S&P Global Ratings

RatingsDirect®

New Issue: Think Tank Series 2016-1 Trust

Primary Credit Analyst:
Paul Prajogo, Melbourne (61) 3-9631-2069; paul.prajogo@spglobal.com

Secondary Contact:
Luke Elder, Melbourne (61) 3-9631-2168; luke.elder@spglobal.com

Table Of Contents

Table Of Contents (cont.)

New Issue: Think Tank Series 2016-1 Trust

Ratings Detail

Ratings As Of Nov. 4, 2016

Class	Rating	Amount (mil. A$)	Minimum credit support (%)	Credit support provided (%)
A1	AAA (sf)	182.00	23.70	35.00
A2	AAA (sf)	23.80	23.70	26.50
B	AA (sf)	16.24	17.30	20.70
C	A (sf)	19.60	10.90	13.70
D	BBB (sf)	19.60	6.50	6.70
E	BB (sf)	4.76	3.10	5.00
F	NR	4.76	N/A	3.30
G	NR	4.48	N/A	1.70
H	NR	4.76	N/A	N/A

NR--Not rated. N/A--Not applicable.

Profile

Closing date	Nov. 4, 2016
Final maturity date	The payment date in January 2049
Collateral	Fully amortizing and interest-only, converting to amortizing floating-rate loans to commercial borrowers, secured by first-registered mortgages over Australian commercial and residential properties. The loans mature no later than 24 months before the final maturity of the notes.
Structure type	Small-ticket commercial mortgage-backed, floating-rate, pass-through securities
Issuer and trustee	BNY Trust Co. of Australia Ltd. as trustee of Think Tank Series 2016-1 Trust
Manager, originator, and special servicer	Think Tank Group Pty Ltd.
Master servicer, standby special servicer, and standby manager	AMAL Asset Management Ltd.
Security trustee	BNY Trust (Australia) Registry Ltd.
Custodian	BNY Trust Co. of Australia Ltd.
Primary credit enhancement	The rated notes have the benefit of subordinated notes and excess spread, if any, will be used to offset losses, in priority to distribution to the beneficiary.

Supporting Ratings

Liquidity facility provider	Commonwealth Bank of Australia
Bank account provider	Commonwealth Bank of Australia

Loan Pool Statistics As Of Aug. 31, 2016*

Total number of loans	493
Total value of loans (A$)	279,997,514

Loan Pool Statistics As Of Aug. 31, 2016* (cont.)	
Current maximum loan size (A$)	2,910,000
Average loan size (A$)	567,946
Maximum current loan-to-value (LTV) ratio (%)	75.0
Weighted-average current LTV ratio (%)	64.2
Weighted-average loan seasoning (months)	27.3

*All portfolio statistics are calculated on a consolidated loan basis.

Rationale

The ratings assigned to the floating-rate small-ticket commercial mortgage-backed securities (CMBS) issued by BNY Trust Co. of Australia Ltd. as trustee of Think Tank Series 2016-1 Trust reflect the following factors.

S&P Global Ratings' analysis of the credit risk of the underlying collateral portfolio is based on its "Principles Of Credit Ratings" criteria, published Feb. 16, 2011. However, when there are similar factors that affect borrower performance, as in residential mortgages, we have applied similar assumptions (discussed in more detail under "Credit Assessment"). The credit risk of the underlying collateral portfolio (discussed in more detail under "Credit Assessment") and the credit support provided to each class of rated notes are commensurate with the ratings assigned. Subordination and excess spread provide credit support. The credit support provided to the rated notes is sufficient to cover the assumed losses at the applicable rating stress. The assessment of credit risk takes into account the underwriting standards and approval process of Think Tank Group Pty Ltd. (Think Tank), and the servicing quality of Think Tank and AMAL Asset Management Ltd. (AMAL) (discussed in more detail under "Origination and Servicing").

We have based our cash-flow analysis on our "Principles Of Credit Ratings" criteria; however, when there are similar factors that affect borrower performance, as in residential mortgages, we have applied similar assumptions (discussed in more detail under "Cash-Flow Analysis"). The assets can meet timely payment of interest and ultimate payment of principal to the noteholders under the relevant rating stresses. Key factors are the level of subordination provided, the condition that a minimum margin will be maintained on the assets, the liquidity facility provided by Commonwealth Bank of Australia (CBA), the principal draw function, and the provision of an extraordinary expense reserve, funded by Think Tank before the issuance of the notes. All rating stresses are made on the basis that the trust does not call the notes at or beyond the call-option date, and that all rated notes must be fully redeemed via the principal waterfall mechanism under the transaction documents.

Our ratings also take into account the counterparty exposure to CBA as liquidity facility provider and as bank account provider. This counterparty exposure meets 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.

Strengths And Weaknesses

Strengths

We have observed the following strengths in our analysis of the transaction:

- For each class of rated note, the subordination provided exceeds the minimum credit support at each rating level.
- About 13.3% of loans in the portfolio are seasoned more than five years. Furthermore, the weighted-average seasoning of the loans is 27.3 months. Seasoned loans are less likely to default, given the borrower has a proven history of being able to afford the loan repayment. S&P Global Ratings reduces the probability of default for loans that are seasoned by more than five years.

Weaknesses

We observed the following weaknesses in the transaction:

- Approximately 57.6% of the pool is currently in interest-only periods, which introduces a potential shock to borrowers when the loans convert to principal and interest payments. S&P Global Ratings applies a higher default frequency to loans with interest-only periods.
- Approximately 88.8% of loans are to self-employed borrowers. Self-employed borrowers have a greater exposure to business-cycle fluctuations and therefore are more likely to default than borrowers who are not self-employed. We have increased the default frequency of these loans to reflect the additional risk associated with self-employed borrowers.
- The portfolio has a 22.7% exposure to loans to borrowers whose income has not been fully verified. For these borrowers the income, savings, credit history, and debt-servicing assessments have been verified through alternative sources such as trading bank statements. S&P Global Ratings has assumed a higher default frequency for these loans in its calculation of credit support for the corresponding rating levels.
- The loan conditions, in which the loan contracts do not include performance covenants such as debt-service cover ratios, and are not subject to an annual review. This limits Think Tank's ability to respond to adverse movements in the financial position of borrowers before loans fall into arrears.

Notable Features

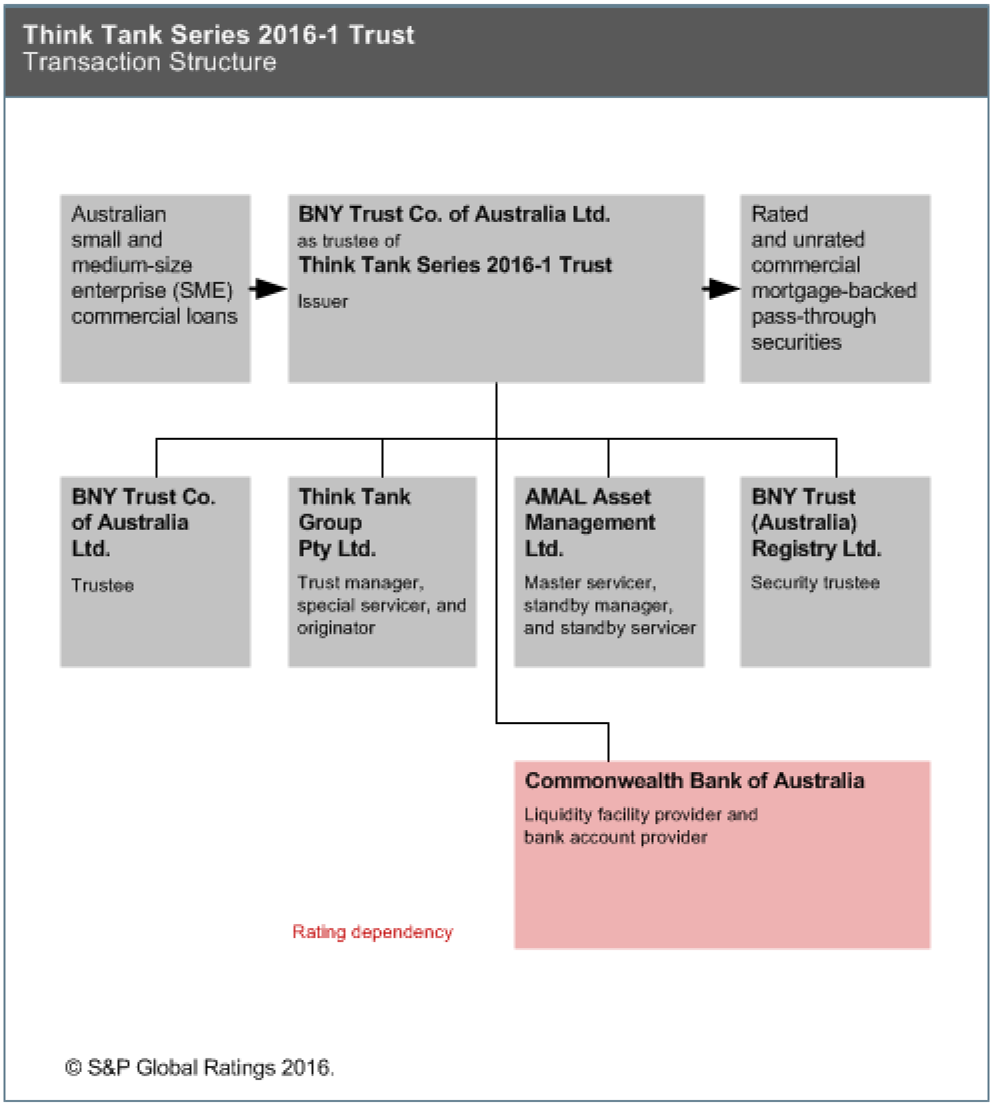
Loans to self-managed superannuation funds borrowers

About 15.2% of the loans in the portfolio have been advanced to self-managed superannuation funds (SMSFs). Although SMSF loans are limited-recourse lending, the risk of this affecting borrowers' payment behavior is somewhat mitigated by features such as personal guarantees being provided by SMSF members for every loan to an SMSF in the asset pool. A strong, well-documented personal guarantee contains features that create the full-recourse characteristics that are typically exhibited in a first-registered full-recourse residential mortgage. The SMSF loans by Think Tank have fairly standard terms, conditions, and loan characteristics. In the absence of a substantial track record and performance data on SMSF loans, S&P Global Ratings has applied an additional adjustment in its credit-support calculation.

Transaction Structure

The structure of the transaction is shown in chart 1.

Chart 1



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

All classes of notes are rated on a "timely interest, ultimate principal" basis. The notes are floating-rate, pass-through securities, paying a margin over one-month bank-bill swap rate (BBSW) on the invested amount of the notes, unless that stated amount of a class of notes is zero, when no interest accrues. Interest payments are made sequentially to each class of notes rated. A step-up margin will apply to the class A1 notes if the notes are not called on the call-option date. The coupon to the unrated class F, class G, and class H noteholders ranks subordinate to the reimbursement of charge-offs to all notes.

The trustee can elect to call the notes in full at their invested amounts on or after the call-option date. The call-option date is the earlier of three years from the settlement date and the payment date on which the outstanding pool balance is less than 30% of the initial balance.

S&P Global Ratings' ratings do not address the likelihood of repayment of the notes on the call-option date.

Principal allocation

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 except for class A1 notes and A2 notes, for which principal is paid pari passu. The transaction can convert to a pro-rata payment structure, in which principal would be passed through to each rated note class (see "Pro-rata paydown triggers" for more detail) if the principal step-down tests are met. If these tests are not met, then principal collections are passed through to each class of notes sequentially, as described above. In the pro-rata payment structure, payments to the class F, class G, and class H notes will occur on a sequential basis, after repayment of all of the rated notes.

The transaction features a turbo mechanism that applies only after the call-option date, when available excess spread less the applicable rate for tax will be applied to pay down the notes. The manager will maintain an amortization ledger, and record any amounts credited to and debited from the ledger.

Given the pass-through nature of the notes, the actual date on which the principal amount of the notes will be fully repaid will be determined by the actual prepayment rate experience on the loan portfolio. As a result, the risk of mortgage prepayments is borne by the noteholders.

Loss allocation

Charge-offs will be first allocated to the amortization ledger, then to the class H notes until their outstanding balance is reduced to zero, followed by the class G, class F, class E, class D, class C, class B, class A2, then the class A1 notes. Under the transaction structure, any charge-offs are to be reimbursed in the reverse order, excluding the amortization ledger.

Pro-rata paydown triggers

The triggers to allow pro-rata paydown are:

- The payment date falls on or after the second anniversary of the issue date but before the third anniversary of the issue date;
- The credit support provided to the class A2 notes is at least double the credit support provided to that note at issue date;
- The average arrears of mortgage loans that are 60 or more days do not exceed 3.5% of the portfolio;
- There are no carryover charge-offs outstanding on any class of notes;
- There are no principal draws outstanding;
- There are no liquidity facility draws outstanding; and
- The outstanding mortgage balance is at least 30% of the original mortgage balance.

Rating-Transition Analysis

The primary rating-transition risk is any deterioration in the credit quality and performance of the underlying loan pool to the extent that it affects the full and timely repayment of principal and interest. This would directly affect the ability of the issuer trust to meet its obligations.

We consider there to be a low risk that we will lower our ratings in response to lowering our ratings on supporting parties. The liquidity facility agreement contain a requirement for the counterparty to post collateral or replace itself as counterparty if its rating falls below the prescribed threshold.

The collections account must be maintained with an appropriately rated bank. If we lower our rating on the provider of this account, then the deposits held must be transferred to another appropriately rated institution.

These mechanisms are consistent with our counterparty rating criteria.

Scenario analysis: Property market value decline of 10%

We carried out a scenario analysis to determine the impact on the ratings if property values were to decrease by 10% during a short period of time. After adjusting down property values by 10% and increasing loan-to-value (LTV) ratios for this impact, we applied our standard default frequency and loss-severity assumptions to arrive at the implied credit assessments. Table 1 shows the credit support and the implied credit assessment should this scenario occur, and all else remained constant. The implied credit assessments are taking credit into consideration only, and do not consider any yield or liquidity issues that may be relevant at the time.

Table 1

Scenario Analysis - Property Market Value Decline Of 10%

Class	Minimum credit support at current rating level (%)	Implied credit assessment*
A1	39.60	aa+
A2	39.60	a+
B	28.90	a+
C	18.20	bbb+
D	10.80	bb+
E	5.70	b+

*Based on subordination only.

Origination And Servicing

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

Think Tank originated the small-ticket commercial mortgages to be purchased by the trust. Think Tank, founded in 2005, is an Australian privately owned nonbank financial institution that specializes in commercial property loans to small to medium-size enterprises. Think Tank originates mainly generic small-ticket commercial property types, including retail, industrial, and office to borrowers with a clean credit history. As of September 2016, Think Tank has originated more than A$820 million in commercial mortgages since it commenced originating in 2006.

Think Tank originates predominately through brokers, with a small percentage of originations through its direct channel. Brokers must be formally accredited, carry personal indemnity insurance, and be a member of a relevant industry body. Think Tank assesses all credit approvals, using experienced commercial property credit analysts. No brokers are involved in the underwriting process. Think Tank regularly conducts quality assurance on a sample of the originated loans with the completion of hindsight reviews.

The loan pool, by current balance, consists of 22.7% low-documentation loans, which are composed of 17.5% "medium-documentation" and 5.2% "quick-documentation" products. Income is self-certified for the low-documentation products, and trading bank accounts, Australian Taxation Office portal statements, as well as statement of assets and liabilities are required to assess borrowers' income, savings, credit history, or debt-servicing ability. An accountant's letter confirming a borrower's capacity to service the loan is also required for medium-documentation loans. Credit checks and full valuations are performed on all loans, and all loans have title insurance.

Depending on the level of verification for each product, S&P Global Ratings has adjusted the minimum credit support for the transaction to reflect the level of verification performed to establish a borrower's savings, income, credit history, and ability to service the loan.

Think Tank performs the special servicing and trust manager role for the transaction. In its role as special servicer, Think Tank is responsible for monitoring and managing delinquencies and the enforcement process. AMAL would act as back-up special servicing and back-up trust manager for the portfolio in the event that Think Tank needed to be replaced.

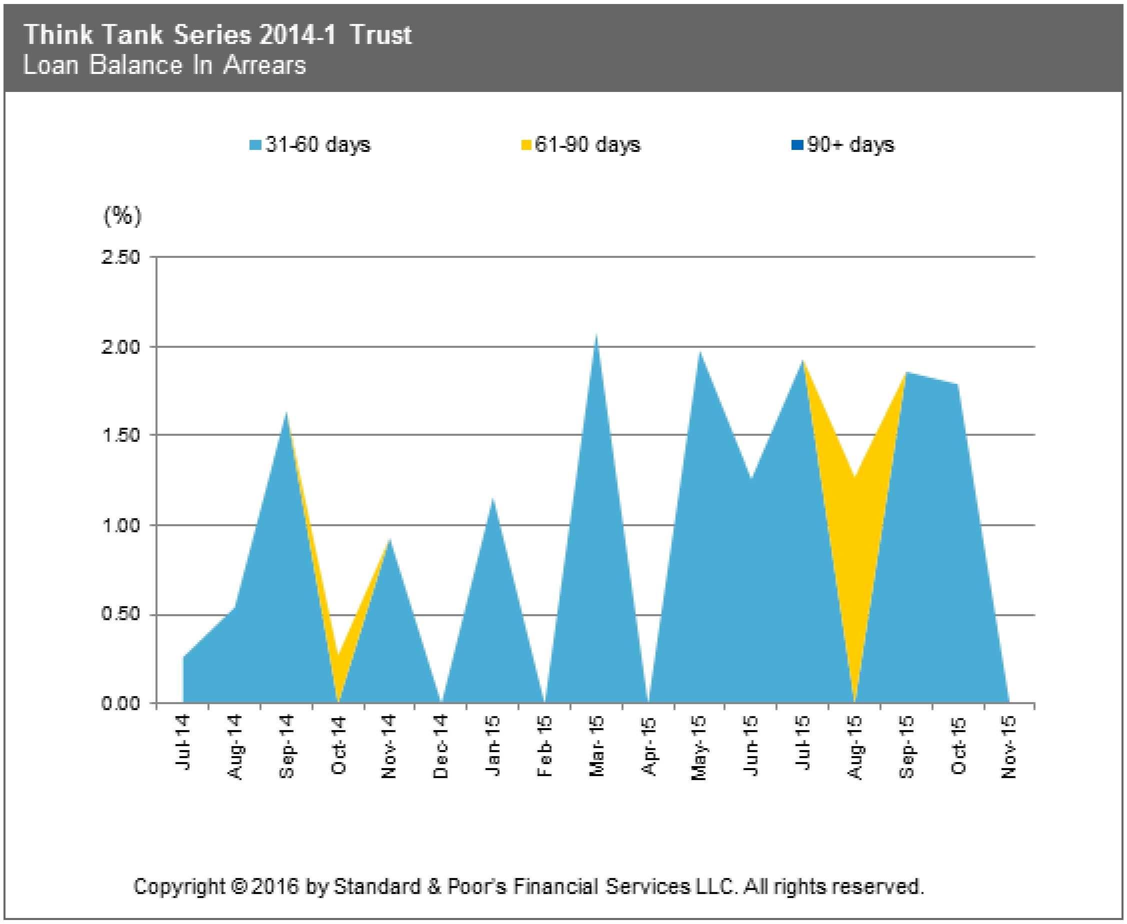
Parts of the servicing role are also outsourced to AMAL. AMAL's servicing role includes setting up the loan on the loan-management system, processing direct debit reports, issuing statements, and executing changes on a loan, such as interest-rate changes. The loan-management system is AMAL's ARM.NET. Think Tank has access to a web-based interface called AMAL xChange. S&P Global Ratings currently has a STRONG commercial loan servicer rank assigned to AMAL.

For more information on AMAL's servicing capability, refer to the respective servicer evaluation reports, available on RatingsDirect, S&P Global Ratings' web-based credit analysis research system, at http://www.globalcreditportal.com and S&P Global Ratings' website, at http://www.standardandpoors.com.

All repayments made on the mortgage loans will be paid directly into the trust collection account. However, to the extent that Think Tank receives any collections as servicer, the collections must be paid into the collections account of the trust within two days of receipt. The collections account of the trust is to be held with CBA.

Think Tank issued its inaugural small-ticket CMBS deal in 2014. Chart 2 illustrates Think Tank Series 2014-1 Trust's commercial loan portfolio arrears history. Arrears are calculated on a scheduled-payment basis. Think Tank Series 2014-1 experienced no losses. This transaction was fully repaid in December 2015.

Chart 2



Credit Assessment

The portfolio comprises full-documentation and low-documentation commercial mortgage loans secured by commercial or residential freehold properties originated by Think Tank. Think Tank's small-ticket commercial loan finance is available for a commercial purpose and must be secured by a first-registered mortgage over commercial or residential property. This is a closed pool, which means no additional loans will be assigned to the trust after the closing date.

The credit-risk analysis of the underlying collateral portfolio is based on our "Principles Of Credit Ratings" criteria; however, we have applied similar assumptions when there are similar factors that affect borrower performance, such as in residential mortgages.

We believe there is a need for a higher degree of subjective assessment than might be applied in other types of analysis, such as for residential mortgage-backed securities, for example. This is necessary because of the relatively limited historical statistical data; the diversity of products, security, and obligors; and the generally smaller loan pools that have been seen so far in the Australian small-ticket commercial mortgage-backed securities market.

In our operational review of Think Tank, we reviewed its credit processes, policies, procedures, systems, and historical performance. Based on these operational reviews and the performance to date of Think Tank's small-ticket commercial loans, we are able to better understand the originator, the product, and this loan pool, as well as make certain assessments, which we have incorporated into the credit model.

The credit model involves two levels of analysis: loan by loan and deal-wide. The loan-by-loan analysis begins with a benchmark default-frequency assumption for each loan that differs by rating level and whether the property is commercial or residential. We adjust this up or down by a rating multiple that is dependent on certain loan characteristics, such as the LTV ratio, asset location, repayment method, and seasoning. The adjustments follow a logical order. The deal-wide assessment involves consideration of a number of factors, including credit policy, processes, systems, management of the originator and servicer, and the size and diversity of the collateralized loan pool. Based on these factors, S&P Global Ratings may apply a positive or negative pool-wide adjustment.

After we calculate the default probability, we establish the amount of loss in the event of default, which is driven by LTV ratio, assumed market-value decline, recovery costs, and interest expense.

We have different benchmark default-frequency and market-value decline assumptions for commercial properties compared with our RMBS criteria (table 2). This reflects our belief that there are fundamental differences between the asset types that will only be accentuated as the economic environment becomes more stressed. For example, we believe that the commercial property sector has historically demonstrated greater volatility in capital values than residential property. We consequently apply higher market-value decline assumptions to commercial properties than we apply to residential properties. The degree of the difference is based on our industry knowledge in local and offshore markets, including our observations in the limited number of similar deals we have rated in this market. The factors we use to adjust the benchmarks are generally in line with those seen in the RMBS criteria, such as seasoning, repayment method, and asset location. However, other assumptions are more in line with our expectations for commercial properties, such as foreclosure expenses, recovery period, and LTV ratio.

S&P Global Ratings has assessed the dollar amount of credit support outcome at each ratings level, in line with the rating process for other asset classes.

In line with the rating process for other asset classes, S&P Global Ratings gives consideration to specific concentrations that a pool contains. The credit support associated with these concentration exposures contributes to the loan credit-support outcome. We calculate the credit support associated with specific concentration exposures by assuming that a certain number of borrowers with larger exposures will default. Our calculation also factors in the recovery value associated with the loans' real property security. The number of borrowers assumed to default, and the associated credit support, are dependent on the degree of concentration in the portfolio and the rating level sought on the securities. Based on the concentrations that exist in this portfolio, we have taken into consideration the top three borrowers by loan balance when addressing this risk.

A summary of the credit assessment is outlined in table 2.

Table 2

Summary Credit Assessment

	AAA	AA	A	BBB	BB
(a) Default frequency (%)	27.52	21.21	15.04	10.80	6.10
(b) Loss severity (%)	86.13	81.55	72.49	60.19	50.79
(c) Credit support required before concentration adjustment (%)	22.67	16.28	9.85	5.45	3.10
(d) Credit support required post concentration adjustment (%)	23.70	17.30	10.90	6.50	3.10
Various benchmark assumptions					
Market value decline – commercial property (%)	65.0	63.0	58.0	51.0	46.0
Market value decline – other property (%)	75.0	73.0	68.0	60.0	54.0
Market value decline – residential property (%)	45.0	43.0	41.0	38.0	34.0
Default frequency – commercial property (%)	13.3	10.1	6.8	4.5	2.9
Default frequency – residential property (%)	10.0	7.5	5.0	3.2	2.1
Default frequency – other property (%)	13.3	10.1	6.8	4.5	2.9

Other key assumptions are shown in table 3.

Table 3

Additional Assumptions

Benchmark LTV ratio – commercial property (%)	65
Benchmark LTV ratio – other property (%)	45
Benchmark LTV ratio – residential property (%)	75
Recovery period commercial and other property (months)	24
Recovery period residential – Metro and inner-city postcode (months)	12
Recovery period residential – Nonmetro (months)	18
Foreclosure expenses - commercial and other property	Variable costs of 7.5%
Foreclosure expenses – residential property	Variable costs of 5.0%, plus fixed expenses of A$5,000

Table 4 lists the six main default frequency characteristics that have deviated from the benchmark pool.

Table 4

Rating Multiples

Criteria	Multiple for default frequency against total pool (x)
LTV ratio	1.112
Property occupancy	1.068
Repayment method	1.058
Nonmetro concentration	1.046
Reduced documentation: income verification	1.053
Loan seasoning	0.959

Eligibility Criteria

The commercial mortgage loans and related securities to be securitized will be subject to documented eligibility criteria that include, but are not limited to:

- A loan secured by a first-ranking mortgage.
- A loan with a maturity date of no later than 30 years after the date of the relevant loan agreement.
- A loan for which the proceeds were fully drawn on settlement.
- An interest-only period not exceeding five years.
- A loan that requires weekly, fortnightly, or monthly payments until the maturity date of the loan.
- The originator obtained a valuation of the property from a qualified valuer.
- The property type must be industrial property, office property, commercial property, retail property or residential property.
- No loans are delinquent more than 30 days as of the cut-off date.
- The loan is not a construction or bridging loan.
- At the time the mortgage was entered into, it complied in all material respects with all applicable laws.

Loan Pool Profile

The pool as of Aug. 31, 2016, is summarized in table 5. All portfolio statistics are calculated on a consolidated loan basis.

Table 5

Loan Pool Characteristics	
Loan size distribution (A$)	**Value of loans (%)**
Less than or equal to 100,000	0.2
Greater than 100,000 and less than or equal to 200,000	3.9
Greater than 200,000 and less than or equal to 300,000	8.7
Greater than 300,000 and less than or equal to 400,000	10.0
Greater than 400,000 and less than or equal to 600,000	15.4
Greater than 600,000 and less than or equal to 800,000	13.4
Greater than 800,000 and less than or equal to 1,000,000	9.3
Greater than 1,000,000 and less than or equal to 1,500,000	19.5
Greater than 1,500,000	19.6
Loan-to-value ratio distribution (%)	
Less than or equal to 50	13.2
Greater than 50 and less than or equal to 60	16.1
Greater than 60 and less than or equal to 70	41.1
Greater than 70 and less than or equal to 80	29.6
Greater than 80	0.0
Geographic distribution (by state)	
New South Wales	58.0
Victoria	14.8

Table 5

Loan Pool Characteristics (cont.)	
Queensland	11.8
Western Australia	5.2
South Australia	6.4
Tasmania	0.7
Australian Capital Territory	3.1
Northern Territory	0.0
Geographic distribution	
Inner city	6.4
Metropolitan	77.1
Nonmetropolitan	16.6
Product type (%)	
Full documentation	77.3
Medium documentation	17.5
Quick Doc	5.2
Occupancy (%)	
Investor	48.3
Owner-occupied	36.5
SMSF	15.2
Seasoning (months)	
Less than or equal to six	12.7
Greater than six and less than or equal to 12	22.6
Greater than 12 and less than or equal to 24	25.6
Greater than 24 and less than or equal to 36	15.2
Greater than 36 and less than or equal to 48	5.3
Greater than 48 and less than or equal to 60	5.5
Greater than 60	13.3
Principal amortization	
Interest only for up to five years, reverting to principal amortizing	57.6
Principal and interest	42.4
Interest type	
Variable-rate loans	99.6
Up to five-year fixed-rate loans	0.4
Borrower employment status	
Pay-as-you-go borrowers (full or part time)	11.2
Self-employed borrowers	88.8
Loan purpose	
Purchase exist	53.0
Refinance	38.0
Refinance for equity takeout	9.0

Table 5

Loan Pool Characteristics (cont.)	
Property Type*	
Commercial	83.4
Residential	11.9
Other	4.7

*S&P Global Ratings' classification.

Cash-Flow Analysis

Our cash-flow analysis shows that the transaction has sufficient income to support timely payment of interest 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 fees, expenses, and interest on the notes is first provided through principal draw. An amortizing liquidity facility will be available if interest collections plus principal draws are insufficient.

The liquidity facility provided by CBA represents 3.0% of the outstanding aggregate amount of the rated notes, subject to a floor of 10% of its initial limit.

However, before the note factor falls below 25%, the above liquidity support will not be available to meet interest shortfalls on the class B, class C, class D, and class E notes if:

- On a payment date, there is unreimbursed principal draw outstanding and principal that has been drawn on any three previous payment dates since the last time there was no unreimbursed principal draw, when that principal draw amount exceeds 75% of the amount of interest payable on that class of notes; and
- At any time the stated amount of that class of note is less than 95% of its invested amount.

The class A1 and class A2 notes are at no time restricted from the use of liquidity support. The class F, class G, and class H notes are excluded from required payments under the income waterfall, and thus are excluded from any liquidity support at all times.

Extraordinary expense reserve

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

Interest-rate risk

On the transaction closing date, all loans in the portfolio have a variable-rate of interest. Borrowers can request to convert their variable-rate loans to fixed-rate loans after the closing date. Under the transaction documents, variable-rate loans that convert to fixed-rate loans must be hedged to achieve an interest rate that is not less than a minimum margin of 4.70% over the bank-bill swap rate or be purchased out of the trust.

The issuer will enter into a hedging arrangement with a counterparty that meets our "Counterparty Risk Framework Methodology And Assumptions" criteria, published on June 25, 2013, to hedge the interest-rate risk between the fixed-rate mortgage loans and the floating-rate obligations of the trust.

Cash-flow modelling assumptions

Based on our cash-flow analysis and stresses, the notes can make full interest and principal payment by the final legal maturity date. Our cash-flow analysis allows us to test the capacity of the transaction's cash flow to support the rated notes under various stress scenarios, repay principal on the notes by their legal final maturity date, and to determine whether the liquidity support, which includes the use of principal draws and a liquidity facility provided by CBA, is sufficient.

The key rating stresses and assumptions modeled 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.
- The inclusion of a replacement servicer fee of 75 basis points per annum for the life of the transaction--in addition to existing trust expenses--to further protect the availability of excess spread during potential periods of stress.
- A weighted-average borrower rate on loans of at least the greater of the threshold rate required to ensure all obligations of the trust are met and a defined minimum margin over the bank-bill swap rate of 4.70%.
- The threshold-rate mechanism on the loan pool, which is to be set at a level that will ensure that the issuer has sufficient funds to meet its obligations under the transaction documentation.
- Timing of defaults. S&P Global Ratings assumes most defaults would likely occur within the first few years of the transaction. We have run three default curve assumptions (table 6): a front-end default curve whereby most of the expected losses occur earlier in the first few years of the transaction's life, a base-case default curve, and a back-end default curve whereby losses occur later within the first five years of the transaction's life.
- Time to recovery of sale proceeds from defaulted loans. A key driver in the cash-flow model is the time it takes to foreclose and recover monies from the defaulted borrower. We have assumed a recovery period of 25 months.
- Loan prepayment rates. S&P Global Ratings has considered various prepayment rates when modeling the cash flows of the underlying mortgage loans to assess the impact on the ability of the trust to meet its obligations. S&P Global Ratings has modeled a low, constant, and high prepayment rate. The prepayment stresses assumed are shown in table 7.
- Interest rates, by varying the bank-bill swap rate curves at each rating level.
- The sequential and pro-rata principal payment structure of the notes.

Table 6

Assumed Default Curves

Month	Front-end default curve (%)	Back-end default curve (%)	Base-case default curve (%)
6	10	-	10
12	25	5	15
18	-	15	-
24	30	25	25
36	20	25	25
48	10	15	15

Table 6

Assumed Default Curves (cont.)			
Month	**Front-end default curve (%)**	**Back-end default curve (%)**	**Base-case default curve (%)**
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	35
Month 19 to month 36	5	20	40
After month 36	5	20	50

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 CBA as a liquidity facility provider and bank account provider. The documentation of these roles requires replacement or posting of collateral if the rating of CBA falls below certain levels; these mechanisms are consistent with S&P Global Ratings' counterparty rating criteria.

Analytical Contacts

Primary analyst: Paul Prajogo, associate, Melbourne, (61) 3 9631-2069

RMBS analytical manager: Luke Elder, senior director, Melbourne (61) 3 9631-2168

Surveillance manager: Narelle Coneybeare, senior director, Sydney (61) 2 9255 9838

Related Criteria And Research

Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Australian And New Zealand Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Aug. 21, 2013
- Australian RMBS Postcode Classification Assumptions, July 10, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria , June 24, 2013
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Australian RMBS Rating Methodology And Assumptions, Sept. 1, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

- Methodology And Assumptions For Analyzing The Cash Flow And Payment Structures Of Australian and New Zealand RMBS, June 2, 2010
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- 2016 Outlook Assumptions For The Australian Residential Mortgage Market, Jan. 11, 2016
- An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities, March 3, 2015
- Australia And New Zealand Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, Aug. 1, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Rating Australian RMBS That Include Loans to Self-Managed Super Funds, Sept. 6, 2012

The issuer has informed Standard & Poor's (Australia) Pty Limited that the issuer will not be publically disclosing all relevant information about the structured finance instruments that are subject to this rating report.