

Changrong 2019-1 Auto Loan-Backed Securities

Ratings

Class	Amount (CNY 10,000)	Percent of Total (%)	Rating
Senior A1	120,000.00	40.00	AAA _{sf}
Senior A2	127,000.00	42.33	AAA _{sf}
Senior B	23,000.00	7.67	AAA _{sf}
Subordinated	29,994.62	10.00	NR
Total	299,994.62	100.00	—

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

Transaction Overview

Cut-off date: 00:00 on March 31, 2019
 Legal maturity date: February 26, 2025
 Type of transaction: Static cash flow ABS
 Type of trust: Special-purpose trust
 Underlying assets: CNY 2,999,946,200 worth of auto loans issued by Chang'an Automobile Finance Co., Ltd. and associated security interests
 Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms, conditional reserve account
 Trustor /Originator: Chang'an Automobile Finance Co., Ltd.
 Trustee/Issuer: Chongqing International Trust Co., Ltd.
 Loan service provider: Chang'an Automobile Finance Co., Ltd.
 Fund custodian: Tianjin Branch of Bank of Beijing Co., Ltd.
 Lead underwriter/book runner: CITIC Securities Co., Ltd.
 Joint lead underwriter: Sinolink Securities Co., Ltd.

Rating Assigned Date:

July 8, 2019

Analysts

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Rationale

China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Ratings") has conducted credit analysis on the transaction including its underlying assets, transaction structure, legal elements, and related institutions. It has also performed cash flow analysis and stress tests on the underlying assets.

The underlying assets in the transaction are auto loans originated by Chang'an Automobile Finance Co., Ltd. ("CA AFC"), the trustor, and associated security interests. The underlying assets in the pool are highly diversified (a total of 59,813 loans, with the single largest loan accounting for 0.0076% of the asset pool). In addition, similar auto loans issued by CA AFC have had good credit performance. Specifically, the static pool composed of 36 issuances has an expected cumulative default rate of 2.40%. Taking into account accounts receivable aging, the expected cumulative default rate is 2.69%, and the loan recovery rate is 69.93%, indicating the good overall quality of the underlying assets. Moreover, the interest during the period from the cut-off date to the establishment date (the interest during the four-month period is expected to account for about 1.28% of the outstanding principal) will also help provide assurance for the senior securities. On such a basis, the senior/subordinated structure with trigger mechanisms will provide enough credit support for the senior securities.

Taking all the above into consideration, Lianhe Ratings assigns AAA_{sf} to the senior A1 securities, senior A2 securities and senior B securities under Changrong 2019-1 Auto Loan-Backed Securities.

The rating on the senior A1 securities, senior A2 securities and senior B securities reflects that their holders are expected to receive interest on time and receive full principal repayment on or

prior to the legal maturity date, and the default risk is extremely low.

Strengths

1. **The overall quality of the underlying assets is good.** The underlying assets in the transaction include 59,813 auto loans issued by CAAFC. The borrowers are from 30 provinces, autonomous regions and municipalities across China, with individual borrowers accounting for a very small share of the asset pool and the single largest loan accounting for 0.0076%, meaning the underlying assets are highly diversified. The estimated cumulative default rate based on historical static-pool data provided by CAAFC, is 2.40%. Taking into account accounts receivable aging, the expected cumulative default rate is 2.69%, which indicates it has a decent historical performance record.
2. **The interest during the period from the cut-off date to the establishment date of the securities will help provide assurance for the senior securities.** The asset pool has a weighted average interest rate of 4.06%, which indicates a modest yield of the asset pool. However, the interest during the four-month period is expected to account for about 1.28% of the outstanding principal, which will help provide assurance for the senior securities.
3. **The senior/subordinated structure provides enough credit support for the senior securities.** Specifically, the senior A securities receive credit support of 17.67% from the senior B securities and subordinated securities, and the senior B securities receive credit support of 10.00% from the subordinated securities.

Concerns and Risk Mitigation

1. **Legal risks associated with the failure to register changes in mortgage rights.** Under

the transaction, the mortgage rights of the relevant vehicles are simultaneously transferred to the trustee when the trustor transfers the underlying assets to the trustee. However, the trust will be subject to legal risks if the trustor and the trustee fail to register changes in mortgage rights as such mortgage rights are not effective against bona fide third parties.

Risk mitigation: This transaction has set up an asset redemption clause, under which the trustor will redeem the corresponding assets as agreed when the aforementioned risks arise. The transaction faces very small legal risks, given that CAAFC, the originator of the transaction, has a very high credit rating and strong ability to perform contracts. Lianhe Ratings will also continue to monitor the diligence of the trustor and the trustee and their ability to perform their functions.

2. **Modeling risks.** Assumptions or parameter estimates used in quantitative analysis could have a margin of error due to various factors. For example, there are many factors affecting loan defaults and loan recovery, and it has not been long since auto loans become available in China, meaning basic data might be insufficient. Risk mitigation: By raising the default rate, lowering the recovery rate and reducing spread support, Lianhe Ratings has repeatedly tested the securities' tolerance of defaults in the cash flow models, with an aim to minimize the possibility of underestimating risks caused by discrepancies in assumptions or estimates.
3. **Interest rate risks.** As the loans in the pool adopt both fixed interest rates and floating interest rates while the senior securities all adopt floating interest rates, these interest rates may have different benchmarks and different adjustment frequency, leading to risks associated with interest rate volatility. Risk mitigation: When conducting stress

tests under the cash flow model, Lianhe Ratings has devised various interest rate scenarios to measure the impact of interest spread changes on the repayment of the senior securities through repeated tests. Interest rate risks have already been factored in the rating results.

4. **Economic downside risks.** 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 already considered these factors, such as a higher default rate and lower recovery rate of the assets in the pool as a result of macroeconomic systemic risks, when adjusting the parameters in the default model. The above risks are reflected in the ratings assigned.