


Rating of Asset-Backed Securities

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Structured Finance Ratings

RATING AGENCY MALAYSIA BERHAD

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CREDIT RATING

~ *Definition, Rating Scales & Process*

RAM's CREDIT RATINGS

Ratings is...an **OBJECTIVE** and **IMPARTIAL** opinion on the **ABILITY** and **WILLINGNESS** of an issuer to make **FULL** and **TIMELY** payments of all financial obligations

- RAM's current opinions regarding the relative creditworthiness of issuers or issues

OR

- RAM's current opinions on the ability & willingness of issuers to meet their debt obligations in accordance with the relevant terms and conditions

OR

- Probability of default on the rated debt securities

CREDIT RATINGS ARE NOT…

- Verifiable **STATEMENTS OF FACT**
- **INVESTMENT** or **FINANCIAL** advice
- Recommendations to **BUY**, **SELL** or **HOLD** particular securities
- An **AUDIT** – credit ratings are based on information furnished by issuer or its agents/advisors (e.g. legal counsels, consultants & other experts) & information obtained from sources believed to be reliable

Rating agencies have no obligation to, and do not perform, independent verification of information it receives or conduct an audit as to their completeness

LONG TERM RATINGS

Rating	Description	Grade
AAA	Issues rated AAA are judged to be of the best quality and offer highest safety of timely payment of interest and principal.	Investment-Grade
AA	High safety of timely payment of interest and principal.	Investment-Grade
A	Adequate safety of timely payment of interest and principal. More susceptible to changes in circumstances and economic conditions than debt in higher rated categories.	Investment-Grade
BBB	Moderate safety of timely payment of interest and principal. Lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity to pay interest and principal than debt in higher rated categories.	Investment-Grade
BB	Inadequate safety of timely payment of interest and principal. Future cannot be considered as well-assured.	Speculative- Grade
B	High risk on interest and principal payments. Adverse business or economic conditions would lead to lack of ability on part of issuer to pay interest or principal.	Speculative- Grade
C	Very high risk of default. Factors present that make them vulnerable to default. Timely payment of interest and principal	Speculative- Grade
D	Payment of interest and/or repayment of principal are currently in default or face imminent default, whether or not formally declared.	Speculative- Grade

SHORT-TERM RATINGS

P1	Very strong safety with regards to timely payment on the instrument	Investment-Grade
P2	Strong ability to repay debt obligations	
P3	Adequate safety on repayment of debt obligations. Instrument is more vulnerable to the effects of changing circumstances than P1 and P2 categories	
NP	The rating with high investment risk, having doubtful capacity for timely payment on short-term obligations	Spec Grade

ASSET SECURITISATION

~ Securitisation & Rating Approach

ASSET SECURITISATION

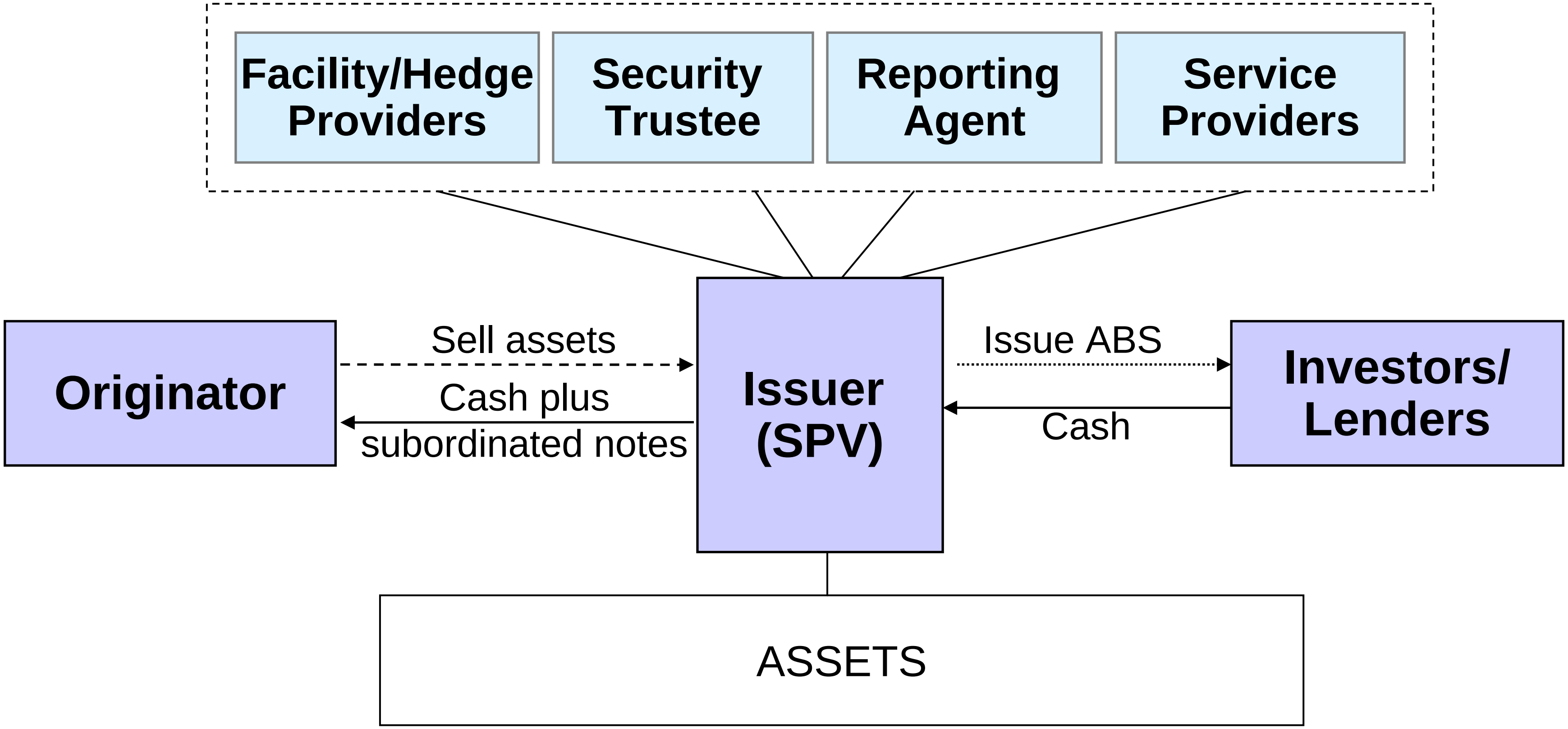
I. SECURITISATION IN A NUTSHELL

II. MALAYSIAN ABS MARKET

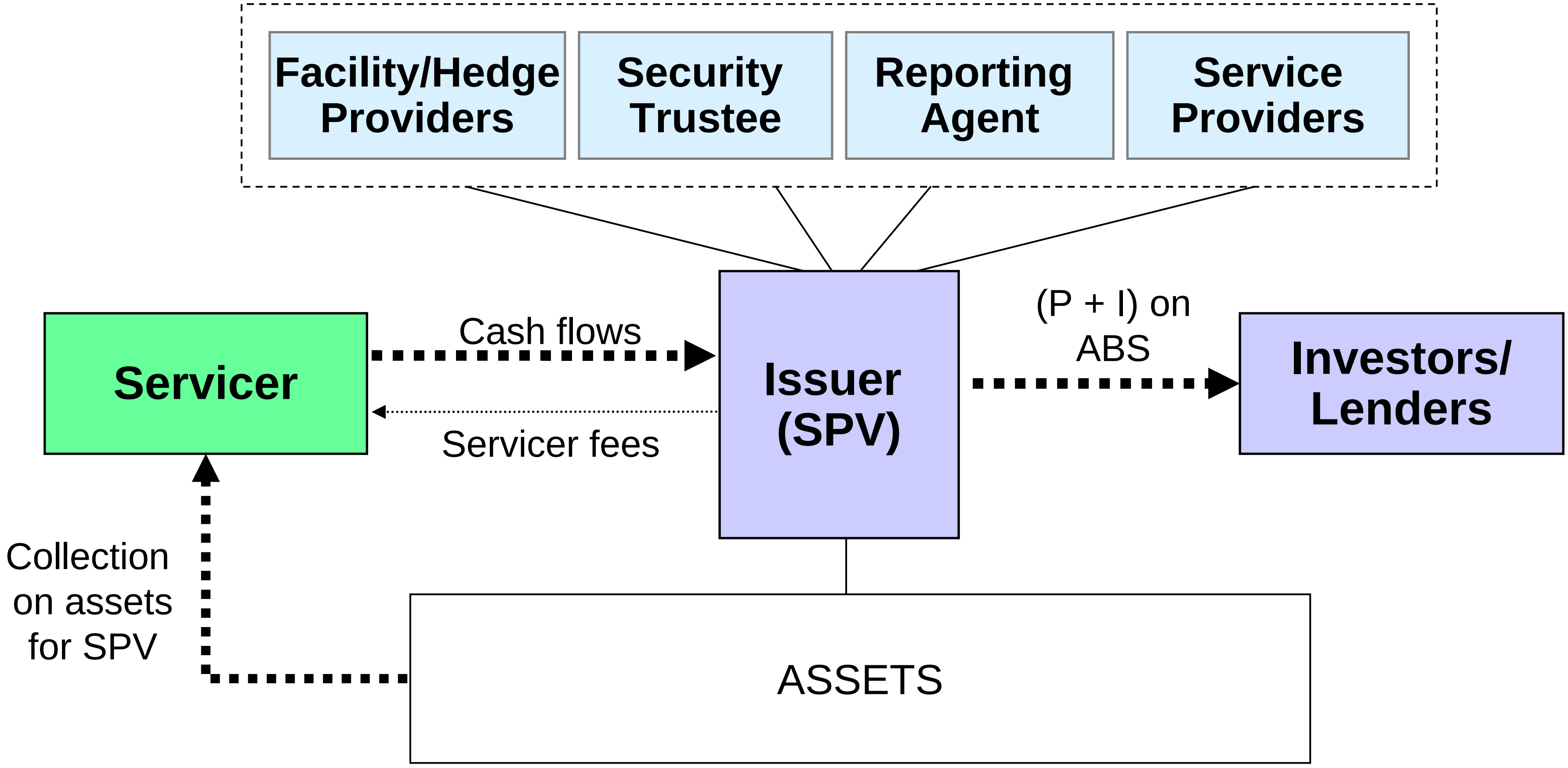
III. RATING APPROACH

I. SECURITISATION IN A NUTSHELL

WHAT IS… A pooling of “homogenous”, “financial”, “cash flow generating” assets and issuing claims in the form of marketable securities



I. SECURITISATION IN A NUTSHELL



SECURITISATION IN A NUTSHELL

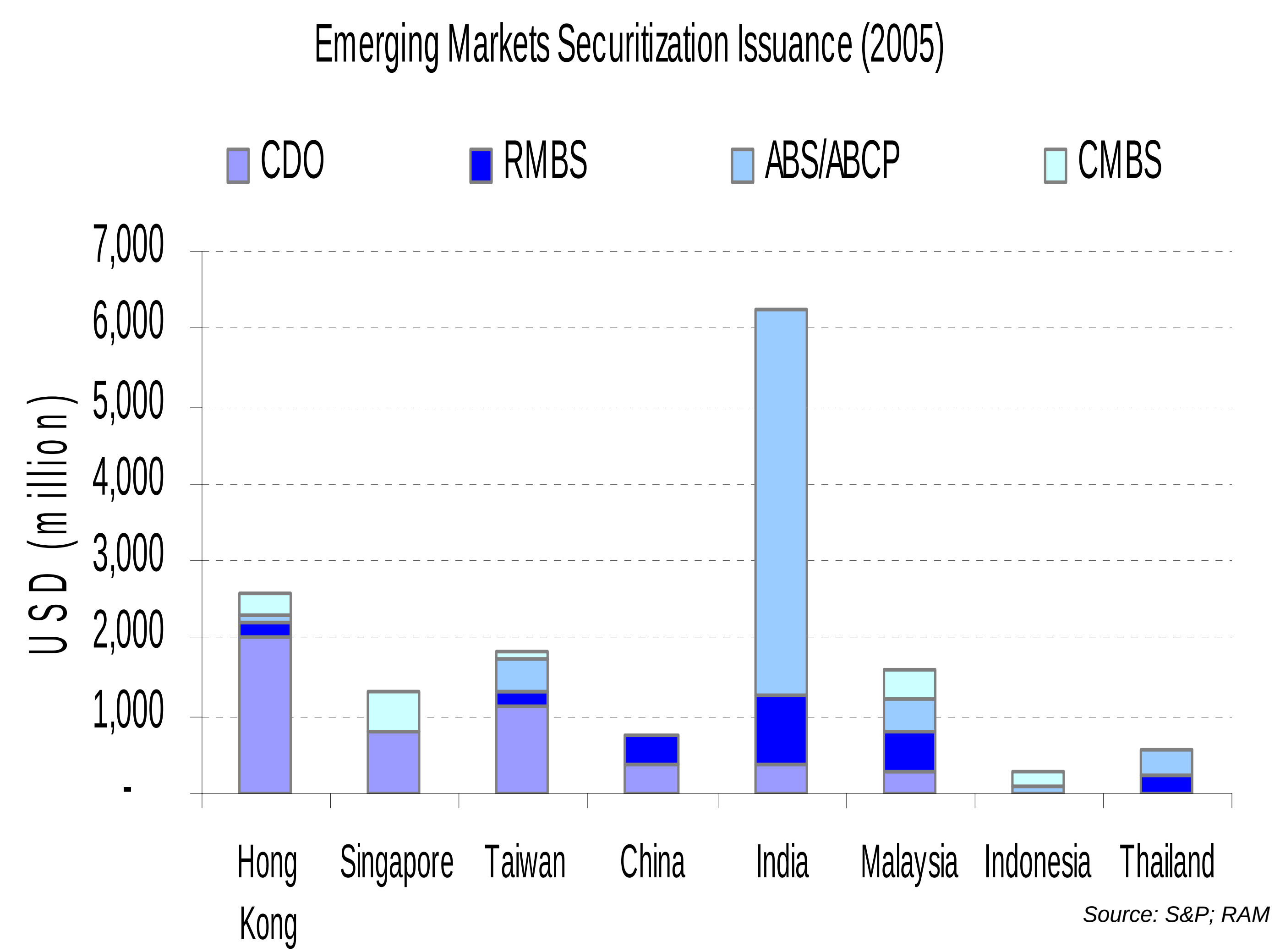
KEY CONCEPTS

- Credit risk of ABS is linked to asset performance and isolated from the credit risk of the Originator
- ABS usually structured to achieve ratings higher than the Originator
- ABS are limited recourse to the assets/receivables of the SPV
- Originator typically absorb some “first loss” as credit enhancement
- May involve other forms of credit enhancement

TYPICAL SECURITISATION CANDIDATES

Existing Receivables	Future Receivables
Housing Mortgages	Export Receivables
Hire Purchase/Lease Contracts	Toll Revenue
	Telephone Receivables
Car Loans	Electricity Receivables
Trade Receivables	Rental Receivables
Credit Card Receivables	Royalties
Corporate Loans/Corporate Bonds (CLO/CBO)	Progress Billings

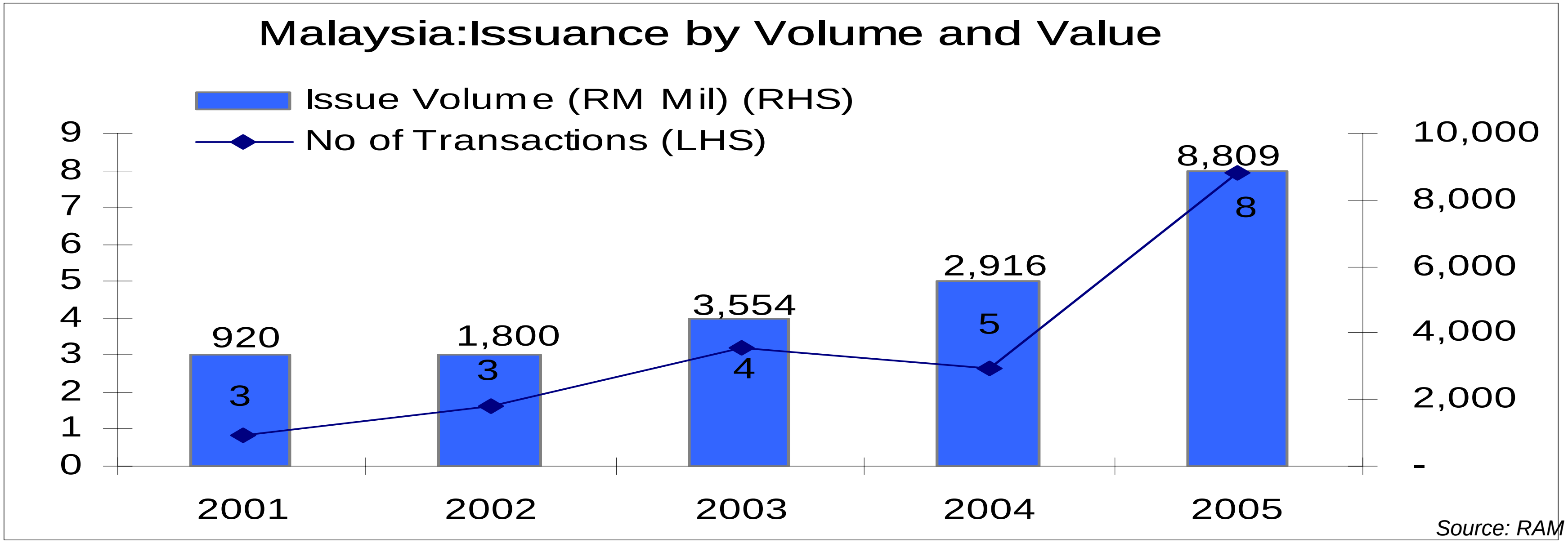
II. MALAYSIAN ABS MARKET



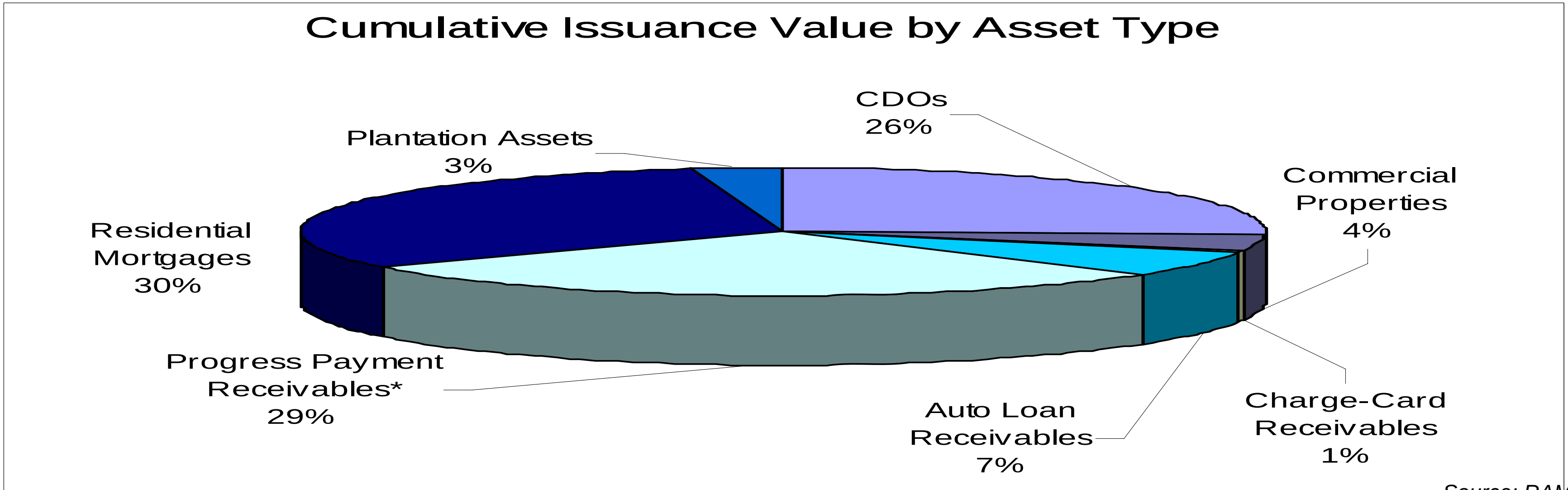
Source: S&P; RAM

Asia's emerging markets – growth story despite short history

II. MALAYSIAN ABS MARKET



Source: RAM



Source: RAM

MALAYSIAN ABS MARKET

Issuer / Seller	Issue Date	RM mil	Asset Class	Ratings
Prisma Assets Berhad/AmMerchant Bank	Aug-01	225.0	Corporate bonds	AAA
CBO One Berhad/CIMB	Dec-01	385.0	Corporate bonds	AA - AAA
Securita ABS One Berhad/Pengurusan Danaharta	Dec-01	310.0	Rehabilitated corporate loans	AAA
Road Asset Vehicle Sdn Bhd/WCT Engineering	Mar-02	350.0	Receivables	MARC-2*
ABS Real Estate Berhad/Sunway City	Oct-02	450.0	Commercial properties	A - AAA
Aegis One Berhad/Affin Bank	Nov-02	1,000.0	Primary corporate loans	BB - AAA*
Auto ABS One Bhd/BumiCommerce Finance	Feb-03	510.0	Vehicle loans	AAA*
Special Port Vehicle Bhd/Kuala Dimensi	Aug-03	1,310.0	Contract receivables	AAA*
Ambang Sentosa Sdn Bhd/Talam Corporation	Sep-03	1,049.4	Property progress payments	A - AA*
Astute Assets Berhad	Oct-03	698.5	Repackaged corporate loan	A
Domayne Asset Corporation Bhd/Diners Malaysia	Jan-04	100.0	Credit card receivables	BBB
Synergy Track Bhd/Holiday Plaza	Mar-04	152.0	Commercial property	A - AAA
ABS Land & Properties Bhd/Sunway Group	Apr-04	108.5	Commercial properties	A - AAA
Kerisma Berhad/Alliance Merchant Bank	Jun-04	1,000.0	Primary corporate loans	AAA*
Cagamas MBS Berhad/Government of Malaysia	Oct-04	1,555.0	Government staff housing loans	AAA
Cepat Assets Berhad/AmFinance	Feb-05	500.0	Vehicle loans	AAA
Premium Commerce Berhad/Tan Chong Motors	Apr-05	164.8	Vehicle loans	A - AAA
Cagamas MBS Bhd/GOM	Aug-05	2,050.0	Residential mortgages	AAA
ABS Plantation Assets Berhad/Multi-Vest	Sep-05	95.0	Plantation assets	AA - AAA
CapOne Berhad/MIMB	Sep-05	1,000.0	Primary corporate loans	BB - AAA
Golden Crop Returns Berhad/Boustead	Nov-05	442.0	Plantation assets	BBB - AAA
Cagamas MBS Bhd/GOM	Dec-05	2.060.0	Residential mortgages	AAA
		13,455.10		

** Not rated by RAM*

Source: RAM /MARC/SC

RAM

~ *Rating Approach for ABS*

III. RAM's ABS RATINGS

ABS RATINGS REFLECT ...

- **ABILITY AND WILLINGNESS** to pay timely interest and principal on the rated debt securities **NO LATER THAN** the final maturity date
- **PROBABILITY OF DEFAULT** of the rated debt securities

IT DOES NOT REFLECT …

- **RISK OF PREPAYMENT** on the rated debt securities
- **MARKET RISK** of the rated debt securities
- **LIKELIHOOD OF DOWNGRADES** (or upgrades)
- **RISK OF FRAUD**

FUNDAMENTALS OF ANALYSIS

- ASSET RISKS
- PAYMENT STRUCTURE/ CASH FLOW ANALYSIS
- OPERATIONAL/ ADMINISTRATION RISKS
- LEGAL/ REGULATORY RISKS
- COUNTERPARTY RISKS

RAM's RATING PROCESS

A range of **RATINGS** outcome

OR

REQUIRED CREDIT ENHANCEMENT for the target ratings

RISKS

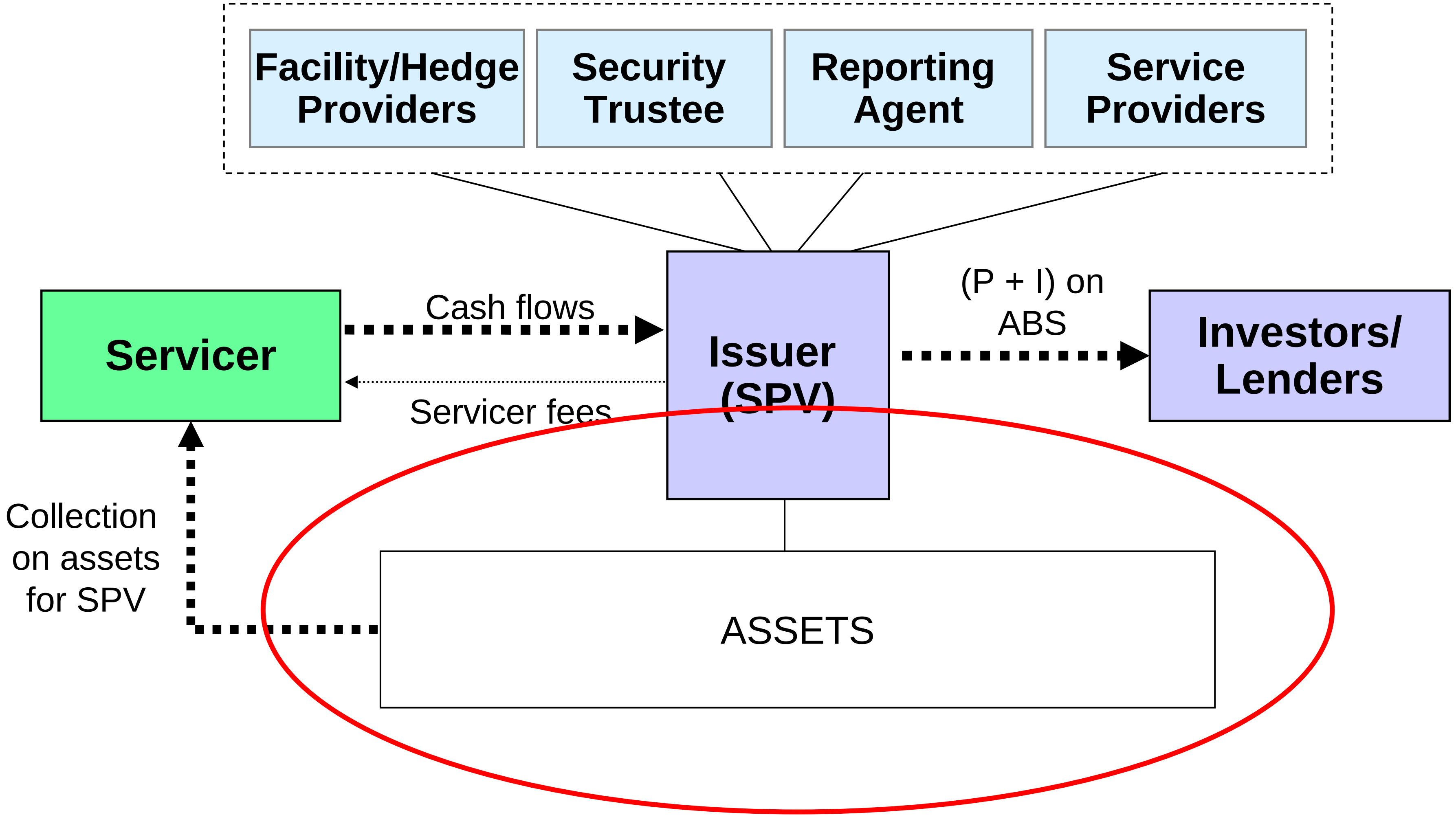
CREDIT ENHANCEMENT/ TARGETED RATINGS

Rating

FUNDAMENTALS OF ANALYSIS

Although the generic rating approach for all types of ABS is similar, rating methodology is asset- and structure-specific

ASSET RISKS



Facility/Hedge Providers
Security Trustee
Reporting Agent
Service Providers
Servicer
Cash flows
Servicer fees
Issuer (SPV)
(P + I) on ABS
Investors/ Lenders
Collection on assets for SPV
ASSETS

ASSET RISKS

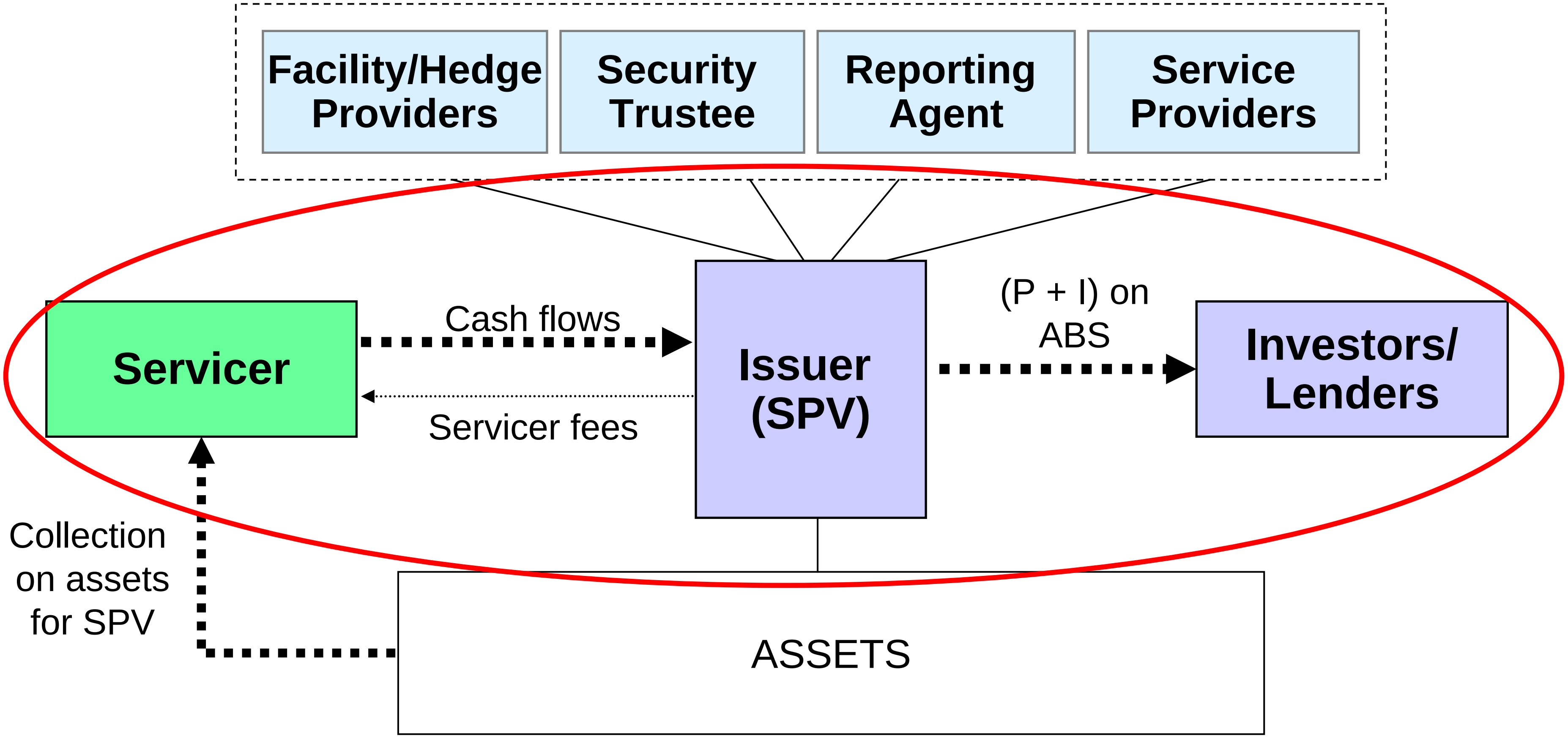
POTENTIONAL REDUCTION IN CASH FLOW?

- What are the characteristics of the assets and cash flow behaviour – Deliquency? Defaults? Prepayments?
- How much expected cash flow could be lost under a stress scenario?

QUALITATIVE AND QUANTITATIVE MEASURES

- Industry-wide studies, benchmark loss curve
- Past performance of Originator’s portfolio - static pool analysis
- Originator’s underwriting policies

PAYMENT STRUCTURE/CF ANALYSIS

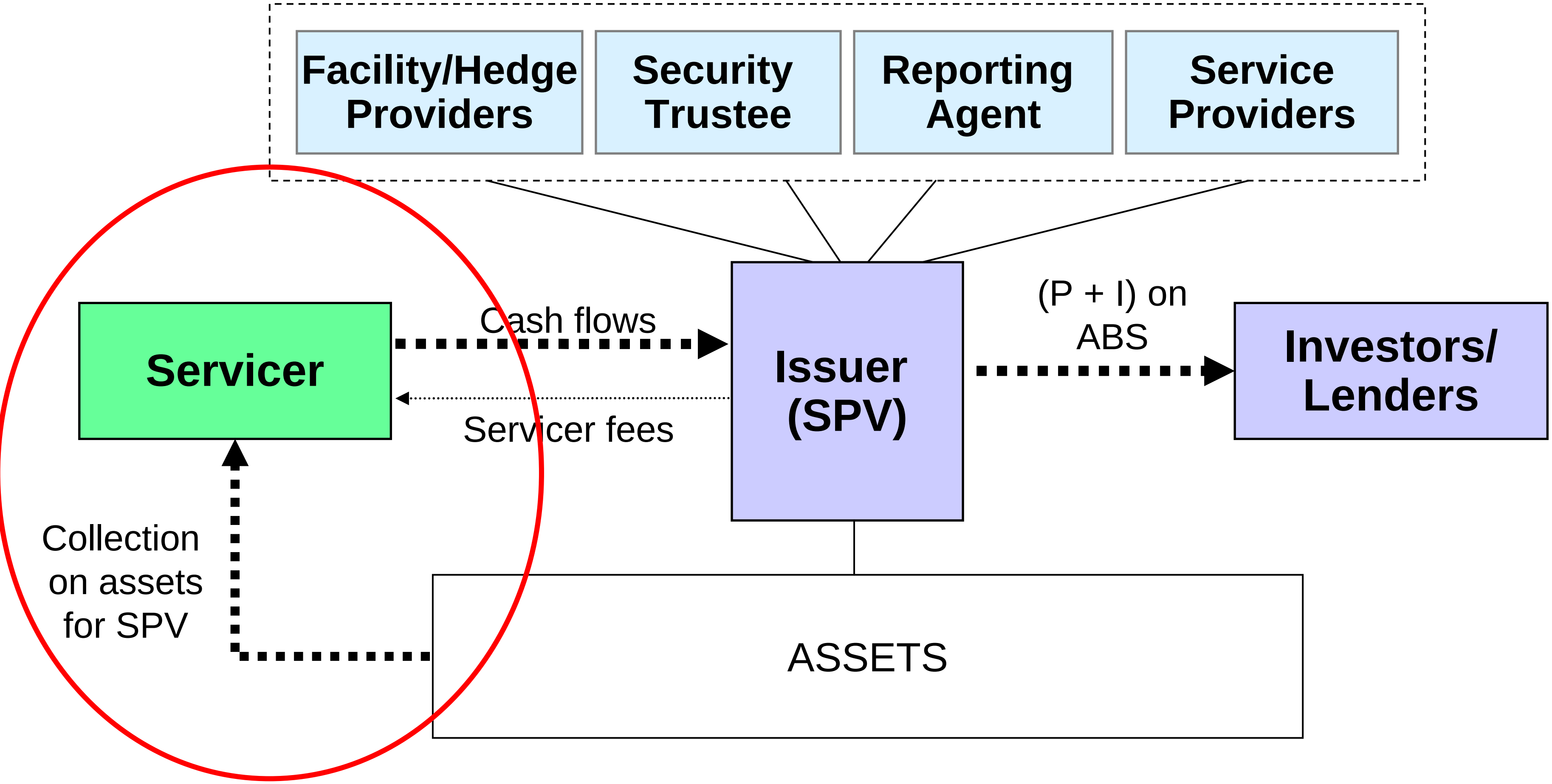


PAYMENT STRUCTURE/CF ANALYSIS

CAN PAYMENTS BE MET AS PROMISED?

- Analyse **CASH FLOW RECEIPTS** and **PAYMENT MECHANICS** of the transaction in the cash flow model
- Do asset cash flows **MATCH** promised interest and principal payments on on the rated debt under a **STRESSED SCENARIO**?
- How much **BUFFER** is required to cover stress?
- Additional credit enhancement to cover for **OTHER RISKS** e.g. comingling, liquidity?
- Cash flow waterfall - prioritised to senior noteholders?
- **'CONTROLLED'** and **'EARLY'** amortisation - trigger events

OPERATIONAL/ADMINISTRATIVE RISKS

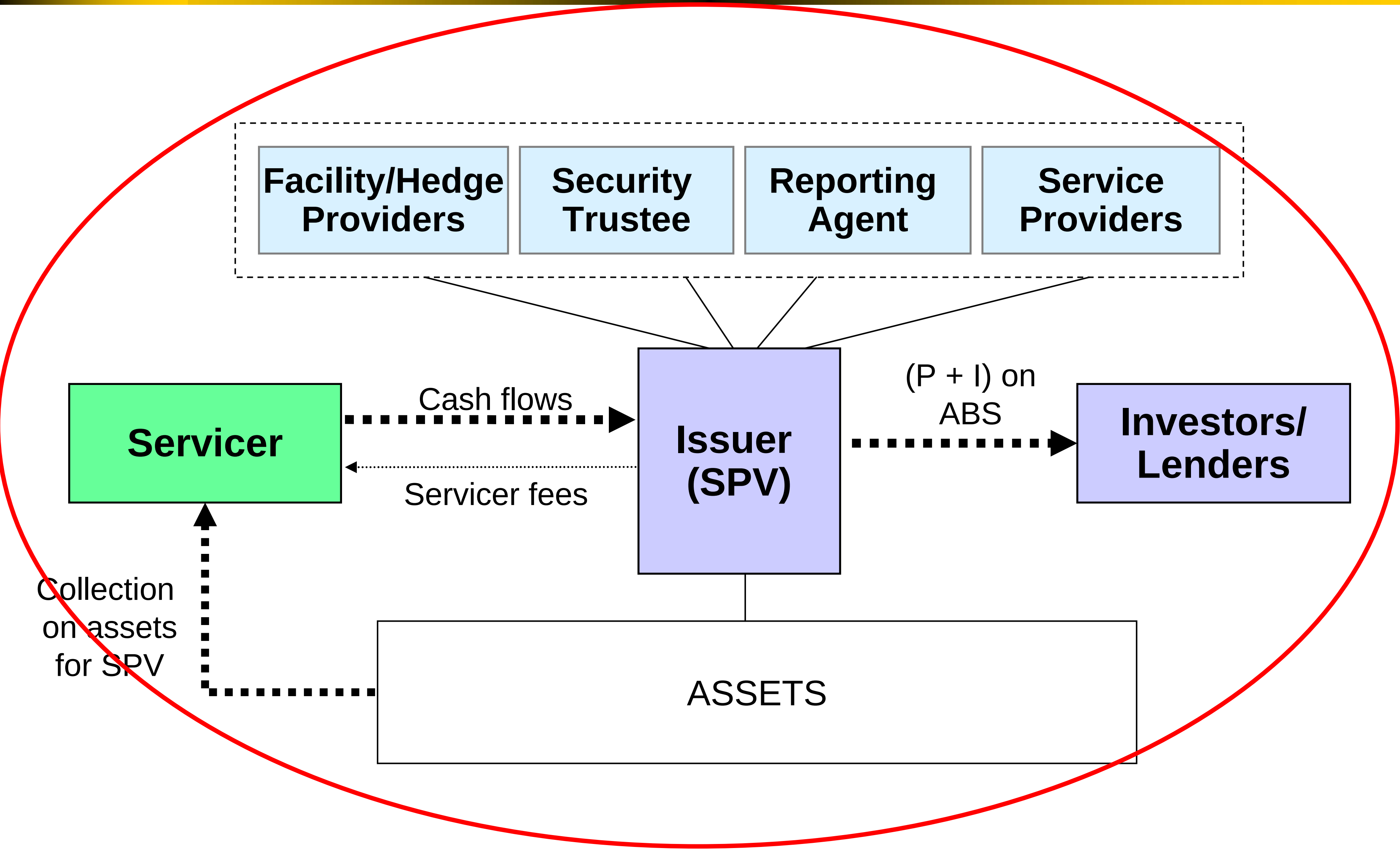


OPERATIONAL/ADMINISTRATIVE RISKS

WHEN THE TRANSACTION GOES 'LIVE'…

- **ABILITY AND CAPACITY** of the Originator/Servicer to service and manage the securitised assets
- Adequacy of **INFRASTRUCTURE** and **SYSTEMS** to store and monitor information related to asset performance
- **CONTINGENCY PLANS** to ensure that the assets continue to service debt securities even when Servicer does not
- Security Trustee/Facility Agent to **MONITOR** asset performance and **VERIFY** of performance triggers

LEGAL & REGULATORY RISKS



LEGAL & REGULATORY RISKS

‘CLOSING’ THE LOOP…

- **MODE OF TRANSFER** of the securitised assets to ensure that the assets and its cash flow are beyond the reach of the Originator and its creditors
- Issuer/SPV is structured to be **BANKRUPTCY-REMOTE**
- Controlled activities, independent directors typical
- Review of **DOCUMENTATION** versus **TRANSACTION STRUCTURE**
- **, LEGAL AND TAX OPINIONS**

COUNTERPARTY RISKS

IS THERE A 'WEAK' LINK?

- Assess credit strength of the counterparties and their impact on the transaction ratings.
  - Credit enhancer – Financial Guarantee Insuarance (FGI)
  - Deposit bank
  - Insurers
  - Swap provider
  - Credit default swap provider

- Evaluate the **TERMS OF CONTRACT** of the counterparties

REFERENCES

All articles are available at www.ram.com.my under Structured Finance

ABS

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Auto-Loans Securitisation

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© 2004 Corporate Bond Default and Rating Transition (1992-2004), April 2005

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