Bayport Securitisation (RF) Class A BAYA86, A87, A88, A69U, A70U ABS Notes Assigned Ratings; Outstanding Ratings Lowered

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Overview

- We have assigned our long-term 'zaAA+ (sf)' ratings to Bayport Securitisation (RF)'s class A BAYA86, BAYA87, BAYA88, BAYA69U, and BAYA70U notes.
- At the same time, we have lowered to 'zaAA+ (sf)' from 'zaAAA (sf)' our 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.

LONDON (S&P Global Ratings) March 31, 2021--S&P Global Ratings today assigned its long-term 'zaAA+ (sf)' credit rating to Bayport Securitisation (RF) Ltd.'s class A BAYA86, BAYA87, BAYA88, BAYA69U, and BAYA70U notes. At the same time, we have lowered to 'zaAA+ (sf)' from 'zaAAA (sf)' our 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 December 2020). 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 (January 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.

Rating Rationale

Economic outlook

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

Macroeconomic Outlook

	2019	2020f	2021f	2022f	2023f
Real GDP (y/y growth; %)	0.2	(7.3)	3.6	2.5	1.3
Unemployment rate (annual average; %)	28.7	30.0	30.9	30.1	29.8
CPI (%)	4.1	3.3	3.9	4.4	4.4

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

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

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 January 2008 to December 2020. 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 below 30% compared with our 40% gross loss base case. Following the COVID-19 outbreak, and the new set of performance data, we have seen a deterioration in the asset performance, which is still below our set base case. This performance follows our expectation as part of our forward-looking view.

In our view, the headroom between our base-case assumption and the observed actual gross losses accounts for performance deterioration related to the COVID-19 outbreak and the expected increase in unemployment rate. Therefore, in our analysis, we have not applied any additional stresses related to the COVID-19 outbreak. Bayport Financial Services 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

("Bayport Securitisation (RF) Class A BAYA84 and BAYA85 ABS Notes Assigned Ratings; Outstanding Ratings Raised," published on Nov. 30 2020).

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 March 31, 2021, and the refinancing of the existing class A BAYA70 notes that were repaid on the same date. We also considered the tap issuance of BAYA72 and the partial redemption of BAYA71, BAYA73, BAYA75, BAYA76, BAYA77, BAYA 84, and BAYA85. We applied our cash flow analysis framework to the cash flow stresses at each rating level. The class A BAYA86, BAYA 87, BAYA88, BAYA69U, and BAYA70U notes are floating-rate amortizing notes with a legal final maturity date in March 2023, March 2024, March 2024, December 2022, and December 2023, respectively. Our cash flow analysis considered the transaction's structural features, including the credit enhancement that the available cash and performing balance provide.

In line with our cash flow analysis framework criteria, our default assumption incorporates elements of both credit and liquidity stresses. The high level of default stress that we apply in this transaction already results in high liquidity stress on account of cash flow available during the recession period to make interest payments.

We believe that the higher base case set for this transaction compared with the underlying assets' observed performance, captures the COVID-19 stresses, and so no further stresses are applied.

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.

In our view, the class A bullet notes--BAYA67, BAYA72, BAYA81, BAYA83, BAYA85, BAYA86, BAYA87, and BAYA70U--exhibit high sensitivity to liquidity stresses. Currently, the notes pass our 'zaAAA' stress scenario, but are constrained by the sovereign default stress. These notes passing without any principal shortfalls on the bullet maturity date in all 'zaAAA' stress scenarios.

At the November 2020 issuance the BAYA 67, BAYA72, BAYA81, BAYA83, and BAYA85 notes were passing without any principal shortfalls on the bullet maturity date under the sovereign level rating stress scenario (with low constant prepayment rate assumptions of 0.50%).

However, due to less cash available in the issuer accounts (ZAR437.4 million at the end of February 2021 compared with ZAR709.6 million at the end of November 2020) and higher cost of debt (three-month Johannesburg Interbank Average Rate [JIBAR] increased to 3.66% in March 2021 from 3.33% in November 2020), these notes no longer pass our sovereign default stress rating scenario, assuming that the transaction were to immediately enter amortization.

In our view, if the transaction continues to revolve, there is a higher risk that these notes may not be repaid in full at their bullet 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. However, unlike for the November issuance, our ratings on the class A notes no longer 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 lowered to 'zaAA+ (sf)' from 'zaAAA (sf)' our 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 at the November issuance.

Ratings List

Class (new notes)	Rating	Amount (mil. ZAR)	Interest	Legal final maturity
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%	December 31, 2022
Class A (BAYA70U)	zaAA+ (sf)	100.00	Three-month JIBAR plus 5.00%	December 31, 2023
Ratings lowered (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)	66.00	Three-month JIBAR plus 4.25%	June 30, 2021
Class A (BAYA72)	zaAA+ (sf)	384.00 (Tap of 20.00)	12.18%	March 31, 2026

Ratings List (cont.)

Class (new notes)	Rating	Amount (mil. ZAR)	Interest	Legal final maturity
Class A (BAYA73)	zaAA+ (sf)	164.86	Three-month JIBAR plus 3.94%	March 31, 2022
Class A (BAYA74)	zaAA+ (sf)	94.27	Three-month JIBAR plus 3.80%	June 30, 2024
Class A (BAYA75)	zaAA+ (sf)	63.30	Three-month JIBAR plus 3.65%	June 30, 2022
Class A (BAYA76)	zaAA+ (sf)	11.00	Three-month JIBAR plus 3.65%	June 30, 2022
Class A (BAYA77)	zaAA+ (sf)	115.73	Three-month JIBAR plus 3.75%	Sept. 30, 2022
Class A (BAYA78)	zaAA+ (sf)	38.91	Three-month JIBAR plus 4.75%	March 31, 2023
Class A (BAYA79)	zaAA+ (sf)	115.77	Three-month JIBAR plus 4.75%	March 31, 2023
Class A (BAYA80)	zaAA+ (sf)	85.10	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)	64.80	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
Class A (BAYA85)	zaAA+ (sf)	62.50	Three-month JIBAR plus 5.00%	Dec. 31, 2023
Ratings withdrawn				
Class A (BAYA66)	NR	0.0		
Class A (BAYA70)	NR	0.0		

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 | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, 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

- Bayport Securitisation (RF) Class A BAYA84 and BAYA85 ABS Notes Assigned Ratings; Outstanding Ratings Raised, November 30, 2020
- Bayport Securitisation (RF) Class A BAYA 80 And BAYA 81 ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, June 30, 2020
- Bayport Securitisation (RF) Class A (BAYA 79) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, April 30, 2020
- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020
- South Africa National Scale Mapping Revised Following Sovereign Downgrade, April 29, 2020
- Credit Conditions Emerging Markets: Longer Lockdowns, Heightened Risks, April 23, 2020
- Bayport Securitisation (RF) Class A (BAYA 78) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, March 31, 2020
- South Africa, May 22, 2020
- Emerging Markets Confront Rising Risks, Report Says, March 27, 2020
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- Bayport Securitisation (RF) Class A (BAYA 77) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, Sept. 30, 2019
- 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