

December 21, 2007

## Transaction Update: AussieMac Pty Ltd.

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# Transaction Update: AussieMac Pty Ltd.

## Ratings Detail

| <b>Program</b>     | <b>Rating</b> | <b>Program limit (mil. A\$)</b> | <b>Sponsor bank</b>       | <b>Type of conduit</b> | <b>Program-wide credit enhancement</b> |
|--------------------|---------------|---------------------------------|---------------------------|------------------------|--|
| AussieMac Pty Ltd. | A-1+          | 500                             | Breez Finance Corporation | Single seller          | None                                   |

### Program Participants

Issuer: AussieMac Pty Ltd. (AussieMac)

Sponsor: Breez Finance Corporation (Breez)

Administrator: Breez Finance Corporation (Breez)

Other programs managed by the administrator: None

Issuer security trustee: Perpetual Nominees Ltd.

Liquidity facility provider: Commonwealth Bank of Australia (CBA)

Mortgage trust : AussieMac Mortgage Insured Trust

Mortgage trust trustee Perpetual Trustee Co. Ltd.

Mortgage trust security trustee: P.T. Ltd.

Hedge counterparty: Commonwealth Bank of Australia

Servicer: Various approved servicers

Originator: Various approved originators

Seller: Various approved sellers

Dealers: None

### Supporting Ratings

Commonwealth Bank of Australia as liquidity facility provider and cash advance facility provider (AA/Stable/A-1+)

PMI Mortgage Insurance Ltd. as Lenders' mortgage insurers (AA/Negative/-)

Genworth Financial Mortgage Insurance Pty Ltd. (Australia) as Lenders' Mortgage Insurers (AA/Stable/—)

### Program Key Features

Initial rating date: Mar. 31, 2004

Securities offered: A\$ CP issued at a discount to face value and with a maximum maturity of 95 days

Program type: Single seller

Maximum program limit (mil. A\$): 500

Collateral: Australian dollar residential mortgage loans secured by registered first-ranking mortgages over properties located in Australia.

Liquidity support: Provided by CBA, for an amount not less than 101% of the performing assets. It covers the timely redemption of notes, any temporary liquidity shortfalls arising from delinquent mortgages or delays in claim payments from mortgage insurers on defaulted mortgages, and any costs associated with title perfection

Pool-specific credit support: LMI covers 100% of the face value of all mortgage loans, accrued interest, and reasonable costs of enforcement.

Program-wide credit support: None

Interest rate risk protection: A suitable fixed-floating interest rate swap to be put in place with an appropriately rated swap counterparty, to cover any mismatch between the fixed rate received on fixed-rate mortgage loans and the floating rates payable on the notes

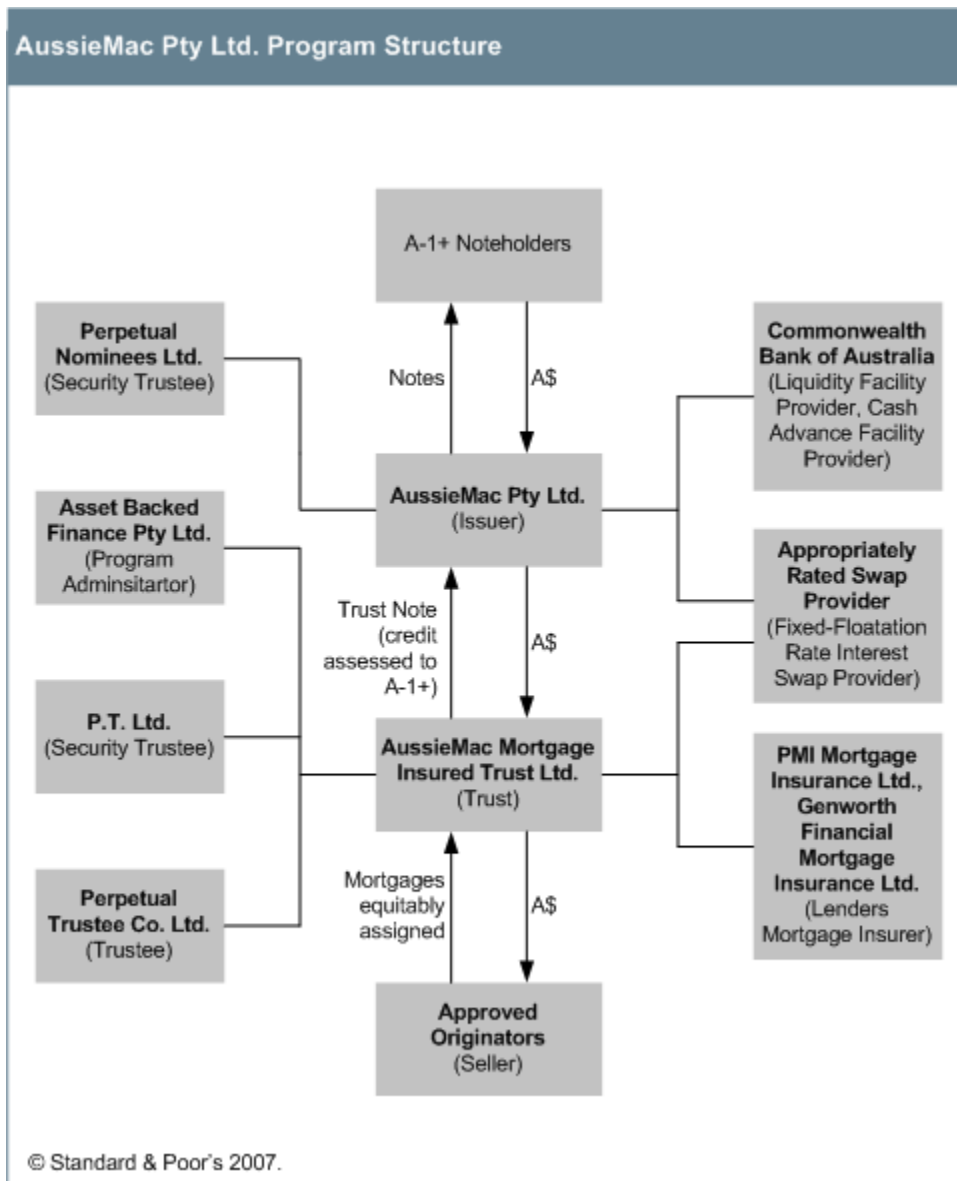
## Transaction Summary

The credit rating of 'A-1+' assigned to the commercial paper ("CP") issued by AussieMac is based on

- The credit quality of the collateral. Prior to the purchase of any trust notes by AussieMac, Standard & Poor's reviews the collateral to ensure that it is credit-assessed to a 'A-1+' rating level before further 'A-1+' rated notes can be issued by AussieMac;
- The provision of a liquidity facility, which covers the timely redemption of notes, any temporary liquidity shortfalls arising from delinquent mortgages or delays in claim payments from mortgage insurers on defaulted mortgages, and any costs associated with title perfection;
- The provision of a cash-advance facility, which covers both potential title-perfection costs and any temporary liquidity shortfalls arising from delinquent mortgages or delays in claim payments from mortgage insurers on defaulted mortgages, to the extent they are not covered by the liquidity facility; and
- Adequate interest rate risk protection through match funding and the threshold-rate mechanism.

## Program Structure

The following diagram illustrates AussieMac's transaction structure:



AussieMac will issue notes to the market, with the proceeds being used to purchase notes from the trust (trust notes). In turn, the proceeds of the trust notes will be used to fund the equitable and legal assignment of mortgage loans originated by various approved originators. The notes are discounted securities, while the trust notes are short-term interest paying securities, and the coupon on the trust notes will match the discount and expenses on the corresponding notes issued.

## Conditions Precedent to CP Issuance

There are a number of requirements that must be met before notes can be issued:

- A rating must be assigned to the initial issue of notes and must not be withdrawn before each subsequent issue;
- The yield on the assets and any payments due under a hedge agreement, for the period, must be sufficient to pay

- the discount on the notes, interest under the liquidity facility, and other fees and expenses due in that period;
- The ability to draw an amount equal to the face value of the notes under the liquidity facility on the maturity date of the notes;
  - The acquisition of assets to be funded by the note issuance must not cause the rating assigned to the notes to be lowered or withdrawn;
  - The notes must be issued in the same denominations and have the same tenors and maturity dates as the corresponding trust notes;
  - The notes cannot be issued at a yield exceeding the liquidity facility drawdown rate;
  - The notes must mature no later than 15 days before the liquidity facility termination date; and
  - The aggregate face value of notes on issue and the liquidity facility principal outstanding must not exceed the liquidity facility authorized commitment.

## Liquidity Support

There is both a liquidity facility and a cash-advance facility in place to provide liquidity support.

## Liquidity Facility

The liquidity facility is a 364-day facility provided by Commonwealth Bank of Australia (CBA). The liquidity facility covers 100% of the face value of notes issued and will cover both timely redemption of notes, and notes issued to fund any temporary asset liquidity shortfalls arising from delinquent mortgages or delays in claim payments from mortgage insurers on defaulted mortgages.

Because the liquidity facility will cover temporary asset liquidity shortfalls, the trust must have A\$101 of liquidity for every A\$100 of performing assets being funded by AussieMac, leaving A\$1 of the liquidity facility amount to cover an amount equivalent to the notes issued to fund any such temporary asset-liquidity shortfalls. This requirement is reviewed by Standard & Poor's each time a new pool of mortgages is funded through the trust, and the requirement will be adjusted if the temporary asset liquidity requirement increases.

The liquidity commitment will be reduced to the extent of assets in default. To the extent an asset is insured under a lenders' mortgage insurance (LMI) policy, the liquidity facility authorized commitment will not be reduced. This means that the liquidity facility is available to support the timely redemption of notes to the extent that the underlying mortgages are covered by an LMI, provided no transaction event of default has occurred.

If AussieMac is unable to issue notes into the market, the liquidity provider may either subscribe for the related notes at a rate equal to the drawdown rate, or advance funds to redeem outstanding notes. If the liquidity provider chooses to subscribe for the notes, those notes will cease to have liquidity support and will be unrated. The liquidity provider may on-sell the notes once liquidity is reinstated and the notes are once again assigned a rating.

## Cash-Advance Facility

The cash-advance facility is a 364-day line of credit provided by CBA, with an initial commitment of A\$1 million. The facility will cover both perfection of title costs and temporary liquidity shortfalls arising from delinquent mortgages or delays in claim payments from mortgage insurers on defaulted mortgages. Any such liquidity shortfalls

will firstly be met from the liquidity facility before being covered under the cash-advance facility.

## **Extension of Cash-Advance Facility and Liquidity Facility**

The liquidity facility and cash-advance facility can each be extended by 182 days for a term not exceeding 364 days. If the liquidity-facility provider or cash-advance facility provider does not agree to extend the terms of their respective facilities, and no substitute is found, then the program administrator must endeavour to sell sufficient assets to meet any amounts owing to the liquidity provider or cash-advance provider, and the balance of the undrawn liquidity commitment or cash-advance commitment (whichever is applicable), which may be required for notes on issue at that time. The assets must be sold for at least the amount of the principal outstanding, plus accrued interest. If the assets cannot be sold at this value, the liquidity provider may accept an assignment of the assets at this value as full and final discharge of the obligations of AussieMac.

## **Interest Rate Protection**

The notes are match-funded to the trust notes. In addition, there is a threshold-rate mechanism in place. The program administrator must set the interest rate on the variable-rate mortgage loans such that the interest revenue earned by the trust from mortgage loans and other authorized investments is sufficient to cover all costs of the trust, including interest-funding costs.

Fixed-rate mortgage loans are eligible to be purchased by the trust under the eligibility criteria. Prior to any fixed-rate loans being funded through AussieMac, Standard & Poor's require a suitable fixed-floating interest rate swap to be put in place to cover any mismatch between the fixed rate received on fixed-rate mortgage loans and the floating rates payable on the notes.

## **Credit Support**

Credit support for the underlying assets being assigned to the trust will be provided by LMI. The mortgage loans will carry LMI cover by insurers with financial strength ratings of 'AA-' or better. LMI covers 100% of the face value of all mortgage loans, accrued interest, and reasonable costs of enforcement. Policies are not endorsed for timely payment cover. To date, none of the servicers have experienced any claims reductions or claims denials.

## **Collateral**

The collateral comprises the mortgage loans and other authorized investments. All authorized investments must have a rating acceptable to Standard & Poor's, and must mature on or before the next note maturity date after the authorized investments are acquired.

## **Eligibility Criteria**

Eligibility criteria includes:

- The trustee will either be the registered first mortgagee or hold the necessary documents to be registered as the first mortgagee;

- All mortgages must be fully covered by LMI rated at least 'AA-';
- All loans are to be in Australian currency and fully drawn;
- Loans will be fully amortizing with the option of interest-only payments for up to five years;
- The maximum term of the loans will be 30 years and one month;
- At the time of purchase, loans must not be in arrears by more than 30 days;
- The loan has a principal sum outstanding of not more than A\$2,000,000;
- Interest on mortgage loans will be payable at either a fixed, capped, or floating rate;
- The maximum loan-to-value (LTV) ratios for all mortgages are 100% for residential owner-occupied properties, 95% for residential investment properties, and 95% for vacant land;
- Mortgaged properties are restricted to Australian residential properties;
- For fixed-rate mortgages, the weighted-average yield on fixed-rate loans must be at least 100 basis points (bps) per year over the corresponding interbank swap rate, plus the cost of any forward-rate agreements, provided that this applies to no more than one-third of the total pool (by dollar amount). When these margins cannot be met, any shortfall must be supported by cash collateral from the seller, which is paid to the trustee at the time an interest rate is fixed, or when a fixed-rate loan is assigned to the trustee;
- For fixed-rate mortgages, the weighted-average margin above the corresponding interbank swap rate must be at least 120 bps per year, plus the cost of any forward-rate agreements (for any other fixed-rate loans in excess of one-third of the pool). When these margins cannot be met, any shortfall must be supported by cash collateral from the seller, which is paid to the trustee at the time an interest rate is fixed, or when a fixed-rate loan is assigned to the trustee; and
- For variable-rate mortgages, the variable rates offered must ensure that the interest revenue earned by the trust from variable-rate mortgages is sufficient to cover all costs of the trust, including interest funding costs.

Key characteristics of the pool of mortgages to be funded by AussieMac, based on the pool cut as at Oct 31, 2007, are shown in Tables 1 and 2.

**Table 1**

| <b>Loan Pool Profile</b>                   |            |
|--|------------|
| Max. loan size (A\$)                       | 981,169.21 |
| Avg. loan size (A\$)                       | 157,544.84 |
| Max. current loan-to-value (LTV) ratio (%) | 96.64      |
| Weighted-avg. current LTV ratio (%)        | 59.85      |
| Weighted-avg. term to maturity (yrs.)      | 23.60      |

**Table 2**

| <b>Loan Pool Characteristics</b>                       |                           |
|--|---------------------------|
| <b>Current loan size distribution (A\$)</b>            | <b>Value of loans (%)</b> |
| Less than or equal to 100,000                          | 10.37                     |
| Greater than 100,000 and less than or equal to 200,000 | 11.04                     |
| Greater than 200,000 and less than or equal to 300,000 | 14.61                     |
| Greater than 300,000 and less than or equal to 400,000 | 17.15                     |
| Greater than 400,000                                   | 16.31                     |
| <b>Current loan-to-value ratio distribution (%)</b>    |                           |
| Less than or equal to 50                               | 23.04                     |
| Greater than 50 and less than or equal to 60           | 13.81                     |

Table 2

| <b>Loan Pool Characteristics(cont.)</b>                                |       |
|--|-------|
| Greater than 60 and less than or equal to 70                           | 35.51 |
| Greater than 70 and less than or equal to 80                           | 17.19 |
| Greater than 80 and less than or equal to 90                           | 7.77  |
| Greater than 90 and less than or equal to 95                           | 2.68  |
| <b>Geographic distribution of primary property security (by state)</b> |       |
| New South Wales and Australian Capital Territory                       | 11.48 |
| Victoria   | 10.37 |
| Queensland   | 78.15 |
| Western Australia  | 0.00  |
| South Australia  | 0.00  |
| Tasmania and Northern Territory  | 0.00  |
| <b>Geographic distribution (metro/nonmetro)</b>                        |       |
| Metropolitan   | 92.88 |
| Nonmetropolitan  | 7.12  |
| <b>Principal amortization</b>  |       |
| Fully amortizing   | 49.43 |
| Interest-only period reverting to fully amortizing                     | 50.57 |
| <b>Ownership type</b>  |       |
| Owner occupied   | 79.51 |
| Investment   | 20.49 |
| <b>Mortgage insurers</b>   |       |
| Genworth Lenders Mortgage Insurance Ltd.                               | 61.36 |
| PMI Mortgage Insurance Ltd.  | 38.64 |
| <b>Loan documentation</b>  |       |
| Full Doc   | 50.57 |
| Low Doc  | 49.43 |

## Uniform Consumer Credit Code (UCCC)

There is a CUMIS Insurance Society Inc. (financial strength rating 'Api') A\$500,000 indemnity in place to cover civil penalty risk.

## Origination, Underwriting, and Servicing

AussieMac accepts originations from various approved originators including cooperative housing societies, credit unions and brokers. The loans are either written in the name of the seller and equitably assigned to the trustee, or, written in the name of the trustee.

Where loans are equitably assigned, the seller is responsible for the ongoing servicing of all mortgage loans. For loans that are originated from brokers and written directly in the name of the trust, credit is overseen centrally in Brisbane by Breez. Full valuations by a panel of external valuers are carried out on all properties securing the

mortgage loans.

The mortgage loans in the pool are currently serviced by a variety of servicers, including the individual sellers into the program, as well as Perpetual Nominees. Perpetual Nominees was engaged by AussieMac in the latter half of 2006 to service, manage, and administer the housing loans. Perpetual Nominees will service a loan that comes from brokers as distinct from approved sellers, such as credit unions wishing to retain loan servicing as part of their product offerings. Approved servicers for AussieMac loans measure and manage delinquencies under the "Australian arrears" method. Under the "Australian arrears" method, a loan is only deemed to be delinquent when the loan balance is more than the scheduled balance.

## Program Administrator

Breez Finance Corporation will undertake trust management responsibilities and administration of the AussieMac program. Breez currently performs a number of roles in the AussieMac program including origination/underwriting, servicing, and arrears management.

## Related Articles

- Inside ABCP, published monthly
- Australian Securitisation News, published weekly

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