CREDIT RATING REPORT

Home Mortgage Bank Limited's Collateralised Mortgage Obligation – CMO 2019-01

Caribbean Information & Credit Rating Services Limited

December 2018

TYPE OF RATING	OVERALL RATING ASSIGNED		OUTLOOK
Structured Finance Securitisation Transaction TT $200.0 Million Bond Issue	**Regional Scale**	**National Scale**	*Stable*
	*Cari***AA- (SO)***	*tt***AA- (SO)***	

**SO – Structured Obligation*

RATING HISTORY				
Date	**Currency**	**Tranches** *(Series)*	**Individual Tranche Ratings Assigned**	
			National Scale	**Regional Scale**
December 13, 2018	**Local**	**A, B, C**	*tt***AA (SO)***	*Cari***AA (SO)***
		D, E, F	*tt***AA- (SO)***	*Cari***AA- (SO)***
		G, H, I	*tt***A+ (SO)***	*Cari***A+ (SO)***

** Initial Rating assigned*

RATING DRIVERS

Supporting Factors

- High credit quality of securitised loans in mortgage pool
- History of stringent underwriting practices from the Mortgage Originator as evidenced by consistently good asset quality levels and favourable mortgage portfolio performance
- Simple transaction structure, with effective credit enhancement built in
- Legal and regulatory framework supporting the transaction provides adequate protection to investors

Constraining Factor

- Mortgage pool seasoning could increase default risk

Rating Sensitivity Factors

Factor that could lead to a lowering of the ratings and/ or Outlook include:

- Material impairment in the underlying mortgage pool leading to heightened extension and/ or default risk

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BACKGROUND

CMO 2019-01 is a structured finance debt instrument being created by the Home Mortgage Bank Limited (HMB or The Bank) to securitise residential mortgage assets purchased from the Trinidad & Tobago Mortgage Finance Company Limited (TTMF) on the secondary market. CMO 2019-01 will offer participation certificates in 9 tranches in the amount of TT $200 million as follows:

1. **Series A –** TT $25.0 million with an average life of 0.54 years at an initial coupon rate of 2.05%
2. **Series B –** TT $25.0 million with an average life of 1.71 years at an initial coupon rate of 3.05%
3. **Series C –** TT $25.0 million with an average life of 2.90 years at an initial coupon rate of 3.70%
4. **Series D –** TT $25.0 million with an average life of 4.09 years at an initial coupon rate of 4.05%
5. **Series E –** TT $25.0 million with an average life of 5.35 years at an initial coupon rate of 4.75%
6. **Series F –** TT $25.0 million with an average life of 6.72 years at an initial coupon rate of 5.20%
7. **Series G –** TT $25.0 million with an average life of 8.24 years at an initial coupon rate of 5.30%
8. **Series H –** TT $12.5 million with an average life of 9.77 years at an initial coupon rate of 5.65%
9. **Series I –** TT $12.5 million with an average life of 11.49 years at an initial coupon rate of 5.75%

The collateralised assets will be held in Trust by TTMF and governed by the laws of the Republic of Trinidad & Tobago and established by a Declaration of Trust. The investment security will have monthly coupon payments that are payable to all certificate holders and the principal for each tranche available for distribution (Series A to I) will be repaid sequentially during an established repayment window, with the final principal payment coinciding with the maturity of the respective tranche. Thus, Series A will be fully repaid before principal repayment starts on Series B and so on. Certificates are structured to enable investors to participate in the acquisition and ownership of a pool of residential mortgages. Each Certificate will represent an undivided beneficial ownership interest in the Mortgage Pool. The Bank will also issue 2 Tranches, T and R, that will not be available for distribution[1].

[1] *These will be represented via Certificates issued to HMB by the Trustee on transfer of the Mortgage Pool. Tranche T represents an interest only Tranche with a notional principal amount equivalent to the Aggregate Unpaid Principal Balance at any point in*

During 2017, the Bank took advantage of the favourable financing environment[2] utilising debt financing to fund its major initiatives. The distribution of CMO Certificates represents a diversification within the Bank's funding tools, generating liquidity, while managing the Bank's gearing position. The purpose of the CMO, therefore, is to provide funding to HMB to acquire mortgage loans on the secondary market from Approved Mortgage Lenders and to meet the Bank's corporate financing needs.

HMB, as Issuer of the security, will engage TTMF as the Trustee and Administrator for the transaction. The Bank will also perform the roles of Registrar and Paying Agent. The Issuer, HMB, is a related party to the Trustee and Administrator, TTMF, as both entities are subsidiaries of the National Insurance Board of Trinidad and Tobago (NIBTT). The appointed legal advisers for the transaction is the law firm of Pollonais, Blanc, de la Bastide & Jacelon.

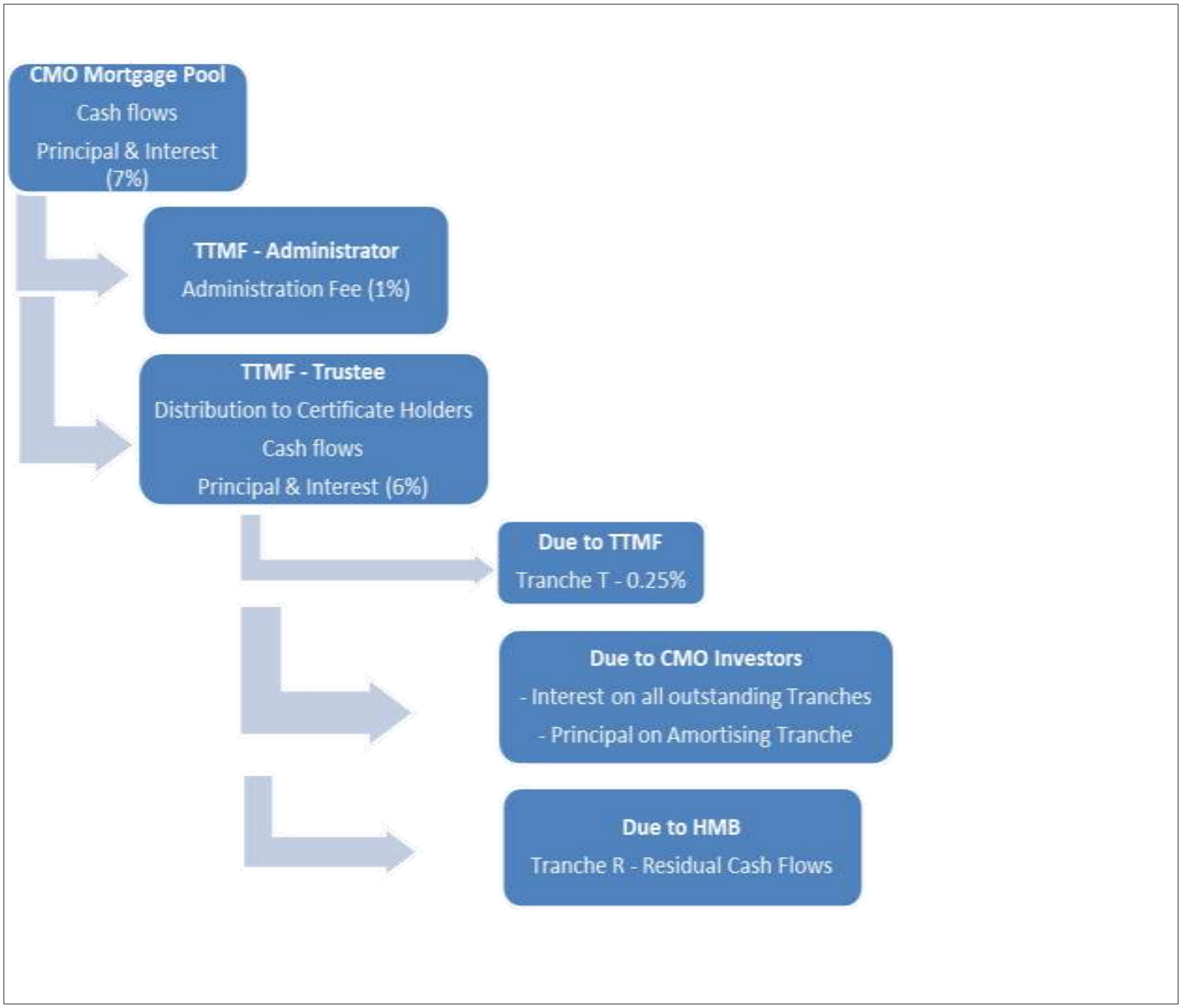
This represents the third CMO issue being implemented by HMB, with the previous two successfully issued in 1999 and 2000 respectively.

time. It is structured to meet the Trust's obligations to its Trustee at a fee of 0.25% per annum paid monthly on the principal balance of the Mortgage Pool at the end of each Due Period. Tranche R is payable to HMB and will be utilised as part of its general working capital cash flows. It represents monthly surplus receipts from the Mortgage Pool after payment to all Certificate Holders and the Trustee. Surplus receipts are derived from the interest rate differential between the Mortgage Pool Rate and the interest rate payable on the Certificates and the principal and interest payments from the over-collateralisation of the Mortgage Pool.

[2] *HMB has effectively managed its ability to fund its activities efficiently by growing its balance sheet and maintaining a gearing position which stood at 1.35:1 as at December 2017. The Bank's interest coverage ratio stood at 3.12 times in December 2017.*

The CMO's structure is depicted in Chart 1 below.

Chart 1
The Structure of CMO 2019-01
Cash Flows from CMO Mortgage Pool to Certificate Holders



Source: HMB CMO 2019-01 Prospectus as approved by the TTSEC

RATING METHODOLOGY

The rating methodology we followed in assigning the ratings to the CMO is consistent with that utilised by the international rating agencies for rating securitised debt/ structured obligations. Further, we worked closely with an expert at CRISIL in conducting this rating, who served as a peer review for the assignment.

The rating methodology consists of an assessment of the following:

i. **Credit Risk –** This involves an analysis of the nature of the underlying mortgages, the robustness of the origination processes, past performance of the originator's overall portfolio and pool characteristics which provide pertinent insights into the credit risks associated with the underlying borrowers.

ii. **Legal and Regulatory Risk** – This takes into consideration a review of the legal structure of the CMO and assesses whether the securitised mortgages were appropriately isolated and protected from bankruptcy or insolvency risk. It also takes into account adherence of the transaction's structure to the relevant local legislation.

iii. **Market Risk** – This involves an analysis of the cash flows of the transaction, as well as the levels of risk arising from the prepayment of mortgages, movement in interest rates, and other macro-economic factors which can impact the performance of the CMO.

iv. **Counterparty Risk –** This takes into consideration key counterparties' ability to perform their respective roles in a competent manner. This risk is assessed using a combination of qualitative and quantitative factors, which include the quality of processes and systems at counterparties. The assessment also references the entities' credit ratings as a proxy for the counterparties' ability to continue to perform satisfactorily over the tenure of the transaction. Consideration is also given to past experience in handling similar securitisation transactions.

Based on the combined Credit Risk, Legal and Regulatory Risk, Market Risk and Counterparty Risk ratings, we arrived at an overall stand-alone issue rating for HMB's CMO 2019-01. Finally, we consider the priority of principal repayment and order of allocation of losses if applicable, to determine the rating of the individual tranches of the structured obligation.

SUMMARY OVERALL RISK ASSESSMENT

Risk Factors	Risk Assessment
Overall Credit Risk	**AA-**
Overall Legal and Regulatory Risk	**Low**
Overall Market Risk	**Moderate**
Overall Counterparty Risk	**Low**
Overall Rating (Stand-Alone) – National Scale	*tt***AA- (SO)***
Overall Rating (Stand-Alone) – Regional Scale	*Cari***AA- (SO)***

**SO – Structured Obligation*

As per our Rating Policy Manual and in accordance with the latest IOSCO guidelines for Credit Rating Agencies, we append the notation 'SO' (short for Structured Obligation) to our assigned rating to highlight to investors that the rating refers to a debt obligation whose creditworthiness is itself dependent on the creditworthiness of underlying debt instruments, in this case, mortgage loans.

RATIONALE

Caribbean Information & Credit Rating Services Limited (CariCRIS) has assigned an overall issue rating of *Cari***AA- (SO)** on the regional rating scale and *tt***AA- (SO)** on the T&T national scale to the proposed TT $200 million Collateralised Mortgage Obligation (CMO) of Home Mortgage Bank Limited (HMB) (CMO 2019-01). These ratings indicate that the overall level of creditworthiness of this structured debt obligation, adjudged in relation to other rated debt obligations in the Caribbean and within T&T is **high**. We have also assigned individual tranche ratings as follows:

Scale	Currency	Overall Rating Assigned	Outlook
National	Local	*tt***AA- (SO)**	*Stable*
Regional		*Cari***AA- (SO)**	

Tranches (Series)	Currency	Individual Tranche Ratings Assigned		Outlook
		National Scale	Regional Scale	
A, B, C	Local	*tt***AA (SO)**	*Cari***AA (SO)**	*Stable*
D, E, F		*tt***AA-(SO)**	*Cari***AA- (SO)**	
G, H, I		*tt***A+ (SO)**	*Cari***A+ (SO)**	

CariCRIS has also assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation of continuity in the key credit drivers supporting the ratings over the next 12-15 months, with all interest and principal payments made in line with the transaction structure.

The factors supporting the ratings are:

High credit quality of securitised loans in mortgage pool

The CMO 2019-01 transaction consists of the securitisation of 538 residential mortgage loans with an unpaid (or outstanding cumulative) principal balance of TT $214.3 million. These mortgages, which form the mortgage pool and the transaction's underlying collateral, were acquired by HMB on the secondary market from Trinidad and Tobago Mortgage Finance Limited (TTMF)[3] and are each fully secured by a 1st lien on a residential property[4]. The securitised loans in the mortgage pool are adjustable (or variable) rate mortgages, with an average interest rate of 7.00% per annum.

The mortgages within the Mortgage Pool all met TTMF's normal lending criteria at the time of origination[5] and as at the time of transfer to the Trust were all performing[6]. The average Loan to Value (LTV) ratio[7] of mortgages admitted into the pool is 46%. We view this as favourable, as it suggests a low risk of loss, in the event of default of the underlying mortgages. Further, the fairly high initial borrower's equity in the mortgage asset makes default on the loan repayment unattractive to the borrower. As the loan gets repaid in instalments, borrower's equity in the asset is expected to increase, which enhances the performance behaviour of the underlying asset.

Further, the mortgage pool comprises mortgages underwritten across 16 locations in Trinidad and Tobago, which minimises the risks associated with localised stresses arising in any one location. With this locational spread, we believe the mortgage pool offers investors good geographic diversification, with the top 5 locations accounting for 66.2% or TT $142 million of the portfolio. When viewed more broadly by region in T&T, the largest group of underlying mortgages (38.4%), valued at TT $82.2 million, is located in East Trinidad (Chart 2).

[3] *Mortgages were acquired during the period December 2016 to January 2018.*

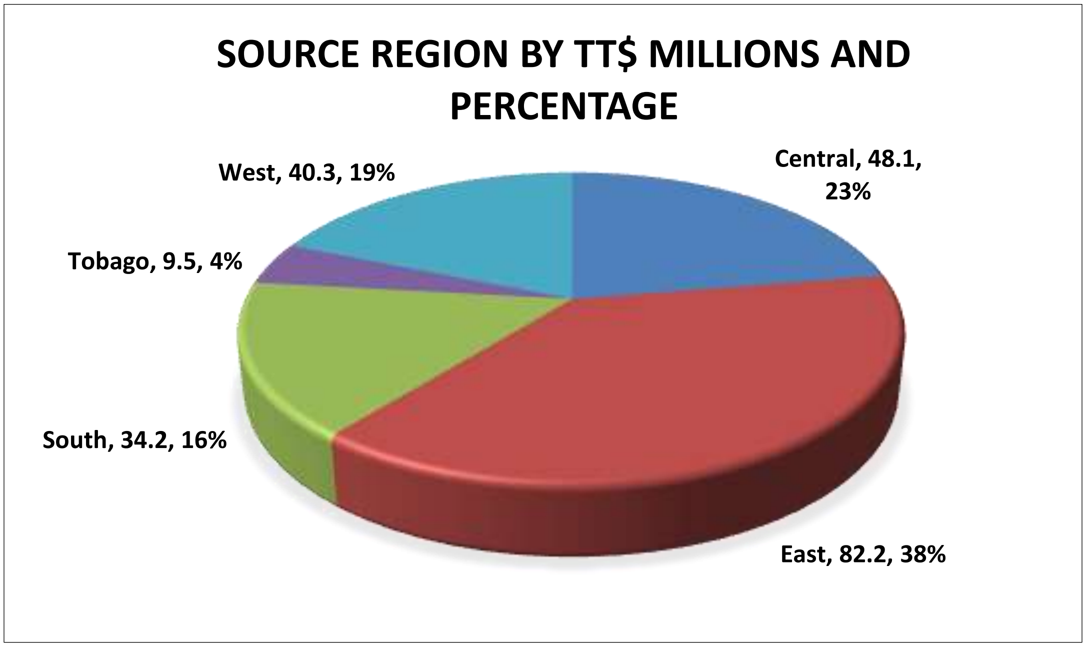
[4] *The residential property types include homes of one to four dwellings, townhouses, individual condominium units, manufactured homes, or individual units in planned unit developments.*

[5] *These criteria include having a gross debt service ratio (GDSR) and a total debt service ratio (TDSR) of 30% and 40% respectively, coupled with the term of all mortgages not exceeding the borrowers' retirement age. GDS includes monthly principal and interest payments required on the loan applied for, while TDS includes monthly payments required on credit cards, installment loans and other debts plus payment on the loan applied for.*

[6] *As at December 31st, 2018 (latest information available), 74% of the mortgage pool remained current. Although 26% (of the mortgage pool) had a 1-month (30-day) history of arrears, this is largely consistent with historical mortgage performance experience, as within the 1st 30 days of the payment date, timing differences in payment settlement typically arise. Notwithstanding this, the Bank and TTMF have adequate systems in place to manage 0-30 days' arrears and the experience has been that over time, these client accounts do normalise.*

[7] *The balance outstanding as a percentage of the appraised value of the property*

Chart 2
Mortgage Pool Location Analysis by Region



** Source: HMB*

We assessed the credit quality of the original borrowers as fairly high, given their relatively stable income as salaried workers, consistent with mortgages underwritten by the Originator. Tempering this profile, however, is the high borrower concentration associated with a pool of relatively low granularity (i.e. a small number of mortgages – 538). We view the overall credit quality of the underlying collateral as high, given the favourable average LTV ratio, as well as the diversity of the collateral pool. In addition, the Administrator's credit control processes emphasize early detection of deterioration and prompt implementation of remedial action. Based on the above factors, we assessed the overall credit risk associated with the CMO as low.

History of stringent underwriting practices from the Mortgage Originator as evidenced by consistently good asset quality levels and favourable mortgage portfolio performance

TTMF's favourable asset quality[8] continues to be supported by a stringent mortgage loan approval process that is strictly adhered to. The Company's mortgage portfolio is underwritten in accordance with its Mortgage Origination Policy, which administers a framework of well-conceived underwriting standards and supporting control processes. This framework has proven to be a critical component of TTMF's effective loan management system over the years, resulting

[8] *Asset quality is measured by the ratio of NPLs to gross loans.*

in a high level of high-grade mortgages (Table 1) and a comparatively low level of non-performing loans (Chart 3).

Table 1
TTMF's Credit Quality of Mortgage Loans (2015 – September 30, 2018)

Grade	Sep-18	% of Total	2017^	% of Total	2016	% of Total	2015	% of Total
	TT$'000							
High	2,485.6	79.2	3,066.5	86.1	2,969.3	88.0	2,756.6	88.1
Standard	552.3	17.6	393.5	11.0	305.0	9.0	269.6	8.6
Sub-Standard	61.6	2.0	58.4	1.6	56.4	1.7	70.2	2.2
Individually Impaired	39.5	1.3	43.0	1.2	41.8	1.2	33.1	1.1
Total	**3,139.0**	**100.0**	**3,561.4**	**100.0**	**3,372.5**	**100.0**	**3,129.5**	**100.0**

Source: TTMF Financials

^ Financial Year Ends December 31st

Mortgage loans are classified based on the arears position at the end of the respective financial year, in addition to other factors that may threaten the quality of the portfolio. High grade mortgages are defined as those where loan payments are up to date. Standard grade mortgages are those where loan payments are no more than 6 months in arears and sub-standard mortgages are those mortgages over 6 months in arrears. Individually impaired mortgages are mortgages that are not being serviced, legal action is being taken against the mortgages and specific provisions are made for the impaired portion. Over the 2015-2017 periods, the majority of TTMF's mortgage loans were classified as high-grade mortgages; this remained unchanged as at September 2018, which reflects an overall high credit quality and an expected sustainable portfolio performance (Table 1).

Chart 3
TTMF's Gross NPLs/ Gross Loans (2015 – September 30, 2018)

Source: TTMF Annual Report & Management Accounts

Following year-on-year (y-o-y) improvements for the 2009 to 2016 period, asset quality deteriorated marginally to 5% as at September 2018, up from 4.0% as at December 2017. The fall in asset quality was largely due to the prevailing macroeconomic conditions in T&T. Despite the increase in the NPL ratio, it remained among the lowest when compared to CariCRIS' sample of Non-Bank Financial Institutions in T&T. Going forward, CariCRIS expects a marginal recovery of the T&T economy in 2019.

In response to the deterioration in asset quality, the Company, in June 2018, commenced the development of an in-depth Early Warning System (EWS) that will have as inputs several relevant indicators from the economy and from the business environment. The output from the system will inform the appropriate credit adjudication parameters and arrears management strategies to be used. As at January 2019, the EWS was developed and partially implemented. The Company is also in the process of enhancing its credit scoring system with a view to adopting a risk-based approach to pricing. We expect these initiatives to sustain a high asset quality profile for TTMF in the years ahead.

Simple transaction structure, with effective credit enhancement built in

The CMO 2019-01 offers investors (or certificate holders) secured bonds with full recourse obligations. The underlying investment of the CMO transaction is a 'closed-end pool'[9] of 1st ranking rights over adjustable-rate residential mortgages. The assigned mortgage assets form the CMO's underlying collateral, and are segregated from the assets of TTMF, the Originator of the loans and HMB, the beneficial owner of the mortgages prior to the creation of the Trust. TTMF, also acting as Administrator of the transaction, collects monthly payments from borrowers and "passes through" the principal and interest to investors. Although payments of interest and principal are not guaranteed by HMB or any party, payments to investors are made on the actual receipts from the respective mortgage pool, including any prepayments. Given the high credit quality of the securitised pool, we believe that the risk of loss is low and the flow of funds is simple and direct, notwithstanding this being a structured debt obligation.

CMO 2019-01 offers certificate holders participation in 9 series or tranches, valued at TT $200 million. Each tranche comprises different tenors, coupon rates, risks profiles and payment options. This capital structure gives sophisticated investors a choice of risk and return depending on their risk appetite. Notwithstanding the different payment timing risks involved with participation in the varying tranches, the predictable duration, effectively guarantees payment.

[9] *No new mortgages can be added to the CMO following its issuance.*

In effect, with a more senior tranche the investor is not only more likely to get paid, but that certificate holder can be more sure about when to expect payment, thereby reducing reinvestment risk. While all tranches will receive the Certificate Interest Distribution Amount[10] on the Distribution Date based on receipt of the mortgage payments from the mortgage pool, principal payments (Certificate Principal Distribution Amounts), however, will first be directed (paid) sequentially to the most senior (or earlier) tranches[11]. The subordinated nature of this transaction reflects the payment priority to investors under normal conditions, as well as under a defaulted (loss) underlying loan scenario, thereby determining the relative seniority of the various investors across all the tranches. The more senior tranches offer more downside protection than the junior-ranking tranches as any losses incurred in the transaction are first allocated to the junior (or later) tranches, after depleting any reserves, before senior tranches are affected.

This highlights the robustness of the CMO structure and other provisions underlying the securitisation transaction, such as reserves, which provide adequate protection to certificate holders. HMB, as issuer, has a history of structuring successful CMOs[12] and we believe this lends further credit support to the successful issuance of CMO 2019-01.

Included in the CMO structure are (i) a minimum collateral coverage of 104% on issue and (ii) an excess interest spread (EIS)[13], which together serve as an effective credit enhancement by absorbing losses should they occur. Any losses are first paid out of the EIS on an ongoing monthly reconciliation basis, which we estimate at TT $24.1 million. Thereafter, the liquidity reserve, captured by the over-collateralisation[14], serves as an effective cushion which can be used for payment shortfalls or losses for a period of time. The 104% collateral coverage of the issue offers adequate protection from delayed mortgage payments as the cash flows from the surplus assets (interest and principal) are available to meet obligations to investors.

In addition, notwithstanding the inherent prepayment risk of the transaction, the credit risk of the underlying mortgage pool is low. Moreover, CMO investments naturally de-risk as they repay principal over time. As such, we believe that the deal structure provides additional credit support to the transaction, which lends to the overall favourable ratings of CMO 2019-01.

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[10] *The Certificate Distribution Amount payable to Holders on any Distribution Date is derived solely from the receipts obtained on the Mortgage Pool.*

[11] *This means that starting from Tranche A to I, Tranche A will receive principal payments first and upon its Maturity Date principal payments will then be directed to Tranche B. This procedure follows through until the Maturity Date of Tranche I.*

[12] *In 1999 and 2000, HMB successfully issued and guaranteed 2 CMOs totalling TT $176.7 million; the issues were taken up by both individual and institutional investors and have performed well. The combined value outstanding as at December 31, 2017 was TT $2.5 million.*

[13] *Excess Interest Spread is the interest from the collateral that is not being used to satisfy liabilities (i.e. interest payments to the bond classes in the structure) and the fees (e.gs. mortgage servicing and administrative fees).*

[14] *Excess collateral*

Legal and regulatory framework supporting the transaction provides adequate protection to investors

The CMO transaction is structured within the existing asset-backed security framework specified by the TTSEC in the Securities Act, 2012 and the Securities (Prospectus) By-Laws, 2007. Under the CMO's legal structure, the assigned mortgages will be transferred to a mortgage pool via a Declaration of Trust[15], which was reviewed and approved by the T&T Securities and Exchange Commission (SEC)[16] on November 30, 2018. The Trust which is managed by the Trustee, TTMF, is governed by the laws of the Republic of T&T and licensed under the provisions of the Companies Act Chapter 81:01. The mortgage pool assigned to the Trust is fixed and is not subject to change over the life of the CMO transaction. While there will be no additions, mortgages will be removed from the mortgage pool if any mortgage is prepaid in full or if the stated principal balance has been reduced to zero.

All the necessary regulatory and contractual consents were obtained to effect the transfer of the 538 mortgages from HMB to the Trust. Under this structure, the mortgages within the mortgage pool held in Trust will not be assignable to any other investment opportunity, and they will be isolated from the Originator of the assets (i.e. since they will not be attached to TTMF's assets, they will be put beyond the reach of TTMF and its creditors) even in receivership or bankruptcy. As such, the CMO structure constitutes a 'true or valid sale' as the mortgages held in the Trust cannot be challenged, voided or otherwise reversed in an insolvency of the TTMF. In the event that TTMF goes bankrupt, its bankruptcy will not impact the investors' claim on the securitised pool's cash flows.

In the event of arrears or defaults within the mortgage pool, TTMF, as the Administrator, will be responsible for taking action as required in accordance with its delinquency management programme. Where necessary, TTMF will undertake the foreclosure[17] and disposal of the property.

CariCRIS does not expect the proposed merger between TTMF and HMB to have any negative impact on this transaction. In the event that the proposed merger comes into effect, the Trustee

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[15] *The principal document constituting the Trust and serves to establish the offering of CMO Certificates. It vests the assets of the Trust in the Trustee and contains all the rights, powers and obligations of the Trustee and the Holders. It contains provisions for the retirement or removal of the Trustee. The Declaration of Trust also details the method of valuation of the Certificates and how Certificates could be transferred and redeemed by Holders.*

[16] *The TTSEC is an independent government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation.*

[17] *Foreclosure is the legal process by which TTMF takes control of the property for which a mortgage was granted, evicts the homeowner and sells the home after a homeowner is unable to make full principal and interest payments on his or her mortgage, as stipulated in the mortgage contract.*

and Administrator (TTMF) as well as the Registrar and Paying Agent (HMB) will now become one entity. This, therefore, will necessitate the separation of roles, responsibilities and powers entrusted to each party to the transaction, particularly the Trustee and Administrator. Administrative changes to the structure will be required at such time to reduce the counterparty risk exposure from related parties inherent in the transaction.

The factor constraining the ratings is:

Mortgage pool seasoning could increase default risk

In CariCRIS' opinion, we view market risk, which includes prepayment risk, industry and macro-economic risk and interest rate risk, as providing the highest overall risk exposure to the investor over the life of the structured debt obligation.

All of the mortgages within the pool were originated within the last 3 years (2016–2018). This indicates that the underlying mortgages, having been newly originated, will not have been seasoned over the life of a full business cycle. While this enhances the overall credit quality of the collateral pool, given that borrowers are reasonably unlikely to default early on their mortgages (i.e. newly disbursed mortgages exhibit relatively better loan-level performance earlier on in the life of the mortgage), CariCRIS is concerned that pool-specific performance at issuance will not likely be reflective of a true, ageing mortgage profile. This uncertainty surrounding the stability of the transaction's cash flow stream beyond the medium term constrains the credit quality of later tranches. As such, holders of the longest-tenored certificates have greater exposure to loss of principal as the concentration on the mortgage pool increases over time due to scheduled and early mortgage repayments. In addition, notwithstanding the high credit quality mortgages backing the transaction, should there be a default, the impact to the certificate holder is a protracted period of time in which to recoup one's investment, which can be worsened by unfavourable macro-economic conditions at the time. This extension (or default) risk[18] is mitigated by the active monitoring of the mortgage pool over time and the strict underwriting policies followed by TTMF.

Prepayments in the underlying pool can affect cash inflows (collections from the pool) to the Trust. The ability of borrowers to prepay part or all of the mortgage at any time creates uncertainty regarding cash flow (above and beyond possible delinquencies), so investors usually

[18] *Default risk is the potential impact on yield to maturity and the recovery of principal invested in the event mortgagors fail to make monthly instalments and the Administrator's course of action is to foreclose on the underlying collateral.*

wish to be compensated for accepting the risk of unscheduled payments (contraction or prepayment risk). Given that holders will receive prepayments to the extent the Administrator receives same, in the event of a prepayment, holders will receive their principal payments ahead of schedule and this could adversely affect the yield to maturity on the certificates and therefore, investors' portfolio performance. Moreover, if the mortgages prepay in excess of the 3% assumed prepayment speed[19] the weighted average life of the certificates, which stands at 11.5 years, will be shortened. Based on our model, in CariCRIS' stressed scenario, when we assume a further 2% increase in the prepayment rate to 5%, the expected life contracts to 7.3 years. In this scenario, total interest payable is expected to decline by 7.1% to TT $48.6 million, effectively eliminating the excess interest spread available to absorb losses from the scheduled or projected amount of TT $24.1 million.

Further, despite the gradual improvement in economic activity, there continues to be deteriorating labour market conditions[20]. As such, as the pool seasons, investor cash flows may be increasingly exposed to unfavourable macro-economic conditions, particularly rising interest rates and unemployment levels, which can negatively impact delinquency levels on the underlying mortgages. On balance, given our outlook for marginal improvement in the economy in the years ahead, we do not expect the level of disposable income available to mortgagees to be sufficient to prepay mortgages in excess of the assumed 3% speed. Further, the high credit quality of the assets in the mortgage pool as well as their geographical diversity, combined with the good track record of TTMF in managing its NPL levels, should together serve to mitigate against the risk of increased delinquency levels in the years ahead. Given these considerations, we have assessed the CMO's market risk as moderate.

[19] *The Public Securities Association (PSA) prepayment model was developed by the Securities Industry and Financial Markets Association of the United States of America. The PSA model acknowledges that prepayment assumptions change during the life of the obligation affecting the overall yield of the mortgage portfolio. Based on the Mortgage Pool selected, the prepayment rate assumed was 50 PSA. This means 0% prepayments in month 0 with 0.10% increases each month until it peaks at 3.00% after 30 months. The principal windows are based on the expected payments from the Mortgage Pool considering this speed and as such, are subject to change based on actual mortgage receipts. The tenors can be increased when there are arrears on the portfolio or reduced when the prepayments exceed 50 PSA.*

[20] *For the 1st 6 months of 2018, real Gross Domestic Product (GDP) is estimated to have increased by 2.8% y-o-y following contractions of 1.9% and 6.5% reported for 2017 and 2016 respectively. Based on the latest official unemployment statistics available, the unemployment rate worsened to 4.8% for 2017, up from 4% a year earlier. – Source: CBTT Summary Economic Indicators (September 2018)*

<u>Rating Sensitivity Factors</u>

Factor that could lead to a lowering of the ratings and/ or Outlook include:

- Material impairment in the underlying mortgage pool leading to heightened extension and/ or default risk

December 13, 2018