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New Zealand Market

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2025 Review of key capital settings – ASF New Zealand Market Subcommittee Submission

The New Zealand Market Subcommittee of the Australian Securitisation Forum (ASF) appreciates the opportunity to respond to the Reserve Bank's 2025 review of key capital settings (**2025 Capital Review**).

The ASF was formed in 1989 and is the peak industry association representing participants in the Australian and New Zealand securitisation markets. The ASF's role is to promote the development of securitisation and covered bonds in Australia and in New Zealand by facilitating the formation of industry positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. Further information on the ASF and its activities can be found at www.securitisation.com.au

The 2025 Capital Review did not address securitisation when looking at granular risk weights for certain types of lending. However, based on the webinar summary released by the Reserve Bank, ASF understands that the Reserve Bank is open to receiving feedback on the treatment of securitisation exposures. ASF notes that the Reserve Bank has indicated that it has a current policy that covers how securitisation should be applied, which will be included in the exposure drafts for the next stages of the Reserve Bank's work on Deposit Takers Act 2023 (**DTA**).[1] The ASF assumes the reference to the current policy for securitisation is a reference to Part A of BPR 160. BPR 160 does not cover securitisation programmes that deposit takers lend to (referred to as "third-party securitisations" in this submission); it relates to securitisation programmes established by banks in respect of assets they have originated.

This submission focusses on the capital treatment of securitisation exposures more broadly with a particular emphasis on ensuring appropriate risk weights are applied to third-party securitisation exposures which deposit takers lend to. There is currently no specific capital treatment under the BPRs for exposures to third-party securitisations; despite the inclusion of substantial structural enhancements, such securitisations are treated as corporate exposures. This submission proposes:

1. the introduction of a new specific standard for the capital treatment of third-party securitisation exposures (**NZ Securitisation Standard**). Implementing this standard would bring New Zealand into alignment with international practices, foster competition by enabling greater participation from smaller domestic lenders, and contribute to improved outcomes for customers in New Zealand; and

2. reducing the current output floor of 85%[2] to 72.5% to align with Basel III. Implementing this reduction before introducing the NZ Securitisation Standard will more accurately reflect the credit risk associated with third-party securitisations.[3]

The ASF would welcome the opportunity to engage further with the Reserve Bank on these proposals.

A. <u>New Zealand securitisation market</u>

The Financial Policy Remit that the Reserve Bank is required to have regard to when acting in relation to prudential standards highlights the importance of improving competition in the financial sector to deliver better customer outcomes. It also states that "*the Reserve Bank should ensure that prudential regulation and supervision do not impede effective competition and facilitates the goal of improving competition, while remaining consistent with the financial stability objective*." Introducing a NZ Securitisation Standard would support this outcome.

Securitisation funding—particularly through warehouse facilities—for Group 2 deposit takers and non-bank lending institutions (**NBLIs**) is one mechanism by which Group 1 deposit takers support the development of competition in New Zealand’s financial markets. Although NBLIs represent a relatively small segment of the market (circa 1.3% for residential mortgages as at

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[1] Reserve Bank "Webinar Summary, Review of Key Capital Settings – 2 September 2025", page 36.
[2] Section C1.4.1 of BPR 130.
[3] The ASF acknowledges that a reduced output floor would apply to all credit risk weights determined by Group 1 deposit takers, not just third-party securitisation exposures.

July 2025)[4], they play a crucial role in providing credit to New Zealand consumers through residential mortgages, automotive and equipment finance, SME loans, and personal loans. In certain cases, NBLIs extend credit to borrowers who may be underserved by banks.

Securitisation, especially through warehouse facilities, represents a significant funding source for NBLIs in New Zealand. While commentators typically focus on “term” securitisation[5]—generally undertaken by NBLIs once they have a critical scale of receivables—many NBLIs in New Zealand also maintain warehouse facilities. Group 1 deposit takers commonly provide senior lending to NBLI securitisations via these warehouse facilities, which are structured similarly to revolving credit facilities and share substantially the same features as wholesale market “term” securitisations. Other lenders, such as credit funds, may offer mezzanine debt under these arrangements, while NBLIs typically retain some subordinated debt within the structure.

Due to the private nature of warehouse facilities in securitisation programmes, accurately assessing the overall market size funded by New Zealand banks is challenging. However, based on the disclosure statements of Bank of New Zealand and Westpac New Zealand Limited for the financial year ended 30 September 2024, ASF estimates that these two banks have a combined total of approximately NZ$8 billion in commitments provided through warehouse facilities.

The ASF believes that the current capital treatment for third-party securitisation exposures (addressed below) is adversely impacting the ability of NBLIs to grow and compete effectively in the New Zealand financial markets. The costs of holding the additional capital that deposit takers are required to hold under existing standards for these exposures is passed on to NBLIs, either through reduced volume or higher pricing. This acts as a constraint on the capacity of NBLIs to expand their own balance sheets and continue offering competitive products to New Zealand consumers, as many NBLIs depend on Group 1 deposit takers for senior debt to support their warehouse facilities. Ultimately, reducing these costs should benefit end consumers as well.

B. Current capital treatment of securitisations

At present, the BPRs do not provide specific capital treatment for exposures to third-party securitisations. While BPR160 (Part A) allows for adjustments relating to securitisations, these apply solely in the context of bank-originated securitisations.

Currently, Group 1 deposit takers providing funding to unrated warehouse facilities assign risk weights to these exposures as if they were corporate exposures, resulting in a standardised risk

[4] Registered banks and non-bank lending institutions: Sector lending (C5) - Reserve Bank of New Zealand - Te Pūtea Matua

[5] "Term" securitisation refers to process of funding a pool of receivables (such as residential mortgages or automotive loans) through the issue of bonds in the capital markets to wholesale investors (such as KiwiSaver funds, credit funds and insurance companies).

weight of 100%, subject to an output floor of 85%[6]. The ASF believes that this does not accurately reflect the underlying credit risk of such exposures, nor does it reflect the additional structural features of securitisations which are designed to mitigate credit risk.

Although warehouse facilities are generally not externally rated due to the costs and operational demands required for obtaining and maintaining ratings, Group 1 deposit takers involved in providing these facilities typically utilise internal rating models that mirror criteria used by external agencies. When a NBLI's receivable pool is large enough for it to issue bonds in the wholesale capital markets ("termed out"), the senior portion of the receivables pool (originally funded by Group 1 deposit takers) achieve a AAA rating from external rating agencies, demonstrating both the quality of the underlying exposures and the robust structural features of the facilities. Accordingly, ASF believes that the senior debt in many warehouse facilities would receive a AAA or AA rating (rating grade 1 under BPR 131), and therefore a risk weight of 20%, if externally rated, rather than the 100% risk weight currently applied. This underscores the need for a NZ Securitisation Standard that considers the nature of the underlying exposure.

As noted above, the cost of holding the additional amounts of capital under the current standards to fund these exposures is passed on to the NBLIs though either or both reduce funding and higher pricing.

This inefficient capital allocation is even more apparent when a Group 1 deposit taker funds a Group 2 deposit taker's warehouse facility. For instance, if a Group 2 deposit taker originates a performing[7], owner-occupied residential mortgage loan with an LVR below 80%, a standardised risk weight of 35% applies[8], and that deposit taker must hold CET1 capital at 11.5%[9]. If the same loan is funded via a warehouse facility with senior funding provided by a Group 1 deposit taker, it must be treated as a corporate exposure, attracting a 100% standardised risk weight (subject to an 85% floor) and a CET1 requirement of 13.5%[10]. In such cases, both deposit takers are holding capital against the same loan, leading to inefficient duplication and excessive capital costs that do not align with the actual risk borne by each institution.

The ASF submits that, as in offshore jurisdictions like Australia, New Zealand should require warehouse funding deposit takers to hold capital based on the risk of the underlying exposure and structure, rather than on the credit risk of the originating NBLI's borrowing entity. Such an approach would align with the Basel III Framework and APRA's methodology under APS120.

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[6] Section C1.4.1 of BPR 130.
[7] Being residential mortgages that are not 90 days past due.
[8] The 2025 Capital Review proposes dropping this to 25%.
[9] Assuming the 2019 capital review capital requirements once phased in.
[10] Assuming the 2019 capital review capital requirements once phased in.

C. Development of standalone securitisation standard

ASF submits that the Reserve Bank introduce a NZ Securitisation Standard, which includes unrated warehouse facilities, aligning with Basel III and comparable international standards. This is consistent with the 2025 Capital Review's emphasis on the Reserve Bank looking for greater international alignment in its approach.

APRA's APS 120 provides a useful benchmark: it requires ADIs to use either the External Ratings-based Approach (ERBA) or, for unrated exposures, the Supervisory Formula Approach. ERBA focuses on rating and tenor, while the Supervisory Formula Approach examines underlying assets and the structure adopted. Data points considered include loan-to-value ratio, days in arrears, asset class and the attachment and detachment points of the exposure in the capital structure.

ASF submits that a NZ Securitisation Standard will better reflect credit risk and let deposit takers hold appropriate capital relative to their exposure from third-party securitisations. Lower capital costs would lead to reduced margins and increased funding for NBLIs, helping them compete with larger lenders (including deposit takers). This has been the experience in Australia, where ASF understands that non-bank lenders makeup approximately 7-8% of the Australian market. A strong NBLI sector in New Zealand would give customers more choices in lenders and products.

D. Reduction of the output floor

For the reasons outlined in this submission, the ASF recommends that the Reserve Bank prioritise the introduction of a NZ Securitisation Standard. We recognise that the Reserve Bank faces significant demands on its resources, particularly due to the implementation of changes associated with the DTA. ASF also acknowledges the necessity for further engagement between the Reserve Bank, stakeholders, and offshore regulators regarding the suggested standard. Nonetheless, in the absence of a NZ Securitisation Standard, Group 1 deposit takers and consequently NBLIs will continue to be disadvantaged by the higher capital requirements imposed on deposit takers.

ASF considers that outcomes for both NBLIs and New Zealand customers could be enhanced by lowering the 85% output floor applicable to Group 1 deposit takers to 72.5%, thereby aligning with Basel III. Although such an adjustment would apply across all exposures of Group 1 deposit takers, specifically within the context of securitisation, it would enable those deposit takers to hold capital for third-party securitisation exposures in a manner more representative of the underlying credit risk. For instance, without the current output floor, a Group 1 deposit taker could assign a risk weight of approximately 20% to an unrated senior exposure of "AAA/AA" equivalence. While a reduction to a 72.5% floor would not achieve this outcome, it would better align the required capital for third-party securitisation exposures with the risks of the underlying assets, allowing Group 1 deposit takers to pass savings onto NBLIs via warehouse facilities.

The ASF would welcome the opportunity to engage further with the Reserve Bank to elaborate on matters outlined in this submission and indeed any other matter relating to the capital treatment of securitisations.

Yours sincerely,

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