

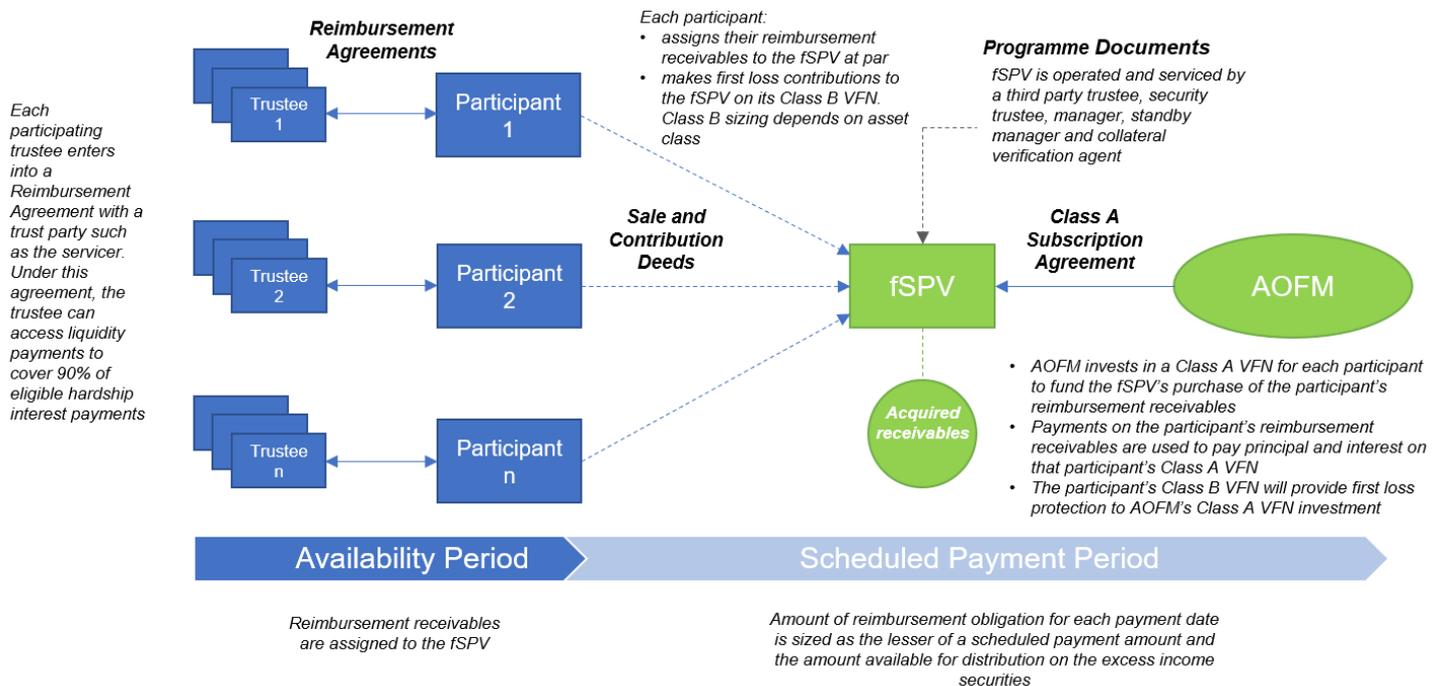
## Overview of AOFM forbearance SPV

The AOFM forbearance SPV (fSPV) is a single SPV funded by the Australian Office of Financial Management (AOFM) <sup>1</sup> through the A\$15bn Structured Finance Support Fund (SFSF). It has been established to enable originators of securitisation trusts to generate additional liquidity by selling reimbursement receivables into the fSPV.

The fSPV is designed to allow participant originators to access temporary liquidity support for COVID-19 hardship related missed interest payments on assets in securitisation trusts, reimbursing the support from future trust residual income. The fSPV caters for multiple asset classes at the discretion of the AOFM.

The fSPV is operated by a third-party trustee, security trustee, manager, standby manager and collateral verification agent.

Figure 1: AOFM Forbearance SPV – simplified structure



## Reimbursement Agreements

An originator may elect to have a single trust or multiple trusts participate. Each participant originator trust will enter into a new agreement with another member of their originator group, typically the servicer, or potentially another participant in the underlying securitisation. This is described as a Reimbursement Agreement.

Under the Reimbursement Agreement, each originator group will provide a liquidity payment to the originator trust to cover 90% of eligible COVID-19 hardship deferred interest payment amounts. In exchange for that liquidity payment, those originator trusts will generally reimburse that member of the originator group from waterfall payments on agreed terms, effectively at the level of residual income payments.

<sup>1</sup> The AOFM is a non-corporate Commonwealth entity within the Treasury portfolio and represents the Commonwealth of Australia

The structure is not designed to take assets out of underlying originator trusts. Instead it creates a new receivable between those originator trusts and a member of the originator group which can then be sold into the fSPV.

### **Selling reimbursement receivables to the fSPV**

Each participant originator, having created their reimbursement receivable(s) through a Reimbursement Agreement, will then sell them to the fSPV.

As the AOFM will be making senior investments only, the participant originator will also be required to make a Class B first loss contribution to provide first loss protection into the structure. The size of the contribution depends on the asset class(es).

To access funding by selling reimbursement receivables into the fSPV, the participant originator needs to enter into a Sale and Contribution Deed with the fSPV to:

1. establish the facility under which the participant originator can sell the reimbursement receivables to the fSPV and the terms by which liquidity payments are to be reimbursed; and
2. establish the terms on which first loss contributions (sized by asset class(es)) will be made.

Once the Sale and Contribution Deed is in place, the participant originator can sell reimbursement receivables from many underlying originator trusts to the fSPV (provided the AOFM has approved those trusts for participation in the programme).

When the participant originator wants to make a liquidity payment to the underlying originator trusts, it will propose a sale to the fSPV and the fSPV will purchase the reimbursement receivables, at par (if the sale conditions are satisfied including that the relevant first loss protection has been provided) and those sale proceeds will be used to fund the liquidity payment.

### **AOFM investment**

To fund the fSPV's purchase of the reimbursement receivables, the AOFM will invest in a Class A Variable Funding Note (Class A VFN) for each participant originator. Interest at the rate of 5% per annum is payable on the Class A VFNs.

Payments on the participant originator's reimbursement receivables are used to pay principal and interest on that participant's Class A VFN, whilst the participant's Class B VFN will provide first loss protection to the AOFM's Class A VFN investment. No interest is payable on the Class B VFNs.

Under the structure, by the AOFM subscribing to a different Class A VFN for each participant originator, a participant originator's receivables will not be used to support another participant originator's receivables. More specifically, collections on each participant originator's receivables will be streamed to its Class A VFN and will not be applied to satisfy the obligations of any other participant originator.

### **Availability and scheduled payment periods**

The availability period is the period during which the participant originators can make requests for the liquidity payments by selling reimbursement receivables into the fSPV. During this availability period, participant originators will not be required to reimburse or pay interest on any of these amounts. The current availability period ends on 31 March 2021.

At the end of the availability period, the participant originator enters the scheduled payment period. During this period, there will be a stepped schedule during which there is an expectation that the liquidity payments will be reimbursed. The schedule will step down in agreed increments over an agreed period – 3 years in the case of shorter dated assets or 5 years for longer dated assets.

Underlying trusts will only be required to make the reimbursement if, and to the extent, there is available trust residual income to make that reimbursement on the relevant date. (i.e. a condition exists that the trusts are not required to make that payment unless there are amounts available).

In certain circumstances, participating originator trusts can be required to assist with the reimbursement obligation of another trust within that originator group.

## More information

It should be noted that this is a very high-level summary of the programme, so may not be suited for all purposes. If further detail about aspects of the structure is required, legal advice should be sought.

Further information about the Structured Finance Support Fund can be found [here](#). Small lenders who wish to participate in the fSPV programme can provide an Expression of Interest to the AOFM in accordance with the instructions set out in the [AOFM's announcement of 21 May 2020](#).

Rating agency commentary on the impact of the fSPV on rated securitisation transactions can be found [here](#).

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