STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

May 26, 2010

Presale:
NZF Mortgages 2010-1 Trust

Primary Credit Analyst:
Fiona Otway, Melbourne (61) 3-9631-2060; fiona_otway@standardandpoors.com

Table Of Contents

Presale:

NZF Mortgages 2010-1 Trust

Prime Residential Mortgage-Backed Securities

This presale report is based on information as of May 26, 2010. 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 May 26, 2010

Class	Preliminary rating*	Preliminary amount (mils. NZ$)	Minimum credit support before credit to mortgage insurance (%)	Minimum credit support after credit to mortgage insurance (%)	Credit support provided (%)
A1	AAA	87.8	12.2	3.1	12.2
A2	AAA	9.1	12.2	3.1	3.1
B	AA-	2.5	5.5	0.0	0.6
C	N.R.	0.6	0.0	0.0	0.0

*The rating of each class of securities is preliminary and subject to change at any time. N.R.—Not rated

Profile

Expected closing date: June 15, 2010

Final maturity date: June 2041

Structure type: Prime residential mortgage-backed pass-through securities.

Collateral: Fully amortizing New Zealand dollar loans to prime-quality borrowers, maturing no later than one year before the final maturity date, secured by first-registered mortgages over New Zealand residential properties.

Primary credit enhancement: Lenders' mortgage insurance covering 100% of the principal balance of all loans, plus accrued interest and reasonable costs of enforcement. All policies are endorsed with 12 months' timely payment cover. For the class A1 notes, the subordination of the class A2, class B, and class C notes. For the class A2 notes, the subordination of the class B and class C notes. For the class B notes, the subordination of the class C notes. Excess spread, if any, will be used to offset losses in priority to any distribution to the beneficiary.

Supporting ratings

Lenders' mortgage insurer: Genworth Financial Mortgage Insurance Pty Ltd. (AA-/Stable/—)

Fixed-floating swap provider: Westpac Banking Corp. (AA/Stable/A-1+)

Rationale

The preliminary ratings assigned to the prime floating-rate residential mortgage-backed securities (RMBS) to be issued by Public Trust as trustee for NZF Mortgages 2010-1 Trust take into account the following factors:

- The credit risk of the underlying collateral portfolio. The characteristics of the risk of the underlying collateral portfolio are explored in more detail under "Collateral";
- The liquidity reserve, which will be equal to 0.3% of notes issued. Liquidity can be drawn to cover interest payments on the notes and trust expenses along with any accrued interest adjustment;
- The interest-rate swap provided by Westpac Banking Corp. (AA/Stable/A-1+), to hedge the receipts from fixed-interest loans against the floating-rate obligations of the trust;
- The support provided by the lenders' mortgage insurance (LMI) polices. All loans are submitted to the insurer for separate underwriting. The LMI policies provide 100% cover on the outstanding loan amount, including accrued interest and reasonable costs of enforcement;
- All LMI policies are endorsed with timely payment cover (TPC) for 12 months, which insures the timely payment of the interest component of scheduled mortgage payments by a borrower, calculated at the time of the first missed instalment;
- Servicer risk is managed. An account established with Westpac Banking Corp. ensures collections are held separately from NZF Mortgages, who as servicer does not meet Standard & Poor's servicer risk criteria. Refer to Servicer Risk Assessment for more detail;
- Receipts of collections on the assets are distributed evenly throughout the month. Additionally, collections are transferred daily into the trust's collection account held in the name of the trustee;
- The weighted-average yield on the assets, which is sufficient to pay trust expenses and noteholder payments as and when they fall due;
- For the class A1 notes, the subordination of the class A2, class B, and class C notes equal to 12.2% of the initial invested amount of all notes issued;
- For the class A2 notes, the subordination of the class B and class C notes equal to 3.1% of the initial invested amount of all notes issued; and
- For the class B notes, the subordination of the class C notes equal to 0.6% of the initial invested amount of all notes issued.

Strengths And Weaknesses

Strengths

The preliminary ratings are based on the following strengths:

- For the class A1 notes, the 12.2% credit support provided by the subordinated class A2, class B, and class C notes exceeds the Standard & Poor's minimum credit support, after considering LMI provided at the 'AAA' level. In addition, the level is more than sufficient to maintain the ratings on the class A1 notes (assuming no deterioration in the underlying pool) should the rating on Genworth Financial Mortgage Insurance Pty Ltd. (Genworth) be lowered or removed;
- The transaction incorporates a sequential pay structure throughout the life of the transaction, with no ability to convert to pro-rata. This allows the subordination available to the 'AAA' rated notes to build over time, assuming no deterioration in the underlying pool;
- All LMI policies are endorsed with 12 months' TPC, which will insure the timely payment of the interest component of the scheduled mortgage payment of the borrower, which is calculated at the time of the first missed instalment;
- This is a closed pool, which means no additional loans will be assigned to the trust after the closing date.

Therefore any change in the characteristics or make-up of the portfolio should occur only through natural attrition.

Weaknesses

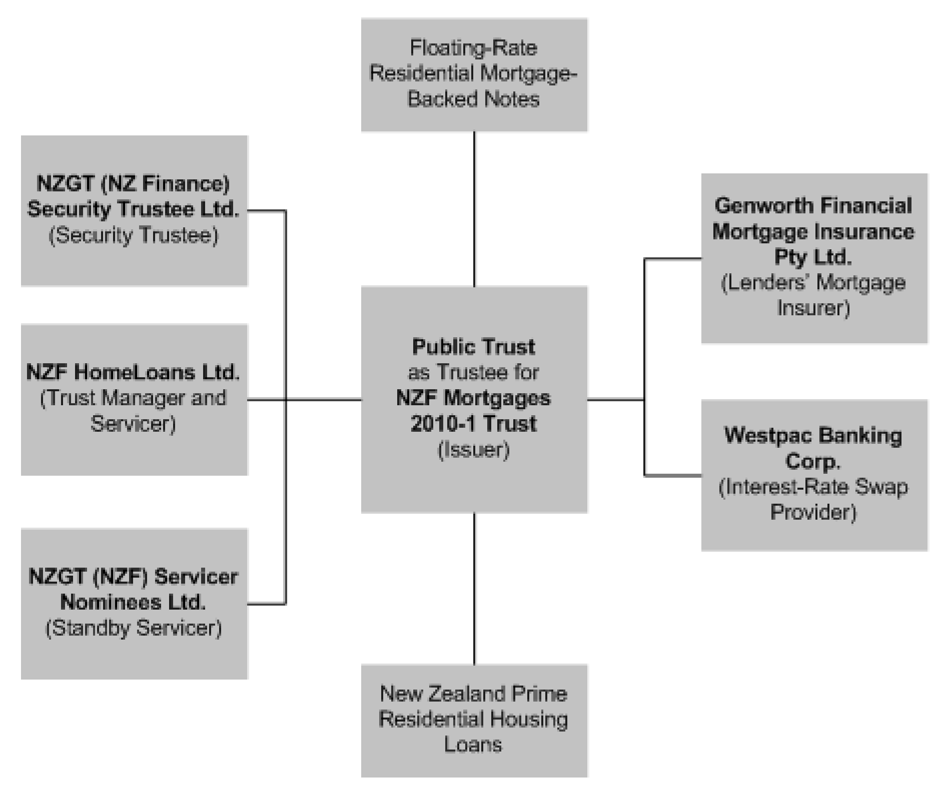
The preliminary ratings also reflect the following weaknesses:

- Just over 30% of the loans, by current balance, have interest-only periods of up to 5 years. A higher probability of default is assumed for loans in this category to reflect the reduced likelihood of a build-up of equity over time, and the possibility of borrower payment shock at the end of the interest-only period. This is partially mitigated by the fact that about 92% of the interest-only loans have interest-only periods of less than five years. Nevertheless, loans with interest-only periods of five years or less still allow 25 years for amortization, and therefore have less risk for payment shock;
- The pool has a 40% exposure to security properties located in nonmetropolitan areas. Standard & Poor's has increased the default frequency of all loans in the pool to reflect these concentrations, and assumed a longer realization period for loans secured by nonmetropolitan properties, to reflect the weaker employment trends and a longer selling period that tend to occur in nonmetropolitan areas; and
- The presence of some individual-borrower concentration exposure within the portfolio. Standard & Poor's has addressed this concentration through a specific credit-support requirement outlined in the "Credit Evaluation" section;
- The underlying collateral pool includes 43.3% (by current balance) of loans in which the income of the borrower was not fully verified. In analyzing these loans, adjustments were made to the default frequency to reflect the additional risk associated with the partial verification of borrower income and the self-employed target market for these products; and
- The valuation policy adopted by NZF allows the borrower to arrange the valuation of the security property. In our opinion, borrower control over valuations may have an impact on the estimated losses on the security properties, and therefore, on a loan portfolio through a potential selection bias of the valuer. Standard & Poor's accounts for this risk by increasing the market-value decline to reflect its assessment of the valuation policy of the lender.

Transaction Structure

The structure of the transaction is shown in the chart below.

NZF Mortgages 2010-1 Trust Transaction Structure



Note terms And Conditions

The class A1, class A2, class B, and class C notes have a legal final maturity of the payment date occurring in June 2041. They are all floating-rate, pass-through notes. Principal paydown to the class A1 and class A2 notes occurs on a serial pay structure, while that on the class B and class C notes occurs sequentially. There are no mechanisms in this structure to allow for interest or principal to be paid to the class B or class C notes until full repayment of the class A1 and class A2 notes. All classes of notes are rated on a "timely interest, ultimate principal" basis, with interest on all classes paid on the invested amount of the notes.

The class A1 and class A2 notes rank pari passu for the payment of interest and principal, and senior to the class B and class C notes for the payment of interest and principal. The class B notes rank senior for the payment of interest and principal to the class C notes. Charge-offs will first be allocated to the class C notes until their outstanding balance is reduced to zero, then the class B notes, followed by the class A2 notes, and finally the class A1 notes.

The trustee may elect to call the notes in full, at the earliest, on the first payment date falling five years after close or, anytime on or after the date on which the outstanding loan balance of all loans falls below 10% of the aggregate initial loan balance. If the notes are not called on the call date, the margin on the class A1 and class A2 notes will increase. The margin on the class B and class C notes will remain unchanged.

Interest Rate Risk

Interest rate risk between any fixed-rate mortgage loan and the floating-rate obligations on the notes is hedged via interest rate swaps that will be provided by Westpac Banking Corp. To ensure a sufficient margin applies to all fixed-rate loans over the life of the transaction, any variable rate loan that converts to fixed-rate or, any existing fixed rate loan that re-fixes past its original fixed rate maturity date, is subject to a swap that delivers a pre-determined margin. This will ensure sufficient income to meet all trust expenses.

Liquidity Assessment

A liquidity reserve equal to 0.3% of the initial aggregate balance of the notes will be established on the closing date. Standard & Poor's has taken into consideration the presence of TPC in assessing the liquidity. In addition, principal collections may be applied to cover any timing mismatches between collections and interest owing on the notes.

Credit Evaluation

Standard & Poor's gives consideration to specific concentrations that a portfolio may contain. The credit support associated with these concentration exposures contributes to the minimum credit-support outcome. The credit support associated with specific concentration exposures is calculated by assuming that a certain number of borrowers with larger exposures will default. The calculation also factors in the recovery value associated with the loans' real property security. The number of borrowers assumed to default is dependant on the rating level sought on the securities. For the trust, the number of borrowers assumed to default at the 'AAA' rating level was five. Given the portfolio is fully mortgage insured, Standard & Poor's has given 75% credit at the 'AAA' rating level to the dollar value of the unexpected loss amount calculated on the top-five largest exposures.

In addition, given the significant exposures to particular borrowers in the portfolio, Standard & Poor's has calculated the top-three expected losses to cover the potential for LMI claim denials or reductions, to size credit support below the 'AA-' rated note. This has been provided as hard credit support in the form of an unrated class C note.

Servicer Risk Assessment

Standard & Poor's recognizes the risk associated with collections being held with a seller or servicer that does not meet Standard & Poor's Servicer Risk Assessment criteria. To mitigate this risk, NZF Mortgage Ltd. has established a separate account with Westpac Banking Corp., known as the Trust Account. Collections received by the borrower are automatically diverted to the Trust Account when taken from the borrowers by direct debit. Each borrower is required to have a direct debt instruction on the account, which allows the direct debt to be diverted to the Trust Account. The Trust Account is controlled solely by the trustee. The mechanisms put in place to ensure collections are swept into the Trust Account cannot be altered or cease without the prior consent of the trustee.

Rating Transition Analysis

Standard & Poor's considers the most significant rating transition risk to be a lowering of the ratings on the lenders' mortgage insurer. The rating transition risk for the 'AAA' rating on the class A1 notes is considered low, as the credit support from the subordination of the class A2, class B, and class C notes is equal to the minimum level for the class A1 notes should no LMI be provided.

The rating transition risk for the 'AAA' rating on the class A2 notes at close is considered moderate, as the credit support from the subordination of the class B and class C notes is equal to the minimum 'AAA' level of credit support after considering LMI. Therefore, the rating on the class A2 notes may be affected if the LMI rating is lowered.

Since principal repayments are made on a sequential basis with no mechanism to convert to pro-rata, as the collateral portfolio amortizes, the proportion of subordination relative to the senior notes increases and the class A2 notes' reliance on the lenders' mortgage insurer will reduce.

Assuming that there is no deterioration in the portfolio credit quality and performance, table 1 details the level of subordination that would support a 'AAA' rating on the senior notes if the rating on Genworth were lowered. It also details the hypothetical rating on the senior notes if the rating on Genworth were lowered today.

In our opinion, other major factors that would drive negative rating changes in this transaction are significant deterioration in asset portfolio performance and a lowering of the rating of the interest-rate swap provider within the transaction. The swap agreement contains downgrade language and the requirement to post collateral should the swap provider's rating be lowered to below 'A1'.

Table 1

Senior Note Rating Sensitivity To Lowering Of Rating On Lenders' Mortgage Insurer

Lenders' mortgage insurers (and ratings) subject to hypothetical joint downgrades	Subordination required to support 'AAA' rating on class A1 notes (%)	Rating transition of class A1 notes if no additional support were provided
Genworth Financial Mortgage Insurance Ltd.		
'A' category	7.90%	AAA
'BBB' category or below	12.20%	AAA
Lenders' mortgage insurers (and ratings) subject to hypothetical joint downgrades	**Subordination required to support 'AAA' rating on class A2 notes (%)**	**Rating transition of class A2 notes if no additional support were provided**
Genworth Financial Mortgage Insurance Ltd.		
'A' category	7.90%	AA+
'BBB' category or below	12.20%	A+

Reliance on lender's mortgage insurance

All mortgage loans will be insured by a primary LMI policy provided by Genworth. The LMI policies cover the outstanding mortgage loan principal, accrued interest, and any reasonable enforcement expenses on the defaulted mortgage loans.

The policies contain terms and conditions that allow the insurer to reduce or deny a claim in certain circumstances.

If a claim is reduced and results in a loss to the trust, the issuer may be able to offset that loss by applying excess spread, if any, to cover those losses before making any distribution to beneficiaries.

Standard & Poor's has given full credit to the LMI policies, based on the sound claims history and operations of the servicer. When sizing the credit support for the 'AAA' rated notes, Standard & Poor's assumes that 25% of claims to 'AA' and 'AA-' rated LMI providers will be denied in full. All LMI policies are endorsed with TPC providing cash flow cover protection for scheduled payments not made by borrowers under the mortgage loans. The loans are covered for 12 months of missed payments after the initial default.

Scenario analysis: Property market value decline

A scenario analysis was also undertaken to determine the impact on the ratings, assuming credit to LMI, should property values shift down by 10% over a short period of time. After adjusting property values down by 10% and increasing LTVs for this impact, Standard & Poor's then applied its standard default frequency and loss severity assumptions (45% market value decline at the 'AAA' level) to arrive at the implied credit assessment in table 2. Table 2 shows the credit support and the implied credit assessment (credit only) should this scenario occur, and all else remained constant. The implied ratings are taking credit into consideration only, and do not consider any yield or liquidity issues that may be relevant at the time.

Table 2

Credit Support And Implied Credit Assessments Under The Scenario

Class	Credit support	Implied credit assessment post LMI
A1	5.00%	aaa
A2	5.00%	bb

LMI—Lenders' mortgage insurance

Origination And Servicing

NZF HomeLoans Ltd. (NZF), which acts as servicer of the loans, was formed in 2005 and is 100% owned by NZF Group Limited (NZFG), which was formed in 2004 and is publicly listed on the New Zealand Stock Exchange.

Housing loans are sourced through external third-party originators and approved mortgage brokers, and NZF's internal third-party originators. The approved mortgage brokers are ultimately 100% owned by NZFG, however, each brand remains separate to ensure that they continue to identify with, and focus on, their respective parts of the mortgage market.

All approvals are centralized within NZF; internal and external brokers have no involvement in the approval process. NZF systems are robust and incorporate authority levels to ensure complete separation between origination and underwriting.

NZF measures and manages arrears on a missed payments basis rather than the scheduled balance method. Under the scheduled balance, a mortgage loan is only deemed delinquent when the actual loan balance exceeds the scheduled balance. NZF initiates arrears procedures when a scheduled payment is not made, even if the borrower is in advance of the scheduled balance of the mortgage loans. Standard & Poor's recognizes this approach when sizing the liquidity required for the transaction. All loans in arrears for more than 30 days are reported in detail to the LMI provider.

The delinquency rates on loans originated and serviced by NZF compare favorably against those of the missed payments and non-bank originator SPIN, which is the weighted average performance index capturing all arrears of more than 30 days of Australian RMBS transactions rated by Standard & Poor's. The comparison has been made between Standard & Poor's non bank originator SPIN and the missed payments SPIN, where originators measure and manage their arrears on a missed payments basis.

This is the first term securitization of New Zealand loans by NZF.

Collateral

The credit assessment of the loan portfolio is based on an analysis of the characteristics of each loan in the pool. The analysis is based on the current balance of each loan. Borrowers have the capacity to redraw prepaid principal under mortgage loans and further advances are not permitted. Consequently, Standard & Poor's has increased the minimum credit support to support a 'AAA' rating for this transaction, to reflect borrowers' ability to access redraws on their loan facilities.

The pool contains approximately 30.2%, by current balance, of interest-only loans. Standard & Poor's applies a higher default frequency to loans with interest-only terms to reflect the risk of payment shock at the point of conversion to principal and interest, and the prospect that the borrowers' equity in the security property may build at a slower rate than fully amortizing loans.

The pool contains a mix of variable- and fixed-rate mortgages, where the fixed interest rate may be fixed for a period of up to five years. Fixed-rate loans comprise approximately 69% of the pool.

The weighted-average LTV for the pool is 73.5%. Standard & Poor's increases the default frequency for loans that have an LTV of greater than 80%. The pool is made up of 39.3% of loans, by current balance, that have an LTV of greater than 80% and less than 95%.

The portfolio includes 43%, by current balance, of loans in which the income of the borrower was not fully verified. In analyzing these loans, adjustments were made to the default frequency to reflect the additional risk associated with the partial verification of borrower income and the self-employed target market for these products.

Standard & Poor's benchmark portfolio allows for a 50% exposure to New Zealand, with concentrations above this exposure attracting an increase in default frequency. The increase in default frequency is not assigned to the particular loans, given that the entire portfolio is originated in New Zealand. Standard & Poor's has calculated the weighted-average increase in the base default frequency for the portfolio and applied this increase across the entire portfolio of loans. This is the standard approach that Standard & Poor's applies for New Zealand portfolios.

About 40%, by current balance, of the loans are concentrated in nonmetropolitan areas. Standard & Poor's adjusts the frequency on loans in nonmetropolitan areas, as historically, loans in these areas have demonstrated a higher probability of default. The recovery period for loans in these areas is also increased to reflect the lower demand for property in regional areas.

Some of the borrowers in the portfolio are likely to be first homebuyers. Standard & Poor's has applied an assumption that 10% of loans are to first homebuyers, and increased the default frequency of borrowers on this portion of the portfolio. There is evidence that first homebuyers are more likely to default on their mortgages in the event of financial distress given their lack of experience in managing large debt obligations.

These factors have been taken into account in Standard & Poor's credit analysis of the portfolio. A summary of the default frequency and loss severity of the total portfolio of loans is shown in table 3.

Table 3

Summary Credit Assessment – Total Pool		
	AAA	**AA-**
(a) Default frequency (%)	18.1	14.7
(b) Loss severity (%)	46.7	37.1
(c) Credit support required before credit to lenders' mortgage insurance (LMI) (a) x (b) (%)	12.2	5.5
(d) Credit to LMI (%)	9.1	5.5
(e) Credit support required after credit to LMI (c) – (d) (%)	3.1	0.0
Assumptions		
Market value decline (%)	45.0	38.7
Weighted-avg. recovery period (mos.)	14.4	14.4
Interest rate through recovery period (%)	9.25	8.75
Credit to 'AAA' rated lenders' mortgage insurers (%)	100.0	100.0
Credit to 'AA' rated lenders' mortgage insurers (%)	75.0	100.0

Rating Multiples

Standard & Poor's compares the characteristics of each loan with its benchmark pool and applies rating multiples to the benchmark default frequency, where required, to determine the default frequency of a loan. This, together with the loss severity, determines the amount of credit support for the ratings on the notes. Table 4 lists the main characteristics that deviated from the benchmark. These factors are the main drivers in determining the minimum credit support for a 'AAA' rating in this transaction.

Table 4

Rating Multiples	
Criteria	**Default frequency multiple (x)**
Loan-to-value ratio	1.288
Borrower employment – self-employed borrowers	1.287
Documentation – income verification	1.152
Concentration to New Zealand	1.100
Repayment method	1.030

Loan Pool Profile

The pool as of Feb. 28, 2010, is summarized in tables 5 and 6. The details of the pool contained in the tables were calculated after consolidating split loans.

Table 5

Loan Pool Profile	
Total no. of loans	486

Table 5

Loan Pool Profile (cont.)	
Total no. of loans (consolidated)	342
Total value of loans (NZ$)	99,671,166
Current max. loan size (NZ$)	1,050,000
Avg. loan size (NZ$)	291,436
Max. current loan-to-value (LTV) (%)	94.2
Weighted-avg. current LTV (%)	73.5
Weighted-avg. loan seasoning (mos.)	25.8

Table 6

Loan Pool Characteristics

Current loan size distribution (A$)	Value of loans (%)
Less than or equal to 100,000	1.9
Greater than 100,000 and less than or equal to 200,000	12.5
Greater than 200,000 and less than or equal to 300,000	24.6
Greater than 300,000 and less than or equal to 400,000	26.3
Greater than 400,000 and less than or equal to 600,000	22.6
Greater than 600,000 and less than or equal to 800,000	5.7
Greater than 800,000 and less than or equal to 1,000,000	5.4
Greater than 1,000,000 and less than or equal to 1.500,000	1.1
Current loan-to-value ratio distribution (%)	
Less than or equal to 50	7.6
Greater than 50 and less than or equal to 60	7.5
Greater than 60 and less than or equal to 70	18.5
Greater than 70 and less than or equal to 80	27.1
Greater than 80 and less than or equal to 90	36.2
Greater than 90 and less than or equal to 95	3.1
Geographic distribution	
New Zealand	100.0
Geographic distribution (metro/nonmetro)	
Inner city	0.0
Metropolitan	60.0
Nonmetropolitan	40.0
Seasoning	
Less than or equal to 6 months	8.1
6 months – 1 year	15.8
1-2 yrs	21.2
2-3 yrs	29.7
3-4 yrs	20.1
4-5 yrs	5.2
Principal amortization	
Fully amortizing	69.8
Interest-only for up to 5 yrs., reverting to fully amortizing	30.2

Table 6

Loan Pool Characteristics (cont.)	
Loan documentation	
Income, savings fully verified	56.7
Partial verification of income savings or affordability	43.3
Mortgage insurer	
Genworth Financial Mortgage Insurance Pty Ltd.	100.0

Analytical Contacts

Primary analyst: Fiona Otway, associate, Melbourne, (61) 3 9631-2060

RMBS analytical manager: Kate Thomson, director, Melbourne (61) 3 9631-2104

Surveillance manager: Erin Kitson, associate director, Melbourne (61) 3 9631-2166

Related Criteria And Research

- An Overview Of Australia's Housing Market And Residential Mortgage-Backed Securities, published Oct. 28, 2009
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, published May 28, 2009
- Principles-Based Rating Methodology For Global Structured Finance Securities, published in May 29, 2007
- Criteria: Australia and New Zealand RMBS: Analyzing Credit Quality, published Feb. 21, 2007
- Lenders Mortgage Insurance: A Form of Credit Enhancement to Australian RMBS, published Jan. 26, 2005
- Australian RMBS Quarterly Performance Watch, published quarterly
- Australian RMBS Arrears Statistics, published monthly
- Australian Securitization News, published weekly

These articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.globalcreditportal.com. They can also be found on Standard & Poor's Web site at www.standardandpoors.com.