

GCR

RATINGS

STRUCTURED FINANCE RESEARCH

ASSET-BACKED SECURITIES CASH FLOW
MODEL

Table of Contents

Table of Contents	2
Related Methodology	3
Introduction	3
Cash Flow Model Mechanism	3
Asset Related Assumptions	5
Theoretical Amortisation of the Assets	5
Asset Portfolio Yield	6
Cumulative Defaults and Cumulative Recoveries Assumptions.....	6
Cumulative Defaults	6
Cumulative Recoveries	6
Losses vs Losses	7
Prepayments	7
Arrears	8
Interest Rate Considerations	8
Hedge Agreement	8
Interest Rate Stresses.....	8
Interest on Available Cash	9
Structural Features	9
Capital Structure	9
Senior Expenses.....	10
Reserve Fund vs Overcollateralisation	10
Excess Spread Retention Mechanisms.....	11
Other Enhancements	11
Cash Flow Modelling	12
Cash Inflow Modelling.....	12
Principal Collections	12
Interest Collections	13
Revolving Period	13
Cash Outflow Modelling and Results	13
Interpretation of Results	14
Disclaimer	14
Analytical Contacts	15
GLOSSARY OF TERMS/ACRONYMS	16

Related Methodology

1. This Research report should be read in conjunction with GCR Ratings' Global Consumer Asset-Backed Securities Rating Criteria, updated and published in September 2018, available on www.GCRratings.com.

Introduction

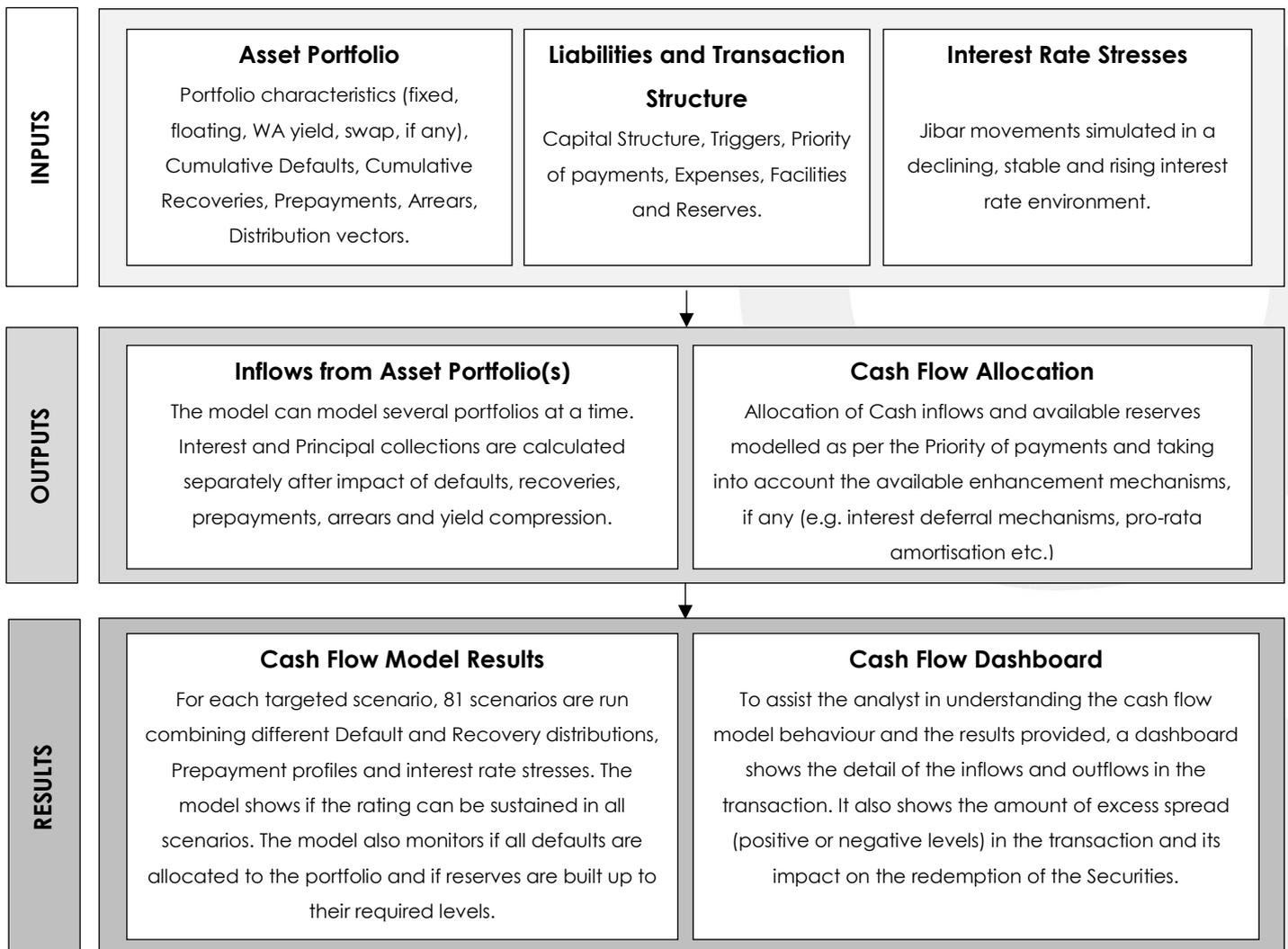
2. GCR Ratings ("GCR") introduces its new Asset-Backed Securities ("ABS") Cash Flow Model. The cash flow model plays an important part in the rating process as it determines whether the payments under the debt can be made under a targeted rating scenario. The cash flow modelling exercise constitutes the synthesis of the performance data analysis and the legal review performed by GCR. It incorporates both:
 - The results of the static loss analysis performed by the rating agency, i.e., amongst others, the default probability and recovery base case;
 - The structure defined in the transaction documents which dictate the allocation of cash flows to the secured creditors, including the holders of the rated debt.
3. This report provides an explanation on how GCR models and stresses the cash flows related to ABS securitisations. There are primarily three parts to the cash flow model: 1) input assumptions mainly related to the assets and to the structure; 2) modelling of the cash inflows and the cash outflows; and 3) results provided by the model in each targeted rating scenario. The ABS model tests whether, in various situations, the cash inflows that have been stressed in a given rating scenario are sufficient to service the debt in a timely manner.
4. It is important to mention that GCR's approach to modelling only relates to cash flows given that the ratings address payments of obligations on a timely manner. As a result, accounting related matters are not modelled unless they have an impact on such cash flows.

Cash Flow Model Mechanism

5. The Consumer ABS cash flow model is made up of three parts:
 - Inputs. All parameters impacting on the cash flows constitute an input in the model. These relate to:
 - The Liabilities and Transaction Structure;
 - The Asset Portfolio; and
 - The movements of the reference rate related to the assets and debt instruments.
 - Outputs. Inflows and outflows are calculated using the above-mentioned parameters:
 - Cash Inflows: The model calculates the stressed Interest and Principal generated by the Asset Portfolio; and

- o Cash Outflows: Inflows are distributed to the different Secured creditors as per the Priority of payments and other characteristics of the Transaction.
- Results. The model displays whether the debt instrument(s) can be serviced in a contemplated rating scenario. The resilience of the cash flows in each rating scenario is tested using a combination of Default and Recovery distributions, Prepayment profiles and Interest rate stresses (81 combinations are run under a contemplated rating scenario). The model also provides analytical tools to the analyst to understand and interpret the results displayed.

Diagram 1: Cash flow Modelling Process



Source: GCR

Asset Related Assumptions

6. GCR inputs in its model all the key drivers to the amortisation and performance of the asset portfolio sold to the SPV.

Theoretical Amortisation of the Assets

7. GCR uses the line-by-line information provided on the securitised assets portfolio to calculate its theoretical amortisation. The scheduled amortisation of each loan and for each period is calculated using its characteristics such as outstanding balance, residual term, yield and payment frequency. Each loan amortisation result is then aggregated to form a portfolio amortisation.

The aggregated outstanding principal balance of the portfolio is calculated for each month as follows:

i = month

n = number of loans in the loan portfolio

m = longest maturity of all assets in the portfolio

OBP = Outstanding principal balance of the aggregated loan portfolio

OBL = Outstanding principal balance of a given loan

$1 \leq i \leq m$

$$OBP_{(i)} = \sum_{k=1}^n OBL_{k(i)}$$

Table 1: Example of Asset Portfolio Scheduled Amortisation

Period	Loan 1	Loan 2	Loan 3	Total Portfolio
0	150.0	50.0	75.0	275.0
1	138.1	41.8	65.8	245.7
2	126.0	33.5	56.6	216.2
3	113.9	25.2	47.3	186.5
4	101.7	16.9	38.0	156.5
5	89.3	8.5	28.6	126.4
6	76.9	-	19.1	96.0
7	64.3	-	9.6	73.9
8	51.7	-	-	51.7
9	38.9	-	-	38.9
10	26.0	-	-	26.0
11	13.1	-	-	13.1
12	-	-	-	-

Source: GCR

Loan 1: 12-month maturity, 10% p.a.

Loan 2: 6-month maturity, 7.5% p.a.

Loan 3: 8-month maturity, 8% p.a.

Asset Portfolio Yield

8. One of the inputs to the model is the Weighted-average yield of the asset portfolio. Even though such yield is known at the start of a transaction, there is no guarantee that it will remain the same throughout the life of the portfolio. Assets with the highest rate may be affected by defaults or prepayments causing the weighted-average (WA) yield on the portfolio to decrease overtime. To model such situation, GCR splits the WA yield on the assets (i.e. the margin over the reference rate for floating rate assets and the rate for fixed rate assets) into several buckets and allocates a portion of defaults and prepayments to the highest yield bucket thus decreasing the WA yield. For risk-priced receivables, GCR generally allocates 100% of the defaults towards the compression of the yield irrespective of the rating scenario. A lower percentage may be considered if a dissociation between defaults and yield level is evidenced. Also, GCR allocates between 50% and 100% of the prepayments towards such compression. The percentage is determined according to the characteristics of the lending product offered by the originator or according to the market conditions in which it operates (e.g. refinancing opportunities in the market).

Cumulative Defaults and Cumulative Recoveries Assumptions

Cumulative Defaults

9. The cumulative default base case calculated from the static loss analysis, the stressed cumulative defaults, and their time distribution form ("Default vector") the primary assumptions of the cash flow model.
10. The table below exhibits the three default distributions generally assumed.

Table 2: Default Vectors	
Default vector	Description
Front Loaded	Defaults occur 50% faster than the average historical distribution observed
Stable	Defaults distributed as per base case
Back Loaded	Defaults occur 50% slower than the average historical distribution observed

Source: GCR

11. Please note that the default vector may be adjusted manually to allow all defaults to be allocated within the life of the asset portfolio.

Cumulative Recoveries

12. The cumulative recovery base case, the stressed cumulative recoveries, and their time distribution ("Recovery vector") are also incorporated into the cash flow model.
13. The table below exhibits the three recovery distributions generally assumed.

Table 3: Recovery Vectors

Recovery Vector	Description
Front loaded	Recoveries occur 50% faster than the average historical distribution observed
Stable	Recoveries distributed as per base case
Back loaded	Recoveries occur 50% slower than the average historical distribution observed

Source: GCR

Losses vs Losses

14. The cumulative defaults and recoveries will result in a cumulative loss that will materialise overtime. GCR notices that losses that are at the same level may have a different impact on the cash flows if their default and recovery composition is different. Let's consider two scenarios:

Table 4: Example of Loss Scenarios

	Scenario 1	Scenario 2
Cumulative Defaults	6.0%	8.0%
Cumulative Recoveries	50.0%	62.5%
Cumulative losses	3.0%	3.0%

Source: GCR

15. Scenario 2 is likely to exert more pressure on the cash flows than scenario 1 given the higher defaults. The cost of carry of higher defaults until the recoveries are realised have a significant negative impact on the cash flows generated under the model.

Prepayments

16. The base case annual prepayment rate is incorporated and stressed as follows:

Table 5: International Annual Prepayment Rate Stresses

Rating Scenario	Low	Mid	High
AAA(sf)	-50%	0%	50%
AA(sf)	-42%	0%	42%
A(sf)	-32%	0%	32%
BBB(sf)	-23%	0%	23%
BB(sf)	-12%	0%	12%
B(sf)	0%	0%	0%

Source: GCR

17. Prepayments lead to a loss of income over the life of the transaction and could potentially lead to a decrease in the average portfolio yield should the loan with higher margins prepay.

Arrears

18. The ABS model incorporates loan in arrears that would not go into default but would rehabilitate. Such arrears create a temporary cash shortfall in the structure. GCR models these arrears as a multiple of the defaults. Such arrears are determined on an asset class basis and according to the relevant jurisdiction.

Interest Rate Considerations

Hedge Agreement

19. The model incorporates the characteristics of interest rate swaps involved and their impact on the cash flow. This includes the swap rate provided by the swap counterparty and the swap notional. In particular, GCR pays attention to the notional defined under the swap documentation to assess whether there is any residual interest rate mismatch. This can happen when the notional is defined in excess of the performing balance of the assets. The example below provides an illustration of such potential mismatch.

Table 6: Residual Mismatch in a Basis Swap Transaction in South Africa

P = Prime rate

J = 3-month Jibar

Perf = Performing Assets

Swap Notional = TP = Total portfolio

Ma = Asset Margin over prime

Ms = Swap margins

Arr = Assets in arrears (incl. defaults)

TP = Perf + Arr

SPV receives from assets	$\text{Perf} * (P + \text{Ma})$
Swap counterparty pays to SPV	$\text{TP} * (J + \text{Ms}) = (\text{Perf} + \text{Arr}) * (J + \text{Ms})$
SPV pays to Swap counterparty	$-\text{TP} * P = -(\text{Perf} + \text{Arr}) * P$
Total received by SPV	$\text{Perf} * (J + \text{Ms} + \text{Ma}) - \text{Arr} * (P - (J + \text{Ms}))$

Source: GCR

20. In the above example, the SPV is exposed to both an increase in arrears and a widening of the Prime/Jibar gap as this would cause the cash flows received by the SPV to decrease. This is also applicable in a fixed to floating rate swap.

Interest Rate Stresses

21. Irrespective of whether a swap is entered into by the SPV or not, GCR applies a set of varying interest rates to the contemplated transaction as explained in its Global Consumer ABS Rating Criteria. This approach may seem senseless in transactions where both assets and securities yield an interest based on

the same index. However, the impact of arrears/defaults on cash flows is exacerbated in an increasing interest rate environment. The following table shows an illustration of this statement.

Table 7: Impact of Increasing Interest Rate Stresses on Cash Flows

J = 3-month Jibar
 Perf = Performing Assets
 Ma = Margin over Jibar
 CF = Cost of funding

TP = Total portfolio
 S = Securities Balance
 Arr = Assets in arrears (incl. defaults)
 TP = Perf + Arr

SPV receives	$(J + Ma) * Perf$
SPV pays	$-(J + CF) * S - \text{Senior expenses}$
Net Margin =	$Perf * Ma - S * CF - J * (S - Perf) - \text{Senior expenses}$
Net Margin =	$Perf * Ma - S * CF - J * (S - TP + Arr) - \text{Senior expenses}$

Source: GCR

22. The SPV is thus, even in a perfectly hedged situation, exposed to an increase in interest rates as well as arrears. In any case, GCR models a decreasing and stable interest rate environment, which may be punitive in the event of unhedged fixed/floating mismatch or where defaults are low.

Interest on Available Cash

23. GCR's model recognizes that cash collections deposited into the SPV's account as well as the available reserves, if any, can yield additional revenue. In the absence of a Guaranteed Investment Contract in place with a suitably rated counterparty, GCR assumes the rate to be the applicable overnight rate in the relevant jurisdiction. Interest rate stresses are also applied to this rate.

Structural Features

24. GCR's cash flow model reflects any relevant feature of the transaction, in particular the Capital Structure, the senior expenses incurred by the SPV, any reserve in place, the priority of payments, as well as any cash trapping mechanism.

Capital Structure

25. GCR uses the targeted capital structure (i.e. size of each tranche of Securities and targeted ratings) as an input in its cash flow model. Each tranche of note is modelled according to their terms and conditions as exhibited in, amongst others, their respective Applicable Pricing Supplement. This includes coupon, step-up coupon, if any, scheduled maturity, step-up date, if any, and final legal maturity.

Senior Expenses

26. Senior expenses are split between variable expenses and fixed expenses and modelled separately. Variable expenses such as the servicer fee or Administrator fee are generally expressed as a percentage of the outstanding balance of the asset portfolio or the Securities issued. Fixed costs generally relate to Directors, audit fees etc.
27. While variable costs significantly decrease in absolute amount over the life of the transaction, they remain constant as a percentage of the assets/Securities. The pressure exerted on the structure thus remains constant throughout the life of the transaction. Fixed costs on the opposite add more pressure on the cash flows at the tail of the portfolio when less cash is generated due to a comparatively low balance of the portfolio added with an accumulation of defaulted assets in the structure. Please note that although many structures allow for a clean-up call to evacuate such risk at the tail of the asset portfolio, GCR does not take such option into consideration as it does not rely on the refinancing ability of the debt capital markets.
28. The table below exhibits the significance of variable and fixed costs relative to the asset portfolio.

Table 8: Relative Impact of Variable and Fixed Costs		
	Period 1	Period n
Asset balance	1 000 000	10 000
Fixed costs*	0.1%	10.0%
Variable costs*	1.0%	1.0%

Source: GCR

Fixed costs: 1,000 p.a.

Variable costs: 1% of asset balance p.a.

* As a percentage of asset balance

29. GCR applies an annual escalation rate to expenses based on the applicable Consumer price index ("CPI").

Reserve Fund vs Overcollateralisation

30. Initial credit enhancement is often brought in the form of overcollateralisation or a reserve fund. Both are generally funded by a subordinated loan or junior securitises provided/subscribed by the originator/seller.
31. Overcollateralisation is created when the purchase of the assets is funded by such subordinated instrument while in the case of a reserve fund, the proceeds are left in the SPV's bank account to be used to mitigate losses if need be. Both mechanisms present advantages and drawbacks and have different consequences on cash flows. The table below draws a comparison between them:

Table 9: Reserve Fund vs Overcollateralisation

	Advantages	Drawbacks
Reserve fund	Does not yield defaults.	Low return on cash.
	Acts as liquidity reserve if need be.	
Overcollateralisation	Higher return than reserve fund.	Invested in assets that yield default.
	Creates excess spread.	No source of liquidity/cash if needed.

Source: GCR

Excess Spread Retention Mechanisms

32. The model also incorporates the most common mechanisms that allow the excess spread to be retained into the structure as opposed to being distributed back to the Seller. These cash-trapping mechanisms provide additional credit enhancement to the securities issued. Such mechanisms can be as follows:

- Potential redemption amount definition. The definition of potential redemption amount ("PRA") is a key determinant of the amount of excess spread retained in the structure for the benefit of the Securities. It is generally defined as, amongst others, 'the sum of principal collections from the assets and either an aggregated amount of defaults or write-offs (losses)'. Such definition will determine the pace of amortisation of the Securities in a pass-through structure as well as well as the way a Principal Deficiency Ledger ("PDL") is created. The definition of PRA must be chosen carefully as it can cause undue pressure in the structure. This is the case for instance where the PRA is defined in relation to defaults as opposed to losses and where the structure is in a revolving period and experiences high recoveries.
- Arrears reserve. A reserve fund is often constituted from excess spread in the event of a deterioration of the performance of the assets. Typically, once an arrear-based trigger is breached, the available excess spread is trapped up to a certain percentage of the aggregated balance of assets that are non-performing.
- Turbo redemption. Some transactions sometimes allow the securities to be "turbo-redeemed" in the event of an early amortisation. In such case, all available cash is allocated to the Securities as opposed to being used towards the payment of any other subordinated item in the priority of payments.

Other Enhancements

33. Structures offer additional enhancements to the securities in the event of a degradation of the cash flows or to maintain the statu quo of the transaction.

- Deferral mechanism. Often, the priority of payments allows for the interest on the subordinated securities to be paid prior to the principal of the senior securities. This could be considered as a

partial subordination of the notes. However, these transactions typically include an interest deferral mechanism whereby the interest on the subordinated notes becomes subordinated to the principal payments of the senior notes in the event of losses incurring in the structure to the point that they exceed the outstanding balance of the subordinated notes.

- Pro rata vs sequential amortisation. Securitisation structures typically redeem the securities on a sequential basis based on their rank of seniority. However, some transactions allow to switch the debt sequential amortisation to a pro rata amortisation, thus disregarding the seniority of the securities. This is typically done when the transaction has demonstrated excellent performance overtime, meaning that no triggers were breached and additional credit enhancement has been built up. Pro rata amortisation has the advantage of maintaining the average cost of funding as opposed to a sequential amortisation whereby the average cost of funding increases as the senior notes (which normally yield the lowest coupon) are redeemed. On the other hand, a sequential amortisation mechanically increases the credit enhancement available to the securities while a pro rata amortisation "freezes" it. The table below illustrates the above statement.

Table 10: Pro Rata vs Sequential Amortisation

Class	Initial			Sequential			Pro rata		
	Amount	IR%*	CE%**	Amount	IR%	CE%	Amount	IR%	CE%
A	70	5	30	40	5	43	49	5	30
B	20	8	10	20	8	14	14	8	10
C	10	12		10	12		7	12	
	100	6.3		70	6.9		70	6.3	

Source: GCR

* IR = Interest rate

** CE = Credit enhancement

Cash Flow Modelling

Cash Inflow Modelling

34. The cash flow model calculates the cash inflows using all of the abovementioned inputs. It is important to mention that Principal and Interest related cash flows are calculated and aggregated separately to allow adequate allocation of cash flows to the securities according to the PRA definition and Priority of payments.

Principal Collections

35. Cash flows collected are modelled in sequential order. The model starts by applying the cumulative amount of defaults to the portfolio on every collection period using the relevant default vector. Arrears

are then added to the remaining balance as well as prepayments. The scheduled amounts of the portfolio are calculated last on the remaining balance.

36. Recoveries and resulting write-off are calculated from the amount of defaults occurring on each period using the relevant recovery timing.

Interest Collections

37. Interest received on the asset portfolio is calculated using a weighted-average rate that is compressed as per the technique described earlier in this document. Interest is applied to the outstanding balance of the assets after application of defaults, arrears and prepayments.
38. The model also assumes interest recouped on recoveries and on rehabilitated arrears. Finally, the model incorporates the interest received on all the cash available in the SPV's transaction account.
39. The interest calculated will vary according to the interest rate stress applied on each collection period.

Revolving Period

40. Typically GCR does not model the revolving period and assumes the structure to have entered into a pre-enforcement/amortising phase. The asset portfolio at the end of the revolving period is assumed to have the most conservative characteristics dictated by the portfolio covenants in place. In addition, GCR carefully considers any early amortisation triggers in place at inception of the transaction as they allow the start of the amortisation of the rated securities in the event of a notable degradation of the performance of the portfolio. Such triggers also allow the available credit enhancement to remain intact at the start of the amortisation period. For example, triggers can be linked to a dynamic arrears (delinquency) rate, a maximum cumulative default rate, a certain level of excess spread available in the transaction, an asset cover ratio etc. Where triggers are considered inadequate, these will be considered in analysing the expected loss of the transaction.

Cash Outflow Modelling and Results

41. The cash collected and generated on each collection period is allocated sequentially to each Secured creditor as per the priority of payments. The priority of payments creates a layer of credit enhancement materialised by the subordination of tranches of debt.
42. The model keeps track, amongst others, of the outstanding balance of the securities issued, any PDL created and the balance of the reserves compared to their required levels to activate any performance-related trigger as per the transaction documents and to provide GCR with an insight on the severity of the assumptions under a rating scenario.

43. The excess spread generated in the structure is used and/or released to the seller/originator as per the transaction documents.

Interpretation of Results

44. GCR's ABS cash flow model uses an algorithm to run a combination of different scenarios of default and recovery timing as well as prepayment and interest rate stresses within a given rating scenario. For a rating to be assigned to the Securities, the model must pass in each of the eighty-one (81) stress combinations.

Table 11: Stress Combinations Run under a Given Rating Scenario

	Cumulative defaults	Cumulative recoveries	Annual prepayments
Scenario 1	Front loaded	Front loaded	High
Scenario 2	Stable	Stable	Mid
Scenario 3	Back Loaded	Back Loaded	Low

Source: GCR

45. The model passes when the cash flows are sufficient to service the debt in a given rating scenario and stress combination and on a timely manner. Timeliness of cash flows is key to assigning a rating as ratings address the propensity of the SPV to service interest on the securities and to redeem them on either each payment date and/or by the legal final maturity date.

46. Finally, other requirements are automatically checked as each scenario is run such as the full allocation of defaults to the asset portfolio or the funding of the reserves to their required levels.

47. To assist the analyst in understanding the results, the model provides a snapshot of the cash flows generated and allocated overtime as well a summary of the excess spread available in the structure. In particular, the model shows to which extent the (positive) excess spread was used to absorb losses and how a negative excess spread situation impacted on the servicing of the debt.

48. Please note that the results of the cash flow model are used as a guideline by the Rating Agency in its rating process. On the basis of other relevant quantitative and qualitative factors in the contemplated transaction, GCR can deviate from the results of the model by requiring, for instance, a minimum credit enhancement to achieve a targeted rating.

Disclaimer

49. Note that GCR is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. For example, a rating does not cover a potential change in the applicable laws nor can it be

regarded as an audit. Moreover, GCR is not a party to the transaction documents nor does it provide legal, tax or structuring advice.

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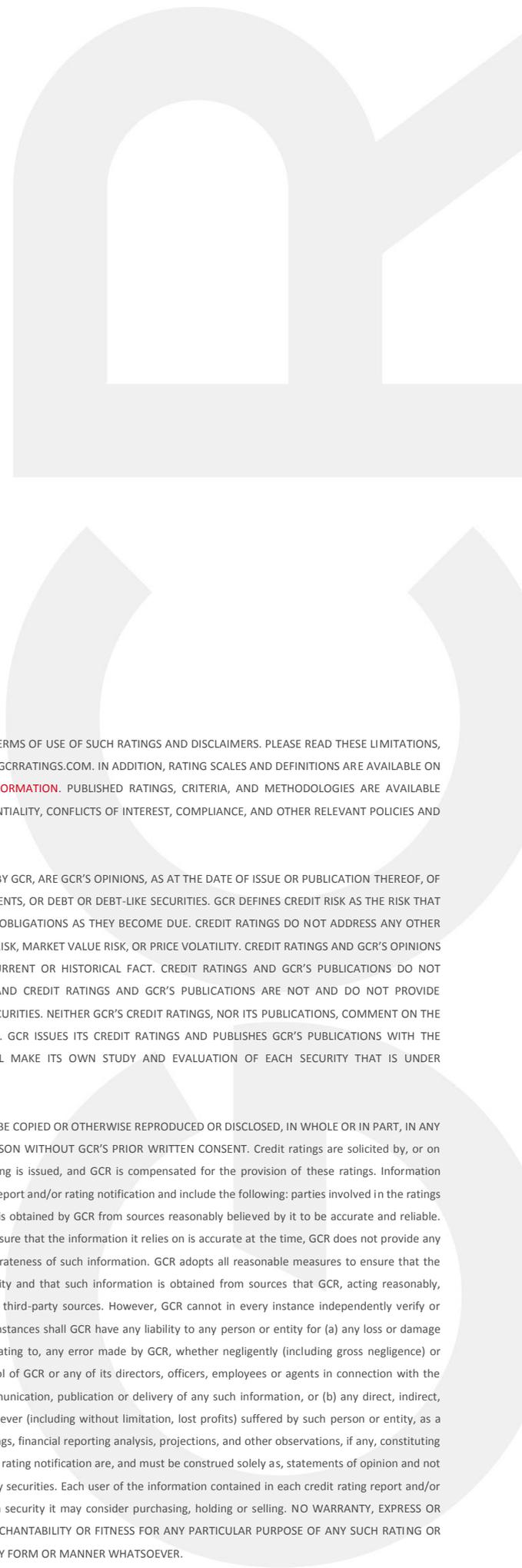
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GLOSSARY OF TERMS/ACRONYMS

Administrator	A transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Amortisation	From a liability perspective, the paying off of debt in a series of installments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Arrears	General term for non-performing obligations, i.e. obligations that are overdue.
Asset	An item with economic value that an entity owns or controls.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Borrower	The party indebted or the person making repayments for its borrowings.
Call Option	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital	The sum of money that is used to generate proceeds.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Collateral	An asset pledged as security in event of default.
Commingling	The mixing of various transaction parties' funds in an account.
Coupon	Interest payment on a security.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Credit Enhancement	Limited protection to a transaction against losses arising from the assets. The credit enhancement can be either internal or external. Internal credit enhancement may include: Subordination; over-collateralisation; excess spread; security package; arrears reserve; reserve fund and hedging. External credit enhancement may include: Guarantees; Letters of Credit and hedging.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Debt	An obligation to repay a sum of money.
Debt Sponsor	Usually as Investment bank that brings a transaction to the capital markets, similar to an Arranger.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Desktop	An assessment of the property value, with the value being compared to similar properties in the area.
Downgrade	The assignment of a lower credit rating to a corporate, sovereign or debt instrument by a credit rating agency. Opposite of upgrade.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.

Guarantee	An undertaking for performance of another's obligations in event of default.
Guaranteed Investment Contract	A contract that guarantees the principal and interest repayment over a period of time. Typically GIC are used in relation to a bank account.
Income	Money received, especially on a regular basis, for work or through investments.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The ability to repay short-term obligations or short-term availability of liquid assets to a market or entity.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Option	Either a call or a put option. A call option gives the holder the right to buy assets at an agreed price on or before a particular date. A put option gives the holder the right to sell assets at an agreed price on or before a particular date.
Origination	A process of creating assets.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Payment Date	The date on which the payment of a coupon is made.
Prepayment	Early or excess repayment of an obligation. Partial or full prepayment of the outstanding loan amount.
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Property	Movable or immovable asset.
Provision	An amount set aside for expected losses to be incurred by a creditor.
Rating Outlook	A Rating Outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserves	A portion of funds allocated for an eventuality.
Seasoning	The age of an asset, the time period passed since origination.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	Is a process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be

	forfeited in case of default.
Senior	A security that has a higher repayment priority than junior securities.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Waterfall	In securitisation, the order in which the cash flows are allocated to the transaction parties.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.



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