Presale:

Think Tank Series 2020-1 Trust

October 6, 2020

PRIMARY CREDIT ANALYST

Fiona L Otway
Melbourne
(61) 3-9631-2060
fiona.otway
@spglobal.com

SECONDARY CONTACT

Alisha Treacy
Melbourne
(61) 3-9631-2182
alisha.treacy
@spglobal.com

Preliminary Ratings

Class	Preliminary rating	Preliminary amount (mil. A$)	Minimum credit support (%)	Credit support provided (%)
A1	AAA (sf)	360.00	21.6	40.0
A2	AAA (sf)	110.40	21.6	21.6
B	AA (sf)	36.00	15.6	15.6
C	A (sf)	32.40	9.7	10.2
D	BBB (sf)	28.20	5.5	5.5
E	BB (sf)	13.20	3.3	3.3
F	B (sf)	9.60	1.7	1.7
G	NR	4.20	N/A	1.0
H	NR	6.00	N/A	N/A

Note: This presale report is based on information as of Oct. 6, 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. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date	Oct. 16, 2020
Final maturity date	The payment date in August 2053
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 30 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 2020-1 Trust
Manager, originator, and originator servicer	Think Tank Group Pty Ltd.
Master servicer, standby originator servicer, and standby manager	AMAL Asset Management Ltd.
Security trustee	BNY Trust (Australia) Registry Ltd.

Profile (cont.)

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 July 24, 2020

Total number of loans	938
Total value of loans (A$)	599,999,987
Current maximum loan size (A$)	3,929,558
Average loan size (A$)	639,659
Maximum current loan-to-value (LTV) ratio (%)	81.3
Weighted-average current LTV ratio (%)	66.5
Weighted-average loan seasoning (months)	16.2

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

Rationale

The preliminary ratings assigned to the floating-rate small-ticket commercial mortgage-backed securities (CMBS) to be issued by BNY Trust Co. of Australia Ltd. as trustee of Think Tank Series 2020-1 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. Our 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 provision of a liquidity facility, 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 Commonwealth Bank of Australia (CBA) as liquidity facility provider and 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.

Loss of income for borrowers in the coming months due to the effects of COVID-19 will likely put upward pressure on mortgage arrears. In our credit analysis, we have assessed those loans in the portfolio where the borrower has applied for a COVID-19 hardship payment arrangement. We have increased the minimum credit support levels to reflect the likelihood that arrears increase following the end of the hardship arrangement period. In our cash-flow analysis, we have assumed a portion of principal and interest collections are delayed to stress test the liquidity provided to the transaction. As of Sept. 18, 2020, borrowers with COVID-19-related hardship arrangements make up 11.6% of the pool balance.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions, but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 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 strength in our analysis of the transaction:

- For the class A1 note, the subordination provided significantly exceeds the level of credit support commensurate with a 'AAA (sf)' rating.

Weaknesses

We observed the following weaknesses in the transaction:

- Approximately 55.1% of the loans in the pool are secured predominantly by commercial properties and have a current loan-to-value (LTV) ratio higher than 65%. S&P Global Ratings views LTV ratios as a key determinant of credit risk in small-ticket CMBS transactions and adjusts credit support upward for loans that are predominantly exposed to commercial properties with current LTV ratio greater than 65%.
- About 49.9% of the loans in the portfolio are to borrowers whose income has not been fully verified. These borrowers' 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.

- Approximately 34.5% of the loans in the pool are currently in their 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 39.5% of the pool is loans to investors. 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.
- By current balance, approximately 0.5% of the loans in the portfolio are to borrowers with unfavorable credit histories. Market experience has shown us that such borrowers are more likely than the general population to default. S&P Global Ratings assumes higher default frequencies for loans to such borrowers.
- The loan contracts do not include performance covenants such as debt-service cover ratios, and are not subject to an annual review. This could limit 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 27.2% 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.

Class B, class C, class D, class E, and class F notes coupon

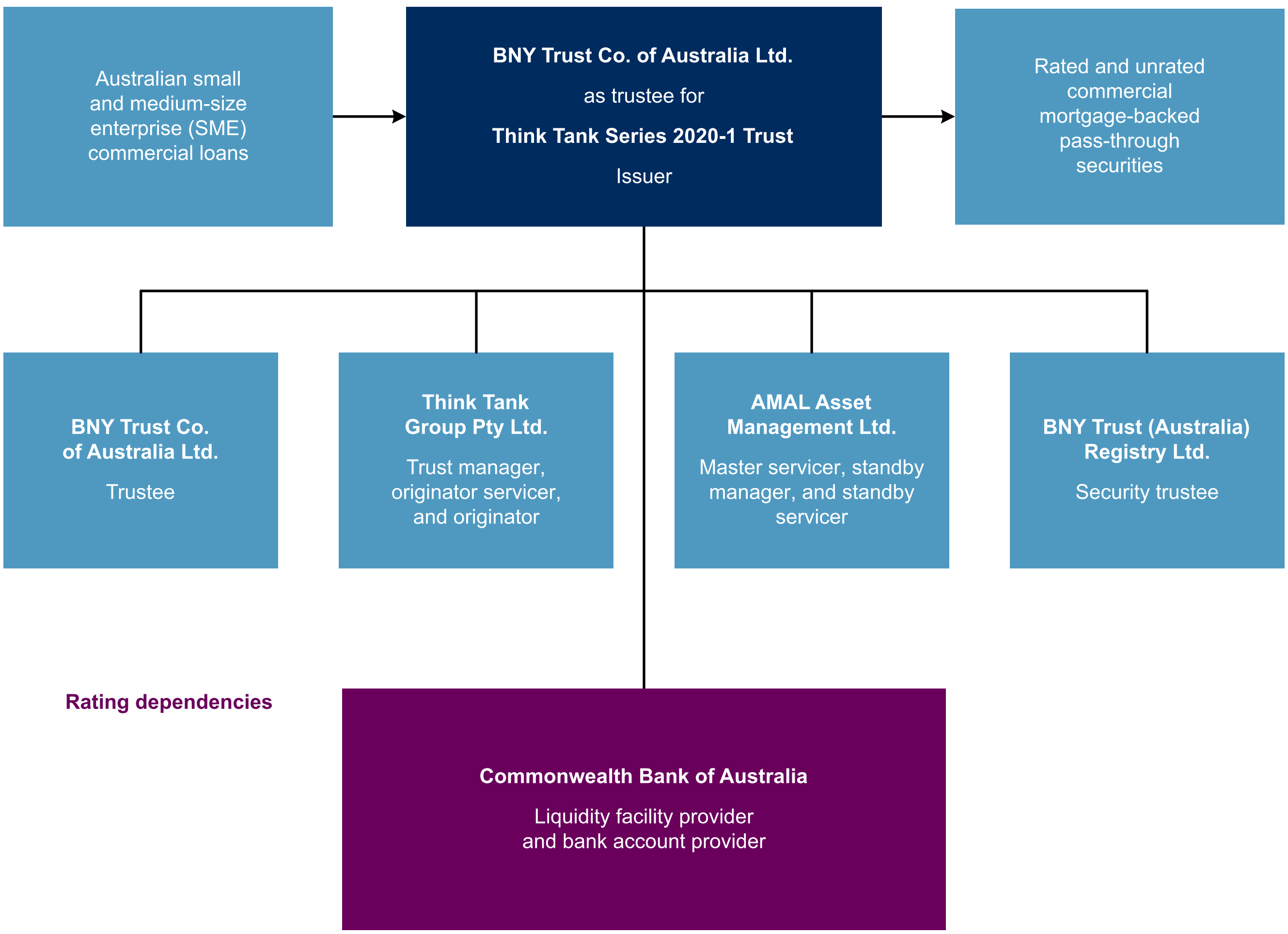
From the call-option date, the margins on the class B, class C, class D, class E, and class F notes will step down and be paid on the invested amount of the notes as a senior interest component. There is also a residual interest component that is subordinated in the interest waterfall, and has no access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

Transaction Structure

The structure of the transaction is shown in chart 1.

Chart 1

Think Tank Series 2020-1 Trust
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

All classes of rated 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. 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 G and class H noteholders ranks subordinate to the reimbursement of charge-offs to all notes.

S&P Global Ratings' ratings on all notes address the timely interest and ultimate principal repayment on the rated notes. However, S&P Global Ratings' ratings on the class B, class C, class D, class E, and class F notes do not address the payment of the residual interest amount on the class B, class C, class D, class E, and class F 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 rated notes on the call-option date.

Principal allocation

Principal collections--after application as 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 before the call date when principal is paid pari passu amongst the class A1 and class A2 notes). The transaction can convert to a pro-rata payment structure, in which principal would be passed through to each rated class of notes (see "Pro-rata paydown triggers" for more detail) if the principal step-down tests are met. In the pro-rata payment structure, payments to the unrated 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 greater than 60 days (excluding COVID-19 hardship loans) 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 contains a requirement for the counterparty to make a collateral advance 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

S&P Global Ratings performed a scenario analysis to determine the potential impact 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 LTV ratios for this impact. Note that this scenario does not take into account potential increases or decreases in the security property value compared with its original value, and does not consider cash-flow analysis and, therefore, the potential use of excess spread to cover losses. The implied credit assessments are set out in table 1.

Table 1

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

Class	Minimum credit support for credit losses (%)	Implied credit assessment
A1	35.79	aaa
A2	35.79	a+
B	26.52	a-
C	16.71	bbb
D	9.82	bb-
E	5.92	b

Table 1

Minimum Credit Support For Credit Losses And Implied Credit Assessments Under The Scenario (cont.)

Class	Minimum credit support for credit losses (%)	Implied credit assessment
F	3.12	Below b-

Note: Implied credit assessment 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, 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.

Think Tank originates predominately through brokers, with a small percentage of originations through its direct channel. Brokers must be formally accredited, carry professional 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 49.9% low-documentation loans, which are composed of 48.1% "mid-documentation" and 1.8% "quick-documentation" products. Income is self-certified for the low-documentation products, and trading bank statements, 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 mid-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 originator servicing and trust manager role for the transaction. In its role as originator servicer, Think Tank is responsible for monitoring and managing delinquencies and the enforcement process. AMAL would act as back-up originator 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.

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.

Chart 2, chart 3, chart 4, chart 5, and chart 6 illustrate the arrears performance of Think Tank commercial loan transactions rated by S&P Global Ratings. Arrears are calculated on a scheduled-payment basis. None of the five trusts has experienced losses to date.

Chart 2

Think Tank Series 2014-1
Loan balance in arrears

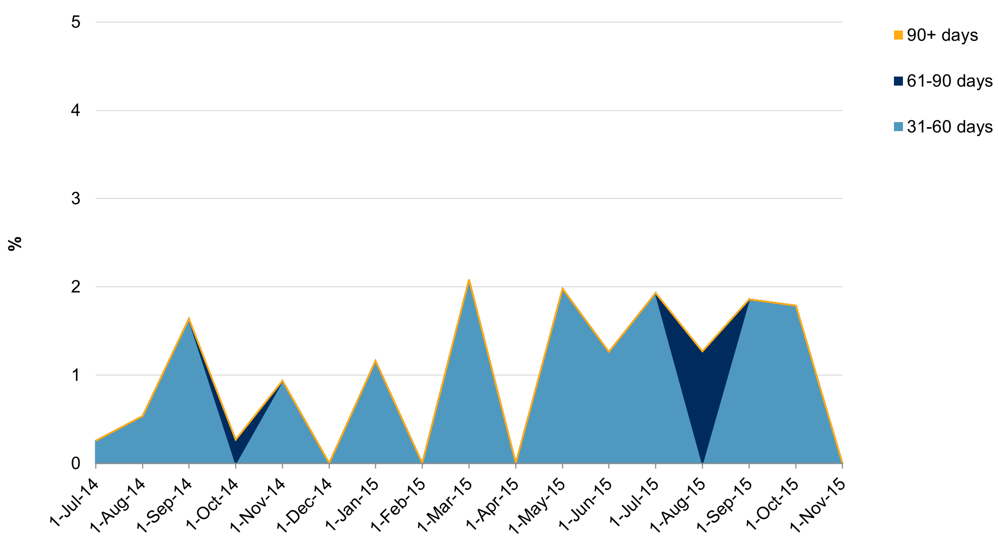


Chart 3

Think Tank Series 2016-1
Loan balance in arrears

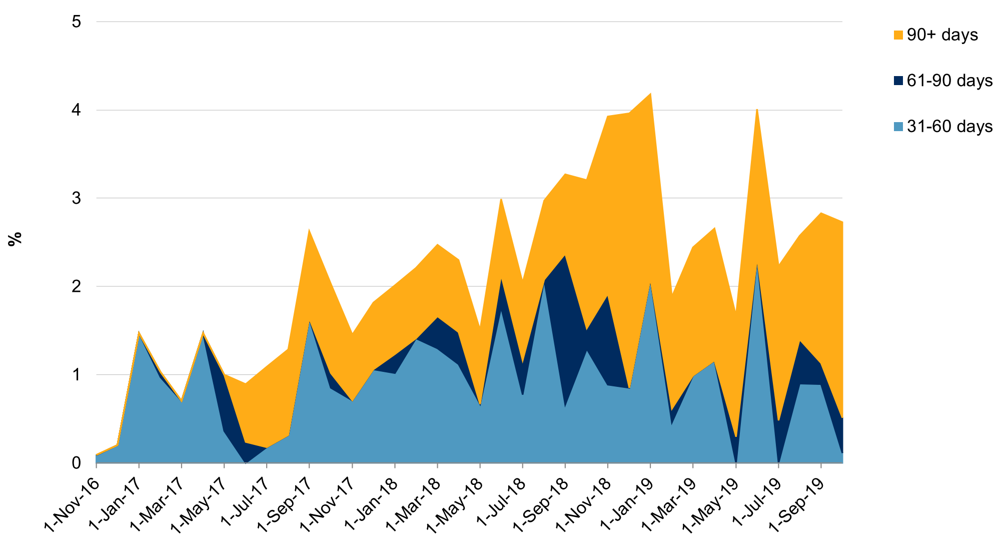


Chart 4

Think Tank Series 2017-1
Loan balance in arrears

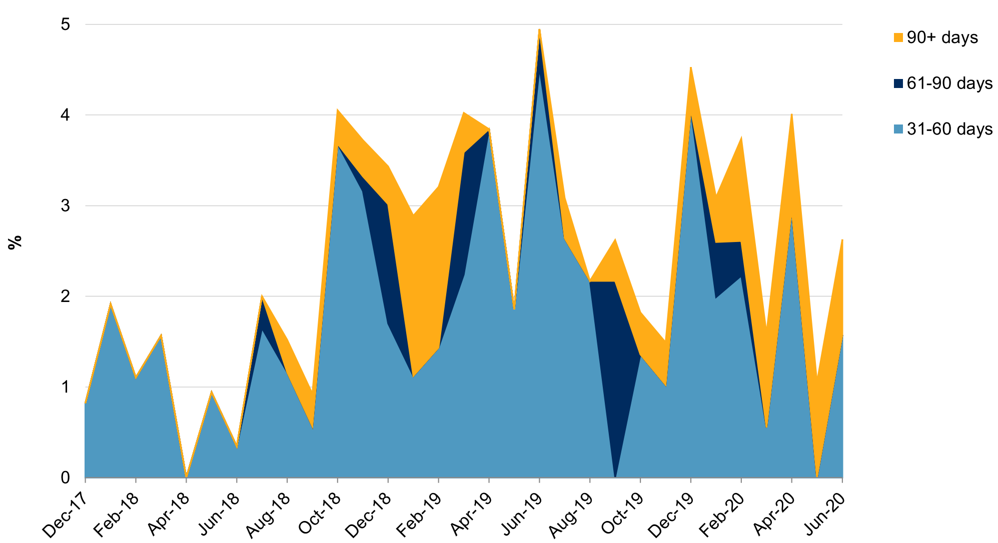


Chart 5

Think Tank Series 2018-1
Loan balance in arrears

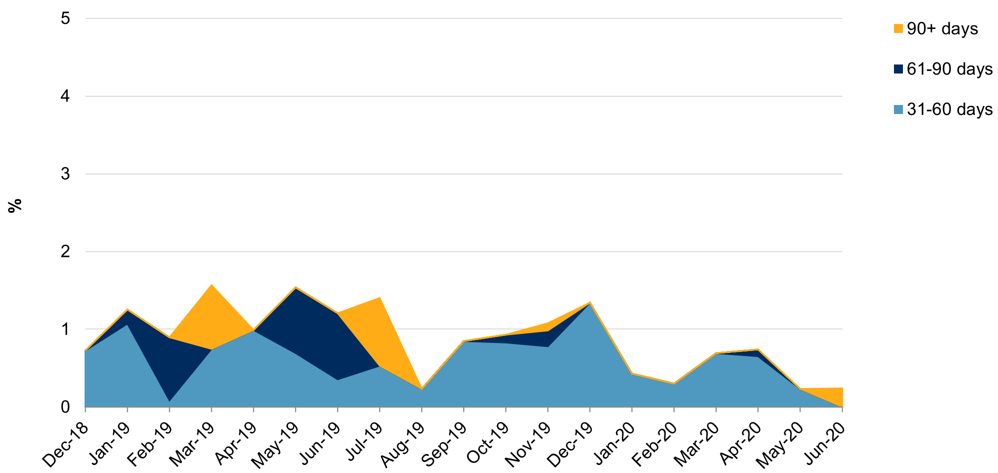
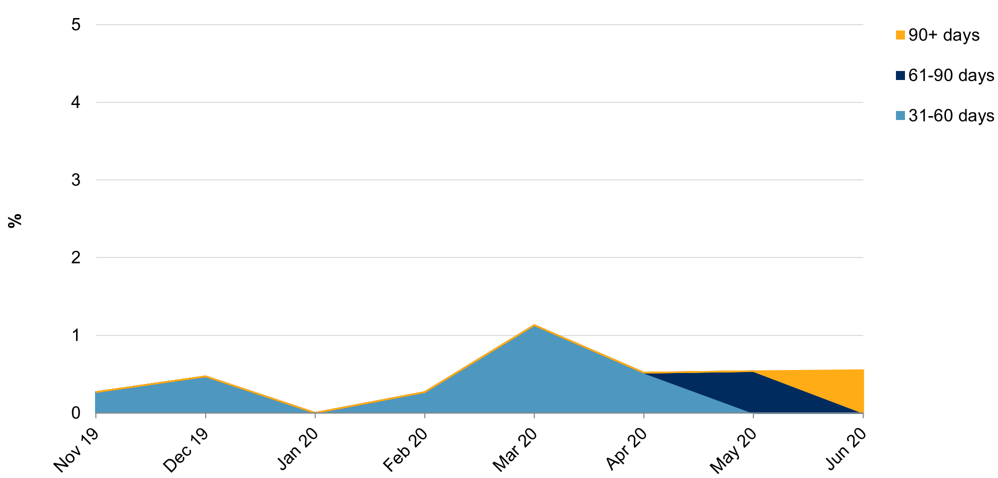


Chart 6

Think Tank Series 2019-1
Loan balance in arrears



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 transaction-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 transaction-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 (see 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.

We have recently updated our benchmark default frequencies for residential and commercial properties in response to changing macroeconomic conditions as a result of the COVID-19 outbreak.

We have also taken into account those borrowers in the portfolio who have entered into a COVID-19 hardship payment arrangement. As of Sept. 18, 2020, such borrowers account for 11.6% of the closing pool balance. While we do not believe all these loans will move to formal arrears management and foreclosure following the end of the hardship period, there is an increased probability that some of these are at higher risk of loss, particularly those loans that were in arrears before entering into the hardship arrangement.

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.

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

Table 2

Summary Credit Assessment

	AAA	AA	A	BBB	BB	B
(a) Default frequency (%)	30.04	23.04	15.94	10.86	7.58	4.74
(b) Loss severity (%)	71.86	67.57	60.35	50.60	42.38	34.39
(c) Credit support required (%)	21.6	15.6	9.7	5.5	3.3	1.7
Various benchmark assumptions						
Market value decline – commercial property (%)	65.0	63.0	58.0	51.0	46.0	41.0
Market value decline – other property (%)	75.0	73.0	68.0	60.0	54.0	48.0
Market value decline – rural property (%)	70.0	68.0	63.0	56.0	50.0	45.0
Market value decline – residential property (%)	45.0	43.0	41.0	38.0	34.0	30.0
Default frequency – commercial, rural and other property (%)	13.3	10.2	7.0	4.7	3.3	2.0
Default frequency – residential property (%)	10.0	7.6	5.1	3.4	2.3	1.3

Other key assumptions are shown in table 3.

Table 3

Additional Assumptions

Benchmark LTV ratio – commercial property (%)	65
Benchmark LTV ratio – other property (%)	50
Benchmark LTV ratio – rural property (%)	50
Benchmark LTV ratio – residential property (%)	75
Recovery period commercial, rural, and other property (months) – less than A$1 million property value	24
Recovery period commercial, rural, and other property (months) – greater than or equal to A$1 million property value	30
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 five main default frequency characteristics that have deviated from the benchmark pool.

Table 4

Rating Multiples

Criteria	Multiple for default frequency against total pool (x)
Reduced documentation: income verification	1.145
LTV ratio	1.067
Employment type	1.046
Repayment method	1.035
Location – non-metro	1.021

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 and six months 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 (excluding hardship loans) 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 July 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 (%)
Loan size distribution (A$)	
Less than or equal to 100,000	0.1

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Greater than 100,000 and less than or equal to 200,000	1.8
Greater than 200,000 and less than or equal to 300,000	4.9
Greater than 300,000 and less than or equal to 400,000	7.4
Greater than 400,000 and less than or equal to 600,000	20.1
Greater than 600,000 and less than or equal to 800,000	16.0
Greater than 800,000 and less than or equal to 1,000,000	12.8
Greater than 1,000,000 and less than or equal to 1,500,000	21.0
Greater than 1,500,000 and less than or equal to 4,000,000	15.8
Loan-to-value ratio distribution (%)	
Less than or equal to 50	11.4
Greater than 50 and less than or equal to 60	10.9
Greater than 60 and less than or equal to 70	33.6
Greater than 70 and less than or equal to 80	42.9
Greater than 80	1.2
Geographic distribution (by state)	
New South Wales	53.0
Victoria	28.3
Queensland	10.9
Western Australia	2.9
South Australia	3.0
Tasmania	0.5
Australian Capital Territory	1.4
Northern Territory	0.0
Geographic distribution	
Inner city	1.8
Metropolitan	84.8
Nonmetropolitan	13.5
Documentation type (%)	
Full documentation	50.1
Low documentation	49.9
Occupancy (%)	
Investor	39.5
Owner-occupier	33.3
SMSF	27.2
Seasoning (months)	
Less than or equal to six	40.8

Table 5

Loan Pool Characteristics (cont.)

	Value of loans (%)
Greater than six and less than or equal to 12	35.9
Greater than 12 and less than or equal to 24	8.1
Greater than 24 and less than or equal to 36	0.4
Greater than 36 and less than or equal to 48	0.4
Greater than 48 and less than or equal to 60	5.9
Greater than 60	8.5
Principal amortization	
Interest only for up to five years, reverting to principal amortizing	34.5
Principal and interest	65.5
Interest type	
Variable-rate loans	100.0
Up to five-year fixed-rate loans	0.0
Borrower employment status	
Pay-as-you-go borrowers (full or part time)	12.5
Self-employed borrowers	87.5
Loan purpose	
Purchase exist	63.3
Refinance	18.3
Refinance for equity takeout	18.4
Previous credit impairment	
No adverse history	99.5
One event of default or judgment	0.5
Two or more events of default or judgment	0.0
Property type*	
Commercial	51.8
Residential	44.9
Rural	0.2
Other	3.1
Borrower residency	
Australia	100.0

*S&P Global Ratings' classification. §As of Sept. 18, 2020, loans with COVID-19 related hardship arrangements make up 11.6% of the closing pool. Lenders might not report loans under COVID-19 arrangements as being in arrears during the defined mortgage-relief period. S&P Global Ratings expects lenders will report on this measure separately. As at Sept. 18, 2020 no loans in the portfolio were greater than 30 days in arrears.

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 rated notes is firstly provided through principal draw. An amortizing liquidity facility will be available if interest collections plus principal draws are insufficient.

The liquidity facility to be 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 the above liquidity support will not be available to meet interest shortfalls on the class B, class C, class D, class E and class F notes if 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 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.

Liquidity support for COVID-19 mortgage deferral loans

After the closing date and before the first payment date, Think Tank will enter into the forbearance special-purpose vehicle program established by the Australian Office of Financial Management to provide additional liquidity support to the transaction. The program is in response to the COVID-19 pandemic. Under the program, funds can be advanced to the trust in relation to loan interest payments that are not received from borrowers that have been granted a payment holiday under COVID-19 related hardship arrangements. The reimbursement of any payments made under this agreement are subordinated in the cash-flow waterfall and as a result will not negatively impact the cash flows of the trust. S&P Global Ratings have given no credit to the availability of this additional liquidity support.

Extraordinary expense reserve

Think Tank will deposit on the closing date of the transaction 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, during the life of the transaction from excess spread.

Cash-flow modeling 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--should it be necessary for the current servicer to be replaced.
- A weighted-average borrower rate on loans of at least the greater of the threshold rate required to ensure senior obligations of the trust are met and a defined minimum margin over the bank-bill swap rate of 4.50%.
- 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 senior 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 (see 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 (%)
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	30
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.

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 | 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
- 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

- AOFM Forbearance SPV Shouldn't Affect Rated Trusts' Cash Flows, July 30, 2020
- Rating Assumptions Updated On Four Australian CMBS Transactions, June 11, 2020
- Credit FAQ: How Will COVID-19 Affect Australian Structured Finance? March 26, 2020
- 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
- Methodology And Assumptions For The Australian, Japanese, And New Zealand Residential Mortgage Markets, Jan. 15, 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 monthly
- ABS Performance Watch: Australia, published quarterly

The issuer has not informed S&P Global Ratings Australia Pty. Ltd. whether the issuer is publically disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains non-public.