Presale:

Firstmac Mortgage Funding Trust No.4 Series 2020-3

October 19, 2020

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Preliminary Ratings

Class	Preliminary ratings	Preliminary amount (mil.)	Credit support before credit is given to mortgage insurance (%)	Credit support after credit is given to mortgage insurance (%)	Credit support provided (%)
A-1a	AAA (sf)	¥32,250	4.46	2.65	15.00
A-1b	AAA (sf)	A$425.0	4.46	2.65	15.00
A-2	AAA (sf)	A$90.0	4.46	2.65	6.00
AB	AAA (sf)	A$29.0	4.46	2.65	3.10
B	AA (sf)	A$17.0	3.11	1.11	1.40
C	A (sf)	A$10.9	1.93	0.13	0.31
D	NR	A$3.1	N/A	N/A	0.00

Note: This presale report is based on information as of Oct. 20, 2020. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. The class A-1a notes, class A-1b notes, and class A-1ar notes (if issued) are referred to collectively as the class A-1 notes. N/A--Not applicable. NR--Not rated.

Profile

Expected closing date	October 2020
Expected final maturity date	The payment date in October 2051
Collateral	Fully amortizing, interest-only converting to amortizing, and line-of-credit Australian-dollar loans to prime-quality borrowers, secured by first registered mortgages over Australian residential properties. The loans mature no later than 18 months before the final maturity of the notes.
Structure type	Prime residential mortgage-backed pass-through and scheduled amortization securities
Issuer	Firstmac Fiduciary Services Pty Ltd. as trustee for Firstmac Mortgage Funding Trust No.4 Series 2020-3
Backup trustee	Perpetual Corporate Trust Ltd.
Trust manager, servicer, and custodian	Firstmac Ltd.
Backup servicer	Perpetual Trustee Co. Ltd.
Security trustee	P.T. Ltd.

Profile (cont.)

Primary credit enhancement	Note subordination, lenders' mortgage insurance on all the loans in the portfolio and excess spread, if any. Lenders' mortgage insurance covers 100% of the principal balance on the insured loans, plus accrued interest and reasonable costs of enforcement (see "Reliance On Lenders' Mortgage Insurance").

Supporting Ratings

Lenders' mortgage insurers	QBE Lenders' Mortgage Insurance Ltd. and Genworth Financial Mortgage Insurance Pty Ltd.
Interest-rate swap provider and cross-currency swap provider	National Australia Bank Ltd.
Bank account provider	Westpac Banking Corp.

Loan Pool Statistics As Of Aug. 24, 2020

Total number of loans	2,249
Total value of loans (A$)	981,950,301
Current maximum loan size (A$)	1,982,407
Average loan size (A$)	436,616
Maximum current loan-to-value (LTV) ratio (%)	90.0
Weighted-average current LTV ratio (%)	67.4
Weighted-average loan seasoning (months)	12.0

Note: All portfolio statistics are calculated on a consolidated basis.

Rationale

The preliminary ratings assigned to the prime floating-rate residential mortgage-backed securities (RMBS) to be issued by Firstmac Fiduciary Services Pty Ltd. as trustee for Firstmac Mortgage Funding Trust No.4 Series 2020-3 reflect the following factors.

The credit risk of the underlying collateral portfolio (discussed in more detail under "Credit Assessment") and the credit support provided to each class of notes are commensurate with the ratings assigned. Credit support is provided by subordination, excess spread and lenders' mortgage insurance (LMI) for the rated notes. The credit support provided to the rated notes is sufficient to cover the assumed losses at the applicable rating stress. Our assessment of credit risk takes into account Firstmac Ltd. (Firstmac)'s underwriting standards and approval processes, which are consistent with industry-wide practices, and the strong servicing quality of Firstmac (discussed in more detail under "Origination And Servicing"), and the support provided by the LMI policies on all loans in the portfolio (see "Reliance on Lenders' Mortgage Insurance").

The rated notes can meet timely payment of interest--excluding the residual interest due on the class B and class C notes (see "Notable Features")--and ultimate payment of principal under the rating stresses. Key rating factors are the level of subordination provided, the LMI cover, the liquidity reserve, the principal draw function, the interest-rate swap, the cross-currency swap, and the provision of an extraordinary expense reserve. Our analysis is on the basis that the notes are fully redeemed by their legal final maturity date and we do not assume the notes are called at or beyond the call date. S&P Global Ratings' preliminary rating addresses repayment of class A-1a notes principal by the legal final maturity date. It does not address whether principal payments to the class A-1a notes are made in accordance with the class A-1a notes' amortization schedule.

Our ratings also take into account the counterparty exposure to Westpac Banking Corp. (Westpac) as bank account provider and National Australia Bank Ltd. (NAB) as the interest-rate swap provider and cross-currency swap provider. NAB will provide an interest-rate swap to hedge the interest-rate risk between any fixed-rate mortgage loans and the floating-rate obligations on the notes (see "Interest-Rate Risk"). A cross currency swap will be provided to hedge the Australian-dollar receipts from the underlying assets and the yen payments on the class A-1a notes (see "Currency Risk"). The transaction documents for the swaps and bank account include downgrade language consistent with S&P Global Ratings' counterparty criteria.

We also have factored into our ratings the legal structure of the trust, which is established as a special-purpose entity and meets our criteria for insolvency remoteness.

Loss of income for borrowers in the coming months due to the effects of COVID-19 might put upward pressure on mortgage arrears over the longer term. We recently updated our outlook assumptions for Australian RMBS in response to changing macroeconomic conditions as a result of the COVID-19 outbreak. The collateral pool at close for this transaction will not include any loans where the borrower has applied for a COVID-19 hardship payment arrangement. Nevertheless, we undertook additional cash-flow sensitivity analysis to assess the rated notes' sensitivity to delays in borrower payments should some borrowers enter hardship arrangements following the closing date.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The current consensus among health experts is that COVID-19 will remain a threat until a vaccine or effective treatment becomes widely available, which could be around mid-2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Strengths And Weaknesses

Strengths

We have observed the following strengths in the transaction:

- For the class A-1a notes, class A-1b notes, and class A-2 notes, the credit support provided by note subordination exceeds the level of pre-LMI credit support commensurate with a 'AAA (sf)' rating, and is more than sufficient to maintain the ratings on these notes--assuming no deterioration in the underlying pool--should the ratings on the LMI providers be lowered or removed.
- The quality of the loan servicing provided by Firstmac. S&P Global Ratings has assigned Firstmac a STRONG residential prime loan servicer ranking, with a stable outlook. The servicer ranking reflects Firstmac's continued solid servicing quality (more detail is provided in the "Origination And Servicing" section).
- The weighted-average loan-to-value (LTV) ratio of the pool is relatively low at 67.4%, and loans with an LTV ratio at or below 75% make up 63.4% of the pool. S&P Global Ratings considers the LTV ratio of a loan to be a key determinant of credit risk and adjusts upward the default frequency for loans with an LTV ratio greater than 75%.

Weaknesses

Weaknesses identified with respect to the transaction are:

- Loans to investors make up 36.8% of the portfolio. S&P Global Ratings assumes the default frequency on these loans is higher to reflect the potential greater risk of default compared with loans for home purchase.
- Loans with interest-only periods, including line-of-credit loans of up to five years, represent 34.3% of the portfolio. We assume a higher probability of default for loans in this category to reflect the reduced likelihood of a build-up of equity over time.
- The pool has a 19.7% exposure to security properties in nonmetropolitan areas. S&P Global Ratings adjusts the default frequency on loans in nonmetropolitan areas because loans in these areas historically have demonstrated a higher probability of default. We also increase the recovery period for loans in these areas to reflect the lower demand for property in regional areas.
- Some 76.9% of the loans in the portfolio are seasoned by 12 months or less.

Notable Features

Class B, class C, and class D notes coupon

On and from the call date, the margins on the class B, class C, and class D notes will step down and be paid on the stated amount of the notes as a senior interest component. There is also a residual interest component that is subordinated in the interest waterfall, and has no access to the liquidity support in the transaction. S&P Global Ratings' ratings on the class B and class C notes do not address the payment of the residual interest amount.

Although the transaction documents allow the class B and class C notes' senior interest to be paid on the stated amount of the notes, based on our analysis, we believe that in a 'AA (sf)' environment with respect to the class B notes and a 'A (sf)' environment with respect to the class C notes, the stated amount of class B and class C notes will always equal the notes' respective invested amounts. Therefore, we have modeled in our cash-flow analysis the payment of the senior interest on the invested amount. Our cash-flow analysis shows that the notes' interest can be paid in full senior in the waterfall under the relevant stresses commensurate with the ratings on the notes.

Class A-1a notes refinance date

From the payment date that falls in October 2025 (the class A-1a note refinance date), Firstmac will be entitled to refinance all of the outstanding class A-1a notes by issuing new class A-1ar notes. The proceeds of class A-1ar notes will be used to repay the class A-1a notes, and any amount drawn and remaining outstanding from the cross-currency swap provider to meet the scheduled amortization of the class A-1a notes. The terms and conditions, including the coupon, on the class A-1ar notes is currently unknown. A condition precedent to the issuance of the class A-1ar notes is that S&P Global Ratings will be notified of the terms and conditions of these notes and that the manager has determined that there will be no negative effect on our rating on any of the outstanding notes.

If class A-1ar notes are not issued on the class A-1a notes refinance date, then the interest margin on the existing class A-1a notes will step-up.

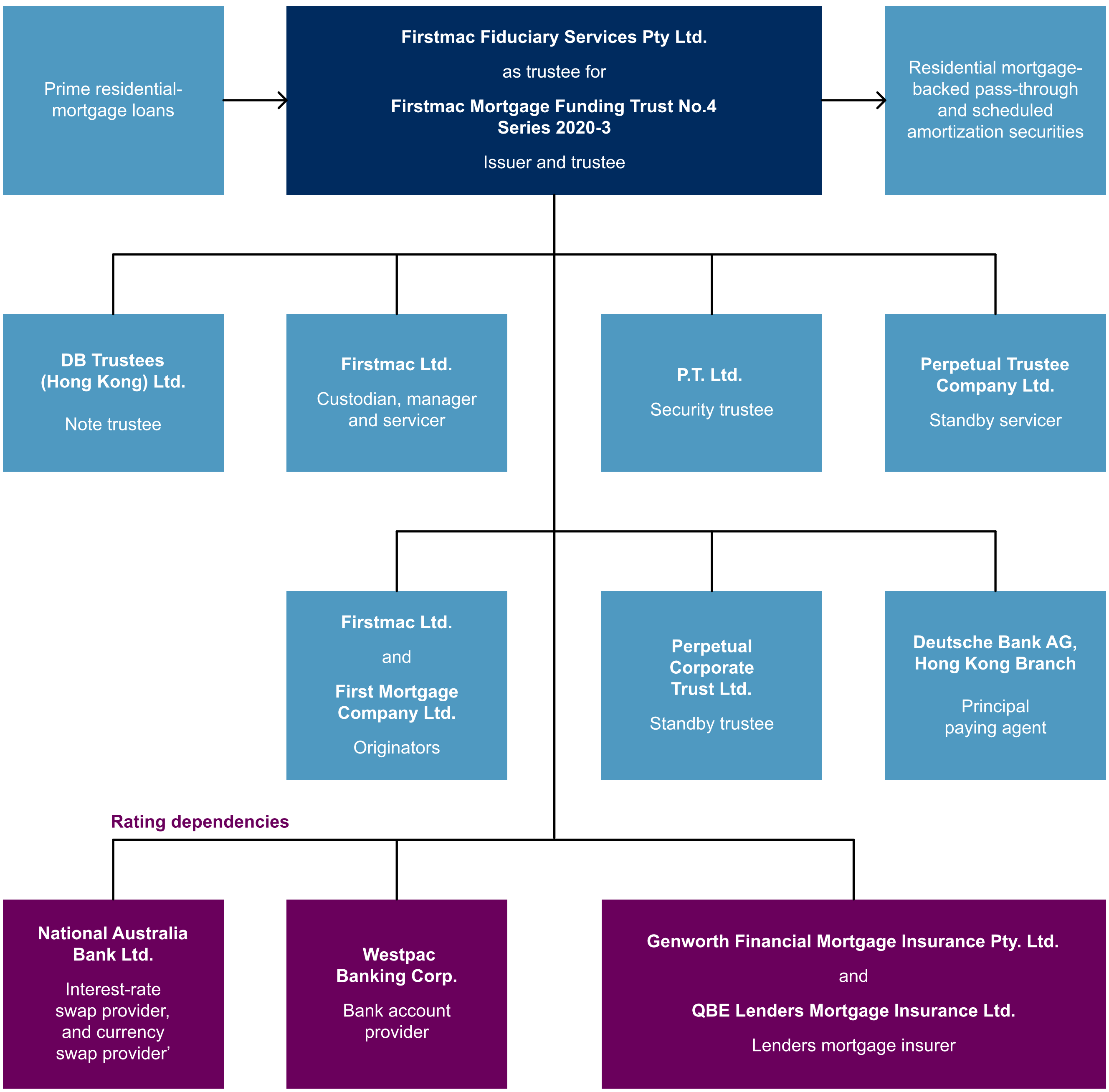
In our cash-flow modeling, we have assumed that the class A-1ar notes cannot be issued. We have factored in the documented step-up margin applicable to the class A-1a notes on and from the class A-1a note refinance date in our analysis.

Transaction Structure

The structure of the transaction is shown in chart 1.

Chart 1

Firstmac Mortgage Funding Trust No.4 Series 2020-3
Transaction structure



We understand that transaction counsel will lodge the relevant financing statements on the Personal Property Securities Register in connection with the security interest.

Note Terms And Conditions

Interest payments

The Australian dollar-denominated notes are floating-rate securities, paying a margin over the 1 month bank bill swap rate (BBSW) on the invested amount of the notes. The class A-1a notes are yen-denominated, with floating-rate interest based on a margin over one-month yen LIBOR. Interest is calculated on the invested amount of each note. However, on and from the call date, the senior interest on the class B, class C, and class D notes will be payable based on their stated amounts (see "Notable Features"). Interest payments are made pari passu between the class A-1a and class A-1b notes, then sequentially to the remaining classes of notes. S&P Global Ratings' ratings on all rated notes address the timely payment of interest and ultimate principal repayment on the notes. However, S&P Global Ratings' ratings on the class B and class C notes do not address the payment of the residual interest amount on the class B and class C notes.

The trustee can elect to call the notes in full at their invested amounts on the earlier of the payment date on which the outstanding note balance is less than 10% of the initial balance and the payment date in October 2027 ("call date").

A step-up margin will apply to the class A-1a notes if the notes are not redeemed on the class A-1a notes refinance date.

Step-up margins will apply to the class A-1b, class A-1ar (if issued), class A-2, and class AB notes if the notes are not called on the call date.

Step-down margins will apply to the class B, class C, and class D notes if the notes are not called on the call date.

Principal allocation

All classes of notes have a legal final maturity on the payment date in October 2052. Principal collections--after application of principal draws, if necessary, to cover any income shortfalls or to fund redraws--will be passed through to noteholders on a sequential-payment basis. The exception is the class A-1 and class A-2 notes where a total of 96% of principal collections is allocated to the class A-1 notes and 4% of principal collections is allocated to the class A-2 notes.

The principal allocated to class A-1 notes will firstly be paid to the currency swap provider, NAB, as per the "single leg balance guarantee swap". NAB will then make principal payments to the class A-1a notes holders to amortize them according to their scheduled balance.

If the amount of principal allocated to the class A-1 notes is insufficient for the class A-1a notes to reach their then-scheduled balance, then NAB will pay the difference, provided the aggregate of the amounts that NAB has advanced does not exceed the documented cap of A$220 million. Interest on the amounts advanced by NAB is payable by the issuer and ranks pari passu with class A-1 notes interest in the income waterfall.

Should the amount of principal allocated to the class A-1 notes exceed that required for the class A-1a notes to reach their then-scheduled balance and to repay any amounts previously advanced by NAB but not yet repaid, such amount will be made available to repay the class A-1b notes. Upon full repayment of the class A-1b notes, NAB will retain any excess principal allocated to class A-1 notes, provided the amount held does not exceed the then-outstanding balance of the class A-1a notes. Interest on such amounts will be paid by NAB to the issuer and included in income collections.

We determined in our cash-flow analysis of this transaction that under a high constant prepayment rate and front-end default scenario, the maximum amount held by NAB under the currency swap could reach about 12.3% of the initial transaction size. We consider this counterparty exposure to NAB to be appropriately mitigated because the swap documentation requires the posting of collateral, including any amounts held by NAB in respect of the class A-1a notes, within 10 business days, should our rating on NAB fall below 'A-'.

Following the earlier of a trigger event under the currency swap (see "Currency risk") or the call date, the currency swap will revert to a balance guaranteed swap. At that time, any amounts held by NAB under the swap will be applied as principal repayments. Repayment of any amounts previously advanced by NAB but not yet repaid by the issuer, will rank senior to the class A-1 notes principal in the principal waterfall, with both items paid on a pass-through basis.

If the class A-1a notes are not amortized according to their schedule or repaid in full by their expected maturity date, this will not trigger an event of default.

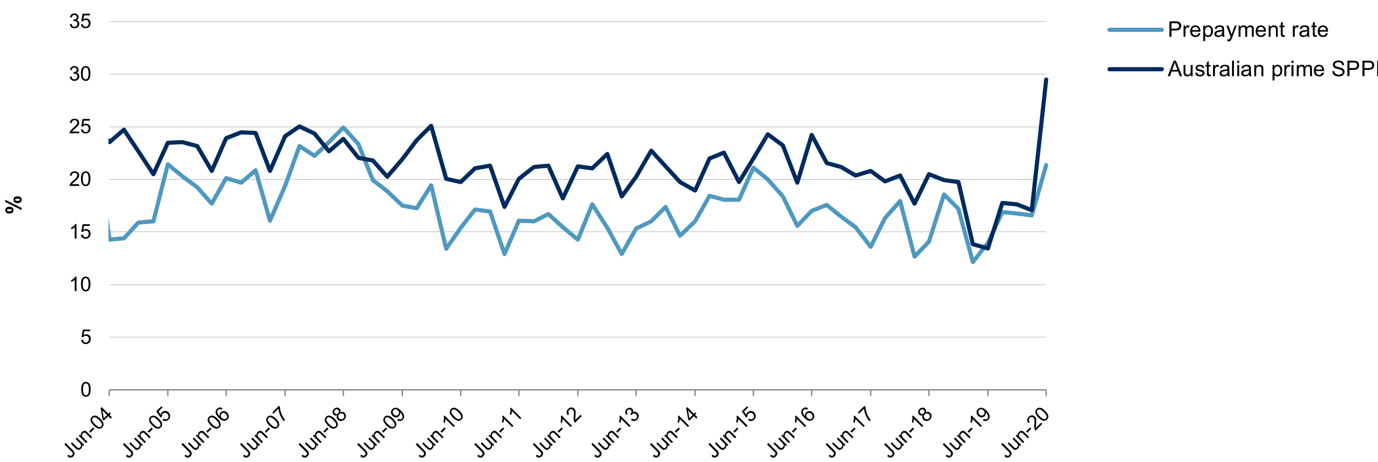
Once the class A-1a notes are fully repaid, the principal allocated to the class A-1 notes will then be paid sequentially to the class A-1ar notes (if issued), then to the class A-1b notes. Note that the class A-1ar notes can only be issued from the class A-1a refinance date onward.

The transaction can convert to a pro-rata payment structure if the step-down tests are met (see "Pro-rata paydown triggers"). Under pro-rata pay, each class of notes receives its pro-rata amount based on the documented note principal allocation calculations.

Chart 2 shows the prepayment rate for Firstmac's securitized prime loan portfolios against Standard & Poor's Prepayment Index (SPPI), which is a measure of prepayment rates for Australian prime RMBS. The prepayment speeds encompass the unscheduled principal payments on the mortgage loans.

Chart 2

FirstMac Ltd.
Average loan portfolio prepayment speeds



Source: S&P Global Ratings.

Loss allocation

Charge-offs will be first allocated to the class D notes until their outstanding balance is reduced to zero, followed by the class C, class B, class AB, and class A-2 notes, then pari passu to the class A-1a, class A-1ar (if issued) and class A-1b notes. Under the transaction structure, any charge-offs are to be reimbursed in the reverse order.

Pro-rata paydown tests

The tests to allow pro rata pay down are:

- Payment is made at least two years after transaction close;
- During the preceding four collection periods, no more than 2% of mortgages is 90 days or more in arrears;
- The payment date is not on or after the call date;
- There are no unreimbursed carryover charge-offs in respect of any notes;
- If the payment date is on or after the class A-1a note refinance date, that there are no class A-1a notes then outstanding;
- Credit support provided to the class A-1 notes from note subordination is at least 23.0%;

- Credit support provided to the class A-2 notes from note subordination is at least 5.30%; and
- Credit support provided to the class B notes from note subordination is at least 2.22%.

Reliance On Lenders' Mortgage Insurance

All mortgage loans within the pool are either insured by a primary or pool LMI policy provided by a rated mortgage insurer. The LMI policies cover the outstanding mortgage loan principal, accrued interest, and any reasonable enforcement expenses on the defaulted mortgage loans.

The policies contain terms and conditions that allow the insurer to reduce or deny a claim in certain circumstances. If a claim is reduced and results in a loss to the trust, the issuer may be able to offset that loss by applying excess spread to cover those losses before making any distribution to beneficiaries.

Under our "Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured and Public Sector Finance And Covered Bonds" criteria, published on Dec. 7, 2014, the overall amount of credit given to LMI is the product of the stated coverage of the LMI policy, the insurer's estimated capacity to pay for a given rating scenario, and the estimated claims payout ratio for a given issuer.

To adjust for the insurer's capacity to pay, S&P Global Ratings will look to the LMI provider's issuer credit rating (ICR). When sizing the credit support for the 'AAA (sf)' rated notes, S&P Global Ratings assumes that 55% of claims to 'A' rated LMI providers will not be paid.

In addition, the estimated claims payout ratio reflects the categorization of Firstmac into CA1 due to a minimal level of claims adjustments, clearly documented servicing practices, and detailed procedures adhering to LMI policies and procedures. The claims adjustment rate for CA1 is 10%.

Rating-Transition Analysis

Scenario analysis: Lenders' mortgage insurance

A key rating-transition risk in many Australian prime RMBS transactions is a lowering of our rating on one or more of the lenders' mortgage insurers. We consider the rating-transition risk for the 'AAA (sf)' rating on the class A-1a, class A-1b, and class A-2 notes to be remote because the credit support from the subordinated notes is higher than the minimum credit support required before giving credit to LMI.

Assuming that there is no deterioration in the portfolio credit quality and performance, table 1 details the level of subordination that would support the current rating on the notes if we were to lower our rating on Genworth Financial Mortgage Insurance Pty Ltd. (Genworth) or QBE Lenders' Mortgage Insurance Ltd. (QBE) by one notch to 'A-', at the current estimated claims payout ratio.

The ratings on the class AB, class B, and class C notes are unlikely to be affected by a one-notch downgrade of Genworth and/or QBE, all else remaining equal. However, the class AB, class B, and class C notes are likely to be affected if no credit is given to LMI.

Table 1

Rating Sensitivity To Lowering Of Rating On Lenders' Mortgage Insurer

Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	Minimum credit support commensurate with a 'AAA (sf)' rating on class AB notes (%)	Likely rating transition of class AB notes if no additional support were provided
Genworth		
'A-'	3.01	AAA
QBE		
'A-'	2.70	AAA
Both Genworth and QBE		
'A-'	3.05	AAA
No credit to LMI	4.46	AA-
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with a 'AA (sf)' rating on class B notes (%)**	**Likely rating transition of class B notes if no additional support were provided**
Genworth		
'A-'	1.36	AA
QBE		
'A-'	1.14	AA
Both Genworth and QBE		
'A-'	1.39	AA
No credit to LMI	3.11	BBB+
Lenders' mortgage insurers (and ratings) subject to hypothetical downgrades	**Minimum credit support commensurate with a 'A (sf)' rating on class C notes (%)**	**Likely rating transition of class C notes if no additional support were provided**
Genworth		
'A-'	0.29	A
QBE		
'A-'	0.15	A
Both Genworth and QBE		
'A-'	0.31	A
No credit to LMI	1.93	B-

S&P Global Ratings considers that the other major factor that could drive negative rating changes in this transaction is a significant deterioration in asset portfolio performance.

Scenario analysis: Property market value decline

S&P Global Ratings performed a scenario analysis to determine the potential effect on the ratings at transaction close if the values of every security property decreased by 10%. We applied a haircut of 10% to the original property values and increased the loan-to-value (LTV) ratios for this impact. Note that this scenario does not take into account potential increases or decreases in the security property value compared to its original value, nor does it consider cash-flow analysis and, therefore, the potential use of excess spread to cover losses. The implied credit assessments are set out in table 2.

Table 2

Minimum Credit Support For Credit Losses And Implied Credit Assessments Under The Scenario

Class	Minimum credit support for credit losses pre-LMI (%)	Implied credit assessment pre-LMI	Minimum credit support for credit losses post-LMI (%)	Implied credit assessment post-LMI
A-1a	8.01	aaa	4.76	aaa
A-1b	8.01	aaa	4.76	aaa
A-2	8.01	aa	4.76	aaa
AB	8.01	a-	4.76	aa+
B	5.69	bb	2.03	aa-
C	3.61	Below b-	0.23	a

LMI--Lenders' mortgage insurance.

Origination And Servicing

We assess the quality of the origination, underwriting, and servicing of the loans as part of our credit analysis because it can affect the performance of the portfolio.

Firstmac's underwriting practices and standards are in line with industry standards. We have taken into account the role of brokers and mortgage originators as introducers for about half of the loans in the portfolio, as well as the online direct origination channel that originates the remaining loans. We have also factored into our analysis the fact that regardless of the originator channel, all loans go through the centralized approval processes of Firstmac, approval hindsight reviews, and the level of exceptions to credit policy is considered low. Firstmac's calculation of borrowers' repayment capacity takes into account a borrower's employment status, the sources of income, other commitments and living expenses, in line with industry standards. We have taken into account the interest-rate buffers and haircuts to income that Firstmac applies so we can assess the consistency and quality of Firstmac's debt serviceability assessment in our credit analysis.

In determining the market value decline assumption we have factored in the type of valuation that was obtained when the loans were originated. Firstmac uses Valuation Exchange (ValEx) for all valuation orders and management. In May 2017, Firstmac introduced automated valuation model and desktop valuation as alternative valuation methods. It arranges these valuations through ValEx, which is available for loan refinancing and property purchases only. Approximately 83.2% of loans in this portfolio have had a full valuation conducted by a registered appraiser at origination. The remaining proportion had valuation conducted under an alternative valuation method.

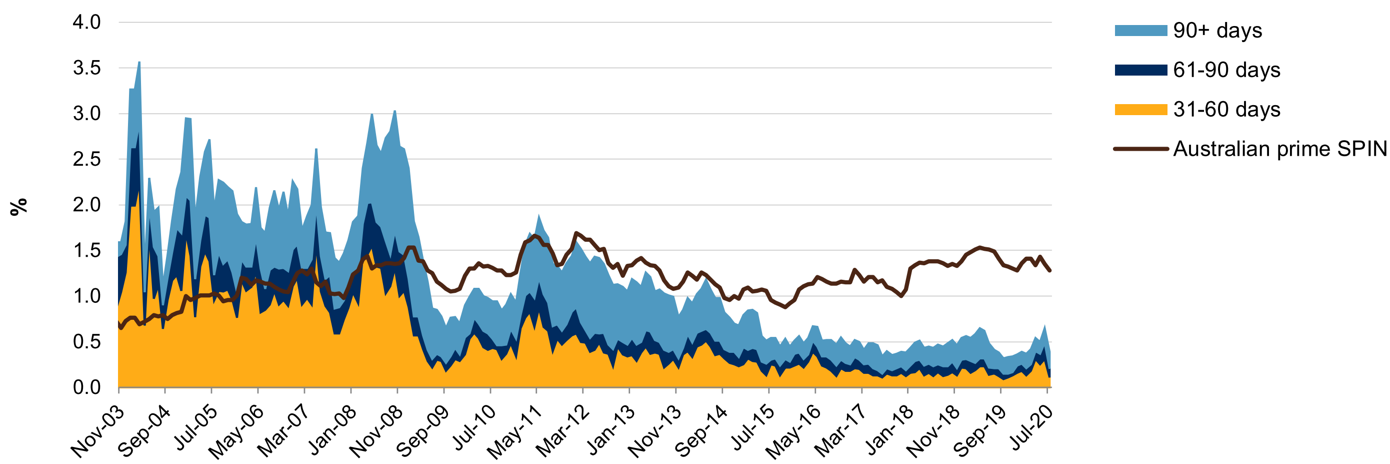
We have taken into account Firstmac's arrears management processes and policies as well as its historical arrears and loss performance to assess the quality of Firstmac's servicing. Firstmac maintains full control over all elements of its loan servicing, arrears management, and loss-mitigation processes.

Arrears are managed and reported on a scheduled-balance basis. Chart 3 compares the level of arrears of Firstmac-originated loans with the aggregate level of arrears on mortgage loans collateralizing all rated RMBS transactions in Australia, as measured by the Standard & Poor's Performance Index (SPIN) for Australian prime mortgages.

Firstmac's arrears levels historically tracked higher than the average performance before 2009, as measured by the SPIN (chart 3). Since 2009, however, Firstmac's arrears levels have been tracking below the SPIN. This followed changes to Firstmac's underwriting assessment and the introduction of a new online direct retail origination channel in 2011 that has accounted for about half of new originations to date.

Chart 3

FirstMac Ltd.
Performance of loans against the Australian SPIN

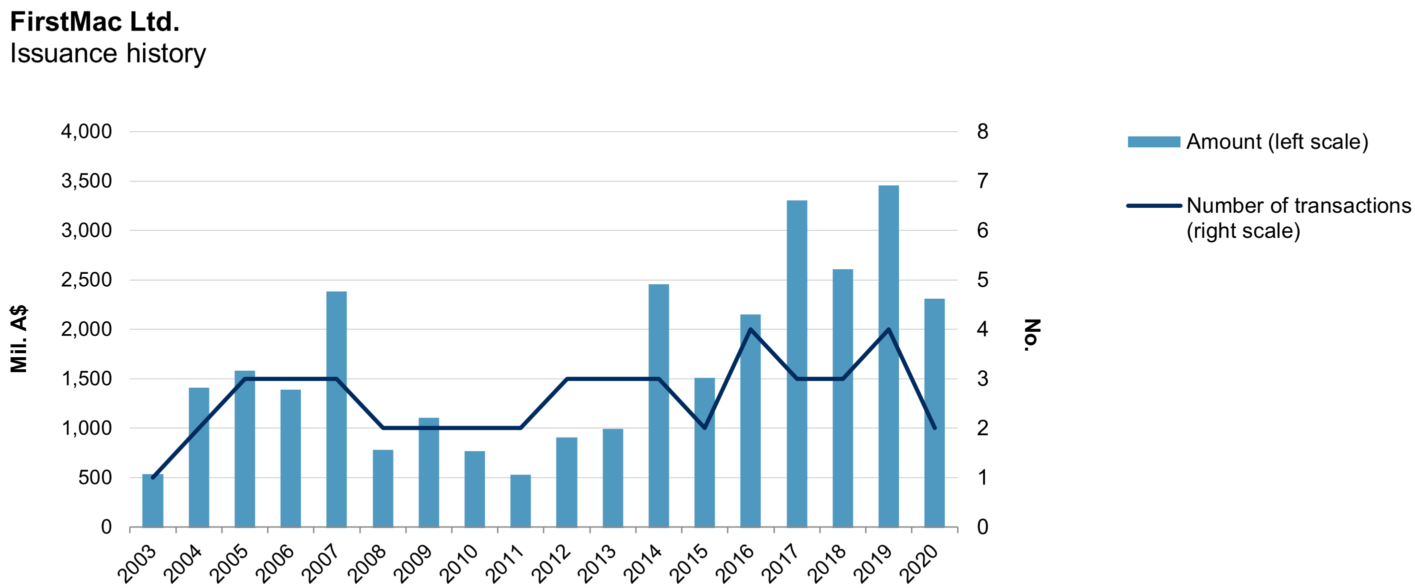


Source: S&P Global Ratings.

S&P Global Ratings first assigned a STRONG residential loan servicer ranking with a stable outlook to Firstmac in December 2009. We affirmed the STRONG ranking with a stable outlook in February 2020. The ranking reflects Firstmac's demonstrated high level of competence in its servicing capabilities, supported by its qualified and experienced staff, and continued initiatives to improve the servicing operations. For more information on Firstmac's servicing capability, refer to the respective servicer evaluation reports, available on RatingsDirect, S&P Global Ratings' Web-based credit analysis research system, at https://www.capitaliq.com.

Firstmac has issued 47 publicly rated Australian prime RMBS deals since September 2003. Chart 4 illustrates Firstmac's issuance history.

Chart 4



Source: S&P Global Ratings.

Credit Assessment

The portfolio consists entirely of full-documentation prime residential mortgage loans originated by Firstmac. This is a closed pool, which means no additional loans will be assigned to the trust after the closing date.

We have assessed the credit quality of the collateral to determine the minimum credit support levels for this transaction. Among the strengths we identified are the geographic diversity of the portfolio and that all loans are assessed on a full-documentation basis. The key weaknesses in the credit quality of the portfolio are the exposure to loans with interest-only periods, exposure to investor borrowers, and exposure to loans in nonmetropolitan locations. Our credit support calculation takes into account that borrowers can redraw prepaid principal under the mortgage loans and the negligible exposure to line-of-credit loans, which allow borrowers to draw up to the facility limit, both of which would increase LTV ratios as borrowers draw additional funds up to the predetermined limits.

The collateral pool as of Aug. 24, 2020, for this transaction does not include any loans under COVID-19 hardship payment arrangements.

In calculating the minimum credit support levels, we compare the characteristics of the portfolio with an archetypical pool and apply multiples as a way to increase or decrease credit support levels to reflect higher or lower credit risk compared with the characteristics of the archetypical pool. The credit support levels comprise two components: default frequency and loss severity. A summary of this calculation is shown in table 3. Table 4 lists the five main default frequency characteristics that have deviated from the archetypical pool.

Table 3

Summary Credit Analysis – Total Pool

	AAA (sf)	AA (sf)	A (sf)
(a) Default frequency (%)	12.18	9.34	6.42
(b) Loss severity (%)	36.63	33.30	30.07
(c) Credit support required before credit to lenders' mortgage insurance (LMI) (a) x (b) (%)	4.46	3.11	1.93
(d) Credit to LMI (%)	1.81	2.00	1.81
(e) Credit support required after credit to LMI (c) – (d) (%)	2.65	1.11	0.13
Assumptions			
Market value decline (%)	45.0	43.0	41.0
Weighted-average recovery period (months)	14.9	14.9	14.9
Interest rate through recovery period (%)	8.0	7.5	7.0

Table 4

Rating Multiples

Criteria	Default frequency multiple (x)
Nonmetro concentration	1.050
Property occupancy	1.040
Repayment method	1.034
Loan term	0.903
Loan-to-value ratio	0.918

Loan Pool Profile

The pool as of Aug. 24, 2020, is summarized in table 5. All portfolio statistics are calculated on a consolidated loan basis.

Table 5

Loan Pool Characteristics

	Value of loans (%)
Current loan size distribution (A$)	
Less than or equal to 100,000	0.4
Greater than 100,000 and less than or equal to 200,000	3.2
Greater than 200,000 and less than or equal to 300,000	10.8
Greater than 300,000 and less than or equal to 400,000	19.0
Greater than 400,000 and less than or equal to 600,000	32.6
Greater than 600,000 and less than or equal to 800,000	14.2
Greater than 800,000 and less than or equal to 1,000,000	9.6

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Greater than 1,000,000 and less than or equal to 1,500,000	7.6
Greater than 1,500,000	2.7
Current loan-to-value ratio distribution (%)	
Less than or equal to 50	12.5
Greater than 50 and less than or equal to 60	11.6
Greater than 60 and less than or equal to 70	24.0
Greater than 70 and less than or equal to 80	45.2
Greater than 80 and less than or equal to 90	6.7
Greater than 90 and less than or equal to 95	0.0
Geographic distribution (by state)	
New South Wales and Australian Capital Territory	31.2
Victoria	38.4
Queensland	22.1
Western Australia	4.0
South Australia	3.2
Tasmania and Northern Territory	1.0
Geographic distribution (metro/nonmetro)	
Inner city	1.0
Metropolitan	79.4
Nonmetropolitan	19.7
Seasoning	
Less than or equal to six months	34.8
Six months – one year	42.1
1-2 years	15.0
2-3 years	3.1
3-4 years	1.1
4-5 years	0.7
Greater than five years	3.1
Principal amortization	
Fully amortizing	65.7
Interest-only for up to five years, reverting to fully amortizing	34.3
Ownership type	
Owner-occupier	63.2
Investor	36.8
Borrower residency	
Australian resident	99.6

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Non-Australian resident	0.4
Employment status	
P-A-Y-E (full or part time)	90.6
Self-employed	9.4
Loan documentation	
Full documentation	100.0
Mortgage insurers	
QBE Lenders' Mortgage Insurance Ltd.	5.2
Genworth Financial Mortgage Insurance Pty Ltd.	94.8
Loan purpose	
Purchase (new or existing)	42.9
Refinance	51.8
Refinance for equity takeout	5.3
Other	0.0

Cash-Flow Analysis

Our cash-flow analysis shows that the transaction has sufficient income to support timely payment of interest--excluding residual interest to the class B and class C notes--and ultimate repayment of principal to the rated notes under various stress scenarios commensurate with the ratings assigned.

Liquidity assessment

If there are insufficient interest collections, then liquidity support to meet senior expenses and the senior interest component on the rated notes--i.e., required payments--is first provided via an amortizing liquidity reserve. On closing, the liquidity reserve is set to equal to 1.2% of the aggregate invested amount of all notes. The liquidity reserve can amortize to a floor of A$1,200,000. The reserve will be invested in authorized short-term investments when not used for liquidity purposes. Principal draws will be available if interest collections and the liquidity reserve are insufficient.

The liquidity and principal draw mechanism will not be available to meet interest shortfalls on the class B or class C notes if at any time the stated amount of that note is less than 95% of its invested amount.

The unrated class D notes are excluded from required payments under the income waterfall and thus are excluded from any liquidity support at all times.

Extraordinary expense reserve

On the closing date, Firstmac will deposit an amount of A$250,000, which is to be held to cover any extraordinary expenses that may arise. This reserve will be maintained and topped up to A$250,000, where possible from excess spread, during the life of the transaction.

Interest-rate risk

Some 8.3% of the portfolio comprises loans with an interest rate that is fixed for up to five years. After transaction close, variable-rate loans can be converted to fixed rate, provided the proportion of fixed-rate loans does not exceed 20% of the pool balance and the conversion occurs before the call date. The issuer will enter into a fixed-rate swap with NAB to appropriately hedge the interest-rate risk between the fixed-rate mortgage loans and the floating-rate obligations of the trust.

S&P Global Ratings is satisfied that the income received under the fixed interest-rate swaps and the use of the threshold rate mechanism will ensure that there is sufficient yield for the trust to meet its senior expense and rated note obligations.

Currency risk

Currency risk between the Australian-dollar receipts from the underlying assets and the yen payments on the class A-1a notes will be hedged via a currency swap provided by NAB. The A-1a currency swap will convert to a balance guaranteed swap from the earlier of the call date and the occurrence of a trigger event under the swap (see "Principal allocation"). A trigger event will occur if we lower our rating on NAB to a level that requires it to replace itself under the terms of the class A-1a currency swap and the replacement swap is in the form of a balance guaranteed swap.

Cash-flow modeling assumptions

The

key rating stresses and assumptions modelled at each rating level are:

- Analyzing and modeling the structure of the transaction to include all note balances and margins, trust expenses, liquidity mechanisms within the structure, the priority of payments for both income and principal, and loss mechanism, as described in the transaction documents.
- Default frequency and loss severity assumed at different rating levels.
- Timing of defaults (table 6).
- Foreclosure period and time to recover sale proceeds from defaulted loans, assuming a recovery period of 15 months.
- Prepayment rates, assuming low prepayment rates to test potential yield shortfalls, as well as running high prepayment-rate scenarios to stress the excess spread available (table 7).
- Modeling the cash flows of the assets based on the characteristics of the underlying collateral pool, and the margin set on all loans.
- Interest rates, by varying the BBSW curves at each rating level.
- Arrears levels and cure periods.
- An assumed servicer fee of 0.35%, should it be necessary for Firstmac to be replaced as servicer.

- The threshold-rate mechanism, which includes an additional 25 basis points (bps) above the required weighted-average return on the loans, to allow the trustee to meet its payment obligations under the transaction documents. In cash-flow modeling, we recognize a step up in the threshold rate of a total of 50 bps, with 25 bps each from months 36 and 60.
- The sequential and pro-rata principal payment structure of the notes.
- COVID-19 liquidity stress that assumes a portion of interest and principal collections are delayed for the first six months and are recovered in the following 12 months. This scenario tests the sensitivity of the rated notes to potential granting of payment holidays or reduced payments under COVID-19 hardship arrangements following the closing date.

Table 6

Assumed Default Curves

Month	Front-end default curve (%)	Back-end default curve (%)	Base-case default curve (%)
1	-	-	-
7	10	-	10
12	25	5	15
18	-	15	-
24	30	25	25
36	20	25	25
48	10	15	15
60	5	10	10
72	-	5	-

Table 7

Assumed Constant Prepayment Rates (CPR)

Transaction seasoning	Low CPR scenario (% per year)	Constant CPR scenario (% per year)	High CPR (% per year)
Up to month 12	5	20	20
Month 13 to month 18	5	20	25
Month 19 to month 36	5	20	35
After month 36	5	20	40

Note: Total CPR shown is inclusive of voluntary and involuntary (defaults) prepayments.

Legal And Counterparty Risks

In our view, the issuer has features consistent with our criteria on special-purpose entities, including the restriction on objects and powers, debt limitations, independence, and separateness.

The transaction will have counterparty exposure to Westpac as bank account provider and NAB as interest-rate swap provider and as cross-currency swap provider. The documentation of these roles requires replacement and, in the case of the swaps, posting of collateral, should the rating of these entities fall below certain levels. These mechanisms are consistent with our counterparty rating criteria.

Issuer Disclosure

The issuer will not be publically disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains nonpublic.

Related Criteria

- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | RMBS: Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | RMBS: Assumptions: Australian RMBS Postcode Classification Assumptions, July 10, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria | Structured Finance | RMBS: Australian RMBS Rating Methodology And Assumptions, Sept. 1, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | RMBS: Methodology And Assumptions For Analyzing The Cash Flow And Payment Structures Of Australian And New Zealand RMBS, June 2, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- 2020 Outlook Assumptions For The Australian Residential Mortgage Market, May 19, 2020
- An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities, Nov. 14, 2019
- Australia And New Zealand Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, April 17, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five

Macroeconomic Factors, Dec. 16, 2016

- RMBS Performance Watch: Australia, published quarterly
- RMBS Arrears Statistics: Australia, published monthl

These articles are available on RatingsDirect, S&P Global Ratings' web-based credit analysis system, at https://www.capitaliq.com.

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