Information Requirements for Surveillance of Structured Finance Transactions

Rational for surveillance

The performance of structured finance (SF) transactions is evolving by nature and affected by a mix of micro- and macro-economic factors. RMBS (Residential Mortgage-Backed Securities) ratings are mainly affected by Loss Severity, foreclosure costs as well as Market Value Decline (MVD), which reflects the decline in property value due to adverse economic conditions. Other transactions such as Auto ABS (Asset Backed Securities) or Equipment ABS rely on the payment behaviour of the underlying obligors as well as the concentration of the obligors, a change of which can lead to movements in the rating assigned. For CLN's (Credit Linked Notes), ratings are often driven by the rating(s) of the underlying borrower company(/ies) and, should a rating of the underlying company change, a rating change of the CLN may take place.

Review/Surveillance Process

GCR Ratings (GCR) surveils the performance of key transaction metrics on a continuous basis to assess whether they are in line with the base case assumptions formulated by GCR at the time of assigning a rating and ultimately to check whether the current ratings assigned are still valid. Surveillance is done preferably on a monthly or quarterly basis depending on the availability of investor reports in relation to the transaction and the sensitivity of the transaction to factors subject to change.

The key difference between a review and surveillance is the frequency, communication of the outcome and the depth of information required.

A review is normally done on an annual basis and would require the issuer to provide a suite of updated performance data usually to the level of detail at which such data was provided for the initial review when a rating is first assigned. Once the review process is complete, an official rating announcement is released. Surveillance, on the other hand, is done monthly or quarterly and information is utilised from the transaction's periodically released investor reports. Generally, no rating action will take place, but significant improvement or degradation of the performance of the transaction can lead to the initiation of an event review which includes a rating action, when warranted.

Once the most up to date data has been analysed, GCR will publish its surveillance dashboard as part of GCR's performance surveillance process. GCR's surveillance dashboard is based on the information reported in the investor reports and exhibits key performance metrics related to the transaction, which includes, *inter alia*, credit enhancement levels, excess spread, prepayments, defaults, recoveries and portfolio covenants and triggers.

Information Required for GCR Surveillance

As mentioned GCR will make use of the periodic investor reports released in relation to the transaction. As such, GCR expects the issuer's reporting of the transaction performance on an ongoing basis to be in line with the terms and the conditions set out in the transaction documents. The following information is expected to be contained in the investor report.

Asset-related information

(Please Note: for purposes of analysis GCR may divide a portfolio into several sub-portfolios, if so, the information in relation to them would also need to be subdivided)

- Portfolio metrics (original balance, current balance, number of assets, average asset balance, max/min current asset balance, weighted average (WA) original/residual maturity, WA yield)
- Cash flow receipts during the current collection period (e.g. receipts from principal repayment, interest and permitted investment income)
- Participating assets movements such as scheduled repayments, acquisitions, further advances, substitutions, repurchases and/or prepayments
- Portfolio ageing analysis (performing, arrears and non-performing assets breakdown)
- Default and recovery amounts and rates during the current collection period
- Write-offs
- Portfolio covenants (threshold vs. actual). Indicate if a breach occurred.
- Performance triggers. Indicate if a breach occurred.
- Obligor concentration levels vs covenants
- Portfolio stratifications (may differ between different asset classes)
    - Weighted average yield
    - Weighted average original term, seasoning and remaining term
    - Frequency of payments
    - Geographic locations
    - Rate types (fixed or floating)
    - Payment method
    - Industry and asset type breakdown
    - Original and Current Loan-to-Value ratio

Liability related information

- Current capital structure and Note breakdown
    - Nominal amount of notes at issue date and outstanding balance following the current payment date
    - Information on the notes in issuance such as margins, step-up margin, scheduled maturity date and legal final maturity date, etc.
- Transaction account movements over the current collection period and balance available on current determination date for distribution towards the Priority of Payments
- Potential Redemption Amount determination, if applicable

- Reserve fund movements, if applicable
- Subordinated loan movements
- Cash flows applied towards the Priority of Payments (cash available, amount due and amount paid)
- Details on any facility available and its usage

Investor report - example across asset classes

Below are examples of information requirements across RMBS, Equipment Lease Securitisations and CLN's which GCR requires for its surveillance process.

Salient Information		
RMBS	**Asset Backed Securities (Equipment Lease, Auto)**	**CLNs**
Determination Date	Determination Date	Determination Date
Outstanding Notes	Outstanding Notes	Outstanding Notes
Outstanding Balance on Home Loans	Aggregate Exposure of Leases	Outstanding Collateral Portfolio
Notes Characteristics		
Notes Opening Balance	Notes Opening Balance	Notes Opening Balance
Interest Accrued	Interest Accrued	Interest Accrued
Interest Paid	Interest Paid	Interest Paid
Capital Redemption	Capital Redemption	Capital Redemption
Asset Collateral Portfolio Characteristics and Reconciliation		
Balance BOP (Beginning of Period)	Balance BOP (Beginning of Period)	
Instalments received	Instalment Sale Agreements Purchased	
Interest charged	Advances	
Insurance charged	Redraws	
Valuation fees	Other Advances	

Principal repaid	Contractual principal repayments	
Unscheduled repayments	Interest	
Total Principal collections	Instalments	
New loans purchased	Prepayments	
Advances and redraws	Repurchases	
Loan losses written off	Substitutions	
Loan losses recovered	Instalment Sale Agreements sold by Issuer	
Interest adjustments	Balance EOP (End of Period)	
Repurchases		
Substitutions		
Balance EOP (End of Period)		
Portfolio Covenants and Actual Figures as per Transaction documentation		
Weighted average Original Loan to Value	The aggregate Exposure of Leases in respect of which the corresponding Equipment is not located in the Common Monetary Area shall be limited to X% of the Total Exposure.	Covenants are reported on as is in the agreed-on loan documents
Weighted average Current Loan to Value	The aggregate Exposure in respect of Leases in terms of which the underlying Lease is entered into a fixed rate of interest will be limited to X% of the Total Exposure	
Weighted average Payment to Income	The aggregate Exposure of Leases with an original term of less than X months should not	

	exceed X% of the Total Exposure.	
Maximum second property loans (number)	The aggregate Exposure of Leases with an original term of greater than X months should not exceed X% of the Total Exposure;	
Average outstanding balance	The aggregate Exposure in respect of Government Leases shall be limited to X% of the Total Exposure	
Related Early Amortisation Events and Trigger Values (with column mentioning if there has been a breach)		
If the Required Interest Margin is not achieved (Y/N)	If a Servicer Event of Default occurs or if XX ceases to be the Servicer (Y/N)	
If the weighted average current Loan to Value ratio exceeds the required weighted average Current Loan to Value ratio by more than XX% (Y/N)	For any three consecutive Payment Dates, if the Arrears Reserve is not funded at the Arrears Reserve Required Amount (Y/N)	
	On any Payment Date, the amount standing to the credit of the Liquidity Reserve plus the Liquidity Facility Limit, is less than the Liquidity Required Amount (Y/N)	
Arrears analysis at determination date and recovery information		
Fully performing	**Dynamic Arrears - Capital and Arrears**	
Current	Current	
Arrears prior to default	0-30 days	

0 - 1 months	31-60 days	
1 - 2 months	61-90 days	
2 - 3 months	91-120 days	
Total	121-150 days	
Default buckets	151 days plus	
3 - 4 months	Total	
4 - 5 months		
5 - 6 months		
6 - 12 months		
>12 months		
Total		
Defaulted		
Litigation		
Excess Spread		
Interest received to determination date	Interest portion of Instalment Received	
Income Tax Provision	Capital portion of Instalment Received	
Expenses per Priority of Payments (POP)	Secondary Rentals Received	
Note coupon per POP	Income Tax Provision	
Excess spread before subordinated loan interest	Expenses as per the priority of payments	
Subordinated loan interest per POP	Interest due and payable on Notes	

Excess spread	Excess Spread	
Principal deficiency ledger or Potential Redemption amount		
The Below shows an example of the reporting for the Potential Redemption Amount and its calculation	**The below shows simplified reporting for the Principal Deficiency Ledger**	
Principal Collections during Current Period	Principal Deficiency Ledger Opening Balance	
(plus) 50% of balance(s) of new Non-performing loans in preceding Collection Period	Amounts added to the Principal Deficiency Ledger	
(plus) Principal Deficiency amount from previous due date	Amounts cleared from the Principal Deficiency Ledger	
(equals) Principal Redemption Amount on Current Due Date	Principal Deficiency Ledger Closing Balance	
Interest deferral events		
Class B Interest Deferral Event (Y/N)	Class B Interest Deferral Event (Y/N)	
Class C Interest Deferral Event (Y/N)	Class C Interest Deferral Event (Y/N)	

Source: Investor Reports from various transactions

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Related Criteria/Research

Criteria for the GCR Ratings Framework – May 2024

Criteria for Rating Structured Finance Transactions – May 2024

Criteria for Rating Consumer Asset Backed Securities – September 2018

Criteria for Rating Residential Mortgage-Backed Securities - November 2018

Criteria for Rating Credit Linked Notes and Repackaging Vehicles – November 2018

GCR Rating Scales Symbols and Definitions – May 2023