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Presale: Liberty NZ 2005-1 Presale

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Publication date: 25-Oct-05, 22:17:32

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NZ\$160 Million Subprime and Nonconforming Residential Mortgage-Backed Securities

This presale report is based on information as of Oct. 26, 2005. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary ratings as of Oct. 26, 2005

Class	Preliminary rating*	Preliminary amount (mils. NZ\$)	Recommended credit support (%)	Credit support provided by subordination (%)	Total credit support provided including excess spread** (%)
A	AAA	142	13.7	11.3	13.7
B	BBB+	14	4.7	2.5	4.9
C	BB	4	2.2	0.0	2.2

*The rating on the securities is preliminary and subject to change at any time. **Credit to excess spread assumes the prefund is fully utilized, and includes credit for the principal reserve.

Profile

Expected closing date: Nov. 14, 2005.

Final maturity date: May 10, 2037.

Structure type: Nonconforming and subprime residential mortgage-backed, pass-through securities.

Issuer: Liberty Funding (NZ) Pty Ltd. as trustee for Liberty NZ Series 2005-1 Trust.

Collateral: Fully amortizing New Zealand dollar loans to nonconforming and subprime New Zealand resident borrowers secured by first-registered mortgages over New Zealand residential property.

Supporting Ratings

Interest rate swap provider: ANZ National Bank Ltd.(AA-/Stable/A-1+).

Bank Account Provider: ANZ National Bank Ltd.(AA-/Stable/A-1+).

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Rationale

The preliminary ratings assigned to the notes to be issued by Liberty NZ Series 2005-1 Trust (the trust) reflect:

- The credit risk of the underlying collateral portfolio, which consists of loans to nonconforming and subprime borrowers that would not normally meet the lending guidelines of prime lenders. This is explained in further detail under "Collateral";
- The underwriting and servicing operations of Liberty Financial Pty Ltd. and Liberty Financial Ltd. (Liberty Financial), which have been specifically developed to service nonconforming and subprime mortgage loans. The company has a conservative arrears-tracking methodology and rigorous collections procedures that have resulted in minimal losses, despite high reported arrears;
- The maintenance of a weighted-average borrower rate on loans of at least the greater of: (i) the threshold rate required to ensure that all trust obligations are met; and (ii) a defined required interest rate margin over BKBM;
- Liquidity to support note holder payments, equal to 1.2 % of the outstanding balance of the invested amount of the notes, funded through note issuance. In addition, principal receipts from the underlying portfolio of loans may also be drawn upon to pay interest, and the reserve account may be used for liquidity purposes once the pool balance falls below 10% of its initial amount;
- The availability of excess spread to cover any current losses and carryover charge-offs on notes from prior periods. Excess spread is also available to repay any prior principal draws and to top up the reserve account (a reserve funded by excess spread) to its required limit. Standard & Poor's assumptions regarding the sizing of available excess spread are discussed in more detail under "Credit Enhancement";
- The provision of appropriate hedging arrangements with ANZ National Bank Ltd. (AA-/Stable/A-1+) to hedge the receipts from mortgage loans with fixed rates of interest against the floating-rate obligations of the trust; and
- For the Class A notes, the subordination of the Class B notes, C notes, and the credit support of the principal reserve in the early part of the transaction. For the Class B notes, the subordination of the class C notes, and the credit support of the principal reserve in the early part of the transaction. For the class C notes, the credit support of the principal reserve in the early part of the transaction.

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Strengths and Weaknesses

Strengths

The strengths of the transaction observed in the rating analysis are:

- Liberty Financial has been assigned a 'STRONG' residential subprime loan servicer ranking, with a 'Stable' outlook. The servicer ranking reflects the more rigorous requirements of servicing subprime loans;
- The valuation standard adopted by Liberty Financial is comprehensive. Licensed valuers, who are provided with detailed valuation instructions, value all properties securing loans in the pool. The company monitors the performance of its approved valuers regularly. An independent valuation is performed whenever a property is realized, with reasons for any discrepancies between the realization valuation and the original valuation reviewed. The security valuation is a critical part of the lending and servicing process, given that the borrowers targeted in the nonconforming and subprime market are of a higher credit risk;
- The underwriting and servicing operations of Liberty Financial have been

specifically developed and tailored to service nonconforming and subprime mortgage loans. The servicing functions for the New Zealand portfolio are conducted by Liberty Financial's Australian office, which employs rigorous collection procedures to ensure minimal losses on loans, despite the high arrears on Liberty's New Zealand portfolio; and

- Liberty Financial has completed one New Zealand and nine Australian issues of subprime and nonconforming RMBS since 1999, with no note charge-offs to date.

Weaknesses

Weaknesses identified in the transaction are:

- The structure includes a six-month substitution and prefunding period, when additional loans may be purchased by the trust. Selling additional loans into an existing portfolio has the ability to alter the characteristics of the underlying loan pool. The likelihood of the pool characteristics altering increases in a nonconforming and subprime portfolio where the products offered by the lender and the credit profiles of the borrowers are more diversified than in those of prime lenders. Standard & Poor's is required to affirm the ratings on the notes before any additional loans can be acquired by the trust. It has also sized in its cash flow modeling the potential amount of negative carry that will occur if collections and prefunding amounts are not applied to acquire new loans;
- By current balance, 21.3% of the portfolio consists of loans to self-employed borrowers. Such borrowers tend to experience greater cash flow volatility than non-self-employed borrowers and are assumed to have higher probabilities of default. Liberty's portfolio includes self-employed borrowers who have had their income verified by alternative means by Liberty and borrowers who have not provided income details. Loans to borrowers who have alternatively verified their income make up 16.0% of the collateral portfolio, while a further 16.9% of loans are "asset lends" without verification of borrower income, employment, credit history, or savings history. Additionally, these loans are typically interest-only, bullet-repay loans with terms of up to five years, creating a refinancing risk that may increase defaults. This risk is reduced by a maximum loan-to-value (LTV) ratio of 75%;
- Loans to borrowers with at least one event of credit impairment make up 58.7% of the pool (by current balance). Standard & Poor's has applied a higher probability of default for borrowers with prior credit impairments in its credit support sizing and cash flow modeling of the transaction;
- The pool contains 13.3% of loans, by current balance, with a single security property value of more than NZ\$750,000, the highest of which has a valuation of NZ\$3.55 million. Standard & Poor's has adjusted market value decline assumptions when calculating the loss severity for these loans to reflect the potential for market illiquidity of high-value security properties;
- Despite the absence of indicative step-up margins, this transaction experiences yield strain arising from the relatively high margin paid on the lower rated notes. Furthermore, the possibility of adverse selection on the portfolio (as higher credit quality borrowers have refinanced to prime lenders) may increase back-end losses in the transaction. Standard & Poor's has modeled the cash flows at each rating level and sized the reserve account to cover the relevant stress points at each rating level. This reserve is available to cover the tail-end stresses of losses and negative yield for the lower-rated notes;
- Higher prepayment speeds are experienced on subprime loans than on traditional prime loans in the New Zealand and Australian markets. Although prepayment does result in faster paydown of rated notes, it also reduces the

availability of excess spread from loans to support the transaction. As a buffer to prepayment, Liberty products feature deferred establishment fees payable by borrowers who choose to discharge their loan in the early years of the loan being established. Standard & Poor's has considered prepayment when modeling cash flows to account for this risk; and

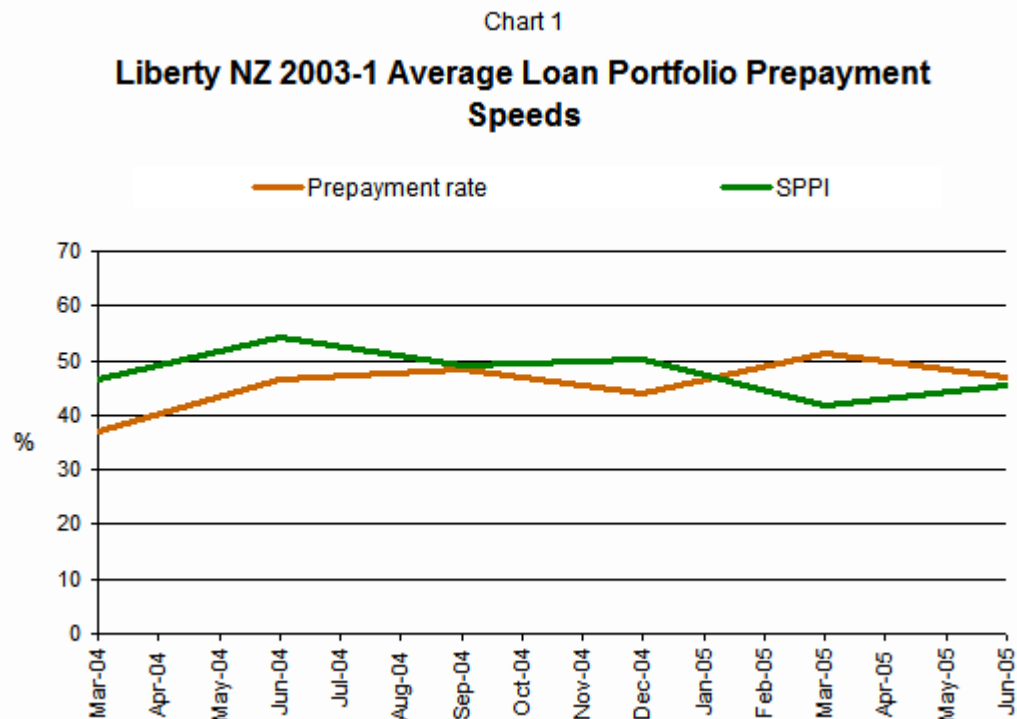
- The inaugural securitization of nonconforming and subprime loans by Liberty Financial occurred in 1999, and its inaugural securitization of New Zealand originated loans occurred in 2003. Liberty's loans have not been tested during a protracted economic downturn in either Australia or New Zealand.

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Rating Transition Analysis

Standard & Poor's considers the major factors that will drive negative rating changes in this transaction are asset portfolio performance deterioration beyond the level assumed in the credit analysis, higher-than-expected prepayment speeds causing lower-than-expected excess spread, and downgrades to supporting parties within the transaction. As the collateral pool amortizes and the proportion of subordination relative to the Class A notes increases, the Class A notes' protection from these factors is likely to increase. Liberty Funding does have the ability to release excess spread that has been reserved in the transaction, to the residual income beneficiary, if the portfolio is performing better than expected. This mechanism has the potential to reduce the buildup up of subordination to all rated notes, but excess spread must only be released if it does not have an adverse effect on the rating on the notes.

The historical average repayment speed for previous Liberty Financial loan portfolios has been high, but is comparable with the average for subprime and nonconforming loans. Standard & Poor's takes the prepayment speed into account in the cash flow model. Chart 1 shows the prepayment speeds of Liberty's previous New Zealand transaction compared with the subprime and nonconforming average for Australia and New Zealand over the same time period (represented by the SPPI).



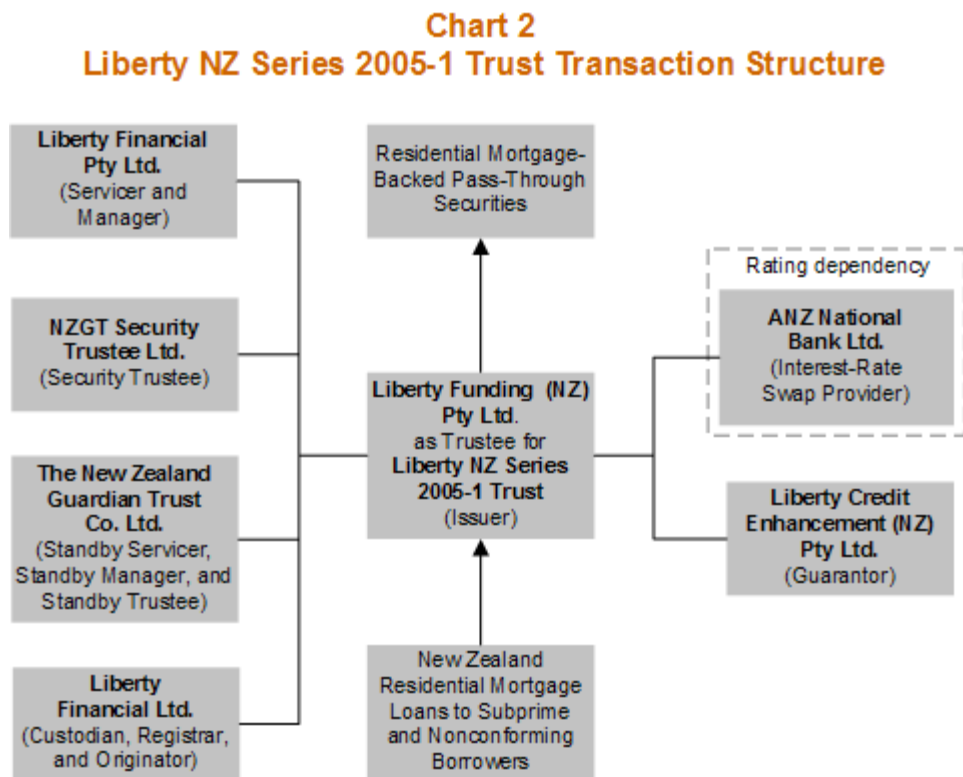
The risk of downgrades caused by downgrades to supporting parties in the transaction

is considered low. Interest rate swaps contain downgrade language that requires the counterparty to post collateral or replace itself as counterparty at its own cost if its rating falls. The collections and reserve account is required to be maintained with an appropriately rated bank. Should the provider of these accounts be downgraded, the deposits held are required to be transferred to another appropriately rated institution.

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Transaction Overview

Chart 2 illustrates the transaction structure.



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Origination and Servicing

Liberty Financial offers a range of loan products to nonconforming and subprime borrowers that generally do not satisfy the underwriting criteria of traditional prime lenders; and borrowers that are seeking products not generally offered by prime lenders. They have been operating in Australia since 1997 and in New Zealand since 2001. Liberty Financial has established a diversified distribution network, including introducers, referral partners, and other financial institutions. The underwriting functions are conducted from Liberty's Auckland office, with substantial support from key management from Liberty's Australian staff. The underwriting and verification processes are generally more rigorous than those of a prime lender, and Liberty Financial uses an in-house-developed and patented underwriting system that incorporates multifactor decision rules and behavioral analysis that identifies appropriate products based on the assessed risk of the borrower. Loan settlements (including those through mortgagee sales) are executed by solicitors in New Zealand, with all remaining servicing and arrears management functions centralized and maintained through Liberty Financial's Melbourne office.

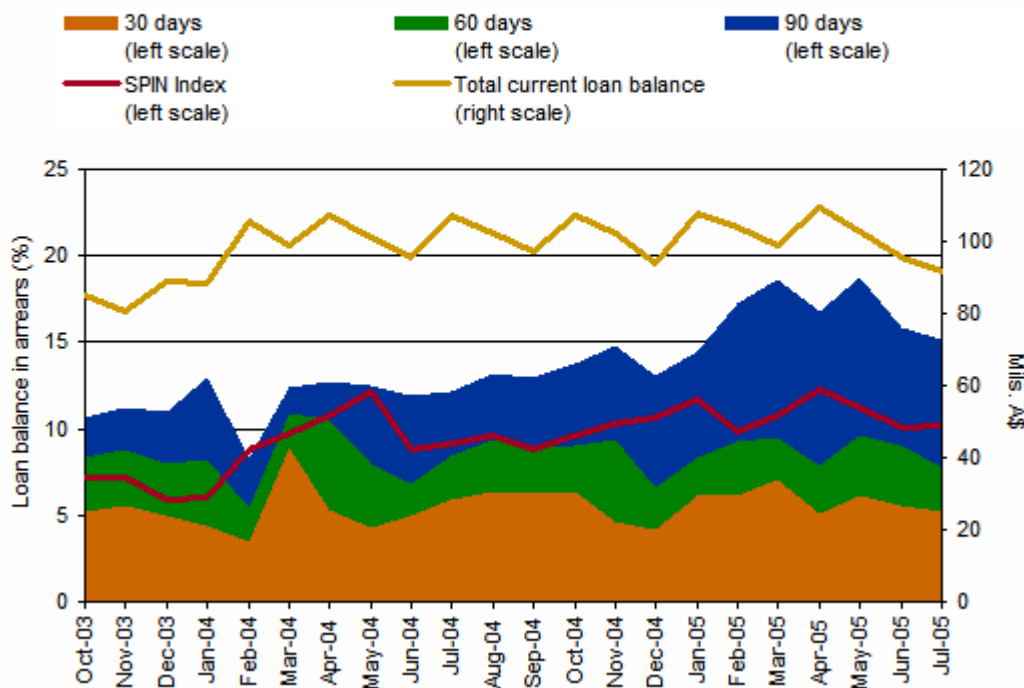
The New Zealand Guardian Trust Company Ltd. has agreed to act as standby servicer, standby manager, and standby trustee to the transaction. A formal servicing

agreement is in place, as are procedures to ensure that a handover of these functions may occur, if required, with limited disruption to the transaction.

Liberty Financial has issued nine Australian transactions totaling over A\$5 billion, and one New Zealand transaction, totaling NZ\$110 million.

Liberty Financial's previous New Zealand transaction has experienced low losses totaling around NZ\$76,000, despite the high arrears of the portfolio. Loss severity is managed by Liberty through careful use of maximum loan-to-value ratios, and through utilizing the faster time to realization available to lenders in the New Zealand market. The arrears performance of Liberty NZ Series 2003-1 Trust, compared with the pools collateralizing all Australian and New Zealand RMBS over the same time period is shown in Chart 3. Liberty remains the largest issuer of subprime and nonconforming loans in the Australian market, so the subprime SPIN is therefore weighted towards the performance of Liberty transactions. The delinquency rates outlined in Chart 3 refer to repayments more than 30 days past due.

Chart 3
Performance of Liberty NZ 2003-1 Loans Against the Sub-Prime SPIN



Liberty Financial maintains full control of all elements of its loan servicing, arrears management, and loss mitigation. No operational functions are outsourced. The company recognizes the particular traits of borrowers in this sector of the market, delinquencies are monitored daily, and collections on delinquent accounts begin expeditiously. The account executives are senior collectors trained to determine the best course of action to minimize any losses on loans. Borrowers who are currently delinquent, but who have entered into arrangements to reduce their arrears, remain in the servicer's delinquency statistics. The conservative arrears-tracking methodology, combined with rigorous collections procedures, has resulted in minimal losses despite relatively high reported arrears. A copy of Standard & Poor's servicer evaluation report for Liberty Financial Pty Ltd. can be found on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. It can also be located on Standard & Poor's Web site at www.standardandpoors.com. Click Credit Ratings and

find the article under "Servicer Evaluations".

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Collateral

The loans are either fully amortizing over the term of the loan, fully amortizing with an initial interest-only period of up to five years, or fixed rate interest-only bullet loans with terms of up to five years' maturity. The portfolio contains both variable- and fixed-rate mortgages, which may be fixed for a period of up to five years. The collateral pool includes:

- Loans to borrowers with a previous event of credit impairment;
- Loans to business owners who may not be able to provide tax returns to verify their income, but which is verified by nontraditional sources;
- Loans to borrowers with minimum equity of 25% in the security property, in the absence of verification of debt serviceability and borrower income, savings, and credit history. Loans to these borrowers may be short-term interest-only loans, or amortizing loans with a 30-year maturity; and
- Loans to borrowers who, for some reason, do not meet the underwriting criteria of prime lenders. Examples include loans to self-employed borrowers with collateral trading history, or borrowers with a nontraditional deposit source.

Alternatively Verified or Nonverified Loans

The loan portfolio consists of 32.9%, by current balance, of loans for which the income, savings, credit history and/or debt-servicing assessments of borrowers have not been verified or verified through alternative sources. Loans with reduced or alternative verification procedures may be separated into two main categories—alternatively verified and nonverified—as defined below.

(a) **Alternatively Verified** Of the portfolio, 16.0%, by current balance, of loans are to borrowers who rely partly or wholly on self-employment, with at least 12 months' trading history. Borrower income is verified by sources other than tax returns. Loans may also be funded to borrowers with a non-traditional source of deposit, in lieu of a savings history. Self-employed borrowers, especially new businesses, will often experience greater exposure to business cycles, and this is reflected by almost a third of these borrowers having experienced credit problems in the past. This figure is also reflective of the stringent credit checks performed by Liberty Financial when underwriting a loan.

(b) **Nonverified Loans** to borrowers for whom a debt-servicing assessment has not been conducted, and for whom income, savings, and credit histories are not verified represent 16.9% of the portfolio. To compensate for the absence of borrower verification, the borrower is required to have a minimum of 25% equity in their security property.

Depending on the level of verification for each product, Standard & Poor's has adjusted the required credit support for the transaction to reflect the level of verification performed to establish a borrower's savings, income, and credit histories, and their ability to service the loan.

Standard & Poor's has performed a separate detailed analysis on the alternatively verified and nonverified loans in the portfolio. The issuer has requested that this information not be made available in this presale report.

Loan-to-Value Ratios

The LTV of the portfolio is another significant driver of credit support. LTVs in the current portfolio range up to 97.1%, but this may be exceeded with the prefunding of additional loans in the following six months after the transaction closes. Higher LTV loans historically exhibit higher rates of default, because the borrower has little or no equity in the secured property, and the analysis assumes that those loans that do default experience a greater loss severity given the high debt-gearing against the property. Notwithstanding this, the diversity of products within the portfolio provides for a range of LTV bands, producing a weighted-average LTV of 72.9%. Standard & Poor's has also assessed the comprehensive valuation standards adopted by Liberty Financial, which is a critical part of the lending and servicing process for nonconforming and subprime lending, when calculating the required credit support for the transaction. Given the impact of LTVs on a borrower's likelihood of default and the resultant loss given default, the LTVs of the portfolio are the second highest driver of required credit support in the transaction after employment type.

Interest-Only Loans

The portfolio consists of loans with interest-only periods of up to five years. Interest-only loans are available on all products, except those with an LTV of more than 95%; and the majority (75% by current balance) of interest-only terms exist on loans to self-employed borrowers or borrowers who are not required to disclose their employment details. By current balance, 96.7% of interest-only loans, or 15.3% of the total portfolio, are interest-only bullet loans with principal due in full at the end of the interest-only period.

Table 1 outlines the credit assessment of the total pool.

	AAA	BBB+	BB
Expected default frequency (%)	32.7	17.2	9.9
Loss severity (%)	42.2	27.1	21.3
Recommended credit support (%)	13.7	4.7	2.2
Assumptions			
Market value decline (%)*	45.0	33.3	28.0
Weighted avg. recovery period (mos.)	13.6	13.6	13.6
Interest rate through recovery period (%)	15.4	12.8	12.1

Most pools that Standard & Poor's evaluates do not match the parameters of the benchmark pool. Standard & Poor's compares the characteristics of each loan with the benchmark pool and applies rating multiples, where required, to determine the default frequency of a portfolio. This, in turn, determines the amount of credit support required to support the ratings on the rated notes. Table 2 lists the key characteristics that explain most deviations from the benchmark, and shows the weighted-average portfolio default multiple for each that applies for the pool. Default multiples are weighted by each loan's current balance, and different multiples may apply for different products.

Criteria	Default frequency multiple for total pool
Self employment	1.556
Loan-to-value ratio	1.463
Borrower credit history	1.273

Reduced documentation: income verification	1.140
Reduced documentation: credit history verification	1.127
Amortizing period post interest-only period	1.115
Reduced documentation : savings history	1.100
Concentration to New Zealand	1.100
First time buyer	1.050
Location: metro/nonmetro	1.032

Standard & Poor's recognizes that the cumulative effect of its default frequency multiples, particularly in relation to Liberty's asset lend products, can at times result in a total default frequency of 100% for a loan at the 'AAA' rating level, and relatively high default frequencies at the other rating levels. The probability of all performing loans in this category defaulting is incredibly remote, so Standard & Poor's has applied a cap to the default frequency on a loan-by-loan basis for performing loans only, equal to 75% at 'AAA' and reducing at equal intervals down the rating scale, to a cap of 45.7% at 'BBB+' and 31.0% at 'BB'.

The preliminary loan pool as of Oct. 11, 2005 is summarized in Tables 3 and 4.

Table 3 Summary Mortgage Portfolio Profile	
	Total loan pool
Total no. of loans	598
Total current balance of loans (NZ\$)	123,640,906.90
Max. current loan size (NZ\$)	1,601,663.0
Avg. loan size (NZ\$)	206,757.37
Max. current loan-to-value ratio (LTV) (%)	97.1
Weighted avg. current LTV ratio (%)	72.9
Weighted avg. original LTV ratio (%)	73.3
Weighted avg. loan seasoning (mos.)	4.2
Weighted avg. term to maturity (yrs.)	25.0

Table 4 Mortgage Portfolio Characteristics	
	Total loan pool
Current loan-to-value ratio (%)	Current value of loans (%)
Less than or equal to 50	10.3
Greater than 50 and less than or equal to 60	10.1
Greater than 60 and less than or equal to 70	16.9
Greater than 70 and less than or equal to 80	24.7
Greater than 80 and less than or equal to 85	9.8
Greater than 85 and less than or equal to 90	12.0
Greater than 90 and less than or equal to 95	13.3
Greater than 95	2.9
Current balance (NZ\$)	
Less than or equal to 100,000	6.2
Greater than 100,000 and less than or equal to 200,000	34.2
Greater than 200,000 and less than or equal to 300,000	22.4

Greater than 300,000 and less than or equal to 400,000	12.5
Greater than 400,000 and less than or equal to 500,000	6.3
Greater than 500,000 and less than or equal to 600,000	4.0
Greater than 600,000 and less than or equal to 700,000	2.5
Greater than 700,000 and less than or equal to 800,000	2.4
Greater than 800,000 and less than or equal to 900,000	1.4
Greater than 900,000 and less than or equal to 1,000,000	0.8
Greater than 1,000,000 and less than or equal to 1,500,000	1.2
Greater than 1,500,000	6.2
Geographic distribution	
Auckland	72.1
Wellington	13.8
Christchurch	10.4
Dunedin	3.7
Metropolitan/nonmetropolitan	
Metropolitan	73.9
Nonmetropolitan	26.1
Delinquency status	
30 to 59 days past due	2.1
60 to 89 days past due	0.4
Greater than 90 days past due	0.0
Employment status	
Pay-as-you-earn employees and professionals	61.8
Self-employed	21.3
Unemployed	9.6
Not disclosed	7.3
Repayment schedule	
Principal and interest amortizing loans	78.9
Interest-only loans up to five yrs followed by amortizing period	5.7
Interest-only bullet loans up to five yrs.	15.4
Interest type	
Variable-rate loans	84.7
Up to five-yr. fixed-rate loans	15.3
Credit impairment	
No adverse history	28.6
Prior credit history	54.5
Credit history not verified	16.9
Documentation	
Full documentation	67.1
Alternative documentation*	32.9

*Alternative documentation classifies two products offered by Liberty Financial Pty Ltd. that do not require full verification of borrower details. The 'Private' product is for business or investment loans and does not require verification of borrowers' income, savings, employment, or credit histories. The 'Business Equity'/'Nova' product is for borrowers who rely partially or wholly on

self-employment for at least one year but have no tax returns to verify income. Therefore, Liberty Financial will use alternative sources to verify income of the applicant.

The structure of the transaction includes both a substitution and a prefunding period. There is a six-month substitution period, during which time the trustee may use the principal repayments to purchase new loans that meet the eligibility criteria of the trust. Each purchase of loans is subject to review of the loan pool and affirmation by Standard & Poor's that such loan substitution will not result in the rating on the issued notes being lowered. The purchase of eligible receivables will be funded firstly by principal collections, and secondly, after all principal collections have been utilized, the prefunding amount. The prefunding amount of around NZ\$35 million or less may be used within the first six months of the transaction to purchase further eligible receivables, make payments of principal adjustments, or for other purposes approved by the trustee, the security trustee, and Standard & Poor's. Should any prefunding amount remain after the expiry of the prefunding period it will be passed back through the principal waterfall on the next distribution date.

Credit Enhancement

Credit support is provided through a combination of subordination, the principal reserve, and excess spread throughout the life of the deal. Other structural features are used to trap this excess spread and provide mechanisms for covering losses and carryover charge-offs prior to notes being charged off. Where current losses exceed the application of income and reserve account balance (see "Excess Spread", "Principal Reserve" and "Reserve Account") the excess loss is written as a carryover charge-off to the Class C notes first, the Class B notes second, and then the Class A notes. To the extent that there is excess income available from loans in future periods, the carryover charge-offs on notes can be covered under the income waterfall.

Subordination

Subordination is the primary mechanism for providing credit support for the notes, with the Class B and C notes providing 11.25% credit support to the Class A notes, and the Class C notes providing 2.5% credit support to the Class B notes.

Excess Spread

Excess spread is applied to reinstate any current losses and carryover charge-offs on notes from prior periods. It is also available to repay any prior principal draws and to allocate money to the reserve account and principal reserve up to their respective required limits. These mechanisms allow the conversion of loan income into loan principal to support principal losses that have already arisen or may arise in the loan portfolio.

The level of excess spread at the 'AAA' rating stress is 2.4%, as measured in the cash flow model. Two key assumptions were made when sizing excess spread:

- A commitment by Liberty Financial to maintain a weighted-average borrower rate on loans of at least the greater of the threshold rate required to ensure that all trust obligations are met, or the defined interest rate margin over the New Zealand bank bill swap rate. Liberty Financial sets a series of required margins that decrease over time.
- High prepayment rates, to ensure that the transaction can sustain a significant prepayment stress throughout its life. Subprime loans may experience high

prepayment rates as borrowers build up a prepayment history and refinance into prime lenders' loan products. Higher prepayment rates reduce the loan base from which excess income is generated to support the transaction.

The cash flow model also includes Standard & Poor's standard assumptions around default timing, New Zealand interest rate curves, and extraordinary and actual expenses. Table 5 shows the range of prepayment curves used for this transaction.

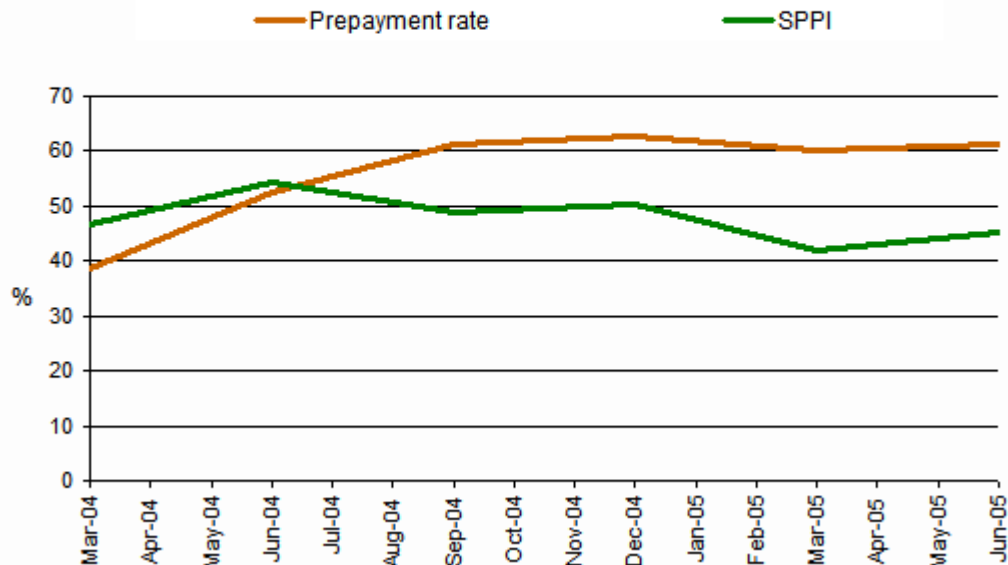
Mortgage loan seasoning	High assumed CPR (% per year)	Mid assumed CPR (% per year)	Low Assumed CPR (% per year)
Up to month 4	45	40	35
Month 4 to month 7	50	45	35
Month 7 to month 10	60	50	40
Month 10 to month 12	65	50	40
Month 12 onwards	65	50	45

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

The high assumed conditional prepayment rates (CPR) mirror the prepayment experience of Liberty's 2003-2 (Australian) transaction, which had a similar number of short-term bullet repayment loans.

Chart 4

Liberty 2003-2 Average Loan Portfolio Prepayment Speeds



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Structural Features

Liquidity Support

The exclusion of subordinated note interest from liquidity support, if there has been a charge-off on the subordinated notes, is an important mechanism protecting the ratings on the higher-rated notes during severe market downturns.

An amount equal to 1.2% of note issuance will be placed in a liquidity reserve account. The liquidity reserve amortizes at a rate of 1.2% of the aggregate stated amount of the notes, subject to a floor amount of the lesser of NZ\$250,000 or an amount equal to 20% of the balance of all receivables of the trust. The amortized amount is released as principal repayment to note holders. This provision is to prevent negative carry from excess liquidity at the later stages of the transaction.

Reserve account

In any quarterly period, when there is available income under the distribution of total income waterfalls, an enhancement amount equal to 2.1% of the aggregate invested note balance at the start of the period is paid to the residual income beneficiary. The residual income beneficiary is required under the guarantee deed to deposit the after-tax amount (enhancement amount) into a deposit account held outside the trust by Liberty Credit Enhancement (NZ) Ltd, an independently established special-purpose vehicle (SPV). The tax on the enhancement amount is calculated at the residual income beneficiary's (Liberty Financial) current corporate tax rate. The enhancement amount is accumulated in the reserve account up to a limit of NZ\$1.6 million.

The reserve account is available through the first guarantee mechanism for the reimbursement of liquidation losses for the immediately preceding collection period, which has not already been reimbursed through interest collections.

The reserve account also supports a second guarantee amount, which may be utilized to reimburse unpaid interest on the notes, provided the balance of the notes is less than 10% of the original balance of the notes at the initial issue date.

Consequently, the reserve account supports note holders by:

- Making available excess income in the transaction for the benefit of reimbursing potential principal losses in the transaction; and
- Should the balance of the notes reduce to the required level, the excess spread will also become available for covering potential interest shortfalls in the transaction

Funds in the reserve account are removed from the trust for New Zealand tax purposes; however, they are then deposited into an account controlled by a bankruptcy-remote SPV. In addition, the security trustee has direct access to the money if required for the purposes explained above.

Principal Reserve Account

An amount equal to NZ\$1.3 million is to be held in an account as a principal reserve, and is to be made available to support losses on loans in the trust from the date of loan purchase. The balance of the principal reserve account reduces in each period by the enhancement amount that is recorded in the reserve account, so that (if no losses are recorded on loans) the aggregate of the principal reserve account and the reserve account remain at the initial funded level. Any amounts released from the principal reserve are paid into principal collections. When there is insufficient income in the waterfall or available reserve account to cover remaining losses, the losses are met by paying an amount from the principal reserve to principal collections.

Serial Paydown

On meeting certain performance triggers, the subordinated notes may be amortized by receiving 50% of their proportional allotment. A requirement for serial pay is that the level of credit support to the senior notes must be at least double the level provided at issuance.

Additionally, serial pay requires that cumulative losses in the transaction cannot exceed 1.0%, 1.5%, or 2.0% of the issue amount of notes for the third, fourth, and fifth years, and onward in the deal, respectively.

Stepdown to the Class B notes must also pass an arrears test. The monthly average of loans more than 30 days past due over the past 12 months, as a percentage of all loans, must not exceed 40% of the credit support to the Class A notes (as defined above). Subsequent to all these conditions, the Class B notes may amortize after 12 months by receiving a percentage of the principal repayment fund defined by the stated amount of the Class B notes as a percentage of the sum of all stated notes.

An additional arrears test applies to the Class C notes, whereby the average arrears loans cannot exceed 80% of the credit support to the Class B notes. Conditional on all tests, the Class C notes may also amortize after 12 months by receiving a percentage of the principal repayment fund similar in design to the Class B percentage.

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Final Ratings

Final ratings are subject to review of the final loan pool, confirmation of note balances and margins, and receipt of final documentation and legal opinions substantially in the form agreed to date.

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Related Research

- "Australian Residential Mortgage-Backed Securities Criteria", February 2004
- "Investor Guide to Australia's Housing Market and Residential Mortgage-Backed Securities", February 2005.
- "Lenders' Mortgage Insurance: A Form of Credit Enhancement to Australian RMBS", February 2003.
- "Australian & New Zealand RMBS Quarterly Performance Watch", quarterly.
- "Australian Securitization News", weekly.

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