Credit Rating Report for Jieying 2019-1 Consumer Loan Asset-Backed Securities (ABS)

Ratings

Class	Amount (CNY 10,000)	Percent as of total (%)	Rating
Senior A	150500.00	68.41	AAA_{sf}
Senior B	20000.00	9.09	AA^{+}_{sf}
Subordinated	49500.00	22.50	NR
Total	**220000.00**	**100.00**	—

Note: NR means not rated; the same below.

Transaction Overview

Starting date: January 7, 2019
Legal maturity date of the trust: October 26, 2024
Type of the transaction: Dynamic cash flow ABS
Type of the trust: Special-purpose trust
Underlying assets: Creditor's rights to consumer credit loans worth CNY 2.2 billion that are rightfully owned by Home Credit Consumer Finance Co., Ltd., which meet the relevant requirements
Credit enhancement mechanism: Senior/subordinated structure, excess spread, trigger mechanisms
Trustor/originator: Home Credit Consumer Finance Co., Ltd.
Trustee: China Resources Shenzhen International Investment Trust Co., Ltd.
Loan service provider: Home Credit Consumer Finance Co., Ltd.
Fund custodian: Bank of Nanjing Co., Ltd.
Bookrunner: Zhongtai Securities Co., Ltd.
Joint lead underwriters: Zhongtai Securities Co., Ltd., Huishang Bank Corp. Ltd.

Note: This transaction has a conditional reserve account, which can help mitigate liquidity risks.

Rating Assigned Date

March 27, 2019

Analysts

Xu Yang, Li Ze, Li Kaiyan

Tel: 010-85679696
Fax: 010 - 85679228
Email: lianhe@lhratings.com
Address: 17/F PICC Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
Website: www.lhratings.com

Rationale

China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") has conducted a comprehensive analysis of factors including the underlying assets involved in the transaction, transaction structure, legal elements, as well as service capabilities of the relevant institutions, and has conducted cash flow analysis and stress tests of the underlying assets.

The underlying assets in the transaction are 950,258 consumer loans issued by Home Credit Consumer Finance Co., Ltd., which are highly diversified (the initial average outstanding balance of CNY 2,300 and the outstanding principal of the single largest loan accounting for 0.001% of the pool). Judging from loan payment records (average write-off ratio[1] is 6.14%), the underlying assets have modest credit quality. But their high yield (the average annualized rate of return is 21.36%) has largely compensated for their modest credit quality. Therefore, the senior/subordinated structure, excess spread, and the trigger mechanisms will provide sufficient credit support for Senior A and Senior B securities.

Home Credit Consumer Finance Co., Ltd. ("Home Credit Finance"), the trustor/originator of the transaction, is one of the first four pilot consumer finance companies incorporated with the China Banking Regulatory Commissions' permission. It has sufficient capital, strong profitability, and its consumer credit business is expanding. Home Credit Finance also has a sophisticated internal control system and risk management structure, and boasts extensive experience in loan servicing, which enables it to help control the quality of loans in the pool and manage the transaction in the future.

[1]Write-off ratio: Different from the definitions of relevant financial indicators, Lianhe Credit counts all the amount overdue 90 days after the normal repayment period (24 months) as the write-off amount (namely the amount of losses in the static pool), and defines the ratio of the write-off to the initial loan as the write-off ratio.

Taking all that into account, Lianhe Ratings assigns AAA_{sf} to Senior A securities and AA^{+}_{sf} to Senior B securities under Jieying 2019-1 consumer loan asset-backed securities.

Strengths

1. **Consumer credit loans issued by Home Credit Finance are highly diversified. Also, the eligibility criteria for the newly added loan credit set out in the transaction documents can help maintain the quality of assets in the pool.** The outstanding principal of the single largest loan accounts for 0.001% of the initial asset pool of the transaction. The eligibility criteria set out in the transaction documents include requirements on the location and occupation of borrowers involved in new creditor's claim, which can help maintain diversity and reduce the risk of concentrated defaults in the asset pool. The criteria also include requirements on weighted average internal credit scoring and weighted average annual interest rate, which can help maintain the quality of assets in the pool.
2. **The transaction offers substantial excess spread.** The weighted average interest rate of the initial loans in the pool is 18.00%, meaning the interest rate of the asset pool is high. The difference between income from the asset pool and service fees paid to the relevant participating institutions and interest expenses of the senior asset-backed securities will lead to excess spread, which will provide credit support for the senior securities .
3. **The transaction adopts the senior/subordinated structure as its main internal credit enhancement mechanism, which will provide sufficient credit support for Senior A and Senior B securities.** Specifically, Senior A securities receive credit support of 31.59% and senior B securities 22.50% respectively.
4. The transaction structure comprising of a principal ledger and an income ledger will provide better liquidity and credit support for senior securities; the trigger mechanisms such as accelerated settlement and defaults will offer further guarantee for the repayment of senior securities.

Concerns and Risk Mitigation

1. **Risks associated with Revolving Structure.** The transaction adopts a revolving structure. During the revolving period, funds in the trust principal ledger will be used to finance the continued purchases of the newly added loan credit. Therefore, the development of Home Credit Finance's consumer credit business, its loan approval standards and business processes will affect the quality of assets involved in the business, which will in turn affect the credit quality of the underlying assets of the transaction.
   Risk mitigation: Home Credit Finance implements strict loan approval standards and standardized business practices in its consumer loan business, which is set to develop well. The transaction has put in place strict eligibility criteria for loans in the pool, which will help ensure the credit quality of the underlying assets. The transaction documents have also set out trigger events for addressing the above risks. Lianhe Ratings has devised stress scenarios on purchase rates in the cash flow stress tests, and the ratings reflect the above-mentioned risks.
2. **Inadequate new asset purchase may lead to a decrease in asset pool yields.** The transaction adopts a revolving structure. If Home Credit Finance fails to provide sufficient qualified assets for the trust to purchase during its revolving period, the trust funds may be unused for a long time, or interest rates on the assets purchased may also drop, which would lead to a decrease in yields of the underlying assets.

Risk mitigation: The transaction has set strict events that will trigger the termination of the revolving period to avoid the possibility that a large amount of trust funds may be unused for a long time. If the termination clauses are triggered, the transaction will enter the trust amortization period earlier than scheduled. In the meanwhile, the eligibility criteria for assets in the pool can help ensure that interest rates on assets newly purchased during the trust's revolving period will not differ substantially from those on the initial assets in the pool. Home Credit Finance has a mature business model for its consumer credit business, the scale of which is quite large. For the transaction, it is not likely that the unavailability of qualified underlying assets or the purchases of assets with low interest rates may lead to a decrease in yields.

3. **Possible modeling risks.** All the assets in the pool are credit loans. Many factors could affect cash flow forecasts, credit loan defaults and fund collection after defaults. The simulation methods and related data used in quantitative analysis may lead to modeling risks.

   Risk mitigation: Lianhe Ratings has conducted stress tests on write-off ratio, yield, monthly repayment rate, and purchase rate, and repeatedly tested the ability of the senior securities to deal with defaults of the borrowers with a view to minimizing modeling risks.

4. **Uncertainties from external economic environment.** 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 rising loan write-off ratio due to macroeconomic and external market fluctuations when we adjust the parameters in the default model. The above risks are reflected in the ratings assigned.