S&P Global
Ratings

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Bayport Securitisation (RF) Class BAYA92 And A93 ABS Notes Assigned Ratings; Outstanding Ratings Affirmed

September 30, 2021

Overview

- We have assigned our long-term 'zaAA+ (sf)' ratings to Bayport Securitisation (RF)'s class A BAYA92 and BAYA93 notes.
- At the same time, we have affirmed our 'zaAA+ (sf)' ratings on all of the outstanding class A notes issued previously.
- Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) originated.
- Our analysis indicates that the available credit enhancement for the outstanding rated class A notes is sufficient to mitigate the credit and cash flow risks at the 'zaAAA' rating level corresponding to the global 'BB' rating. However, our ratings on the class A notes are constrained at 'zaAA+ (sf)' (corresponding to the global 'BB-' rating) by the application of our sovereign risk criteria.

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MOSCOW (S&P Global Ratings) Sept. 30, 2021--S&P Global Ratings today assigned its long-term 'zaAA+ (sf)' credit ratings to Bayport Securitisation (RF) Ltd.'s class A BAYA92 and BAYA93 notes. At the same time, we have affirmed our 'zaAA+ (sf)' ratings on the outstanding class A notes.

Today's rating actions reflect our credit and cash flow analysis using the most recent available collateral performance data (as of June 2021). We have considered the most recent transaction structure in our analysis, taking into account the new issuance and existing notes' amortization as of the most recent investor report (June 2021).

Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) Ltd. (Bayport) originated in the ordinary course of its business. The transaction does not have a fixed revolving period; it revolves until the issuer fully repays the outstanding debt, or until an acceleration event occurs. During the revolving period the issuer can issue new notes or repay outstanding notes.

Environmental, social, and governance (ESG) factors

In our view, the transaction has material exposure to governance credit factors due to 'risk management and internal controls'. The transaction does not have a fixed revolving period, which also introduces higher exposure to governance factors (e.g., risk management and internal controls). We consider that revolving collateral pools may be subject to deterioration in underwriting or adverse selection. Under the transaction structure there are eligibility criteria and concentration limits for selecting the new receivables. In addition, the transaction documents set certain performance triggers to terminate the revolving period if the portfolio quality deteriorates. We tested cash flows assuming the worst portfolio composition determined according to these documented limits, which in our view mitigate this risk.

The transaction has relatively higher exposure to social credit factors due to this being a pool of obligors, which, given the high interest rates and affordability considerations for these borrowers, could increase legal and regulatory risks if the validity of the contracts or the servicer's collection practices are challenged. We believe this risk is mitigated by representation made by the issuer that each loan when originated complied with all laws. In addition, the issuer has a compliance department which manages its adherence to all applicable laws. The South African National Credit Act (NCA) determine that the interest rates over the assets are determined under a statutory formula at a maximum of the Repo Rate plus 21%. We believe setoff risk upon the seller's insolvency is limited since the issuer charges an interest rate, which is in line with the market practice. Finally, we considered the migration of the pool under the maximum interest rate set by the national regulation.

Rating Rationale

Economic outlook

In our credit analysis, we have considered our latest forecasts for South Africa's economy (see "Related Research").

Macroeconomic Outlook

	2020	2021f	2022f	2023f	2024f
Real GDP (y/y growth; %)	(7.0)	4.2	2.6	1.5	1.5
Unemployment rate (annual average; %)	29.2	31.4	30.1	29.7	29.5
CPI (%)	3.3	4.4	4.5	4.5	4.5

f--Forecast. y/y--Year on year.

Credit risk

We have analyzed credit risk by applying our securitized consumer receivables criteria to derive our default and recovery assumptions for various rating levels. We considered the most recent performance data available from July 2008 to June 2021. Our analysis showed that extrapolated default rates improved in consumer loan cohorts originated between 2016 and 2019. The trend in lower default rates can be explained by Bayport's more stringent origination policy standards introduced in mid-2015 and further adjustments to its scorecards in April 2016. Since June 2016, cumulative gross losses have remained about 30% compared with our 40% gross loss base case.

Following the COVID-19 pandemic, and the new set of performance data, we observed some deterioration in the asset performance. As restrictions on movements started to ease and the economy is again open, performance in terms of delinquencies has started to gradually decline to pre-COVID-19 levels.

In 2019, Bayport introduced a new collection strategy and has been expanding its use gradually across the portfolio. Currently, a little more than a fifth of the portfolio is covered under this arrangement. It aims to reduce the probability of default by improving collections through direct deductions of monthly installments from the borrowers' payroll.

We have noted the impact from the change in the collection strategy on a subset of the portfolio, as well as some gradual improvement in the performance following some deterioration last year due to COVID-19. However, we have maintained our base-case assumptions since our previous review of the transaction, primarily factoring the current macroeconomic conditions that briefly worsened on account of the widespread civil unrest and the slower pace of economic recovery. Our assumptions consider weak economic growth since well before the COVID-19 pandemic, including high fiscal deficits, a high debt burden, and sizeable contingent liabilities from weak state-owned enterprises, as well as the expected increase in and elevated levels of unemployment. Bayport confirmed that it does not provide payment holidays to its obligors, which mitigates the potential accumulation of future defaults in the pool. In addition, the consumer loans securitized in the portfolio are unsecured receivables. Therefore, we believe that the recovery process has not been materially affected by the COVID-19 pandemic.

Our credit analysis assumptions remain unchanged since our previous review of the transaction (see "Related Research").

Base Case And Stressed Default And Recovery Assumptions

	Default rate	Recovery rate
Base case (%)	40.00	5.00
Stressed assumptions (%)		
zaAAA	44.80	4.35
zaAA+	44.20	4.38

The 'zaAAA' national rating level corresponds to our global scale ratings of 'BB' and higher.

Operational risk

We consider the risk related to the servicer to be mitigated at the rating level assigned to the notes in line with our operational risk criteria. In our view, severity risk (the effect of servicer disruption) is moderate, and portability risk (the inability to replace the servicer) is high. Considering the securitized product, the key transaction party in this transaction, and the availability of the warm back-up servicer--Transaction Capital Recoveries Proprietary Ltd. (formerly known as MBD Credit Solutions [PTY] Ltd.)--since closing, the operational risk constrains the maximum potential ratings achievable for the notes at a global scale 'A+' level (corresponding to the national level of 'zaAAA').

Cash flow analysis

Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions, including the issuance of the additional class A notes on Sept. 30, 2021 We applied our cash flow analysis framework to the cash flow stresses at each rating level. The class A BAYA92 and BAYA93 notes are floating-rate bullet and amortizing notes, respectively, with legal final maturity dates in September 2024. Our cash flow analysis considered the transaction's structural features, including the credit enhancement that the available cash and performing balance provide.

Our analysis indicates that the available credit enhancement for the outstanding rated class A notes is sufficient to mitigate the credit and cash flow risks at the 'zaAAA' rating level corresponding to the global 'BB' rating. In addition to the base scenario, we tested several sensitivities related to a liquidity stress, a further reduction in assets yield, and a potential deterioration in recovery flows. However, our ratings on the class A notes are constrained at 'zaAA+ (sf)' (corresponding to the global 'BB-' rating) by the application of our sovereign risk criteria.

In our view, if the transaction continues to revolve, there is a higher risk that the class A bullet notes may not fully repaid on their maturity date. Given the structural mechanisms in place, which include a principal accumulation reserve for notes with bullet maturities, we believe this risk is commensurate with the current ratings assigned. As part of our ongoing surveillance process, we will continue monitoring the level of cash available at the issuer level and other mitigating factors to ensure the likelihood of full repayment of the bullet notes remains commensurate with the assigned ratings.

Counterparty risk

We have analyzed the transaction's exposure to counterparty risk in accordance with our current counterparty criteria.

The transaction is exposed to the credit risk of Standard Bank of South Africa Ltd. acting as the transaction bank account provider. We consider that the transaction documents adequately mitigate this risk at the 'zaAA+' rating level in line with our counterparty criteria.

The transaction is also exposed to the servicer in relation to commingling risk. The servicer is an unrated entity. However, due to the strong mitigants in place, we undertook a sensitivity run to test commingling risk as a liquidity stress as we did not stress commingling in the driving run.

Legal risk

We consider the issuer to be bankruptcy remote, in line with our legal criteria. At closing, we have received legal information that provides assurance that the sale of the assets would survive the seller's insolvency.

Rating stability

Under our scenario analysis, we ran two stress scenarios and assessed the transaction's performance. The results of our scenario analysis are commensurate with our credit stability criteria. In addition, our ratings on the class A notes address frequent changes in the capital structure, thereby maintaining rating stability.

Sovereign risk

Under our structured finance sovereign risk criteria, we treat the type of collateral being securitized (South African unsecured consumer loans) as having moderate sensitivity to South African sovereign risk.

In addition, to account for the severe economic stress we expect to accompany a sovereign default, when rating above sovereign, in line with our sovereign risk criteria, we also assessed whether the notes can withstand a sovereign default stress.

We used our standard 'A' run (on a global scale rating) to replicate the impact of the sovereign default scenario. The transaction does not pass our sovereign default stress. Therefore, the ratings on the notes are constrained to the sovereign rating level.

Our ultimate rating assigned in the transaction is derived from the application of our criteria. It is the lower of (i) the rating as capped by our sovereign risk criteria, (ii) the rating as capped by our counterparty criteria, or (iii) the rating that the class of notes can attain under our global consumer ABS criteria.

When we apply our stresses under our global consumer ABS criteria, the class A notes are able to withstand up to a 'zaAAA' rating scenario. The class A notes are not constrained by the counterparty criteria at the 'zaAAA' rating level. Our ratings on the class A notes do not withstand the sovereign default stress and are therefore constrained at 'zaAA+' by the application of our sovereign risk criteria. As such, we have assigned our long-term 'zaAA+ (sf)' rating to the new class A notes, and we have affirmed our 'zaAA+ (sf)' ratings on the existing class A notes. Our forward-looking view is affected by the reduced excess spread of the capital structure and lower level of cash available to the issuer compared with previous issuances.

Ratings List

Class (new notes)	**Rating**	**Amount (mil. ZAR)**	**Interest**	**Legal final maturity**
Class A (BAYA 92)	zaAA+ (sf)	75.00	Three-month JIBAR plus 4.50%	Sept. 30, 2024
Class A (BAYA 93)	zaAA+ (sf)	80.00	Three-month JIBAR plus 4.25%	Sept. 30, 2024
Ratings affirmed (existing notes)				
Class A (BAYA57)	zaAA+ (sf)	50.00	Three-month JIBAR plus 5.50%	March 31, 2022
Class A (BAYA64)	zaAA+ (sf)	40.00	Three-month JIBAR plus 4.50%	Sept. 30, 2022
Class A (BAYA67)	zaAA+ (sf)	100.00	11.17%	March 31, 2023
Class A (BAYA71)	zaAA+ (sf)	66.50	Three-month JIBAR plus 4.25%	June 30, 2021
Class A (BAYA72)	zaAA+ (sf)	444.70 (Tap of 60.70)	12.18%	March 31, 2026
Class A (BAYA73)	zaAA+ (sf)	117.91	Three-month JIBAR plus 3.94%	March 31, 2022
Class A (BAYA74)	zaAA+ (sf)	88.61	Three-month JIBAR plus 3.80%	June 30, 2024
Class A (BAYA75)	zaAA+ (sf)	45.60	Three-month JIBAR plus 3.65%	June 30, 2022
Class A (BAYA76)	zaAA+ (sf)	5.91	Three-month JIBAR plus 3.65%	June 30, 2022
Class A (BAYA77)	zaAA+ (sf)	95.18	Three-month JIBAR plus 3.75%	Sept. 30, 2022
Class A (BAYA78)	zaAA+ (sf)	35.00	Three-month JIBAR plus 4.75%	March 31, 2023
Class A (BAYA79)	zaAA+ (sf)	104.14	Three-month JIBAR plus 4.75%	March 31, 2023
Class A (BAYA80)	zaAA+ (sf)	77.36	Three-month JIBAR plus 5.00%	June 31, 2023
Class A (BAYA81)	zaAA+ (sf)	91.50	Three-month JIBAR plus 5.00%	June 31, 2023
Class A (BAYA82)	zaAA+ (sf)	59.47	Three-month JIBAR plus 4.75%	Sept. 30, 2023
Class A (BAYA83)	zaAA+ (sf)	100.00	Three-month JIBAR plus 5.00%	Sept. 30, 2023
Class A (BAYA84)	zaAA+ (sf)	62.50	Three-month JIBAR plus 4.50%	Dec. 31, 2022

Ratings List (cont.)

Class A (BAYA85)	zaAA+ (sf)	62.50	Three-month JIBAR plus 5.00%	Dec. 31, 2023
Class A (BAYA86)	zaAA+ (sf)	65.70	Three-month JIBAR plus 4.50%	March 31, 2023
Class A (BAYA87)	zaAA+ (sf)	172.56	Three-month JIBAR plus 5.00%	March 31, 2024
Class A (BAYA88)	zaAA+ (sf)	175.00	Three-month JIBAR plus 4.75%	March 31, 2024
Class A (BAYA69U)	zaAA+ (sf)	80.00	Three-month JIBAR plus 4.50%	March 31, 2023
Class A (BAYA70U)	zaAA+ (sf)	100.00	Three-month JIBAR plus 5.00%	March 31, 2024
Class A (BAYA 89)	zaAA+ (sf)	65.00	Three-month JIBAR plus 4.50%	June 30, 2024
Class A (BAYA 90)	zaAA+ (sf)	140.00	Three-month JIBAR plus 4.75%	June 30, 2024
Class A (BAYA 91)	zaAA+ (sf)	6.00	Three-month JIBAR plus 4.25%	June 30, 2023

Note: Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date. The class A balance reflects the most recent interest payment date. JIBAR--Johannesburg Interbank Average Rate. NR--Not rated.

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Emerging Markets Monthly Highlights: Growth Is Resilient To The Pandemic, Inflationary Pressures Could Linger, Sept. 15, 2021
- South Africa's Social Unrest Is A Reminder Of Constraints To A Fragile Recovery, July 26, 2021
- Credit Conditions Emerging Markets Q3 2021: Slow Vaccination Prevents A Robust Recovery, June 29, 2021

- Bayport Securitisation (RF) Class BAYA89, A90, And A91 ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, June 30, 2021
- South Africa Ratings Affirmed At 'BB-/B' Foreign Currency And 'BB/B' Local Currency; Outlook Stable, May 21, 2021
- Bayport Securitisation (RF) Class A BAYA86, A87, A88, A69U, A70U ABS Notes Assigned Ratings; Outstanding Ratings Lowered, March 31, 2021
- Bayport Securitisation (RF) Class A BAYA84 and BAYA85 ABS Notes Assigned Ratings; Outstanding Ratings Raised, Nov. 30, 2020
- Credit Conditions Emerging Markets: Longer Lockdowns, Heightened Risks, April 23, 2020
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016