STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Ratings Assigned To South African ABS Transaction Transsec 2 (RF)

Primary Credit Analyst:
Irina A Penkina, Moscow (7) 495-783-4070; irina.penkina@standardandpoors.com

Secondary Contact:
Tihomir Iliev, London; tihomir.iliev@standardandpoors.com

OVERVIEW

- We have assigned ratings to Transsec 2 (RF)'s class A1, A2, A3, B1 interest deferrable, and C1 interest deferrable asset-backed notes.
- The transaction securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African minibus taxis.

MOSCOW (Standard & Poor's) Nov. 16, 2015--Standard & Poor's Ratings Services today assigned its South African national scale credit ratings to Transsec 2 (RF) Ltd.'s class A1, A2, A3, B1 interest deferrable, and C1 interest deferrable asset-backed notes. At closing, Transsec 2 (RF) also issued unrated floating-rate class D1 interest deferrable notes and received a subordinated loan from SA Taxi Finance Holdings (Pty) Ltd. (see list below).

The transaction securitizes a pool of fully amortizing installment sale agreements (ISAs) relating to the financing of South African minibus taxis. SA Taxi Development Finance Proprietary Ltd.'s (SA Taxi) originated and funds the receivables through Potpale Investments (RF) Proprietary Ltd. (Potpale), a bankruptcy-remote special-purpose entity (SPE). The SPE uses a facility provided by The Standard Bank of South Africa Ltd. for the sole purpose of originating and financing ISAs. The underlying obligors are predominantly South African individual taxi operators. This is SA Taxi's second securitization transaction that we have rated.

RATING RATIONALE

Economic Outlook

Our base-case default rate assumption for the portfolio reflects our expectation for moderate growth in economic output in South Africa. Our baseline economic scenario forecasts real GDP growth of between 2.2% and 2.9% until 2016, and a continued low consumer price index at about 5.5% (see "Sub-Saharan Africa Sovereign Rating Trends Mid-Year 2015," published on July 13, 2015). Additionally, given structural deficiencies in the public transportation sector, commuter demand for minibus taxis is more resilient to economic slowdowns, in our view.

Credit Risk

We have analyzed credit risk based on our global consumer finance criteria to derive our assumptions on default, recovery and prepayment rates, and portfolio yield (see "Global Methodology And Assumptions For Assessing the Credit Quality Of Securitized Consumer Receivables," published on Oct. 9, 2014). We received more than five years of historical performance data of the underlying portfolio. We do not consider the transaction to have any residual value risk, as the portfolio does not have any balloon loans (loans which have a large final installment at maturity). We have adjusted our credit assumptions to represent the subportfolios' worst-case composition. This is to account for portfolio migration toward these levels during the revolving period. We do not expect the transaction to accumulate losses during the revolving period. This is because one of the early amortization event triggers tests if there is sufficient available excess spread to cure defaults. We applied our current national to global scale mapping for South Africa when defining the stress multiples and recovery rate haircuts (discounts) for various national scale rating levels (see "Standard & Poor's National And Regional Scale Mapping Tables," published on Sept. 30, 2014).

Operational Risk

We have applied our operational risk criteria to assess the operational risk in this transaction (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, severity risk (the effect of servicer disruption) is "moderate", and portability risk (the inability to replace the servicer) and disruption risk (the likelihood of a material disruption in servicer's functions) are "high". Considering the availability of a warm back-up servicer at closing and under our operational risk criteria, the maximum potential rating for all classes of notes in this transaction is 'A+ (sf)', which corresponds to a 'zaAAA' national scale rating. Therefore, operational risk does not constrain the maximum potential ratings on all classes of notes.

Cash Flow Analysis

Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions (see "Global Framework For Cash Flow Analysis Of Structured Finance Securities," published on Oct. 9, 2014). Our analysis indicates that the available credit enhancement for the rated notes is sufficient to mitigate the credit and cash flow risks that we apply at our assigned ratings. Namely, our cash flow model relies on 48.0% of available credit enhancement for the class A1, A2, and A3 notes, 29.4% for the class B1 interest deferrable notes, and 19.8% for the class C1 interest deferrable notes.

Ratings Above The Sovereign

We have applied our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria; see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). We tested the transaction's ability to withstand a sovereign default stress in a global 'BBB' scenario (corresponding to the national 'zaAAA' scenario). This is one notch above our sovereign foreign currency rating on the Republic of South Africa. Our analysis shows that the class A1, A2, and A3 notes can withstand this stress.

Rating Stability

In view of a potential tap issuance under the program, we have considered rating stability when assigning ratings to the class B1 interest deferrable and C1 interest deferrable notes. This may result in a decrease in the available credit enhancement for the class B1 interest deferrable and C1 interest deferrable notes to 29.4% and 19.8%, respectively, from the current 31.8% and 28.7%. Under our scenario analysis, we have run two stress scenarios and have assessed the transaction's performance. In our view, the results of our scenario analysis are commensurate with our 2010 credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Counterparty Risk

The transaction is exposed to the credit risk of Standard Bank of South Africa Ltd. (BBB-/Stable/A-3) as the transaction bank account provider and as the fixed-to-floating swap provider for the class A3 notes. We consider that the transaction documents adequately mitigate this risk at a 'zaAAA (sf)' rating level, which is in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under our current counterparty criteria, we consider commingling risk to be fully mitigated.

Legal Risk

We consider the issuer to be a bankruptcy remote entity in line with our asset isolation and special-purpose entity criteria, and local regulations (see "Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on May 7, 2013). We have received legal comfort that the sale of the assets would survive Potpale Investments (RF) Proprietary Ltd.'s insolvency as the seller.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Criteria For Global Structured Finance Transactions Subject To A Change

In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Global Methodology And Assumptions For Assessing the Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, May 7, 2013
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Presale: Transsec 2 (RF) Ltd., Oct. 30, 2015
- 2015 EMEA ABS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Sub-Saharan Africa Sovereign Rating Trends Mid-Year 2015, July 13, 2015
- Ratings On South Africa Affirmed; Outlook Stable, June 12, 2015
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

RATINGS LIST

Transsec 2 (RF) Ltd.
ZAR450 Million Asset-Backed Notes (Including ZAR129 Million Unrated Notes)

Class	Rating	Amount (mil. ZAR)
A1	zaAAA (sf)	148.0
A2	zaAAA (sf)	25.0
A3	zaAAA (sf)	61.0
B1-Dfrd	zaA (sf)	73.0
C1-Dfrd	zaBBB (sf)	14.0
D1-Dfrd	NR	75.0
Sub Loan	NR	54.0

Dfrd--Interest deferrable.
NR--Not rated.

Additional Contact:
Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com