RMBS/Australia
New Issue

Nautilus Trust No. 1 Series 2007-1

Ratings

Class	Amount (AUDm)	Final Maturity	Rating	CE (%)
A	204.00	Nov 2038	AAA	20.0
AB	39.00	Nov 2038	AAA	4.7
B	10.85	Nov 2038	AA	0.4
C	1.15	Nov 2038	Not Rated	0.0
Total	255.00			

Credit Enhancement ("CE")

'AAA'	(%)
Actual subordination	4.7
Fitch-sought subordination	3.3
Fitch-sought subordination without mortgage insurance	12.9
Fitch portfolio weighted-average loan foreclosure frequency	19.7
Fitch portfolio weighted-average loan loss severity given default	62.2

Source: Transaction documents/Fitch model output

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Closing Update

The transaction closed on 8 November 2007.

Since the issue of the presale report, the mortgage pool statistics on pages 1 and 13 have been updated.

Amendment

This report, originally published on 8 November 2007, is being republished to correctly reflect the size of the issued class A and AB notes: the class A notes were reduced to AUD204.0m from AUD215.0m while the class AB notes were increased to AUD39.0m from AUD28.0m.

14 November 2007

■ Summary

Fitch Ratings has assigned final ratings to Nautilus Trust No. 1 Series 2007-1 mortgage-backed, pass-through floating-rate notes and subordinated floating-rate notes as indicated at left. This is the inaugural residential mortgage backed security transaction managed by Columbus Capital Pty Limited. The loans backing the notes were originated by both Bluestone Mortgages Pty Limited and Columbus Capital Pty Limited (the originators) and sold to the trust by Permanent Custodians Limited in respect of Columbus Capital Bare Trust and certain Bluestone Trusts (the seller). The notes were issued by Permanent Custodians (the trustee and the issuer) in its capacity as trustee of Nautilus Trust No. 1 Series 2007-1. The trust is a legal trust established pursuant to a master trust deed between the issuer, security trustee, standby trustee and custodian.

Strengths

- All loans are covered by lenders mortgage insurance including timely payment cover of 24 months provided by Mortgage Guaranty Insurance Corporation Australia Pty Limited (MGICA, IFS rating 'AA'), Genworth Financial Mortgage Insurance Pty Limited (Genworth, IFS rating 'AA' and PMI Mortgage Insurance Ltd (PMI, IFS rating 'AA').
- Structural subordination provided for in the transaction has been sized such that the ratings on the class A notes are independent from the rating of the LMI. The transaction offers class A noteholders 20.0% structural subordination.
- Credit enhancement to the class AB notes is sufficient to withstand a one notch downgrade of the LMI provider's ratings.
- Strong backup servicer arrangements.

Risks

- Columbus Capital Pty Limited was established in October 2006 and has not operated through a complete business cycle.
- MGICA's policy covering the Bluestone originated loans includes a deductible for low documentation loans above 85% LVR.

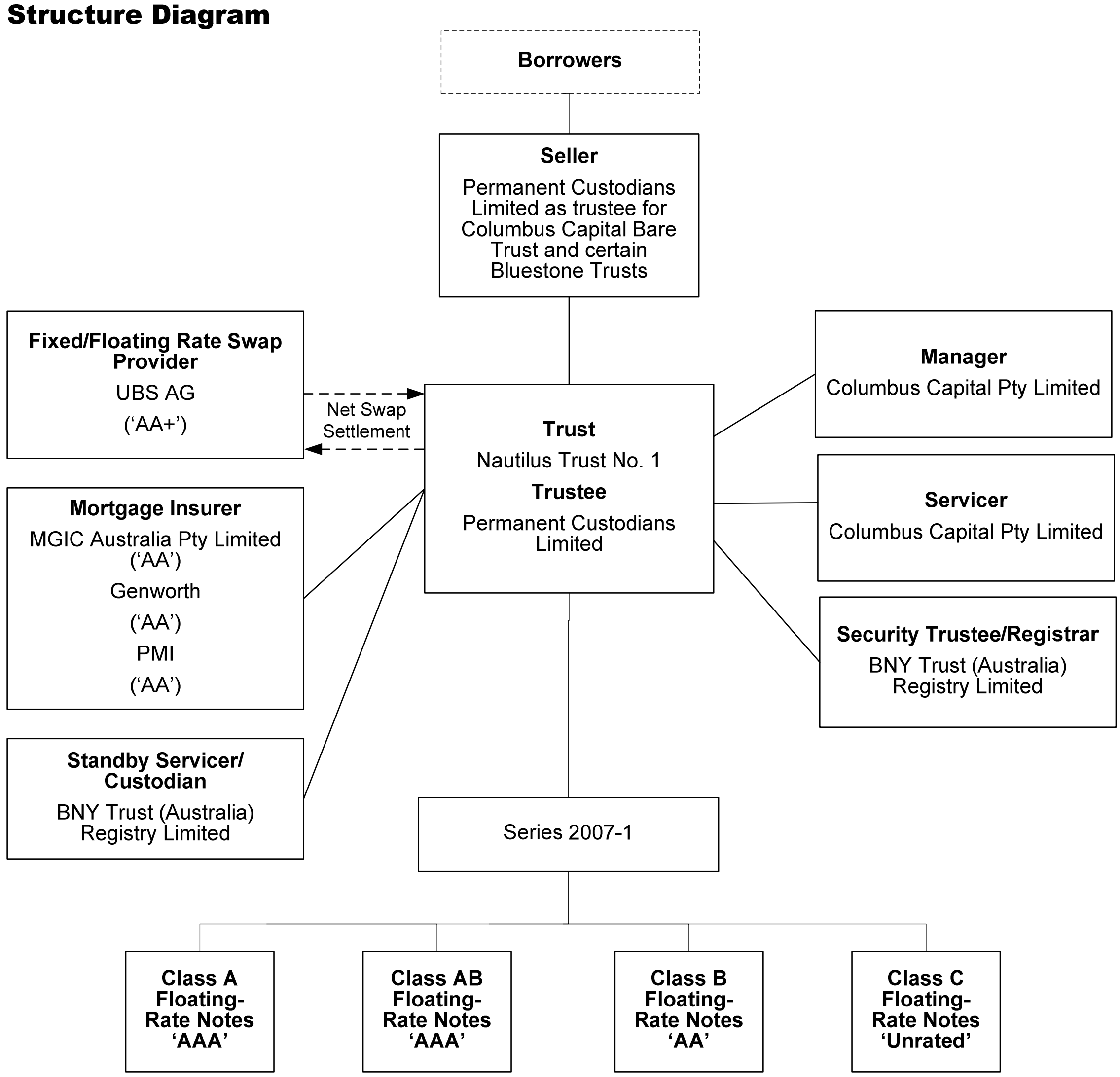
Mortgage Pool

(As at 31 October 2007)

Number of loans	830
Total mortgage pool balance (AUD)	253,014,278
Average loan size (AUD)	304,837
Maximum current LVR (%)	99.6
Maximum current balance (AUD)	1,336,753
Weighted-average scheduled LVR (%)	78.1
Weighted-average current LVR (%)	77.1
% Loans with LVR > 80%	46.6
Weighted average seasoning (years)	0.7
% Investment loans	33.2
% Term below 25 years	0.7
% Interest-only terms	63.6
% Located in state capitals	73.2
% Fitch-designated high-risk postcodes	14.1

Source: Columbus (raw data)/Fitch (model output)

Structure Diagram



Note: This diagram represents Fitch's interpretation of the transaction structure as represented in the transaction documents
Source: Transaction Documents

- Low documentation loans comprise 87.4% of the pool and generally perform worse than full doc loans as evidenced by the Fitch Dinkum index. The Fitch Dinkum Index is published quarterly and is available on Fitch's website at www.fitchratings.com.
- Investment loans comprise 33.2% of the pool (by current loan balance). Interest-only loans comprise 63.6% of the pool.
- Fixed rate loans comprise 41.0% of the pool which is significantly above comparable Australian RMBS pools.

Mitigants

- Columbus Capital Pty Limited is backed by an experienced management team with conservative underwriting policies.
- The deductible in MGICA's policy has been modelled into the credit support levels required by Fitch, including the addition of an unrated subordinated tranche.
- Low documentation mortgages are modelled by Fitch using Fitch's low doc criteria (see report *'Australian RMBS "Low Doc" Rating Criteria'* dated 14 March 2005) which takes into account the historical performance of low doc loans.
- The higher levels of fixed rate loans in the pool are mitigated through the inclusion of an additional spread reserve within the structure.
- Fitch's credit enhancement calculations reflect the risks posed by the investment and interest-only loans.

Key Information

Transaction Parties

Issuer: Permanent Custodians Limited as trustee of Nautilus Trust No. 1 Series 2007-1.

Mortgage Insurance Providers: MGIC Australia Pty Limited (‘AA’), Genworth Financial Mortgage Insurance Pty Limited (‘AA’), PMI Mortgage Insurance Ltd (‘AA’)

Manager: Columbus Capital Pty Limited

Originator: Bluestone Mortgages Pty Limited, Columbus Capital Pty Limited

Servicer: Columbus Capital Pty Limited

Fixed-Floating Swap Provider: UBS AG, (AA+)

Custodian: Permanent Custodians Limited

Security Trustee: BNY Trust (Australia) Registry Limited

Standby Servicer: BNY Trust (Australia) Registry

Note Details

Interest Payments: monthly in arrears on the 10th of each calendar month, with the first payment date on 10 December 2007

Interest Rate: one-month BBSW + relevant note margin

Cut-Off Date: 31 October 2007

Closing Date: 8 November 2007

Legal Maturity: November 2038

Clean-Up Call: on any payment date where the outstanding principal on the housing loans is less than 10% of the original pool size

The final ‘AAA’ rating assigned to the class A notes was based on:

- the quality of the collateral;
- the 20.0% credit enhancement provided by the subordination of the class AB, class B and C notes;
- mortgage insurance, with policies provided by Mortgage Guaranty Insurance Corporation Australia Pty Limited (MGICA, Insurer Financial Strength (IFS) rating ‘AA’), Genworth Financial Mortgage Insurance Pty Limited (Genworth, IFS rating ‘AA’ and PMI Mortgage Insurance Ltd (PMI, IFS rating ‘AA’);
- timely payment cover of up to 24 months for the total pool;
- the spread reserve;
- the liquidity provision equivalent to 0.25% of the total principal balance;
- the interest rate arrangements the trustee has entered into;
- the availability of a standby servicer;
- a sound legal structure.

The final ‘AAA’ rating assigned to the class AB subordinated notes was based on all the factors supporting the class A notes, except the credit enhancement provided by the subordinated class AB notes.

The final ‘AA’ rating assigned to the class B subordinated notes was based on all the factors supporting the AB notes, except the credit enhancement provided by the subordinated class B notes.

■ Legal Structure

Nautilus Trust No.1 is a bankruptcy-remote trust created pursuant to a master trust deed and a supplementary terms notice. The master trust deed provides for the creation of an unlimited number of series. Each is separate and distinct from any other series established under the master trust deed, and its assets are available only to meet related liabilities. The notes and transaction documents are governed by the laws of New South Wales.

The issuer, a special-purpose, bankruptcy-remote trust, has issued notes to fund the purchase or re-designation of eligible receivables from the sellers. Columbus holds the legal title on the relevant housing loans, as well as the beneficial or equitable interest in those loans transferred from the seller to the trustee.

Under the security trust deed, the trustee has granted a first-ranking, floating-rate charge over all the assets of the trust in favour of the security trustee to secure the trustee’s obligations to creditors of the trust, including noteholders and swap providers. In the event of crystallisation, the floating-rate charge will immediately become a fixed-rate charge over the assets in the trust.

■ Collateral

As at the cut-off date, the pool serving as collateral for the notes consisted of 830 mortgage loans with a total outstanding balance of approximately AUD253m. All the mortgages are first-ranking securities originated in the name of either Bluestone Mortgages Pty Limited or Columbus Capital Pty Limited in the normal course of the originator’s business. The loans acquired from the seller are held by the seller as bare trustee. The seller assigns those interests in the mortgages in equity to the trustee.

The Bluestone loan portfolio was sold to Columbus in June 2007. The transfer of the loans from Bluestone to Columbus has been completed. Perfection of title of these loans to Columbus has commenced with the relevant titles office in each state and territory and should be completed in the coming months.

All the mortgages in the pool benefit from individual primary mortgage insurance provided by MGICA, Genworth and PMI which covers all principal and/or interest losses on enforcement, subject to a deductible on some MGICA policies. All loans are entitled to 24 months' timely cash flow cover. Liquidity risk is also covered through a liquidity reserve and other structural enhancements. Please see the *Insurance* section for a background on MGICA's operations.

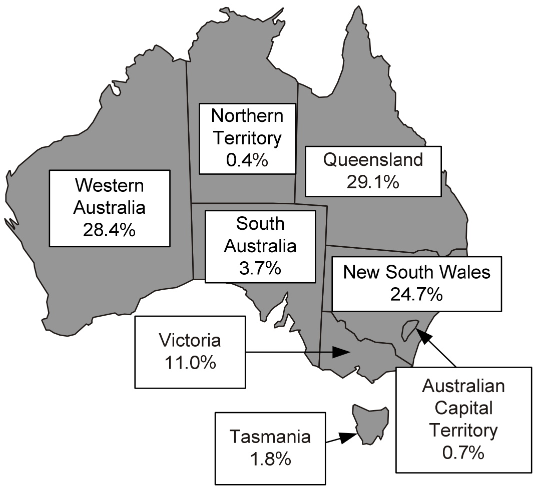
Mortgage Insurance Provision

Insurance provider	Rating	% of pool
Genworth Financial Mortgage Insurance Pty Limited	AA[a]	3.8
PMI Mortgage Insurance Ltd	AA[a]	1.1
MGIC Australia Pty Limited (MGICA)	AA[a]	95.1

[a] Current Fitch IFS Rating
Source: Fitch, Columbus

The pool of eligible mortgage loans consists of amortising principal and interest loans with a maximum term of 30 years at the cut-off date. The average principal loan balance was AUD304,837 with a weighted average current loan-to-value ratio (LVR) of 77.1%. Approximately 66.8% of the properties were owner occupied. Fixed rate loans account for 41.0% of the pool.

Geographic Concentration
(As at Cut-Off Date)



Source: Columbus

The pool is geographically diversified across Australia. As of the cut-off date, the geographical concentrations within the pool by value were as follows: Queensland – 29.1%; Western Australia – 28.4%; New South Wales – 24.7%; and Victoria – 11.0%.

Home Loan Features

Loan Type

The different home loan types supporting Nautilus Trust No. 1 Series 2007-1 are characterised by the features detailed below, among others:

- **Standard Variable Rate (SVR):** mortgage loans with variable rates set at the discretion of Columbus.
- **Line-of-Credit Loans:** line-of-credit product where the loan is interest-only for 5 years. However at the discretion of Columbus, these loans can be called for repayment or have the facility limit reduced at any time prior to the maturity date of the loan.
- **Fixed Rate Loans:** fixed rate product available to borrowers for a period of one to five years and then amortising thereafter.
- **Interest-Only:** interest-only for up to three years and amortising thereafter.

Transaction Collateral Requirements

- All mortgages must have mortgage insurance coverage for 100% of the outstanding loan balance plus interest and costs (subject to any deductibles) and have 24 months timely payment cover.
- All mortgages must be secured by a first-ranking mortgage.
- The stated term to maturity at the cut-off date must not exceed 30 years.
- Construction loans cannot be included in the pool.
- No housing loan more than 60 days in arrears at the cut-off date can be included.

Redraws

Borrowers in the pool benefit from a redraw facility that permits them to redraw amounts repaid in excess of their scheduled balance. Redraws are at the discretion of Columbus and will be funded initially from principal collections; if these are insufficient, Liquidity notes can be issued.

Further Advances

Further advances can be provided to borrowers, increasing the balance of their housing loan to exceed the scheduled balance. The trustee can use principal collections or issue Liquidity notes to fund further advances under the following conditions:

- the total amount of further advances cannot exceed 10% of the aggregate initial invested amount of the class A notes; and

No further advances will be allowed if any charge-offs remain unreimbursed.

Credit Analysis

The agency's methodology for analysing credit enhancement for RMBS transactions is set out in its criteria report "*Australian RMBS Default Model – 2004*", dated 12 March 2004, and "*Australian RMBS – "Low-Doc" Rating Criteria"*, dated 11 March 2005, both of which are available at www.fitchratings.com.

To establish the level of credit enhancement appropriate for an RMBS rating, Fitch calculates expected losses on the underlying portfolio under each rating scenario, analysing each individual loan in the portfolio. For each rating scenario, this comprises an assessment of foreclosure frequency and loss severity for each loan.

Expected loss level = loan balance *x* foreclosure frequency *x* loss severity.

The credit enhancement sought for the portfolio is the sum of the expected loss level for each loan as a percentage of the total current outstanding balance under the portfolio.

Foreclosure Frequency

Foreclosure frequency is the probability of default. The key determinants of default are a borrower's financial strength, i.e. their ability to repay their loan, their equity within their property, indicated by the LVR of the loan, and the loan's characteristics, such as interest-only terms.

Low Doc Default Probability Matrix

LVR (%)	'AAA' probability (%)
≤ 50	2.0
>50 – 60	3.2
>60 – 70	5.8
>70 – 75	8.1
>75 – 80	11.6
>80 – 85	13.6
>85 – 90	19.6
>90 – 95	30.9
>95 – 100	46.3

Source: Fitch

The agency's default probability matrix for low documentation loans by LVR for a 'AAA' rating scenario is illustrated above.

Fitch's model assigns a default probability to the loan from the matrix based on the current LVR of the loan.

The agency adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral at each rating level. Default rates may be adjusted to reflect product type, loan purpose, second home/investment property, borrower profile, seasoning and arrears status. Fitch made the following adjustments for Nautilus Trust No. 1 Series 2007-1.

Self-Employment

The agency believes that a borrower earning a fixed annual salary is more likely to maintain monthly mortgage payments than a self-employed borrower who may have a less stable income. Furthermore, in Australia, a borrower will put up all their assets, including moveable assets and wages, in addition to the mortgaged property. Where a loan is not repaid in its entirety upon foreclosure and disposal, the borrower's wages and other income can be seized, subject to certain legal limitations. Again, a fully employed borrower may be a better prospect for recovering any debt outstanding.

The default model increases default probability for each loan to self-employed borrowers by up to 25%.

Reduced Documentation Loans

Approximately 87.4% of loans in this pool are reduced documentation loans, either "low doc" or "no doc". These borrowers, who are unable or elect not to prove their income, sign a certificate stating their annual income level and confirming that they will be able to service their mortgage repayments (low doc) or simply that they are able to service their repayments (no doc). Columbus does, however, review loans serviceability for low doc borrowers. Fitch believes that, all things being equal, borrowers with reduced documentation loans are more likely to default than those with full documentation loans. For this reason, the agency increases the probability of default by 5%.

Statement of Income

Fitch believes there is a difference between a borrower stating, "I earn x dollars" and the lender checking affordability based on this number, and the borrower stating "I can afford this loan". The default probability is increased by 10% for borrowers with the "no doc" product where the borrower does not state their income.

Interest-Only Loan Terms

Approximately 63.6% of the pool is interest only loans. Fitch considers the default risk to be greater for interest-only loans owing to the payment shock borrowers may experience when a balloon repayment becomes due or a shortened amortisation period commences. Also, the borrower builds up less equity in the property than with a standard fully amortising mortgage, meaning that there is less incentive to keep payments current. The default model adjusts interest-only loans that include a balloon repayment of principal or a short amortisation period at the end of the loan. The model increases default probabilities by at least 10% for all interest-only loans and, in the case of loans with an amortisation period of less than five years, by as much as 100%.

Line-of-Credit Loan Terms

As with interest-only loans, Fitch also considers line-of-credit mortgages to be higher risk than standard repayment mortgages. In the agency's view, the worst-case credit scenario is that the borrower will draw the full line of credit until the expiry of the limit and no principal will be repaid until that date. Therefore, the scenario is similar to that for an interest-only loan, and the model increases default probability by the same factors.

Line-of-credit advances are funded firstly from principal collections and secondly through the issue of any liquidity notes.

Investment Loans

Approximately 33.2% of the pool by balance is investment loans. Fitch holds the view that investment loans have the potential to be one of the riskiest areas of the home loan market. Although such loans have performed well in a period of strong economic growth in Australia, and investment borrowers would traditionally be considered more creditworthy, Fitch believes this may not always be true.

The default model increases the default probability for investment loans by 25%.

Loan Seasoning

Seasoning has a strong influence on probability of default. Fitch's "*Australian RMBS Default Model*", published 12 March 2004 and available at www.fitchratings.com, demonstrates that almost all defaults occur in the first five years after origination. Generally, if a loan has performed well for a five-year period, there is a strong likelihood that it will continue to do so through to maturity.

Adjustment to Default Probability for Seasoning

Length of seasoning	Decrease (%)
Seasoning < 1 yr	0
Seasoning ≥ 1 & < 2 yrs	0
Seasoning ≥ 2 & < 3 yrs	15
Seasoning ≥ 3 & < 4 yrs	25
Seasoning ≥ 4 & < 5 yrs	40
Seasoning ≥ 5 yrs	50

Source: Fitch

For loans older than 24 months, Fitch adjusts default probability downwards to reflect the assumption that a certain proportion of defaults for a cohort of loans of that age will have occurred previously - and would therefore be excluded from the pool to be securitised. The table above sets out the adjustment.

Credit for seasoning may not be appropriate in a deflationary environment or where property prices are falling, as this removes the borrower's main incentive (other than residential occupation) for maintaining repayments, i.e. to preserve equity built up in a property. Therefore, credit for seasoning will be reduced if property prices have fallen or remained static since loan origination.

Arrears

Fitch considers loans in arrears to have a significantly higher probability of default than those that are current. Where pools contain loans in arrears, the model increases default probability as follows: 31-60 days in arrears, 50%; 61-90 days in arrears, 100%. The model considers loans more than 90 days in arrears to be in default and these will generally not be eligible for inclusion in a pool. The eligibility criteria require that no loans more than 60 days in arrears be included in the pool.

Geographical Concentration

Fitch's "*Australian Residential Mortgage Loan Performance Study*" revealed that geographic concentration was a volatile determinant of default performance and a strongly negative factor in determining portfolio default probability. Accordingly, the default model increases default probability by up to 50% if a pool's exposure to any one state exceeds a specified level.

Loss Severity

Loss severity is determined by considering regional market value trends, the costs involved once a borrower has defaulted (such as carrying costs and legal expenses) and LVR. Fitch's market value decline (MVD) assumptions are based not only on traditional determinants, such as regional economic stability, but also on historical home price volatility by region and projected steady-state sustainable growth. The market value projections are then adjusted by loan and property attributes, including property size and ownership.

Imprecise pricing data, caused by the lack of comparable benchmarks, influences the magnitude of price volatility during a market downturn. As Australia has not experienced a severe housing recession in recent years, Fitch has adopted a conservative approach when formulating MVD.

The agency's model assigns a MVD to a loan based on its scheduled LVR, as demonstrated in the table *MVD Matrix – 'AAA' Scenario*. The base market value assumptions are then adjusted, on an individual loan basis, for characteristics such as loan size and property ownership status.

MVD Matrix – 'AAA' Scenario

	Property		
Area	House	Semi	Unit
Inner Sydney, Inner Melbourne	50	58	65
Inner Brisbane, Gold Coast	50	55	60
Outer Sydney, Outer Melbourne, Outer Brisbane	45	53	60
Other NSW, Other VIC, Other QLD	45	50	55
Adelaide, Perth	45	50	55
Other South Australia, Other West Australia	40	45	50
Canberra, Other ACT, Northern Territory, Tasmania	35	40	45

Source: Fitch

High-Value Properties

Homes with relatively high market values are generally subject to higher MVDs in a deteriorating market than homes with average or below-average values, owing to limited demand for such properties. Additionally, Fitch recognises that relative and absolute home prices may vary by region. Base MVD assumptions are increased to account for this, as shown below.

MVD Adjustment for High-Value Properties

Difference of property value relative to median value for location (%)	≥ 100	≥ 200	≥ 400
MVD increase (%)	10	25	50

Source: Fitch

Property Ownership

In Australia, a borrower can own their home on freehold or leasehold; freehold means that the homeowner also owns the land on which the house is built; leasehold means that the land is leased, and the credit risk may therefore be greater. As a lease approaches expiry, the value of the attached leasehold property will fall with exponentially increasing severity. Fitch imposes a minimum lease life of approximately 10 years beyond the life of the loan.

Where properties are on company title, the ownership is in the form of shares in a company that owns the land and building. Properties owned on company title may be more difficult to sell.

Fitch increases the MVD by 25% for properties where a crown lease or company title is involved.

Credit Enhancement

Insurance

The primary source of credit enhancement available to noteholders is LMI. To determine the subordination levels sought for the rating of the senior notes, Fitch reduces the expected loss level for each loan according to the provision of LMI. The agency credits the expected loss by a factor dependent on the rating of the LMI provider, as set out below.

Mortgage Insurance Credit Matrix

Rating of provider	Credit under 'AAA' scenario (%)
AAA	100.00
AA+	83.33
AA	75.00
AA-	66.67
A+	58.33
A	50.00
A-	41.67
BBB+	33.33
BBB	25.00
BBB-	16.67

Source: Fitch

Under the terms of the policies, the mortgage insurance providers have agreed to provide any principal loss on each loan balance, interest at the lowest rate payable under the mortgage, and the costs of enforcing a housing loan. The policies provide 24 months of timely payment cover.

Typically, the mortgage policies may not cover losses arising from a loan relating to:

- trustee liability under environmental legislation;
- damage due to war or radioactivity;
- government confiscation or damage of property;
- the payment of any further penalty or liability to pay damages;
- refusal to comply with reasonable directions of the mortgage insurer;
- a situation where the mortgage loan and related securities become invalid or unenforceable; and
- material physical damage to the property not covered by a general insurance policy.

Deductibles

The MCIGA policy purchased by Columbus for the Bluestone pool includes a deductible for all low documentation loans with LVR's greater than 85%. At the time of the purchase of the policy any amount of a loan in excess of 85% LVR will be the deductible for the life of the policy.

For example, a loan with an LVR of 92% and a scheduled balance of AUD300,000, insured under the MGICA policy will have a deductible of AUD22,826 [(92.0% - 85.0%) /92.0% x 300,000].

The amount of AUD22,826 is in effect the first loss portion of the particular loan and to the extent a loss accrues on this particular loan the initial loss of AUD22,826 would be borne by noteholders while the remainder will be covered by MGICA.

Fitch calculated the additional credit support required to protect noteholders from exposure to the deductible by multiplying the total amount of each individual loan deductible amount by the loan's probability of default at each rating level. A concentration test was also conducted at each rating level to assess the largest deductibles within the pool. Approximately 0.73% of the outstanding balance of loans in the pool (AUD1.9m) contains a deductible component. With the largest deductible for any single loan being AUD63,040.

MGICA

Approximately 95% of insurance provided on the pool has been provided by MGICA the newly-formed Australian subsidiary of MGIC Investment Corporation, the holding company of the largest mortgage insurer in the US, Mortgage Guaranty Insurance Corporation (MGIC). On 17 October 2007, Fitch affirmed the 'AA' insurer financial strength (IFS) rating of Mortgage Guaranty Insurance Corporation and MGICA.

MGICA received its licence to commence full-scale operations in the Australian lenders' mortgage insurance market from the Australian Prudential Regulation Authority on 18 May 2007.

MGICA's rating reflects the strong support provided by MGIC (the US parent), including MGIC's guarantee to provide capital support to MGICA if required.

For more information, see Fitch's research report, *"Australian RMBS and Lender's Mortgage Insurance – FAQ's Answered"*, dated 19 February 2007.

Excess Income

The second source of credit enhancement for the class A, AB, B and C noteholders is excess income. On each monthly distribution date, the excess available income, after meeting specified fees and interest payments of the trust, will be available to cover principal charge-offs before it is distributed to the residual income holder.

Subordination

The class AB, B and C notes are subordinate to the class A notes with respect to the coupon and principal, at all times. If available funds are insufficient, losses will be allocated to the class C, B, AB and then A notes until they are reduced to zero.

■ Mortgage Insurance Sensitivity Analysis

Fitch recognises that it may be useful for investors to understand the credit implications of various scenarios for the rating levels of the mortgage insurance providers. The following table sets out the potential credit enhancement levels for the class AB notes in circumstances where MGICA had lower credit ratings than at present. (This analysis is hypothetical and has no bearing on the actual rating of the providers.).

Insurer Rating Sensitivity Analysis for the Class AB Notes

Rating of insurance provider

MGICA	CE level (%)
AA-	4.7
A+	5.8
A	7.0
A-	8.2

Source: Fitch

It should be noted that prepayment and other factors can significantly alter the credit quality of the loan pool and the composition of its credit characteristics, particularly with regard to the mix of insurance providers.

If the ratings of an insurance provider were downgraded, the agency would undertake a complete credit review of the loan pool at that time. The result of any such review would be dependent on the full range of credit factors associated with the loan pool – that is, similar to those analysed for the rating assigned at closing – and cannot be predicted.

■ Financial Structure

The key features of the financial structure are set out below. In summary, there are four classes of notes issued: class A, AB, B and C. The class A notes rank senior to all other classes of notes with respect to repayment of interest and principal. Class AB noteholders are entitled to principal once the class A noteholders are repaid in full or where the pro rata test has been satisfied. Class B noteholders are entitled to principal once the class B noteholders are repaid in full or when the pro rata test has been satisfied. Class C then follows.

Priority of Payments

All collections received for each monthly period will be allocated and paid in accordance with the order of priority set out in the supplementary terms notice. Collections will include monthly interest and other fees received, any principal repayments, prepayments, recoveries, damages, proceeds from repurchased mortgages, accrued interest adjustments and insurance proceeds. On each determination date, the manager will calculate total available collections. The manager must then determine the payments or allocations that the trustee must make out of total interest collections and total principal collections, respectively. Under the transaction documents, interest and principal are paid as detailed below:

on each monthly payment date, the trustee will make payments or allocations from total interest collections in the following order of priority:

- AUD100 to the residual income unitholder;
- any taxes owing;
- taxes and pari passu fees and expenses of the issuer, security trustee and custodian;
- fees and expenses of the trustee, manager, servicer (enforcement expenses) and any trust expenses;
- pari passu and rateably to the AUD interest on the liquidity notes and class A notes for the current period plus any unpaid interest from previous periods;
- any net payment due by the trustee for any hedge contract (excluding break costs);
- in payment towards class AB interest for the current period plus any unpaid interest from previous periods;
- in payment towards class B interest for the current period plus any unpaid interest from previous periods;
- pari passu and rateably to repayment of spread reserve draws, if any, not repaid in the previous period;
- pari passu and rateably to repayment of liquidity reserve draws, if any, not repaid in the previous period;
- pari passu and rateably to repayment of principal draws, if any, not repaid in the previous period and accrual amounts for the collection period preceding the previous payment date;
- any liquidation losses which have arisen during the preceding period;
- in payment towards class C interest for the current period plus any unpaid interest from previous periods;
- any tax shortfall or tax amount for the period;
- break costs to the interest hedge provider not previously paid and any interest due on any break costs not previously paid;
- remaining amounts will be paid to the residual income unitholder.

On each payment date, following determination by the manager of the payments or allocations, the trustee will pay or allocate total principal collections in the following order of priority:

- as a principal draw where total interest collections are insufficient to meet required payments;
- repayments to the seller for any redraws or further advances, provided they were not previously reimbursed, and any outstanding amounts under any support facility;
- repayments to the liquidity noteholders until reduced to zero;
- repayment of principal to the class A noteholders until reduced to zero;
- repayment of principal to the class AB noteholders until reduced to zero;
- repayment of principal to the class B noteholders until reduced to zero;
- repayment of principal to the class C noteholders until reduced to zero;
- if the pro rata test has been satisfied, pari passu and rateably principal pro rata allocation to the class A, AB, B and C noteholders; and
- payment to the residual capital unitholder.

Pro Rata Test

Class A notes will receive principal first until reduced to zero unless the pro rata test has been satisfied. For the pro rata test to be satisfied the following conditions must be met, including:

- the payment is 24 months after the closing date;
- the current subordination percentage of the class A and AB notes is greater than 0.25%;
- the current subordination percentage of the class B and C notes is greater than 7%;
- no carryover charge-offs;
- no more than 3% of receivables are greater than 60 days in arrears.

After the second anniversary pro rata payments will be allocated based on at 50% of available principal payments and after the third anniversary pro rata payments will be allocated based on 100% of available principal payments.

Collections

As servicer, Columbus will receive, on behalf of the trustee, collections of monies due from the borrowers under the terms of their housing loans, as well as proceeds from the enforcement of mortgages and insurance claims.

Fitch requires the collections account to be maintained with an ‘F1’ rated financial institution or to be supported by an ‘F1’ rated entity. The servicer will transfer any collections it receives to the collections account within two days of receipt. The security trustee is an authorised signatory of the collections account.

Liquidity Provisions

Where the interest collections on any determination date are insufficient to meet the trust’s required payments for that month, liquidity support will be sought to ensure that the trust’s obligations are met in a timely manner.

Liquidity support is provided by two sources: the first is the realisation of liquid authorised investments, which must be rated at least ‘F1’ by Fitch. If the liquid authorised investments are insufficient to meet the required payments, principal collections can be applied to meet the shortfall in the form of a principal draw.

The authorised investment liquidity amount of 0.25% of the total initial notes’ balance has been sized by Fitch under various stress-testing scenarios in which liquidity would be drawn, including shortfalls resulting from defaults, delinquencies and payment holidays. In reviewing the liquidity provisions for the transaction, Fitch factored in the use of principal collections for liquidity. Furthermore, in sizing the amount of liquidity, the agency factored in the absence of monthly cash flow cover under some of the mortgage insurance policies.

Liquidity Notes

To the extent that redraw, further advances and line-of-credit requests exceed available principal collections, the trustee may fund them by issuing liquidity notes. These notes will receive interest pari passu with the class A notes and will receive principal repayments ahead of the class A, AB and B notes for one year after issuance.

Liquidity notes will not be issued if such an issuance will cause a downgrade, qualification or withdrawal of Fitch’s rating of the class A, AB or B notes.

Interest Rate Risk Management

The issuer trustee has entered into one or more swap transactions insofar as this is necessary to effect an exchange of cash flows that will allow the cash flows from the mortgages to satisfy the payment obligations under each issued note.

Fixed/Floating-Rate Swap

The trustee has entered into a fixed/floating-rate swap arrangement with UBS AG by novation of existing swap arrangements on the fixed rate loans to hedge the interest rate mismatch risk between the fixed rate charged on some of the underlying mortgages and the floating-rate obligations of the trust to the noteholders. Most borrowers may convert their loans from floating to fixed rate at any time.

Under the fixed-/floating-rate swap, on each monthly payment date, the trustee will pay the swap provider the aggregate of all fixed-rate interest collections (if any) on the mortgages for the relevant monthly period and will receive the one-month Bank Bill Rate plus a fixed margin.

If UBS is downgraded below ‘F1’ or ‘A’, it must, within the 30 days following such a downgrade, either cash-collateralise its obligations under the swap or novate its obligations to an ‘F1’ and ‘A’ rated entity. If UBS is further downgraded to below ‘BBB+/F2’, the choice to cash-collateralise will no longer be available and it must either novate the swap or enter into other arrangements acceptable to Fitch.

Threshold Mortgage Rate

The threshold rate is the minimum rate of interest that must be charged on the underlying housing loans to ensure that the trustee will have sufficient collections to make trust payments when due. This threshold rate also includes a buffer of 0.25%. The servicer must ensure that the weighted- average interest rate being charged on the loans is at least equal to the threshold rate.

Spread Reserve

The spread reserve has been structured into the transaction to further support the threshold rate mechanism given the large number of fixed rate loans equal to 41.3% of the pool. The spread reserve is available to mitigate the risk in the situation where a high prepayment rate on variable rate loans results in a proportionately larger percentage of fixed rate loans remaining in the pool which would be unable to have their margins adjusted to meet the threshold rate.

Clean-Up Call Option

On each payment date after the determination date when the aggregate principal outstanding on the invested notes is equal to or less than 10% of the initial invested notes outstanding at the closing date of the transaction, the trustee, at the direction of the manager, may call the notes on the next payment date.

■ Columbus Capital Pty Limited

Columbus Capital Pty Limited (Australia) was established in October 2006 for the purpose of originating and managing housing loans.

Columbus is 50% owned by Columbus Capital (Singapore) and 50% owned by Consortia. Columbus Capital Singapore is 100% owned by the holding company of Malaysian Assurance Alliance Berhad (MAA Assurance), one of Malaysia's leading general insurance companies.

Columbus originates its housing loans through a variety of third-party mortgage programmes and mortgage brokers.

Mortgage Origination and Servicing

As part of its rating process, Fitch performed a review of both Bluestone's and Columbus's origination and servicing operations and found them to be acceptable.

Origination

The majority of the loans in the pool are comprised of Bluestone mortgages that were purchased by Columbus in June 2007.

Bluestone originates its loans through a diversified network of originators, including prime lenders (banks and non-bank originators), dealer groups or aggregators and individual introducers. All referrers must go through an accreditation process.

Bluestone performs the entire underwriting function and does not outsource any of the functions to the originators, including requests for valuations. There are a number of pre-credit checks performed for every application including: a review of an application for product suitability and compliance with Bluestone's criteria; confirmation that a privacy act authority has been signed by the borrower; a credit check; and confirmation of the borrower's identification.

Once the credit report is received, a number of controls are applied to Bluestone's underwriting process, including the checking of the loan purpose, the assessment of the degree and reasonableness of any credit impairment, the assessment of loan serviceability, the calculation and review of the subordination of the loan, and a review of the sales contract and the security property details. The loan is either declined or conditionally approved at this stage. If approved, a full valuation is requested by Bluestone.

Serviceability is an important condition in Bluestone's underwriting guidelines. No loans (including for self-certified borrowers) are approved purely on the value of the security property without the borrower's ability to service the loan meeting the guidelines.

When assessing serviceability, the proposed loan interest rate is stressed, payments on other loans with more than six months remaining are included, any unpaid defaults and judgements are considered and minimum living expenses are incorporated.

A full valuation is required for every security property and is requested by Bluestone or its broker from a panel of valuers. The valuation must be a fair market valuation and on the basis that the property can be sold within three to six months. A minimum of three comparable sales of no more than 90 days old must be included in the valuation, which itself cannot be more than 120 days old.

Columbus originates loans via third-party originators (mortgage managers) which generate in excess of AUD5m - AUD10m per month, directly through the internet and referrals. Mortgage managers must be experienced and satisfy the company's accreditation process. Mortgage managers are responsible for tasks including compiling the loan application and supporting documentation, arranging full valuations with an accredited valuer, obtaining credit agency checks and following Columbus's checklist.

Columbus retains control of all loan approvals and does not delegate any loan approval authority. Upon receipt of the loan application, Columbus reviews the credit reference report for defaults, conducts quality control checks on the documents, assesses the borrower's serviceability, and independently verifies the valuation on the property and LMI policy details. Loans are approved by the Senior Lending Officer based on approved authority limits. In general, loans greater than AUD2m require approval from the credit committee.

Servicing

Each loan is managed by Columbus's loan system, Ultracs. Between 90%-95% of Columbus's borrower repayments are accepted via direct debit or salary credit. Columbus's arrears department monitors management of the arrears daily to ensure timely follow-up action.

Columbus delegates initial arrears follow up to the mortgage originators and monitors the actions on arrears on a daily basis. After 14 days in arrears, Columbus manages arrears cases in house. The responsibilities of Columbus as the servicer are: making immediate contact with a borrower upon any default; noting and diarising all subsequent conversations with the borrower; following up any arrangements with the borrower; obtaining any request for an arrangement to repay arrears past the next due date; sending the relevant reminder and demand letters; reporting all default action taken; and the instruction of solicitors for the commencement of any legal action. Columbus outsources legal action externally once arrears reach 29 days.

All reporting to the relevant mortgage insurer is performed by Columbus.

Columbus will review arrears performance on an ongoing basis to ensure compliance with servicing policies and procedures.

Collections

Borrowers are contacted as soon as a payment default is reported. If no contact can be made, a reminder letter is sent within four days of the payment default. Continued attempts to make telephone contact are made.

If no response to the first reminder letter is received and no telephone contact has been made, a second reminder letter is sent fourteen days after the payment default.

A notice of demand is sent within 30 days of the payment default if the borrower has not responded to any telephone contact or previous correspondence. If there is still no response from the borrower to the notice of demand, Columbus will seek to commence legal action.

Following the liquidation of an asset, Columbus will claim any loss against the mortgage insurance policies, as well as any claim made under the timely payment cover.

Reviews

Columbus must maintain all loan files, including the support documents, for review on a regular basis to ensure compliance with policies and procedures.

Columbus's underwriting process is also audited on a regular basis and an external review is performed to ensure compliance with credit policies and procedures.

Standby Servicer

If a servicer termination event occurs in respect of Columbus, BNY Trust (Australia) Registry Limited, as standby servicer, must perform certain servicing duties (including collections, issuing notices to borrowers and setting the interest rates).

BNY Trust maintains a direct online link into the Columbus servicing platform to allow a swift transfer of servicer in the event it is required.

A servicer termination event includes a breach of servicer obligations, insolvency of the servicer or non-payment of collections to the trustee.

Document Custody

Permanent Custodians Limited, as custodian, will act as custodian of the security documents.

■ Performance Analytics

Fitch will monitor the transaction on a regular basis 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 will be 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.

Collateral Comparison

	Nautilus Bond Series 2007-1
Issue date	November 2007
Collateral size (AUDm)	253.0
Subordination (“AAA”) (%)	4.7
Mortgage pool	
Number of loans	830
Average loan size (AUD)	304,837
Maximum LVR (%)	99.6
Maximum current balance (AUD)	1,336,753
Weighted average current LVR (%)	77.14
Loans seasoned > one year (%)	29.5
LVR > 80%	46.6
Loan size > AUD500,000 (%)	32.5
Interest-only (%)	63.6
Reduced documentation mortgages (%)	87.4
Investment properties (%)	33.2
Insurance concentration (%)	
GEMI/HLIC	0.0
Genworth	3.8
PMI	1.1
MGIC	95.1
Geographic concentration (%)	
New South Wales	24.7
Victoria	11.0
Queensland	29.1
Western Australia	28.4
Australian Capital Territory	0.7
Tasmania	1.8
South Australia	3.7
Northern Territory	0.4
Performance (%)[a]	
Arrears total (30–59 days)	2.3
Arrears total (60–89 days)	0.0
Arrears total (> 90 days)	0.0
Cumulative claims on LMI (AUD)	n.a.
Cumulative no. of claims	n.a.

Source: Columbus (raw data)/Fitch (model output)