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Auto Loan Securitization In China Can Withstand A Macroeconomic Slowdown, Says S&P Report

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MELBOURNE (Standard & Poor's) Oct. 22, 2015--With macroeconomic uncertainty increasing and new vehicle sales growth slowing, China's auto finance and related securitization sector will face new tests. However, the risks should be contained by the industry's strong regulatory framework and the simple, supportive asset-backed security (ABS) structures, according to a recent report by Standard & Poor's Ratings Services titled "Can Auto Loan Securitization In China Withstand A Macroeconomic Slowdown?"

"The market development and regulatory oversight have helped to shape credit risk profiles in China's auto finance and auto loan securitization sectors," said Standard & Poor's credit analyst Vera Chaplin. "This feature in turn limits the impact of macroeconomic uncertainties and expected competition in the near future."

About RMB45.9 billion of auto loan ABS has been issued under the China Banking Regulatory Commission (CBRC) and People's Bank of China's (PBOC) securitization scheme. The cumulative net losses of these auto loan ABS have been low to date, and the overall performance of securitized loan portfolios is comparable to those in prime auto-ABS in more established markets, such as the U.S., Western Europe, Japan, and Australia.

In the global market, where car ownership is near saturation point and financing is widespread, automakers' captive financing subsidiaries and commercial banks are competing for new customers. In China, however, auto financiers have been able to focus on boosting vehicle sales through the provision of consumer financing and increasing their access to potential

buyers that do not own a car. As a result, auto loan product design and the methods used to target borrowers in China are more conservative, underpinning the currently low number of loan defaults.

"We believe China's comparatively short experience in auto financing and securitization has been offset by its less-severe competition within the industry; relatively conservative practices, which have been influenced by regulatory oversight; the growing affordability of cars, and the so far simple and supportive ABS structures," Ms. Chaplin said. "We have also seen a rapid improvement in auto financiers' loan underwriting, infrastructure, and risk-control capabilities."

We expect these factors to help the sector to handle the adverse effects of slowing economic growth and a potential rise in industry completion.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

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