Press Release

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TRIS Rating Assigns Preliminary Rating of "SPV-SMC (9)'s" Debentures at "AA-(sf)"

TRIS Rating has assigned a preliminary rating of "AA-(sf)" to the five-year amortizing partial guaranteed debentures (guaranteed debentures), worth up to Bt6,000 million, issued by SPV-SMC (9) Co., Ltd. (the Issuer or the SPV). The proposed debentures are partially guaranteed by the Secondary Mortgage Corporation (SMC, the guarantor), rated "AA-/Stable outlook" by TRIS Rating. The Bt6,000 million in proceeds from the guaranteed debentures, in conjunction with the subordinated debentures (non-rated), will be used to purchase the right to receive payments from a pool of residential mortgage loans (the Assets) from SMC. The size of the subordinated debenture issue will not be less than 25% of the value of the total debentures issued by the SPV. This is the fifth rated issue of residential mortgage-backed securities (RMBS) originated by SMC.

The preliminary rating reflects the creditworthiness of SMC, the guarantor and liquidity provider for the transaction. SMC will provide a guarantee of up to 90% of the outstanding principal and accrued interest on the rated debentures. SMC will also provide a liquidity facility to cover any shortfalls during the life of the bonds. In addition, SMC will hold the subordinated debentures issued by the SPV. The subordinated debentures are ranked lower than the guaranteed debentures and serve as a credit enhancement for the guaranteed debentures. At the end of the transaction, 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. Thus, the preliminary rating addresses the full and timely payments of interest and principal for the rated debentures.

SMC, the guarantor, is a state enterprise financial institution under the supervision of the Ministry of Finance (MOF). Its role is to promote the Thai secondary mortgage market. The Issuer is a special purpose company established under Thai law. The establishment of the Issuer is expected to comply with the Special Purpose Vehicle Act 1997 (the SPV Act 1997). Its shareholders are SMC (49%), Good Service Co., Ltd., (48%), and individuals (3%).

In this transaction, the Assets comprise the mortgage loans (plus loans for decoration and loans for mortgage reducing term assurance made to some borrowers) that SMC purchased from Kasikorn Bank PLC (KBANK), Siam Commercial Bank PLC (SCB), TISCO Bank PLC (TISCO), and Kiatnakin Bank PLC (KK), collectively called the Sellers. At the cut-off date on 31 August 2016, the remaining principal on the loans equaled Bt8,456.65 million, with 3,859 borrowers. The book value of the Assets purchased from the Sellers was Bt8,645.54 million. Assuming there is neither prepayment nor default, the monthly installment received from the Assets is expected to be around Bt64.94 million. The SPV is committed to paying the holders of the guaranteed debentures Bt42.25 million per month, covering both the interest and principal components. The weighted average interest rate across the loan pool is 4.73%. The weighted average remaining term of the mortgage loans is 24.21 years.

SMC will also act as the servicer for the transaction. Based on SMC's role as servicer for previous securitization deals, TRIS Rating believes that SMC has the capacity to service this transaction. 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 at the end of each month. However, commingling risk is not a major concern since SMC will also be the liquidity provider for this transaction. According to the financial support agreement between SMC and the SPV, SMC will provide loans to the SPV to cover any shortfalls during the life of the rated 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 shortfall will be covered by SMC under the

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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.

Under TRIS Rating's base case scenario, if the prepayment rate is set at 5% per annum, the default rate is set at 2.5% in the first year, and the default rate increases by 10% per year. The default rate is rising every year but the portfolio value is falling due to payments and prepayments of outstanding loans. The net effect is that the cumulative value of defaults, summed from year one to year five, amounts to 11% of the original portfolio value. Under these assumptions, the cash inflows from the Assets will sufficient to repay the SPV's senior obligations, including all fees and expenses. However, at the end of the transaction, the SPV has to sell the remaining loan receivables back to SMC, so that the SPV will have sufficient cash to redeem the remaining guaranteed debentures. At the maturity date, the remaining principal of the guaranteed debentures is expected to be around Bt4,340 million, or around 72% of the initial value, depending on the coupon rate of the guaranteed debentures. In the worst case scenario, based on a 5% prepayment rate per annum, the transaction can withstand defaults of up to 71% of the beginning loan portfolio value before the cash flows from the sale of the Assets and the up to 90% guarantee amount will not cover the outstanding guaranteed bonds on the maturity date.

In this transaction, around 28% 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 guarantee payment from SMC. The guarantee will cover up to 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. (SPV-SMC (9))
Preliminary Issue Rating:

Up to Bt6,000 million amortizing partial guaranteed debentures due 2021	AA-(sf)

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