



# China Securitization Performance Watch 1Q 2024

A Slow Start For Issuance

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**S&P Global**  
Ratings

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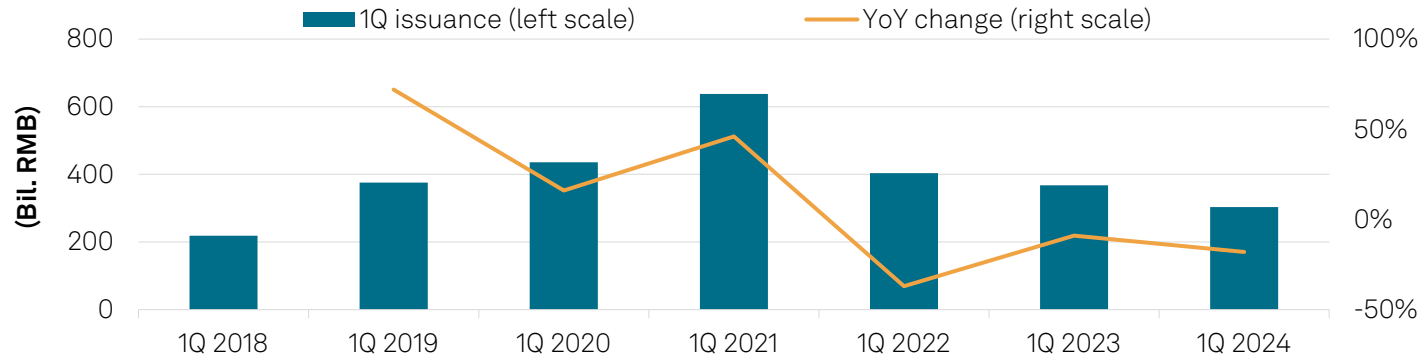
Structured Finance, North Asia  
(ex. Japan)

May 16, 2024

*This report does not constitute a rating action*

# Key Takeaways

## A sluggish start for China securitization



## Main sectors to watch

<p><b>0</b></p> <p><b>RMBS:</b> zero issuance</p>	<p><b>52%</b></p> <p><b>Auto loan ABS</b> annual issuance decrease (YoY)</p>	<p><b>65%</b></p> <p><b>Consumer loan ABS*</b> annual issuance decrease (YoY)</p>	<p><b>33%</b></p> <p><b>MSE loan ABS*</b> annual issuance decrease (YoY)</p>
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Data includes issuance under the CAS scheme managed by the NFRA and the PBOC, the securitization scheme managed by the China Securities Regulatory Commission (CSRC), and the asset-backed notes (ABN) scheme managed by China's National Association of Financial Market Institutional Investors (NAFMII). \*Under CAS scheme only. RMB--Chinese renminbi. MSE--micro and small enterprise. Source: WIND; compiled by S&P Global Ratings.

- New securitization issuance fell 18% year on year (YoY) in 1Q 2024 to Chinese renminbi (RMB) 303 billion (US\$42 billion). We expect issuance to stay flat in 2024, with the issuance momentum of dominant segments to slow. This said, the chance of a downside revision has increased.
- Issuance was mainly dragged by a drop in sectors such as auto loan asset-backed securities (ABS) and consumer loan ABS under the credit asset securitization (CAS) scheme, and lease receivables ABS under the China Securities Regulatory Commission (CSRC) scheme.
- Collateral performance became somewhat volatile relative to the past few quarters during the first quarter of 2024 for auto and consumer loan ABS, as well as residential mortgage-backed securities (RMBS) observed herein. We expect volatility to remain elevated in the next quarter or two.

# Key Changes In Q1 2024

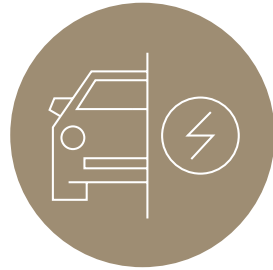
## China's economic growth slows



**China's real estate downturn has continued to drag on the economy.** We see GDP growth slowing to 4.6% in 2024 from 5.2% in 2023. Our forecast factors in continued property weakness and modest macro policy support.



**Auto growth to decelerate.** Growth in China's domestic light vehicle sales will slow to 2%-3% annually in 2024-2025, from 5.6% in 2023.



**Domestic electric vehicle sales to grow at a slower pace.** Domestic EV sales to grow 15%-20% per annum over 2024-2025, from over 30% last year. Penetration to rise to 35%-40% in 2024-2025.



**China property sales continue to search for a bottom.** We believe that national sales will continue to drop but may find support at about RMB 10 trillion to RMB10.3 trillion this year. The range is a 10%-15% drop from 2023.



**China's retail sales will expand slightly less than GDP in 2024.** We project annual consumption growth at 4%-6% for the next few years. We believe the era of rapid 7%-10% annual growth is largely behind us.

EV--electric vehicle. Source: S&P Global Ratings.

# Key regulatory update

## NFRA tightens regulations on consumer finance companies

- In March, the National Financial Regulatory Administration (NFRA) published a series of measures on consumer finance companies.
- The new rules lifted the access threshold of consumer finance companies (CFCs), stepped up regulatory rules, and enhanced the protection of consumer rights.
- According to the official document, a CFC is required to have a minimum registered capital of RMB1 billion. Besides, the main investor of a CFC needs to hold a stake of at least 50%, up from 30% previously. The new rules also stipulate threshold levels for a CFC's liquidity level, leverage ratio, and proportion of loans with third-party guarantees.
- The measures came into effect on April 18, 2024.
- In our view, the tightening regulatory oversight over CFCs may help reduce operational risk from a rating perspective due to the higher bars set on various aspects such as capitalization, liquidity, risk management framework and corporate governance.

## China eases auto loan rules for new passenger vehicles

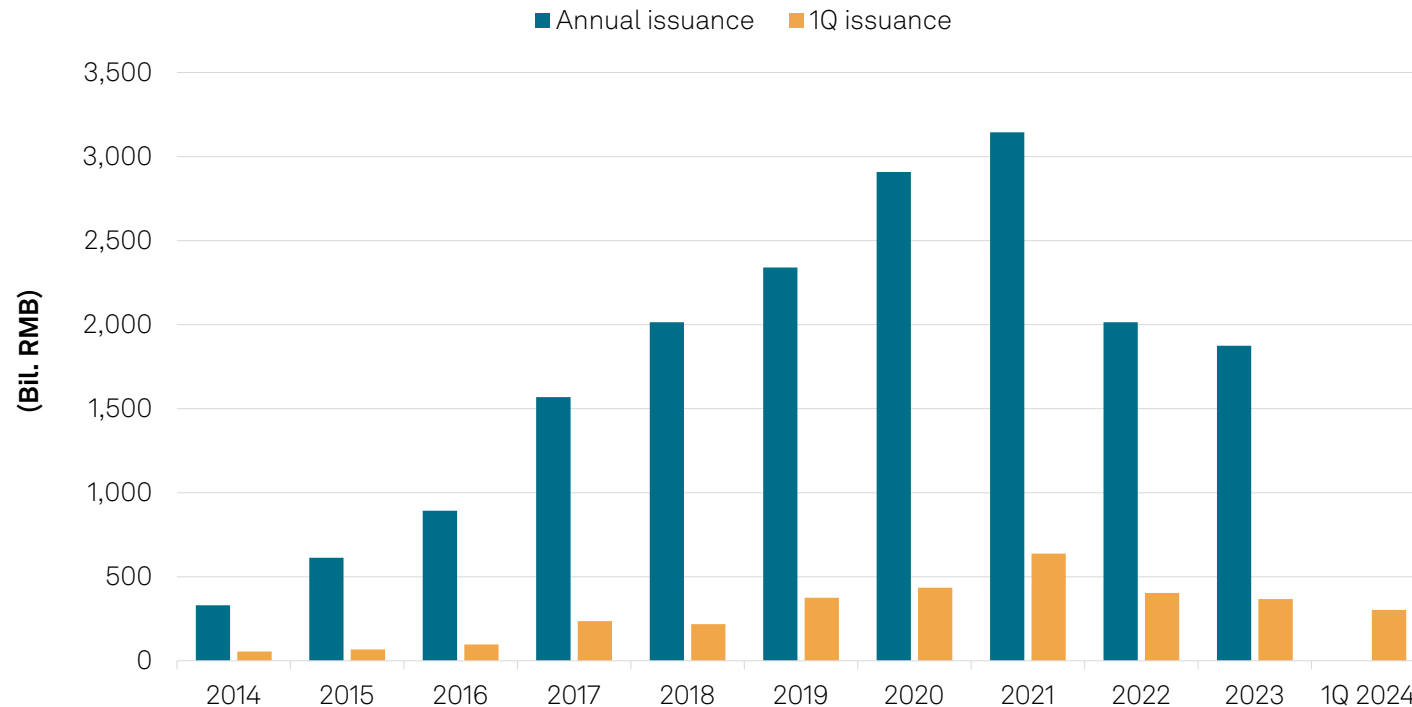
- The People's Bank of China (PBOC), China's central bank, and the NFRA have unveiled a new set of auto loan rules, which aim to spur vehicle purchases and financing.
- In the statement, published on April 3, 2024, the regulators announced that lending institutions can now independently determine the loan-to-value (LTV) ratio for (passenger) vehicle purchases. This implies that the down payment on a new car could be as low as zero.
- Before the revision, the minimum down payment for an auto loan was 15% for electric vehicles and 20% for internal combustion engine vehicles.
- For commercial vehicles and used vehicles, the required minimum down-payment ratios remain unchanged.
- In our view, the potential impact on the credit quality of auto loans with higher LTV ratios due to relaxed regulation will vary among originators, depending on their loan product offering strategies, risk appetites, loan underwriting skills, and experience.

# Issuance And Coupon Trend



# New Issuance Trends

## Total securitization issuance volume down 18% YoY in 1Q 2024

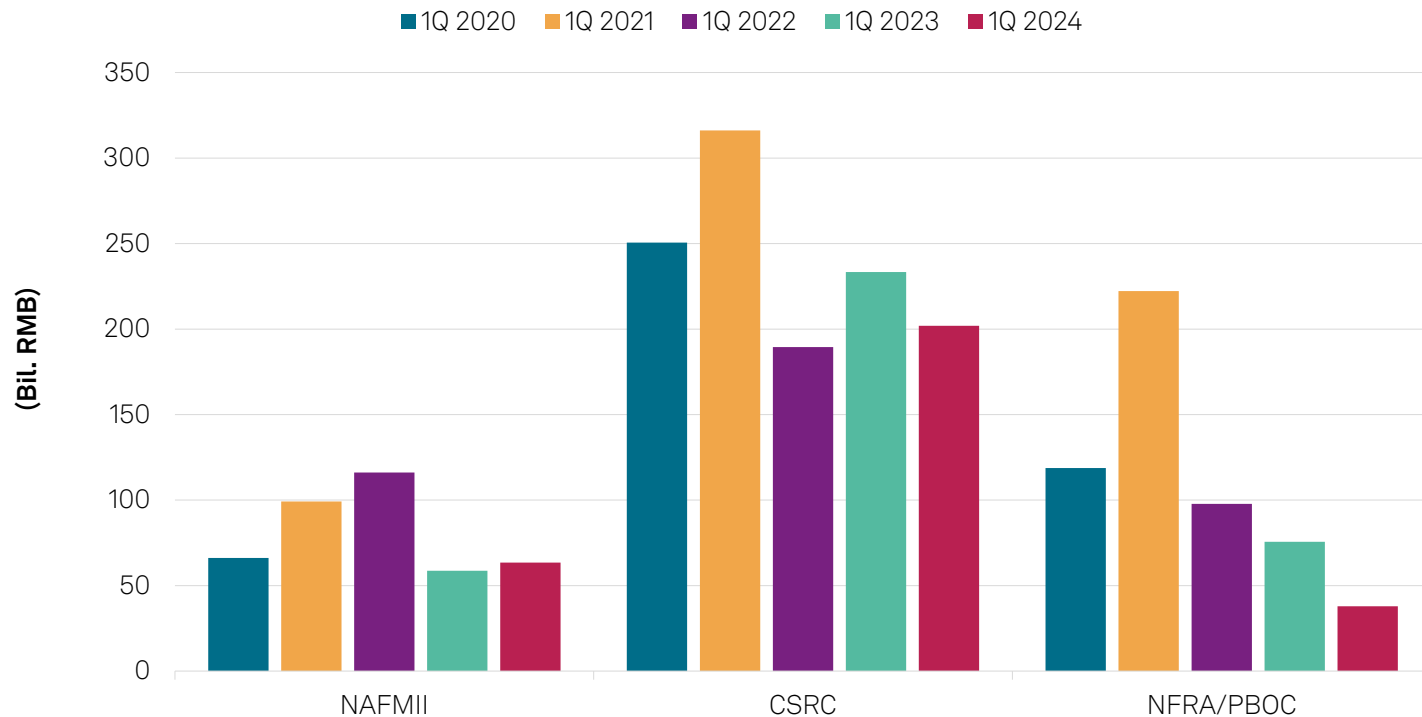


Data includes issuance under the CAS scheme managed by the NFRA and the PBOC, the securitization scheme managed by the China Securities Regulatory Commission (CSRC), and the asset-backed notes (ABN) scheme managed by China's National Association of Financial Market Institutional Investors (NAFMII). YoY—year on year. Source: WIND; compiled by S&P Global Ratings.

- New securitization issuance fell 18% to RMB303 billion (US\$42 billion) in 1Q 2024.
- The issuance of most asset types has declined, including auto loan ABS and consumer loan ABS, under the CAS scheme, and lease receivables ABS under the CSRC scheme.
- Issuance grew for a few asset types in the past quarter. Account receivable ABS issuance under the CSRC scheme leaped 90% YoY. Non-performing loan (NPL) ABS issuance under the CAS scheme increased 48%.
- In 2024, issuance prospects will depend on the fundamentals of the respective sectors amid a slow recovery in China's economy.

# Issuance Volume By Scheme

## Issuance trend varies under different schemes

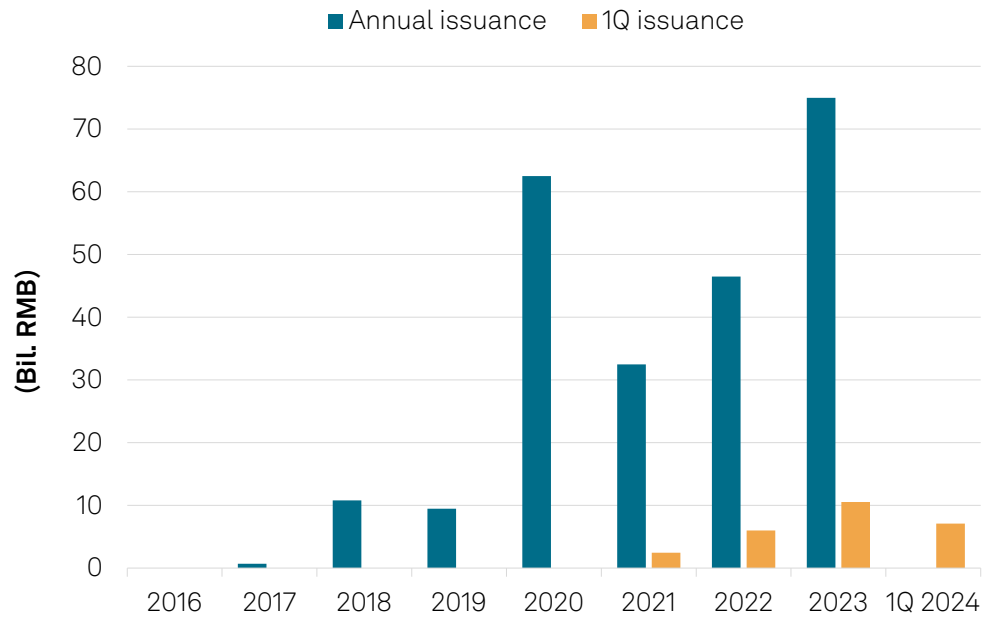


NAFMII--China's National Association of Financial Market Institutional Investors; CSRC--China Securities Regulatory Commission; NFRA--National Financial Regulatory Administration; PBOC--The People's Bank of China. Source: WIND; compiled by S&P Global Ratings.

- Issuance under the National Association of Financial Market Institutional Investors scheme amounted to RMB63 billion in the first quarter of 2024, up 8% YoY.
- Issuance under the CSRC scheme dropped to RMB202 billion in the first quarter, indicating a YoY decline of 13%.
- CAS managed by NFRA and the PBOC totaled RMB38 billion in the first quarter, down 50% YoY. This is mostly due to a decline in auto loan ABS issuance.
- Leasing and factoring companies remained active in ABS issuances in the exchange market for fundraising.

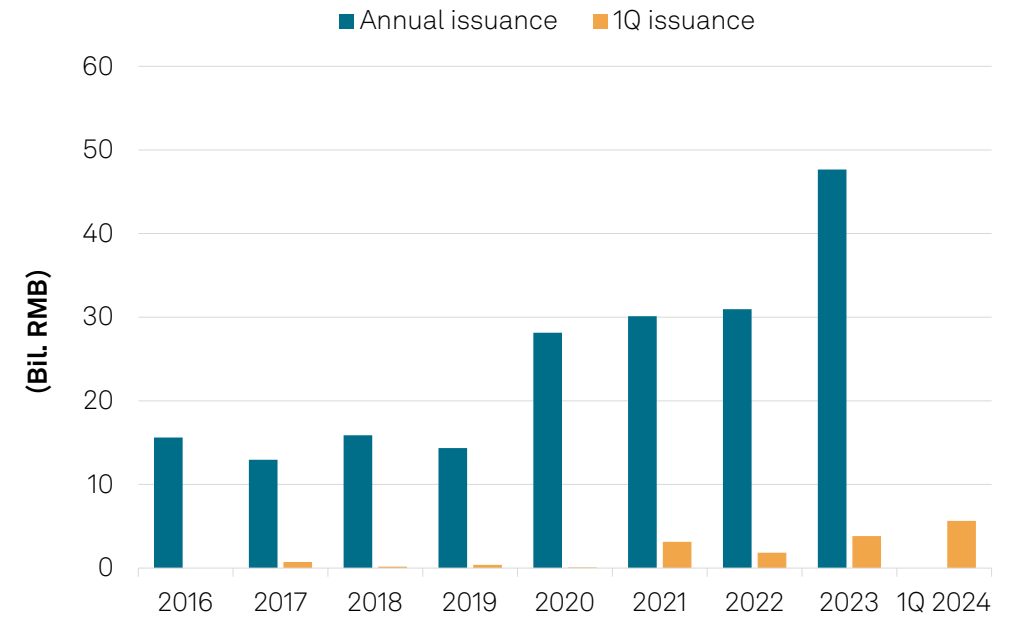
# Other Top Trends To Watch

## MSE loans ABS issuance dropped 33% YoY



Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. MSE--micro and small enterprise. Source: WIND; compiled by S&P Global Ratings.

## NPL ABS issuance rose 48% YoY

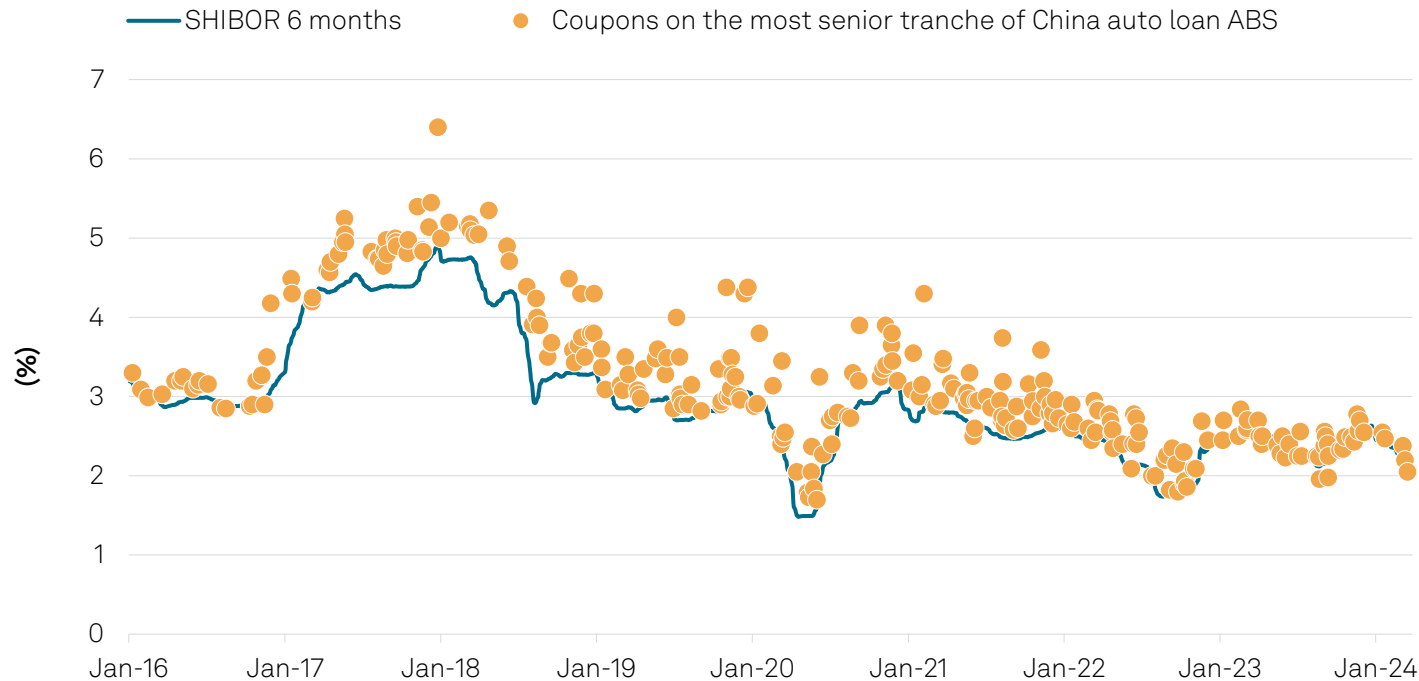


Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. NPL--non-performing loan. Source: WIND; compiled by S&P Global Ratings.



# Auto Loan ABS Yield

Coupons on the most senior tranches of China auto loan ABS trended downward in 1Q 2024



Only coupons of Class A or Class A1 of the transaction are included. Source: National Interbank Funding Center, Chinabond; compiled by S&P Global Ratings.

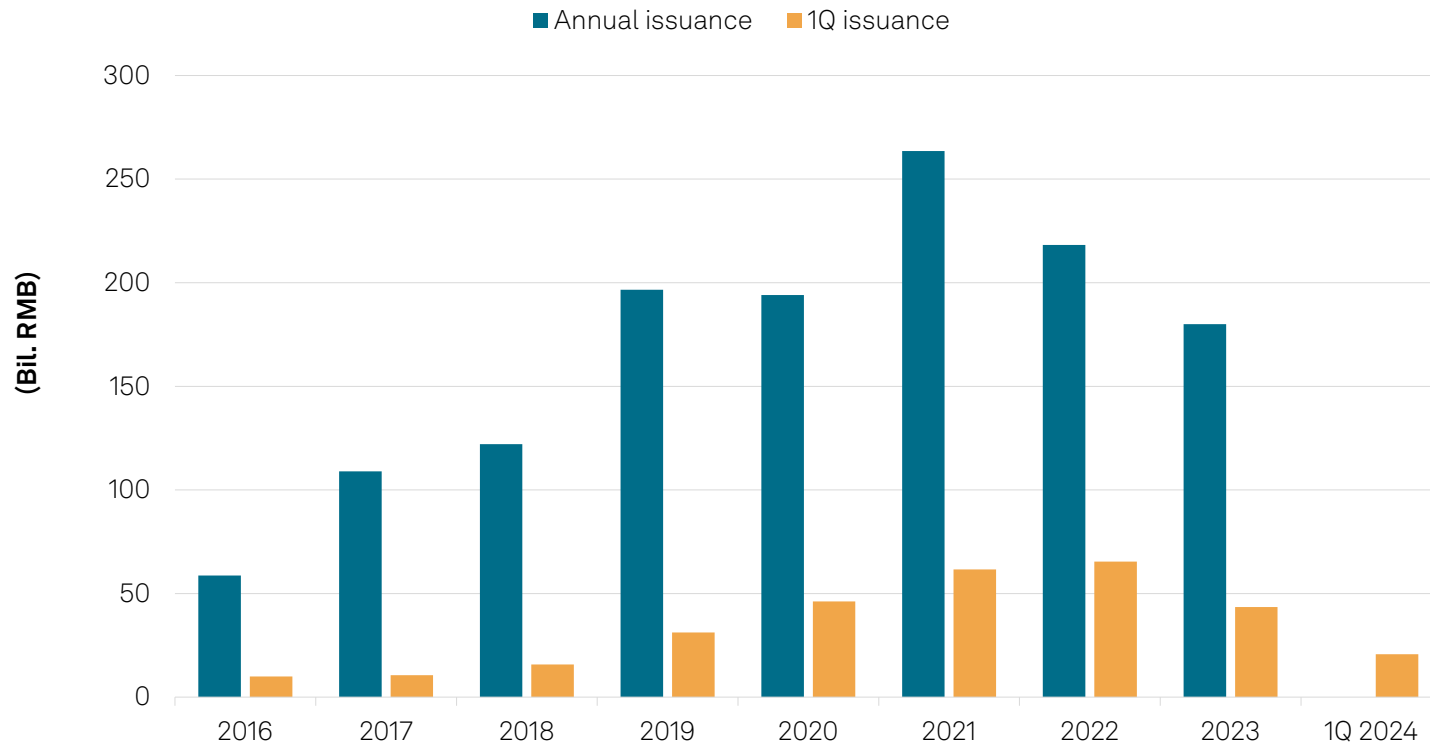
- The one- and five-year loan prime rate benchmarks have remained unchanged at 3.45% and 3.95%, respectively, since February 2024. The level of inflation and the pace of economic growth in China will determine the direction of interest rate changes, in our view.
- The six-month Shanghai Interbank Offered Rate (SHIBOR) has been trending down since the end of 2023. The rate reached 2.2% as of March 29, 2024, down from 2.6% as of Dec. 31, 2023.
- Following the trajectory of SHIBOR, coupons on the most senior tranches of auto loan ABS fell to 2.1%-2.6% over 1Q 2024 from 2.3%-2.8% in 4Q 2023.

# Auto Loan ABS



# Auto Loan ABS Issuance

## Slow auto sales and loan originations drag issuance



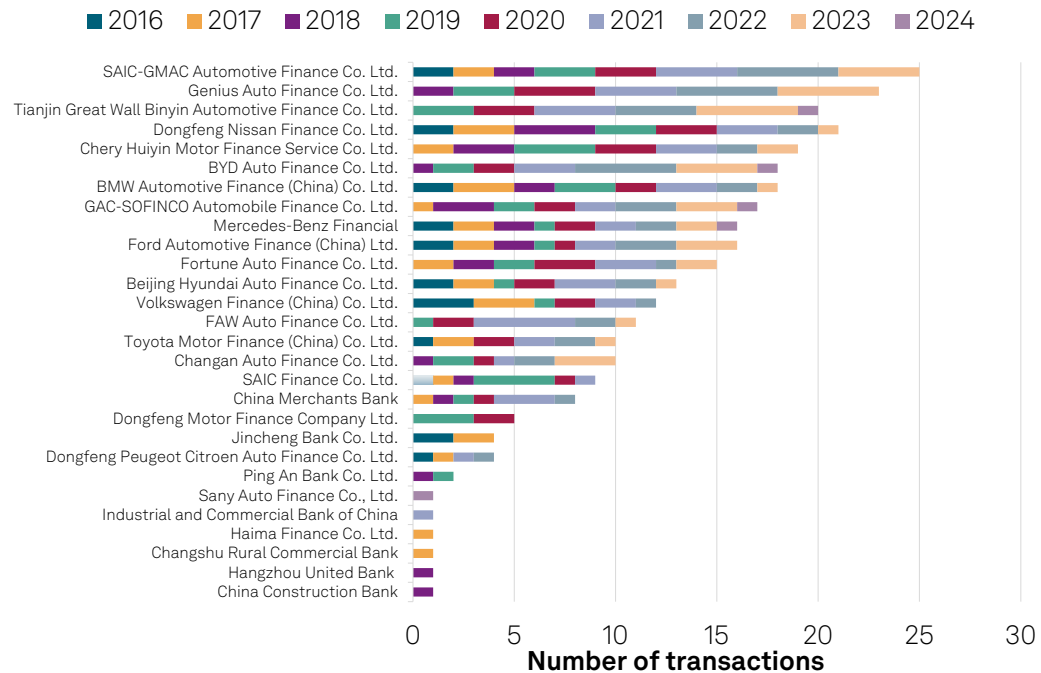
Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Auto loan ABS issuance volume fell 52% in 1Q 2024 to RMB20.8 billion. Five transactions were issued in the first three months, down from eight during the same period a year earlier.
- Slow growth in auto sales and loan origination, and falling loan penetration for some auto finance companies likely accounted for the decrease.
- Auto finance companies have experienced increased competition from banks in auto loan origination in the past few years. This led to the decline in loan penetration.
- We expect auto ABS issuance to stay flat or see tepid growth in 2024. The chance of a downside revision has increased, though, in light of ongoing competition from banks.

# Auto Loan ABS Issuance

Green ABS a key driver amid sluggish market

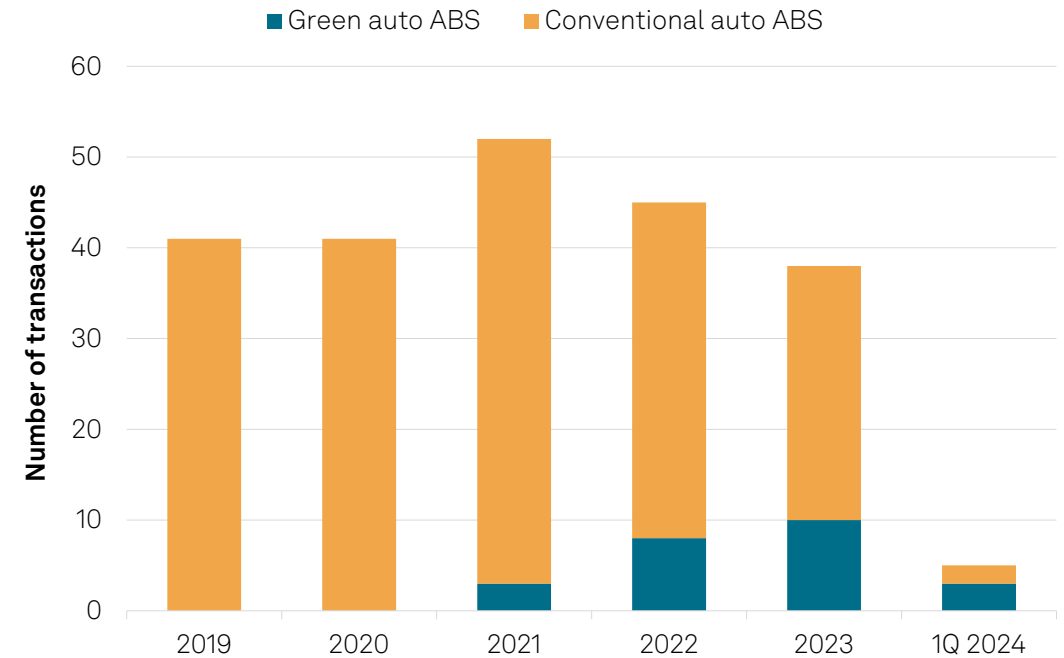
## Number of auto loan ABS transactions by originator



Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC.

Source: WIND; compiled by S&P Global Ratings.

## Green auto ABS contributed 3 out of 5 total issues in 1Q

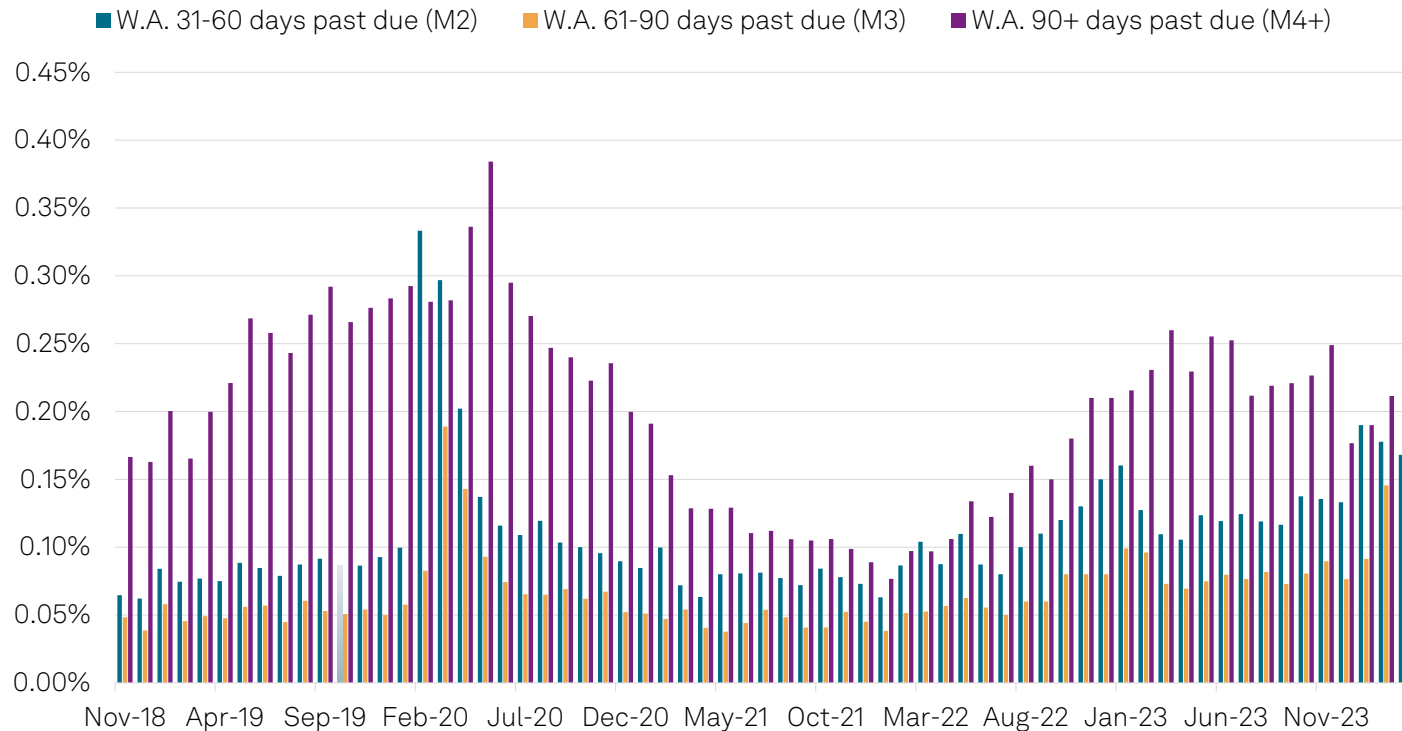


Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC.

Source: WIND; compiled by S&P Global Ratings.

# Auto Loan ABS Performance

## Weighted-average asset delinquency rates increasingly fluctuating



Data as of Mar. 31, 2024. The delinquency rates of the first three months after transaction close are excluded. W.A.--Weighted average.  
 Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- Asset performance was relatively volatile in the first quarter of 2024.
  - Weighted-average of 31-60 days arrears in a range of 0.17%-0.19% has been the highest since the COVID-19 outbreak in early 2020, though in a declining trend.
  - The weighted-average 61-90 days arrears ratio rose to 0.11% in March 2024 from 0.08% in December 2023.
- Although the absolute delinquency level of all delinquency buckets stayed relatively low, the larger fluctuations in asset performance likely reflect a seasonality effect and the persistence of performance divergence among originators in weaker economic conditions.
- Performance divergence may continue in 2024 as slowed macroeconomic growth affects borrowers' repayment capacity.

# Auto Loan ABS Performance

Cumulative default rates stayed below 0.5% for 2016 and later vintages



Data as of Mar. 31, 2024. Transactions closed in the past two months or so are not included. The definition of default may be different from deal to deal. Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

# RMBS



# RMBS Issuance

Issuance remains stalled; prospect depends on sector recovery



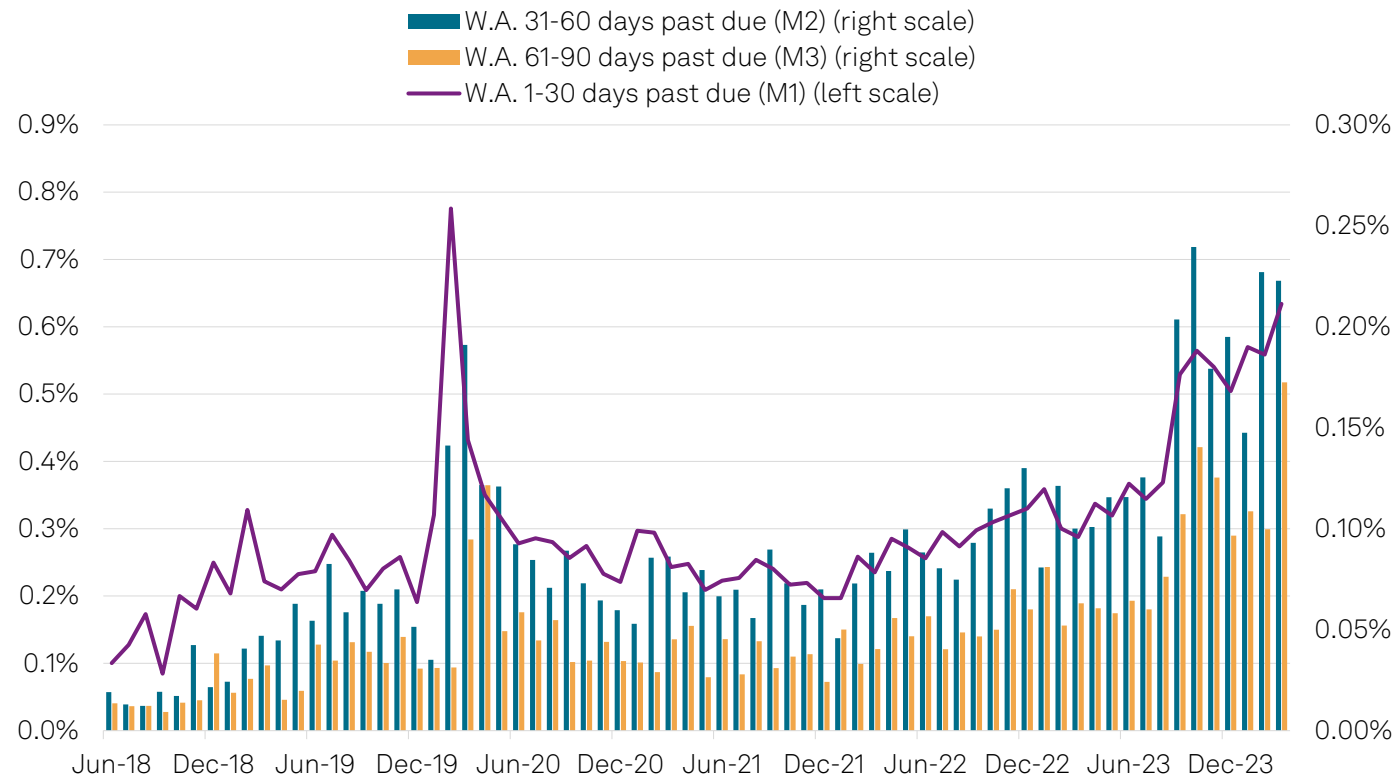
Data includes RMBS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- RMBS issuance has stalled since February 2022. Future issuance will depend on property market developments, mortgage origination trends, and regulatory policies on mortgage growth and RMBS issuance.
- In our view, issuance will not resume until there is a meaningful recovery in the property market and increased mortgage loan origination for at least two quarters. Given our expectation of an extended "L-shape" recovery, RMBS issuance may not return until the second half of 2025, at the earliest.
- While sales last year sharply declined in the primary housing market, they rose about 17% in secondary-housing markets, by our estimates (see "China Property Watch: Searching For A Bottom," published May 7, 2024).



# RMBS Performance

## Delinquency ratios for rated transactions surged due to a smaller base

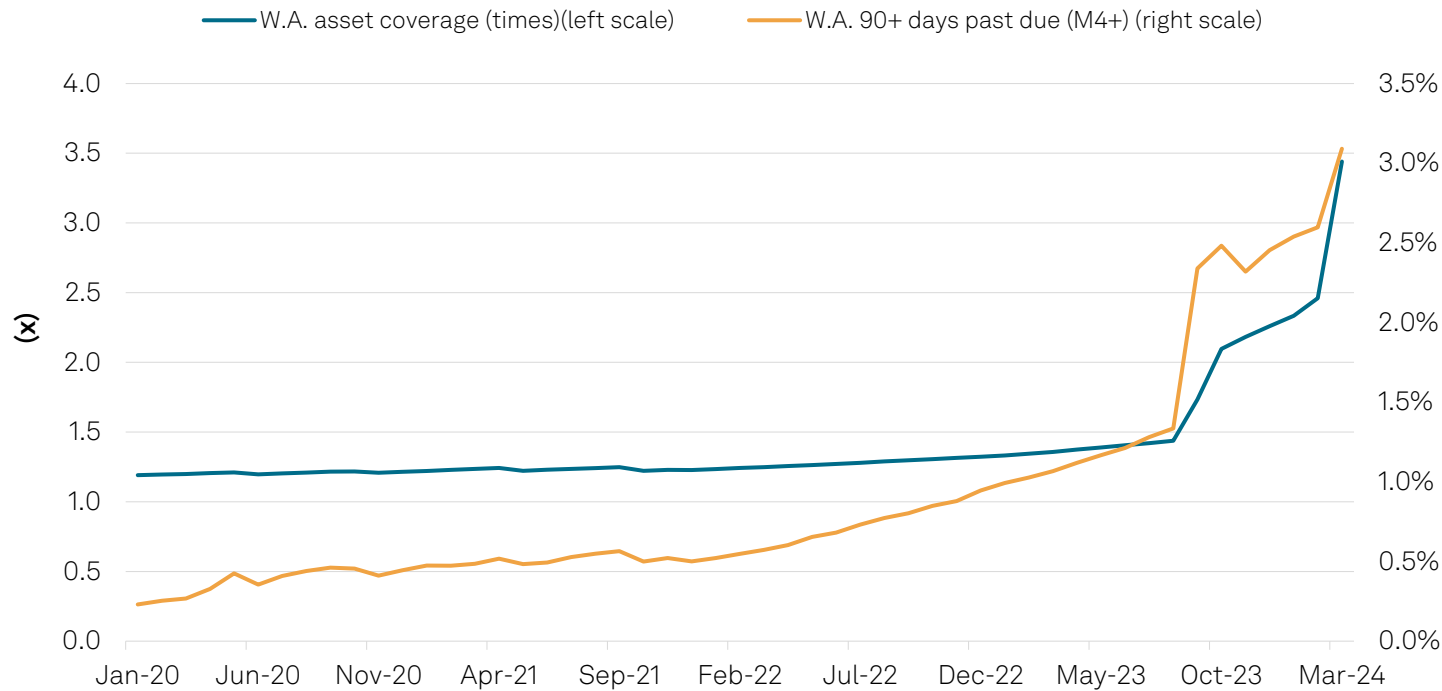


Data as of Mar. 31, 2024. Transactions closed in the past 2 months or so are not included. W.A.--Weighted average. Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- For RMBS transactions that we rate, delinquency ratios surged in the first quarter of 2024:
  - The 61-90 days arrears ratio rose to 0.17% in March 2024 from 0.10% in December 2023.
  - The 90-plus days arrears ratio rose to 3.09% in March 2024 from 2.45% in December 2023.
- The delinquency spike is mainly due to the high constant prepayment rate in the first quarter, which shrank the outstanding balance of our rated asset portfolio by 20% in March 2024 compared with December 2023. This created a small base effect and drove up arrears ratios.

# RMBS Performance

Asset coverage and severe delinquency ratio for the RMBS we rate

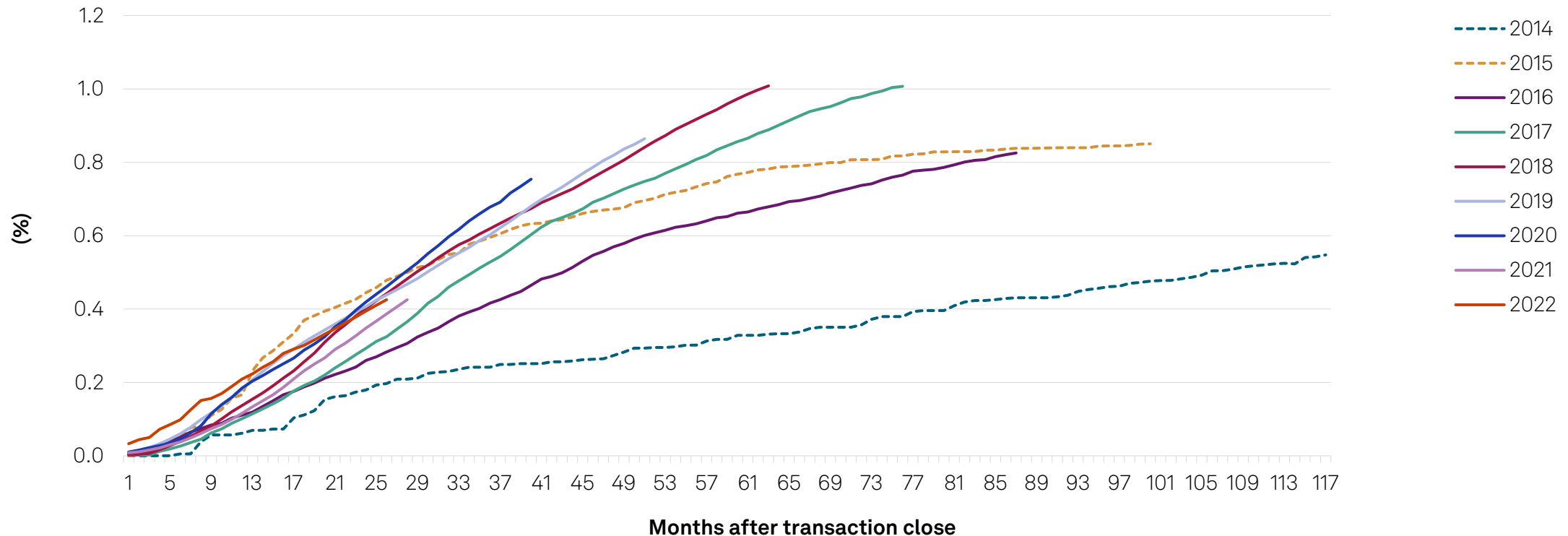


Data as of Mar. 31, 2024. The asset coverage ratio is calculated by subtracting more than 90 days past due assets from the current outstanding asset pool balance and dividing the difference by the current outstanding balance of rated notes. W.A.--Weighted average. Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- We have adopted an asset coverage ratio to monitor RMBS that we rate to better gauge and track the change in credit enhancement in percentage terms as transactions amortize. The ratio measures the number of times current collateral (excluding assets in severe delinquency) could cover the outstanding balance of rated notes.
- In general, as transactions continue to repay rated notes, the asset coverage ratios tend to trend upward. As of March 2024, the ratio has been exceeded three times. This indicates a steady buildup in credit enhancement and therefore more cushion to withstand any potential deterioration in the underlying pools.
- We expect the ratings on all Chinese RMBS that we rate to remain stable during 2024.

# RMBS Performance

## Cumulative default rates of annual vintages

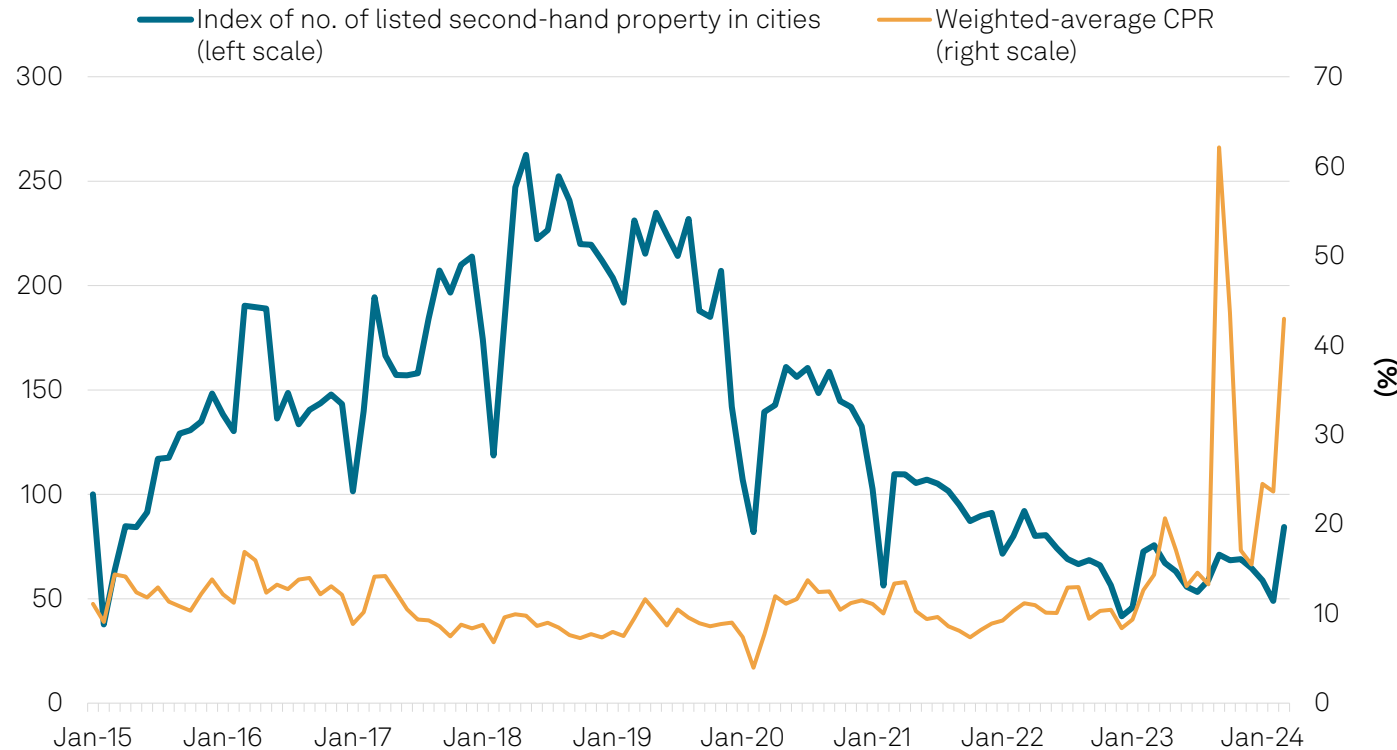


Data as of Mar. 31, 2024. The definition of default may be different from deal to deal. Number of transactions in 2014, 2015 and 2022 vintages were less than 10.

Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

# RMBS Performance

## Weighted average CPR and listed second-hand property index jumped



CPR--Constant prepayment rate. The first month CPR after transaction closing is excluded. Source: WIND; Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

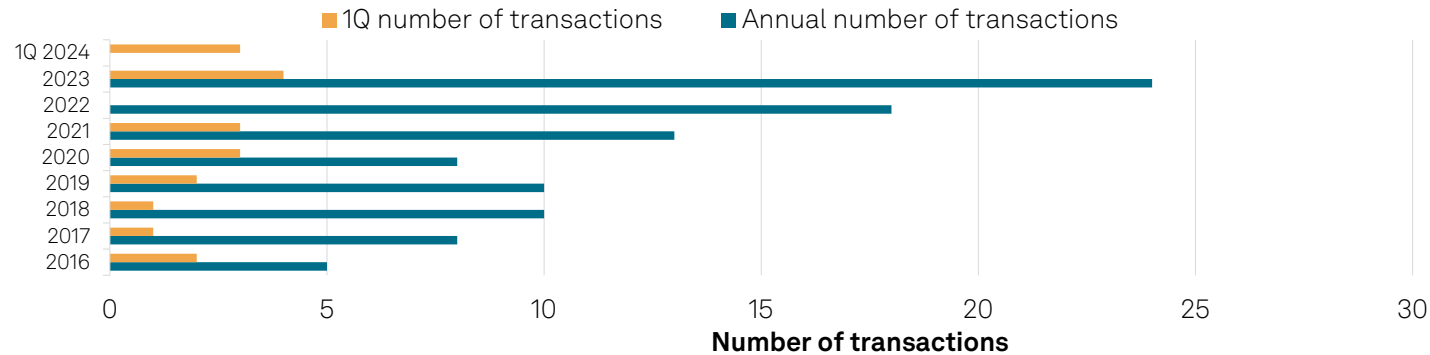
- The constant prepayment rate for bank-issued RMBS transactions hit 43% in March 2024, up from 15% in December 2023.
- The rate tends to move in tandem with the second-hand property sales index, which leaped to 84 in the first quarter of 2024, from 65 in the previous quarter.
- The spike in the rate could be partly driven by a recent rate cut and a pause in banks' offerings of long-term fixed-income products. Borrowers are more likely to prepay when existing mortgage expenses become higher than interest expense/income from other financing/investment sources.
- The prepayment rate trend will depend on interest rates, the availability and return of market investments, and second-hand property market activities.

# Consumer Loan ABS

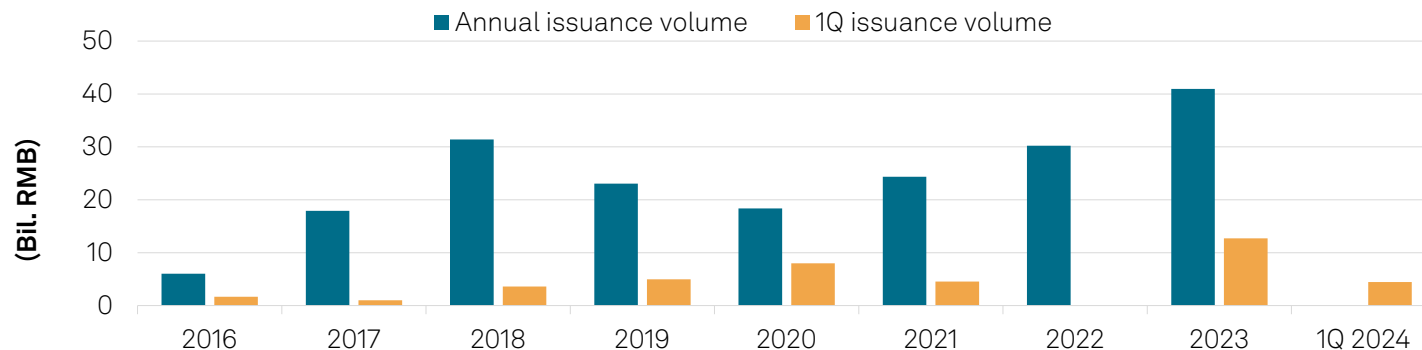


# Consumer Loan ABS Issuance

## Stable issuance in terms of transaction numbers in 2024 1Q vs. 2023 1Q



## Issuance volume in 2024 1Q dropped significantly YoY due to larger deal size in the previous year

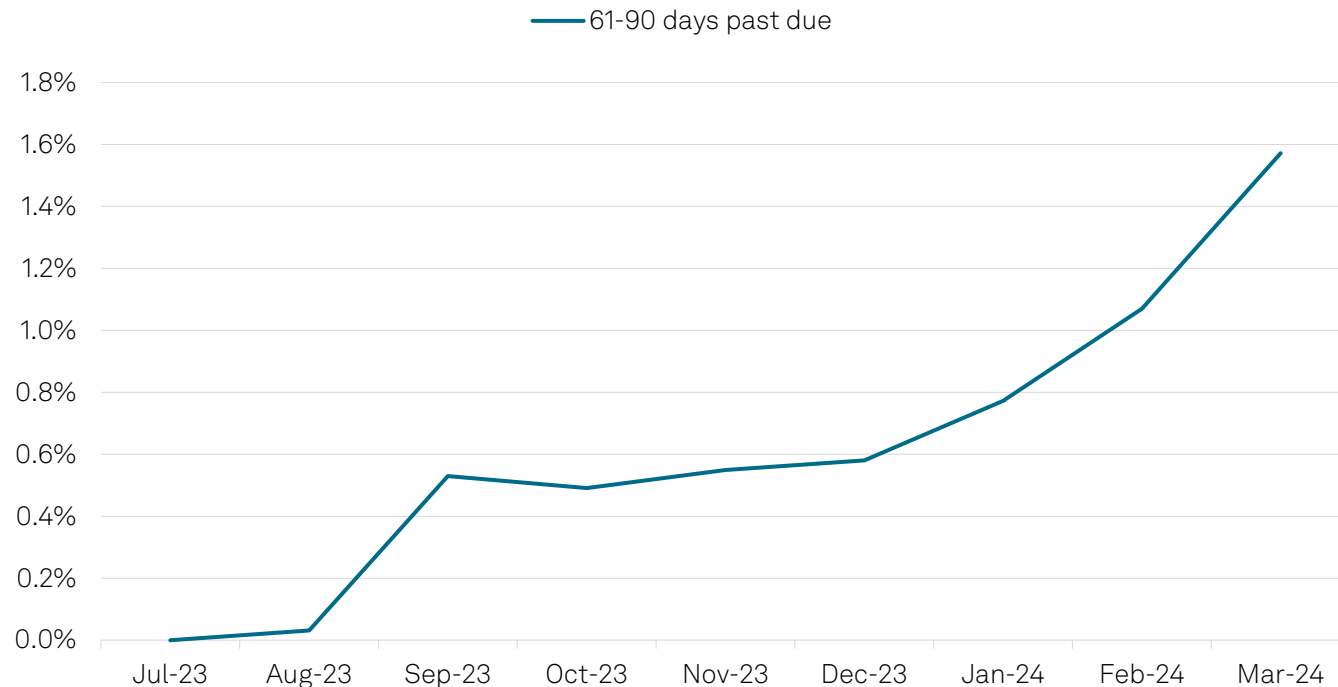


Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Consumer loan ABS saw three issues, with RMB4.4 billion in the first quarter of 2024, down from four issues with RMB12.7 billion in the same period in 2023. Two deals of RMB5 billion each issued in 1Q 2023 were larger than the typical deal size of RMB1 billion to RMB2 billion, accounting for the decline in issuance amount YoY.
- Four CFCs issued around RMB15 billion financial debentures in the first four months of this year. This may be partly attributed to a diversification of funding sources and consideration of asset liability management. This will likely cannibalize the ABS issuance this year.
- Future issuance also depends on consumer market developments, consumer loan origination trends, and the issuance trajectory under other regulatory regimes.

# Consumer Loan ABS Performance

## Arrear performance of Anyihua 2023 Phase III Personal Consumption Loan Asset Backed Securities



Source: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- For the consumer loan ABS that we rate, we track many performance indicators. One of them is the 61-90 days arrears amount over the current outstanding balance.
- The 61-90 days arrears ratio rose to 1.57% in March from 1.07% in February. Based on our observation from selected transactions, the delinquency rates of consumer loan ABS tend to be higher and more volatile than most auto loan ABS.
- For the consumer loan ABS we rate, excess spread has been used to purchase new loans. Hence, compared with the capital structure at deal close, the deal has a larger underlying pool and hence higher credit enhancement in amount and percentage terms during the revolving period. This provides rating support.

# Related Research

- Credit FAQ: What's Behind Our First 'AAA (sf)' Rating Assigned To Chinese Exchange ABS? May 9, 2024
- China Property Watch: Searching For A Bottom, May 7, 2024
- China Auto: Margin Pressure Heightens, April 29, 2024
- Credit FAQ: China's Different Paths To Driving Consumption, Electric Vehicles, April 24, 2024
- Credit Conditions Asia-Pacific Q2 2024 A Delicate Balance, March 27, 2024
- Credit FAQ: Will China's 'White List' Boost Housing Sentiment?, March 26, 2024
- A Comparative Overview Of Select China Consumer Loan ABS, Jan. 22, 2024
- China Structured Finance Outlook 2024: Consumer ABS A Bright Spot Amid Flat Total Issuance, Jan. 11, 2024
- How We Rate China Leasing Securitizations, Oct. 12, 2023
- What's Behind The First 'AAA (sf)' Rating Assigned To Chinese Consumer Finance ABS?, Aug. 24, 2023
- A Primer On China's Consumer Loan ABS Market, June 9, 2023
- A Primer On China's MSE Loan ABS Market, May 10, 2023
- A Primer On China's Equipment Lease ABS Market, March 2, 2023



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