

QUESTION 15: Cuscal Pty Ltd, Home Loans

QUESTION

On June 30 2007 TIO re-securitized its home loans with Cuscal Pty Ltd. As I understand \$224M worth of home loans were assigned to Cuscal Pty Ltd which represents the whole of the TIO home loan portfolio.

- 1. What is known about the financial liquidity of Cuscal Pty Ltd?*
- 2. Is Cuscal Pty Ltd currently offering any credits to TIO for the purpose of home loans?*
- 3. If Cuscal Pty Ltd is not offering credit to TIO, is TIO currently capable of offering credit for home loans?*
- 4. What is the current value of the portfolio held on TIO's behalf by Cuscal Pty Ltd?*

ANSWERS

Preamble to question

A portion of TIO's home loan book was securitised between February and June 2007.

Securitisation is the process of converting financial assets (home loan mortgages) into securities that can be sold to investors, with the sale proceeds providing capital for reinvestment back into the business. Securitisation is used by most non-bank mortgage providers for such purposes.

By sourcing funds through securitisation, TIO was able to significantly improve the capital position of its Banking business by reducing loan exposure on its balance sheet.

The home loan portfolio was \$438M, not \$224M, as at 30 June 2007, of which \$223M was securitised with Cuscal Limited, the provider of securitisation services to TIO.

Q1: What is known about the financial liquidity of Cuscal Pty Ltd?

Cuscal Ltd is an Approved Deposit Taking Institution (ADI) which means it is licensed and regulated under the national framework applying to financial institutions. It holds an AA- long term credit rating from Standard and Poor's. This rating was reaffirmed by Standard and Poor's on 2 October 2008 with an outlook of "stable". Cuscal is also one of only a few financial services companies in Australia, other than the major banks, with an AA rating.

Standard and Poor's noted in its report that: "the ratings on Cuscal Ltd. reflect the company's principal position as a service provider to the Australian credit union sector, very good asset quality, and its strong liquidity and funding profile."

Cuscal's deposits, up to \$1M per depositor, are currently guaranteed by the Australian Government under the Financial Claims Scheme (FCS).

Q2: Is Cuscal Pty Ltd currently offering any credits to TIO for the purpose of home loans?

No, Cuscal does not provide credit to TIO for the purpose of home loans. Cuscal provides TIO with securitisation facilities only.

Q3: If Cuscal Pty Ltd is not offering credit to TIO, is TIO currently capable of offering credit for home loans?

Yes, TIO is able to meet demand for home loans. Funds are raised in the retail and wholesale markets, and also include TIO's own capital. Retail deposits with TIO grew by 19% for 2007-08 and by 13% for 2008-09. The proportion of TIO's liquid assets to liabilities as at 30 June 2009 was 14.1% and is currently around 13.3% which is well above the regulated minimum of 9%.

Q4: What is the current value of the portfolio held on TIO's behalf by Cuscal Pty Ltd?

As at 30 June 2009, the value of TIO's securitised loans is \$134M out of a total loan book of \$410M. Given the recent global financial market turmoil, TIO is not actively seeking to expand its securitisation program at this time.