

# SPV-SMC (8) CO., LTD.

No. 199/2020  
24 November 2020

## STRUCTURED FINANCE/RMBS Monitor Report

**Issue Rating:**  
Guaranteed AAA(sf)

**Last Review Date:** 24/09/20

### Issue Rating History

Date	Rating	Outlook/Alert
24/09/20	AA-(sf)	Alert Positive
30/10/15	AA-(sf)	

### Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Suchada Pantu, Ph.D.

suchada@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating removes the “CreditAlert” with a “positive” implication placed on the rating of five-year amortizing guaranteed debentures (guaranteed debentures) issued by SPV-SMC (8) Co., Ltd. (the Issuer or the SPV). At the same time, TRIS Rating upgrades the rating on the guaranteed debentures to “AAA(sf)” from “AA-(sf)” to reflect the credit profile of the Government Housing Bank (GHB), the new guarantor.

The rating actions reflect the merging of the Secondary Mortgage Corporation (SMC), the debenture guarantor, into GHB, pursuant to the Act for the Dissolution of the Secondary Mortgage Corporation B.E. 2563 (2020) announced in the Royal Gazette on 23 September 2020, by which all of SMC’s assets and liabilities have been transferred to GHB. In this regard, TRIS Rating has completed the evaluation of GHB’s credit profile and assigned the rating of “AAA” with a “stable” outlook on GHB.

The debentures are unconditionally and irrevocably guaranteed by GHB. The issue rating is also supported by the subordinated debentures issued by the SPV to GHB, the liquidity facility provided by GHB, and the obligation of GHB to buy back a pool of mortgage loans or the Assets from the SPV.

## KEY RATING CONSIDERATIONS

### Credit profile of GHB

GHB is a specialized financial institution (SFI) founded in 1953 under the Government Housing Bank Act B.E. 2496 (1953). GHB is wholly owned by the government through the Ministry of Finance (MOF) and operates under the supervision of the MOF and the Bank of Thailand (BOT).

In our opinion, there is an almost certain likelihood that the government will provide timely and sufficient extraordinary support to GHB if needed. The rating assessment is based on GHB’s “integral” linkage with the government and its “critical” public policy role, which we expect to remain unchanged in the foreseeable future.

### GHB holds subordinated debentures

The total amount of debentures issued by the SPV was THB7.03 billion at the time of issuance, comprising THB5 billion of amortizing guaranteed debentures and THB2.03 billion of subordinated debentures. The subordinated debentures accounted for 28.8% of the total amount of the debentures issued by the SPV. The guaranteed debentures were distributed to investors, while the subordinated debentures were held by SMC. The subordinated debentures, now held by GHB, are ranked below the guaranteed debentures in creditor claims and serve as a credit enhancement.

The proceeds from the issuance of debentures were used to purchase from SMC the right to receive payments from the Assets that SMC purchased from the sellers, Kasikorn Bank PLC (KBANK) and Siam Commercial Bank PLC (SCB). The principal value of the Assets was THB6.77 billion.

At the end of September 2020, the value of the outstanding guaranteed debentures was THB4.46 billion. The outstanding amount of the Assets was THB3.4 billion, while the outstanding amount of the subordinated debentures was THB202.5 million or 4.34% of the value of the outstanding debentures, down from 28.8% at the time of issuance. However, the subordinated

debentures must be retained at a minimum of 10% of the issue amount until the end of the transaction.

### **Liquidity facility covers shortfalls**

GHB is also the servicer and liquidity provider for this transaction. Under the financial support agreement between GHB and the SPV, GHB 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 the servicer's account first, and transferred to the SPV's bank account later. The principal component of installments will be used to repay the principal portion of the guaranteed debentures, then to repay the principal portion of loans from the liquidity provider to cover the principal repayment of the guaranteed bonds (if any). 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 or put in the cash reserve account once the accumulated principal repayment of the subordinated debentures reaches 90%. The interest component of installment will be used to pay interest on the rated debentures as well as fees and service expenses. Any shortfalls in principal and interest payments to the guaranteed debentureholders will be covered by GHB.

From November 2015 to September 2020, the SPV received THB4.53 billion in monthly installments from the borrowers, comprising THB1.44 billion in scheduled principal repayments, THB1.17 billion in fees and interest payments, and THB1.92 billion as prepaid principal. The prepayment amount was around 28.42% of the original principal value of THB6.77 billion. The amount of net non-performing loans (NPLs), net of recoveries, was THB429.2 million or 6.34% 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 of GHB**

Under the Assignment Agreement, GHB is obliged 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 GHB will be used to redeem the guaranteed debentures and subordinated debentures. Any shortfall will be covered by GHB, 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, GHB, 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 GHB. Thus, the rating on the guaranteed debentures reflects the rating on the guarantor and will change in accordance with changes in the rating on the guarantor.

### **TRANSACTION OVERVIEW**

Initially, SMC acquired mortgage loans from KBANK and SCB, then selected and bundled the loans into a pool of mortgage loans or the Assets. SMC then sold the right to receive interest and principal payments from the Assets to the SPV. 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. After the assumption of SMC's roles and responsibilities by GHB, GHB became the guarantor in this transaction. The guarantee is unconditional and irrevocable. GHB also 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 THB22.5 million per month, plus all fees and service expenses. The principal component will be used to repay the principal portion of the guaranteed debentures, then to repay loans from the liquidity provider (if any), 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 guaranteed debentures and will be used to pay fees and service expenses.

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

Initially, the originator of this transaction was SMC. However, SMC was dissolved after the announcement of the Act for the Dissolution of the Secondary Mortgage Corporation B.E. 2563 (2020) in the Royal Gazette on 23 September 2020. Following the dissolution of SMC, GHB assumed the roles and responsibilities of SMC. Thus, GHB became the servicer and

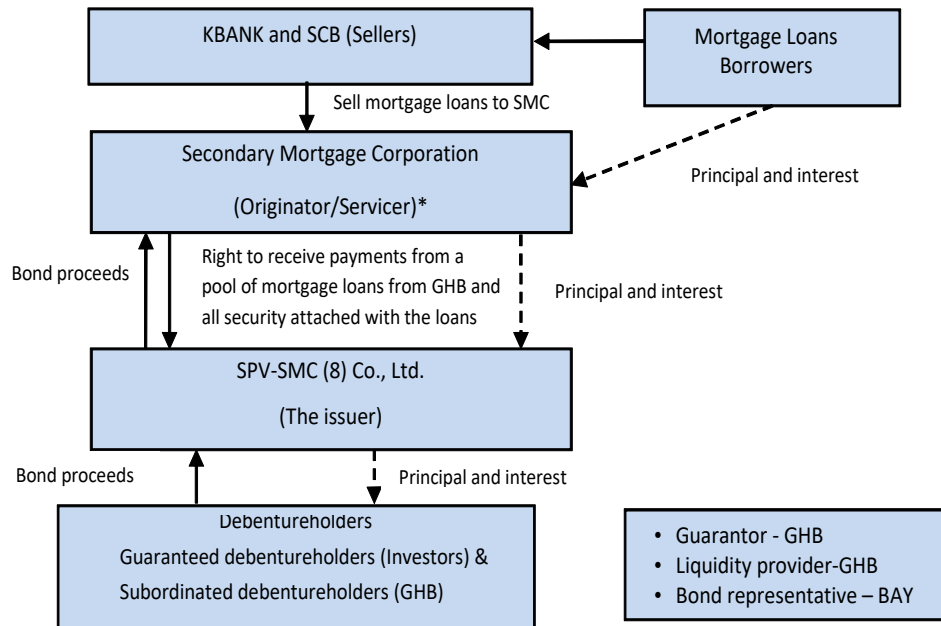
the guarantor for this transaction. GHB is rated “AAA/Stable” by TRIS Rating.

GHB is an SFI founded in 1953 under the Government Housing Bank Act B.E. 2496 (1953). GHB is wholly owned by the government through the MOF and operates under the supervision of the MOF and is supervised by the BOT.

**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). Currently, its shareholders are GHB (49%), Good Service Co., Ltd. (48%), and individuals (3%). As a special purpose vehicle under the SPV Act B.E. 2540 (1997), the SPV cannot undertake any business other than what was initially specified.

**Chart 1: Transaction Diagram**



\*After the dissolution of SMC, GHB became the servicer of this transaction on 24 September 2020.

Source: TRIS Rating

**PERFORMANCE ANALYSIS**

In this transaction, the monthly cash received from the mortgage loan borrowers is forecast to be around THB45 million (assuming no prepayment and/or default). During November 2015 to September 2020, the SPV received THB4.53 billion in monthly payments from the borrowers, comprising THB1.44 billion in scheduled principal payments, THB1.17 billion in fees and interest payments, and THB1.92 billion as prepaid principal. The prepayment amount was around 28.42% of the original principal value of THB6.77 billion. The amount of net NPLs, net of recoveries, was THB429.2 million or 6.34% of the original principal value.

At the end of September 2020, the value of the outstanding guaranteed bonds was THB4.46 billion while the remaining principal value of the loans was THB3.4 billion. The value of the outstanding subordinated debentures at the end of September 2020 was THB202.5 million, lower than the projected value of THB1.75 billion. The significantly higher prepayments caused the credit enhancement of the guaranteed bonds to drop to 4.34% 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 on 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 on 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: THB4,453.62 million amortizing guaranteed debentures due 2020

AAA(sf)

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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