



## CAPABILITIES STATEMENT

Australia

BLUESTONE SERVICING PTY LTD  
ABN 29 122 698 328

New Zealand

BLUESTONE SERVICING NZ LTD  
IRD 96-916-507

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## ABOUT BLUESTONE SERVICING

### *Background*

Bluestone Servicing was established in 2006 to bring core servicing of the Bluestone Group's financial products in-house and as the base of a new operation able to handle back-office administration for other lenders keen to improve their portfolio management and arrears collections performance.

A key objective in the selection and subsequent development of our core technology solution was to deliver a system that was capable of being quickly adapted to facilitate new business channels, including the provision of servicing to other companies, servicing of other asset classes and also the seamless importation of loan portfolios from other systems.

Our technology platform is designed to handle a wide range of different debt receivables and our extensive experience in the non-conforming sector equips us to deal effectively with either secured or unsecured asset classes, including:

- ▶ Prime mortgages;
- ▶ Non-conforming mortgages;
- ▶ Commercial mortgages;
- ▶ Reverse and shared equity mortgages;
- ▶ Lease finance and hire purchase; and
- ▶ Personal loans and other unsecured loan types.

In the past nine months Bluestone Servicing has converted more than 20,000 additional third party loan accounts to its servicing platform taking its total portfolio profile to more than 30,000 customers across 22 lending programs, 15 different brands and 7 lender clients.

We have teams headquartered in Sydney, Australia and Christchurch, New Zealand.

### *Who can use our services?*

Bluestone Servicing can add value with the provision of outsourced services to lenders who:

- ▶ Have ceased new originations and wish to reduce fixed costs by changing to a variable cost structure so that costs decrease in direct proportion to loan book size;
- ▶ Are originating new business but wish to reduce overall costs and simplify operations;

- ▶ Have non-performing loans in need of specialist collections and foreclosure experience;
- ▶ Require an active or Backup Servicer to support their funding or rating structure;
- ▶ Are interested in a turnkey technology platform transition; and/or
- ▶ Need assistance to evaluate and/or implement technology or process improvement projects.

### *Independent Ratings*

**Standard & Poor's** have assigned a ranking of 'Above Average' to Bluestone Servicing for the servicing of both prime and non-conforming mortgages in Australia and New Zealand. The outlook on both rankings is 'Stable' and both companies have been included in S&P Global Select Servicers list.

S&P stated that the rankings on Bluestone Servicing's operations were based on its "proactive servicing strategy, highly automated and integrated processing and servicing systems architecture and progressive improvements in risk management and compliance frameworks".

**Fitch Ratings** have assigned a Primary Servicer rating of 2- and an additional Special Servicer rating of 2 to Bluestone Servicing for the servicing of non-conforming mortgages in Australia and New Zealand.

Fitch stated that the ratings reflected our "experienced management and servicing team, proactive servicing and arrears management procedures and the improvements to its servicing systems."

## VALUE PROPOSITION

Bluestone Servicing represents a high quality, financially sound partner that is well positioned to leverage its specialist experience to enhance the portfolios of other lenders or mortgage managers. We are also able to quickly and successfully establish ourselves in a Backup position without material disruption or negative impact on the existing servicing arrangements.

Bluestone Servicing currently administers numerous large and complex funding structures and the business is very accustomed to third party

scrutiny and review by investors, warehouse funders and rating agencies, during which we have developed a strong reputation for high quality servicing and importantly, special servicing capabilities.

The key value we bring to the table is our extensive experience in the management of both primary (core) and special servicing of diverse pools, plus our track record in transitioning servicing operations from multiple external platforms on to our own.

We have developed a suite of industry best practice systems and processes, and constructed one of the best arrears management teams in the market. Deep management expertise is supported by proactive and motivated collections teams, using state of the art systems to maximise portfolio performance.

## COMMITMENT

Bluestone Servicing is focussed on building a reputation as being the most efficient and technologically advanced receivables servicing business in the Asia-Pacific region.

Revenues are primarily AAA rated and paid from a senior position in the various securitized and warehouse structures that it manages, effectively insulating the business from the impacts of changing market conditions such as the global liquidity crisis which started to become evident in the second half of calendar 2007.

We are a people focussed business with a well-balanced management team providing the right blend of expertise and a can-do attitude. Bluestone Servicing can provide its clients with a wide choice of services plus the confidence to know that its principals are personally invested in the business and 'in the game' for the long haul.

Bluestone Servicing views all of its relationships as long term and its clients can be assured of the highest level of commitment from a highly skilled team of professionals.

## PRIMARY SERVICING

### *Fully integrated or modular solutions*

All Bluestone Servicing systems run in a fully integrated environment delivering a highly efficient straight-through-process but each of our services can also be delivered on a modular basis as required.

As Bluestone Servicing continues to develop its systems and processes, these flow through to our customers at no cost. Any such changes are made in-house, avoiding costly delays.

### *Online Application Lodgement*

Bluestone Servicing utilises a web based application submission gateway that can be branded for individual clients. Business introducers can enter an application in less than 10 minutes and have a decision returned in less than 2 minutes.

To access the system, all that is required is an internet connection and a Username/Password.

The system features automatic:

- ▶ Security location validation
- ▶ Online valuation ordering
- ▶ Printing of pre-filled application, ready for signing
- ▶ Generation of completed approval letter

Software updates are delivered seamlessly upon next login following release.

### *Credit Assessment*

Our origination processing workflow system interfaces on a real-time basis with other internal applications and external organisations such as Veda Advantage and ASIC in order to automatically validate and control all or any of the following functions:

- ▶ Acceptable security location;
- ▶ Geo-coding (confirms exact security address);
- ▶ Geographic concentration risk;
- ▶ Veda Advantage credit checking;
- ▶ ABN for self-employed applicants;
- ▶ Product matching for letter of offer;
- ▶ Indicative approval;
- ▶ Checking of valuation parameters;
- ▶ Confirmation of credit qualification analysis;

- ▶ Analysis of insurer requirements;
- ▶ Pricing confirmation;
- ▶ Calculation of subordination required on a loan by loan basis;
- ▶ Transmission of loan data to Funder for purchase acceptance;
- ▶ Confirmation of each approval process mile stone to both borrower and introducer via e-mail and/or SMS;
- ▶ Issue of Panel Solicitor instructions;
- ▶ Settlement confirmation; and
- ▶ Confirmation of disbursements.

### *Settlement Processing*

From the time loan contract preparation is commenced, Bluestone Servicing is able to monitor the progress and status of each step of the process to determine exactly when:

- ▶ Documents are prepared;
- ▶ Documents are sent to the customer for signing;
- ▶ Documents are returned by the customer;
- ▶ Settlement is arranged; and
- ▶ Settlement is affected.

### *Core Servicing*

Immediately after settlement confirmation is received, loans are activated in the core servicing system, triggering the commencement of interest accrual, card ordering and generation of Internet and Telephone Banking user profiles and the issuing of passcodes, etc as required.

After confirming that all appropriate activations are in place, Bluestone Servicing then contacts the customer directly to make sure their expectations have been met and offer assistance with any questions they may have.

Core servicing system capabilities extend to include the automated handling of:

- ▶ Receipt and posting of payments;
- ▶ Calculation and charging of interest;
- ▶ Control of variations in interest rates;
- ▶ Re-amortisation calculation and adjustments;
- ▶ Interest accruals, charges and adjustments;
- ▶ Property substitution;
- ▶ Subsequent mortgagee consents;
- ▶ Ad-hoc statement requests;
- ▶ Periodic statement distribution;
- ▶ Redraw facilities;
- ▶ Further advances; and

- ▶ Payout figure calculation.

### *Letters & Statements*

Standard documents, forms, letters and statements can be customised to any specification and bearing any brand.

Our system incorporates an integrated document management system that saves time, space and money by electronically storing documents.

All stored documents are easily retrieved for viewing or reproduction by our Contact Centre operators, assisting them to provide superior customer service.

### *Contact Centre*

Bluestone Servicing has a modern inbound Contact Centre operation that has been founded, skilled and trained with a specific third party handling focus. This team handles the frontline interaction for all incoming customer contacts which are received by means of:

- ▶ Direct telephone call;
- ▶ E-mail via public website or internet banking;
- ▶ Callers electing to transfer out of telephone banking to an operator; and
- ▶ Faxes and/or letters.

More complex activities are referred by the Contact Centre to the Customer Service team which is made up of staff with more experience in matters involving property law, etc. The Customer Service team then takes ownership of the client relationship and carriage of any necessary external referrals in order to process to completion such matters as:

- ▶ Asset Retention;
- ▶ Change of tenancy (adding or removing borrower);
- ▶ Further advance (loan increase);
- ▶ Partial discharge (release of a security with remaining debt and security);
- ▶ Product switch (e.g. variable to fixed);
- ▶ Security property substitution; and
- ▶ Security property subdivision.

### *Internet & Telephone Banking*

Bluestone Servicing also developed both Telephone and Internet banking applications that provide customers with multi functional self-

service applications featuring the ability for customers to:

- ▶ View current balance and details (interest rate, repayments, etc);
- ▶ View and download transaction history;
- ▶ Request a statement;
- ▶ Maintain their own password;
- ▶ Make additional payments from their bank account;
- ▶ Redraw available funds to their bank accounts;
- ▶ Transfer funds between loan accounts; and
- ▶ Transfer funds to third party bank accounts.

#### *Management & Exception Reporting*

We have developed a Report Manager Service that allows the custom building of management and exception reports that are 'subscribed' to appropriate individuals and automatically e-mailed to them at regular intervals. Users can generate reports upon demand for any selected data range on an ad-doc basis.

### **SPECIAL SERVICING (ARREARS MANAGEMENT)**

We perform all key aspects of Special Servicing including arrears management and repossession, with a firm and proactive approach.

One of the key values we deliver is our ability to use our Special Servicing experience and management strength to maximise portfolio performance and result in lower arrears, lower losses, improved confidence from Funders and added value to potential purchasers.

Even in its mortgages special servicing unit BSPL deploys strategies often seen in higher intensity, unsecured collection operations. This approach includes contacting borrowers very quickly in the event of a default, immediate follow ups as soon as they break a promise, little reliance on letter programmes and a greater degree of reliance on visitation and call programmes. Our collections approach is relationship based - we seek to develop a rapport with the customer, ensure that they prioritise our payments ahead of their other obligations, that they are managing their spending habits to liberate as much cash as

possible, and move toward a speedy and efficient enforcement if necessary/applicable.

#### *Experience*

Bluestone has managed its arrears in-house since 2000, allowing it to develop a suite of industry best practice systems and processes, and to build up one of the best arrears management and enforcement teams in the market. The Bluestone Special Servicing team have more than 250 years of collective experience in managing arrears. In aggregate they have managed many hundreds of enforcements and many thousands of arrears customers over their careers in collections.

#### *Strategies*

Being proactive in our management, we take factors into account such as the stage of the life cycle of the loan, prior performance and the borrower's fulfilment of previous agreements. Our deep management expertise is supported by proactive and motivated collections teams. Our Special Servicing team manages arrears before the customer has missed a payment. Welcome calls are used to initiate a dialog with customers and to check contact and direct debit details, and borrowers who missed a payment several months previously receive reminder calls in advance of their due date, to ensure timely payment. Bluestone Servicing is one of the few lenders to have initiated SMS messages to our arrears customers, to ensure that all available channels of communication with a borrower are leveraged.

In addition to assisting us efficiently manage loans that have gone into arrears (reactive), our systems allow us to become proactive by managing borrowers based their propensity to go into arrears.

Even for secured lending, we can deploy strategies often seen in higher intensity, unsecured collection operations. This approach includes contacting borrowers very quickly in the event of a default, immediate follow ups as soon as they break a promise, little reliance on letter programmes and a greater degree of reliance on visitation and call programmes.

Our collections approach is relationship based - we seek to develop a rapport with the customer, ensure that they are prioritising their loan payment ahead of their other obligations, ensure

that they are managing their personal spending habits to liberate as much cash as possible, and move towards a speedy and efficient enforcement and sale if necessary.

#### *Automation*

Our technology platform has been heavily adapted to support our 'high-touch' arrears management approach. Because the system is integrated, a work task will show up on a collectors work queue moments after we are notified by the bank of a dishonoured payment. Experience has shown us that a difference of a day in contacting borrowers about a dishonoured payment is often the difference in being able to bring the loan current.

When a payment dishonours for a small shortfall or bad timing with the clearance of a deposit, it is significantly easier to get this corrected when contact is made early.

The system also tracks promises to pay and automatically creates a work task for our collectors if a promise has been broken, making it appear to our customers that we are completely focussed on their account.

#### *Enforcement & Disposition*

Our extensive experience has allowed us to fine tune our processes and procedures, including the efficient presentation and marketing of a property, and negotiation strategies for private treaty and auction situations. We seek to maximise the proceeds to preserve any borrower equity available, and carefully balance a proactive and timely enforcement sale process with the need to ensure a property is well marketed, to ensure that all stakeholders interests are balanced.

## **TRUST MANAGEMENT & INVESTOR REPORTING**

We have a mature and well regarded capital markets franchise which has successfully completed 15 mortgage-backed securities issues into the Australian, New Zealand and global markets totalling \$4.8 billion.

The group has negotiated and managed numerous sophisticated warehouse funding structures and has developed a selective but

strong core of relationships with experienced capital partners in order to leverage management expertise in acquiring, funding and managing receivables portfolios.

Bluestone has a track record of performing the Trust Management role on each of its funding structures to the highest standard. Our strengths in this area include the following activities:

- ▶ Waterfall Calculations, allocating principal, interest and fee collections and disbursement of cash in accordance with the transaction documentation;
- ▶ Calculation of Threshold Rate, determine the minimum interest rate on receivables required to cover trust expenses;
- ▶ Monitoring of portfolio parameters and covenants;
- ▶ Bank account reconciliations;
- ▶ Accounting, maintain general ledger of SPV, prepare annual statutory accounts and coordinate tax returns and audit;
- ▶ Investor reporting, prepare investor reports and rating agency reports;
- ▶ Prepare Drawdown notices, liaise with liquidity providers; and
- ▶ Calculation and remittance of commission payments including generation of detailed reports and appropriate tax invoices.

## **BACKUP SERVICING**

Backup Servicing arrangements are a significant risk mitigation strategy being scrutinised by Lenders and Investors like never before, with the robustness and quality of Backup arrangements having a direct impact on pricing structures.

A lapse in active management of a receivables portfolio of even a short period of time can significantly impact pool performance. This deterioration can be extremely difficult to reverse and it is therefore vital that no time is lost between escalating a Backup arrangement toward a rapid stabilisation of the pool.

Bluestone Servicing is a leading Primary Servicer and Special Servicer with deep experience in delivering effective, cost efficient portfolio management services in Non-conforming, Commercial, Reverse and Lo-Doc mortgage products as well as Auto and Consumer loans, in Australia and New Zealand.

Whilst recognising that Backup engagements can vary widely depending on things such as:

- ▶ The nature of assets being serviced;
- ▶ Whether the existing Servicer is a stand-alone operation or is servicing multiple funders simultaneously;
- ▶ The number of separate funding sources comprising an entire portfolio; and
- ▶ Whether the existing Servicer has detailed Business Continuity and Disaster Recovery plans in place;

we can offer an entirely flexible solution to meet the requirements of all parties and can provide a customised or staged transition plan for any particular transaction.

## TECHNOLOGY

### *Overview*

The Bluestone Origination & Servicing System (BOSS) is a highly configurable software development tool and includes integrated workflow functionality that allows us to create our own forms, screens, workflow, tasks and transactions.

The system is client centric and task based. The interface is intuitive for both users and developers and workflow steps are highly customisable, allowing us to develop bespoke functionality to continually improve on system performance.

Since implementation, down-time on the system has been less than two hours, an extremely high availability level.

Since commencement in 2006 we have developed the system extensively by adding (among other things) functionality such as:

- ▶ Automated task allocations
- ▶ General ledger interfacing
- ▶ A report management dashboard
- ▶ SMS gateway, allowing short-messaging to arrears customers
- ▶ Automated commissions calculation and report generation
- ▶ A configurable cash flow waterfall function
- ▶ Automatic tracking and reporting of arrangements to pay
- ▶ Automated KPI reporting

## RISK MANAGEMENT

### *Business Continuity Planning*

A detailed Business Continuity Plan defines the recovery requirements for each business unit. The plan is reviewed quarterly and updated annually.

There is a dedicated 30MB/s link between our Disaster Recovery (DR) site and Head Office to facilitate replication of data between the sites.

Recovery of the core system at DR is possible in around 15 mins with a loss of data of less than 1 hour. Replicated copies of SQL databases, e-mail environments and File Server data are kept at DR in read only mode.

We have provision for ample 'warm' seats at an alternate site with workstations and telephones plus dedicated servers ready to recover other systems as required.

### *Disaster Recovery*

All infrastructure is centrally located in Sydney, with a dedicated DR site hosted in North Sydney.

Backups are performed using a combination of on-site replication, intra day NAS based snapshots and traditional overnight backups to tape. Snapshot technology enables critical systems such as ARM.net to be backed up fully every hour with the transaction logs databases being backed up every five minutes. These snapshots can be mounted into other environments to facilitate restores and development testing.

Redundant network technology is used throughout business, including the core server segment and between satellite offices to support data and voice/video links. Bluestone Servicing hosts all web facing applications internally and as such utilises redundant internet links with different carriers in Head Office as well as a dedicated internet link for DR.

Head office has two separate power circuits to the base building and a dedicated UPS for every device in the server room. Servers and critical devices are connected to both circuits to remove any single points of failure.

Development, testing and training environments are used extensively for all core systems. The core system database is replicated to several development environments each night.

Full scale DR tests are completed at least annually, based upon a full disaster where head office was completely unavailable. Recovery of core systems is performed on the dedicated servers first and then by restoring the other servers and systems from tape backup. Core systems are recovered well within the allowed time frames.

## RISK & COMPLIANCE

Bluestone Servicing has a dedicated Risk & Compliance team that undertakes operational risk management and internal audit functions. The team is also responsible for management of legal matters and compliance with regulatory authorities.

### *Risk Management Programme*

Bluestone Servicing has implemented a Risk Management Framework that assesses the likely risks in each department with a view to mitigating each risk to an acceptable level. The Framework has been implemented at all levels including management. The Risk Management Framework is reviewed by staff internally each quarter and then reported to management with final sign off by the board.

### *Audit Programme*

Auditing is conducted internally on a monthly basis and all appropriate service areas are covered. Files are audited on a random basis by a senior staff member. Results are reported to the appropriate department heads and management. Results are tabled and used to improve efficiency, service levels and accuracy. Recommendations are made to management and training and development programmes undertaken in accordance with these recommendations.

### *Compliance*

Legal & Compliance staff receive regular training in order to ensure compliance with current legislation and regulatory changes. External lawyers advise our office on relevant changes and the compliance team is responsible for implementation.

Management are kept up to date with changing procedures and legislation via monthly reports that are also presented to the board.

### *AML/CTF Programme*

Bluestone Servicing has a detailed and reliable AML/CTF programme with efficient high level technology to track transactions and suspicious matters. Relevant matters are reported to the Risk & Compliance Manager and AUSTRAC where appropriate. Staff training is conducted annually and as necessary utilising external and internal programmes. Compliance with reporting requirements to AUSTRAC are maintained by the Risk & Compliance Manager.

## CONTACTS

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