

# SPV-SMC (7) CO., LTD.

No. 197/2018  
21 December 2018

## STRUCTURED FINANCE/RMBS Monitor Report

Issue Ratings:  
Guaranteed

AA-(sf)

Last Review Date: 29/11/2017

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## RATIONALE

TRIS Rating affirms the rating on the five-year amortizing guaranteed debentures (guaranteed debentures) issued by SPV-SMC (7) Co., Ltd. (the Issuer or the SPV) at “AA-(sf)”. This is the third rated issue of residential mortgage backed securities (RMBS) originated by the Secondary Mortgage Corporation (SMC or the Guarantor). The guaranteed debentures are unconditionally and irrevocably guaranteed by SMC.

The rating reflects the credit profile of the guarantor, SMC, rated “AA-” with a “stable” outlook by TRIS Rating. The issue rating is also supported by the subordination of the debentures issued by the SPV to SMC, the liquidity facility provided by SMC, and SMC’s obligation to buy back the assets from the SPV.

## KEY RATING CONSIDERATIONS

### Credit profile of SMC

The rated debentures are guaranteed by SMC. SMC was established under the Emergency Decree on Secondary Mortgage Finance Corporation B.E. 2540 (the SMC Act). SMC is wholly owned by the Ministry of Finance (MOF), with its operation under the supervision of the Bank of Thailand (BOT). Under the SMC Act, the Thai government can guarantee the debt issued by SMC but only up to a maximum of four times SMC’s capital. At the end of June 2018, SMC’s capital funds totaled Bt983 million. Thus, the government can guarantee up to Bt3,932 million of SMC’s debts.

### SMC holds subordinated debentures

At the beginning of the transaction, the issuer issued Bt3.2 billion in guaranteed debentures to the investors and Bt881.65 million in subordinated debentures to SMC. The proceeds from the bond issuances were used to acquire the right to receive payments from a pool of residential mortgage loans (the Assets) from SMC. The subordinated debentures comprised around 21.6% of the total transaction value. The subordinated debentures are ranked lower than the guaranteed debentures and serve as a credit enhancement.

The proceeds from the sale of the debentures were used to buy the rights to receive payments from a pool of mortgage loans. The mortgage loan pool comprised 4,113 loans that SMC purchased from Kasikorn Bank PLC (KBANK or the seller). The initial outstanding principal of the loans was Bt4,005.73 million with a book value of Bt4,081.65 million.

At the end of October 2018, the value of the outstanding guaranteed bonds was Bt2,438.3 million. The outstanding amount of the pool of mortgage loans was Bt2,333.0 million and the outstanding amount of the subordinated debentures was Bt126.1 million or 4.9% of the total value of the outstanding debentures, down from 21.6% at the beginning of the transaction.

### Liquidity facility covers shortfalls

SMC will act as the servicer for the transaction. Under the financial support agreement between SMC and the SPV, SMC will provide loans to the SPV to cover any liquidity shortfalls during the life of the debentures.

Monthly installments received from each mortgage borrower will be deposited into SMC’s account first, and will then be transferred to the SPV’s

bank account every month. The monthly installments received from the mortgage loans will be used to pay down the principal and interest on the guaranteed debentures. The installments will also cover all fee and service expenses and the interest and principal on the loans from SMC. Then, 10% of the net principal received or the remaining amount of cash will be deposited in the cash reserve account. Any shortfalls in the principal and interest payments due to the guaranteed debentureholders will be covered by SMC.

From September 2014 to October 2018, the SPV received Bt2,276.2 million in monthly payments from the borrowers, comprising Bt828.4 million in scheduled principal payments, Bt603.47 million in fees and interest payments, and Bt844.3 million as prepaid principal. The prepayment amount was around 21.1% of the original principal value of Bt4,005.7 million. The amount of net non-performing loans (NPLs), net of recoveries, was Bt306.9 million or 7.7% of the original principal value. The installments received from the borrowers were sufficient to cover the principal and interest payments made to the holders of the guaranteed debentures.

#### **Buy back obligation**

Under the terms of the Assignment Agreement, SMC must buy back the remaining loan receivables from the SPV on the legal maturity date at a price equal to the remaining principal plus the accrued interest payments of both the guaranteed and subordinated debentures and any other remaining obligations of the SPV at the end of the period before the maturity date, or at a price agreed by SMC and the SPV. SPV will use the proceeds from the sale of the Assets back to SMC to redeem the guaranteed and subordinated debentures. Any further shortfalls will be covered by SMC under the terms of the Guarantee Agreement.

#### **RATING SENSITIVITIES**

In this transaction, around 30% of the guaranteed debentures will be amortized during the term of the debentures. The ability of the guarantor, SMC, to buy back the remaining Assets at the maturity date determines the ultimate repayment of the principal of the guaranteed debentures. In addition, any shortfalls during the life of the rated debentures will be covered by SMC, the Guarantor. Thus, the rating of the guaranteed debentures will change if the rating of the Guarantor changes.

#### **TRANSACTION OVERVIEW**

In this transaction, SMC acquired mortgage loans from KBANK, then selected and bundled them into a pool of mortgage loans. SMC then sold the right to receive interest and principal payments from the Assets to the SPV. In this transaction, SMC also provides a full, unconditional, and irrevocable guarantee to the holders of the guaranteed debentures. In addition, SMC also serves as a servicer and liquidity provider for the transaction.

The monthly installments received from the mortgage loans will be used to pay down the principal and interest on the guaranteed debentures at a fixed amount of Bt25.6 million per month, plus all fee and service expenses. The SPV will then pay down the interest and principal on the loans from SMC (if any). Next, the SPV will set aside the remaining cash in a cash reserve account. The amount set aside is equal to 10% of the net monthly installments received (net of payments to the guaranteed debenture-holders, all fee and service expenses, and interest on loans from SMC, if any) or the remaining cash, whichever is lower.

Any cash remaining thereafter will be used to amortize the premium (the difference between the purchase price and the outstanding principal of the mortgage loan pool) and pay down the interest and principal of the subordinated debentures. However, the accumulated principal repayment of the subordinated debentures is capped at 90% of the issue size. In case the accumulated principal repayment on the subordinated debentures reaches 90%, the excess cash will be put in a cash reserve account and will be used to pay down the remaining principal on the guaranteed debentures, the loans from SMC, if any, and the subordinated debentures on the maturity date.

#### **The Originator/Guarantor/Servicer:**

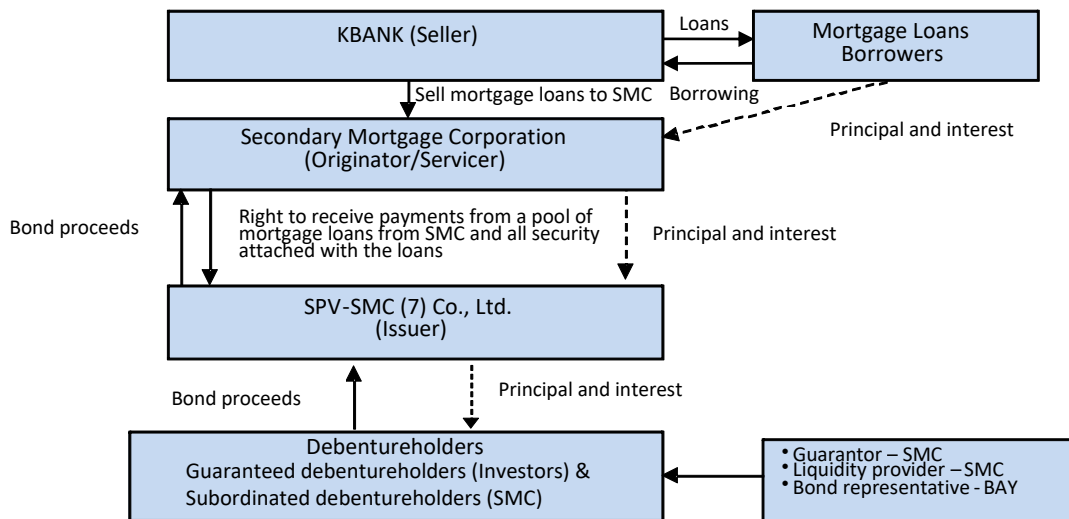
SMC was established in 1997 by the SMC Act. Currently, SMC's paid-up capital is Bt1,230 million. SMC is wholly owned by the MOF with its operations are under the supervision of the BOT. Its role is to develop the secondary market for housing mortgage loans, using asset securitization as a tool to raise funds. Under the SMC Act, the Thai government can guarantee the debt issued by SMC up to a maximum of four times SMC's capital funds. Currently, SMC is rated "AA-/Stable" by TRIS Rating.

SMC will also act as a servicer for this transaction. Based on SMC's experience as a servicer for its previous securitization transactions, TRIS Rating believes that SMC should be able to service this transaction as well.

**The Issuer:**

SPV is a limited liability company established under Thai law and granted special purpose vehicle status by the Securities and Exchange Commission (SEC). Its shareholders are SMC (48%), Good Service Co., Ltd. (48.99%), and individuals (3.01%). This is the seventh SPV established by SMC. As a special purpose vehicle under the SPV Act 1997, the SPV shall not operate any business other than what was initially specified. The SEC must approve the securitization program to be undertaken by the SPV.

**Chart 1: Transaction Diagram**



Source: TRIS Rating

**PERFORMANCE ANALYSIS**

In this transaction, the cash received monthly from the mortgage loan borrowers is expected to be around Bt30 million (if there is no prepayment and/or default). During September 2014 to October 2018, the SPV received Bt2,276.2 million in monthly payment from the borrowers, comprising Bt828.4 million in scheduled principal payments, Bt603.5 million in fees and interest payments, and Bt844.3 million as prepaid principal. The prepayment amount was around 21.1% of the original principal value of Bt4,005.7 million. The amount of net NPLs, net of recoveries, was Bt306.9 million or 7.7% of the original principal value. The cash received from borrowers were sufficient for repaying the principal and interest of the guaranteed debentures.

At the end of October 2018, the outstanding amount of the principal of the loan portfolio was Bt2,438.3 million. The value of the outstanding subordinated debentures at the end of October 2018 was Bt126.1 million, lower than the projected value of Bt760.6 million (in case there is no prepayment and/or default). The higher prepayments caused the credit enhancement of the guaranteed bonds to drop to 4.9% from 21.6%.

**MONITORING PROCESS**

TRIS Rating will monitor the assigned rating of the guaranteed debentures regularly, through information from the following reports:

- Transaction administrator’s report,
- Guarantor’s rating report , and
- Auditor’s report

Surveillance will be maintained on this transaction until the debentures mature or are otherwise retired, to ensure that the rating of the debentures reflects current risks.

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**RELATED CRITERIA**

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- Guidelines on Securitization Rating Methodology, 31 May 2010

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**SPV-SMC (7) Co., Ltd. (SMC SPV (7))**

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**Issue Rating:**

MBSD199A: Bt2,421.5 million amortizing guaranteed debentures due 2019

AA-(sf)

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The issuer has informed TRIS Rating that the issuer has followed the SEC in disclosing all relevant information about the structured finance instruments that are subject to this rating report to the public.

**TRIS Rating Co., Ltd.**

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