

Media Release:

Chailease 2023 Securitization Special Purpose Trust Assigned Preliminary Ratings

October 31, 2023

Rating Action

Taiwan Ratings Corp. today assigned its 'twAAA (sf)' preliminary rating and 'twA (sf)' preliminary rating to the Class A notes and B notes, respectively, to be issued by Land Bank of Taiwan as trustee of **Chailease 2023 Securitization Special Purpose Trust (Chailease 2023 Securitization SPT)**. The notes are supported by a pool of new Taiwan dollar-denominated (NT\$) lease and instalment receivables originated by Chailease Finance Co. Ltd.

The preliminary ratings are based on information as of October 31, 2023. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Rationale

The preliminary ratings assigned to the rated notes by Taiwan Ratings reflect the likelihood of the issuer to pay interest in full on time and to repay principal no later than the legal final maturity date, according to the terms and conditions of the rated notes. Our preliminary ratings reflect the following factors:

- The credit risk associated with the underlying collateral portfolio and the credit support available under the Class A notes and B notes in the form of subordination are commensurate with our view of credit risk under 'twAAA' and 'twA' rating stress, respectively. Our assessment of credit risk also considers Chailease's (as the originator and servicer in this transaction) underwriting policy, foreclosure process, business strategy, recent historical performance of the underlying receivables, as well as transaction structure, including but not limited to the amortization triggers, revolving period, and eligibility criteria of receivables that the SPT can invest in. In addition, upon the occurrence of any trust enforcement event, such as reaching transaction legal maturity, the transaction can use any balance remaining in the liquidity reserve amount, together with the remaining underlying receivables, to repay the notes, providing additional credit support for the transaction.
- The transaction's cash flows can meet the timely payment of interest and ultimate payment of principal to the rated notes by the legal maturity date under stresses commensurate with the ratings assigned. Our rating stresses consider the scenarios including, but not limited to, the assumed default rate and recovery rate under the respective rating scenarios, stressed prepayment speed, stressed fees and expenses, as well as different default patterns. We have also performed sensitivity analysis to see how vulnerable the rated notes would be to a downgrade when the transaction's default rate is higher than our base-case assumption or the recovery rate is lower than our expectation.

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- The timely payment of senior expenses/fees and the rated note coupon is first supported by the use of interest, and then if needed, principal collections from the underlying pool of receivables (i.e., principal draw), and lastly an initial liquidity reserve equal to 0.37% of the initial note issuance amount. This initial liquidity reserve will amortize due to factors such as the rated note balance that may be gradually redeemed over the transaction life, based on the pre-determined formula stipulated in the transaction document. The timely payment of senior expenses/fees is also underpinned by the additional liquidity reserve that the transaction will also set aside from the underlying interest collection during the transaction life if the revolving period ceases.
- The transaction has counterparty exposure to Land Bank of Taiwan (twAA+/Stable/twA-1+) as the bank account provider. The rating on the bank account provider, coupled with the replacement trigger of the bank account provider if the rating on it falls below a certain level, is consistent with our counterparty criteria to support the 'twAAA' rating on the rated notes. The rating requirement and replacement language of the eligible investment in transaction documents is akin to the risk as bank account provider, in our view and is also able to support the transaction.
- The operational risk of this transaction, particularly with Chailease acting as the servicer, is consistent with our operational risk criteria to support a 'twAAA' rating. Our assessment is mainly underpinned by the transaction's documented provisions regarding servicer termination and replacement, as well as Chailease's franchise value, market position, and experience.
- The legal structure of the trust, established as an SPT under the Taiwan Financial Asset Securitization Act, and the transaction structure and terms, reflects our criteria for asset isolation and insolvency remoteness.
- We rely on an agreed-upon procedure as the independent data audit report conducted by an external third party to embark on the rating analysis. We do not separately conduct due diligence checks on the data or information received.

The full report "**Presale: Chailease 2023 Securitization Special Purpose Trust**" is available on Taiwan Ratings' website at: <http://rrs.taiwanratings.com.tw>.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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 | ABS: Global Equipment ABS Methodology And Assumptions, May 31, 2019
- Criteria - Structured Finance - General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 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, October 9, 2014

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- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 07, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Taiwan 2023 Mid-year Outlook: GDP To Rebound Despite Global Headwinds, July 18, 2023
- Taiwan Ratings' Ratings Definitions, November 11, 2021
- Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High, September 26, 2023
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, December 17, 2016

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Preliminary Ratings Assigned

Chailease 2023 Securitization Special Purpose Trust

Class	Ratings	Amount (NT\$ mil)
Class A	twAAA (sf) (prelim)	3,584.0
Class B	twA (sf) (prelim)	423.5
Class C	N.R.	993.0

N.R.--Not Rated

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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