

SPV-SMC (8) CO., LTD.

No. 209/2019
24 December 2019

STRUCTURED FINANCE/RMBS Monitor Report

Issue Ratings:
Guaranteed

AA-(sf)

Last Review Date: 21/12/2018

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RATIONALE

TRIS Rating affirms the rating on the five-year amortizing guaranteed debentures (guaranteed debentures) issued by SPV-SMC (8) Co., Ltd. (the Issuer or the SPV) at “AA-(sf)”. This is the fourth 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 in full amount by SMC.

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

KEY RATING CONSIDERATIONS

Credit profile of SMC

The rated debentures are unconditionally and irrevocably guaranteed by SMC in full amount. 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 4 times SMC’s capital. At the end of June 2019, SMC’s capital funds totaled Bt945 million. Thus, the government can guarantee up to Bt3.78 billion of SMC’s debts. Currently, SMC does not have any debts guaranteed by the government.

SMC holds subordinated debentures

At the beginning of the transaction, the issuer issued Bt7.03 billion in debentures, comprising Bt5 billion of amortizing guaranteed debentures and Bt2.03 billion of subordinated debentures. The subordinated debentures accounted for 28.8% of the debentures issued by the SPV. The guaranteed debentures were sold to investors, while the subordinated debentures were held by SMC. 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 purchase from SMC the right to receive payments from a pool of mortgage loans, or the Assets, that SMC purchased from the sellers, Kasikorn Bank PLC (KBANK) and Siam Commercial Bank PLC (SCB). The principal value of the pool of mortgage loans was Bt6.77 billion.

At the end of October 2019, the value of the outstanding guaranteed bonds was Bt4.57 billion. The outstanding amount of the pool of mortgage loans was Bt3.82 billion, while the outstanding amount of the subordinated debentures was Bt202.51 million or 4.24% of the value of the outstanding debentures, down from 28.8% at the beginning of the transaction. However, the subordinated debentures must be retained at this level, 10% of the issued amount, until the end of the transaction.

Liquidity facility covers shortfalls

SMC is also the servicer and liquidity provider for this 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 transferred to the SPV's bank account later. The principal component will be used to repay the principal portion of the guaranteed debentures, then to repay the principal portion of loans from SMC to cover the principal repayment of the rated bonds. Next, cash is deposited in the cash reserve account, in the amount of 10% of the net principal received or the remaining cash, whichever is lower. Lastly, any cash remaining will be used to repay the principal portion of the subordinated debentures. The interest component will be used to pay interest on the rated debentures and pay fee and service expenses. Any shortfalls in principal and interest payments to the guaranteed debentureholders will be covered by SMC.

From November 2015 to October 2019, the SPV received Bt3.95 billion in monthly payment from the borrowers, comprising Bt1.25 billion in scheduled principal payments, Bt1 billion in fees and interest payments, and Bt1.70 billion as prepaid principal. The prepayment amount was around 25.08% of the original principal value of Bt6.77 billion. The amount of net non-performing loans (NPLs), net of recoveries, was Bt443.78 million or 6.55% 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 by SMC

Under the Assignment Agreement, SMC has to buy back the remaining loan receivables from the SPV on the legal maturity date at a price equal to: (1) the remaining book value of the mortgage loan receivables plus any accrued interest payments, or (2) the remaining principal plus accrued interest payments on both the guaranteed and subordinated debentures and other obligations of the SPV after deducting the cash in the reserve account of the SPV, whichever is lower. The proceeds from selling the Assets back to SMC will be used to redeem the guaranteed debentures and subordinated debentures. Any shortfall will be covered by SMC, under the Guarantee Agreement.

RATING SENSITIVITIES

In this transaction, around 10% 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. 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 and SCB, then selected and bundled the loans into a pool of mortgage loans. SMC then sold the right to receive interest and principal payments from the mortgage loan pool (the Assets) to the SPV for up to Bt7 billion. The mortgage rights on the properties and any insurance policies attached with the Assets were transferred to the SPV at the beginning of the transaction. The SPV paid for the Assets with the proceeds from the guaranteed debentures and the subordinated debentures issued to SMC. In this transaction, SMC also provides a full unconditional and irrevocable guarantee for the guaranteed debentures. In addition, SMC serves as a servicer and liquidity provider for the transaction.

The monthly installments received from the mortgage loans will be used to pay the principal and interest on the guaranteed debentures at a fixed amount of Bt22.5 million per month, plus all fees and service expenses. The principal component will be used to repay the principal portion of the guaranteed debentures, to repay loans from SMC, for deposit in the cash reserve account, and lastly to repay the principal portion of the subordinated debentures. The interest component will cover the interest on the rated debentures and will be used to pay fees and service expenses.

The Originator/Guarantor/Servicer:

SMC was established in 1997 by the SMC Act. Currently, SMC's paid-up capital is Bt1.23 billion. SMC is wholly owned by the MOF, with its operations under the supervision of the BOT. SMC's role is to develop the secondary market for housing mortgage loans, using asset securitization as a tool to raise funds. SMC is rated "AA-/Stable" by TRIS Rating.

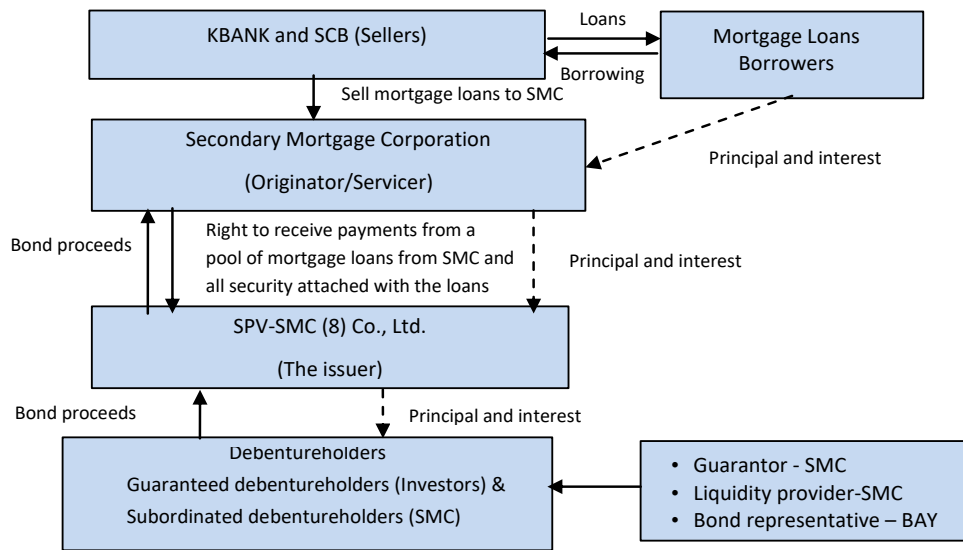
SMC will also act as a servicer for this transaction. Based on SMC's experience as a servicer for its previous fourth residential mortgage-backed securities (RMBS) transactions, TRIS Rating believes that SMC should be able to service this transaction as well.

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 (49%), Good Service Co., Ltd. (48%), and individuals (3%). This is the eighth SPV established by SMC. As a special purpose vehicle under the SPV Act 1997, the SPV cannot operate any

business other than what was initially specified.

Chart 1: Transaction Diagram



Source: TRIS Rating

PERFORMANCE ANALYSIS

In this transaction, the cash received monthly from the mortgage loan borrowers is forecast to be around Bt45 million (assuming no prepayment and/or default). During November 2015 to October 2019, the SPV received Bt3.95 billion in monthly payments from the borrowers, comprising Bt1.25 billion in scheduled principal payments, Bt1 billion in fees and interest payments, and Bt1.70 billion as prepaid principal. The prepayment amount was around 25.08% of the original principal value of Bt6.77 billion. The amount of net non-performing loans (NPLs), net of recoveries, was Bt443.78 million or 6.55% of the original principal value.

At the end of October 2019, the value of the outstanding guaranteed bonds was Bt4.57 billion while the remaining principal value of the loans was Bt3.82 billion. The value of the outstanding subordinated debentures at the end of October 2019 was Bt202.51 million, lower than the projected value of Bt1.79 billion. The significantly higher prepayments caused the credit enhancement of the guaranteed bonds to drop to 4.24% from 28.8% at the beginning of the transaction. However, the subordinated debentures must be kept at this level, 10% of the issued amount, until the end of the transaction.

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.

NOTE

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.

RELATED CRITERIA

- Guidelines on Securitization Rating Methodology, 31 May 2010

SPV-SMC (8) Co., Ltd. (SMC SPV (8))

Issue Rating:

MBSE20NA: Bt4,562.36 million amortizing guaranteed debentures due 2020

AA-(sf)

TRIS Rating Co., Ltd.

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