

RatingsDirect®

Servicer Evaluation: Firstmac Ltd.

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Table Of Contents

Opinion

Outlook

Profile

Business Strategy And Growth

Management And Organization

Loan Administration

Financial Position

Related Criteria And Research

Servicer Evaluation: Firstmac Ltd.

Opinion

Ranking: STRONG

The overall STRONG prime residential loan servicer ranking on Firstmac Ltd. (Firstmac) reflects S&P Global Ratings' opinion that Firstmac continues to demonstrate strong servicing quality. Firstmac has an experienced management team and effectively uses technology in its well-automated mortgage loan-servicing operations.

Firstmac's key servicer strengths include:

- A well-established position as an experienced primary servicer of prime residential mortgage loans, with more than 25 years in the residential mortgage business;
- A comprehensive corporate governance and risk-management framework;
- A well-designed internal-controls framework and internal audit program, supported by structured annual audit plans;
- Solid loan-processing and servicing infrastructure, which provides Firstmac with an end-to-end integrated approach to loan origination, servicing, and management;
- A robust training and development program, including an online management system for tracking training;
- Prudent servicing policy and procedures, contributing to a low arrears level that compares favorably with Standard & Poor's Performance Index (SPIN) for Australian prime RMBS transactions; and
- The establishment of a loan-processing function based in Manila to support the main loan-processing team in Brisbane.

A servicer ranking is a statement of opinion and not a statement of fact. A ranking is not and should not be represented as a credit rating.

Outlook

The stable outlook reflects our view that Firstmac will maintain its servicing strengths in the medium term through continued improvements in its processing and servicing practices.

Profile

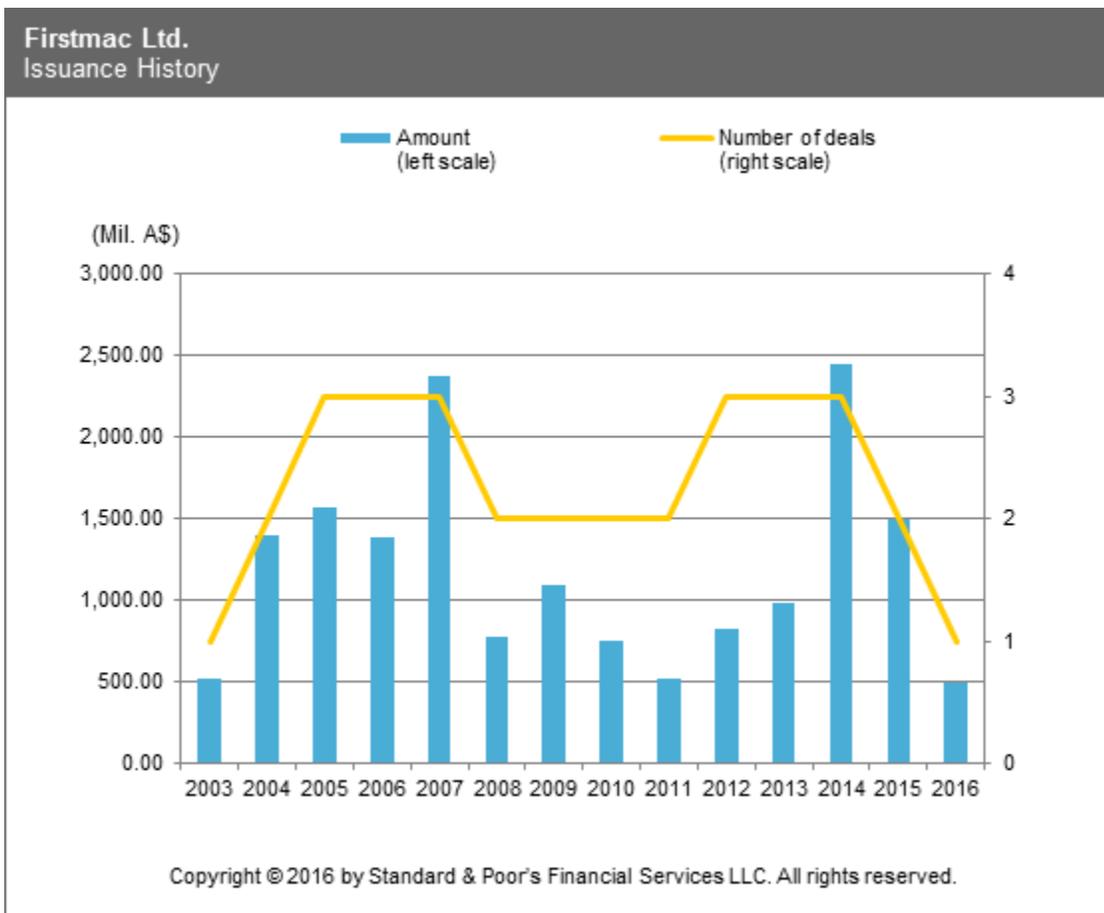
Firstmac, a privately owned company, has operated as a specialized home loan lender and loan servicer since 1988. It is regulated by the Australian Securities and Investments Commission, and holds a financial services license and a credit license as required under the Financial Services Reform Act and the National Consumer Credit Protection Act, respectively.

Firstmac is headquartered in Brisbane and employs more than 240 staff across its business. Its principal business is originating and servicing prime residential mortgage loans sourced through a national network of mortgage managers, white-label brokers, aggregators, and direct brokers, who were historically the main channels of new loan origination.

In 2011, the company introduced a direct retail channel through its online brand, loans.com.au, which has been its main channel of new loan origination.

Firstmac's funding is predominantly through the residential mortgage-backed securitization (RMBS) programs that it manages and warehousing facilities provided by several financial institutions. To date, Firstmac has issued more than A\$16.6 billion of securities across 31 RMBS transactions (see chart 1). In 2011, it launched High Livez, a retail fixed-interest managed-investment fund that mainly invests in RMBS. To date, the fund has approximately A\$45 million in funds under management.

Chart 1



Business Strategy And Growth

Firstmac continues to employ sound business strategies that lead to prudent operational and servicing practices. It is focused on improving its origination platform, distribution network, and servicing platforms.

The company's ongoing infrastructure investment, experienced and committed staff, and well-developed operating policies and procedures support its strategic direction.

Traditionally a wholesale lender, Firstmac distributes its home loans to independent parties such as mortgage managers, white label brokers, aggregators, and direct brokers, who effectively act as the retail face of Firstmac. There has been a strong shift toward the retail sector since 2011, with the introduction of loans online and the launch of a retail managed investment fund. The online origination channel has seen strong growth since its introduction and as of June 2016 is generating approximately 76% of new home loans.

In addition, several strategic initiatives are being explored. Among those already implemented are product expansion into consumer auto loan lending, and SME equipment lending since 2014. In line with industry trends, Firstmac has implemented a strategy to increase the origination of loans that are not subject to lenders' mortgage insurance.

Firstmac set up a company in Manila in 2015 to support its main loan-processing team, based in Brisbane. Firstmac subsequently ceased its previous loan-processing arrangement with an external company based in Manila that had been in place since 2013. Firstmac's Manila-based company employs 95 staff, mainly for administrative functions. These staff handle a range of tasks that support the sales, loan processing, settlements, collections, customer care, and IT departments at the head office. The staff in Manila are not able to approve loans while the main customer service function is still being provided from the head office in Brisbane.

Management And Organization

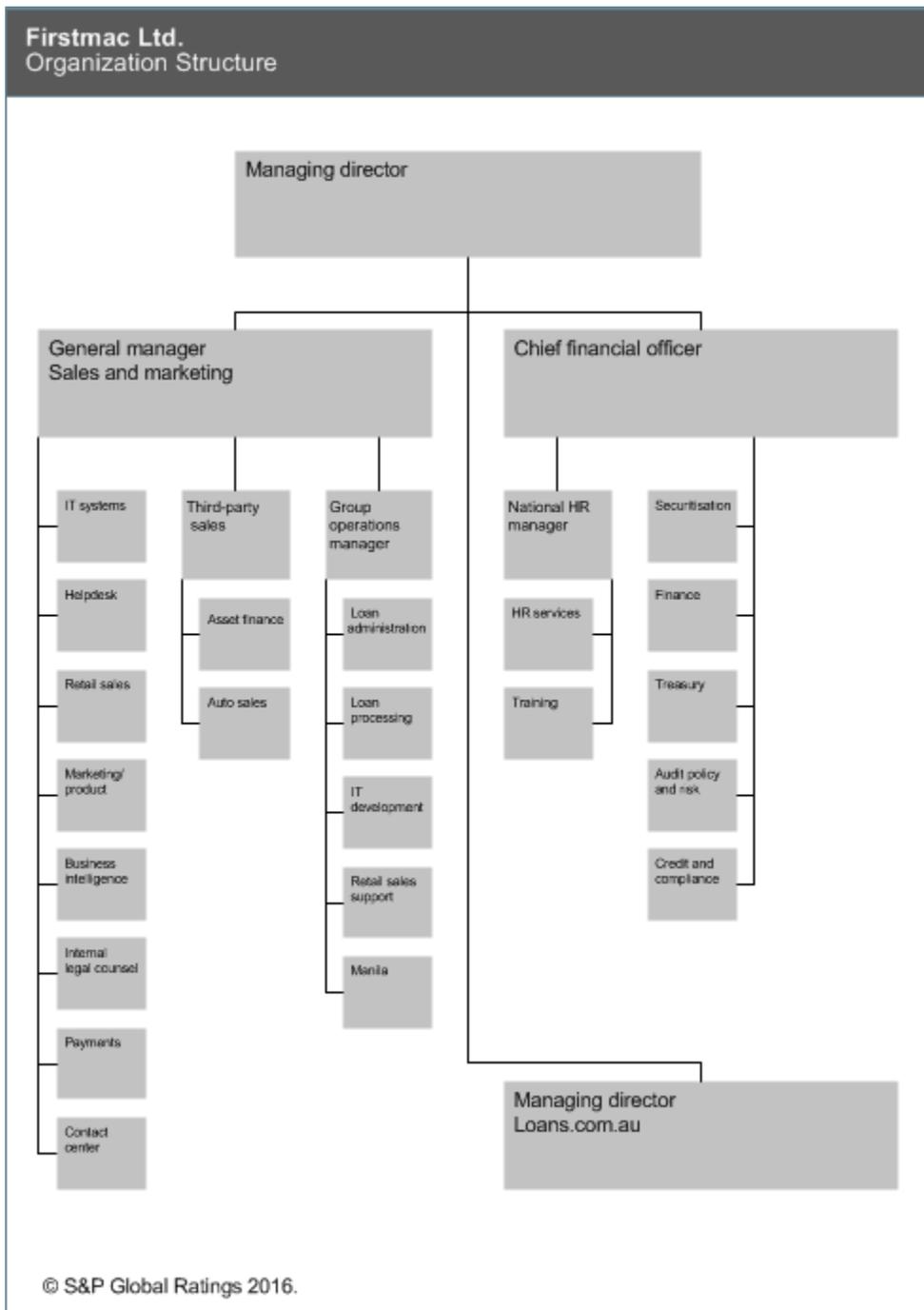
The subranking for management and organization is STRONG

In our view, the members of Firstmac's senior management team possess deep industry experience in their relevant areas of expertise. This contributes to the effective dissemination and execution of strategies and plans across the organization. Firstmac has continued to maintain an effective organizational structure that covers the functional responsibilities of risk, compliance and credit, wholesale sales, retail sales and marketing, online loans, group operations, finance, information technology, and human resources. Other selected attributes of the management include:

- Comprehensive staff career development plans and strategies for staff engagement and communication;
- Well-developed and executed training and development programs to heighten processing and servicing skills of its highly-experienced workforce;
- Enhanced risk management strategies and practices to promote a risk-conscious culture at the business unit level;
- Strong internal audit function, including a well-designed annual audit plan; and
- Continued focus on servicing standards and key performance indicators at all staff levels.

Chart 2 outlines Firstmac's management and organization structure.

Chart 2



Risk management and compliance framework

In our view, Firstmac's governance structure is sound, covering fundamental board and management committees to oversee audit, finance, credit and fund management functions.

Firstmac has an enhanced risk-management policy and framework in place, with the risk-management process extending to the business unit level. Continuous improvement is being made in the risk-management area, with

streamlined board and management processes to improve the oversight and reporting of risks to the committees. In our view, this has assisted with the promotion of a risk- and compliance-awareness culture across the organization.

S&P Global Ratings considers the company's methodology of risk identification, documentation, and reporting to be in line with industry standards.

Internal audit and quality assurance

In our view, Firstmac has maintained its sound internal audit function that focuses on risk-based internal audit activities across all business units, and links to its external auditor. The documentation and regular update of a formal audit charter, and an annual audit plan underline Firstmac's commitment to maintain a robust internal audit framework.

Strong internal controls and quality assurance activities remain in place at Firstmac. These include field audits, hindsight credit reviews, valuation checks, disbursement schedule reviews, and arrears file audits. In our opinion, Firstmac's verification and quality assurance procedures for processing and servicing functions are sound. They are supported by reports that are distributed electronically to each department head for review and action if required.

Technology

Firstmac continues to demonstrate a highly effective, technology environment for data management, processing, servicing, and reporting. The advanced and fully integrated, technology- and workflow-based loan-servicing systems provide end-to-end processing and servicing capabilities, and are a fundamental strength of Firstmac's information technology (IT) infrastructure.

The following systems and infrastructure are used to perform loan processing and servicing activities:

- A front-end loan application processing and workflow based system, which has online application submission and tasking capabilities;
- A proprietary servicing system, which is used for settlement and post-settlement functionalities;
- A comprehensive Internet banking service facility;
- A fully equipped customer contact center; and
- A loan-tracking system to automate and coordinate the loan application and approval process, with interactive features and functionality for the business and its customers.

The IT infrastructure is managed and supported by a well-resourced IT team, who are skilled and qualified to manage the system. In our opinion, Firstmac continues to have robust mechanisms for the evaluation, review, and improvement of its IT infrastructure.

Training program

Firstmac has an established and enhanced staff training and development framework that caters to all employees, from new starters to experienced staff, by identifying ongoing development needs through formalized, staff professional development plans that are reviewed quarterly.

Firstmac also trains the employees at its Manila office. All staff in loan-processing support roles must first undergo in-house training. The human resources department keeps a record of staff who have completed the training program. Comprehensive procedural documents provide support for the processing tasks.

The centralized human resources function partners with each business line manager to deliver a variety of training programs to fulfil staff training needs and expectations. Formal, refresher, cross-skilling, and upskilling training can be facilitated via Firstmac's online management learning system. Firstmac uses Kaplan for some of its professional training. Internal training programs incorporate policies, procedures, products, systems, compliance, customer service, fraud detection, and other topics relevant to the processing and servicing of residential mortgage loans.

Policies and procedures

Firstmac maintains extensively documented and centrally managed policies and procedures, which are readily available to all staff to access via the company's Intranet site.

Considerable efforts have been directed to the formal review of key human resource policies, lending manual procedures, and key servicing policies. The management team will thoroughly assess any proposed changes to policies and procedures prior to their implementation.

Policy and procedure updates are outlined in electronic bulletins posted on the company's intranet site and communicated during department meetings. In our view, Firstmac has effective mechanisms for the communication and deployment of changes to policies and procedures.

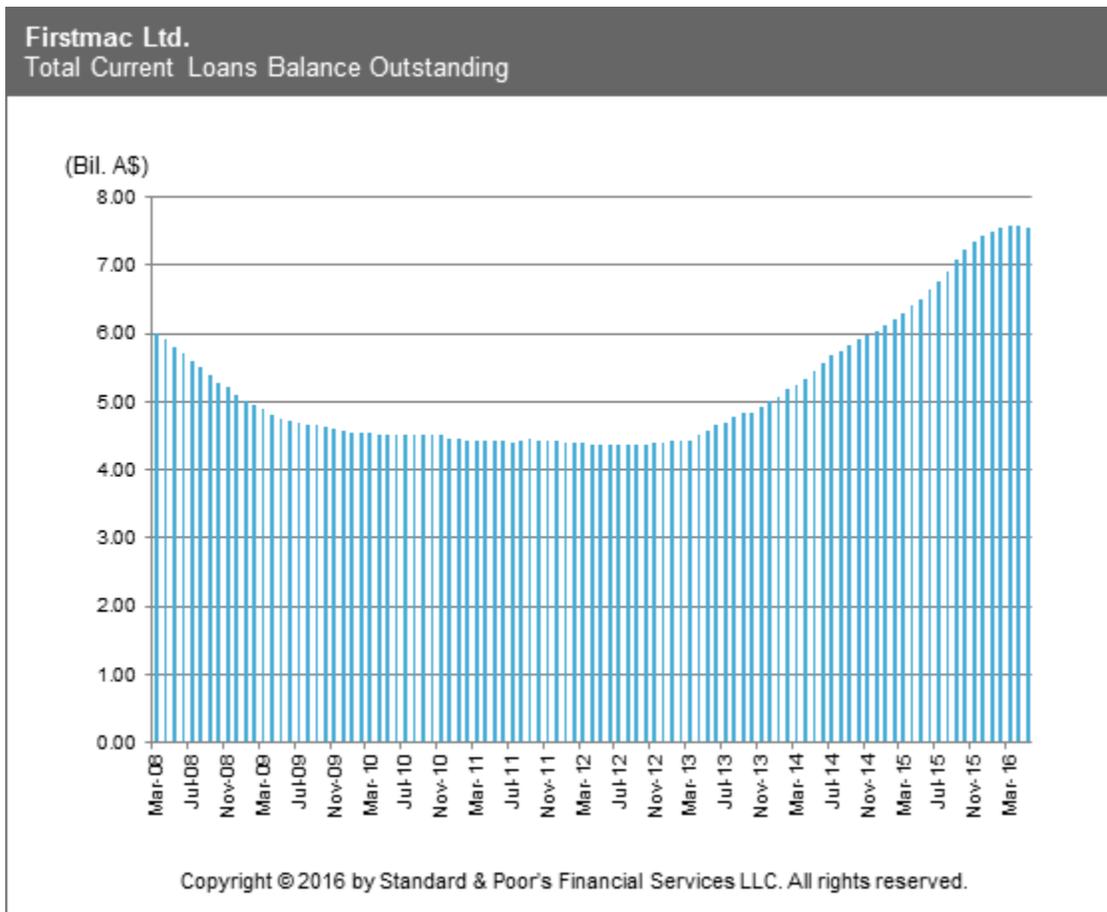
Loan Administration

The subranking for loan administration is STRONG

Firstmac serviced more than 27,000 residential mortgage loans totaling more than A\$7.5 billion, as of May 2016.

Firstmac has a "warm" standby servicing arrangement with Perpetual Ltd. Chart 3 depicts the loan portfolio balance serviced by Firstmac.

Chart 3



Loan-servicing philosophy

Firstmac's loan-servicing philosophy is based on providing "world class" customer service by understanding and anticipating customer needs through four key principles:

- Building automated end-to-end loan-servicing processes;
- Empowering customers through the innovative use of technology;
- Enabling staff to focus on servicing customers; and
- Continuously improving the quality of services delivered.

The loan-servicing platform, business plans, and performance measures are well defined and closely aligned with the company's loan-servicing philosophy. Particular emphasis is placed on meeting prescribed servicing standards for each phase of the origination, underwriting, and servicing processes while, at the same time, maintaining sound controls in data quality, integrity, and assurance.

Processing and servicing technology

Firstmac demonstrates a strong commitment to further automate its processing and servicing systems, and make its workflow tasking capabilities more efficient. Where identified tasks are yet to be automated, the focus has been on multiskilling to improve productivity and utilization of resources.

The loan application processing and workflow system offers online application functionality. It creates a workflow for each loan with tasking capabilities and queuing functionalities, automated assessment within set parameters, automated valuation ordering, and system-generated loan documentation production. It is supported by integrated service level agreements for various teams, and provides full reporting capabilities for brokers and allows staff to track the status of loans.

The proprietary settlement and servicing applications provide a cost-efficient servicing technology:

- The Firstmac Settlement Portal is used for processing all aspects of loan settlement.
- The Firstmac Lite system is the servicing engine that provides customer account details integrated with the collections' outbound call center technology.

The proprietary applications Firstmac Settlement Portal and Firstmac Lite interface with Ultracs, the largest third-party banking platform used in Australia.

Firstmac uses a loan-tracking system to automate and coordinate the loan application and approval process. The system allows loan applicants to track the progress of their loan application, upload documents, and communicate with and receive reminders from Firstmac via SMS and email. This reduces processing times and follow-up phone calls.

Firstmac has a well-resourced IT team, which comprises system developers, a technical helpdesk team, and a software engineering group. The team continues to provide the group with substantial in-house technology capabilities. Change management is conducted in one of two ways:

- Rapid application development, a quick and efficient process to meet business requested changes and requirements; or
- A modular approach, which manages change gradually. User feedback in each phase is incorporated into future phases.

Firstmac has a comprehensive business continuity and disaster recovery plans, which it tests regularly.

Data processing and integrity

Firstmac follows sound practices for data input and verification, and document production to ensure that required pre- and post-settlement requirements are addressed. Data verification occurs at various stages of the process. Data validation measures, which preclude applications from proceeding until all relevant data fields are populated, are embedded in the processing system.

A key strength of the servicing system is the ability to produce exceptions reporting on amendments or variations to the loan accounts. It also recognizes multiple submissions of the same application, data input errors, and a range of other irregularities.

Firstmac has used Valuation Exchange (ValEx) since January 2009 for valuation orders and management to increase verification and valuation integrity, comparing favorably with industry best practices. To further enhance data-processing efficiencies and integrity, Firstmac has rolled out "Online Application Wizard" to its broker and mortgage manager channels to manage loan data electronically.

Firstmac places considerable focus on and commitment toward its quality-assurance program, including hindsight reviews on all approved loan applications before settlement, review of employment verifications, and review of disbursement requests to ensure that they are in line with loan purposes.

Payments processing

Firstmac continues to maintain stringent controls on payments into and out of its bank accounts under its funding programs. All payments require prior approval from the security trustee, and are checked as part of the quality assurance process for settlements and transmitting funds. There is segregation of duties between user groups; one group inputs transaction details, which are checked and confirmed by another user group, and finally the finance area acts and approves on the settlement instructions. Reconciliations are performed daily.

Almost 99% of loan repayments are made by direct entry, and transactions are posted electronically to individual loan accounts in the loan-servicing system. This process mitigates the commingling risk associated with the collection of repayments on behalf of different funding programs and provides an efficient reconciliation process.

Accounting and investor reporting

Firstmac's treasury function maintains reporting responsibilities for investors. It uses Quantum, an interactive treasury software that has enhanced treasury reporting capabilities and efficiencies via:

- Full integration of treasury activities in one database;
- Ability to create real-time reports;
- Production of flexible, easy-to-use, and presentable reports;
- Automation and straight-through processing of reports; and
- Provision of a fully serviced, supported documented system.

Firstmac also provides detailed monthly cash-flow, collateral, and loss and claim data on its investor website.

Document custody

Firstmac has maintained sound document custody, retrieval, and tracking procedures. All physical documents are scanned, labeled, and filed electronically when received. Standard filing and labeling conventions are used for all documents. The electronic document storage and retrieval system is readily accessible by all servicing staff. System-generated documents are also retained in the electronic document storage and retrieval system.

When security documents are complete, they are delivered to a trustee company, which maintains custody of all security documents. Document integrity reviews are undertaken pre- and post-settlement, in line with industry standards.

Client relationship management

Firstmac has a proactive and dynamic client service model focused on achieving and maintaining high customer service standards for all new and existing customers in order to improve acquisition and retention.

In November 2010, Firstmac regained direct management of its customer service center, ending an outsourcing arrangement made in October 2008. Nine "customer care agents" work from the customer service center. The primary aim is to ensure delivery and ongoing management of a better customer experience, with service that is faster and more efficient, through various actions, including:

- Hiring experienced service experts with strong mortgage technical skills;
- Providing agents with in-depth training and ongoing coaching;
- Implementing key performance indicators for agents that drive a better customer experience and greater ownership;
- Improving scrutiny of agent effectiveness through performance; and
- Create a closer working relationship with internal credit and loans processing and administration teams.

Firstmac believes that customer service and proactive customer retention strategies are keys to a successful client service model. Therefore Firstmac has a strong focus on customer service, loyalty, and lifecycle enhancements to ensure maximum customer retention possible.

Arrears management

Firstmac's arrears management function is operated by a team of well-experienced collections staff. The strategic and operational focus of the collections function remains unchanged, with continuous focus on process improvement and streamlining of work tasks.

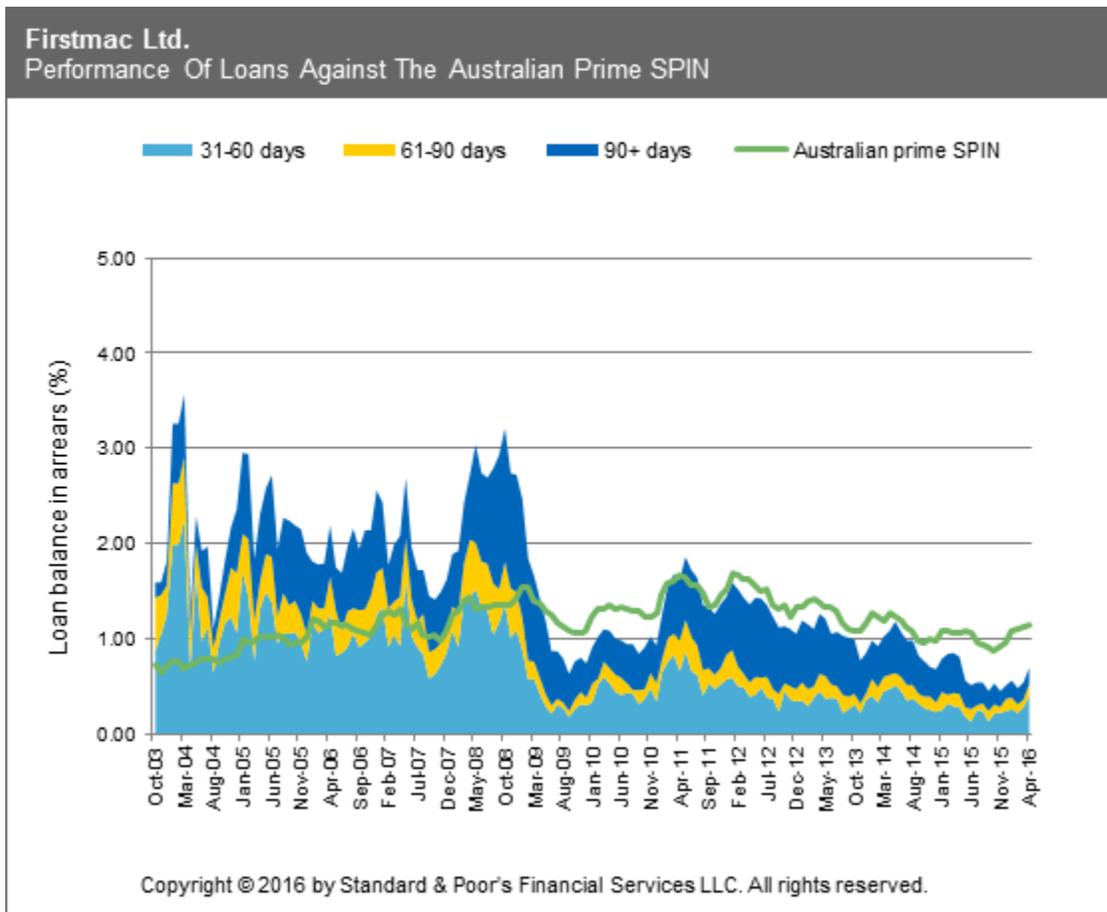
The collections strategy continues to be influenced by the analysis of borrower behavior trends. In addition, the roll and cure rates of loans in arrears are tracked weekly, which allows the performance of the collections teams to be monitored. The in-house collections management system functionality remains unchanged:

- The fully integrated web-based loan servicing platform links directly to the banking platform, allowing for real-time tracking of transactions;
- Annotations to customer accounts and correspondence are all stored electronically against each loan;
- Officers have a single page and user-friendly view of all pertinent collections information; for example, recent transactional history and associated accounts;
- The interlinking predictive dialer system reduces the time spent trying to contact customers and improves 'hit rates'; and
- Customized outbound campaigns (such as by loan balance or product) can be loaded from the servicing platform into the dialer.

Firstmac management has continued to focus on modifying key lending and servicing policies and procedures, as part of ongoing reviews of collections performance and capability.

Chart 4 compares the level of arrears on Firstmac's prime portfolio against Standard & Poor's Performance Index (SPIN), which measures the aggregate arrears on all prime RMBS transactions in Australia. Since 2009, the level of arrears of Firstmac's prime portfolio have been tracking below the SPIN, following a tightening of Firstmac's underwriting assessment and the introduction of a new online direct retail origination channel in 2011 that has accounted for most new originations to date.

Chart 4



Financial Position

The financial position is deemed sufficient.

S&P Global Ratings is of the opinion that Firstmac's financial position is sufficient to sustain its servicing operations for the next 12–18 months.

Related Criteria And Research

- Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List, April 16, 2009
- Servicer Evaluation Criteria: Australia and New Zealand, Aug. 7, 2008

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