



China Securitization Performance Watch 3Q 2024

Same Direction; Different Drivers

S&P Global
Ratings

Patrick Chan

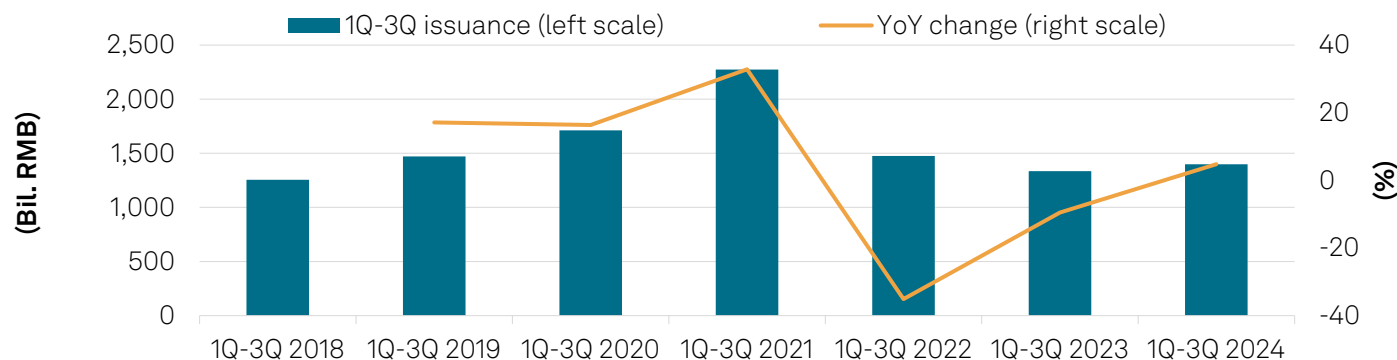
Structured Finance, North Asia
(ex. Japan)

November 11, 2024

This report does not constitute a rating action

Key Takeaways

Slight uptick in securitization issuance 1Q-3Q 2024



Main sectors to watch

<p>0</p> <p>RMBS: zero issuance</p>	<p>39%</p> <p>Auto loan ABS* 1Q-3Q issuance decrease (YoY)</p>	<p>56%</p> <p>Consumer loan ABS* 1Q-3Q issuance decrease (YoY)</p>	<p>76%</p> <p>MSE loan ABS* 1Q-3Q issuance increase (YoY)</p>
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- New securitization issuance grew by 4.8% year on year (YoY) in 1Q-3Q 2024 to Chinese renminbi (RMB) 1,399 billion (US\$200 billion). We forecast 2024 issuance at RMB1.65 trillion, down 12% from 2023.
- Issuance of securities across all regulatory schemes backed by consumer loans more than doubled from 3Q 2023, while those backed by small-sum loans increased more than 80%. This drove up overall issuance for the quarter.
- Collateral performance remains mixed for the third quarter. Auto loan ABS delinquencies somewhat stabilized while consumer loan ABS delinquencies continued rising. Severe arrears in residential mortgage-backed securities (RMBS) also increased. Given tepid economic conditions, we expect volatility to remain elevated for the next one to two quarters.

Data includes issuance under the credit ABS securitization (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). RMB--Chinese renminbi. MSE--Micro and small enterprises. *Under CAS scheme only. Source: WIND; compiled by S&P Global Ratings.

Key Changes In 3Q 2024

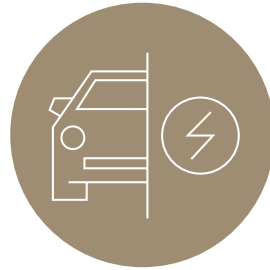
China's growth momentum slowed



Growth outlook has weakened because of a sluggish property sector, weak domestic demand, and reluctance among policymakers to ease fiscal policy. We lowered our 2024 GDP growth forecast to 4.6% from 4.8%.



Modest sales growth outlook amid fragile consumer confidence. China's light vehicle sales to grow by 0%-3% annually in 2025-2026 after 0%-2% growth in 2024. Unit sales largely flat YoY in the first eight months of 2024.



Domestic electric vehicle sales growth to slow. Sales to rise 10%-20% a year over 2025-2026, after increasing about 30% in 2024. Local brands continue to dominate. EV penetration to rise to 45%-50% in 2025-2026 from 40% in 2024.



China property sales could stabilize toward 2H 2025. Access to funding, inventory levels, and developers' confidence will be key. We estimate that annual national sales will drop to RMB8.5 trillion-RMB9 trillion in 2024 and RMB8 trillion-RMB8.5 trillion in 2025.



China's retail sales will expand slightly less than GDP in 2024. We project annual consumption growth at 3.8%-4.3% over 2024-2025. We believe the era of rapid 7%-10% annual retail sales growth is largely behind us.

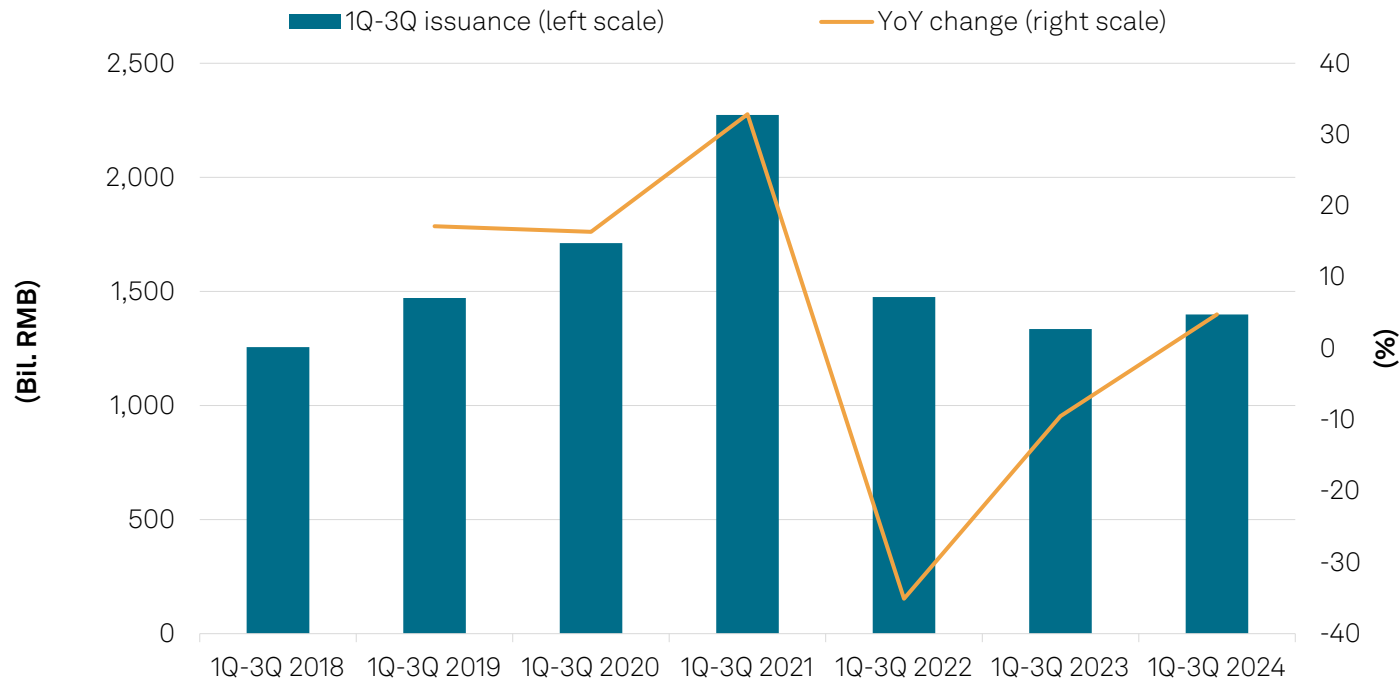
EV--Electric vehicle. Source: S&P Global Ratings.

Issuance And Coupon Trends



New Issuance Trends

Mild securitization issuance growth in 1Q-3Q 2024

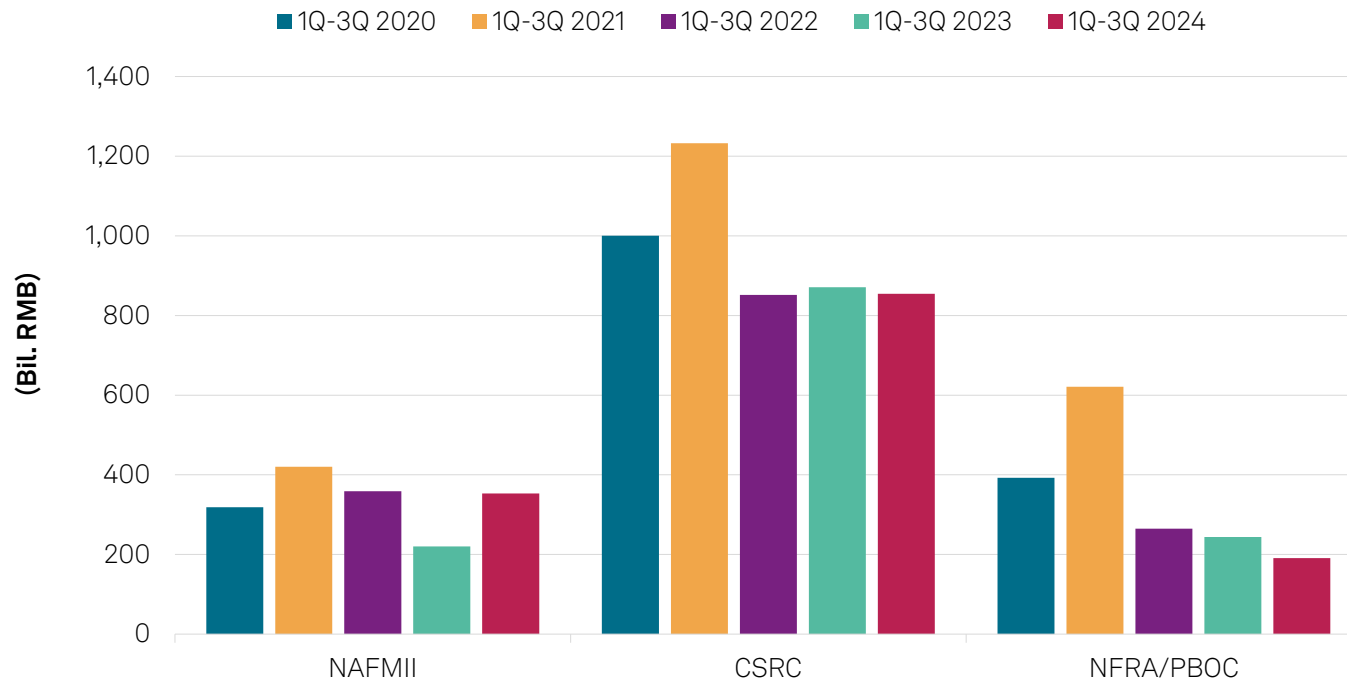


Data includes issuance under the CAS scheme managed by the NFRA and the PBOC, the securitization scheme managed by the China Securities Regulatory Commission (CSRC), and the asset-backed notes (ABN) scheme managed by China's National Association of Financial Market Institutional Investors (NAFMII). YoY--year-on-year.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

- New securitization issuance grew 4.8% YoY to RMB1,399 billion (US\$200 billion) in 1Q-3Q 2024.
- Some asset classes maintained robust growth momentum in 1Q-3Q 2024. Issuance of consumer loan ABS (on exchange and under CSRC scheme) and account receivables ABS (under CSRC scheme) noticeably increased. MSE loan ABS issuance under the CAS scheme jumped 76%.
- The issuance of some major types of asset securitizations like auto loan ABS and supply chain payables declined significantly.
- We expect total issuance to decline by 12% in 2024. Issuance prospects will depend on the fundamentals of the respective sectors, originators' funding needs, and choice of funding instruments.

Varying Issuance Trends For Different Schemes

Issuance trends vary under different schemes

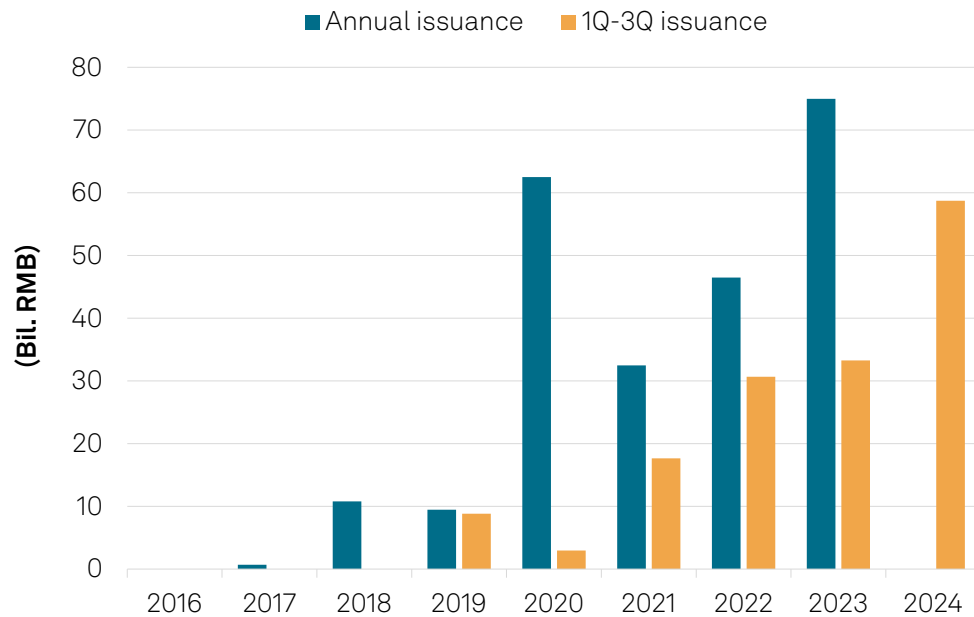


NAFMII--China's National Association of Financial Market Institutional Investors; CSRC--China Securities Regulatory Commission; NFRA--National Financial Regulatory Administration; PBOC--The People's Bank of China. Source: WIND; compiled by S&P Global Ratings.

- CAS managed by NFRA and the PBOC totaled RMB191 billion in 1Q-3Q 2024, down 22% YoY. This is mostly due to a decline in auto loan ABS issuance.
- Issuance under the CSRC scheme dropped to RMB855 billion in 1Q-3Q 2024, equivalent to a YoY decline of 2%.
- Issuance under the National Association of Financial Market Institutional Investors (NAFMII) scheme amounted to RMB353 billion in 1Q-3Q 2024, up 60% YoY.
- Issuance surged under the NAFMII scheme in 3Q 2024 because of strong issuance of consumer loan ABN and lease-backed securitization. In 3Q alone, such issuances were RMB78.6 billion (vs. no issuance in 3Q 2023) and RMB21.4 billion (62% increase vs 3Q 2023), respectively.

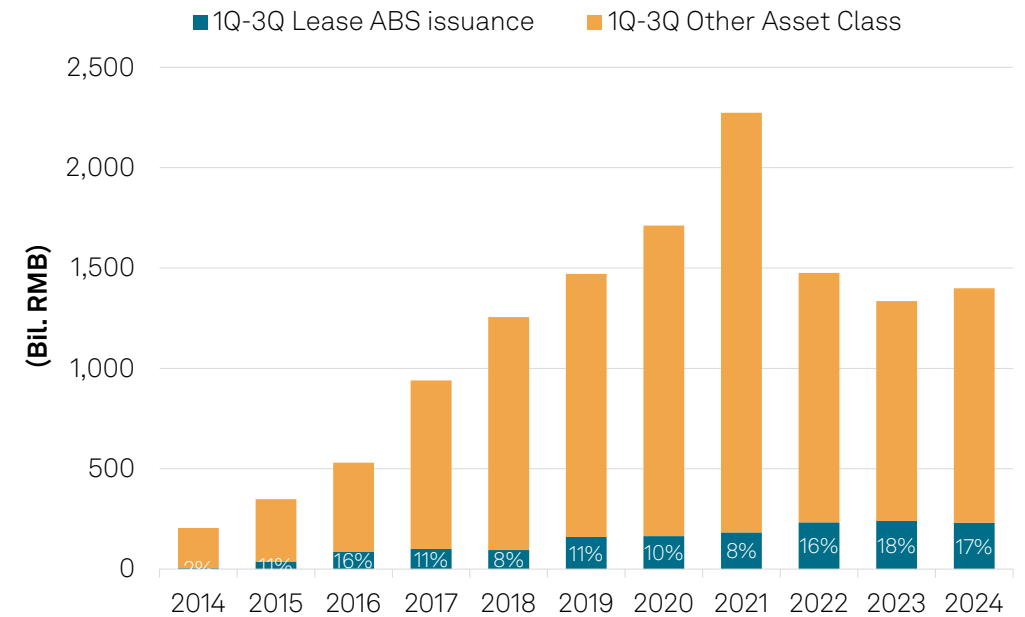
Other Top Trends To Watch

1Q-3Q MSE loan ABS issuance rose 76% YoY



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

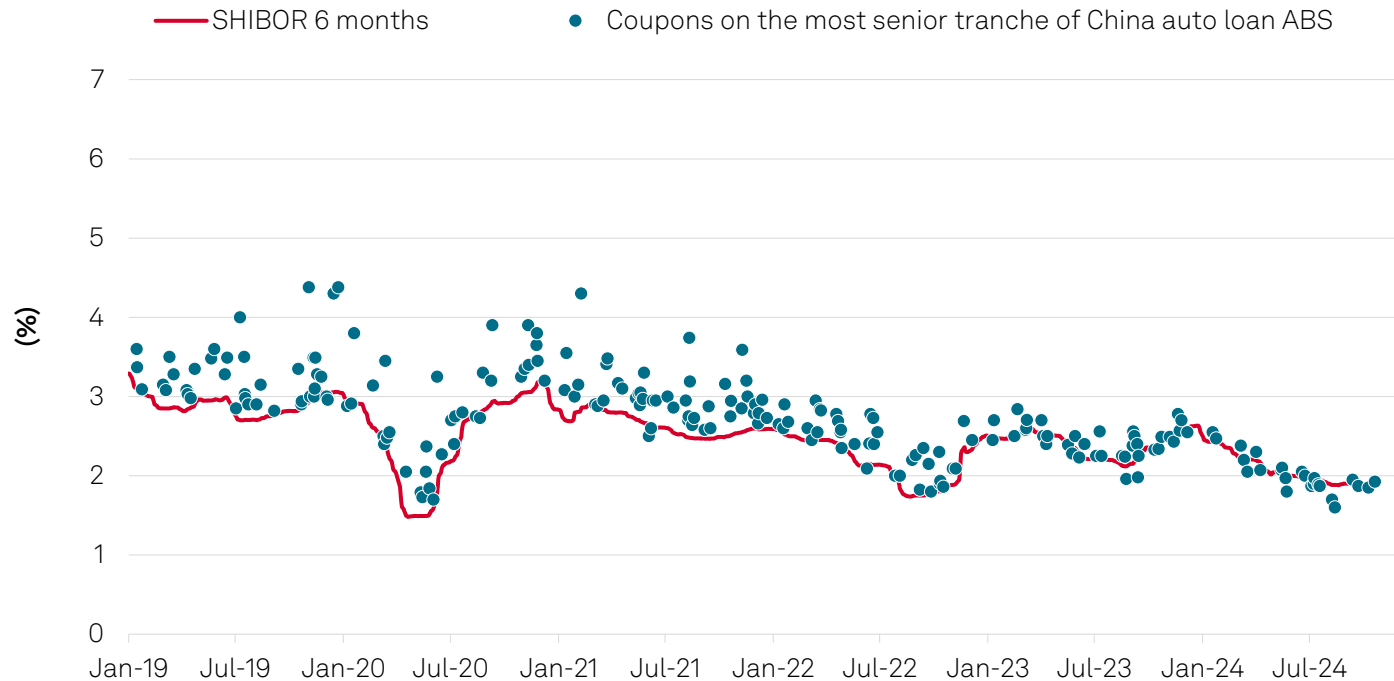
Growing proportion of lease-backed securitization



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

Auto Loan ABS Yield

Coupons on the most senior tranches of China auto loan ABS continued to decline in 3Q 2024



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

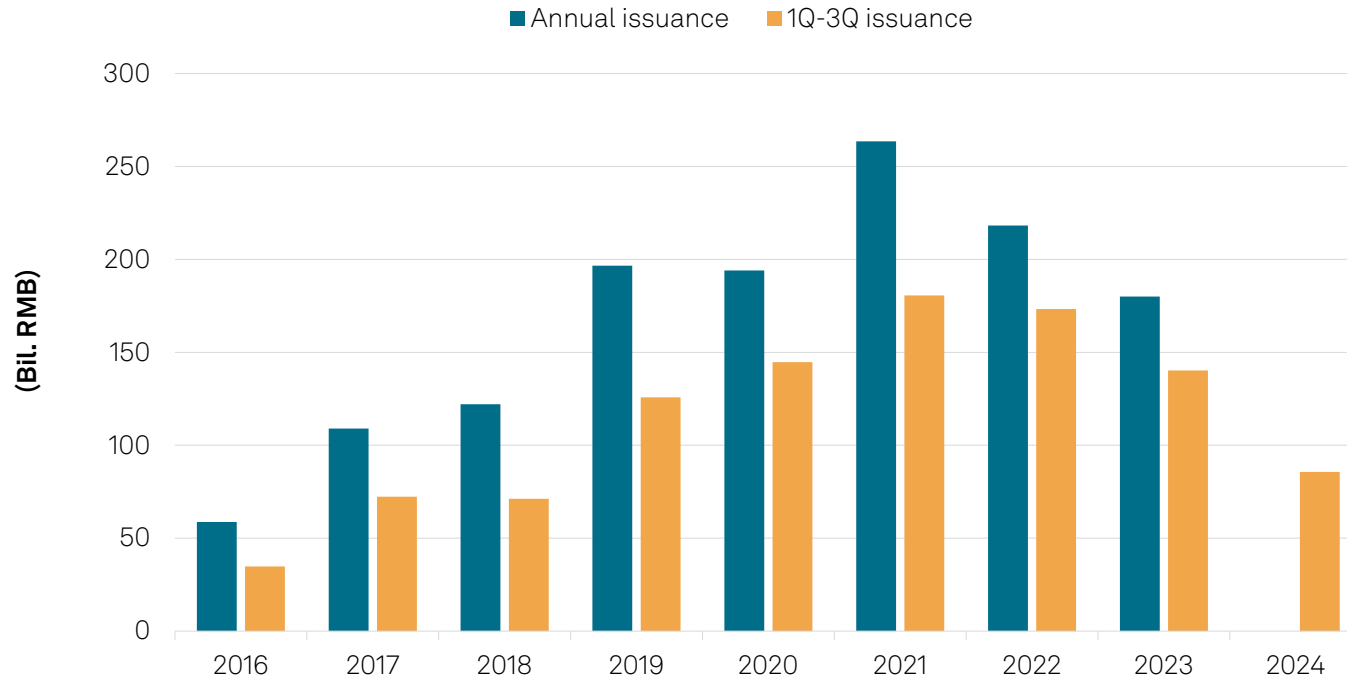
- China lowered long- and short-term benchmark lending rates in October. The one- and five-year loan prime rates (LPRs) were both trimmed 25 bps to 3.1% and 3.6%, respectively. This is the third rate cut in 2024, following a 10bps reduction to the five-year LPR in July. Also, in September, the PBOC cut the required reserve ratio by 0.5%. The pace of economic growth in China will determine the future tempo of interest rate changes, in our view.
- The six-month Shanghai Interbank Offered Rate (SHIBOR) continued to drop. SHIBOR was about 1.9% in late September, down from 1.98% as of end-June.
- Following the trajectory of SHIBOR, coupons on the most senior tranches of auto loan ABS fell to 1.6%-1.97% over 3Q 2024 from 1.8%-2.3% in 2Q 2024.

Auto Loan ABS



Auto Loan ABS Issuance

Slow auto sales and loan originations drag issuance



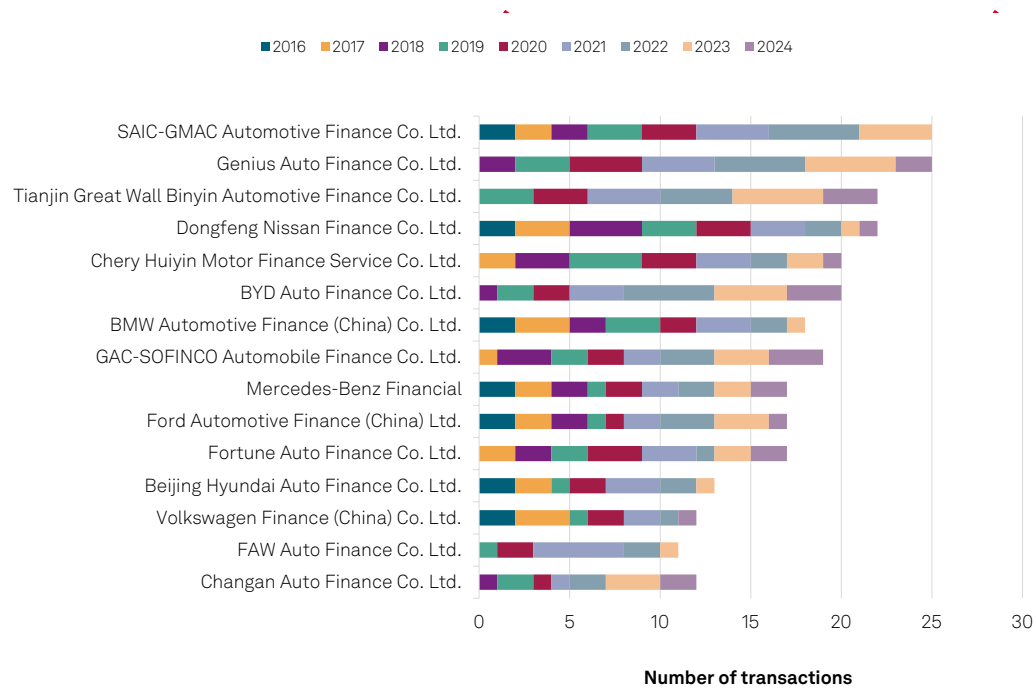
Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Auto loan ABS issuance fell 39% in 1Q-3Q 2024 to RMB85.7 billion. The number of transactions issued during the period dropped to 22 from 29 a year earlier.
- Slow growth in auto sales, falling loan penetration, and active issuance of financial debentures likely contributed to the drop.
- To cope with intensifying competition from banks, some auto finance companies have launched more customized products such as longer tenor, low loan-to-value, and value-added products.
- We expect weak auto ABS issuance to persist for the next few quarters. The dynamic of bank competition will be key to watch.

Auto Loan ABS Issuance

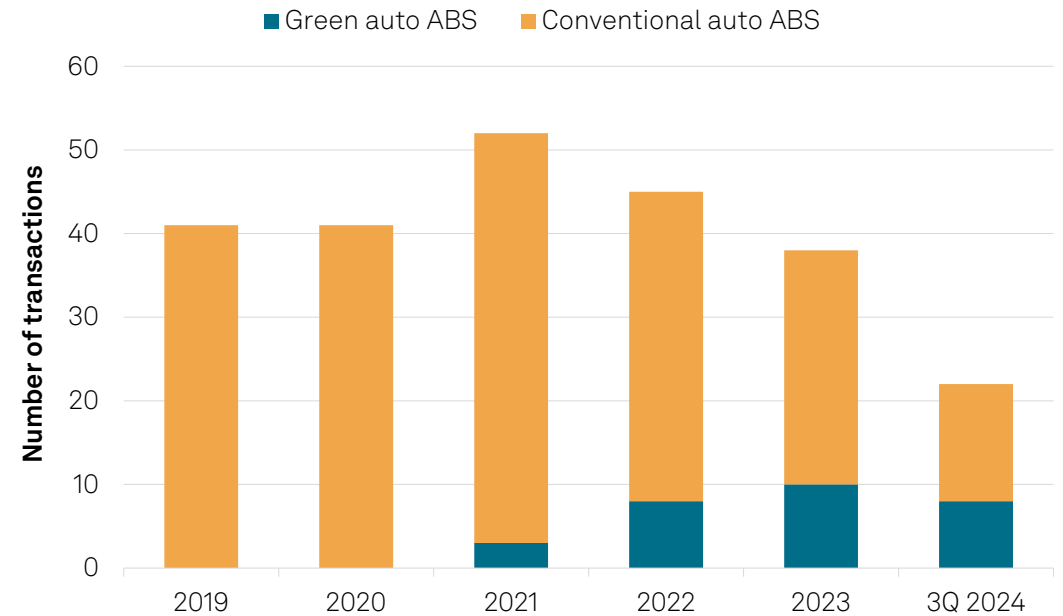
Green ABS issuance momentum persists

Number of auto loan ABS transactions by key originators



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

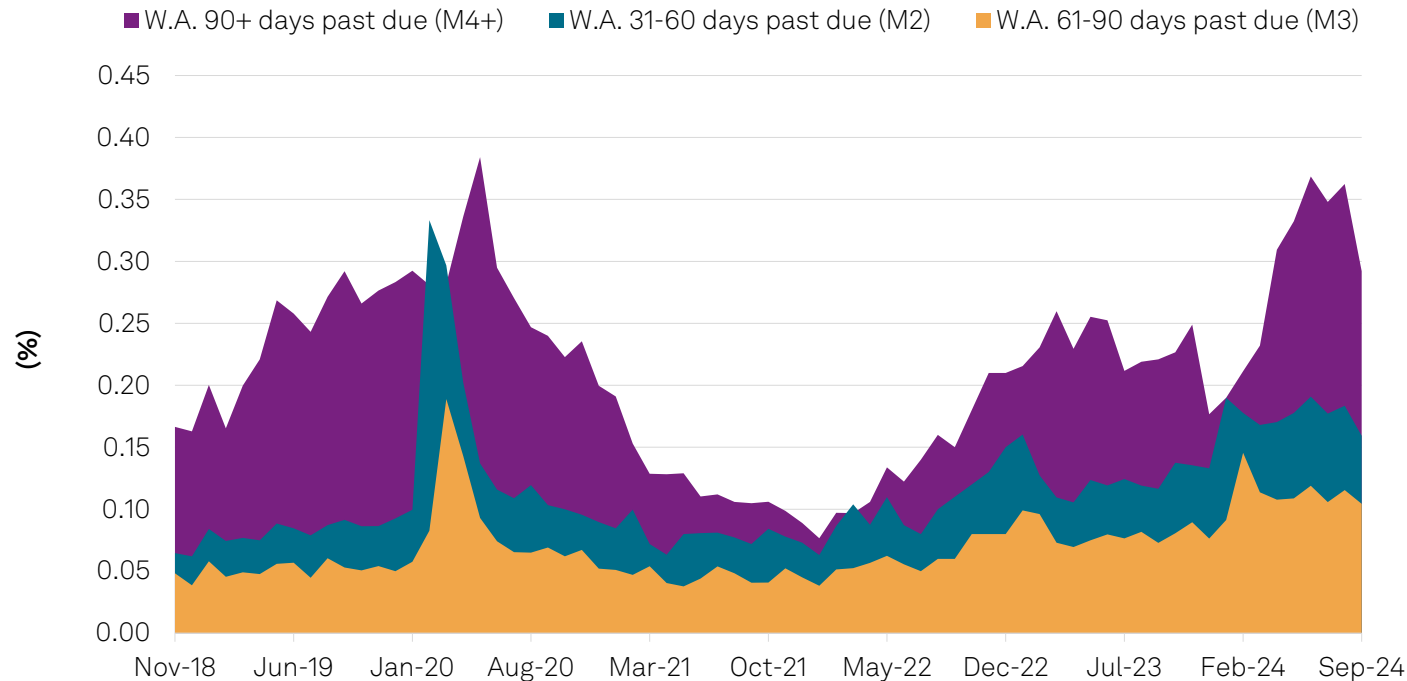
Green auto ABS made up 36% of all auto ABS issuance in 1Q-3Q



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 somewhat stabilized



- Arrears declined in 3Q 2024. W.A. 61-90 days delinquency rate decreased to 0.1% in September from 0.12% in June.
- Delinquency rate narrowed because a few of the worst-performing transactions have been paid down.
- Transactions' performance varied, reflecting originators' underwriting and loan characteristics.
- We expect arrears to remain elevated in 2024, considering the prevalent economic conditions.
- As of September, there are 64 auto loan ABS outstanding, with an aggregate pool size of RMB140 billion.

Data as of Sept. 30, 2024. The delinquency rates of the first three months after transaction close are excluded. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

Auto Loan ABS Performance

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



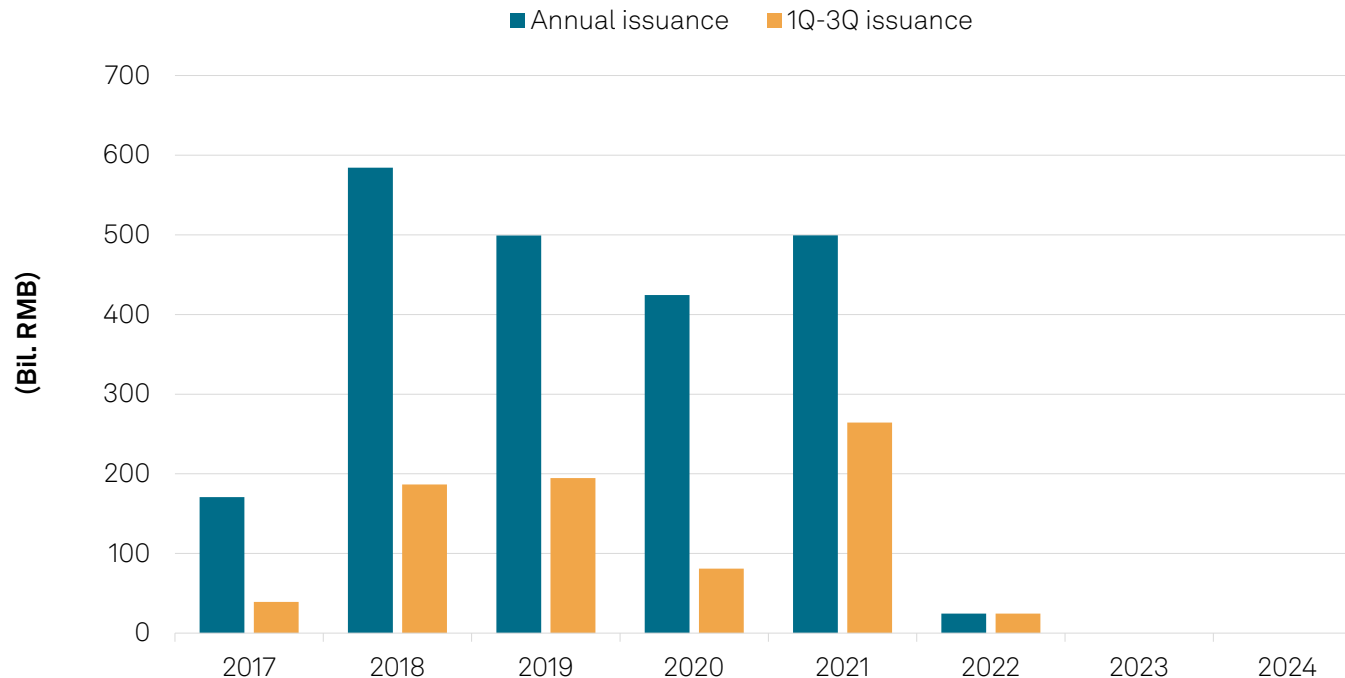
Data as of Sept. 30, 2024. Transactions closed in the past two months or so are not included. The definition of default may vary from deal to deal. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

RMBS



RMBS Issuance

Issuance remains stalled; prospects depend on sector fundamentals



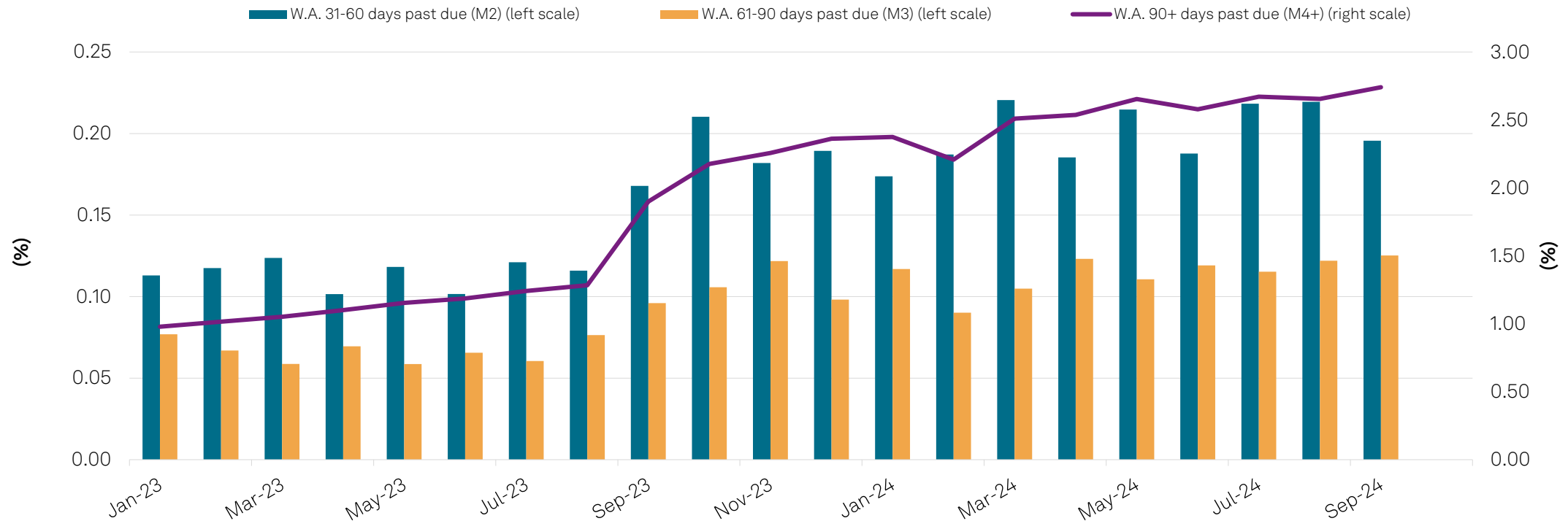
Data includes RMBS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- RMBS issuance has remained muted since February 2022 amid a persistent property market downturn and sluggish mortgage originations in China.
- We do not expect RMBS issuance to resume until the second half of 2025 at the earliest, based upon sector fundamentals (see "China Structured Finance Midyear Outlook 2024: New Issuance Will Likely Fall For Another Year," published July 8, 2024).
- Market stability depends on developers' access to funding, progress on inventory reduction, and confidence of developers and homebuyers (see "China Property Watch: Charting A Path To Stabilization," published Oct. 17, 2024).

RMBS Performance

Delinquency ratios for all outstanding RMBS

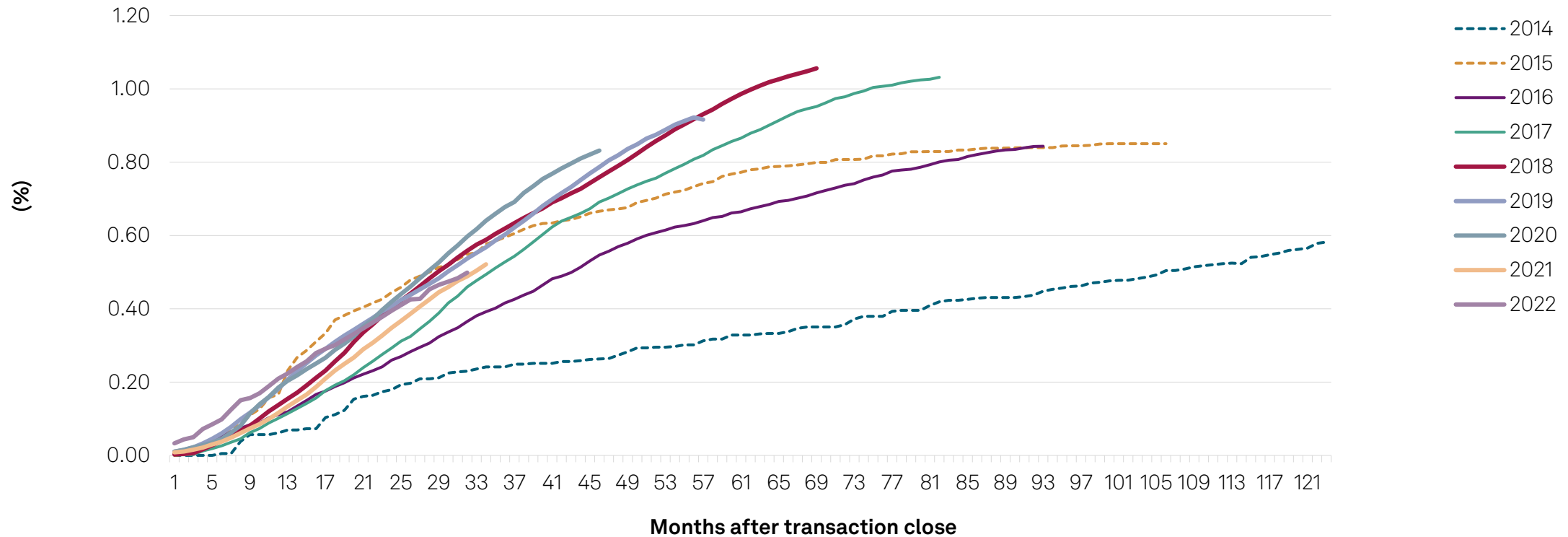
As of September, there are 206 RMBS outstanding, with an aggregate pool size of RMB 265 billion



Data as of Sept. 30, 2024. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

RMBS Performance

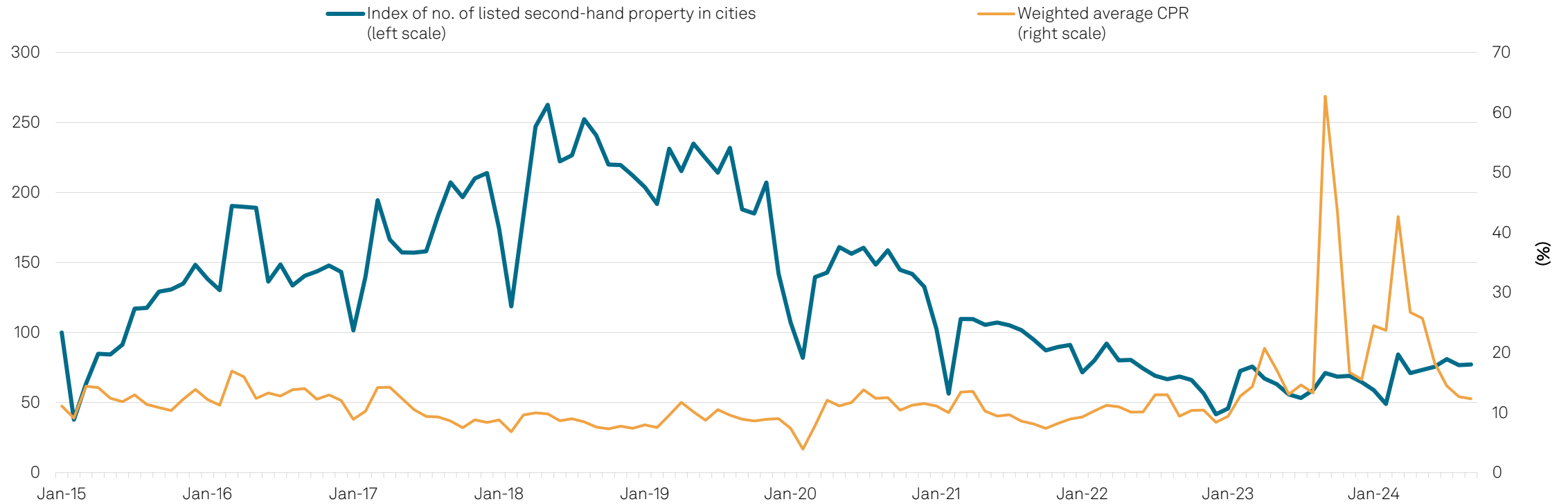
Cumulative default rates of annual vintages



Data as of Sept. 30, 2024. The definition of default may vary from deal to deal. Number of transactions in 2014, 2015, and 2022 vintages were less than 10 transactions. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

RMBS Performance

Weighted-average CPR and listed second-hand property index dropped



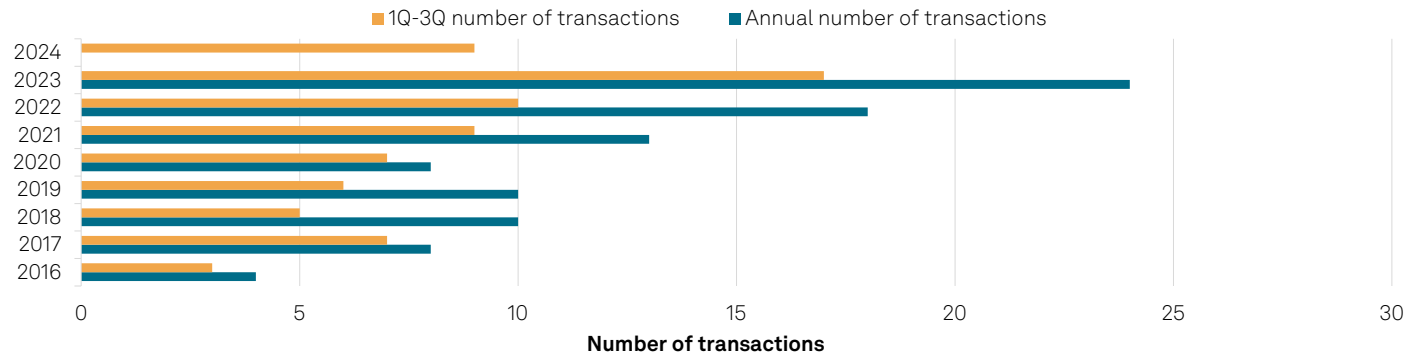
CPR--Constant prepayment rate. The first month CPR after transaction closing is excluded. Sources: WIND; Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

Consumer Loan ABS

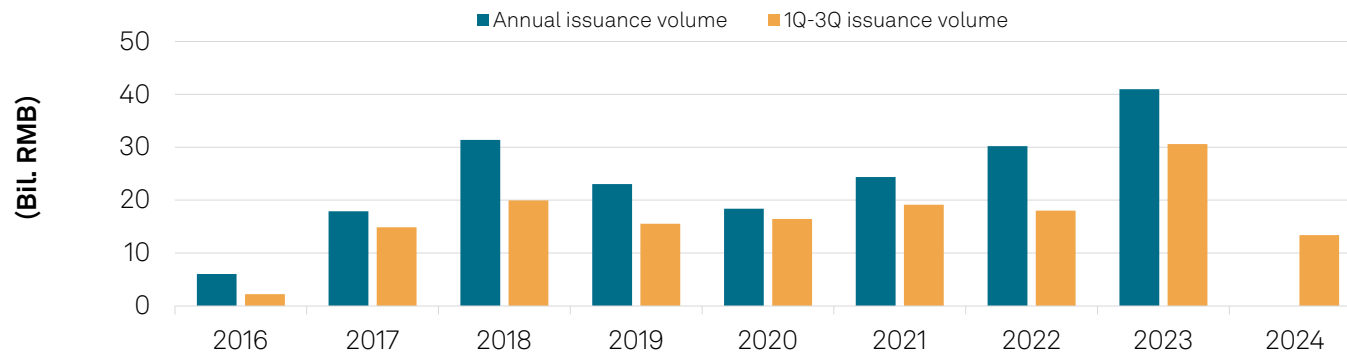


Consumer Loan ABS Issuance

Stable issuance in terms of transaction numbers in 1Q-3Q 2024 vs. 1Q-3Q 2023



Issuance dropped in volume and number in 1Q-3Q 2024

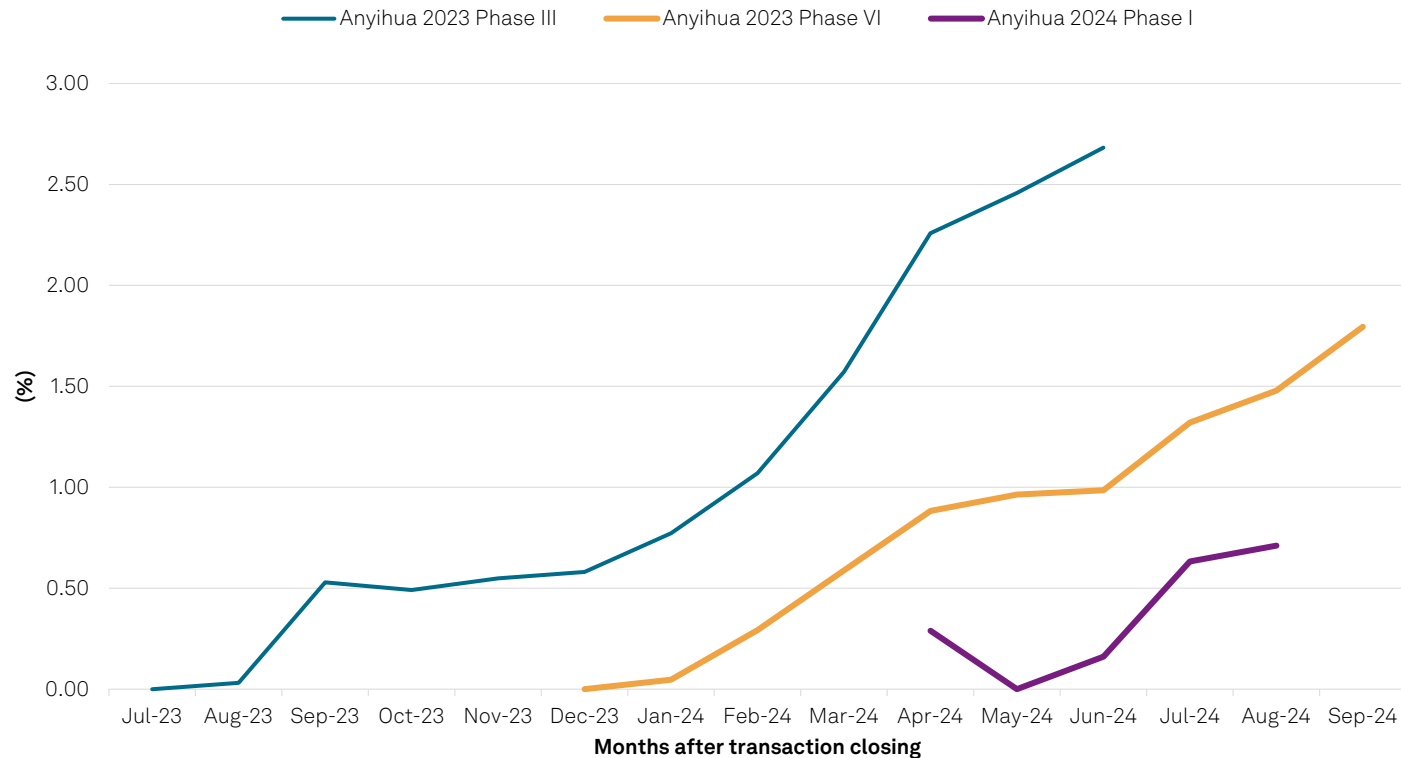


Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Consumer loan ABS under CAS scheme saw nine issues, with an aggregate volume of RMB13.4 billion in 1Q-3Q 2024, down from 17 issues with RMB30.6 billion a year earlier. There was only one issuance in 3Q 2024, compared with eight in 3Q 2023.
- Licensed consumer finance companies (CFCs) have been active in issuing financial debentures, in part due to the streamlined issuance process since November 2023. Nine CFCs issued over RMB48 billion in financial debentures in the first three quarters of 2024.
- We expect financial debenture issuances to continue cannibalizing ABS issuance under CAS scheme as CFCs aim to lock in lower funding costs for longer-tenor issuances. Nevertheless, issuance momentum under CSRC in the three quarters of 2024 is strong and noteworthy.

Consumer Loan ABS Performance

M3 ratios of rated consumer loan ABS



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

- The delinquency rates of consumer loan ABS tend to be higher and more volatile than most auto loan ABS, based on our observation of selected transactions. This volatility is generally mitigated by the relatively high credit enhancement level in consumer loan ABS.
- For the Anyihua series that we rate, excess spreads can also be used to purchase new loans during the revolving period. This would create further overcollateralization and increase the credit enhancement of the rated notes.
- As of Sept. 30, 2024, credit support provided for Anyihua 2023 Phase VI's class A1 and A2 rated notes exceeded 80%. And for Anyihua 2024 Phase I's A1 rated notes, credit support exceeded 30% as of Aug. 31, 2024.

Annual Review* In January - October 2024

Transaction name	Date
Bavarian Sky China 2022-1	1/30/2024
Autopia China 2022-2 Retail Auto Mortgage Loan Securitization Trust	2/26/2024
Anyihua 2023 Phase III Personal Consumption Loan Asset Backed Securities	3/18/2024
Silver Arrow China 2023-1 Retail Auto Loan Asset Backed Notes Trust	3/26/2024
Silver Arrow China 2022-1 Retail Auto Loan Asset Backed Notes Trust	3/26/2024
Generation 2023-1 Retail Auto Mortgage Loan Securitization	3/26/2024
Jianyuan 2020-2 Residential Mortgage Backed Securities	3/26/2024
Jianyuan 2020-12 Residential Mortgage Backed Securities	3/26/2024
Generation 2023-2 Retail Auto Mortgage Loan Securitization	6/17/2024
Bavarian Sky China 2022-2	6/26/2024

*In an annual review, S&P Global Ratings reviews current credit ratings against the latest issuers/issues performance data as well as any recent market developments. Annual reviews may, depending on their outcome, result in a referral of a credit rating for a committee review, which may result in a credit rating action. The above list is not an indication of whether or not a credit rating action is likely in the near future.

The key elements underlying the credit rating can be found in the issuer's latest related publication. Additionally, for each issuer/issues listed above, S&P Global Rating's regulatory disclosures (PCRs) can be accessed on the relevant page on www.spglobal.com/ratings by clicking on Regulatory Disclosures underneath the current credit ratings.

Annual Review* In January - October 2024 Cont'd

Transaction name	Date
Fuyuan 2022-2 Retail Auto Mortgage Loan Securitization Trust	6/26/2024
Ruize Tianchi 2023 Phase I Retail Auto Mortgage Loan Securitization Trust	7/12/2024
Fuyuan 2023-2 Retail Auto Mortgage Loan Securitization Trust	7/18/2024
Silver Arrow China 2022-2 Retail Auto Loan Asset Backed Notes Trust	9/26/2024
Silver Arrow China 2023-2 Retail Auto Loan Asset Backed Notes Trust	9/26/2024
Generation 2023-3 Retail Auto Mortgage Loan Securitization	9/27/2024

*In an annual review, S&P Global Ratings reviews current credit ratings against the latest issuers/issues performance data as well as any recent market developments. Annual reviews may, depending on their outcome, result in a referral of a credit rating for a committee review, which may result in a credit rating action. The above list is not an indication of whether or not a credit rating action is likely in the near future.

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Related Research

- China Property Watch: Charting A Path To Stabilization, Oct. 18, 2024
- China Auto: Survival Of The Fittest, Oct. 17, 2024
- A Primer On China's Micro And Small Enterprise Lease ABS Market, Oct. 10, 2024
- China Securitization ABS And RMBS Tracker August 2024, Sept. 27, 2024
- Economic Outlook Asia-Pacific Q4 2024: Central Banks To Remain Cautious Despite U.S. Rate Relief, Sept. 24, 2024
- Update On A Comparative Overview Of Select China Consumer Loan ABS, Aug. 9, 2024
- China Retail 2024 Review And 2025 Outlook: The Downside Risks To Revenue Multiply, Aug. 7, 2024
- China Structured Finance Midyear Outlook 2024: New Issuance Will Likely Fall For Another Year, July 8, 2024
- Credit FAQ: What's Behind Our First 'AAA (sf)' Rating Assigned To Chinese Exchange ABS? May 9, 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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