *12.1. Purchase Price*

Purchase Prices will be calculated using the price and yield formulae stated in [Appendices and Application Forms](#) on the Bank's website.

## 13. FUNDING ELIGIBILITY

### *13.1. Registration*

Participation in the FLP is limited to New Zealand registered banks. Participants must be authorised to participate in the Bank's domestic operations.

Registered banks which are already authorised to participate in domestic operations do not need to make a separate application to participate in the FLP.

A registered bank may apply to be registered as an authorised counterparty, provided that the application must be submitted at least 10 days prior to the intended FLP participation date. Application details can be found on the [Reserve Bank website](#).

### *13.2. Ongoing Participation*

Participants must meet the Bank's standard counterparty requirements (as advised or published by the Bank from time to time) on an ongoing basis in order to continue to participate in the FLP.

The Bank may temporarily suspend a participant's access to FLP funding, or revise the participant's entitlement to its Funding Allocation, in the event that the participant enters into (or proposes to enter into) an amalgamation with another registered bank.