Bayport Securitisation (RF) Class A BYA108 And 109 ABS Notes Assigned Ratings; Other Ratings Affirmed

November 30, 2023

Overview

- We assigned our long-term 'zaAA+ (sf)' ratings to Bayport Securitisation (RF)'s class A BYA108 and BYA109 notes.
- At the same time, we affirmed our 'zaAA+ (sf)' ratings on all the outstanding class A notes.
- Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) Ltd. originated.
- Our analysis indicates that the available credit enhancement for the outstanding rated class A notes can withstand the associated level of macroeconomic stress commensurate with a 'zaAAA' rating (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.

PRIMARY CREDIT ANALYST

Matthew Aitken
Frankfurt
+49 69 3399 9153
matthew.aitken
@spglobal.com

SECONDARY CONTACT

Giuseppina Martelli
Milan
+ 39 02 72 111 274
giuseppina.martelli
@spglobal.com

FRANKFURT (S&P Global Ratings) Nov. 30, 2023--S&P Global Ratings today assigned its long-term 'zaAA+ (sf)' credit ratings to Bayport Securitisation (RF) Ltd.'s class A BYA108 and BYA109 notes. At the same time, we 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 September 2023). We considered the most recent transaction structure in our analysis, taking into account the new issuance and the early partial buy-back of the class A BAYA87 notes.

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

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 mitigates 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) states 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 market practice. Finally, we considered the migration of the pool under the maximum interest rate set by the national regulation.

Rating Rationale

Credit risk

We maintained our base-case default rate assumption of 35%, in line with our previous review in September 2023 (see "Related Research"). The portion of at source (payroll) lending increased to 48.2% of the securitized portfolio as of September 2023, and we expect this to increase as Bayport ceased debit order lending originations in February 2023. Payroll lending as an asset class has fewer historical defaults than debit order lending. Our credit assumptions also consider current uncertain macroeconomic conditions due to the increasing costs of living, higher inflation, and the slower pace of economic recovery.

Base case and stressed default and recovery assumptions

	Default rate	Recovery rate
Base case (%)	35.00	5.00
Stressed assumptions (%)		
zaAAA	39.20	4.35
zaAA+	38.67	4.42

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, operational risk constrains the maximum potential ratings on the notes at 'A+' (global scale 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 Nov. 30, 2023. We applied our cash flow analysis framework to the cash flow stresses at each rating level. The class A BYA108 notes are amortizing and the class A BYA109 notes are bullet notes with legal final maturity dates in September 2026 and March 2027, respectively.

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 can withstand the associated level of macroeconomic stress commensurate with a 'zaAAA' rating level (corresponding to the global scale 'BB' rating).

In addition to the base-case scenario, we tested several sensitivities related to a liquidity stress, commingling risk, and potentially deteriorating recovery flows. However, our ratings on the class A notes are constrained at 'zaAA+ (sf)' (corresponding to the global scale 'BB-' rating) by the application of our sovereign risk criteria. These criteria determine the application of an 'A' default rate of 53.2% of the performing pool, and a recovery rate haircut of 23.5%.

In our view, if the transaction continues to revolve, there is a higher risk that the class A bullet notes may not be 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 the currently assigned ratings on these notes reflect this risk. 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 assigned ratings reflect the likelihood of full repayment of the bullet notes.

Counterparty risk

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

Macroeconomic forecasts and forward-looking analysis

We consider the transaction's resilience in case of additional stresses to some key variables, in particular defaults and recoveries to determine our forward-looking view.

In our view, the ability of the borrowers to repay their loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. Our current unemployment forecast for South Africa is 32.9% and our inflation forecast is 5.8%.

Macroeconomic outlook

	2022	2023f	2024f	2025f
Real GDP (y/y growth; %)	1.9	0.7	1.3	2.5
Unemployment rate (annual average; %)	33.5	32.9	33.3	33.6
CPI (%)	6.9	5.8	5.0	4.5

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

We therefore ran eight scenarios with increased gross defaults and/or reduced expected recoveries. The results of the sensitivity analysis indicate a deterioration of up to three notches on the notes, which is in line with the credit stability considerations in our rating definitions.

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 the 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 effect 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 can withstand up to a 'zaAAA' rating scenario. The application of our counterparty criteria does not cap our ratings. However, our ratings on the class A notes do not withstand the sovereign default stress and are therefore constrained at 'zaAA+ (sf)' by the application of our sovereign risk criteria. As such, we assigned our long-term 'zaAA+ (sf)' ratings to the new class A notes, and affirmed our 'zaAA+ (sf)' ratings on the existing class A notes.

Ratings list

Class (new notes)	Rating	Amount (mil. ZAR)	Interest	Step-down date	Step-down rate	Legal final maturity
Class A (BYA108)	zaAA+ (sf)	100.00	Three-month JIBAR plus 3.75%	N/A	N/A	Sept. 30, 2026
Class A (BYA109)	zaAA+ (sf)	38.00	Three-month JIBAR plus 4.00%	N/A	N/A	March 31, 2027
Ratings affirmed (existing notes)						
Class A (BYA70U)	zaAA+ (sf)	100.00	Three-month JIBAR plus 5.00%	N/A	N/A	March 31, 2024
Class A (BYA71U)	zaAA+ (sf)	80.00	Three-month JIBAR plus 4.65%	N/A	N/A	Sept. 30, 2027
Class A (BYA72U)	zaAA+ (sf)	56.00	Three-month JIBAR plus 4.65%	N/A	N/A	June 30, 2028
Class A (BAYA74)	zaAA+ (sf)	30.60	Three-month JIBAR plus 3.80%	N/A	N/A	June 30, 2024
Class A (BAYA87)	zaAA+ (sf)	134.56*	Three-month JIBAR plus 5.00%	N/A	N/A	March 31, 2024
Class A (BAYA88)	zaAA+ (sf)	47.91	Three-month JIBAR plus 4.75%	N/A	N/A	March 31, 2024
Class A (BAYA89)	zaAA+ (sf)	23.44	Three-month JIBAR plus 4.50%	N/A	N/A	June 30, 2024
Class A (BAYA90)	zaAA+ (sf)	140.00	Three-month JIBAR plus 4.75%	N/A	N/A	June 30, 2024
Class A (BAYA92)	zaAA+ (sf)	75.00	Three-month JIBAR plus 4.50%	N/A	N/A	Sept. 30, 2024
Class A (BAYA93)	zaAA+ (sf)	35.63	Three-month JIBAR plus 4.25%	N/A	N/A	Sept. 30, 2024
Class A (BAYA94)	zaAA+ (sf)	260.02	Three-month JIBAR plus 3.90%	N/A	N/A	June 30, 2025
Class A (BAYA95)	zaAA+ (sf)	100.00	Three-month JIBAR plus 4.15%	N/A	N/A	June 30, 2025
Class A (BAYA96)	zaAA+ (sf)	40.00	Three-month JIBAR plus 4.50%	Dec. 31, 2022	Three-month JIBAR plus 4.15%	Sept. 30 2025
Class A (BAYA97)	zaAA+ (sf)	91.50	Three-month JIBAR plus 5.00%	Sept. 30, 2023	Three-month JIBAR plus 4.15%	Sept. 30 2025
Class A (BAYA98)	zaAA+ (sf)	100.00	Three-month JIBAR plus 5.00%	Dec. 31, 2023	Three-month JIBAR plus 4.15%	June 30, 2026
Class A (BAYA99)	zaAA+ (sf)	62.50	Three-month JIBAR plus 4.65%	N/A	N/A	Sept. 30, 2027
Class A (BYA100)	zaAA+ (sf)	100.00	Three-month JIBAR plus 4.40%	N/A	N/A	Sept. 30, 2026
Class A (BYA101)	zaAA+ (sf)	100.00	Three-month JIBAR plus 4.15%	N/A	N/A	Sept. 30, 2025
Class A (BYA102)	zaAA+	75.00	Three-month JIBAR plus 4.40%	N/A	N/A	June 30, 2027

Ratings list (cont.)

Class A (BYA103)	zaAA+ (sf)	162.50	Three-month JIBAR plus 4.15%	N/A	N/A	Sept. 30, 2026
Class A (BYA104)	zaAA+ (sf)	15.00	Three-month JIBAR plus 4.15%	N/A	N/A	June 30, 2027
Class A (BYA105)	zaAA+ (sf)	20.00	Three-month JIBAR plus 3.90%	N/A	N/A	June 30, 2026
Class A (BYA106)	zaAA+ (sf)	255.50	14.04%	N/A	N/A	Sept. 30, 2028
Class A (BYA107)	zaAA+ (sf)	253.20	14.89%	N/A	N/A	Sept. 30, 2030

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. *Balance after the partial buy-back of ZAR38 million on Nov. 30, 2023. JIBAR--Johannesburg Interbank Average Rate. N/A--Not available. NR--Not rated.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Structured Finance | ABS: Global Consumer ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- 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
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- South Africa 'BB-/B' Foreign Currency And 'BB/B' Local Currency Ratings Affirmed; Outlook Stable, Nov. 17, 2023
- Bayport Securitisation (RF) Class A BYA103, 106, And 107 ABS Notes Assigned Ratings; Other Ratings Affirmed, Sept. 29, 2023
- Bayport Securitisation (RF) Class A BYA102, 72U, 104, And 105 ABS Notes Assigned Ratings; Other Ratings Affirmed, June 30, 2023
- South Africa, May 22, 2023
- South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth; 'BB-/B' FC Ratings Affirmed, March 8, 2023
- Bayport Securitisation (RF) Class A BAYA99 And A71U ABS Notes Assigned Ratings; Other Ratings Affirmed, Sept. 30, 2022
- Bayport Securitisation (RF) Class A BAYA94, A95, A96, A97, And A98 ABS Notes Assigned Ratings; Other Ratings Affirmed, June 30, 2022
- Bayport Securitisation (RF) Class BAYA89, A90, And A91 ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, June 30, 2021
- 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

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.