SPV-SMC (7) CO., LTD.

No. 163/2017 29 November 2017

Issue Rating:

Guaranteed debentures	AA-(sf)

Rating Rationale

TRIS Rating affirms the rating of 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 rating of guarantor, SMC, rated “AA-“ with a “stable” outlook by TRIS Rating. The issue rating is also supported by the subordination of the subordinated debentures issued by SPV to SMC, the liquidity facility provided by SMC, and the obligation of SMC to buy back the Assets, which is the right to receive payments from a pool of mortgage loans, 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 (48%), Good Service Co., Ltd., (48.99%), and individuals (3.01%).

At the beginning of the transaction, the issuer issued Bt3,200 million in guaranteed debentures to the investors and Bt881.65 million in subordinated debentures to SMC. The proceeds from bond issuances were used to acquire the right to receive payments from a pool of residential mortgage loans (the Assets) from SMC. The size of the subordinated debentures was around 21.6% of the sum of the guaranteed debentures and the subordinated debentures. The subordinated debentures are ranked lower than the guaranteed debentures and are served as a credit enhancement for the guaranteed debentures.

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 the book value of Bt4,081.65 million. The mortgage rights on the properties and insurance policies attached with the Assets were transferred to the SPV at the beginning of the transaction. The guaranteed debentures are also supported by the liquidity facility provided by SMC and SMC’s obligation to buy back the remaining Assets at the bond’s maturity date.

At the end of September 2017, the value of the outstanding guaranteed bonds was Bt2,653.57 million while the remaining principal on the loans was Bt2,721.27 million. From September 2014 to September 2017, the SPV received Bt1,778.76 million in monthly payment from the borrowers, comprising Bt688.79 million in scheduled principal repayments, Bt471.08 million in fees and interest payment, and Bt618.89 million as prepaid principal. The prepayment amount was

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around 15.45% of the original principal value. The amount of net non-performing loans (NPLs) was Bt358.94 million or 8.96% of the original principal value. The outstanding amount of the subordinated debentures at the end of September 2017 was Bt292.43 million or 9.93% of the total outstanding debentures value, declining from 21.6% of the original total value of the debentures at the beginning of the transaction.

SMC will act as the servicer for the transaction. 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. SMC will also be the liquidity provider for this transaction. 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 financial supports from SMC. Thus, the rating of the guaranteed debentures will change if the rating of the guarantor changes.

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

Issue Rating:

MBSD199A: Bt2,621.15 million amortizing guaranteed debentures due 2019	AA-(sf)

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