

Second Party Opinion

Resimac Group Ltd.'s Social Bond Framework

May 6, 2022

Resimac Group Ltd. (Resimac) is a nonbank lender that specializes in originating, servicing, and funding residential mortgages and other asset-backed financing in Australia and New Zealand. It relies extensively on residential mortgage-backed securities (RMBS) for funding, which this framework covers. The New South Wales government incorporated Resimac in 1985 to securitize mortgages for its social housing program. The group was subsequently privatized and is now publicly listed, services over 50,000 customers, and maintains an on-balance sheet portfolio of about A\$14 billion in home loans as at June 2021. Resimac's social lending ensures that first-home buyers and low security-deposit buyers can become homeowners.

In our view, Resimac's Social Bond Framework, published in May 2022 is aligned with:

 Social Bond Principles, ICMA, 2021 (SBPs)

This second party opinion does not assess the alignment of any individual transaction issued under the framework with the Principles listed above.

Resimac's Sustainability Objectives

Resimac's sustainability strategy hinges on its support to underserved borrowers seeking home ownership. It targets first-home buyers and those who are unable to provide 5% of "genuine savings" to the deposit of an owner-occupied home acquisition. Products also cover self-employed persons, who require dedicated underwriters to assess credit applications, and borrowers who are entering the housing market by purchasing homes in more affordable locations. Resimac helps first-home buyers use government schemes, such as the First Home Owner Grant (FHOG).

The group also supports charities that assist persons with difficulty accessing accommodation. In addition, it provides sustainable local food production capabilities, and community organizations and charities located in the Philippines.

Environmental undertakings focus on providing low interest rate loans for target homeowners to purchase and install energy efficient items for household improvements, such as solar hot water systems.

Resimac has developed a Social Bond Framework to finance home loans to persons with otherwise limited access to traditional bank lending, namely through the issuance of RMBS. This aligns with the group's core value of prioritizing customers who are underserved by the market.

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Second Party Opinion Summary


Use of proceeds

Alignment  Resimac's Social Bond Framework is aligned with this component of the SBPs.

Score Not aligned **Aligned** Strong Advanced

Resimac commits to allocate an amount equivalent to the proceeds of all financings issued under the framework to eligible projects, which includes the refinancing of mortgages provided to borrowers, who traditional bank mortgage providers underserve.


Process for project evaluation and selection

Alignment  Resimac's Social Bond Framework is aligned with this component of the SBPs.

Score Not aligned **Aligned** Strong Advanced


Resimac has a dedicated team to evaluate and select home loans that are consistent with the criteria in the framework, including the identification and management of perceived environmental and social risks associated with eligible projects. The team consists of representatives from Resimac's capital markets, credit, and underwriting teams.

Management of proceeds

Alignment  Resimac's Social Bond Framework is aligned with this component of the SBPs.

Resimac maintains accounting and financial management information systems to track and report on mortgages eligible or have received proceeds from social bond transactions. The group commits to maintain a portfolio of eligible mortgages that exceeds the net proceeds of outstanding social RMBS. Principal collections received may be reinvested subject to the same eligibility criteria as loans forming the original loan pool.

Reporting

Alignment  Resimac's Social Bond Framework is aligned with this component of the SBPs.


Score Not aligned **Aligned** Strong Advanced

Resimac commits to reporting the allocation and impact of proceeds. This includes qualitative and quantitative performance indicators, with the disclosure of the key methodology and assumptions driving these metrics.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Resimac’s Social Bond Framework is aligned with this component of the SBPs.

Commitments score



We consider Resimac’s overall use of proceeds commitments to be aligned.


The framework clearly describes the type, social objectives, and target population of mortgages that are eligible for social securitizations. These projects support the Sustainable Development Goals (SDGs) of Access to Essential Services, and Socioeconomic Advancement and Empowerment. The target population includes owner-occupier first-home buyers and those with less than 5% “genuine savings”. It also includes the self-employed. Targeting customers that face barriers to relevant housing finance aligns with Resimac’s sustainability strategy. Resimac’s interest and other charges on borrowers are comparable to market rates, which we view an indicator that these social loans are not usury. We note that high-income borrowers (those substantially above national median earnings) are ineligible under this framework, and we consider middle-income borrowers as aligned with the SBPs given assessment challenges associated with self-employment. All net proceeds raised under this framework will be used to refinance existing eligible mortgages.

Resimac commits to only use mortgages that were originated within 36 months prior to issuance of the RMBS. We see shorter maximum look-back periods as better practice.

We view programs that promote access to financial services, such as a reduced housing down payments for low- and middle-income residents, as a starting point of social endeavors. In our view, the provision of support such as shelter for emergency situations or for target populations such as the homeless have a higher social impact.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Resimac’s Social Bond Framework is aligned with this component of the SBPs.

Commitments score



We consider Resimac’s overall process for project selection and evaluation commitments to be aligned.

The framework identifies Resimac’s process for evaluating and selecting eligible mortgages for social RMBS. Mortgages are assessed at origination against the group’s credit and underwriting guidelines and criteria for relevant affordability products. This includes the determination of sources of savings (e.g., employment bonuses or pension withdrawals), the use of government grants and other schemes, and the need for extremely high loan-to-value ratios (e.g. 98%). The group maintains exclusions such as loans to high-income earners and maximum loan sizes, to minimize exposure to high-income postcodes. The framework references policies and processes to identify and manage perceived social risks, such as lending to high-income earners and the avoidance of over indebtedness, including compliance with laws. While Resimac supports environmental initiatives, we do not consider these material to the framework.


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We view it as a strength that a dedicated team is responsible for evaluating and selecting home loans that are consistent with the criteria in the framework, consisting of representatives from the capital markets, credit, and underwriting teams. The group's ESG Committee is responsible for designing and implementing ESG initiatives, and is represented by members of the above teams, respectively.

The framework incorporates market-based standards or official definitions, such as each Australian state and territory government's FHOG, in the eligible criteria for some rather than all its eligible mortgage categories. This can limit comparability of the social benefit of some projects.

Management of proceeds

The Principles require disclosure of the Resimac's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the Resimac's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Resimac's Social Bond Framework is aligned with this component of the SBPs.

Resimac maintains accounting and financial management information systems to track and report on mortgages eligible for financing and those that have already received financing from social bond transactions. These systems include information on the financing transaction and the use of proceeds, such as specific mortgages in the securitization pools and estimated social impact. Resimac administers and services the portfolio of loans in the securitization, including mortgage payment dates and amounts. Where only a portion of a securitizations are eligible social mortgages, Resimac will earmark and track the designated assets. The group commits to maintain a portfolio of eligible mortgages that exceed the net proceeds of outstanding social RMBS. Principal collections received may be reinvested subject to the same eligibility criteria as loans forming the original loan pool.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Resimac's Social Bond Framework is aligned with this component of the SBPs.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Resimac's overall reporting practices to be aligned.

Resimac commits to reporting the allocation and impact of RMBS used to support social mortgages. This includes qualitative and quantitative performance indicators, such as the number, type, and benefits accrued to target populations. As part of Resimac's investor reporting, the company will publish a separate section on Social Financing. This will contain both allocation and impact details, and be published at least annually on Resimac's public website. The framework commits to the disclosure of the key methodology and assumptions to determine these indicators, which we view as better reporting practice.

Resimac does not commit to obtaining independent third-party verification of its allocation or impact report.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Resimac's Social Bond Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Access to Essential Services	 1. No poverty*	 10. Reduced inequalities*	 11. Sustainable cities and communities
Socioeconomic Advancement and Empowerment	 1. No poverty*	 10. Reduced inequalities*	 11. Sustainable cities and communities*

*The eligible project categories link to these SDGs in the ICMA mapping.

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