International
New Issue

ARMS II Euro Fund II

Ratings

US$300,000,000 Class A-1 Bonds	AAA
US$425,500,000 Class A-2 Bonds	AAA
A$40,400,000 Class B Bonds	AA–

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■ Summary

ARMS II Euro Fund II's $725.5 million amortising, mortgage-backed, floating-rate class A-1 and A-2 bonds are rated 'AAA'. This is the eighth securitised issue of notes backed by a residential mortgage pool from the Australian Mortgage Securities Ltd. (AMS) ARMS II program and the second offshore issuance in US dollars. The notes will be issued by Permanent Custodians Ltd. (the trustee and issuer) in its capacity as trustee of ARMS II Euro Fund II. The fund is an individual trust fund created under the master trust deed for ARMS II funds.

The rating assigned to the class A-1 and A-2 bonds is based on: the subordination 3.3% of the class B bonds; the quality of the collateral; the 100% primary mortgage insurance policies, including 24 months timely payment cover provided by 'AAA' rated Housing Loans Insurance Corp. (HLIC), 'AA' rated GE Mortgage Insurance Corp. (GEMICO), 'AA' rated CGU Lenders Mortgage Insurance Ltd. (CGU), 'AA' rated PMI Mortgage Insurance Ltd (PMI), and Royal & Sun Alliance Lenders Mortgage Insurance (RSALMI); the cash reserve of 0.25% of the total principal balance; and a sound legal structure.

The rating assigned to the A$40.4 million amortising, pass-through, floating-rate class B bonds is based on all the strengths supporting the class A bonds, except the credit enhancement provided by the subordinate class B bonds.

To assess the credit risk of the portfolio of mortgage loans, Fitch IBCA analysed the collateral under various stress scenarios using its default model geared specifically for the Australian mortgage market *(see Fitch IBCA Research on "Australian Residential Mortgage Default Model 1999," dated 17 Feb. 1999, available on Fitch IBCA's web site at www.fitchibca.com)*.

■ Collateral

As of the cut-off date, the pool serving as collateral for the bonds consists of 6,969 mortgage loans, with a total outstanding balance of approximately A$1.24 billion. All the mortgages are first-ranking mortgages over residential property originated by mortgage brokers for the benefit of AMS in the ordinary course of AMS's business. All loans have the benefit of primary mortgage insurance *(see Credit Enhancement, page 6)*.

The pool of eligible mortgage loans, sourced from AMS's portfolio of residential housing loans, are amortising principal and interest loans with a maximum term of 25 years. However, 37.0% of the mortgages have an interest-only term of up to five years before converting to full amortisation. Currently, only 2.7% of the loans pay at least a portion of the balance based on a fixed interest rate. However, the terms of most of the loans allow the borrower to convert to a fixed-rate term of up to five years.

Key Information

Issuer: Permanent Custodians Ltd. as trustee of ARMS II Euro Fund II

Structural Adviser and Lead Manager: ABN AMRO Bank NV

Bond and Security Trustee: Citicorp Trustee Co. Ltd.

Trustee: Permanent Custodians Ltd.

Trust Manager: Australian Mortgage Securities Ltd.

Mortgage Securitiser: Australian Mortgage Securities Ltd.

Mortgagee: Permanent Custodians Ltd.

Mortgage Insurance Providers:
- Housing Loans Insurance Corp.
- GE Mortgage Insurance Corp.
- CGU Lenders Mortgage Insurance Ltd.
- PMI Mortgage Insurance Ltd.
- Royal & Sun Alliance Lenders Mortgage Insurance

Master Servicer: Australian Mortgage Securities Ltd.

Document Custodian: Permanent Custodians Ltd.

Currency Swap Counterparty: ABN AMRO NV

Transaction Details

Interest Payments: Quarterly in arrears

Interest Rate (Class A): Three-month London Interbank Offered Rate plus a margin

Interest Rate (Class B): Three-month Bank Bill Swap Rate plus a margin

Interest Payment Dates: The 10th of each June, September, December, and March, starting 10 June 2000

Legal Maturity: 10 March 2026

Clean-Up Offer: 10 March 2006 or on any determination date after the outstanding principal balance of the notes is less than 10% of the original issue size

Cut-off Date: 10 Feb. 2000

Collateral: First charge residential mortgage loans secured by properties located in Australia

Closing Date: 10 March 2000

As of the cut-off date, the average principal loan balance was Australian dollars (A$) 177,778, with a weighted average original loan-to-value ratio (LVR) at origination of approximately 74.4% (currently 71.7%), and 33.4% have an LVR above 80%. Of the loans, 61.9% was originated in the past six months and 86.9% in the past 12 months. Approximately 59.2% of the loans are secured by owner-occupied properties.

All mortgages in the pool benefit from primary mortgage insurance coverage provided by all five major mortgage insurers in Australia: HLIC (Ltd. and Inc.), GEMICO, PMI, CGU, and RSALMI. The mortgage insurance policies cover all principal and interest losses, as well as the costs of enforcement. The mortgage insurance policies include a minimum of 24 months timely cash flow coverage.

The pool is concentrated in New South Wales (69.5%), which Fitch IBCA expects to see in most Australian residential mortgage securitisations. The other primary geographic concentrations in the pool, by loan balance, are 8.5% in Queensland and 15.4% in Victoria. The remaining five states and territories constitute less than 6.6% of the pool.

■ Collateral Analysis

Default Probability

Fitch IBCA's Australian mortgage default model calculates credit losses for mortgage-backed securities based on the probability of borrower default and loss severity. The model focuses on the interaction of three primary determinants of default for each mortgage:
- Borrower's equity in the home (LVR).
- Borrower's financial resilience.
- Potential effect of an unexpected decline in financial standing due to events such as unemployment or divorce.

Fitch IBCA also considered unique social, economical, and cultural features in developing its model. In Australia, there is a significant social status to home ownership. Approximately 70% of Australian households live in dwellings they own or are purchasing. For most Australians, the purchase of a home for owner occupation is not only one of the largest, but one of the most important, purchases made in their lifetime. In addition, Australian home loans are typically recourse to the borrower. This exposes all the borrower's assets in the event of a mortgage default and serves as a very strong deterrent to default. As a result, the likelihood of borrower default is slightly lower than it is for most other countries *(see table, page 3)*.

Fitch IBCA adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral at each rating level. Default rates may be adjusted to reflect, among other things, product type, loan purpose, investment property, borrower profile, seasoning, and arrears status. For ARMS II Euro Fund II, Fitch IBCA made the following adjustments:

Default Probability Matrix

LVR	'AAA' Probability (%)
≤ 40.00	5
40.01–50.00	6
50.01–60.00	7
60.01–70.00	10
70.01–80.00	14
80.01–85.00	17
85.01–90.00	22
90.01–95.00	27

LVR – Loan-to-value ratio.

Variable- and Fixed-Rate Loans: As of the cut-off date, less than 3% of the loans in the transaction paid fixed rates on even a portion of their balance. However, all borrowers, except those with line-of-credit loans, have the option to convert all or part of their mortgage into a fixed-rate term of up to five years. While variable-rate loans can experience payment shock due to underlying index volatility, this risk has already been incorporated into the baseline default analysis. Fitch IBCA does not penalise for a mortgage having the ability to convert to a fixed rate. For this transaction, Fitch IBCA has increased the probability of default for mortgages that already have a fixed rate by 0%–10%, depending on the terms. For this pool, the impact is negligible.

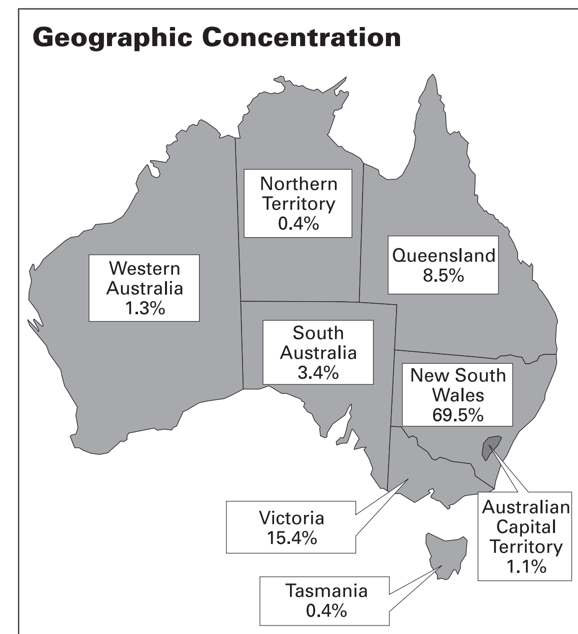
Honeymoon Rates: Approximately 2.4% of the mortgages have an initial margin rate below AMS's standard variable rate. These loans will later convert to a higher rate at the expiration of the honeymoon period. Fitch IBCA increases the default probability for honeymoon-rate loans by up to 20% to account for the payment shock experienced by the borrower as a result of the higher monthly payment at the expiration of the honeymoon period.

Investment Properties: Approximately 40.8% of the loans are for investment properties. Although investment property loans are fully recourse to the borrower, Fitch IBCA considers investment loan borrowers more likely to default than borrowers on a primary residence. However, this risk will often depend on the type of investment property and the borrower. An investment property loan to an experienced investor secured by capital city metro area collateral will have less risk than an investment property loan secured by a holiday property. Fitch IBCA adjusted its model to take these factors into account. Accordingly, the base default rate was increased by up to 30% for investment property loans.

Interest-Only Mortgages: In the transaction, only 2.0% of the mortgages initially pay interest only on their full balance and then convert to amortising after a period of up to five years. In addition, another 35.0% of the mortgages initially pay interest only for a portion of the balance. Fitch IBCA increases the default probability for interest-only loans to account for the payment shock experienced by the borrower as a result of the higher monthly payments required to amortise the loan by its maturity date upon the expiration of the interest-only period. In addition, the lack of initial principal payments reduces the build-up of equity when compared with a standard fully amortising mortgage. Therefore, Fitch IBCA increases the probability of default for interest-only loans by up to 25%.

Borrower Profile: In analysing the pool data, Fitch IBCA considers borrower profile and distinguishes between borrowers who earn a fixed annual salary from those who are self-employed. Fitch IBCA believes that a borrower who earns a fixed annual salary is more likely to make monthly mortgage payments than a self-employed borrower who generates income from a business. For this reason, Fitch IBCA increases default probabilities on loans to self-employed borrowers up to 30%. AMS did not provide statistics on self-employed borrowers. Therefore, Fitch IBCA conservatively assumed that 30% of the pool's borrowers were self-employed.

Redraws: Almost all borrowers in the pool have the ability to redraw principal payments made in advance of their scheduled balance. The borrower may only redraw an amount up to the scheduled balance of the loan. All redraws are at the discretion of AMS. ARMS II Euro Fund II will fund these redraw



requests through the advances reserve (which is topped up through principal collections) and then through the issuance of fast prepayment bonds *(see page 6)*. Fitch IBCA does not increase the probability of default for the presence of redraw facilities. For loans with redraw facilities, Fitch IBCA determines default probability and losses based on the scheduled loan balance and not the current loan balance.

Line-of-Credit Mortgages: These facilities allow the borrower to receive funds up to a predetermined limit. However, less than 2.0% of the loans in the transaction allow for line-of-credit advances. While Fitch IBCA increases its credit enhancement requirements for line-of-credit loans to reflect the possibility of the borrower increasing its leverage, the small percentage of such loans in the pool led to a negligible effect on credit enhancement requirements. Line-of-credit advances, as with redraws, are funded first through the advances reserve and then through the issuance of fast prepayment bonds.

Arrears: When rating a portfolio combining current and arrears mortgages, Fitch IBCA increases base default rates by a minimum of 50% for mortgages in arrears by more than 30 days. As of the cut-off date, 0.3% of the mortgages in the pool were in arrears by more than 30 consecutive days. However, no loans were in arrears by more than 60 days.

Seasoning: Although data studies show that the peak period of loans defaults occurs from origination through year five, the probability of default will start to drop off each year after origination. In addition, the strong home price appreciation in many markets of New South Wales and Victoria will have, on average, translated into higher collateral value currently when compared to the loan's origination. Therefore, Fitch IBCA will give credit for loan seasoning beyond 12 months, with credit increasing for additional seasoning. For this transaction, 13.1% of the loans are seasoned over 12 months and 3.9% over 24 months.

Market Value Declines
(%)

Region	'BBB'	'A'	'AA'	'AAA'
New South Wales	35	40	45	50
Victoria	25	30	35	40
Queensland	24	29	34	39
South Australia	21	26	31	36
Western Australia	30	35	40	45
Tasmania	20	25	30	35
Australian Capital Territory	23	28	33	38
Northern Territory	22	27	32	37

Amortisation Terms: Of the loans in the transaction, 1.4% have amortisation terms of less than 25 years. Fitch IBCA gives credit for loans with shorter amortisation periods as they indicate a more disciplined borrower and allow for faster build-up of equity.

Data Quality: The quality of mortgage loan data provided by AMS exceeds the average data quality of RMBS transactions in Australia. Fitch IBCA gives additional credit where data quality is considered above average.

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 IBCA's market value 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.

Market value decline (MVD) assumptions also reflect the comparatively lower levels of volatility in Australian home prices. Nevertheless, because Australia has not experienced a severe housing recession in recent history, Fitch IBCA has been conservative in formulating MVD assumptions.

Fitch IBCA divided Australia into eight regions to carry out its home price analysis, as shown in the table below left. Fitch IBCA has analysed home price movements in each region since 1978 on the basis of data compiled by the Australian Bureau of Statistics. To determine worst-case price movements and volatility for each region, Fitch IBCA focused on each region individually and evaluated historical data. The worst cases were increasingly stressed to determine base MVDs from 'BBB' to 'AAA'.

Fitch IBCA adjusts the base market value assumptions on an individual loan basis for such characteristics as loan size and property ownership status.

High Value Properties: Homes with relatively high market values, particularly those that greatly exceed the average home price in their neighbourhood, are generally subject to greater MVDs in a deteriorating market due to limited demand for such properties. Imprecise pricing data, caused by the lack of comparable benchmarks, also influence the magnitude of price volatility during a market downturn. Fitch IBCA recognises that relative and absolute home prices may vary by region. Base MVD

Adjustment Factors for High-Value Properties

Property Value (A$)	Sydney/ Melbourne (x)	Other Capital Cities (x)	Other (x)
400,000–600,000	1.00	1.10	1.25
600,001–900,000	1.10	1.25	1.50
> 900,000	1.25	1.40	2.00

assumptions are increased to account for this risk, as detailed in the table above. In ARMS II Euro Fund II, 2.0% of loans were secured by properties with values of more than A$900,000, while 7.7% were secured by properties with values between A$600,000–A$900,000. Some of this high-value collateral may represent more than one property and, therefore, does not carry the risk of a single high-value property.

Property Types: Fitch IBCA increases its MVDs for certain types of properties it deems more volatile or more risky. These property types include some central business district units, units with one bedroom or less, serviced apartments, hobby farms, or land. Under AMS's underwriting guidelines, serviced apartments, hobby farms, and land are not considered acceptable collateral and are not included in this pool. Other property types may be included if the loan and associated collateral meet the mortgage insurance requirements.

Title: Fitch IBCA considers certain types of title more risky. While Fitch IBCA would prefer to see only first charges over fee title to the collateral, other types of security exist. Fitch IBCA will increase its MVDs for loans secured by company title or loans secured by only a leasehold interest in the land. This transaction includes some loans secured by leaseholds but none with company title. All loans secured by a leasehold interest must have a lease term that exceeds the loan term by at least 15 years.

■ Liquidity

Where the available collections on any determination date are insufficient to meet total payments of the trust for that month, liquidity support is required to ensure trust obligations are met in a timely fashion.

Liquidity support is provided from three sources: timely payment coverage; the cash reserve; and the advances reserve. The mortgage insurance policies have a minimum of 24 months of timely payment coverage. The insurance provider must typically advance the payment coverage within 14 days after the claim. While the timely payment coverage will meet most liquidity needs, additional liquidity may be needed to cover defaulted loans that have not been fully remedied by the expiration of the timely payment coverage term or for the timing gap between the actual payment delinquency and the initiation of coverage. To cover this potential shortfall, the transaction has a cash reserve containing an initial minimum balance of 0.25% of the total transaction size. If the cash reserve is depleted, any balance in the advances reserve may be used as liquidity.

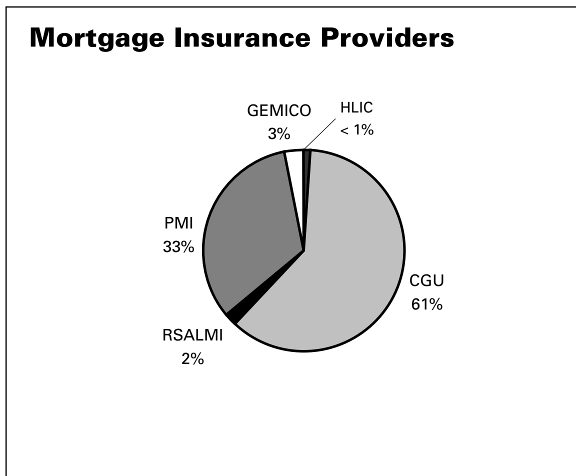
Fitch IBCA sized the cash reserve by subjecting the transaction to various stress scenarios in which liquidity is drawn. Such scenarios include shortfalls resulting from defaults, delinquencies, and timing mismatches. In reviewing the liquidity provisions for the transaction, Fitch IBCA factored in the use of principal collections to replenish the cash reserve, and the presence of monthly cash flow coverage under the mortgage insurance policies. If the cash reserve is used, it is replenished prior to principal being paid to any bonds.

■ Advances Reserve

The advances reserve is available to fund redraws or line-of-credit advances under the mortgages. The trust manager determines the level of the advances reserve and diverts available principal from repayments under the mortgage loans to the advances reserve account prior to principal being paid to the bonds. However, the advances reserve may not contain more than A$36,000,000, or 3.0% of the mortgage pool. If needed, the advances reserve may also be used for liquidity.

Transaction Collateral Requirements

- Maximum loan-to-value ratio is 95%.
- Maximum loan size of A$1,000,000.
- All mortgages must have primary mortgage insurance coverage for 100% of outstanding loan balance plus interest and costs.
- All mortgage insurance policies must provide timely payment coverage of no less than 24 months.
- Interest is calculated daily and charged monthly in arrears.
- Payments are made on a monthly basis, by direct debit.
- Loans are available only on existing residential properties.
- Maximum loan term is 25 years.
- No more than 60 consecutive days in arrears.
- Redraws are at the discretion of Australian Mortgage Securities Ltd. and payment holidays are not allowed.



■ Fast Prepayment Bonds

To the extent that redraw or line-of-credit requests exceed available principal collections and the amount in the advances reserve, the trustee may fund redraws and line-of-credit loans by issuing fast prepayment bonds. The bonds will be issued in Australian dollars. The fast prepayment bonds receive interest pari passu to the class A bonds and receive principal payments ahead of the class A bonds for one year after issuance. After one year, if the fast prepayment bonds have not been repaid, they receive principal pari passu with the class A bonds. The trustee will not issue fast prepayment bonds if such an issuance will cause a downgrade, qualification, or withdrawal of Fitch IBCA's rating of the class A or B bonds.

■ Credit Enhancement

Primary Mortgage Insurance

The primary sources of credit enhancement available to bondholders are the primary mortgage insurance policies provided by HLIC, GEMICO, CGU, PMI, and RSALMI with respect to all loans in the pool. However, 94.0% of the insurance coverage is provided by CGU or PMI *(see chart above)*.

Under the terms of the policies, the mortgage insurance providers have agreed to provide 100% loss coverage against each loan balance, including interest and costs, with respect to enforcing a housing loan. There is no maximum aggregate claim amount under the policies.

The mortgage policies are subject to a number of conditions and exclusions: losses resulting from any war or warlike activities; nuclear contamination; the existence or escape of any pollution or environmental hazardous material; the fact that the purchased mortgage or any collateral security is void or unenforceable; where consumer credit legislation applies, any failure of the purchased mortgage or collateral security to comply with the requirements of the legislation.

AMS has agreed to indemnify the trust for any losses caused through the action or inaction of AMS or any of its originators that causes the mortgage insurer to deny coverage. This indemnity covers such mortgage insurance exclusions as unenforceability of the mortgage, consumer credit code violations, or a lapse in a property's casualty insurance.

■ Structure

All collections received during a quarterly period are allocated and paid in accordance with the order of priority set out in the supplementary bond terms. ARMS II Euro Fund II segregates collections into interest and principal, which are then paid out under separate cash flow waterfalls. The trust manager directs the trustee to distribute the collections in the following priority on each payment date (the cash flow below is a summary and does not depict all possible circumstances).

Collections of interest will be distributed as follows:

- In payment of taxes or expenses of the trust (except the trust manager's fee).
- To the fixed/floating swap counterparty.
- Pari passu and ratably toward interest payments on the fast prepayment bonds and the class A bonds (payment to class A bonds is received through currency swap).
- Interest payments due to the class B bonds.
- Amounts owing to the cash reserve.
- To the advances reserve, at the trust manager's discretion, to a maximum balance of A$36,000,000, or 3.0% of the mortgage pool.
- Payment of the manager's fee.
- Remainder will be paid to the beneficiary.

Collections of principal will be distributed as follows:

- To pay the face amount outstanding on the fast prepayment bonds until the fast prepayment bonds are reduced to zero or the fast prepayment period has expired.
- To pay, pari passu and rateably, the fast prepayment bonds whose fast prepayment period has expired and, through the currency swap, the face amount of all class A bonds, until the fast prepayment bonds and class A bonds are reduced to zero.
- After the fast prepayment bonds and class A bonds are reduced to zero, to pay the face amount of all class B bonds until they are reduced to zero.

ARMS II Euro Fund II has neither a charge-off provision for losses experienced in the transaction nor a mechanism for recovering losses from excess income. While the mortgage insurance policies make the probability of the fund suffering a loss remote, in a high stress environment, as with any residential mortgage securitisation, the fund could experience losses. In the unlikely event a loss occurs, the ARMS II Euro Fund II structure continues to pay full interest to the class B bonds even though losses may not allow for full repayment of the class B bonds. In very extreme conditions, the class B bonds may receive interest while the class A bonds experience a loss in principal.

Fitch IBCA prefers that transactions have charge-off provisions to protect the senior class and that excess income be made available to cover any losses in the transaction.

Fixed/Floating Rate Swap

The trustee will enter into fixed/floating-rate swaps with eligible parties 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 bondholders. Borrowers may convert their loans from floating rate to fixed rate at any time. However, no more than 20% of the pool's mortgages may pay fixed rates at any time. In addition, no more than 10% of the pool's mortgages may pay a fixed rate for a term exceeding 3.5 years.

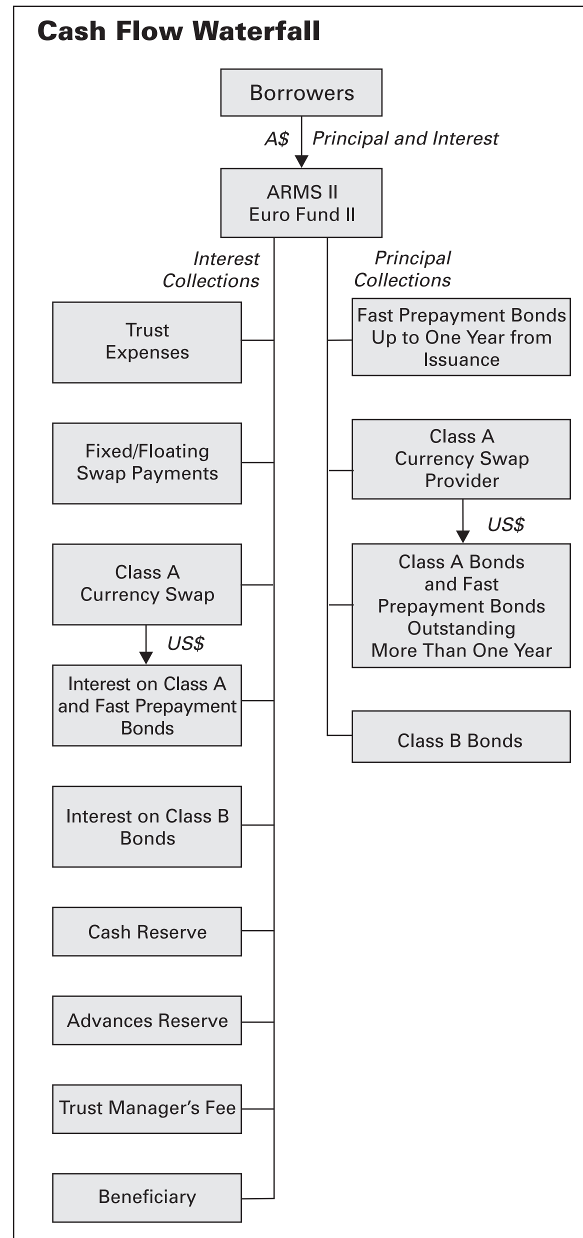
Currency Swap

The trustee will enter into currency swaps with eligible parties to hedge the risk between Australian dollar payments due on the mortgages and the US dollar payments due to the class A bondholders. To better protect bondholders from the credit risk of the currency swap counterparty, Fitch IBCA requires a minimum rating of 'AA–' plus provisions requiring either collateralisation of the swap or replacement of the currency swap provider in the event of a downgrade below 'AA–'.

Threshold Mortgage Rate

The threshold mortgage rate is the minimum rate of interest that must be charged on the underlying mortgages to ensure that the trustee has sufficient collections to make trust payments when due. The threshold rate must be maintained at a level that is no less than 25 basis points above the amount that would otherwise satisfy all interest and expense obligations of the trust.

Fixed-rate loans must be written at a spread of at least 0.75% above the swap rate and the average of all fixed-rate loans must have a spread above the swap rate of 1.0%. This feature helps mitigate the risk to the trust



from any losses under a swap caused by a borrower default. Mortgage insurance does not cover losses on fixed/floating swaps caused by a borrower default.

■ Mortgage Origination and Servicing

As part of its rating process, Fitch IBCA performed a review of AMS's origination and servicing operations.

Originations: AMS originates its loans through its extensive originator network. AMS currently accepts mortgages from more than 25 mortgage originators. Each originator undertakes an initial credit assessment, obtains a valuation, secures mortgage insurance, and

grants a "subject to" approval. The originator then submits the loan with the mortgage insurance coverage to AMS for acceptance and final approval. If AMS accepts the loan, AMS instructs the solicitor to prepare documents for funding. Each mortgage originator will add its own spread to the loan as compensation. Therefore, depending on the originator, one borrower may pay a different interest rate than another borrower. However, AMS still receives its standard variable rate. Neither AMS nor its originators use open policies for mortgage insurance. Fitch IBCA prefers that originators obtain individual mortgage insurance approvals rather than rely on open policies *(for more information, see Fitch IBCA Research on "Mortgage Insurance in Australia," dated 26 March 1999, available on Fitch IBCA's web site at www.fitchibca.com)*.

After funding and the registration of the mortgage, all documents are sent to the trustee for storage. AMS inputs all relevant data into its systems to track the performance of the loan and the originator's ongoing servicing.

Servicing: AMS acts as master servicer of the loans and conducts the transactional processing but may delegate some of the origination and servicing functions to correspondents/originators. AMS oversees and monitors the servicing performance of each of its originators. AMS's systems also track the expiration dates of property insurance to ensure that the mortgage originators have obtained verification of renewal. Property insurance is a condition of loan approval and of the loan terms.

As expected, some originators have better servicing capabilities than others. AMS, through its monitoring, actively works with any originator whose servicing standards have slipped to improve its servicing operations and performance. AMS conducts periodic spot checks and spot audits of its originators to ensure they maintain adequate standards.

AMS produces daily dishonour reports for direct debits in which the borrower did not have adequate funds available on the payment date. AMS then notifies the relevant originator, who contacts the borrower. AMS will rerun the direct debit after contact is made with the borrower. In the event of continued arrears, the originator must contact the borrower and pursue the legal remedies. As part of the servicing process, AMS produces a monthly arrears report that is forwarded to the originator. The originator then has five business days to report on the status of the loan. After 30 days in arrears, the originator reports the arrears to the mortgage insurer. After 60 days, the originator should have started legal remedies. At each step of the repossession and liquidation process, the originator must obtain the approval of AMS and the mortgage insurer.

Fitch IBCA believes that AMS's servicing process is adequate and allows AMS to streamline its operations and staffing. The variations in servicing skills among originators require constant monitoring and oversight, which AMS has the systems and resources to effectively carry out.

Collections: AMS obtains direct debit authorities from every borrower. Each day, AMS's systems exercise the direct debit authority for each loan due for payment. The direct debit removes the money from the borrower's account and places it directly in the account of the relevant fund. In other words, for loans in ARMS II Euro Fund II, monthly payments pass directly from the borrowers' accounts to the ARMS II Euro Fund II collection account.

ABN AMRO Obligation: ABN AMRO provides a guarantee for AMS's obligations. The guarantee covers all direct monetary obligations of AMS, which include items such as AMS's representations, warranties, and indemnities under the ARMS II master trust and ARMS II Euro Fund II.

Year 2000 Compliance: AMS has indicated that its systems did not suffer any problems associated with Year 2000.

■ Document Custody

AMS will maintain all documents with Permanent Custodians. All documents for each mortgage have been with Permanent Custodians since closing. Therefore, the ARMS II Euro Fund II transaction will not require a document transfer as a condition precedent for closing.

■ Legal Structure

ARMS II Euro Fund II is a bankruptcy-remote trust created pursuant to the master trust deed and supplementary bond terms. The master trust deed provides for the creation of an unlimited number of ARMS II funds. Each is separate and distinct from any other trust established under the master trust deed and its assets are available only to meet its related liabilities.

The issuer, Permanent Custodians, as trustee of a special purpose bankruptcy-remote trust, issues bonds to fund the acquisition of mortgages. The mortgages are currently held in other ARMS II funds, typically in warehouse vehicles. All loans are originated in the name of the trustee. The trustee is mortgagee and owns legal title in its capacity as trustee of the ARMS II funds. For ARMS II Euro Fund II, the trustee transfers

the beneficial interests in the mortgage loans to Euro Fund II from warehouse trusts.

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

Surveillance

Fitch IBCA will maintain ongoing surveillance of this transaction by reviewing the ongoing underlying collateral, as well as the credit enhancements, mortgage insurers, and liquidity provisions. Fitch IBCA will publish the results of its surveillance on an annual basis or more frequently, if necessary.

Collateral Comparison*

(%)

	Fund III	Euro Fund I	Fund IV	Fund VI	Euro Fund II
Issue Date	16 April 1999	16 July 1999	13 Oct. 1999	4 Feb. 2000	10 March 2000
Collateral Size (A$ Mil.)	249	748	249	299	1,239
Subordination	3.0	3.6	3.0	3.5	3.3
Mortgage Pool					
Number of Loans	1,497	4,225	1,367	1,506	6,969
Average Loan Size ($)	166,333	177,103	182,777	198,505	177,778
Maximum LVR	95.00	95.00	95.00	95.00	95.00
Maximum Current Balance ($)	750,000	1,000,000	750,000	1,000,000	1,000,000
Weighted Average LVR	73.1	72.0	73.1	74.9	74.4
Loans Seasoned > One Year	7.2	31.2	49.7	0.0	13.1
LVR > 80%	40.5	33.5	29.5	34.0	33.4
Loan Size > $400,000	4.4	8.9	9.6	11.5	8.9
Interest Only	33.0	39.3	38.6	36.3	37.0
Investment Properties	44.3	41.7	44.4	46.4	40.8
Insurance Concentration					
HLIC	6	5	2	0	< 1
CGU	36	56	68	70	61
RSALMI	29	18	3	1	2
PMI (MGICA)	18	16	24	29	33
GEMICO	11	5	4	1	3
Geographic Concentration					
New South Wales	68.7	67.9	71.2	75.9	69.5
Victoria	11.6	15.0	10.5	11.2	15.4
Queensland	12.1	9.5	11.6	7.6	8.5
Western Australia	2.2	1.9	0.4	0.8	1.3
Australian Capital	0.8	1.1	1.4	1.8	1.1
Tasmania	1.3	0.5	0.6	0.4	0.4
South Australia	2.8	3.8	4.3	2.3	3.4
Northern Territory	0.5	0.3	0.0	0.0	0.4

*At launch. LVR – Loan-to-value ratio.

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