Transsec 2 (RF) Ltd. South African Auto ABS Ratings Raised Following Review

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Ratings List

Issuer

Transsec 2 (RF) Ltd.

Class	Rating to	Rating from
A3	zaAAA (sf)	zaAA+ (sf)
A6	zaAAA (sf)	zaAA+ (sf)
B1-Dfrd	zaAAA (sf)	zaAA+ (sf)
B2-Dfrd	zaAAA (sf)	zaAA+ (sf)
C1-Dfrd	zaAA+ (sf)	zaA (sf)
C2-Dfrd	zaAA+ (sf)	zaA (sf)

Overview

- We have reviewed Transsec 2 (RF) following the publication of our revised counterparty risk criteria and sovereign risk criteria.
- Following our review, we have raised our ratings on all classes of notes.
- The transaction securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African mini-bus taxis.

LONDON (S&P Global Ratings) Aug. 19, 2019--S&P Global Ratings today raised its credit ratings on Transsec 2 (RF) Ltd. (Transsec 2)'s notes (see list above).

Today's upgrades follow our full review of the transaction's credit, cash flow, counterparty, and operational risks under our relevant criteria (see "Related Criteria"). We have used the information from the May 2019 investor report.

Upon publication of our revised criteria for assessing sovereign risk and counterparty risk in structured finance transactions, we have added the under criteria observation (UCO) identifier to ratings that could be affected by the change in criteria (see "209 European Structured Finance Ratings Placed Under Criteria Observation Due To Revised Sovereign Risk Criteria" published on March 1, 2019, and "Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria," published on March 8, 2019). Following our review, our ratings in this transaction are no longer under criteria observation.

Given that the class B1-Dfrd, B2-Dfrd, C1-Dfrd, and C2-Dfrd notes are interest deferrable, our ratings on these classes of notes address the ultimate payment of interest and principal.

Our ratings on the class A3 and A6 notes address the timely payment of interest and ultimate payment of principal.

In our credit analysis, we considered our latest forecasts for weak growth in South Africa's economy (see "South Africa," published on May 24, 2019). Our base-case default rate assumption for the portfolio reflects our expectation for low growth in economic output in South Africa. Given structural deficiencies in the public transportation sector, demand for mini-bus taxis is more resilient to economic slowdowns, in our view.

We have analyzed credit risk based on the application of our global consumer finance criteria to derive our assumptions on default, recovery and prepayment rates, and portfolio yield (see "Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables," published on Oct. 9, 2014). We have adjusted our credit assumptions to reflect the current performance trends, which we believe will persist. Arrears have increased in relative terms since our previous full review in November 2018, and now 90+ days past due arrears (including repossessions) stand at 39.6% compared with 31.7% (see "Ratings Raised In South African Auto ABS Transaction Transsec 2 (RF) Following Review; Class C Notes Affirmed," published on Nov. 29, 2018). In absolute terms arrears have decreased to ZAR193.4million from ZAR199.8million. The transaction began amortizing in February 2017, and since then cumulative gross losses have increased to 38.47% (compared with 25.9% last year) of the collateral balance. However, the cumulative net loss rate has stayed low, below 4.0%, due to high recoveries. Based on the pool's current performance, we have revised the base-case gross default rate for the portfolio to 55% from 50% at our previous review to account for the increase in observed defaults.

At the same time, we left the pool base-case recovery rate unchanged at 77.9%. We applied our current national to global rating scale mapping for South Africa when defining the stress multiples and recovery rate haircuts for various national scale rating levels (see "S&P Global Ratings' National And Regional Scale Mapping Specifications," published on June 25, 2018).

Since our previous review, the available credit enhancement for all rated classes of notes has increased due to collateral amortization. The arrears reserve is currently being topped up to its required level (ZAR35.4 million as of May 2019) from the excess spread, which is also adding to the available credit enhancement for all rated classes of notes.

We applied our "Global Framework For Cash Flow Analysis Of Structured Finance Securities" criteria, published on Oct. 9, 2014, to update our cash flow model for this transaction as of the May 2019 interest payment date.

The transaction is exposed to the credit risk of FirstRand Bank Ltd. (BB/Stable/B, zaAA+/zaA-1+) as the transaction bank account provider. In this role, FirstRand Bank replaced Standard Bank of South Africa Ltd. (SBSA) in January 2017. The bank account agreement reflects our updated counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019). The issuer did not replace FirstRand Bank following its downgrade in April 2017 as this downgrade was due to our downgrade of South Africa, effectively capping all ratings on South African banks below the documented ratings trigger.

As such, following the application of our structured finance sovereign risk criteria, the maximum potential rating in this transaction is 'BB+ (sf)' (corresponding to the global scale rating and 'zaAAA' national scale rating). This is provided that the rated notes can withstand the sovereign default scenario commensurate with 'A' global scale rating levels of credit and cash flow stresses.

We have run our cash flow stresses on the A3, A6, B1-Dfrd, and B2-Dfrd tranches with a 'A' level of stress and concluded that their ratings could be higher than that on the long-term issuer credit rating (ICR) on FirstRandBank. The class C1-Dfrd and C2-Dfrd notes fail the sovereign default stress, therefore the sovereign rating constrains our ratings on these classes of notes.

The transaction is also exposed to SBSA as the interest rate swap provider. We give no benefit to the swap provider in our rating analysis. We tested the structure with and without the benefit of the swap provider, and the results are unchanged.

Under our current counterparty criteria, we consider commingling risk relating to the servicer to be structurally mitigated.

We have applied our operational risk criteria to assess the operational risk in this transaction (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, severity risk (the effect of servicer disruption) is moderate, and portability risk (the inability to replace the servicer) and disruption risk (the likelihood of a material disruption in servicer's functions) are high.

Considering the availability of a warm back-up servicer at closing, the maximum potential rating on the notes based on operational risk is capped at 'A+ (sf)', which corresponds to a 'zaAAA' national scale rating. Therefore, operational risk does not constrain the maximum potential ratings achievable for all classes of notes.

Under our scenario analysis, we have run two stress scenarios and an assessment of the transaction's performance. In our view, the results of our scenario analysis are commensurate with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Our credit and cash flow analysis indicates that the available credit enhancement for the class A3, A6, B1-Dfrd, and B2-Dfrd notes is commensurate with higher ratings than those currently assigned. However, our ratings on these classes of notes are also subject to a sovereign risk rating cap of 'BB+' (based on a global scale rating), which corresponds to 'zaAAA' (based on a national scale rating) as outlined in our sovereign risk criteria (see "Related Criteria"). We have therefore raised to 'zaAAA (sf)' from 'zaAA+ (sf)' our ratings on the class A3, A6, B1-Dfrd, and B2-Dfrd notes.

The class C1-Dfrd and C2-Dfrd notes' junior positioning in the capital structure do not pass our sovereign default stress; therefore, the ratings on these notes are constrained by the 'BB' sovereign foreign currency rating. Considering this constraint, and by applying the global-to-national scale mapping table for South Africa, we have raised our ratings on these classes of notes to 'zaAA+ (sf)' from 'zaA (sf)'. We believe that the available credit enhancement for this class of notes will increase in the current macroeconomic environment.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Structured Finance Temporary Interest Shortfall

Methodology, Dec. 15, 2015

- Criteria | Structured Finance | General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- South Africa, May 24, 2019
- Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria, March 8, 2019
- 209 European Structured Finance Ratings Placed Under Criteria Observation Due To Revised Sovereign Risk Criteria, March 1, 2019
- Ratings Raised In South African Auto ABS Transaction Transsec 2 (RF) Following Review; Class C Notes Affirmed, Nov 29, 2018
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- FirstRand Bank Ltd., June 21, 2018
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016