

New Issuance Hit Record High In China's Securitization Market In 2016; Performance Stable In Most Sectors

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HONG KONG (S&P Global Ratings) March 6, 2017--Market concern over China's slowing economic growth and the potential downside risk from a structural adjustment have not dampened new issuance activity in the nation's securitization market, according to a recently published report by S&P Global Ratings. China's securitization market recorded more than RMB858 billion (US\$124 billion) of new issuance in 2016, up 40% from a year earlier, with no major deterioration in the performance of retail receivables securitized.

The strong growth in issuance of residential mortgage-backed securities (RMBS) and new transactions under the securitization scheme managed by the China Securities Regulatory Commission (CSRC) has compensated for the slowdown in collateralized loan obligation (CLO) transactions, according to the "Securitization Performance Watch: China" report for the fourth quarter (Q4) of 2016.

The short duration of notes and low net losses in auto loan securitization limit investors' exposure to credit risks. Asset performance remained stable in Q4 2016. We expect credit performance in China auto loan securitization transactions to be robust during the next 1-2 years, thanks to mild competition in the auto loan industry as well as the stable product offerings and structural arrangements of transactions.

Households' relatively low leverage and increased income as well as the lower

loan-to-value ratios of China mortgages continued to support debt serviceability. This is reflected in the low cumulative default rate of residential mortgage loans backing RMBS transactions in China.

The asset performance of CLO transactions could be more volatile than the retail receivables sector due to their direct exposure to corporate credits that are highly sensitive to the macroeconomic condition. However, the effect on transactions could be limited due to more conservative asset selection and structural arrangements in these transactions.

"Securitization Performance Watch: China" provides a comprehensive review of the issuance activities and deal performance in China's securitization market. The report can be found at <http://www.sfsurveillance.com.au>. Members of the media seeking a copy can contact Richard Noonan at (61) 3 9631 2152 or richard.noonan@spglobal.com.

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