

Puxin 2019-1 Residential Mortgage-Backed Securities (RMBS)

Ratings

Class	Amount (CNY 10000)	Percent of Total (%)	Rating
Senior A-1	150000.00	29.70	AAA _{sf}
Senior A-2	291700.00	57.75	AAA _{sf}
Subordinated	63410.55	12.55	NR
Total	505110.55	100.00	—

Note: 1. NR stands for not rated; the same below.

Transaction Overview

Cut-off date: February 28, 2019
 Legal maturity date: Monday, January 26, 2037
 Type of transaction: RMBS
 Type of vehicle: Special-purpose trust
 Underlying assets: CNY 5,051,105,500 worth of personal home mortgage loans and their associated security interests, issued by Shanghai Pudong Development Bank Co., Ltd. (SPDB)
 Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms
 Originator/Trustor/Loan service agency: SPDB
 Trustee/Issuer: Shanghai International Trust Co., Ltd.
 Fund custodian: Bank of Communications Co., Ltd.
 Lead underwriter/Book-runner: China Securities Co., Ltd.
 Joint lead underwriters: China Construction Bank Corp., Bank of Communications Ltd.

Rating Assigned Date:

June 25, 2019

Analysts

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Rationale

China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”) has conducted a comprehensive credit analysis on the transaction including its underlying assets, transaction structure, legal aspects and service capabilities of the related institutions, and operating risks. In addition, it performed cash flow analysis and stress tests on the underlying assets.

The underlying assets in the transaction are CNY 5,051,105,500 worth of personal residential mortgage loans and their associated security interests originated and held by SPDB. The assets in the pool of this transaction are highly diversified (a total of 19,913 loans), and have a low weighted average¹ loan-to-value ratio (LTV) of 38.76%. The overall quality of the underlying assets is excellent. In addition, the senior/subordinated structure and trigger mechanisms will provide sufficient credit support for the senior securities.

Taking all the above into consideration, Lianhe Ratings assigns a rating of AAA_{sf} to the senior securities (including senior A-1 and senior A-2, the same below) under Puxin 2019-1 residential mortgage-backed securities.

The ratings on the senior securities reflect the extremely likely ability of the securities to make timely payment of interest and full repayment of the principal on or before the legal maturity date, with an extremely low risk of default.

Strengths

- The underlying assets are highly diversified, which helps disperse default risk.** The assets in the pool include 19,913 loans and the largest single outstanding loan principal accounts for 0.21% of the pool, so the assets in the pool are highly diversified.

¹ Loan-to-value ratio = outstanding principal/appraised value of the collateral at loan issuance.

2. **All the underlying assets are collateralized, which is conducive to asset disposal and recovery in the event of defaults. The loans in the pool of this transaction have a weighted average LTV of 38.76%. A low weighted average LTV indicates greater possibility to recover assets in full in the event of defaults, thus providing repayment assurance for the senior securities.**
3. **The transaction adopts a senior/subordinated structure as its main internal credit enhancement mechanism, which provides adequate credit support for the senior securities.** Specifically, the senior securities receive credit support of 12.55% from the subordinated securities.
4. **The cross-complementarity mechanism between the trust's principal account and income account and trigger mechanisms will provide further assurance for the senior securities in terms of principal and interest repayment.** The cross-complementarity mechanism between the principal account and income account can help mitigate liquidity risks associated with interest payment on the senior securities; the trigger mechanisms such as "event of default" and "accelerated settlement" will offer further guarantee for the repayment of the senior securities.
5. **The trustor/originator of the transaction, SPDB possesses strong operational capabilities, a fully developed risk control system and extensive experience in providing loan services.** As a major state-owned commercial bank, SPDB, enjoys an extremely high long-term issuer credit rating, and has a relatively comprehensive personal housing mortgage business process, risk control system and information management system. It is strongly positioned to fulfill its duties as the loan service provider of this transaction.

Concerns and Risk Mitigation

1. **Interest rate risk.** The term of the senior securities in the transaction is relatively long. Given the great uncertainties on the PRC's home mortgage and interest rate policies, the transaction will face high interest rate risk. Risk mitigation: When conducting stress tests under the cash flow model, Lianhe Ratings has adopted various interest rate scenarios to measure the impact of interest spread changes on repayment scenarios for the senior securities. The test results indicate that the senior securities can withstand interest rate shocks under those scenarios. Lianhe Ratings will closely monitor changes in relevant policies and potential impact on the repayment of the senior securities.
2. **Potential modeling risk.** There are many factors that may affect default on loan repayment and loan recovery after default. In addition, the data provided by the originator only covers a limited period, so the simulation methods and related data used in quantitative analysis may have certain modeling risk. Risk mitigation: By means of changing the prepayment rate and interest spread range and simulating scenarios of extensive defaults, Lianhe Ratings has repeatedly tested the senior securities' tolerance of borrowers' default, to minimize the modeling risk.
3. **Risks associated with housing mortgages.** While the originator of this transaction transfers the ownership of the mortgage loan, the mortgage attached to the ownership of the mortgage loan is transferred simultaneously. However, as the transfer registration procedure has not been completed, there is a risk of being unable to oppose bona fide third parties. Risk mitigation: When a rights improvement event is triggered, the trustor and the trustee shall complete the registration of the

mortgage transfer within the prescribed time limit. If the trustor fails to complete the registration for the transfer of mortgage, the following remedial measures should be taken: in case of failure to complete the registration for the transfer of mortgage within the aforesaid time limit due to any reason predating the effective date of the trust, SPDB shall redeem such mortgage as non-conforming assets; in case of failure to complete the registration for the transfer of the mortgage within the aforesaid time limit for reasons attributable to SPDB after the effective date of the trust, SPDB shall remedy by agreed means, such as bearing the losses or making redemptions; in case of failure after the effective date of the trust to complete the registration for the transfer of mortgage within the aforesaid time limit for reasons attributable to the registration department, the borrowers /mortgagers or for other reasons which are not attributable to

SPDB, SPDB shall take appropriate measures to facilitate the realization of creditor rights at the reasonable request of the trustee. These remedial measures are considered effective, given the exceptionally high credit ratings of the originator.

4. **The risk of uncertainties in the external economic environment.** The underlying assets in the transaction are personal mortgage loans. In China, the credit quality of such loans is closely correlated with the development of the real estate market. The property sector in China is currently subject to macro regulations and could be easily affected by national policies. This means its future development faces some uncertainty. Risk mitigation: Lianhe Ratings has incorporated risks associated with the real estate industry into its default model, and will continue monitoring the real estate market.