

CREDIT RATING ANNOUNCEMENT

GCR affirms the long-term issue credit ratings of the Notes issued by Fox Street 3 (RF) Limited

Rating action

Johannesburg, 20 November 2023– GCR Ratings (GCR) affirmed the national scale long-term issue credit ratings of the Notes issued by Fox Street 3 (RF) Limited (“Fox Street 3”, the “Transaction” or “the Issuer”). This follows GCR’s annual review of the Transaction.

Security Class	Stock Code	Amount	Rating Class	Rating Scale	Rating	Outlook/Watch
Class A3	FST3A3	R335,860,412	Long Term Issue	National	AAA _(ZA) (sf)	Stable Outlook
Class A4	FST3A4	R260,000,000	Long Term Issue	National	AAA _(ZA) (sf)	Stable Outlook

N.A.: Not applicable

Following their full redemption, GCR withdrew the ratings of the Class A1 and A2 Notes in November 2022. The Transaction has a Subordinated Loan of R151.2m, which is unrated.

The credit ratings accorded to the Class A Notes relate to timely payment of interest and ultimate payment of 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 3 is a Residential Mortgage-Backed Securities (“RMBS”) securitisation of home loans originated by Investec Bank Limited (“Investec”) to its private banking clients. Fox Street 3 issued R950m (\$51.6m) of secured Notes in October 2021. Seven other similar Fox Street RMBS transactions have been in existence. The Transaction structure aligns with that of Fox Street 7 (RF) Ltd, the previous most recent Fox Street transaction to issue Notes.

The Transaction is amortising and during the period under review, the Class A3 Notes were further paid down. The sequential amortisation of Notes leads to incremental increases in credit enhancement available through subordination to all Classes of Notes including the subordinated loan.

The performance is better than expectations modelled. One default for a balance of R1.97m (which has since rehabilitated) had been reported since transaction close and it represented 0.19% of the original portfolio. Loans of more than 30 days in arrears amounted to app. R1m as at October 2023.

During the review period (November 2022-October 2023), no triggers or stop-purchase events have been breached or occurred.

GCR performed an operational review with Investec as originator and Servicer on 15 November 2023. No organisational changes have occurred apart from the departure of Private Bank’s Chief Executive Officer (CEO), which position will be filled soon. The key management teams have remained stable.

Investec broadened its target market, recognising that there are very stable incomes earned in fields like ICT and, as a result, recently granted credit to employees of recognised employers (e.g. listed corporate, well-known company etc.) in addition to more standard employers.

Investec brought some improvements to their application system, however this only happened in the back end to improve data and process flow and efficiencies. On the longer term, Investec plans to bring in an automated decisioning system. Investec has initiated a migration to the cloud; impairment calculations will be run on the platform by March next year. This should help improve reliability and scalability.

Prepayments over the period under review have remained high compared to other securitisations, albeit moderated by redraws on the loans by the borrower. GCR Notes that the quality of the book and the financial astuteness of the clientele may continue to contribute to the strong prepayment levels in response to the interest rate increases. There have been no signs of deterioration in spite of the rising interest rate environment. According to Investec, the borrower has now managed to harness uncertainty and is in a better position to plan their finance.

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 Residential Mortgage-Backed Securities, November 2018
Criteria for the GCR Ratings Framework, January 2022
Investec Bank Limited Financial Institution Report, September 2022
Criteria for Rating Financial Institutions, May 2019
Ratings Scales, Symbols and Definitions, May 2022
USD ZAR: R18.40/1\$. Source: Bloomberg

Rating history

Fox Street 3 (RF) Limited

Notes Class	Review	Rating Scale	Rating	Outlook/Watch	Date
Class A3 (FST3A3)	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Oct. 2021
	Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2022
Class A4 (FST3A4)	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Oct. 2021
	Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2022

Glossary

Advance	A lending term, to transfer funds from the creditor to the debtor.
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.
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 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Facility	The grant of availability of money at some future date in return for a fee.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans, and deposits.
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	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.
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	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.
Proceeds	Funds from issuance of debt securities or sale of assets.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Redemption	The repurchase of a bond at maturity by the issuer.
Refinance	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.

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.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
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.
Ultimate Payment	A measure of the principal debt, interest, fees, and expenses being repaid over a period of time determined by recoveries.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process 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, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process via conference call, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Investor Reports to 20 October 2023
- Operation Review 15 November 2023

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