

## **Securitization**

*An outline of the analysis:*

- *Industry analysis*
- *Determination of "Benchmark Pool"*
- *Determining the "Base Default Frequency (BDF)"*
- *Service Provider evaluation (Servicer)*
- *Underlying asset risk analysis*
- *Cash flow analysis*
- *Analysis of the structure of the securitization*
- *Available scheme*

### **Industry Analysis**

*Objective: To assess the characteristics and risk profile of the industry associated with the securitized asset from various aspects.*

*In the case of mortgage securitization, PEFINDO analyzes the mortgage industry as follows:*

- *The growth of mortgage*
- *Profile of mortgage: home loan product development, mortgage interest rates, etc.*
- *Profile Non Performing Loan (NPL) mortgages: the level of NPLs, the NPL based on the profile of mortgage (home loan type, value, age of the debtor, debtor's income, etc.)*

### **Determination of "Benchmark Pool"**

*Results from analysis of the industry as a reference in determining the "Benchmark Pool". "Benchmark Pool" are some criteria used as the reference by PEFINDO in measuring risk factors of the securitized asset.*

*Criteria used in the Benchmark Pool is generally accepted criteria considered in the industry (not the best/worst). Each criterion in the "Benchmark Pool" has a value of 1.0x risk factor. Next PEFINDO sets the value of risk factors for different parameters.*

### **"Base Default Frequency (BDF)" calculation**

*Objective: To determine the level of expected loss/credit enhancement for each rating category. The higher the desired rating, an ABS will require a higher credit enhancement levels. In most cases, PEFINDO will use the maximum NPL ratio in the past few years for the relevant industry sector of the underlying assets as the reference, and multiply this to reach the certain comfortable level to achieve the targeted rating. If NPL ratio data for the specific sector is not available, PEFINDO may refer to the NPL ratio for the overall banking industry.*

*Example:  $BDF_{iAAA} = 10\%$*

*Meaning: for assets that meet the criteria of "Benchmark Pool", it will need 10% of credit enhancement to achieve the  $iAAA$  rating.*

### **Service Provider (Servicer) Evaluation**

*Objective: To measure the ability Servicer in managing the securitized assets. PEFINDO will evaluate the procedures for asset management, IT system, disaster recovery plan, as well as business and financial profile. PEFINDO will consider track record of operation, market position in its respective industry, and management & human resource capabilities. PEFINDO will also use the servicer's corporate rating as a reference in determining servicer quality profile.*

### ***Underlying assets risk analysis***

*Objective:* To calculate the credit enhancement of the securitized asset portfolio based on existing criteria in the benchmark pool & Base Default Frequency.

Deviation from benchmark pool will affect the credit enhancement needed to achieve a particular rating category. PEFINDO will also analyze securitized assets based on its diversification risk profile.

### ***Analysis of the securitization structure***

*Objective:* To assess the risk profile of the structure of securitization transactions, by evaluating:

- Securitization scheme, including scheme being used such as Collective Investment Contract (Kontrak Investasi Kolektif), Participation Certificate (Surat Partisipasi), or others
- Securitization agreements analysis
- Analysis of protection against credit risk of the parties involved in the transaction
- Analysis of legal aspects (with an opinion of legal expert)-bankruptcy remote, true sales, etc.
- Analysis of the audit results of the securitized asset compared with asset selection criteria, when applicable

### ***Cash flow analysis***

*Objective:* To calculate the adequacy of cash flows from the securitized asset generation against EBA's financial obligations, including senior expenses and principal and coupon payments to EBA holders.

PEFINDO will combine all above analysis to come up with minimum subordination level required and apply it in the cash flow model. If it does not satisfy to fulfill future cash flow requirement under worst-case scenario, then PEFINDO will determine the junior portion required based on the cash flow model.

### ***Available scheme***

Currently there are two available schemes for asset securitization: Collective Investment Contract (Kontrak Investasi Kolektif or KIK) and Participation Certificate (Surat Partisipasi or SP).

There are some key characteristics to both schemes, including differences and similarities.

For KIK:

- There is the role of Investment Manager (Manajer Investasi or MI) as monitoring agent after instrument is issued
- The scheme is able to accommodate securitization of any type of asset classes
- The KIK serves a role as the issuer of the instrument
- The instrument, called KIK-EBA, is independent of the originator, or off-balance sheet

For SP:

- There is no role of Investment Manager as monitoring agent; it will be replaced by the issuer.
- Based on OJK regulation no 23/POJK.04/2014, the scheme can only be issued by a secondary mortgage financing provider and the asset is only specific to mortgage loan.
- The instrument, called EBA-SP, is also independent of the issuer and originator, or off-balance sheet.

**DISCLAIMER**

*PT Pemeringkat Efek Indonesia (PEFINDO) does not guarantee the accuracy, completeness, timeliness or availability of the contents of this report or publication. PEFINDO cannot be held liable for its use, its partial use, or its lack of use, in combination with other products or used solely, nor can it be held responsible for the result of its use or lack of its use in any investment or other kind of financial decision making on which this report or publication is based. In no event shall PEFINDO be held liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses including but not limited to lost profits and opportunity costs in connection with any use of the contents of this report or publication. Credit analyses, including ratings, and statements in this report or publication are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The contents cannot be a substitute for the skill, judgment and experience of its users, its management employees and/or clients in making investment or other business decisions. PEFINDO also assumes no obligation to update the content following publication in any form. PEFINDO does not act as fiduciary or an investment advisor. While PEFINDO has obtained information from sources it believes to be reliable, PEFINDO does not perform an audit and does not undertake due diligence or independent verification of any information used as the basis of and presented in this report or publication. PEFINDO keeps the activities of its analytical units separate from its business units to preserve independence and objectivity of its analytical processes and products. As a result, certain units of PEFINDO may have information that is not available to other units. PEFINDO has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. PEFINDO may receive compensation for its ratings and other analytical work, normally from issuers of securities. PEFINDO reserves the right to disseminate its opinions and analyses. PEFINDO's public ratings and analyses are made available on its website, <http://www.pefindo.com> (free of charge) and through other subscription-based services, and may be distributed through other means, including via PEFINDO publications and third party redistributors. Information in PEFINDO's website and its use fall under the restrictions and disclaimer stated above. Reproduction of the content of this report, in full or in part, is subject to written approval from PEFINDO.*