

Credit Rating Announcement

Fox Street 7 (RF) Limited – Credit Ratings of Various Classes of Notes Affirmed

Rating Action

Johannesburg, 08 December 2021 – GCR Ratings (“GCR”) has affirmed the national long-term issue credit ratings of the various Classes of Notes currently in issue by Fox Street 7 (RF) Limited (“Fox Street 7” or “the Transaction” or “the Issuer”). This follows GCR’s annual review of the Transaction.

Security Class	Stock Code	Amount Outstanding	Rating Class	Rating Scale	Rating	Outlook / Watch	Action
Class A2	FS7A2	R255,180,035	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook	Affirmation
Class A3	FS7A3	R400,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook	Affirmation
Class B1	FS7B1	R60,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook	Affirmation

The Transaction has a Subordinated Loan of R179,621,119, which is unrated.

The ratings accorded to the Class A Notes relate to the timely payment of interest and ultimate payment of principal by their Final Redemption Date. The ratings on the Class B Notes relate to the ultimate payment of interest and principal by their Final Redemption Date. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

Rating Rationale

Fox Street 7 (RF) Limited is a Residential Mortgage-Backed Securities (“RMBS”) securitisation of home loans originated by Investec Bank Limited (“Investec”) to its private banking clients that issued R1.06bn of secured Notes on 29 November 2019.

The Notes amortise sequentially from issuance and, since Transaction close, all of the Class A1 Notes and Class A2 Notes to the value of R144.8m have been redeemed. This high rate of Notes amortisation is a result of net principal prepayments on the underlying mortgage loans (R202.9m since issuance), the quarterly release of excess reserve funds (R16.3m since issuance), and the one-time redemption of Notes using the unutilised Pre-Funding Amount (R27.6m).

The sequential amortisation of Notes leads to incremental increases in credit enhancement available through subordination to all Classes of Notes including the subordinated loan.

Table 1: Credit Enhancement through Subordination*

Notes Class:	Class A1	Class A2	Class A3	Class B1
Credit Enhancement at Transaction Close	83.9%	51.6%	19.3%	14.5%
Credit Enhancement (December 2020)	94.2%	58.0%	21.7%	16.3%
Current Credit Enhancement	100.0%	75.1%	26.8%	20.1%

*Calculated as (Subordinated Notes + Subordinated Loan) as a percentage of (Total Notes + Subordinated Loan)

Source: GCR

Transaction performance is in line and better than expectations, with zero defaults having occurred since issuance and positive excess spread earned.

Prepayments over the period under review amounted to R339.6m or 32.68% of the portfolio balance as at 31 October 2020. These were moderated by the advances (consisting of redraws, re-advances, and further advances) that occurred, amounting to R198.7m (19.1% of the 31 October 2020 portfolio). GCR notes that the quality of the book and the lower interest rate environment may have contributed to the strong prepayment levels during the COVID-19 period. Prepayment and Redraw behaviour is expected to moderate in line with historical performance in an increasing interest rate environment.

For the current surveillance, GCR did not rerun its Cash Flow Model. GCR deemed this appropriate, seeing as: (1) The portfolio's primary characteristics have not changed significantly; (2) the portfolio performance is better than expected with zero defaults recorded to date; (3) the credit enhancement available to the Notes via subordination and overcollateralization has increased which supports the current ratings; and (4) the national long-term credit ratings assigned to the Notes are the highest achievable national scale ratings (AAA_{(za)(sf)}).

Rather than rerunning the model, the performance of the Transaction to date was assessed in order to validate the existing modelling assumptions. In this endeavour, the information gleaned by GCR's constant monitoring of the Transaction, including excess spread and defaulting asset levels, was reviewed. It is on this basis that the ratings of the rated Classes of Notes were affirmed.

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Related Criteria and Research

Criteria for Rating Structured Finance Transactions - September 2018

Criteria for Rating Financial institutions – May 2019

Criteria for the GCR Ratings Framework – May 2019

Criteria for Rating Residential Mortgage-Backed Securities ("RMBS") - November 2018

Ratings Scales, Symbols and Definitions – May 2019

Investec Bank Limited Rating Review – July 2021

Rating History

Notes Class	Review	Rating Scale	Rating	Outlook/Watch	Date
Class A1 (FS7A1)	Initial	National	AAA _(ZA) (sf)	Stable Outlook	Nov. 2019
	Last (Paid in Full)	National	WD	n.a.	June 2021
Class A2 (FS7A2)	Initial	National	AAA _(ZA) (sf)	Stable Outlook	Nov. 2019
	Last	National	AAA _(ZA) (sf)	Stable Outlook	Dec. 2020
Class A3 (FS7A3)	Initial	National	AAA _(ZA) (sf)	Stable Outlook	Nov. 2019
	Last	National	AAA _(ZA) (sf)	Stable Outlook	Dec. 2020
Class B1 (FS7B1)	Initial	National	AAA _(ZA) (sf)	Stable Outlook	Nov. 2019
	Last	National	AAA _(ZA) (sf)	Stable Outlook	Dec. 2020

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S GLOSSARY

Advance	A lending term, to transfer funds from the creditor to the debtor.
Affirmation	See GCR Rating Scales, Symbols and Definitions.
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Arrears	An overdue debt, liability or obligation. An account is said to be "in arrears" if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Borrower	The party indebted or the person making repayments for its borrowings.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Enhancement	Limited protection to a transaction against losses arising from the assets. The credit enhancement can be either internal or external. Internal credit enhancement may include Subordination; over-collateralisation; excess spread; security package; arrears reserve; reserve fund and hedging. External credit enhancement may include Guarantees; Letters of Credit and hedging.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Delinquency	When a receivable is overdue and not paid on its payment due date.
Derivative	A financial instrument that offers a return based on the return of another underlying asset.
Eligibility Criteria	Limitations imposed on the type and quality of assets that can be sold by the Originator / Servicer into the Securitisation vehicle which ensure the Transaction will track the performance of historical data analysed as closely as possible.
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Instalment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 1.) Satisfy the due or unpaid interest charges; 2.) Satisfy the due or unpaid fees or charges; and to reduce the amount of the principal debt.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Payment Date	The date on which the payment of a coupon or dividend is made.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.
Principal Repayments	Scheduled payments and prepayments.
Principal	The total amount borrowed or lent, e.g., the face value of a bond, excluding interest.

Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Property	Movable or immovable asset.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Redemption	The repurchase of a bond at maturity by the Issuer.
Repayment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Risk	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Stop Purchase Event	An event caused by deteriorating performance of a transaction or environmental changes that would stop the purchasing of new assets into the Transaction.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trigger Event	An event caused by transactional performance or environmental changes that would impact a transaction.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.

For a detailed glossary of terms utilised in this announcement please click [here](#).

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, securities or financial instruments being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, securities or financial instruments.

The credit ratings have been disclosed to the Arranger. The ratings above were solicited by, or on behalf of, the Issuer and therefore, GCR is compensated for the provision of the ratings.

Information received from Investec to accord the credit ratings included:

- Credit Rating report December 2020
- Withdrawal Notice for Class A1 Notes June 2021
- Operational Review Presentation July 2021
- Investor Reports to 21 November 2021
- Other Miscellaneous

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