

SPV-SMC (9) CO., LTD.

No. 210/2019
24 December 2019

STRUCTURED FINANCE/RMBS Monitor Report

Issue Ratings:

Partially guaranteed

AA-(sf)

Last Review Date: 21/12/18

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RATIONALE

TRIS Rating affirms the rating on the five-year amortizing partially guaranteed debentures (guaranteed debentures) issued by SPV-SMC (9) Co., Ltd. (the Issuer or the SPV) at "AA-(sf)". This is the fifth rated issue of residential mortgage backed securities (RMBS) originated by the Secondary Mortgage Corporation (SMC or the Guarantor). The debentures are partially guaranteed by SMC, with unconditional and irrevocable guarantee.

The rating reflects the credit profile of the guarantor, SMC, rated "AA-" with a "stable" rating outlook by TRIS Rating. SMC will provide a guarantee of up to 90% of the outstanding principal and accrued interest on the rated debentures. The issue rating is also supported by the subordination of the subordinated 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 at the end of the transaction.

KEY RATING CONSIDERATIONS

Credit profile of SMC

The rated debentures are unconditionally and irrevocably guaranteed by SMC for up to 90% of the outstanding principal and interest. 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 operations 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 Bt8.22 billion in debentures, comprising Bt6 billion of amortizing partially guaranteed debentures and Bt2.22 billion of subordinated debentures. The subordinated debentures accounted for 27% 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), Siam Commercial Bank PLC (SCB), TISCO Bank PLC (TISCO), and Kiatnakin Bank PLC (KK). The principal value of the pool of mortgage loans was Bt8.02 billion.

At the end of October 2019, the value of the outstanding guaranteed bonds was Bt5.16 billion while the outstanding amount of the subordinated debentures was Bt591.94 million or 10.28% of the value of the outstanding debentures, down from 27% at the beginning of the transaction. However, the subordinated debentures must be retained at 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, to repay the principal of loans from SMC, to cover the principal repayment of the rated bonds, to deposit in the cash reserve account in the amount of 10% of the net principal received or the remaining cash, whichever is lower, and lastly, the remaining cash 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 2016 to October 2019, the SPV received Bt3.66 billion in monthly payments from the borrowers, comprising Bt1.16 billion in scheduled principal payments, Bt998.57 million in fees and interest payments, and Bt1.50 billion as prepaid principal. The prepayment amount was around 18.75% of the original principal value of Bt8.02 billion. The amount of net non-performing loans (NPLs), net of recoveries, was Bt415.70 million or 5.18% 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 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 shortfalls will be covered by SMC under the Guarantee Agreement. The guarantee will cover up to 90% of the value of the outstanding guaranteed debentures plus accrued interest on the due date. Thus, the proceeds from the sale of the Assets, in conjunction with the guarantee payment, should cover the repayment due to the holders of the guaranteed bonds.

RATING SENSITIVITIES

In this transaction, around 25% of the guaranteed debentures will be amortized during the term of the debentures. Thus, the SPV will rely on the proceeds from selling the Assets back to SMC to repay the guaranteed debentures at the maturity date. In addition, any further shortfalls will be covered by the guarantee payment from SMC. The guarantee will cover 90% of the outstanding guaranteed debentures and accrued interest on each payment date. Since SMC performs several important roles in this transaction, the rating of the guaranteed debentures will be determined mainly by the rating of SMC. Therefore, the issue rating will change once the rating of SMC changes.

TRANSACTION OVERVIEW

In this transaction, SMC acquired mortgage loans from the Sellers, 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 Bt8.22 billion. The mortgage rights on the properties and any insurance policies attached to 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. In this transaction, SMC also provides an unconditional and irrevocable guarantee of up to 90% of the guaranteed debentures. In addition, SMC serves as a servicer and liquidity provider for the transaction.

The monthly installments received from the mortgage loans, comprising both principal and interest components, will be used mainly to pay down the principal and interest on the guaranteed debentures at a fixed amount of Bt39 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, to 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.

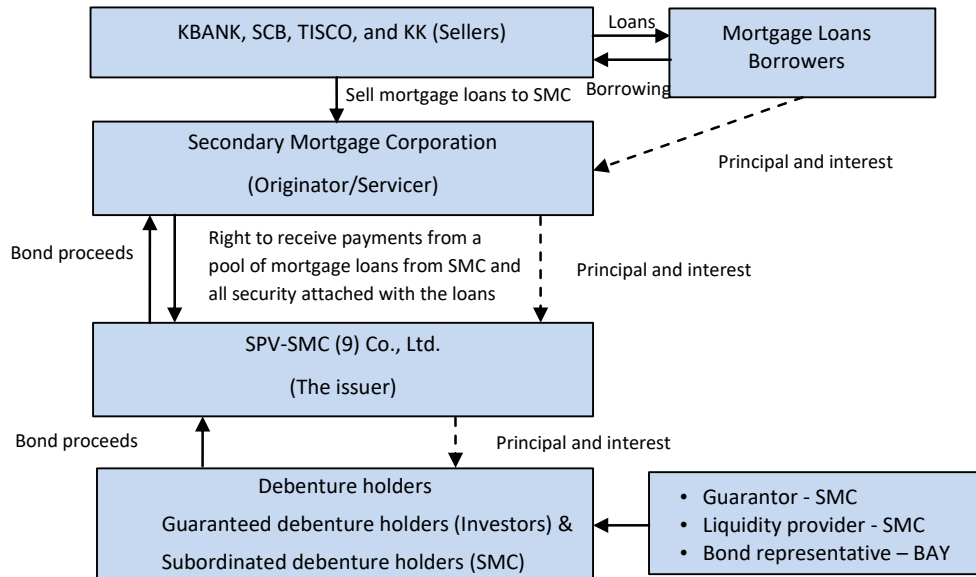
The Originator/Guarantor/Servicer:

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.

The Issuer:

SPV is a limited liability company established under Thai law and was 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 ninth 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.

Chart 1: Transaction Diagram



Source: TRIS Rating

PERFORMANCE ANALYSIS

In this transaction, the cash received monthly from the mortgage loan borrowers is forecast at around Bt59 million (assuming no prepayment and/or default). During November 2016 to October 2019, the SPV received Bt3.66 billion in monthly payments from the borrowers, comprising Bt1.16 billion in scheduled principal payments, Bt998.57 million in fees and interest payments, and Bt1.50 billion as prepaid principal. The prepayment amount was around 18.75% of the original principal value of Bt8.02 billion. The amount of net NPLs, net of recoveries, was Bt415.70 million or 5.18% of the original principal value.

At the end of October 2019, the value of the outstanding guaranteed bonds was Bt5.16 billion while the remaining principal value of the loans was Bt5.36 billion. The outstanding amount of the subordinated debentures at the end of October 2019 was Bt591.94 million, lower than the projected value of Bt2.09 billion. The significantly higher prepayments caused the credit enhancement of the guaranteed bonds to drop to 10.28% from 27% at the beginning of the transaction. However, the subordinated debentures must be retained at least Bt221.84 million, or 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 (9) Co., Ltd. (SMC SPV (9))

Issue Rating:

MBSF21NA: Bt5,139.12 million amortizing partially guaranteed debentures due 2021

AA-(sf)

TRIS Rating Co., Ltd.

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