

SPV-SMC (9) CO., LTD.

No. 165/2017

29 November 2017

Issue Rating:

Partially Guaranteed debentures AA-(sf)

Rating Rationale

TRIS Rating affirms the rating of 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. The rating reflects the rating of the guarantor, SMC, rated "AA-" with a "stable" 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 and the liquidity facility provided by SMC. SMC has an obligation to buy back the Assets from the SPV. The proceeds from the sales of the Assets will be used to repay the remaining principal and interest of the guaranteed debentures. Any further shortfalls will be covered by the guarantee, amounting to up to 90% of the value of the outstanding principal plus accrued interest, when the bonds mature. Thus, the rating addresses the full and timely payments of interest and principal on the guaranteed debentures.

SMC, the Guarantor, was established in 1997 under the Emergency Decree on Secondary Mortgage Finance Corporation B.E. 2540 (the SMC Act). Currently, SMC's paid-up capital is Bt1,230 million. SMC is wholly owned by the MOF, with its operation under the supervision of BOT, SMC's role is to develop the secondary market for housing mortgage loans. SMC will use asset securitization as a tool to raise funds. 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 2017, SMC's capital funds totaled Bt844 million. Thus, the government can guarantee up to Bt3,376 million of SMC's debts. SMC is also the servicer and liquidity provider for this transaction.

The Issuer is a special purpose company established under the Thai law, which 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%).

At the beginning of the transaction, the issuer issued Bt8,218.35 million in debentures, comprising Bt6,000 million of amortizing partially guaranteed debentures and Bt2,218.35 million of subordinated debentures. 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 served as a credit enhancement for the guaranteed debentures. 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 Bt8,021.05 million.

At the end of September 2017, the value of the outstanding guaranteed bonds was Bt5,769.1 million while the remaining principal value of the loans was Bt7,296.03 million. From November 2016 to September 2017, the SPV received Bt1,025.1 million in monthly payment from the borrowers, comprising Bt382.5 million in scheduled principal payments, Bt300.08 million in fees and interest payments, and Bt342.52 million as prepaid principal. The prepayment amount was

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around 4.27% of the original principal value of Bt8,021.05 million. The amount of net non-performing loans (NPLs), net of recoveries, was Bt203.04 million or 2.53% of the original principal value.

Monthly installments received from each mortgage borrower will be deposited into SMC's account first, and will be transferred to the SPV's bank account. 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 mainly to pay interest of the rated debentures and to pay fee and service expenses. The outstanding amount of the subordinated debentures at the end of September 2017 was Bt1,843.2 million or 24.2% of the total outstanding debenture value, declining from 27% of the original total value of the debentures at the beginning of the transaction.

However, 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. In addition, 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 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 further 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.

SPV-SMC (9) Co., Ltd. (SMC SPV (9))

Issue Rating:

MBSF21NA: Bt5,722.27 million amortizing partially guaranteed debentures due 2021

AA-(sf)

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