RMBS Performance Watch

Australia Part 1 – Market Overview

At September 30, 2016

S&P Global Ratings

Commentary

Performance Trends: The Big Picture

Table 1: Key Performance Indicators

	Q3 2017 (%)	Q2 2017 (%)	Yr-On-Yr* Movement (%)	Peak (%)§
30+ Days' Arrears (%)				
Prime	1.08	1.15	(0.06)	1.69
Nonconforming	4.47	4.84	0.10	17.09
Investment†	0.93	0.94	0.07	1.79
Owner-occupied†	1.28	1.40	(0.07)	1.83
Prepayment Rates (%)				
Australian prime	19.80	20.78	(1.77)	31.15
Australian nonconforming	29.36	28.02	(1.29)	62.18
Cumulative Gross Loss (CGL) (Please refer to charts 3A and 3B for breakdown across vintages)				
Australian prime		Highest CGL is for 2010 vintage at 0.135%		
Australian nonconforming		Highest CGL is for 2008 vintage at 5.30%‡		

Source: S&P Global Ratings. Data as of Sept. 30, 2017. *Year-on-year movement shows the increase (or decrease) in arrears for the current quarter compared to the corresponding quarter of the previous year. §Peak is derived from the highest figure recorded for total balances over $A1 billion. †Investment and owner-occupier arrears include prime and nonconforming loans ‡Transactions underlying 2008 vintage have refinanced.

Table 2: S&P Global Ratings Economic Outlook – Baseline effect on collateral credit quality

	Outlook for 2018f	Outlook for 2019f	Effect on collateral
Real GDP (%)	2.83	3.08	Favorable. Forecast improvement in real GDP is positively correlated with credit quality as the general health of the economy affects household's repayment capacity.
CPI inflation (%)	2.21	2.23	Somewhat favorable. If wage growth improves this is credit positive as it strengthens debt repayment capacity.
Unemployment rate (U.R) (%)	5.64	5.54	Favorable. Forecast decline in U.R is credit positive as loss of income is a key cause of default.
Policy rate (%)	1.75	2.50	Unfavorable. Rising interest rates are closely correlated with increasing arrears as majority of mortgages are variable rate.

Source: Asia-Pacific Credit Conditions September 2017: Trends Are Improving Slightly But Risks Are Escalating, Sept. 26, 2017.

Summary

- Prime arrears were relatively stable during the third quarter (Q3) of 2017, declining to 1.08% from 1.15% in Q2. Loans more than 30 days in arrears declined by 4.94% during the quarter and are currently below the September average of 1.15% and decade average of 1.25%.
- Nonconforming arrears declined to 4.47% in Q3, down by 7.69% from 4.84% in Q2, despite a decrease in outstanding loan balances during the quarter. Loans more than 90 days in arrears declined in percentage terms and dollar terms in Q3 to 2.07% from 2.20% in Q2. This improvement in arrears is consistent with the increase in prepayment rates for the nonconforming sector during Q3. Higher prepayment rates are often indicative of increased refinancing activity; a common way for borrowers to self-manage their way out of arrears.
- Investment loan arrears decreased to 0.93% in Q3 from 0.94% in Q2, but are up 8.8% year on year. This reflects the repricing of investor loans and interest-only loans (more common among investors) since the later part of 2015 compared with owner-occupier loans in response to regulatory measures to limit the credit growth of these loans types. Around 52% of investment loans have an interest-only period compared with 15% for owner-occupier loans.
- Owner-occupier loan arrears declined to 1.29% in Q3 from 1.40% in Q2. Year-on-year owner-occupier arrears decreased by 5.54%. According to Reserve Bank of Australia statistics, mortgages with interest rates less than 4% are now exclusively principal and interest mortgages, which are more common among owner-occupier loans. Owner-occupier loans make up around 71% of total residential mortgage-backed securities (RMBS) loans.
- Prepayment rates for loans underlying prime RMBS transactions decreased to 19.80% in Q3 from 20.78% in Q2. Prime prepayment rates are below the decade average of 21.42% and September average of 22.23%. Nonconforming prepayment rates increased to 29.36% in Q3 from 28.02% in Q2 and are above their decade average of 28.11%.
- As per our definition, unscheduled principal repayments include voluntary and involuntary repayments. A slowdown in refinancing activity can precipitate a rise in arrears, particularly in the nonconforming sector because borrowers have fewer options available to manage their way out of financial difficulty.

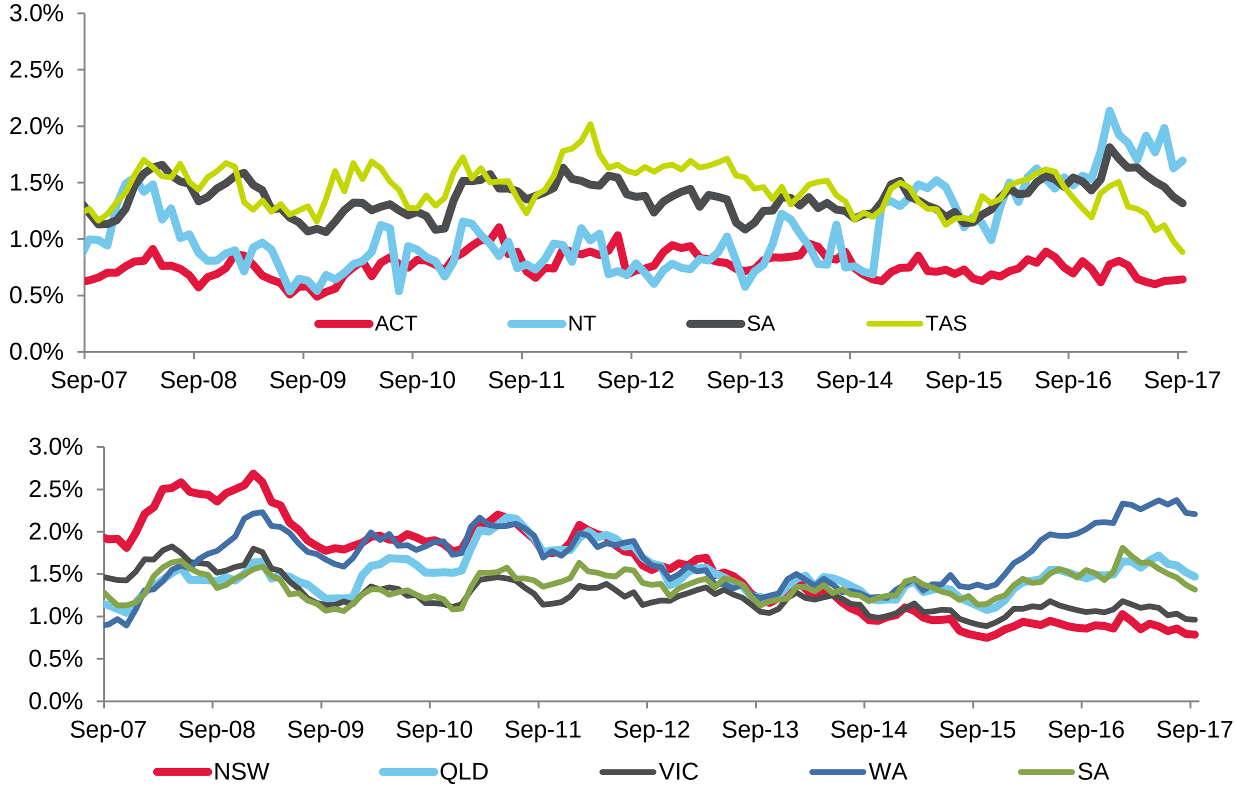
The stable performance of most Australian RMBS transactions, particularly in the prime, space reflects the high seasoning of many portfolios. Most of the loans underlying Australian RMBS transactions are well seasoned, with many in excess of 60 months. As loans season, a borrower builds up a track record of repayment, which positively reinforces the borrower's credit profile. This has resulted in a reasonable degree of equity build up, providing a buffer against deterioration in property prices and enhancing refinancing prospects.

This level of seasoning may not be reflective of the broader mortgage market, however. Less-seasoned loans underwritten during a period of strong property price growth and low interest rates can be more vulnerable to deterioration in economic conditions and rising interest rates. This risk is heightened in an environment of increased lending competition. Prudent lending standards are an important safeguard in managing this risk.

State Of Play

The Australian Capital Territory (ACT) in Q3 2017 again had the lowest arrears of all the states and territories, at 0.64%. Western Australian meanwhile recorded the nation's highest arrears, at 2.21%. Arrears declined in all states and territories during Q3, except the ACT, where arrears increased to 0.64% in Q3 from 0.60% in Q2.

Chart 1A and 1B: State Arrears Levels



Source: S&P Global Ratings

Table 3: State Arrears Trends

	Q3 2017	Q2 2017	Annual Increase (Decrease) (%)	Peak (%)	U.R. (%)
30+ Days Arrears (%)					
NSW	0.79	0.83	(0.07)	2.69	4.6
QLD	1.47	1.62	0.02	2.17	6.0
VIC	0.96	1.02	(0.09)	1.86	5.7
WA	2.21	2.32	0.18	2.38	5.9
SA	1.32	1.51	(0.23)	1.75	5.8
TAS	0.88	1.08	(0.48)	2.02	6.1
NT	1.70	1.77	0.22	3.50	4.2
ACT	0.64	0.60	(0.06)	1.11	3.8
AUSTRALIA	1.08	1.15	(0.06)	1.69	5.4

Source: S&P Global Ratings, ABS. U.R.--Unemployment rate, Seasonally adjusted, as of Oct. 31, 2017. Note: Annual increase (decrease) in arrears represents the difference in arrears (e.g., Arrears % Now – Arrears % same time last year).

Each state and territory's arrears level is a reflection of its general economic health and provides an insight into households' ability to manage their debt in a changing economic environment. A breakdown of the arrears performance for each state and territory shows the following.

- **New South Wales** (NSW) continued to outperform other parts of the country in Q3, with the exception of the ACT. Arrears in NSW in Q3 trended at 0.79%, which was below the SPIN. NSW's favourable performance against the SPIN reflects the state's lower unemployment rate, relatively strong population growth, and strong property price growth. Across Australian RMBS portfolios, states with stronger property price growth tend to have lower arrears. This partly reflects the stronger refinancing prospects of borrowers with seasoned loans due to their improved loan-to-value (LTV) ratio position.
- **Victoria's** arrears of 0.96% in Q3 were higher than in NSW, but recorded a greater improvement during the quarter. While Victoria's unemployment rate is slightly higher than other parts of the country, we expect that strong population growth, strong jobs growth, and strong property price growth will keep arrears performance stable.
- **Queensland's** arrears decreased in Q3 to 1.47% from 1.62% in Q2. Queensland has the most decentralized population and more than 50% of the state's RMBS exposure is outside the capital of Brisbane. Queensland's higher arrears reflect the state's greater exposure to regional areas, many of which are facing high unemployment levels and subdued economic growth. However, improvements in employment growth in Queensland appear to be helping stem the flow of new loans heading into arrears. Migration rates for loans in the more advanced arrears stages into later arrears categories are higher in Queensland, however.
- **Western Australia** (WA) arrears in Q3 remained the highest in the country, at 2.21%, but arrears in WA appear to be on the way down, at least in the earlier arrears categories. Improving employment growth is helping to stem the flow of new loans heading into arrears, as is the case in Queensland, but the migration rate for loans in the 60-90 day category to the 90-plus days category is higher in WA than the rest of the country. For loans in advanced arrears stages, net losses are more likely to occur in the event of borrower default, given the larger market value declines observed in WA. Exposure to WA across the Australian RMBS sector is approximately 10%.
- **South Australia** (SA)'s mortgage arrears declined in Q3 to 1.32% from 1.51% in Q2. South Australia's improving arrears reflects an improvement in employment conditions.
- **Tasmania** recorded the largest improvement again in Q3, with arrears declining to 0.88% from 1.08% in Q2 2017. In addition to a general improvement in the unemployment rate in 2017, property prices in Tasmania have also been experiencing strong growth, as evidenced by year-on-year growth of 12.4% in Hobart as of June 2017. This was the third-highest increase recorded by the Australian Bureau of Statistics for a capital city after Sydney and Melbourne.
- **Northern Territory** (NT)'s arrears declined to 1.70% in Q3 from 1.77% in Q2 2017. Given the small exposure in RMBS portfolios to the NT, arrears trends are more volatile in percentage terms.
- **Australian Capital Territory** (ACT) arrears increased to 0.64% in Q3 from 0.60% in Q2, but remained the lowest in the country. With the public service a key employer in the nation's capital, local employment conditions are likely to be more stable than in other states and territories, particularly those with a higher exposure to the resources sector.

Nine of the 10 worst-performing postcodes in Q3 are in Queensland and Western Australia. This is consistent with the higher arrears in these states since late 2015.

Table 4: 10 Worst-Performing Postcodes

State	Suburb	Postcode	Loans in Arrears (%)	Loan Count
QLD	BUCASIA	4750	6.30	280
WA	BLYTHEWOOD	6208	5.57	258
WA	BUTLER	6036	4.95	346
NSW	BALMORAL	2571	4.86	298
QLD	ARMSTRONG BEACH	4737	4.68	355
QLD	SOUTH GLADSTONE	4680	4.44	2455
QLD	BLENHEIM	4341	4.35	465
WA	AVELEY	6069	4.27	913
QLD	BARKLY	4825	3.93	759
QLD	MURRAYS BRIDGE	4370	3.88	414

Source: S&P Global Ratings. Data as of Sept. 30, 2017. For a full list of suburbs/localities attached to these postcodes, please refer to the Australia Post website.

Arrears Performance Across the Country: Western Australia And Queensland Are Home To The Highest Arrears

The arrears performance divide between resource versus nonresource and metropolitan versus nonmetropolitan can be further illustrated by a breakdown of arrears performance of the loans underlying Australian RMBS portfolios in each geographical region or Statistical Area 4, as defined by the Australian Bureau of Statistics (ABS) (table 5).

The ABS classifies the regional centers selected for this analysis as Statistical Area Level 4s (SA4s) under its Australian Geography Standard. SA4s are required to have populations of more than 100,000 people. This enables accurate workforce survey data to be generated on each SA4.

Key observations from the analysis below include:

- The top 20 worst-performing regions across the country are predominantly in Western Australia (both metropolitan and non-metropolitan areas) and nonmetropolitan Queensland, reflecting the greater impact of the downturn in mining investment in these locations.
- The more advanced arrears categories of 90-plus days are generally higher in these areas, reflecting borrowers' tougher refinancing prospects in these areas in the face of larger property market value declines.
- Regions with lower arrears are predominantly located in inner and outer Sydney. This reflects the correlation between property prices and arrears performance for more seasoned loans, which benefit from the improved equity build up and enhanced refinancing prospects this affords.
- Stronger economic fundamentals, including strong population growth, strong employment growth, and greater economic diversity, underpin the stronger arrears performance in the larger cities of Sydney and Melbourne as well as Brisbane, to a certain extent.

- Geographic diversity across the majority of Australian RMBS portfolios helps to offset the risk of increased exposure to underperforming sectors of the economy or certain property markets.

Table 5: Arrears Breakdown Across Australian RMBS Transactions By Geographical Location

Statistical Area 4	State	Exposure Across RMBS (%)	Loans in Arrears 30+ Days (%)	Loans in Arrears 90+ Days (%)
Western Australia - Outback	WA	0.56	4.92	3.97
Queensland - Outback	QLD	0.19	3.95	3.10
Mandurah	WA	0.38	3.68	2.68
Mackay	QLD	0.98	3.47	2.67
Fitzroy	QLD	1.24	3.34	2.29
Perth - Northeast	WA	1.44%	2.69	1.88
Western Australia - Wheatbelt	WA	0.26	2.52	1.48
South Australia - Outback	SA	0.15	2.51	1.85
Townsville	QLD	1.33	2.30	1.50
Wide Bay	QLD	0.91	2.19	1.39
Perth - Northwest	WA	2.31	2.18	1.29
Perth - Southwest	WA	1.86	2.10	1.31
Barossa - Yorke - Mid-North	SA	0.20	2.04	1.63
Latrobe - Gippsland	VIC	0.78	1.90	1.39
Bunbury	WA	0.51	1.85	0.95
Logan - Beaudesert	QLD	0.96	1.82	1.01
Darwin	NT	0.80	1.80	0.99
Ipswich	QLD	1.31	1.78	0.83
North West	VIC	0.17	1.78	1.09
Coffs Harbour - Grafton	NSW	0.33	1.77	1.02
Perth - Southeast	WA	2.34	1.76	1.18
Cairns	QLD	1.02	1.75	1.12
Central West	NSW	0.41	1.69	0.88
Moreton Bay - North	QLD	1.22	1.67	1.00

Toowoomba	QLD	0.01	1.63	1.63
Darling Downs - Maranoa	QLD	1.07	1.57	0.94
Riverina	NSW	0.14	1.57	0.82
Southern Highlands and Shoalhaven	NSW	0.39	1.51	1.07
Hunter Valley excl. Newcastle	NSW	1.06	1.49	0.85
Far West and Orana	NSW	0.18	1.40	0.96
Bendigo	VIC	0.40	1.38	0.83
Hume	VIC	0.47	1.37	0.92
West and Northwest	TAS	0.26	1.36	0.95
Adelaide - North	SA	1.43	1.35	0.75
South Australia - Southeast	SA	0.38	1.35	0.97
Richmond - Tweed	NSW	0.68	1.31	0.69
Gold Coast	QLD	3.40	1.31	0.69
Adelaide - West	SA	0.80	1.29	0.66
New England and Northwest	NSW	0.35	1.28	0.80
Shepparton	VIC	0.19	1.26	0.94
Melbourne - Northeast	VIC	2.53	1.22	0.69
Sunshine Coast	QLD	1.52	1.22	0.64
Adelaide - South	SA	1.44	1.18	0.62
Warrnambool and South West	VIC	0.29	1.18	0.71
Adelaide - Central and Hills	SA	1.27	1.17	0.65
Ballarat	VIC	0.70	1.14	0.66
Melbourne - Southeast	VIC	2.48	1.11	0.63
Melbourne - West	VIC	2.77	1.10	0.56
Murray	NSW	0.61	1.10	0.66
Mid-North Coast	NSW	0.44	1.09	0.70
Mornington Peninsula	VIC	1.20	1.07	0.50
Moreton Bay - South	QLD	0.88	1.05	0.66

Sydney - Southwest	NSW	1.24	1.00	0.41
Melbourne - Northwest	VIC	1.04	0.97	0.55
Perth - Inner	WA	1.08	0.94	0.49
Northern Territory - Outback	NT	0.10	0.92	0.57
Central Coast	NSW	1.32	0.92	0.46
Geelong	VIC	1.09	0.90	0.34
Sydney - Blacktown	NSW	1.84	0.89	0.46
Melbourne - Outer East	VIC	2.13	0.88	0.46
Sydney - Inner Southwest	NSW	2.54	0.88	0.64
Capital Region	NSW	1.04	0.86	0.36
Brisbane - West	QLD	1.38	0.85	0.41
Sydney - Sutherland	NSW	1.07	0.85	0.52
Illawarra	NSW	1.45	0.82	0.43
Newcastle and Lake Macquarie	NSW	1.47	0.82	0.40
Hobart	TAS	0.96	0.82	0.50
Launceston and North East	TAS	0.36	0.76	0.42
Brisbane - East	QLD	1.46	0.74	0.43
Sydney - Outer West and Blue Mountains	NSW	0.88	0.74	0.29
Sydney - Outer Southwest	NSW	0.87	0.73	0.43
Brisbane - South	QLD	2.56	0.72	0.41
Australian Capital Territory	ACT	2.34	0.65	0.31
Sydney - Baulkham Hills and Hawkesbury	NSW	1.76	0.64	0.30
Sydney - Parramatta	NSW	2.52	0.61	0.34
Melbourne - Inner	VIC	3.70	0.60	0.37
Melbourne - Inner South	VIC	1.96	0.60	0.33
Sydney - Inner West	NSW	1.30	0.53	0.26
South East	TAS	0.04	0.52	0.38

Sydney - City and Inner South	NSW	2.45	0.52	0.25
Brisbane - North	QLD	1.63	0.46	0.28
Brisbane Inner City	QLD	1.12	0.45	0.35
Melbourne - Inner East	VIC	1.55	0.44	0.31
Sydney - North Sydney and Hornsby	NSW	2.06	0.41	0.35
Sydney - Eastern Suburbs	NSW	0.81	0.35	0.16
Sydney - Northern Beaches	NSW	1.44	0.31	0.17
Sydney - Ryde	NSW	0.39	0.21	0.09

Source: S&P Global Ratings. Data as of Sept. 30, 2017.

Losses Are Relatively Low

Australian RMBS cumulative losses for most vintages are relatively low for prime and nonconforming transactions (charts 3A and 3B). Whether future recessions could result in greater losses due to higher debt and leverage levels than in the early 1990s will depend on the prevailing economic circumstances and market discipline regarding credit-quality management during growth periods.

Chart 3A: Prime Cumulative Gross Losses

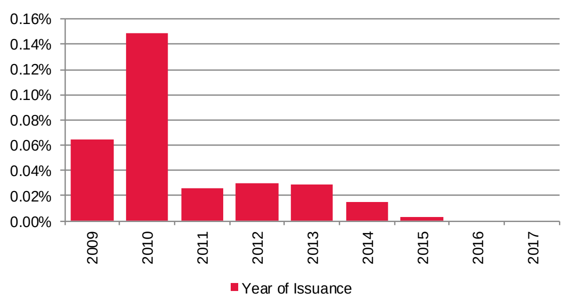
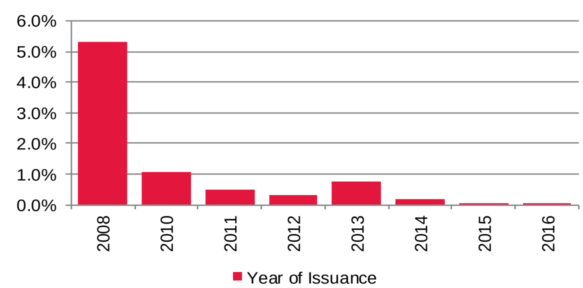


Chart 3B: Nonconforming Cumulative Gross Losses



Source: S&P Global Ratings. Data as of Sept. 30, 2017. Cumulative gross losses as a percentage of initial issuance. For prime 2010 vintage, more than 60% of losses are attributable to one transaction. For 2008 nonconforming vintage, two transactions underlying this vintage have since been restructured and refinanced.

In the case of the 2010 prime vintage, the higher losses observed are primarily due to one transaction that has a high proportion of low-documentation loans and high LTV ratio loans. This has contributed to the higher losses in this transaction, in our opinion. Across the prime RMBS portfolio, low-documentation loans now represent around 1% of total loans outstanding.

All gross losses to date across prime and nonconforming Australian RMBS transactions have been covered by lenders' mortgage insurance (LMI) claims paid and excess spread.

Key Risks

The key factors that we believe have a significant effect on the collateral performance of RMBS are as follows, along with the current outlook for each.

Household indebtedness: Household indebtedness in Australia is high, particularly by international standards. This does not provide much headroom if the economic situation deteriorates or when interest rates start to rise again. Given interest rates are at historically low levels, debt-serviceability assessments by lenders have come under greater scrutiny by regulators. We believe Australian regulators' focus on prudent lending standards while interest rates and unemployment are low provides an important safeguard because borrowers still have an opportunity to build equity.

Debt serviceability: Debt serviceability issues are exacerbated in more subdued economic climates when refinancing opportunities are limited, particularly for borrowers of a higher credit risk, because lenders invariably tighten their lending criteria. In this scenario, some borrowers will find it harder to manage their way out of their financial situation, leading to higher arrears and potential losses. In our opinion, self-employed borrowers, nonconforming borrowers, and borrowers with high LTV loans are more likely to face greater refinancing difficulties in more subdued economic climates.

Material decline in property prices: Property prices affect the level of net losses in the event of borrower default. From an RMBS perspective, the strong appreciation in property prices has increased borrowers' equity for well-seasoned loans, and this helps to minimize the level of losses in the event of a borrower default. Higher LTV loans are more exposed to a decline in property prices because they do not have as much equity built up in them to absorb potential losses. Around 16 % of total RMBS loans have high LTV ratios of more than 80%.

Tail-end risk: Adverse selection remains a risk in RMBS transactions, particularly when the originator/servicer has gone out of business and when the RMBS are unlikely to be redeemed on their call dates. However, the mitigating factors include a build-up of credit enhancement in percentage terms as the repayment speed outpaces the loss rate. Subordinated tranches of RMBS transactions are more exposed to this risk, particularly those that have no hard credit support available and rely exclusively on LMI and excess spread to cover any losses.

Counterparty risks: Counterparty risk is a key rating-transition risk for Australian RMBS transactions. LMI providers and financial institutions are common counterparties in Australian and New Zealand RMBS transactions.

Current Outlook

The current outlook is stable for Australian RMBS transactions, from a collateral performance perspective. Low interest rates and stable employment conditions are supporting strong arrears performance and low levels of losses. Our forecast (table 2) of continued stability in employment conditions is fundamental to our stable collateral outlook for Australian RMBS because loss of income is a key cause of default. The credit support enhancement available to most 'AAA (sf)' rated tranches of Australian RMBS transactions provides a buffer to withstand a moderate deterioration in collateral performance, in our opinion. High prepayment rates for prime and nonconforming loans have contributed to this build-up in credit enhancement, particularly for transactions that are paying sequentially.

New Zealand: House Price Inflation Continues To Moderate In Auckland

We expect New Zealand's economic growth to be stable over the medium term. We believe the risks facing New Zealand's financial system have stabilized because the rapid increase in residential house prices and private sector credit extension have slowed and the credit cycle has matured (see "Banking Industry Country Risk Assessment: New Zealand," Nov. 13, 2017).

House price inflation in New Zealand has moderated, indicating that vulnerabilities in the market seem to be stabilizing. Auckland home prices have declined slightly during the past six months, while annual house price inflation in the rest of New Zealand has slowed to about 8%. In our view, the moderation reflects higher mortgage lending rates, tighter lending conditions, the impact of a recent LTV ratio policy change and affordability constraints in Auckland. However, house prices remain elevated in some regions and underlying drivers of price growth remain strong. We believe that even though banks have improved the quality of their mortgage lending, many homeowners appear vulnerable to an increase in interest rates or a fall in income (see "Banking Industry Country Risk Assessment: New Zealand," Nov. 13, 2017).

The performance outlook is mixed for New Zealand RMBS transactions. The prime RMBS and senior classes of nonconforming RMBS continue to benefit from the sequential pay structures and build-up of credit enhancement as a proportion of outstanding balance. However, the subordinated classes of nonconforming RMBS remain vulnerable to risks associated with a diminishing pool balance. The pool factors for most transactions are low, resulting in high fluctuations in arrears and prepayment rates. However, the cumulative loss experience is low and the credit enhancement available to the rated RMBS can withstand moderate deterioration in underlying asset quality.

Similar to Australia, household debt levels remain high, leaving some households vulnerable to rising interest rates and job losses, which could drive up arrears. Most New Zealand RMBS are well seasoned and have minimal losses to date. Subject to adequate insurance being in place and operational requirements being met, LMI cover and structural supports can help rated notes to weather temporary adverse events.

Because there has been minimal New Zealand RMBS issuance in recent years, the current market concern over Auckland's housing market is lower for well-seasoned loans, such as those underlying New Zealand RMBS transactions. For well-seasoned loans, strong appreciation in property prices has increased borrowers' equity, which helps to minimize the level of losses in the event of borrower default. Conversely, for loans underwritten in strong property markets at higher LTV ratios, borrower equity could be eroded if property prices fall, potentially causing losses incurred in the event of borrower default.

About 8.9% of the loans underlying New Zealand RMBS transactions have LTV ratios greater than 75%. Consequently, we believe a decline in Auckland property prices would not have a material impact on New Zealand RMBS transactions from a collateral and ratings perspective.

The key performance trends for the New Zealand RMBS sector during Q2 include the following:

- The SPIN for New Zealand prime mortgages decreased to 0.95% in Q3 2017 from 1.85% in Q2.
- Prepayment levels for New Zealand prime mortgages decreased to 20.49% in Q3 from 25.20% in Q2.
- Cumulative gross loss levels are low for prime RMBS, with the highest vintage (2010) recording a cumulative gross loss of 0.682%. Losses for this vintage are significantly higher than all other vintages, but have stabilized at this level since Q3 2014.
- The current weighted-average LTV ratio across RMBS portfolios is 55.80%.
- The current weighted-average seasoning across RMBS portfolios is 56 months.

The Co-Operative Bank issued The Co-Operative Bank RMBS Trust 2017-1 during Q3. This is the first New Zealand RMBS transaction to be issued since 2015. There are currently five outstanding prime New Zealand RMBS transactions and one nonconforming RMBS transaction, with New Zealand RMBS outstandings just over NZ$463 million as of Sept. 30, 2017.

All gross losses to date in prime and nonconforming New Zealand RMBS transactions have been covered by LMI claims paid and excess spread.

The performance of New Zealand RMBS has been stable, and we expect this trend to continue throughout 2018.

Market Overview

Recent Issues

The following transactions have issued RMBS in the past three months, hence there may be insufficient history available to create the graphs titled "Loan Pool Arrears Performance vs. SPIN" and "Loan Pool Repayment Rate & Outstanding Security Balances".

Deal Name	Asset Sub Class	Sponsor	Closing Date
RESIMAC Triomphe Trust - RESIMAC Premier Series 2017-2	Prime	RESIMAC Ltd.	14-Jul-17
Barton Series 2017-1 Trust	Prime	Community CPS Australia Ltd.	21-Jul-17
PUMA Series 2017-1	Prime	Macquarie Securitisation Ltd.	02-Aug-17
TORRENS Series 2017-3 Trust	Prime	Bendigo and Adelaide Bank Ltd.	14-Aug-17
Pepper I-Prime 2017-2 Trust	Prime	Pepper HomeLoans Pty Ltd.	18-Aug-17
SMHL Series Securitisation Fund 2017-1	Prime	Members Equity Bank Pty Ltd (SMHL)	28-Aug-17
AFG 2017-1 Trust in respect of Series 2017-1	Prime	AFG Securities Pty Ltd.	07-Sep-17
La Trobe Financial Capital Markets Trust 2017-2	Non-Conforming	La Trobe Financial Services Pty Ltd.	22-Sep-17

Market Overview

RMBS Outstandings as at Sep. 30, 2017

	No. Deals	Mil. A$	%
Prime	212	125,659.45	96.95
Non-Conforming	20	3,949.57	3.05
Total	**232**	**129,609.02**	**100.00**
Domestic	206	122,742.16	94.70
Euro	3	215.72	0.17
Global	23	6,651.13	5.13
Total	**232**	**129,609.02**	**100.00**
Major Banks	29	58,261.88	44.95
Non-Bank Financial Institutions	18	4,808.23	3.71
Non-Bank Originators	85	18,720.83	14.44
Other Banks	65	32,142.03	24.80
Regional Banks	35	15,676.03	12.09
Total	**232**	**129,609.02**	**100.00**

	No. Classes	Mil. A$	%
AUD	977	127,588.78	98.44
EUR	8	177.46	0.14
GBP	3	80.61	0.06
USD	20	1,762.16	1.36
Total	**1008**	**129,609.02**	**100.00**

Top 10 Sponsors by New RMBS Issues

Yr Ending Sep. 30, 2017 (Mil. A$) incl. Other*

1	Commonwealth Bank of Australia	3,876.82
2	FirstMac Ltd.	2,917.61
3	RESIMAC Ltd.	2,074.27
4	Pepper HomeLoans Pty Ltd.	1,810.91
5	AMP Bank Ltd.	1,163.96
6	Members Equity Bank Pty Ltd (SMHL)	1,106.46
7	Bendigo and Adelaide Bank Ltd.	1,103.80
8	Suncorp-Metway Ltd.	1,059.23
9	ING Bank (Australia) Ltd.	1,034.41
10	Macquarie Securitisation Ltd.	960.44

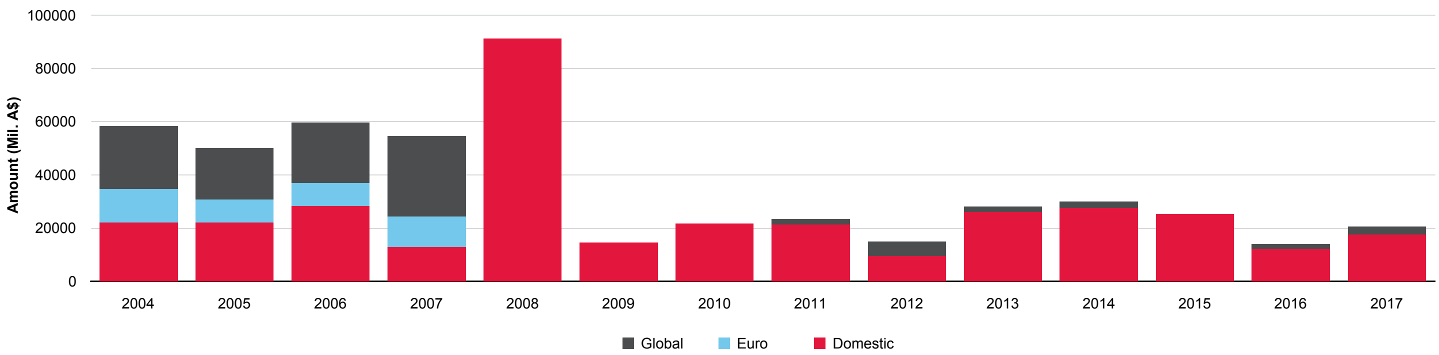
Top 10 Sponsors by RMBS Outstandings

at Sep. 30, 2017 (Mil. A$) incl. Other*

1	National Australia Bank Ltd.	37,238.34
2	Commonwealth Bank of Australia	13,187.00
3	ING Bank (Australia) Ltd.	10,206.11
4	Suncorp-Metway Ltd.	9,123.89
5	Members Equity Bank Pty Ltd (SMHL)	6,841.37
6	Westpac Banking Corp.	6,378.82
7	FirstMac Ltd.	6,084.38
8	Macquarie Securitisation Ltd.	5,432.33
9	AMP Bank Ltd.	4,996.91
10	RESIMAC Ltd.	3,946.99

Market Overview

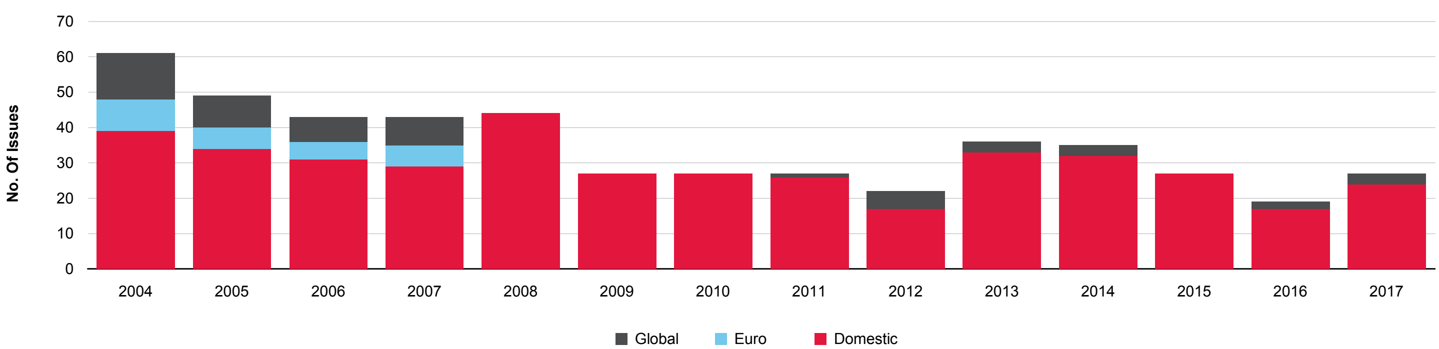
S&P Global Ratings Rated New Issuance
Domestic / Euro /Global (Mil. A$)



Amount (Mil. A$)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic	22,216.93	22,120.35	28,438.90	13,028.96	91,167.47	14,660.83	21,749.04	21,552.86	9,577.82	26,032.22	27,657.72	25,358.38	12,206.98	17,705.69
Sub-Total Domestic	22,216.93	22,120.35	28,438.90	13,028.96	91,167.47	14,660.83	21,749.04	21,552.86	9,577.82	26,032.22	27,657.72	25,358.38	12,206.98	17,705.69
Euro	12,470.19	8,748.29	8,600.91	11,511.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	23,722.02	19,351.07	22,709.28	30,152.37	0.00	0.00	0.00	1,881.21	5,316.51	1,912.89	2,425.35	0.00	1,859.24	2,800.00
Sub-Total Offshore	36,192.21	28,099.36	31,310.19	41,663.85	0.00	0.00	0.00	1,881.21	5,316.51	1,912.89	2,425.35	0.00	1,859.24	2,800.00
Total	**58,409.13**	**50,219.71**	**59,749.09**	**54,692.81**	**91,167.47**	**14,660.83**	**21,749.04**	**23,434.07**	**14,894.33**	**27,945.11**	**30,083.07**	**25,358.38**	**14,066.21**	**20,505.69**

%	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic	38.04	44.05	47.60	23.82	100.00	100.00	100.00	91.97	64.31	93.15	91.94	100.00	86.78	86.35
Sub-Total Domestic	38.04	44.05	47.60	23.82	100.00	100.00	100.00	91.97	64.31	93.15	91.94	100.00	86.78	86.35
Euro	21.35	17.42	14.40	21.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	40.61	38.53	38.01	55.13	0.00	0.00	0.00	8.03	35.69	6.85	8.06	0.00	13.22	13.65
Sub-Total Offshore	61.96	55.95	52.40	76.18	0.00	0.00	0.00	8.03	35.69	6.85	8.06	0.00	13.22	13.65
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

S&P Global Ratings Rated New Issuance
Domestic / Euro /Global (No. of Issues)

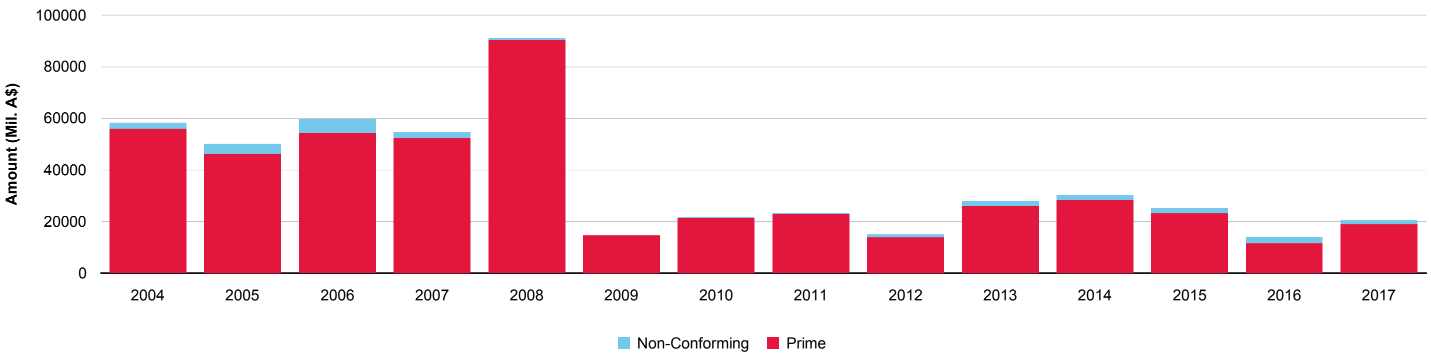


No. of Deals	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic	39	34	31	29	44	27	27	26	17	33	32	27	17	24
Sub-Total Domestic	39	34	31	29	44	27	27	26	17	33	32	27	17	24
Euro	9	6	5	6	0	0	0	0	0	0	0	0	0	0
Global	13	9	7	8	0	0	0	1	5	3	3	0	2	3
Sub-Total Offshore	22	15	12	14	0	0	0	1	5	3	3	0	2	3
Total	**61**	**49**	**43**	**43**	**44**	**27**	**27**	**27**	**22**	**36**	**35**	**27**	**19**	**27**

%	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic	63.93	69.39	72.09	67.44	100.00	100.00	100.00	96.30	77.27	91.67	91.43	100.00	89.47	88.89
Sub-Total Domestic	63.93	69.39	72.09	67.44	100.00	100.00	100.00	96.30	77.27	91.67	91.43	100.00	89.47	88.89
Euro	14.75	12.24	11.63	13.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global	21.31	18.37	16.28	18.60	0.00	0.00	0.00	3.70	22.73	8.33	8.57	0.00	10.53	11.11
Sub-Total Offshore	36.07	30.61	27.91	32.56	0.00	0.00	0.00	3.70	22.73	8.33	8.57	0.00	10.53	11.11
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Market Overview

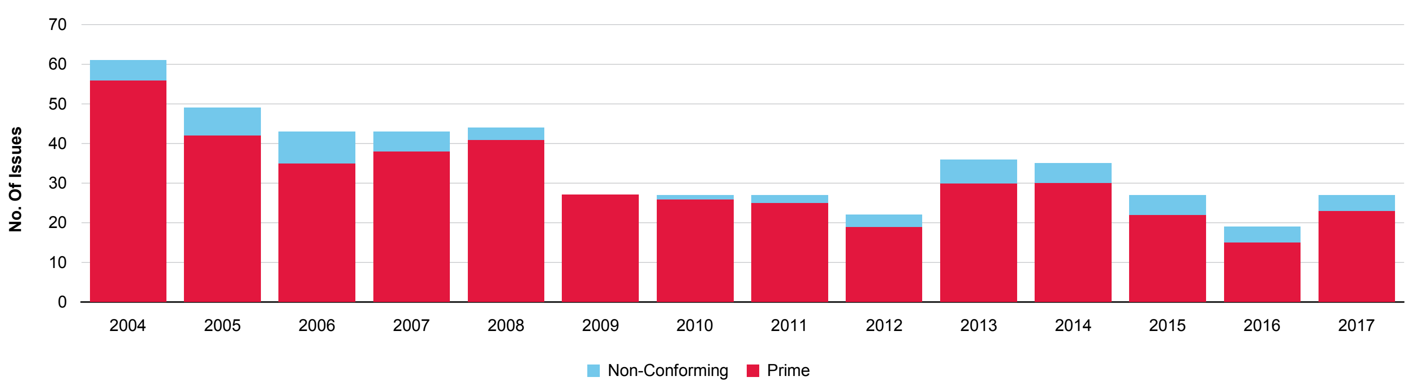
S&P Global Ratings Rated New Issuance
Prime / Non-Conforming (Mil. A$)



Amount (Mil. A$)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prime	56,063.47	46,333.59	54,384.23	52,422.81	90,532.27	14,660.83	21,547.54	23,104.07	14,005.25	26,123.94	28,486.96	23,268.93	11,776.10	19,005.69
Non-Conforming	2,345.66	3,886.12	5,364.86	2,270.00	635.20	0.00	201.50	330.00	889.08	1,821.17	1,596.11	2,089.45	2,290.11	1,500.00
Total	**58,409.13**	**50,219.71**	**59,749.09**	**54,692.81**	**91,167.47**	**14,660.83**	**21,749.04**	**23,434.07**	**14,894.33**	**27,945.11**	**30,083.07**	**25,358.38**	**14,066.21**	**20,505.69**

%	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prime	95.98	92.26	91.02	95.85	99.30	100.00	99.07	98.59	94.03	93.48	94.69	91.76	83.72	92.68
Non-Conforming	4.02	7.74	8.98	4.15	0.70	0.00	0.93	1.41	5.97	6.52	5.31	8.24	16.28	7.32
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

S&P Global Ratings Rated New Issuance
Prime / Non-Conforming (No. of Issues)



No. of Deals	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prime	56	42	35	38	41	27	26	25	19	30	30	22	15	23
Non-Conforming	5	7	8	5	3	0	1	2	3	6	5	5	4	4
Total	**61**	**49**	**43**	**43**	**44**	**27**	**27**	**27**	**22**	**36**	**35**	**27**	**19**	**27**

%	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prime	91.80	85.71	81.40	88.37	93.18	100.00	96.30	92.59	86.36	83.33	85.71	81.48	78.95	85.19
Non-Conforming	8.20	14.29	18.60	11.63	6.82	0.00	3.70	7.41	13.64	16.67	14.29	18.52	21.05	14.81
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Sponsor Classifications

The classifications into major bank, regional bank, nonbank financial institution, other bank, and nonbank originator are based on the predominant source of origination within the securitization pools.

Following a review of Sponsor classifications, we have reclassified certain sponsors from September 2017.

Major Bank

Australia And New Zealand Banking Group Ltd.
National Australia Bank Ltd.
Commonwealth Bank Of Australia Ltd.
Westpac Banking Corp

Regional Bank

Bank of Queensland Ltd.
Bendigo and Adelaide Bank Ltd.
Suncorp-Metway Ltd.
Bank of Western Australia Ltd.

Other Bank

AMP Bank Ltd
Arab Bank Australia Ltd.
Auswide Bank Ltd
Citigroup Pty Ltd
Heritage Bank Ltd.
HSBC Bank Australia Ltd.
Hume Bank Ltd.
IMB Ltd.
ING Bank (Australia) Limited
Macquarie Securitisation Ltd.
Members Equity Bank Pty Ltd.
MyState Bank Ltd
Police & Nurses Limited

Nonbank Financial Institution (NBFI)

Australian Central Credit Union
Community CPS Australia Ltd.
Credit Union Australia Ltd.
Gateway Credit Union Limited
Greater Bank Ltd.
Newcastle Permanent Building Society Ltd.
Queensland Country Credit Union Ltd.
QPCU Ltd.
Community Mutual Ltd.
Cuscal Ltd

Nonbank Originator

AIMS Home Loans Pty Ltd.
Bluestone Group Pty Ltd.
Challenger Mortgage Management Pty Ltd.
Columbus Capital Pty Ltd.
RedZed Lending Solutions Pty Ltd
Liberty Financial Pty Ltd.
Resimac Ltd.
Holiday Coast Credit Union Ltd.
AFG Securities Pty Ltd.
Challenger Non-Conforming Finance Pty Ltd.
FirstMac Limited
Homeloans Ltd.
Pepper HomeLoans Ltd.
RHG Home Loans Pty Ltd.
La Trobe Financial Services Pty Ltd.

Rankings

Structured Finance Rankings

	Ranking/Outlook
Residential Loan Servicer	
Bendigo and Adelaide Bank Ltd.	Strong/Stable
Bluestone Servicing Pty. Ltd.	Above Average/Stable
FirstMac Limited	Strong/Stable
IMB Ltd.	Strong/Stable
Liberty Financial Pty Ltd.	Strong/Stable
Pepper Australia Pty Ltd.	Strong/Stable
Resimac Limited	Strong/Stable
Residential Subprime Loan Servicer	
Bluestone Servicing Pty. Ltd.	Above Average/Stable
Bluestone Servicing NZ. Ltd.	Above Average/Stable
Liberty Financial Pty Ltd.	Strong/Stable
Pepper Australia Pty Ltd.	Strong/Stable
Resimac Ltd.	Strong/Stable

Rankings at Sept. 30, 2017. A ranking may change at any time, for current rankings please refer to www.standardandpoors.com.au.

Descriptions

About this Publication

Australian RMBS Performance Watch is a quarterly review of the performance of residential mortgage pools that collateralize Australian term securities. If you or your colleagues would like to receive a copy of Australian RMBS Performance Watch, please visit www.sfsurveillance.com.au or contact S&P Global Ratings Client Services on (61) 1300-732-553 or by e-mail at: clientservices_pacific@spglobal.com.

Comparative Pool Characteristics

We have calculated comparative pool statistics using outstanding loan balances. All data are provided as of or as near as possible to September 30, 2017, unless otherwise stated.

Data Collection

To allow the timely delivery of information to the market, we do not include in the Australian RMBS Performance Watch statistics any data that are not received by the 15th day after the end of a quarter. Any late data will be included in updated statistics and subsequent publications.

Definitions

S&P Global Ratings has compiled the information in this publication using information received from the issuer, manager, or servicer of each program. S&P Global Ratings has endeavoured to provide data on a basis that is comparable among programs. However, users of the information in this publication should exercise caution because there may be inconsistencies in the way that each of the programs is reported to S&P Global Ratings. The descriptions below highlight how S&P Global Ratings interprets general terminology; they are not intended to be industry-standard definitions.

10 Worst-Performing Postcodes

For the purpose of this analysis, we have excluded postcodes with fewer than 250 loans. In line with our RMBS Rating Methodology and Assumptions, the archetypical pool, which underpins our credit analysis, is comprised of at least 250 consolidated Australian residential mortgage loans because our analysis suggests that a pool of this size is statistically valid. Our parameters for the 10 worst-performing postcodes therefore are consistent with this assumption.

Annualized Quarterly Prepayment Rate

We calculate the annualized QPR by compounding the rate using the following formula: $1-(1-QPR)^4$

Annualized Quarterly Repayment Rate

We calculate the annualized QRR by compounding the rate using the following formula: $1-(1-QRR)^4$

Australian Prime Full-Doc SPIN

The Australian prime full-doc SPIN is a measure of arrears on full-doc residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime Low-Doc SPIN

The Australian prime low-doc SPIN is a measure of arrears on low-doc residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime SPIN

The Australian prime SPIN is a measure of arrears on residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Prime SPPI
The Australian prime SPPI is a measure of prepayment rates on residential mortgage loans underlying Australian prime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Subprime SPIN
The Australian subprime SPIN is a measure of arrears on residential mortgage loans underlying Australian subprime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Australian Subprime SPPI
The Australian subprime SPPI is a measure of prepayment rates on residential mortgage loans underlying Australian subprime RMBS transactions, both publicly and privately rated by S&P Global Ratings.

Cumulative Gross Losses
Cumulative gross losses refer to the aggregate amount of losses in a pool of mortgage loans after recognizing the proceeds from the sale of the underlying security properties, but before including other loss support, such as claims paid under lenders' mortgage insurance policies or the application of excess spread. The cumulative gross loss percentage is expressed as a percentage of Australian dollar equivalent note balance, including further issuances from the same transaction at a later date. Warehouses are excluded from this calculation.

Domestic, Global, And Euro
We determine the categorization of an RMBS transaction by market by the legislation under which the notes are offered and the stock exchanges on which the notes are listed. Transactions with a securities and exchange commission (SEC)-registered or 144A tranche are classified as “global.” Transactions that are not global, but which are Euroclear- and/or Clearstream-settled and have a tranche listed on a European exchange, are classified as “euro.” All other transactions generally will be classified as “domestic.”

Full–Documentation Loans
A full-doc loan is a loan for which the borrower's income has been fully verified by the lender through reference to relevant source documents, such as payslips or tax returns.

Lenders' Mortgage Insurance (LMI)
The lenders' mortgage insurers distribution graphs display only those mortgage insurers that provide mortgage insurance for 1% or more of the pool. For a more detailed breakdown of mortgage insurer distribution, refer to the Lenders' Mortgage Insurers Distribution table in part 2 of this publication. The mortgage insurer short-names used in the pie charts are as listed in the table below.

Mortgage Insurer Short-Names Used In Charts

LMI	Short Name	Public Rating
HLIC (guaranteed by Commonwealth of Australia)	HLIC	AAA/Negative
Genworth Financial Mortgage Insurance Pty Ltd	GFM Ins.	A+/Negative
QBE Lenders Mortgage Insurance Ltd*	QBE	A+/Stable
Westpac Lenders Mortgage Insurance Ltd §	WLMI	AA-/Negative
Prime Insurance Group Ltd	PIGL	NR**

*QBE Lenders Mortgage Insurance was formerly known as PMI Mortgage Insurance Ltd. **NR--Not rated. § Westpac Lenders Mortgage Insurance Ltd includes the former St George Insurance Australia Pty Ltd. Ratings at August , 2017. A rating may change at any time, for current ratings please refer to www.standardandpoors.com.au.

Low-Documentation Loans

A low-doc loan is a loan for which the borrower's income has not been fully verified by the lender. Low-doc loans are often referred to by a variety of terms, including self-certified and stated income loans.

Missed-Payments Basis

The measurement of arrears on a missed-payments basis means that a loan is in arrears when a scheduled payment is missed, despite the fact that the borrower may be ahead of the scheduled payment curve.

Mortgage Arrears Data

The mortgage arrears data depict the proportionate value of loans 31-60 days, 61-90 days, and 90+ days in arrears. We calculate the percentages using the outstanding balance of loans in arrears as a proportion of the aggregate outstanding balance of total loans at the end of each month. We note the reporting method used by issuers in reporting arrears (scheduled-balance basis or missed-payments basis) on the loan pool arrears performance graph for each transaction.

Non-Conforming Loans

Non-Conforming loans are residential mortgage loans that would not typically qualify for a loan from a traditional prime lender and are generally not eligible to be covered by lenders' mortgage insurance from a nonassociated mortgage insurer. Non-Conforming loans may include LoDoc loans and subprime loans.

Note Balances

All note balances are based on invested amounts. The term “note” refers to a note, bond, security, or any other instrument issued by the issuer.

Prime

Prime loans are residential mortgage loans that generally would be made by traditional residential-mortgage lenders in the Australian market and usually would be eligible to be covered by a primary lenders' mortgage insurance policy from a nonassociated and rated mortgage insurer. Prime loans are usually to borrowers with clean credit histories, though some pools may include a small percentage of loans of a minor nonconforming nature. Prime loans can include low-documentation (low-doc) loans.

Quarterly Prepayment Rate

We calculate the QPR using the following formula:

$$\frac{U - R - F}{O + \frac{(S+P)}{2} - I}$$

Where:
U = unscheduled principal repayments
R = redraws
F = further advances
O = mortgage pool balance at the beginning of the quarter
S = loans added during a substitution period
P = loans added during a prefunding period
I = capitalized interest

Quarterly Repayment Rate
We calculate the quarterly repayment rate (QRR) using the following formula:

$$\frac{(Sc+U) - R - F}{O + \frac{(S+P)}{2} - I}$$

Where:
Sc = scheduled principal repayments
U = unscheduled principal repayments
R = redraws
F = further advances
O = mortgage pool balance at the start of the quarter
S = loans added during a substitution period
P = loans added during a prefunding period
I = capitalized interest

Scheduled-Balance Basis
The measurement of arrears on a scheduled-balance basis means that a loan is in arrears when the current loan balance less the scheduled loan balance is a positive number.

Sponsor
The sponsor is the party that has the primary commercial or beneficial interest in the residential mortgage-backed securities (RMBS) transaction.

S&P Global Ratings Performance Index
S&P Global Ratings Performance Index (SPIN) is a measure of arrears on residential mortgage loans underlying RMBS transactions, both publicly and privately rated by S&P Global Ratings. We calculate the SPIN for Australian prime and subprime asset classes, as well as Australian prime low-doc and prime full-doc loans. It is the weighted-average balance of loans in arrears in each of the 31-60 days, 61-90 days, and 90+ day categories. We calculate the SPIN on a monthly basis from information provided to us for each transaction.

S&P Global Ratings Prepayment Index
S&P Global Ratings Prepayment Index (SPPI) is a measure of prepayment rates on residential mortgage loans underlying RMBS transactions, both publicly and privately rated by S&P Global Ratings. We calculate the SPPI for Australian prime and subprime loans. It is the weighted-average of the annualized quarterly prepayment rates (QPRs) across the asset subclass. We calculate the SPPI monthly from information provided to us for each transaction.

Subprime
Subprime loans are loans to borrowers with adverse credit histories.

Total Current Loan Balance

The total current loan balance (TCLB) is the outstanding dollar amount of the underlying loans as of the report date.

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