Wenrun 2019-1
Microbusiness Loan-Backed Securities (MLBS)

Ratings

Class	Amount (CNY 10,000)	Percent of Total (%)	Rating
Senior A	164,000.00	70.81	AAA_{sf}
Senior B	20,000.00	8.64	$AA+_{sf}$
Subordinated	47,600.57	20.55	NR
Total	**231,600.57**	**100.00**	—

Note: NR means not rated; the same below.

Transaction overview

Cut-off date: January 23, 2019
Legal maturity date: August 26, 2023
Type of transaction: Static cash flow ABS
Type of vehicle: Special-purpose trust
Underlying assets: CNY 2,316,005,700 worth of personal business loans held by Bank of Wenzhou Co., Ltd. and associated security interests thereof
Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms
Originator/Trustor/Loan Service Agency: Bank of Wenzhou Co., Ltd.
Trustee/Issuer: Yunnan International Trust Co., Ltd.
Fund custodian: China Zheshang Bank Co., Ltd.
Lead underwriter: China Merchants Securities Co., Ltd.

Rating assigned date:

August 12, 2019

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Rationale

China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as “Lianhe Ratings”) has conducted a credit analysis on the underlying assets, transaction structure, legal elements and institutions involved in the deal. It has also carried out credit risk tests on assets in the portfolio, stress tests on default probability of key debtors and an analysis and stress test on cash flow.

The underlying assets of the deal involve 1,536 personal business loans issued by the Originator, Bank of Wenzhou Co., Ltd. (hereinafter referred to as “Bank of Wenzhou”), to 1,460 borrowers and associated security interests thereof. Although credit ratings of the individual assets are relatively low (the average shadow rating of the individual loans is BB^{-}_{s}, calculated based on historical default rate data), the adverse effect is, to a large extent, offset by the exceptionally high diversification rate (the ratio of unpaid principal to total loan value per borrower is below 0.22%). Furthermore, all the pooled assets of the deal are secured against pledged securities (initial mortgage rate: 59.18%), which on the one hand increases the cost of default for the borrowers, and on the other hand ensures a high loan recovery rate in the event of a default. As such, the senior/subordinated structure and the trigger mechanisms will provide enough credit support for the senior securities.

It is worth noting that judging by the results of a quantitative assessment, the actual risk tolerance of senior class-A asset-backed securities (ABS) is much higher than the minimum AAA_{sf} rating requirement (greater guard space in stress tests).

Taking all these factors into account, Lianhe Ratings assigns AAA_{sf} to the senior A ABS and AA^{+}_{sf} to Senior B ABS under “Wenrun 2019-1

Microbusiness Loan-Backed Securities”.

Strengths

1. **The overall quality of the pooled assets of the deal is high.** The ratio of unpaid principal to the total loan value per borrower of the pooled assets is no higher than 0.22%, indicating a high degree of diversification. According to the five-category classification of loan assets, all the pooled assets are “normal” loans issued by Bank of Wenzhou.
2. **All the loans in the pool are collateralized.** All the loans in the pool of this deal are collateralized - 72.39% of them are collateralized by underlying security, and 27.61% by underlying security as well as guarantees. Collateralization hikes the cost of default for the borrowers, as well as guarantees a high loan recovery rate in the event of a default.
3. **The senior/subordinated structure provides sufficient credit support for the senior securities.** Specifically, senior A ABS receive credit support of 29.19% from senior B ABS and the subordinated assets; and senior B ABS receive credit support of 20.55% from the subordinated assets.

Concerns and risk mitigation

1. **The asset pool has a high concentration by region.** Most of the loans pooled in the deal are concentrated in the Zhejiang province (94.30%).
   Risk mitigation: As part of default modeling, Lianhe Ratings simulated the default probability of the entire asset pool by increasing relevance between borrowers in the same region, and the regional concentration risk is already factored in the ratings assigned.
2. **A certain level of modeling risk exists.** There are many factors affecting default and recovery of a loan. The simulation methods and related data used in quantitative analysis may have certain modeling risks.
   Risk mitigation: By means of changing the prepayment rate, reducing the recovery rate, modifying the interest spread range and simulating scenarios of extensive defaults, Lianhe Ratings has repeatedly tested the senior securities’ tolerance of borrowers’ default, so as to minimize the modeling risks.
3. **A certain level of macroeconomic systemic risk exists.** Given a weak global economic recovery and complex externalities, China’s economy faces continued downward pressure. Macroeconomic systematic risks may affect the overall credit performance of the asset pool.
   Risk mitigation: Lianhe Ratings has taken into account the possibility of a rise in the loan default ratio and a fall in the recovery rate due to macroeconomic and external market fluctuations when we adjust the parameters in the default model. These risks are reflected in the ratings assigned.