

RMBS/South Africa
Presale Report

Ikhaya RMBS 1 Limited

Expected National Ratings*

Class	Amount (ZARm)	Expected National Rating	Final Maturity	CE ^a (%)
A ^b	1,486.6	AAA(zaf)	Dec 2028	14.05
B	80.4	AA(zaf)	Dec 2028	9.40
C	64.0	A(zaf)	Dec 2028	5.70
D	45.8	BBB(zaf)	Dec 2028	3.05

^a CE: credit enhancement

^b Class A is split into tranche A1 to A5

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* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 20 February 2007. The expected ratings are also subject to the satisfactory review of final documentation and final legal opinions.

■ Summary

Ikhaya RMBS 1 Limited (Ikhaya 1 or the issuer) is a securitisation of first-ranking residential mortgage loans advanced to individuals and/or close corporations and trusts by FNB Home Loans, a division of FirstRand Bank Limited (FirstRand, rated 'AA+(zaf)/F1+(zaf)') to finance the acquisition of residential properties situated in South Africa. Fitch Ratings has assigned expected National ratings to the floating-rate notes to be issued as indicated at left. The expected ratings reflect the quality of the underlying collateral, available credit enhancement, including excess spread, the underwriting and servicing capabilities of FirstRand, the hedging agreement, the liquidity facility and the make-whole facility in place and the sound legal and financial structure of the transaction.

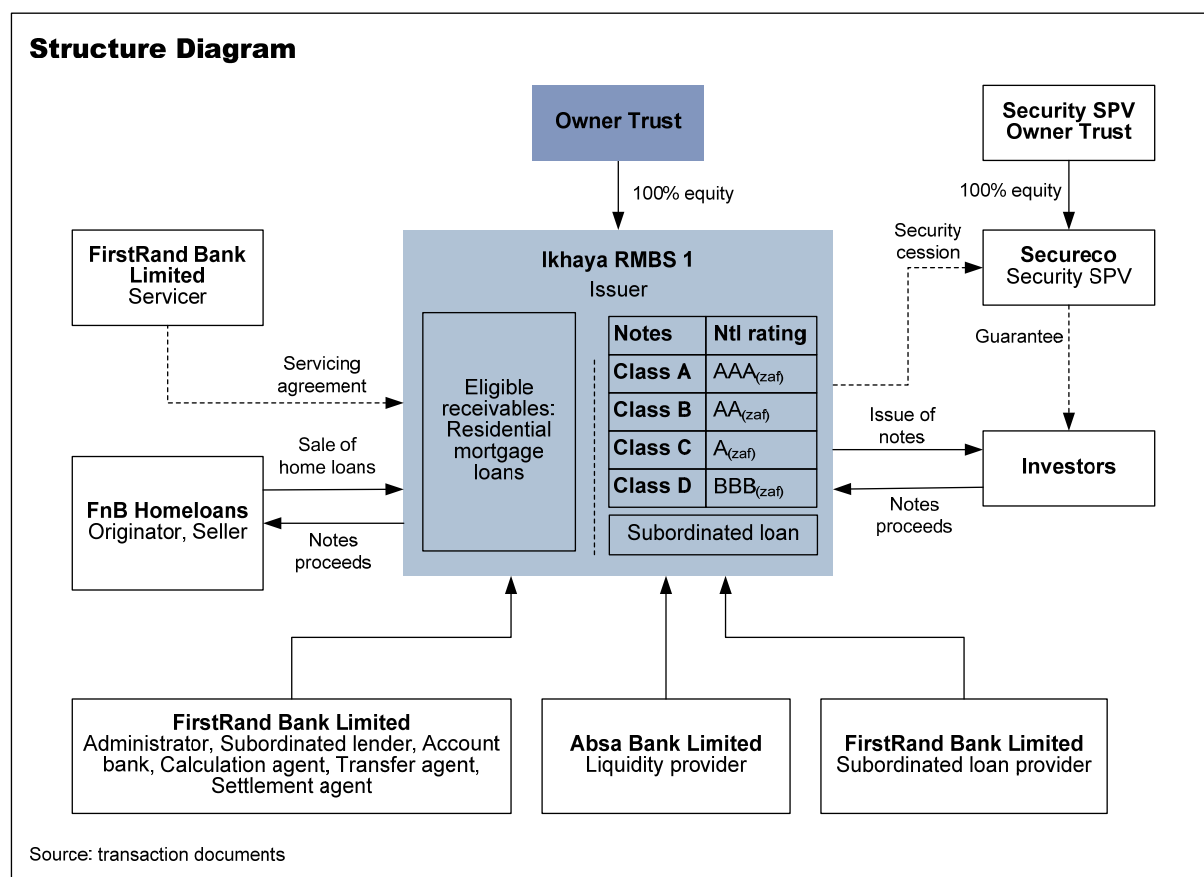
The expected ratings address the likelihood of investors receiving payment of interest according to the terms and conditions of the documentation and the full repayment of principal at legal final maturity. The assignment of final ratings is contingent on receipt of final documents conforming to information already received.

Ikhaya 1 is a bankruptcy-remote private company incorporated under the laws of South Africa. Its activities are limited to the issuance of notes and the acquisition of services to fund the acquisition of eligible assets. A security SPV has been established to guarantee the obligations of the issuer with regards to the secured creditors.

The issuer will use the proceeds from the issuance of four classes of notes (classes A, B, C and D) and from a subordinated loan provided by FirstRand to fund the acquisition of an asset portfolio. The issuer is entitled to purchase additional assets (subject, inter alia, to availability of funds) during a revolving period that will end upon the occurrence of certain events (see *Revolving Period* on page 6 for details).

■ Credit Committee Highlights

- The transaction includes a revolving period that may be cut short on the occurrence of a stop-purchase event. During this period, the issuer may solely use unexpected prepayments (those in excess of expected prepayments) for the purchase of additional assets. Various covenants in force mitigate a potential deterioration in the credit quality of the portfolio.
- The issuer can, at its discretion, advance to borrowers the amounts repaid or amounts beyond the balance of each loan initially advanced, all subject to certain conditions. However, the issuer has an obligation to advance amounts that the borrower prepaid and that he/she wishes to redraw. To assist the issuer in re-advancing such amounts, a liquidity facility amounting to ZAR161m will be available.



- Although they were advanced a certain initial amount, some borrowers did not draw immediately the full amount but can, however, draw on this access facility at a later stage. The issuer also has an obligation to advance such remaining amounts. As for the redraws, the liquidity facility can be used to assist the issuer in paying these amounts to the borrowers.
- A certain portion of the loans are linked to properties valued through a computer-assisted valuation system instead of a full physical valuation. Although the system appears to be robust with limited error margin, Fitch applied a stress to the value of the properties that were assessed through the valuation system as it was considered not be as accurate as a full physical valuation.
- In addition, the issuer will be obliged to make payments into an arrears reserve if an arrears trigger is breached. This reserve will be constituted from available funds.
- Under normal conditions, the notes will amortise on a pro rata basis. However, to mitigate the risk associated with such amortisation, the structure will benefit from a principal lock-out mechanism that will allow monies collected from the assets to be fully allocated to the senior notes.
- The structure includes a mechanism whereby interest on a class of notes (excluding the class A notes) may be deferred when the principal deficiency recorded in a principal deficiency ledger (PDL) exceeds the aggregate outstanding balance of this class of notes and the notes subordinated to this class. This mechanism provides further enhancement to the notes on which interest is not deferred.
- As the notes will pay the noteholders at a floating rate linked to three-month Jibar and the loans are linked to the Prime interest rate, the issuer will enter into a hedging agreement with FirstRand to cover the basis risk between the different interest rates.
- The transaction will rely on the creditworthiness of FirstRand, which will perform most of the key functions – acting as servicer, administrator, calculation agent, account bank, hedging counterparty and make-whole facility provider. The transaction will include triggers that will lead to the replacement of FirstRand in some of its functions if it is downgraded below a rating level commensurate with the highest rating assigned to the notes.

Key Information

Initial Portfolio

Type of Loans: First-ranking residential mortgage loans

Total Amount: ZAR1,729,649,587

Weighted-Average Margin: 1.48% below Prime

Weighted-Average Residual Term to Maturity: 18.2 years

Weighted-Average Seasoning: 10.0 months

Weighted-Average Original LTV: 78.16%

Weighted-Average Current LTV: 75.90%

Weighted-Average PTI Ratio: 23.30%

Key Parties

Issuer: Ikhaya RMBS 1 Limited

Security SPV: Ikhaya RMBS 1 Guarantor (Pty) Ltd (Secureco)

Security SPV Owner Trustee/ Owner Trust: Werksmans Trust (Pty) Ltd

Asset Originator/Seller: FNB Home Loans, a division of FirstRand Bank Limited (FirstRand, rated 'AA+(zaf)/F1+(zaf)')

Servicer: FirstRand, through its division FNB Home Loans

Administrator: FirstRand, through its division Rand Merchant Bank

Make-Whole Facility Provider: FirstRand and/or any other entity rated at least 'F1(zaf)'

Hedging Counterparty: FirstRand and/or any entity rated at least 'A(zaf)' and 'F1(zaf)'

Liquidity Provider: ABSA Bank Limited ('AAA(zaf)/F1+(zaf)') or any other entity rated at least 'F1(zaf)'

Account Bank: FirstRand and/or any other entity rated at least 'F1(zaf)'

Subordinated Lender: FirstRand

■ Key Parties

Originator and Seller

FirstRand, through its home loans division FNB Home Loans, will be the originator and seller of home loans to the issuer.

FirstRand was created in 1998 through the merger of the financial services interests of Anglo American Corporation of South Africa and Rand Merchant Bank Holdings Limited. Following the merger, the operations of FirstRand Limited, the ultimate holding company of the group, were restructured into three operating subsidiaries: the FirstRand

banking group; the insurance group (with Momentum Group Limited covering life, general insurance and asset management); and the health insurance group comprising FirstRand Limited's interest in health insurance via Discovery Holdings Limited.

FirstRand has a market share of approximately 18% of banking system assets and was the third-largest banking group in South Africa at 30 June 2006. The bank's well-established retail franchise is serviced by 680 branches and 4,185 ATMs. Most of FirstRand's operations are based in South Africa. The banking group's major business units include: First National Bank, Rand Merchant Bank, Wesbank, FNB African Subsidiaries and Group Support.

Servicer and Administrator

FirstRand will act, through its home loan division FNB Home Loans, as the servicer of the asset portfolio. Servicing duties include the administration of the collections from the portfolio, the management of any arrears that arise in the portfolio and the handling of recoveries in the event of a borrower default. Servicing duties also include the preparation of reports for the different parties involved in the transaction, including monthly asset performance reports to Fitch.

FirstRand will also act as calculation agent and administrator of the transaction through its investment banking division Rand Merchant Bank. In this role it will, among other things, calculate the amounts to be allocated under the priority of payments and prepare reports to be sent to the transaction parties, including the quarterly reports on the issuer's liabilities that will be sent to the rating agencies.

■ Legal Structure

Ikhaya 1 is a special-purpose, bankruptcy-remote, limited liability company incorporated in the Republic of South Africa (RSA) in September 2005 under the Companies Act. As a bankruptcy-remote entity, Ikhaya 1 may not incur any debt other than the securities to be issued and the procurement of certain services, as permitted under the transaction documents. All the secured creditors have signed subordination and non-petition clauses subordinating their claims to the creditors situated higher in the priority of payments and limiting their claims to actual amounts available for distribution within the limit of sums owed to them by the issuer.

Furthermore, all principal parties to the programme documents have agreed not to file bankruptcy petitions against Ikhaya 1 until two years after the security special-purpose vehicle (SPV) informs

noteholders that the issue has no further assets available for payment of any notes outstanding, thereby mitigating bankruptcy concerns.

Security Structure

South African securitisations, in contrast to other jurisdictions, employ a security structure that typically consists of two bankruptcy-remote SPVs to serve the secured rights of transaction creditors. Only noteholders would ordinarily achieve secured status by the utilisation of a debenture trust mechanism. However, because various creditors (such as facility providers, custodians and account banks) are not noteholders, another mechanism is needed in this transaction.

A security SPV (Secureco) has been established to guarantee the obligations of Ikhaya 1 relating to secured creditors. Ikhaya 1 will indemnify the security SPV against liabilities that it may incur as a result of granting the guarantee, and cedes its assets to the security SPV as security. Should the issuer default, the security SPV will be entitled to claim all the assets and will then distribute the proceeds to the transaction creditors, according to the post-enforcement priority of payments. The effect is that all the transaction creditors will enjoy rights or security over the issuer's assets, and, most importantly, over the securitised assets.

■ Financial Structure

Notes to be Issued

The issue consists of four classes of notes (classes A, B, C and D) with class A being divided into several tranches (A1 to A5) of which the main characteristics are shown in Table 1. The note issuance proceeds - along with the subordinated loan provided to the issuer - will be used to finance the purchase of an initial portfolio of home loans.

Table1: Notes to be Issued by Ikhaya 1

Class	National rating	Margin	Step-up margin+	Scheduled maturity	Final maturity
A1	AAA(zaf)	TBD	7bps	Dec 2007	Dec 2028
A2	AAA(zaf)	TBD	7bps	Dec 2008	Dec 2028
A3	AAA(zaf)	TBD	10bps	Dec 2009	Dec 2028
A4	AAA(zaf)	TBD	10bps	Dec 2010	Dec 2028
A5	AAA(zaf)	TBD	12bps	Dec 2011	Dec 2028
B	AA(zaf)	TBD	20bps	Dec 2011	Dec 2028
C	A(zaf)	TBD	25bps	Dec 2011	Dec 2028
D	BBB(zaf)	TBD	45bps	Dec 2011	Dec 2028

TBD: To be determined
Source: FirstRand

Redemption of the Notes

The amortisation of the notes will start from the closing of the transaction. Both interest and principal

will be paid quarterly. The issuer will use principal collections (less amounts used to purchase new receivables and/or advance further amounts to existing borrowers) to redeem the notes. The issuer will also allocate to the notes an amount equal to the loans that are non-performing, i.e. loans in arrears by at least six instalments, during the calculation period, using excess spread.

Moreover, the issuer has various early redemption options to repay all outstanding principal, as follows:

- **Clean-up call:** this will occur if the aggregate principal balance of the notes outstanding is equal to, or less than, 10% of the aggregate principal amount of all notes issued by the issuer.
- **Optional redemption for tax reasons:** This is an issuer option to redeem all of the notes in one go if a change in the tax regulation would lead to a decrease in the amounts to be received or paid by the issuer.

Priority of Payments

The issuer operates a combined waterfall, meaning that interest and principal are used together to serve the payments under the priority of payments.

Excluded items

The following items will rank senior to any item in the priority of payments:

- monies properly belonging to any third party involved in the transaction;
- amounts payable to the originator under the asset sale agreement in respect of reconciliations of the amounts paid in respect of the purchase/substitution of receivables;
- amounts corresponding to redraws, re-advances and/or further advances advanced by the issuer to the borrowers on any day; and
- amounts payable to the warehouse lender under the warehouse facility agreement as at the issue date.

Pre-Enforcement Priority of Payments

The pre-enforcement priority of payments is run quarterly and senior expenses are subject to a cap (please note that items 1 to 4 below are subject to the expense cap):

1. potential taxes and regulatory fees;
2. pro rata and pari passu, fees and expenses due to the security SPV, the security SPV owner trust and the owner trust;

3. pro rata and pari passu , other operating fees excluding the servicer fees;
4. pro rata and pari passu, servicing and administration fees;
5. pro rata and pari passu:
 - amounts due to the hedging counterparty (excluding termination amounts);
 - fees and interest amounts due to the liquidity facility provider;
6. interest on the class A notes;
7. interest on the class B notes provided there is no class B interest deferral event;
8. interest on the class C notes provided there is no class C interest deferral event;
9. interest on the class D notes provided there is no class D interest deferral event;
10. payment into the arrears reserve account following the occurrence and continuation of an arrears reserve trigger event and provided that no interest deferral event has occurred;
11. payment into the liquidity reserve account;
12. principal due to the liquidity provider;
13. purchase of additional receivables provided that no stop purchase event has occurred and prior to the scheduled maturity of the class D notes;
14. principal on the notes as per principal lock-out definition and subordinated loan;
15. if an interest deferral event occurs, payment of the interest on the notes affected by the event in descending order of ranking;
16. capital and fees to the make-whole facility;
17. termination amounts under the hedging counterparty agreement;
18. payment of expenses under items 1 to 4 in excess of the expense cap;
19. fees and interest under the subordinated loan agreement;
20. dividend to the preference shares; and
21. the surplus, if any, invested in permitted investments. Once all the secured creditors have been discharged in full, payment of the surplus to the ordinary shareholder of the issuer.

Upon the serving by the security SPV of an enforcement notice further to an issuer event of default, available funds will be distributed in accordance with the post-enforcement priority of payments.

Interest Deferral

Following an interest deferral event on any class of notes, payments of interest on these notes will be deferred until the event has been rectified, or until the non-deferred notes have been repaid in full. An interest deferral event on any class of notes will occur when the principal deficiency recorded in the ledger exceeds the aggregated outstanding balance of the class of notes concerned and the notes subordinated to this class. Deferred interest will not capitalise to the principal of the notes.

For instance, a class B interest deferral event will occur when, on the interest payment date on which the class A notes are outstanding, the application of funds in accordance with the pre-enforcement priority of payments will give rise to a principal deficiency that exceeds the outstanding balance of the class B, C and D notes.

The same principle will apply to the class C and D notes.

Principal Deficiency Ledger

The issuer will benefit from a provisioning mechanism with regard to any mortgage loans that are classified as non-performing. Indeed, a PDL will be recorded if the potential redemption amount exceeds the available cash after payment of item 1 to 13 of the pre-enforcement priority of payments.

The PDL is intended to accelerate payments due under the priority of payments where loans are heavily in arrears, rather than waiting for enforcement to realise losses. This avoids the need to carry defaulted loans over a potentially long recovery period.

Principal Lock-Out

The issuer may, in accordance with the priority of payments, redeem outstanding principal on the notes pro rata on any interest payment date. Pro rata amortisation refers to the allocation of available funds to redeem the senior and the junior notes proportionally in accordance with their respective outstanding balance. With pro rata amortisation, credit enhancement remains the same if measured as a percentage of the outstanding balance but decreases in absolute terms. The risks associated with pro rata paydown are mitigated in this transaction by principal lock-out triggers.

A principal lock-out on a class of notes will occur when: (i) the aggregate outstanding balance of the more subordinated classes of notes, measured as a percentage of the outstanding balance of all notes, is not at least double that at issue; or (ii) a principal deficiency exists; or (iii) if the cumulative defaulted loans divided by the initial balance of the pool exceed 4.65%; or (iv) the rating agency has notified the issuer that the payment of principal of such class of notes will lead to the withdrawal or downgrade of the current rating of the notes. For instance, following a class B principal lock-out event, all amounts used to redeem the class B notes will be directed to the senior notes, i.e. the class A notes. Notably, the series within class A will amortise sequentially.

Revolving Period

The transaction incorporates a revolving period during which the issuer will be entitled to purchase additional loans. The revolving period comprises the period commencing on the note issue date and ending on the occurrence of a stop-purchase event. During this revolving period, the issuer may use exclusively unexpected prepayments (i.e. those in excess of expected prepayments calculated on a dynamic basis) from the assets to purchase additional eligible assets that satisfy the portfolio covenants.

As the additional portfolio is not reviewed by the rating agency and the credit enhancement is therefore not adjusted after the purchase of these new assets, these purchases are subject to certain conditions. These include, among others, meeting certain portfolio eligibility criteria and portfolio covenants to limit the potential deterioration in the portfolio after such acquisitions. Fitch has incorporated these portfolio covenants into its calculation of credit enhancement.

Stop-Purchase Event

The revolving period may be shortened upon the occurrence of a stop-purchase event, defined as any of the following occurrences:

- the scheduled maturity date of the class D notes has been reached;
- all of the class A notes have been fully redeemed;
- the issuer amends the eligibility criteria unless such amendment does not cause the current rating of the notes to be withdrawn or downgraded by the rating agency; or
- the arrears reserve account is not funded at its necessary level for two consecutive payment dates.

It is of note that unless massive defaults affect the portfolio, the likelihood of the arrears reserve not to be fully funded at its necessary level is limited as it is replenished from available cash (i.e. principal and interest collected from the receivables) and not excess spread. It is also important to highlight that no trigger based on the performance of the assets is incorporated into the stop purchase event. However, such a trigger is included in the portfolio covenants, which make the purchase of additional assets subject to a certain performance of the portfolio.

Liquidity Support

The issuer can benefit from two sources of funds to assist it in the payment of certain items in the priority of payments.

Liquidity Facility

The issuer will benefit from a liquidity facility that can be used for two different purposes:

- The liquidity facility can be used to cover possible temporary liquidity shortfalls due to the mismatch of the amortisation profile of the receivables and of the notes. It does not provide credit enhancement. It is initially sized at 2.75% of the balance of the notes at the issue date. Each payment date thereafter, it will be sized at the greater of (i) 2.75% of the outstanding balance of the notes and (ii) 1% of the initial amount of the notes. It is of note that when the structure employs a combined waterfall, the likelihood of using the liquidity facility for liquidity shortfall reasons is limited as all inflows from the assets (principal plus interest collections) will be used together to pay first the senior expenses and interest on the notes.
- The liquidity facility can also be used to assist the issuer in advancing redraws and amounts under the access facility (see sections titled *Redraws, Re-advances and Further Advances and Access Facility*). It has been sized at ZAR161m based on the expected amounts to be drawn under the redraws and the access facility.

The liquidity facility consists of a 364-day renewable revolving facility provided by ABSA Bank Limited (rated 'AAA(zaf)/F1+(zaf)'). Should the liquidity facility provider be downgraded below 'F1(zaf)', it will, within 30 days of such downgrade, arrange for a substitute liquidity provider with the appropriate rating. Moreover, if the liquidity facility agreement is not renewed or a suitable replacement is not found 30 days prior to the expiry of the liquidity facility agreement, the liquidity facility will be fully drawn.

Liquidity Reserve

To lower the cost of the liquidity, the issuer can use monies standing in the transaction account and in accordance with the priority of payment to constitute a liquidity reserve. The liquidity reserve can be built up to the liquidity limit and can be used for the same purposes as the liquidity facility.

Commingling Risk

Payments made by the borrowers are collected into the collection account in the name of FirstRand as servicer. The cash is then transferred monthly into the issuer's account held at FirstRand, acting as account bank.

In the event of insolvency of a party to the transaction, funds belonging to the issuer may get commingled with the insolvency estate of the defaulted party. To mitigate this commingling risk on both the servicer and the account bank, the following triggers are in place:

- If the rating of the servicer is downgraded below 'F1(zaf)' (or in the event of a servicer event of default), the transfer of monies from the collection account to the issuer's account must be achieved on a daily basis.
- If the rating of the account bank is downgraded below 'F1(zaf)', a suitably rated substitute must be found within 30 days.

Permitted Investments

Excess cash may be invested in rand-denominated securities with the following ratings:

- securities maturing within 30 days: 'F1(zaf)'; and
- securities maturing between 31 and 364 days: 'F1+(zaf)'.

In any event, the investments must mature at least two days before the next interest payment date and must be acquire at or less than their face value.

Make-Whole Facility

To mitigate negative carry, the issuer will enter into a make-whole facility with FirstRand as make-whole facility provider.

If the rating of the make-whole facility provider is downgraded below 'F1(zaf)', a suitably rated substitute must be found within 30 days.

Arrears Reserve

The structure allows the issuer to build up an arrears reserve upon the occurrence of an arrears reserve trigger event. The arrears reserve is funded from

available cash, which means that, due to its position in the priority of payments, principal collections from the loan can be used to constitute the reserve.

If the total amount of home loans more than three instalments in arrears exceeds 0.8% of the outstanding balance of the home loan portfolio, the issuer must pay an amount into the arrears reserve up to the arrears reserve required amount, which is an amount equal to the total amount of home loans more than three months in arrears, less 65% of the value of the properties for those home loans, based on the lower of the original valuation and the subsequent valuation, if any.

In the event of the delivery of an enforcement notice declaring the notes to be immediately due and payable, the arrears reserve will be applied in accordance with the post-enforcement priority of payments.

Credit Enhancement

Credit enhancement to the transaction is provided by the following:

Excess Spread

The first layer of enhancement is in the form of the excess spread in the transaction. However, this is not guaranteed and still remains vulnerable to a decrease in the portfolio yield.

Arrears Reserve

The arrears reserve is viewed as a form of credit enhancement as it retains in the structure part of the funds that should have been distributed to other parties. However, due to its position in the priority of payments, the reserve is mainly used for liquidity purposes.

Overcollateralisation

The subordinated loan will be provided by FirstRand to the issuer and will provide part of the funding for the purchase of the asset portfolio. The loan will be repaid as and when cash is available, and to the extent permitted by the priority of payments.

Subordination of Notes

The final layer of credit enhancement will be the allocation of losses, firstly to the class D notes, followed by the C, B and then the class A notes.

Hedging Agreement

To hedge the interest rate risk between the loans that pay Prime rate and the three-month Jibar-linked notes, the issuer will enter into a hedging agreement with FirstRand. Under the terms and conditions of the agreement, the issuer will pay the Prime rate based on the notional of the swap while the hedging

counterparty will pay three-month Jibar plus a margin on the same notional. The latter is defined as the aggregated outstanding balance of the non-defaulted loans.

If FirstRand ceases to carry a rating of at least 'F1(zaf)' on a short-term scale or at least 'A(zaf)' on a long-term scale, a suitably rated hedging counterparty must be found within 30 days.

■ Origination and Servicing

Originator and Seller

FNB Home Loans is a division of FirstRand in charge of originating home loans and currently employs approximately 1,580 people. It was formed in October 1998 as a separate business unit within First National Bank. Business is focused on middle and upper market residential mortgages. FNB Home Loans' book increased from organic growth as well as through the acquisition of two portfolios from Natal Building Society (NBS) (in June 2002) and from Saambou (October 2002). FNB Home Loans' book currently amounts to ZAR90bn and is the third-largest provider of home loans in South Africa with a residential-mortgage loan market share of approximately 18% as of June 2006.

Underwriting

The origination team totals 150 people (among which the credit team employs 25) and is managed by the CEO. It is divided into four units: the national new business processing units (in charge of assessing both salaried and self-employed customers), the pricing units (pricing the loan rates), the automated credit scoring unit and the strategic credit unit.

Loans are marketed through different channels among which sale agencies, external consultants, mortgage sale officers and private individuals are remunerated on a commission basis.

FNB Home Loans advances loans to two types of borrowers: private individuals (individuals and joint applicants) and juristic persons (trusts, close corporations and private companies). FNB Home Loans uses a matrix cross-referencing different parameters (salaried/self-employed status of the applicant, risk area of the property, repayment to income (RTI) and loan-to-value (LTV) at origination, total amount of exposure and so on) to determine which unit the application should be sent to for assessment.

Credit guidelines are documented and set general definitions and rules, which include the limits on the term of the loan (240 months), maximum LTV at origination (up to 100% with a few exceptions) and

maximum RTI (up to 33%). It is of note that the area risk rating (see below) of the property will determine the maximum allowed LTV.

Scoring System

FNB Home Loans uses a scoring system to assist the credit assessment process. The scorecard was first implemented in mid-2002 and was developed by Experian. Prior to that date, all applications were assessed manually. The application can fall into three areas after assessment by the scorecard: accepted, referred or declined. Referred applications are reviewed manually. Self-employed applicants are automatically referred by the system. All applications that have been declined by the scorecard are also reviewed manually and may be overridden. Overrides account for less than 10% of declined applications and are monitored on a standalone basis.

On average, an answer is given to the applicant within 24 hours. Acceptance rates range around 55% of total applications.

In December 2004, the scorecard was updated to incorporate applicant information from credit bureaus.

Property Valuation

All properties are assigned an area risk rating. The rating depends on factors such as the property value trends, liquidity of the property market in the area, age of the dwelling, maintenance standards in the area and the availability and quality of the infrastructure in the area. Ratings range from 'A' (lowest risk) to 'E' (no loan advanced for this rating). Maximum allowed LTVs are capped at a different level depending on the rating (with a few exceptions).

The valuation of the property is performed within 48 hours following approval of the application. Up to April 2005, FNB Home Loans performed a physical valuation of all the properties by external valuers (in majority, they used to be former employees of the bank). Since April 2005, some properties have been assessed through the "computer assisted valuation" (CAV) system. The application of the system depends on certain criteria: among others, the property must have been traded within the last five years, the property must be located in 'A' and 'B' risk rated areas only and the purchase price is lower than ZAR1.5m. The system assesses whether the purchase price is a reasonable reflection of the market value of the property. The value given by the CAV is never recorded as the value of the property. If the purchase price is deemed to be reasonable, the system approves the valuation and the purchase price is recorded as the value of the property. If the CAV system rejects the application, a physical valuation is

performed. Only newly originated loans can go through the CAV system; further loans are excluded from such valuation process. The CAV system was first run in parallel with physical valuations and the analysis of the model accuracy showed that 2% of the properties approved by the system had a physical value lower than the purchase price. It is of note that for insurance requirement, 5% of the properties valued by the CAV system still undergo an additional physical valuation.

Collections

The collection department is split into two units: the pre-legal department (which employs 57 people) and legal departments (33 employees). Any arrears of less than 0.5 instalment is sent to the pre-legal department where the client is contacted. The client is contacted for the first time 14 days after the occurrence of the arrears. Three to five phone calls per client are made per month. It is of note that prior to mid-2004, the collection process by the pre-legal department started as soon as one cent was in arrears but due to practical reasons, FNB Home Loans started intervention from 0.5 of an instalment in arrears. The rehabilitation of the delinquent loan is made mainly in two ways: preferably, the client has to pay the delinquent amount along with the next instalment otherwise the delinquent amount is spread over the term of the loan.

After the loan is three instalments in arrears, it is sent to the legal department for further contact of the client (email, letter, phone call) and before the foreclosure process is started. If no rehabilitation is possible, a visit of the property is organised and the foreclosure is engaged. If a shortfall is incurred after the sale of the property, the file is sent to the residual collection department to recoup the residual amount from the borrower's estate.

IT Systems

FNB Home Loans uses in-house systems (acquisition system, property valuation network system) or shares some systems with First National Bank (loan instalment system, collection system, etc.). A record of historical IT incidences is kept showing the incidence, its cause and how it was resolved. Moreover, a back-up system is set up and is linked to four different servers. Daily back-ups are made and after being checked they are sent offsite at Metro File. Full back-ups are made weekly and monthly and are also sent offsite.

Disaster Recovery Plan

Different procedures are in place to resume core business functions within 24 hours in the event of a major disruption (e.g. inaccessible building or technology outage). Business continuity plan include

relocation of staff into a recovery site situated in Randburg, restoration of software and data, allocation of phone extensions as well as contact of suppliers and clients.

■ Cash/Bond Administration

The cash/bond administration (CBA) function for this transaction will be carried out by FirstRand through its investment banking division, Rand Merchant Bank (RMB). The securitisation manager is responsible for the quarterly calculations and reporting in respect of the SPV.

Review of Policies and Procedures

The SPV's policies and procedures are reviewed every year by internal audit, the first review occurring in the first year of existence. Concerns are highlighted and management comments provided in respect of solutions are tracked to ensure their implementation. Failure to implement solutions will lead to the matter being raised at the RMB audit committee.

The SPV is audited by external auditors once a year and is subject to standard auditing procedures.

In addition to the above, the external auditors will perform an audit on one quarterly payment a year.

Monies Paid from the Issuer's Transaction Account (Excluding Investor Payments)

All payments are subject to dual signatures of the servicer and the administrator. The servicer will review the payment schedule, the quarterly administration report and the priority of payments schedule to satisfy itself that the payments to be made are accurate.

Monies Paid from the Issuer's Transaction Account (Investor Payments)

The RMB agent is responsible for ensuring that payment to STRATE (the authorised central securities depository for the electronic settlement of all financial instruments) occurs on the interest payment date. The allocation of funds for interest and capital repayments to investors is authorised by the administrator and one director of the SPV. The director must satisfy himself that the amounts have been accurately calculated.

New Transaction Set-Up Procedures

The CBA administrator provides input to the securitisation pre-closing, by ensuring that all requirements are incorporated into the documentation. The administrator is involved in the settlement process through interaction with the settlement agents to ensure that amounts are correctly transferred to relevant parties:

- receipts from investors are signed-off by the administrator on the settlement day before being lodged in the SPV's transaction account; and
- all amounts transferred from the account, including payment for assets and investment of reserves, are authorised by the administrator.

Operational Activities

Servicer reports are generated by the servicer monthly, in line with the SPV servicer agreements. The administrator will review these reports monthly and include them in the director reporting, which is distributed monthly.

On a quarterly basis, the servicer report is reviewed and included as part of the administration report. The administration report is distributed quarterly to all relevant parties, including investors and the rating agency.

Training

No formal training exists; knowledge is acquired through different sources such as the attendance of conferences and external training courses.

■ Loan Portfolio Analysis

Fitch analysed an initial pool of 2,980 residential mortgage loans originated by FirstRand through its division FNB Home Loans, with a total outstanding balance of approximately ZAR1.73bn.

The portfolio exhibits a low weighted-average (WA) seasoning of 10 months and a WA term to maturity of 18.2 years. All loans are variable-rate with a maximum term to maturity of 20 years. The main characteristics of the portfolio are summarised in Table 2.

Key Eligibility Criteria

The mortgage loans must comply with eligibility criteria to qualify for inclusion. Those applicable to this transaction are, among others:

- The loans are residential mortgage loans financing a property in South Africa.
- The loan is secured by a first-ranking mortgage.
- Individual sums advanced are at least ZAR100,000 and should not exceed ZAR3.7m.
- Each loan will fully amortise monthly with constant instalments.
- The maximum original term of each loan is 20 years.
- Each borrower is an individual, a company, trust or close corporation residing in South Africa.
- Each original LTV is not greater than 100%.
- Each payment-to-income (PTI) ratio is 30% or below.

- Each borrower has taken out insurance on their home loan.
- Loans are not in arrears of more than one month.
- The obligor has paid at least one instalment.
- Each property is complete (i.e. no building loans).
- The rate on the loan is at least Prime minus 2.05%.

Defaulted loans are defined as loans that are at least three instalments in arrears or those the servicer has classified as potentially uncollectible in accordance with its customary procedures.

Redraws, Re-advances and Further Advances

Under the home loan agreement, borrowers are entitled to redraw prepayments or repayments or to seek further advances in excess of the original loan amount. The following types of advances are available to borrowers:

- redraw: re-advance against prepayments;
- re-advance: re-advance against repayments (excluding prepayments); and
- further advance: advance of an amount in excess of the initial loan amount extended in accordance with the terms of the relevant home loan agreement.

Table 2: Key Preliminary Portfolio Characteristics
(As at 30 January 2007)

Proportions expressed as a % of the pool balance	
Total outstanding balance (ZAR)	1,729,469,587.00
Number of home loans	2,980.00
Average outstanding loan amount (ZAR)	580,359.00
WA margin vs Prime (% p.a.)	-1.48
Loan-to-value (%)	
WA original LTV	78.16
WA current LTV	75.90
Payment-to-income (%)	
WA PTI	23.30
Term	
WA original term (years)	19.00
WA residual term (years)	18.20
WA seasoning (months)	10.00
Borrowers type (%)	
Self-employed	34.69
Loan purpose (%)	
Not owner occupied	25.91
Loan types (%)	
Subsidised loans	6.25
Main geographical concentrations (%)	
Gauteng	37.78
Western Cape	27.34
KwaZulu-Natal	16.76
Delinquency status (%)	
Performing	97.06
<30 days in arrears	2.74

Source: FirstRand

The issuer may, at its discretion, allow re-advances and further advances to borrowers, which amounts are subject to FNB HomeLoan's credit processes and criteria and subject to a number of conditions, including any stop purchase event not occurring, the portfolio covenants being respected and subject to availability of funds.

On the other hand, under the home loan agreement, the issuer is obliged to advance redraws to the borrowers if he/she requests it. To assist the issuer in extending such funds, a liquidity facility will be provided.

Access Facility

At the origination date of the loan, the borrower is advanced a certain amount. However, he/she can choose to partially draw on this amount and use the remainder at a later stage as an access facility. As for the redraws, the issuer is obliged to advance such undrawn amounts to the borrower, using the liquidity facility if need be.

Portfolio Covenants

Under the transaction documentation, the purchase of additional receivables as well as the extension of re-advances and further advances is subject to the following:

- The aggregated principal balance of the defaulted loans does not exceed 0.75% of the outstanding balance of the loan portfolio.
- The WA LTV ratio of the home loans will not exceed the WA LTV ratio of the initial asset pool by more than 1%.
- The WA interest rate yield earned on the receivables will not be below Prime minus 2.05%.
- The WA PTI ratio of the home loans will not exceed the WA PTI ratio of the initial asset pool by more than 1%.
- The number of properties not owner-occupied will not exceed 35% of the portfolio.
- The proportion of self-employed borrowers in the portfolio will not exceed 35%.
- The proportion of receivables of which the underlying property is valued by the CAV system will not exceed 15%.

Set-Off

Set-off may occur when a bank holds the deposits of a customer while it extended a loan to him/her. Upon the bankruptcy of the bank, the borrower would be

entitled, unless precluded by a contractual agreement, to set-off the amounts he/she owes to the bank against the cash deposited at the financial institution. For those loans that have been securitised, this would leave the issuer in a loss position.

This situation applies to FirstRand and to some of its borrowers. However, the home loan agreements preclude any set-off by the borrower.

■ Credit Analysis

In conducting its credit analysis, particularly with regard to the determination of the requisite credit enhancement levels, Fitch analysed the collateral pool with reference to, among other things, its South African RMBS default model (see the report titled "*South African Residential Mortgage Default Model 2003*", available at www.fitchratings.com). Fitch also modelled the cash flow contribution from excess spread in the transaction using its RMBS cash flow model (see the report titled "*A Guide to Cash Flow Analysis in Europe*", dated 20 December 2002 and available at www.fitchratings.com).

Default Probability

Fitch believes that the primary indicator of a borrower's propensity to default is a combination of their ability to pay and willingness to pay.

A borrower's ability to pay is dictated by their PTI: the lower the debt service relative to income, the greater the ability to pay.

A borrower's willingness to pay is influenced by the amount of initial equity invested in the property, as measured by the original LTV (OLTV). Fitch assumes lower default probabilities for lower-LTV loans. The main reason for this is that, when faced with financial distress, borrowers with lower-LTV loans are assumed to have a greater "willingness to pay" since they have more equity to protect.

In determining the default probability, Fitch considered the maximum amount available to the borrower as opposed to what he/she effectively drew. Moreover, the potential increase of the OLTV due to the portfolio covenants has also been taken into account, giving the portfolio a WA OLTV of 78.16%.

Fitch determines base-case default probabilities using a matrix (see Table 3) that considers the PTI and LTV for each loan. The matrix classifies affordability into five classes, the most affordable of which (class 1) encompasses loans with a PTI of less than 15% and the least affordable (class 5), those with a PTI exceeding 30%.

The base-case default probabilities are adjusted to take into account specific borrower and loan characteristics, as described below.

Table 3: 'AAA(zaf)' Default Probability (%)

Original LTV	Class 1	Class 2	Class 3	Class 4	Class 5
	PTI <15	PTI (15; 20)	PTI (20; 25)	PTI (25; 30)	PTI ≥30
0-39	5	6	6	7	8
40-49	6	7	8	9	10
50-59	7	8	10	11	12
60-69	9	10	12	13	15
70-79	11	13	14	16	18
80-84	14	15	17	20	22
85-89	17	19	21	24	27
90-93	20	23	26	30	34
94-97	25	28	32	36	41
>98	30	34	39	44	50

Source: Fitch

Employment Status

An upward adjustment is made based on a borrower's employment status. The probability of default on loans to self-employed borrowers was adjusted by a factor of 1.2x the base probability of default to account for the increased earnings volatility associated with such borrowers. Some 34.69% of the current portfolio consists of loans to self-employed borrowers.

Occupancy Status

The probability of default is deemed to be greater for investment properties based on the premise that borrowers are more likely to default on a second home or an investment property before defaulting on their primary residence. Some 25.91% of the pool is secured by a second home or investment homes, for which the probability of default was adjusted by 1.2x the base.

WA Probability of Default

Taking into account the above and other factors, as well as the potential increase in OLTV and PTI under the portfolio covenants, the WA probability of default for this portfolio in a 'AAA(zaf)' stress scenario is 31.11%.

Loss Severity

Fitch's collateral model quantifies the potential extent of losses for each rating category based on assumptions regarding potential market value declines (MVDs), foreclosure costs and carrying costs.

Market Value Decline

When determining a stressed MVD, Fitch adjusted its MVD assumptions upwards to take into account the recent rapid increase in South African property

prices. Table 4 below was used to determine the stressed MVD for each property in the transaction. Fitch's MVD methodology focuses on three key factors: (i) volatility in observed prices; (ii) the current position of the index relative to the long-term trend; and (iii) the level of historical stress observed in the regional housing market.

Table 4: Adjusted MVD % by Rating and Region

	'B (zaf)'	'BB (zaf)'	'BBB (zaf)'	'A (zaf)'	'AA (zaf)'	'AAA (zaf)'
Eastern Cape	21.86	24.29	28.46	32.62	36.23	39.85
Mpumalanga	21.52	23.91	27.49	31.06	34.10	37.15
KwaZulu-Natal	17.39	19.32	22.94	26.56	29.63	32.69
Northern Cape	25.36	28.18	32.72	37.25	41.24	45.23
Limpopo	18.44	20.49	23.99	27.49	30.46	33.43
North West	25.21	28.01	31.68	35.35	38.51	41.67
Free State	20.99	23.32	27.26	31.21	34.61	38.01
Gauteng	23.45	26.06	30.12	34.18	37.70	41.22
Western Cape	27.71	30.78	36.29	41.80	46.74	51.67

Source: Fitch

A number of variables influence house price movements, including: volatile changes in housing demand brought about by government policy; variations in disposable income induced by fluctuations in taxes, interest rates and wages; and changes in lending practices. Although these variations are sometimes measurable, they are, in most cases, difficult to predict and cannot be relied on as a means of assessing movements in market values. As a result, Fitch's South African model focuses primarily on historical house price movements.

High-Value Properties

Table 5 shows the stresses applied to properties, depending upon their current value and the province in which they are located. Homes with relatively high market values are generally subject to greater MVDs than properties with average or below-average market values, especially in a deteriorating

Table 5: Adjustments to High-Value Properties

Value of property (ZAR)	Factor
Sector 1: Gauteng, Western Cape, KwaZulu-Natal	
1,087,500	1.05
1,450,000	1.10
2,900,000	1.20
Sector 2: Mpumalanga, Limpopo, North West, Eastern Cape, Northern Cape, Free State	
975,000	1.05
1,300,000	1.10
2,600,000	1.20

Source: Fitch

market. This is based upon the lower demand for high-value “jumbo” properties, particularly during times of economic stress. Some 40.76% of the properties in the portfolio were considered to be jumbo properties.

Redraws and Access Facility

Should borrowers experience financial distress, they are more likely to redraw their loans to their full capacity before eventually defaulting. Fitch has consequently adjusted its loss severity assumptions to take account of this eventuality. Also, irrespective of what has been drawn under the access facility, Fitch considered that the full initial amount advanced to the borrower was drawn. The base-case loss severity assumption for this pool was thus sized off the current loan balance plus prepayments and potential drawings under the access facility, giving the portfolio a WA current LTV of 75.90%.

Computer-Assisted Valuation

A certain portion of the loans are linked to properties valued through a CAV system instead of a full physical valuation. Although the system appears to be robust with limited error margin, Fitch applied a stress to the value of the properties that were assessed through the valuation system as it was considered not to be as accurate as a full physical valuation.

Taking into account the factors above, the WA loss severity for this portfolio in a ‘AAA(zaf)’ stress scenario is 38.74%.

Cash Flow Model

Fitch used its cash flow model to determine final credit enhancement levels that take into account the specific features of the transaction, including excess spread.

Notably, when modelling the structure, Fitch compressed the WA margin of the portfolio, thereby reducing the available excess spread, by allocating the assumed defaults as well as a portion of the prepayments to the buckets with the highest margins.

■ Credit Enhancement

Based on all these assumptions, Fitch sized credit enhancement levels for each class of notes sufficient to ensure that interest would be paid according to the terms and conditions of the documentation and that principal would be repaid in full by the legal final maturity of the notes:

- Class A notes: 14.05%, to be provided by the subordination of class B (4.65%), C (3.70%), D (2.65%) and overcollateralisation of 3.05% via the subordinated loan.
- Class B notes: 9.40%, to be provided by the subordination of class C (3.70%), D (2.65%) and overcollateralisation of 3.05%.
- Class C notes: 5.70%, to be provided by the subordination of class D (2.65%) and overcollateralisation of 3.05%.
- Class D notes: 3.05% to be provided by the subordinated loan.

■ Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk.

Details of the transaction’s performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.

■ Ikhaya RMBS 1 Limited RMBS/South Africa

Capital Structure

Class	Rating	Size (% of assets)	Size(ZAR)	CE (%)	Coupon	PMT freq ^b	Maturity	BESA code
A ^a	AAA(zaf)	85.95	1,486.6	14.05	TBD	Quarterly	9 Dec 2028	IKHA1- IKHA5
B	AA(zaf)	4.65	80.4	9.40	TBD	Quarterly	9 Dec 2028	IKH1B
C	A(zaf)	3.70	64.0	5.70	TBD	Quarterly	9 Dec 2028	IKH1C
D	BBB(zaf)	2.65	45.8	3.05	TBD	Quarterly	9 Dec 2028	IKH1D
Subordinated loan		3.05	52.8					

^a Class A is split into tranches A1 to A5

^b Interest payment dates occur on 9 June, September, December and March

Source: Fitch, transaction documents

Key Information

Closing date	9 March 2007	Parties	
Country of assets	South Africa	Originator	FNB Home Loans, a division of FirstRand
Listing	Bond Exchange of South Africa	Seller	FNB Home Loans
Analysts	Yohan Assous	Security SPV	Ikhaya RMBS 1 Guarantor (Pty) Ltd
	yohan.assous@fitchratings.com	Security SPV owner trust/Owner trust	Werksmans Trust (Pty) Ltd
	+27 11 516 4905	Servicer	FirstRand, through its division Rand Merchant Bank
	Joshua Cohen	Administrator	FirstRand, through FNB Home Loans
	joshua.cohen@fitchratings.com	Hedging provider	FirstRand
	+27 11 516 4907	Make-whole facility provider	FirstRand
		Liquidity provider	ABSA Bank Limited
		Account bank	FirstRand

Source: Fitch, transaction documents

Fitch Default Model Output

Rating level (%)	AAA(zaf)	AA(zaf)	A(zaf)	BBB(zaf)
WAFF^a	31.1	24.9	18.7	12.44
WARR^b	61.3	65.2	68.9	72.9
WA MVD	43.9	40.0	36.0	31.5
Gross CE	12.05	8.7	5.8	3.4

^a WA foreclosure frequency.

^b WA recovery rate.

Source: Fitch, transaction documents

Collateral

Pool characteristics	Ikhaya RMBS 1 Ltd
Current principal balance (ZAR)	1,729,649,587
Average current loan per borrower (ZAR)	580,389
Number of loans	2,980
Seasoning (months)	10.0
Loan to value (LTV) (%)	
WA original LTV	78.16
WA current LTV	75.90
WA payment to income (%)	23.30
Regional concentration (%)	
Eastern Cape	8.12
Mpumalanga	2.90
KwaZulu-Natal	16.76
Northern Cape	0.98
Limpopo	0.96
North West	2.27
Free State	2.89
Gauteng	37.78
Western Cape	27.34
Self-employed borrowers (%)	34.69
Second properties/investment properties (%)	25.91
Subsidised loans (%)	6.25
Jumbo loans (%)	40.76

Source: Fitch, FirstRand. pool cut as of 30 January 2007 provided by FirstRand

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