S&P Global Ratings

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Presale:

Residential Mortgage Securities 30 PLC

This presale report is based on information as of June 30, 2017. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Ratings Assigned

Class	Prelim rating*	Class size (%)	Initial credit support (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	75.00	27.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
B–Dfrd	AA+ (sf)	6.00	21.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
C–Dfrd	AA (sf)	3.25	17.75	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
D–Dfrd	A (sf)	4.75	13.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
E–Dfrd	A- (sf)	3.00	10.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
F1-Dfrd	BB- (sf)	3.25	6.75†	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
F2	NR	1.75	5.00†	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
F3	NR	3.00	2.00†	Fixed rate of interest	Fixed rate of interest	September 2021	March 2050

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Preliminary Ratings Assigned (cont.)

Class	Prelim rating*	Class size (%)	Initial credit support (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
X1-Dfrd	CCC (sf)	7.00	0.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
X2	NR	1.25	0.00	Three-month LIBOR plus a margin	Three-month LIBOR plus a margin	September 2021	March 2050
Z	NR	2.00	0.00	Fixed rate of interest	Fixed rate of interest	September 2021	March 2050

*The rating on each class of securities is preliminary as of June 30, 2017 and subject to change at any time. We expect to assign final credit ratings on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Our ratings address timely receipt of interest and ultimate repayment of principal on the class A notes, and the ultimate payment of interest and principal on the other rated notes. §This is the initial credit support. †Credit enhancement provided by the reserve fund will only be available following the full redemption of the class E notes and while the class F2 notes remain outstanding. NR--Not rated. N/A--Not applicable.

Transaction Participants

Originators	Kensington Mortgage Company Ltd., Infinity Mortgages Ltd., and Money Partners Ltd.
Arranger	Citigroup Global Markets Ltd.
Joint lead managers	Citigroup Global Markets Ltd., Bank of America Merril Lynch, and The Royal Bank of Scotland PLC (trading as NatWest Markets)
Seller	Kayl PL S.a.r.l
Mortgage administrator	Kensington Mortgage Company Ltd.
Delegate mortgage administrator (following the delegate mortgage administrator migration date)	Acenden Ltd.
Delegate mortgage administrator (before the delegate mortgage administrator migration date)	Homeloan Management Ltd.
Mortgage administrator facilitator	Capita Trust Corporate Ltd.
Legal title holder	Kensington Mortgage Company Ltd.
Cash/bond administrator	Kensington Mortgage Company Ltd.
Standby cash/bond administrator	Wells Fargo Bank International
Agent bank and principal paying agent	Citibank N.A, London Branch
Trustee	Capita Trust Company Ltd.
Bank account provider	Citibank N.A, London Branch
Collection account provider	Barclays Bank PLC

Supporting Ratings

Institution/role	Ratings
Barclays Bank PLC as collection account provider	A-/Negative/A-2
Citibank N.A, London Branch* as bank account provider	A+/Stable/A-1

*Rating derived from the rating on the parent entity.

Transaction Key Features*

Expected closing date	July 2017

Transaction Key Features* (cont.)	
Collateral	U.K. nonconforming residential and buy-to-let mortgage loans
Principal outstanding of the pool (mil. £)	433.02
Country of origination	England, Scotland, and Wales
Concentration	South East and London: 36.02%
Property occupancy	Owner-occupied 94.91% and buy-to-let 5.09%
Lien	First lien 96.30% and second lien 3.70%
Weighted-average indexed current LTV ratio (%)§	58.48
Weighted-average original LTV ratio (%)	77.54
Average loan size balance (£)	83,821
Loan size range (£)	150 to 988,517
Weighted-average seasoning (months)§	136.51
Weighted-average asset life remaining (years)	11.84
Weighted-average mortgage loan interest rate (%)	5.29
Arrears > one month (%)§	26.85
Arrears > one month (including capitalized arrears) (%)§	40.33
Redemption profile	Interest-only (including part and part) 71.56% and repayment 28.44%
Initial general reserve fund†	2.0% of the class A to F3 notes' balance at closing.
Target general reserve fund	3.0% of the class A to F3 notes' balance until the class A to F2 notes are fully redeemed. Thereafter, the cash reserve target amount will be zero

*Data is based on a provisional pool as of May. 31, 2017. §Calculations are according to S&P Global Ratings' methodology. †At closing, the issuer will use the proceeds from the class Z notes and part of the proceeds of the class X2 notes to fund the initial general reserve fund. LTV--Loan-to-value.

Transaction Summary

S&P Global Ratings has assigned preliminary credit ratings to Residential Mortgage Securities 30 PLC's (RMS 30) class A to F1- Dfrd asset-backed notes and the non-asset-backed class X1- Dfrd notes. Our preliminary ratings address the timely receipt of interest and the ultimate repayment of principal on the class A notes, and the ultimate payment of interest and principal on the other rated classes of notes. At closing, RMS 30 will also issue unrated class F2, F3, X2, and Z notes.

RMS 30 is a securitization of a pool of buy-to-let and owner-occupied residential mortgage loans, to nonconforming borrowers, secured on properties in England, Scotland, and Wales.

Of the collateral pool, Kensington Mortgage Co. Ltd. (KMC) and affiliates originated 76.23% and Money Partners Ltd. originated 23.77%. The remainder is made up of an acquired loan originated by Infinity Mortgages Ltd. At closing, the issuer will purchase the portfolio from the seller (Kayl PL S.a.r.l) and will obtain the beneficial title to the mortgage loans. The majority (99.85%) of the initial pool was previously securitized in earlier Kensington transactions: Residential Mortgage Securities 21 PLC (29.81%), Residential Mortgage Securities PLC 22 (37.58%), and Money Partners Securities 4 PLC (32.47%). These transactions are to be called in the coming months, but the beneficial interest in the mortgage loans will transfer, on the closing date, to the issuer.

At closing, the issuer will use the proceeds from the class Z notes and part of the class X2 notes to fund the initial general reserve fund at 2.0% of the class A to F3 notes' balance. The target general reserve fund after closing will be 3.0% of the class A to F3 notes' closing balance until the class A to F2 notes are fully redeemed. Thereafter, the general reserve fund target amount will be zero.

There will also be a liquidity reserve, which will be funded from principal receipts if the general reserve fund amounts fall below 1.5% of the outstanding balance of the class A to F3 notes. The required balance of the liquidity reserve will be 2% of the class A notes and will amortize in line with the class A notes. Funding the liquidity reserve will not be a debit on the principal deficiency ledger (PDL). However, using the liquidity reserve to pay senior fees or the class A notes' interest will cause a debit to the PDL.

At closing, the issuer will purchase the pool as of the May 31, 2017 pool cut-off date. All amounts of interest accruing and paid for the period between the pool cut-off date and the expected closing date will form part of the issuer's available revenue funds. In addition, the servicing costs of the pool between the pool cut-off date and the expected closing date will be the liability of the issuer. In our analysis, we have projected the estimated additional revenue funds and servicing costs that will be generated by the pool in the period between the pool cut-off date and the expected closing date. Consequently, on the first interest payment date (IPD) beginning in December 2017, the issuer will benefit from an additional two months' worth of asset interest payments and will have to pay an additional two months' worth of servicing fees.

During our analysis, we were made aware of loans that have the potential for setoff arising from capitalization redress payments, in line with the Oct. 19, 2016 Financial Conduct Authority (FCA) consultation paper (GC16/6 – The fair treatment of mortgage customers in payment shortfall: Impact of automatic capitalisations). The scale of the potential setoff risk has been estimated by the mortgage administrator, KMC, using the FCA's finalised guidance (FG17/4 –The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations) which was published in April 2017. Despite the seller agreeing to make a redress payment to the issuer in line with the amount to be setoff, or repurchasing the relevant loan, in our analysis we have modelled setoff losses in line with the finalised FCA guidance. We expect this issue to be resolved and all compensation to be made to borrowers by June 2018, in line with the FCA guidance.

The notes' interest rate will be based on an index of three-month LIBOR. Within the mortgage pool, the loans are linked to either the Money Partners variable rate (MVR), the Kensington variable rate (KVR), or three-month LIBOR. There will be no swap in the transaction to cover the interest rate mismatches between the assets and liabilities.

KMC will act as mortgage administrator for all of the loans in the transaction. However, it has delegated its functions to Homeloan Management Ltd. There is also the intention under the transaction documents for KMC, in its role as mortgage administrator, to delegate the servicing function to Acenden Ltd., which we have considered in our analysis.

Our preliminary ratings reflect our assessment of the transaction's payment structure, cash flow mechanics, and the results of our cash flow analysis to assess whether the rated notes would be repaid under stress test scenarios. Subordination and the reserve fund provide credit enhancement to the notes. Taking these factors into account, we consider the available credit enhancement for the rated notes to be commensurate with the preliminary ratings that we

have assigned.

Notable Features

The collateral pool consists of U.K. nonconforming residential mortgage loans and the majority (99.85%) was previously securitized in earlier Kensington transactions (see table 1). We understand that these transactions are to be called in the coming months, but the beneficial interest in the mortgage loans will transfer, on the closing date, to the issuer.

Table 1

Previous Transaction Of Collateral

Transaction	Size of Pool (%)
Residential Mortgage Securities 21 PLC	29.81
Residential Mortgage Securities 22 PLC	37.58
Money Partners Securities 4 PLC	32.47

The portfolio has a weighted-average loan-to-value (LTV) ratio of 58.48%, and a weighted-average seasoning of 136.51 months. Of the pool, 40.33% has arrears greater than one month (including capitalized arrears).

At closing, the transaction will have an initial general reserve fund, which will be funded from the class Z notes and part of the class X2 notes. The initial amount of this fund will be 2.0% of the class A to F3 notes' closing balance. The target general reserve fund after closing will be 3.0% of the class A to F3 notes' closing balance until the class A to F2 notes are fully redeemed. Thereafter, the general reserve fund target amount will be nil. There will also be a liquidity reserve, which will be funded from principal receipts if the general reserve fund falls below 1.5% of the outstanding balance of the class A to F3 notes. The required balance of the liquidity reserve will be 2% of the class A notes and will amortize in line with the class A notes.

If there are insufficient revenue collections and the reserve fund has been fully used, the issuer may use the liquidity reserve to meet senior expenses and interest on the class A notes. If the liquidity reserve fund is depleted, principal receipts can be borrowed to meet revenue shortfalls on the most senior class of notes outstanding. Any shortfalls covered through the use of the liquidity reserve or principal receipts will result in a corresponding debit to the PDL.

The notes' interest rate will be based on an index of three-month LIBOR. Within the mortgage pool, the loans are linked to either the MVR, the KVR, or three-month LIBOR. There will be no swap in the transaction to cover the interest rate mismatches between the assets and liabilities. We have stressed for basis risk accordingly.

Under the transaction documents, the KVR and MVR interest rates are linked to three-month British pound sterling LIBOR, with a floor of 2.5% above LIBOR for the KVR loans and 1.5% above LIBOR for the MVR loans. This floor is not reflected in the underlying mortgage conditions. The minimum floor, however, can be breached by Kensington in certain circumstances. Before any reduction below the floor, Kensington will first be required to deposit to the account bank an appropriate amount to make up any potential shortfall on the assets for the quarter in which the lower KVR or MVR rates will apply. There is an obligation on the legal title holder and any replacement legal title holder to maintain the appropriate floor, should they assume responsibility for the setting of rates for KVR or MVR loans.

Strengths, Concerns, And Mitigating Factors

Strengths

- The pool is well-seasoned (the weighted-average seasoning is 136.51 months). In our view, more seasoned performing loans exhibit lower risk profiles than less seasoned loans.
- There are several mechanisms to meet revenue shortfalls in addition to the reserve fund, including the liquidity reserve. The transaction can also use principal receipts to pay interest shortfalls on the most senior class outstanding after the liquidity reserve fund has been depleted.
- On the first IPD, due to the difference between the pool cut-off date and the expected closing date, the issuer will benefit from two additional months of asset interest receipts.

Concerns and mitigating factors

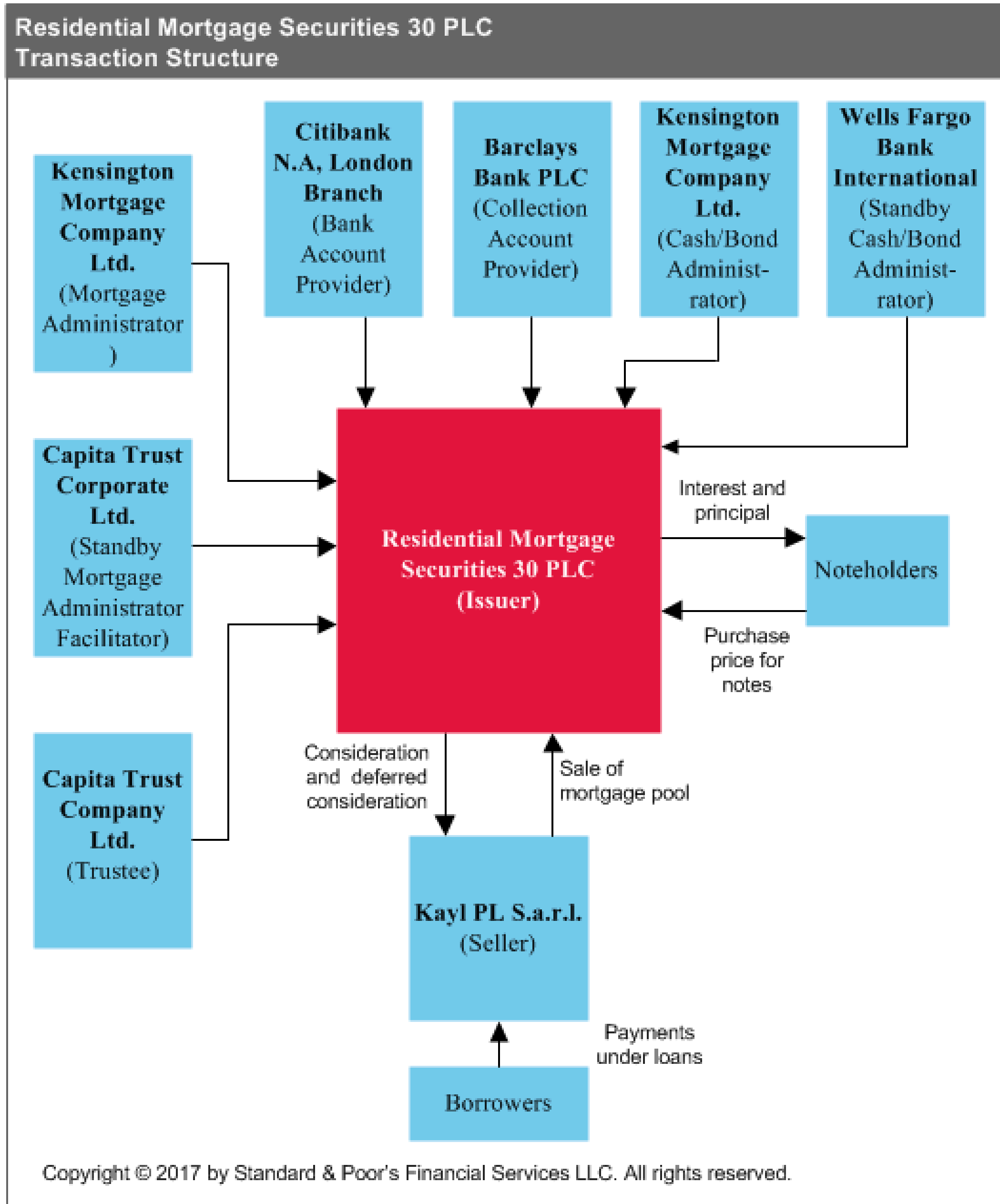
- In our analysis, we considered the potential for setoff losses arising from capitalization redress payments required to be made to borrowers in line with the April 2017 FCA finalised guidance (FG17/4 – The fair treatment of mortgage customers in payment shortfall: Impact of automatic capitalisations).
- The transaction has no swap agreement to hedge the mismatch between the interest rate paid under the loans and the interest rate paid under the notes. The transaction is therefore exposed to interest rate risk. We have stressed basis risk in our cash flow analysis.
- Of the pool, 72.50% comprises self-certified loans. Self-certified loans have historically exhibited poorer performance than otherwise similar loans. We have addressed this factor in our credit analysis.
- We consider this to be a nonconforming residential mortgage-backed securities (RMBS) transaction, primarily as 18.23% of the loans are to borrowers who have previously had at least one county court judgement and 1.86% of the pool has been declared bankrupt in the past. There are also other features that we view as being typically higher risk. We have addressed these features accordingly in our credit analysis by adjusting our weighted-average foreclosure frequency (WAFF) assumptions.
- The transaction does not have a liquidity facility. If delinquencies are high, there could be a shortfall in available revenue receipts to pay senior expenses and make interest payments to the noteholders. However, the transaction documentation permits principal receipts and a liquidity reserve to be used to pay interest shortfalls on the class A notes in addition to senior expenses and principal receipts to pay interest shortfalls on the most senior notes outstanding.
- The pool contains about 0.84% of flexible loans, for which the borrower may be entitled to request a borrow-back. If the relevant legal title holder is unable to fund a borrow-back, the borrower may be able to set off amounts payable under the loan. There is no redraw reserve in place to mitigate this risk. We have considered the potential re-draw risk in our analysis.
- At closing, 26.85% of the pool was in arrears greater than one month (40.33% when we include capitalized arrears). Furthermore, to address the potential for increasing arrears in the pool, we forecast an additional 2.38% for the next year based on historical data from the originator.
- The pool contains 1.91% of loans that will have not paid their principal balance at loan maturity. In our analysis, we treat these loans as defaulted and therefore exclude these loans from the collateral pool, and assume a recovery to be realized after 18 months.

Transaction Structure

At closing, RMS 30 will acquire the beneficial interest in the mortgage loan pool from the seller, Kayl PL. RMS 30 will

issue eight classes of notes to fund the purchase of the portfolio. At the same time, RMS 30 will issue the class X1-Dfrd, X2, and Z notes, which, among other things, it will use the proceeds from to cover the cost of issuance and to establish the initial general reserve fund.

The issuer grants security over all of its assets in favor of the security trustee (see chart 1).



Seller and portfolio administrators

KMC, a wholly owned subsidiary of The Northview Group Ltd., acts as mortgage administrator. Legal title to the mortgage loans until a perfection of title event occurs is held by KMC. KMC sub-delegates its servicing duties to

Homeloan Management Ltd. (HML), a wholly owned subsidiary of Computershare. HML has more than 25 years of experience in mortgage servicing. We rank HML as ABOVE AVERAGE for primary servicing. There is also the intention under the transaction documents for KMC, in its role as mortgage administrator, to delegate the servicing function instead to Acenden, which we have considered in our analysis. Acenden was purchased by funds managed by The Blackstone Group International Partners LLP and TPG Special Situations Partners LLC in June 2015. Acenden was previously owned by a subsidiary of an affiliate of Lehman Brothers International (Europe), which went into administration on Sept. 15, 2008. We rank Acenden as ABOVE AVERAGE for primary servicing. We are satisfied that both HML and Acenden are capable of performing their functions in the transaction should the administration of the portfolio be delegated to them. Kayl PL is the seller.

Notes Terms And Conditions

RMS 30 will pay interest quarterly on the IPDs in, December, March, June, and September of each year, beginning in December 2017. The rated notes pay interest equal to three-month sterling LIBOR plus a class-specific margin. Following the call option date (September 2021), the rated notes will pay a step-up margin of three-month sterling LIBOR plus class specific margins, which we have considered in our analysis. All of the notes reach legal final maturity in March 2050. The unrated classes F2 and X2 notes will pay interest equal to three-month sterling LIBOR plus a class-specific margin. The class F3 and Z notes are zero-coupon.

The issuer will pay interest according to the interest priority of payments. Under the transaction documents, interest payments on all classes of notes (excluding the most senior class of notes at any point in time) can be deferred. Consequently, any deferral of interest on the class B- Dfrd, C- Dfrd, D- Dfrd, E- Dfrd, F1- Dfrd and X1- Dfrd notes when these notes are not the most senior notes outstanding would not constitute an event of default. For the avoidance of doubt, nonpayment for a period of 10 business days of all accrued interest (including interest that was previously deferred) and principal on the most senior class of notes will constitute an event of default. Our preliminary ratings address the timely payment of interest and the ultimate payment of principal on the class A notes and the ultimate payment of interest and principal on the other rated notes. In our analysis, we have ensured that the rated notes pay timely senior fees and accrued interest (including interest that was previously deferred) and principal on the most senior class of notes.

Optional redemption of the notes

The issuer may redeem all of the notes at their principal amount outstanding, together with any accrued interest:

- If the notes become subject to a withholding tax;
- On any IPD once the outstanding balance of the senior notes is less than or equal to 20%; or
- On any IPD on or after the call option date (September 2021).

Mandatory redemption of the notes

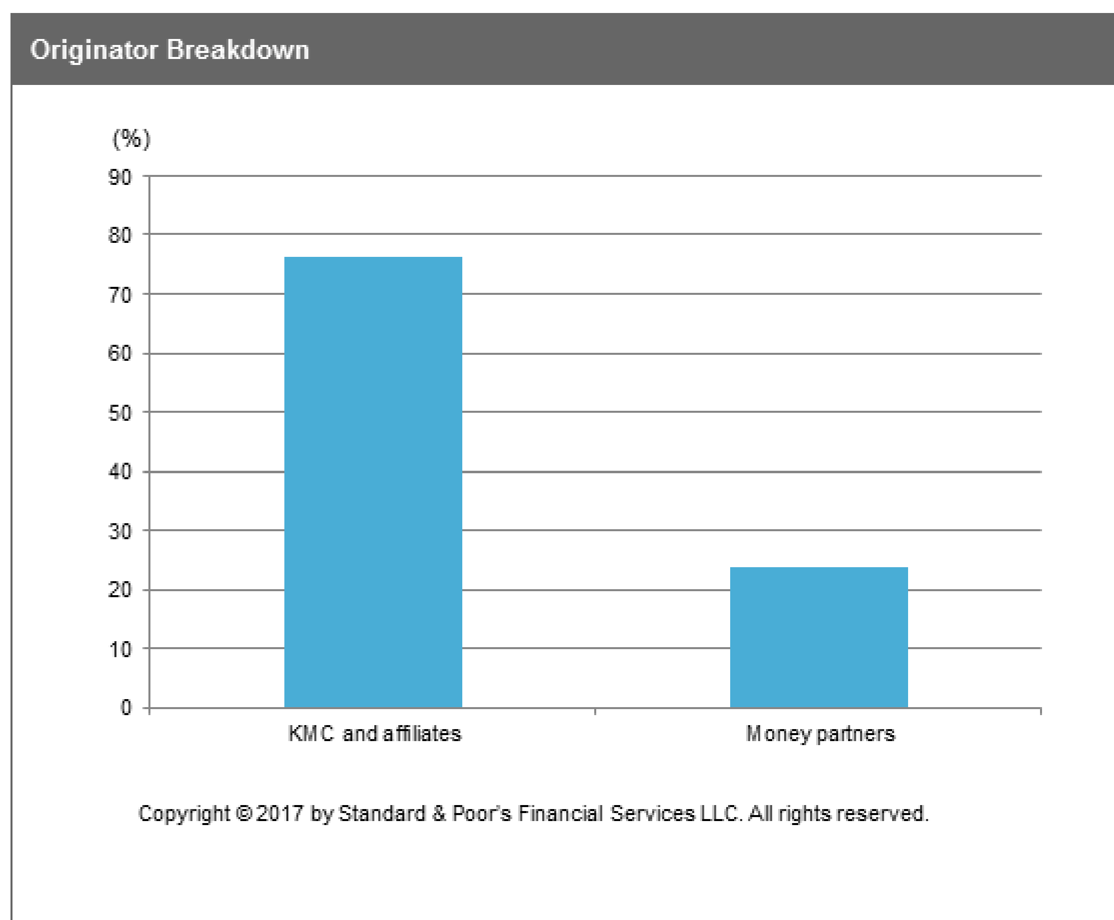
The issuer will apply available principal receipts to redeem the notes on each IPD, subject to the principal priority of payments.

Collateral Description

As of the cut-off date on May 31, 2017, the provisional mortgage loan pool of £433,017,655 comprised 5,166 loans secured against properties in England, Scotland, and Wales. The collateralized balance of each loan includes the balance of any arrears on a loan as well as the outstanding principal balance at the closing date. Any subsequent arrears incurred by the borrower post-closing will not, from a transaction perspective, be capitalized. In terms of cash flows, any payments made by borrowers to cure arrears will form part of available principal receipts to the extent they have an arrears balance at closing.

KMC and affiliates originated 76.23% of the loans in the pool and Money Partners originated 23.77% (see chart 2). The remainder is made up of the acquired loan from Infinity Mortgages. About 94.91% of the initial pool consists of loans secured against owner-occupied properties, with 5.09% as buy-to-let mortgage loans (see chart 4).

Chart 2



Other features of the provisional pool include the following:

- For loans where the purpose was a remortgage (64.75%), based on the information provided, we have assumed that the purpose for these loans was for equity release.

- Currently, the provisional pool has 40.33% arrears, which includes capitalized arrears. Given the high levels of delinquencies in the portfolio, we have also incorporated into our analysis an arrears projection of our expected arrears on the pool within the next year. We determine this projection based on the borrower's historical arrears performance and the level of loans that have restructuring arrangement in conjunction with the macroeconomic environment.
- The provisional pool comprises approximately 72.50% of self-certified loans and 14.59% of loans to first-time buyers, which are more likely to exhibit a higher historical default probability than otherwise-similar loans, in our view. Nevertheless, these adjustments are partially mitigated by the seasoning of the provisional pool. As shown in chart 3, the weighted-average seasoning is 136.51 months and we consider risk associated with self-certified loans or loans to first-time buyers to diminish as seasoning increases, as long as the loan is not in arrears.

Chart 3

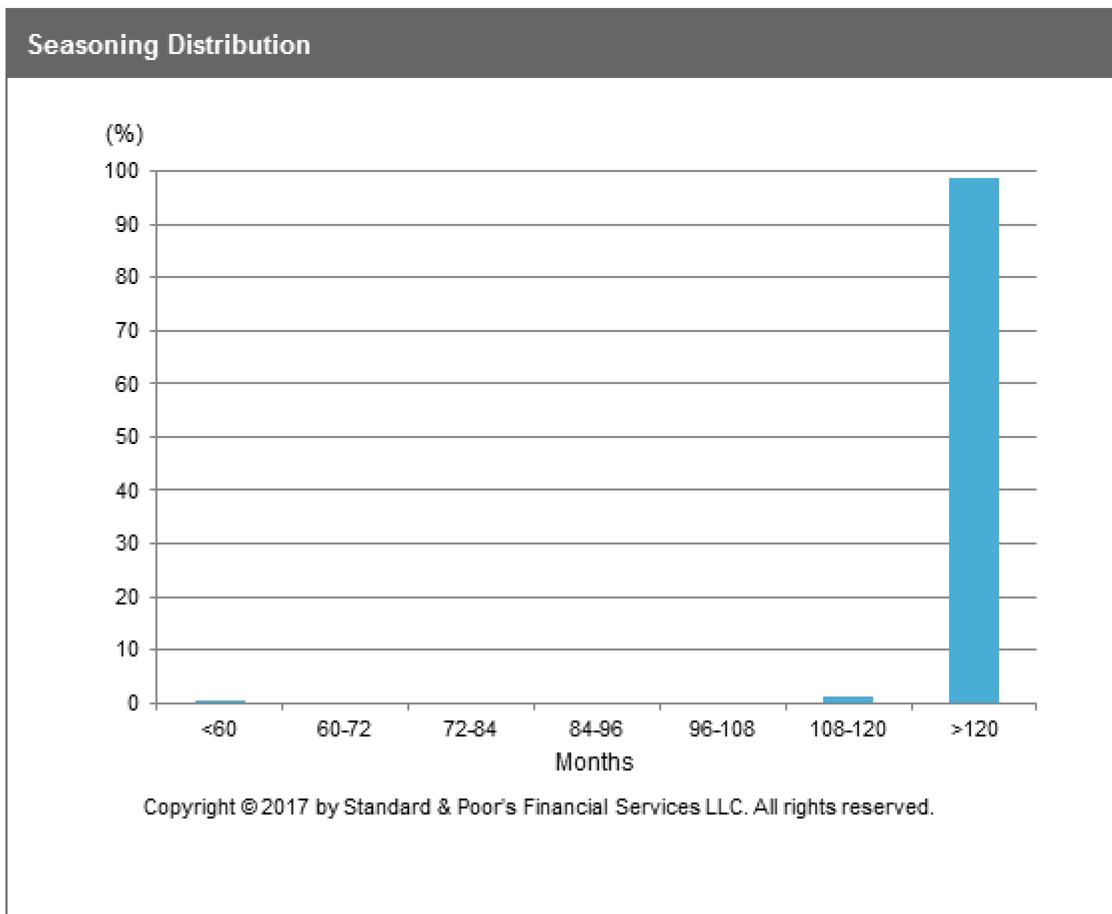
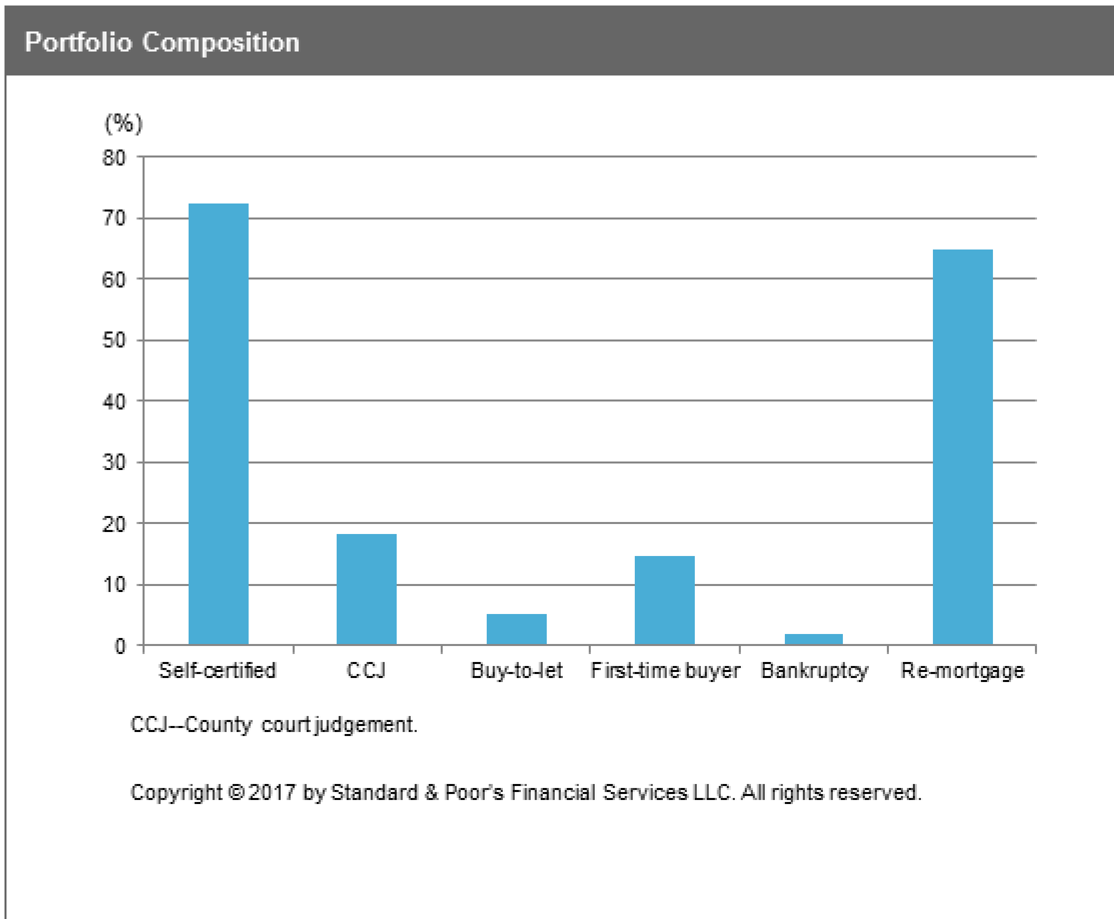
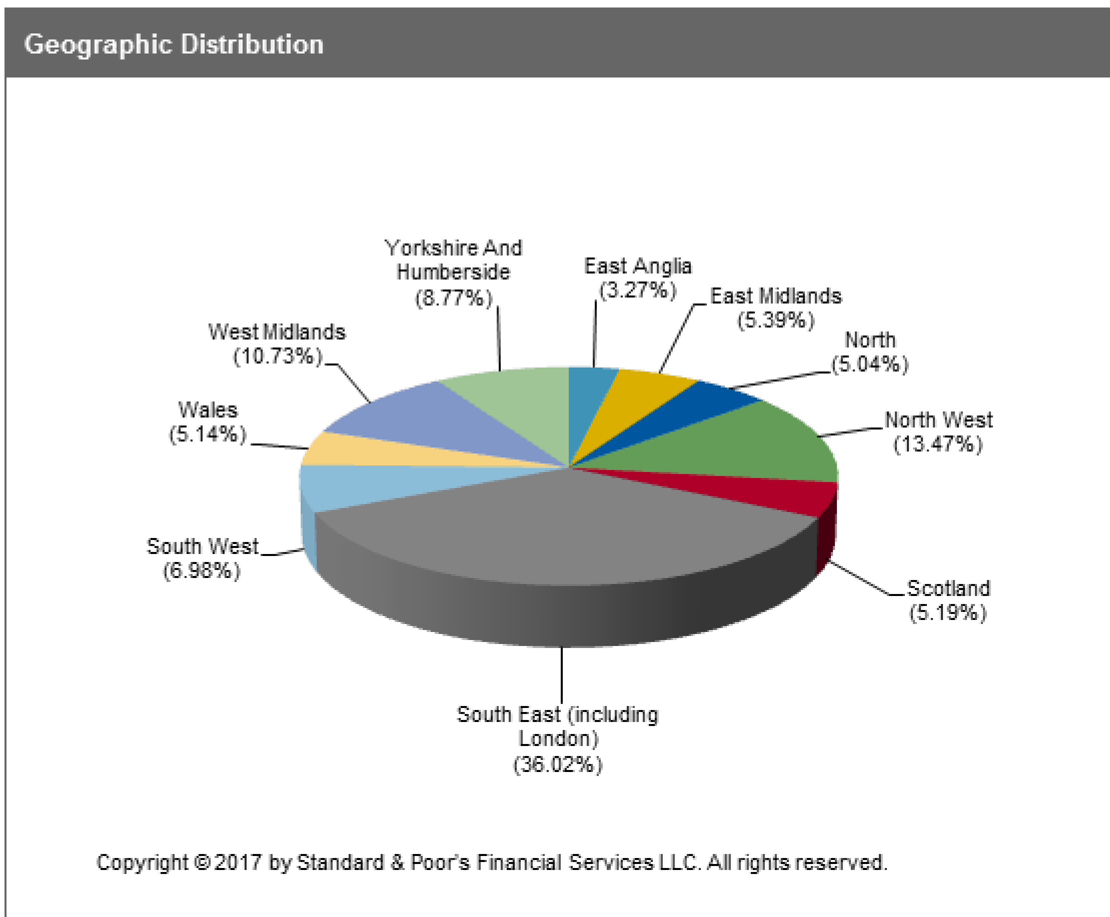


Chart 4



The provisional pool is mainly concentrated in South East England and London (36.02%; see chart 5). However, this concentration is below the level that we consider to be excessive, and we have therefore made no further adjustment for this in our analysis.

Chart 5



The weighted-average original indexed LTV ratio of the provisional collateral pool is 77.54% (see chart 7), as calculated using our European residential loans criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016). We consider that borrowers with minimal equity in their property are less likely to be able to refinance, and are more likely to default on their obligations than borrowers with lower current indexed LTV ratio loans. At the same time, loans with current indexed high LTV ratios are likely to incur greater loss severities if the borrower defaults. Of the pool, 3.70% exhibits a current indexed LTV ratio between 90% and 100%, and 0.32% have a current indexed LTV ratio greater than 100%. The weighted-average current LTV ratio is 58.48%.

Chart 6

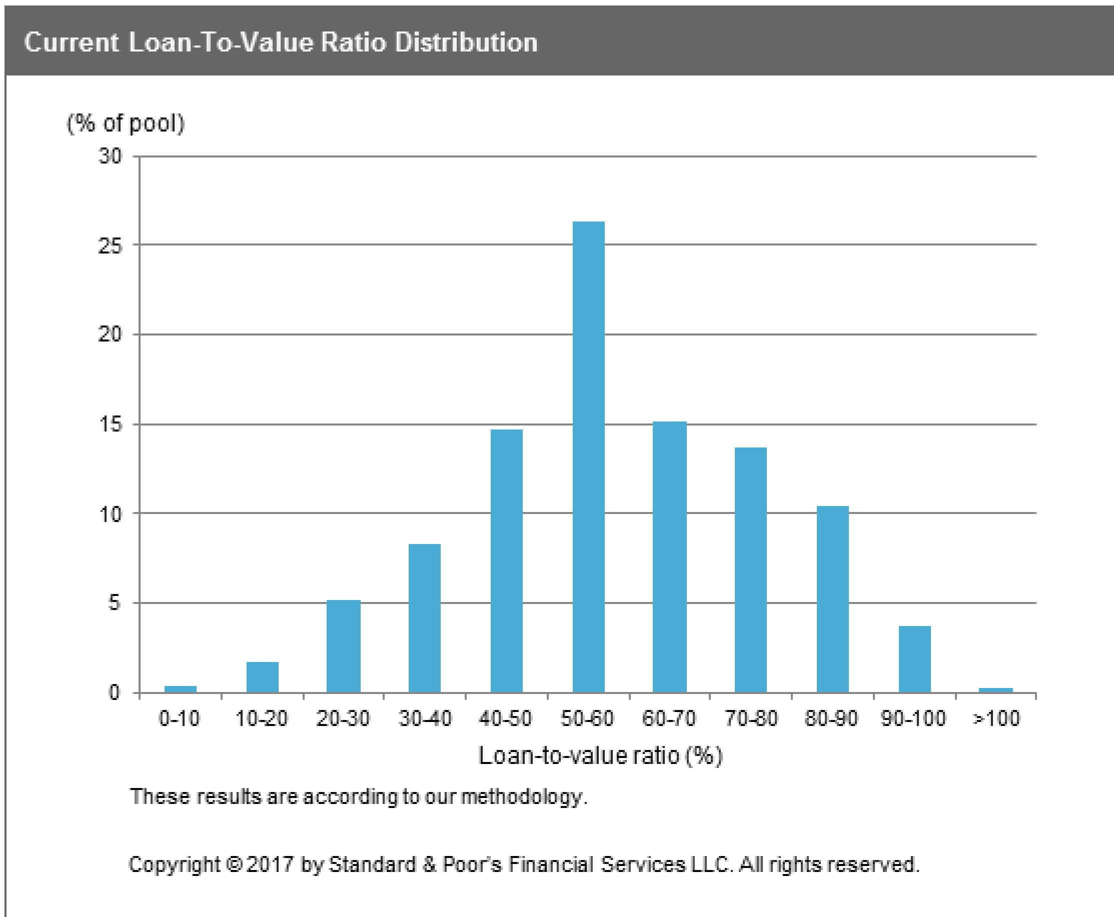
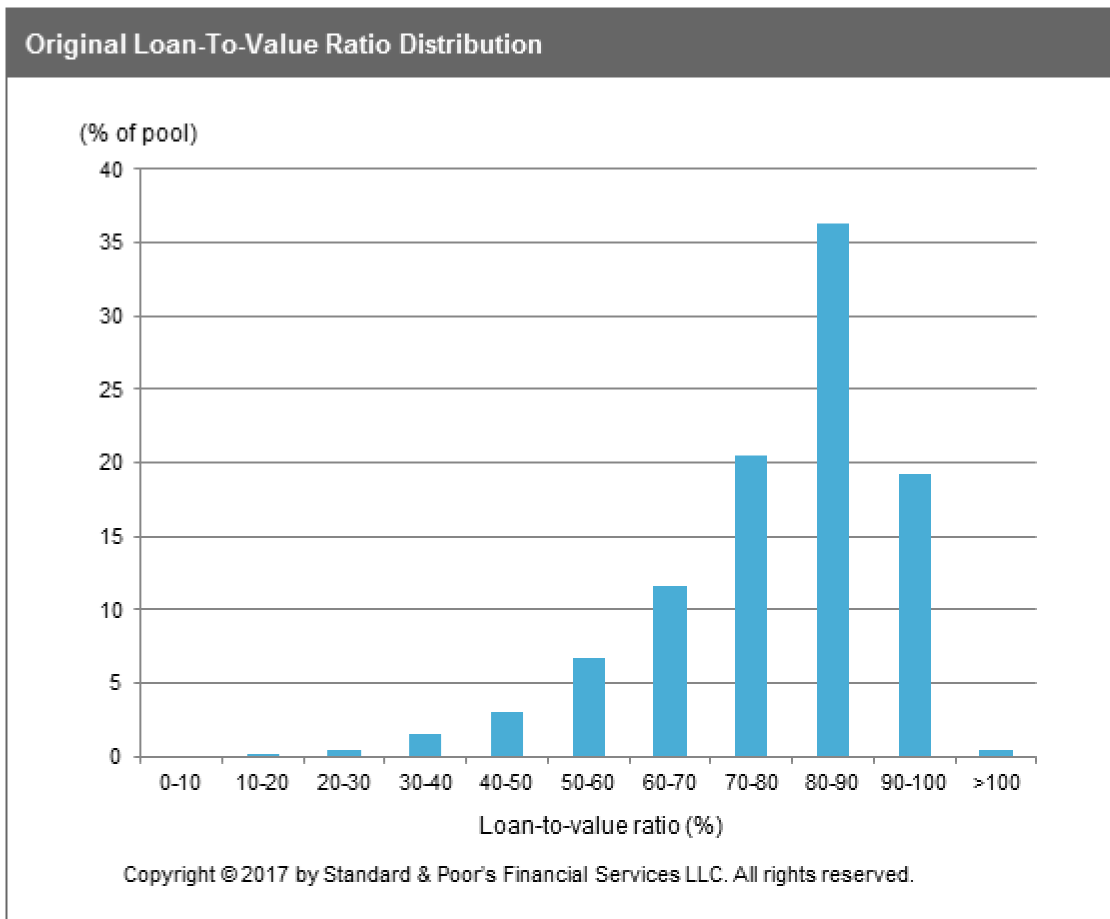
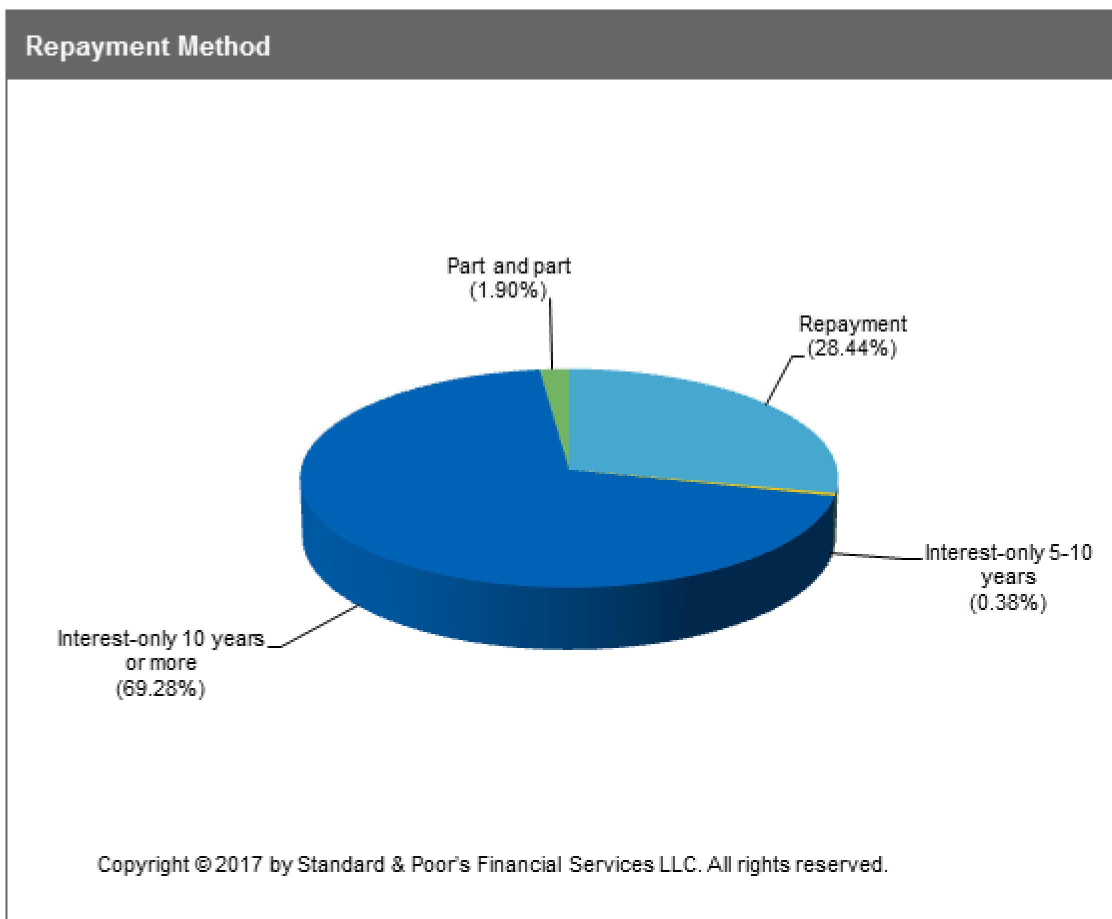


Chart 7



Of the provisional portfolio, 28.44% are repayment mortgage loans, and 71.56% comprises interest-only loans (see chart 8).

Chart 8



Currently, the vast majority (99.94%) of the loans in the provisional pool are currently paying a floating rate of interest. The remainder pays a fixed rate with a future switch to a floating rate. Of the provisional pool, 75.55% pays KVR, 23.77% pays MVR, 0.62% pays three-month LIBOR, and 0.06% pays a fixed rate of interest reverting to three-month LIBOR.

Repurchase of the loans

The seller would repurchase the affected loans if:

- The servicer identifies a loan as breaching the seller's asset representations and warranties;
- The borrower is granted a further advance;
- The borrower chooses to switch mortgage products; or
- The borrower "ports" (substitutes) the underlying security attached to the mortgage.

If, as a result of redraws, the available principal fund is less than zero, the seller shall repurchase some loans to ensure that the available principal fund no longer has a negative balance.

The seller also has the option to repurchase loans that may be due compensation under the FCA's capitalizations redress program.

Credit Structure

A combination of subordination, the reserve fund, and excess spread on the mortgage loans provides credit support for the notes (see table 2).

Table 2

Credit Support For The Rated Notes

Class	Preliminary rating	Size of class (%)	Initial credit support (%)
A	AAA (sf)	75.00	27.00
B- Dfrd	AA+ (sf)	6.00	21.00
C- Dfrd	AA (sf)	3.25	17.75
D- Dfrd	A (sf)	4.75	13.00
E- Dfrd	A- (sf)	3.00	10.00
F1- Dfrd	BB- (sf)	3.25	6.75*
X1- Dfrd	CCC (sf)	7.00	0.00

*Credit enhancement provided by the reserve fund will only be available following the full redemption of the class E- Dfrd notes and while the class F2 notes remain outstanding.

RMS 30 will open a bank account with Citibank N.A., London Branch (the rating on which is derived from our rating on the parent entity; A+/Stable/A-1).

Accounts are subject to the transaction documents' terms. The transaction documents specify that the issuer must take remedial actions, including the replacement of Citibank, London Branch as bank account provider by a suitably rated financial institution, if:

- At any time, we lower our long-term issuer credit rating (ICR) on the account bank (in this case, Citibank, London Branch) below 'A', where the short-term rating is at least 'A-1'; or
- We lower our long-term ICR on the account bank below 'A+', if it does not have a short-term rating.

Borrowers pay into collection accounts held with Barclays Bank PLC, in KMC's name. While the administration of the portfolio is held by HML, there is just one collection account into which borrowers make their payments. All amounts in the collection account are transferred to the account bank at the end of each business day. After the change to Acenden there will three collection accounts: The main collection account (direct debits and standing orders), the F collection account (cash and check payments), and the R collection account (card payments). The F and R collection account payments are swept to the main collection account within a day of being received. The transaction documents will establish a declaration of trust over any amounts in the collection accounts. The transaction documents will specify that the issuer must take remedial actions, including the replacement of Barclays Bank as collection account provider with a suitably rated financial institution, if:

- Our long-term ICR on the collection bank account provider (Barclays Bank) falls below 'BBB', where the short-term rating is at least 'A-2'; or
- Our long-term ICR on the collection bank account provider falls below 'BBB+', if it does not have a short-term rating.

There are no counterparty constraints on the ratings of the notes in this transaction. The replacement language in the documentation is line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013.

General reserve fund

At closing, the issuer will use the proceeds from the class Z notes and part of the class X2 notes will fund the initial general reserve fund to 2.0% of the class A to F3 notes' balance. The target general reserve fund after closing will be 3.0% of the class A to F3 notes' closing balance until the A to F2 notes are fully redeemed. Thereafter, the general reserve fund target amount will be zero.

The reserve fund is topped up from available revenue above the class F1- Dfrd notes' PDL in the interest priority of payments until the class E notes have been redeemed, after which it will be topped up below the payment of the class F2 notes' interest.

Liquidity reserve

Should the size of the reserve fund fall below 1.5% of outstanding balance of the class A to F3 notes then a liquidity reserve will be funded, through principal receipts, to 2% of the current balance of the class A notes. The use of principal to fund the liquidity reserve does not book a PDL, but any drawings on the liquidity reserve will result in a PDL being booked.

The issuer can only use the liquidity reserve to pay senior fees or interest on the class A notes, and only after all of the reserve fund has been used.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses on the transaction, whereby the issuer would not have sufficient revenue receipts to pay interest due on senior fees or the most senior class of notes. To mitigate this risk--and if there is no balance in the liquidity reserve or the reserve fund--the issuer can use any existing principal receipts to cover interest shortfalls on the most senior class of notes, in addition to senior expenses. The use of principal to pay interest would result in the registering of a PDL and may reduce the credit enhancement available to the notes.

Principal deficiency ledgers

The PDL will comprise eight subledgers, one for each of the rated asset-backed class of notes and the class F2 and F3 notes (i.e., each of the collateralized classes of notes).

Amounts will be recorded on the PDL if the portfolio suffers any losses, if the transaction uses principal as available revenue receipts, or if any drawings are made on the liquidity reserve.

PDL amounts will first be recorded in the class F3 notes' PDL up to the class F3 notes' collateralized outstanding amount. The amounts will then be debited sequentially upward.

Revenue priority of payments

The revenue priority of payments will be as follows:

- Senior fees;

- Issuer profit amount;
- Interest on the class A notes;
- The reduction of the class A notes' PDL to zero;
- Interest on the class B- Dfrd notes;
- The reduction of the class B- Dfrd notes' PDL to zero;
- Interest on the class C- Dfrd notes;
- The reduction of the class C- Dfrd notes' PDL to zero;
- Interest on the class D- Dfrd notes;
- The reduction of the class D- Dfrd notes' PDL to zero;
- Interest on the class E- Dfrd notes;
- The reduction of the class E- Dfrd notes' PDL to zero;
- Replenishment of the reserve fund (until the class E- Dfrd notes are repaid in full);
- The reduction of the class F1- Dfrd notes' PDL to zero;
- The reduction of the class F2 notes' PDL to zero;
- The reduction of the class F3 notes' PDL to zero;
- Interest on the class F1- Dfrd notes;
- Interest on the class F2 notes;
- Replenishment of the reserve fund (after the class E- Dfrd notes are repaid in full and until the class F2 notes are repaid in full);
- Subordinated servicer fees;
- Interest on the class X1- Dfrd notes;
- Principal to the class X1- Dfrd notes;
- Interest on the class X2 notes;
- Principal to the class X2 notes;
- Principal on the class Z notes; and
- Excess spread.

Principal priority of payments

- Liquidity reserve fund up to the required amount;
- To pay senior fees and interest on the most senior class of notes;
- Class A notes' principal;
- Class B- Dfrd notes' principal;
- Class C- Dfrd notes' principal;
- Class D- Dfrd notes' principal;
- Class E- Dfrd notes' principal;
- Class F1- Dfrd notes' principal;
- Class F2 notes' principal;
- Class X1- Dfrd notes' principal;
- Class X2 notes' principal;
- Class F3 notes' principal; and
- Excess amounts to the revenue waterfall.

Hedging risk

At closing, all but three loans in the provisional pool pay interest based on a floating rate. The fixed-rate loans will revert to three-month sterling LIBOR before the end of March 2020. The floating-rate loans reference (or are linked to) three index types: 0.62% LIBOR (including the fixed-rate loan which reverts to LIBOR); 23.77% MVR; and 75.55%

KVR. The class A, B- Dfrd, C- Dfrd, D- Dfrd, E- Dfrd, F1- Dfrd, F2, X1- Dfrd, and X2 notes will pay interest based on three-month LIBOR. The class F3 and Z notes are zero-coupon.

The transaction does not have a basis risk swap in place. Therefore, the portion of the provisional pool that is linked to LIBOR (including the loans which are currently fixed but revert to LIBOR, as well as the KVR and MVR loans that are linked to LIBOR) will be exposed to basis risk. For the LIBOR-linked loans, this risk arises as the LIBOR on the notes resets three months before the IPD, while the assets reset on the penultimate business days of February, May, August, and November, resulting in a weighted-average 21-day mismatch. We have considered these risks in our analysis.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. We have taken this into account in our cash flow analysis.

Flexible loans

The pool contains about 0.84% of flexible loans, for which the borrower may be entitled to request a borrow-back to the extent that they have made overpayments in the past, subject to various conditions. If the legal title holder is unable to fund a borrow-back, the borrower may be able to exercise an equitable right of setoff. We have considered the potential redraw risk in our analysis.

Credit And Cash Flow Analysis

We stress the transaction's cash flows to test the credit and liquidity support that the assets, subordinated tranches, and cash reserve provide.

We apply these stresses to the cash flows at all relevant rating levels. In our stresses on the class A notes, all notes must pay full and timely principal and interest. Our ratings on the asset-backed class B- Dfrd to F1- Dfrd notes and the non-asset-backed X1– Dfrd notes address the payment ultimate principal and interest.

Credit enhancement

The 'B' credit enhancement level for the standard U.K. mortgage loan pool in our European residential loans criteria is commensurate with our current assumptions of expected losses on that pool. These expected losses vary according to changes in the outlook for the U.K. mortgage market and cover macroeconomic factors such as unemployment, inflation, and current mortgage performance, among other factors. The current 'B' level of credit enhancement includes a foreclosure frequency component for the standard U.K. mortgage loan pool (see table 3). We used the assumptions in table 3 as part of our credit analysis of the underlying assets in this transaction.

Table 3

Assumptions

Rating level	Base foreclosure frequency component for an archetypical U.K. mortgage loan pool (%)
AAA	12.00
AA	8.00
A	6.00
BBB	4.00
BB	2.00

Table 3

Assumptions (cont.)	
Rating level	**Base foreclosure frequency component for an archetypical U.K. mortgage loan pool (%)**
B	1.50

Default and recovery amounts

We model the foreclosure frequency for each loan in the pool, as well as the loss amount upon the property's subsequent sale (the loss severity, expressed as a percentage of the outstanding loan). We model a default of the total mortgage loan balance. We determine the total amount of the unrecovered defaulted balance for the entire pool by calculating the WAFF and the weighted-average loan severity (WALS). When comparing the minimum credit enhancement levels that we consider commensurate with each rating level with that of this pool, we also included interest foregone between the point of default and the receipt of recoveries (see table 4).

Table 4

Assumptions		
Rating level	**Minimum credit enhancement level (%)**	**Initial credit enhancement modeled for this pool (%)**
AAA	4.0	31.75
AA	2.5	24.42
A	1.5	15.50
BBB	1.0	10.78

The WAFF and the WALS assumptions increase in tandem with the rating level because notes with a higher rating should be able to withstand a higher level of mortgage default and loss severity. We base our credit analysis on the loans and the associated borrowers' characteristics, as well as our subsequent assessment of the portfolio's WAFF and WALS, which were the inputs we used in our cash flow analysis (see table 5).

Table 5

Portfolio WAFF, WALS, And Credit Enhancement		
Rating level	**WAFF (%)**	**WALS (%)**
AAA	54.37	37.73
AA	49.00	29.98
A	41.96	19.02
BBB	36.51	13.33

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loan severity.

For modeling purposes, the repossession market value declines we apply in accordance with our European residential loans criteria to calculate the loss severity incorporate our calculation of the degree of over- or under-valuation for each specific region of the U.K. Table 6 shows the resulting market value declines that we used in our analysis of this pool.

Table 6

Repossession Market Value Declines At 'AAA', 'AA', And 'A' Rating Levels				
Region	**AAA (%)**	**AA (%)**	**A (%)**	**BBB (%)**
East Anglia	59.68	54.67	46.27	40.94

Table 6

Repossession Market Value Declines At 'AAA', 'AA', And 'A' Rating Levels (cont.)

Region	AAA (%)	AA (%)	A (%)	BBB (%)
East Midlands	54.11	49.94	42.35	37.71
North	46.88	43.78	37.26	33.52
North West	50.23	46.64	39.62	35.46
Northern Ireland	43.85	40.91	34.54	30.93
Scotland	44.76	41.81	35.43	31.81
South East (including London)	73.88	66.75	56.27	49.18
South West	59.82	54.79	46.37	41.03
Wales	50.73	47.06	39.97	35.75
West Midlands	52.11	48.23	40.94	36.55
Yorkshire and Humberside	45.90	42.94	36.55	32.92

Default timings

At each rating level, the WAFF specifies the total balance of the mortgage loans we assume to default over the transaction's life. We model these defaults to occur over a three-year recession. Further, we test the effect of the timing of this recession on the ability to repay the liabilities by starting the recessionary period at closing, year one, year two, and year three.

We applied the WAFF to the principal balance outstanding at closing. We model defaults to occur periodically, in amounts calculated as a percentage of the WAFF. The timing of defaults follows two paths, referred to as "front-loaded" and "back-loaded" (see table 7).

Table 7

Default Timings For Front-Loaded And Back-Loaded Default Curves

Recession month	Front-loaded defaults (percentage of WAFF per month)	Back-loaded defaults (percentage of WAFF per month)
1–6	5.0	0.8
7–12	5.0	0.8
13–18	3.3	1.7
19–24	1.7	3.3
25–30	0.8	5.0
31–36	0.8	5.0

WAFF--Weighted-average foreclosure frequency.

Recovery timings

We assume that the issuer regains any recoveries 18 months after a payment default for owner-occupied properties, and 12 months for buy-to-let properties. The value of recoveries at each rating level is 100%, minus the WALS for that rating level.

We base the WALS that we use in our cash flow model on principal losses, including foreclosure costs. We do not give credit to the recovery of any interest accrued on the mortgage loans during the foreclosure period. After we apply the WAFF to the balance of the mortgage loans, we find that the asset balance is likely to be lower than that of the

liabilities. Our test shows that the interest reduction caused by the defaulted mortgage loans during the foreclosure period is accounted for by the other structural mechanisms of the transaction.

Delinquencies

We model the liquidity stress that results from short-term delinquencies (those mortgage loans that cease to pay for a period of time, but then recover and become current with respect to both interest and principal). To simulate the effect of delinquencies, we model a proportion of scheduled collections equal to one-third of the WAFF to be delayed. We apply this in each of the first 18 months of the recession, and model full recovery of these delinquencies to occur 36 months after they arise. Therefore, if the total scheduled collateral collections expected to be received is £1 million and the WAFF is 30% in month five of the recession, £100,000 (one-third of the WAFF) is delayed until month 41.

Interest and prepayment rates

We model four different interest rate scenarios—up, down, up-down, and down-up.

We model three prepayment scenarios at all rating levels—high, low, and forecast. For this transaction, we modeled the forecast constant payment rate as 7.65%. During the recessionary period, we model the prepayment rate at 3%, before gradually reverting to a high prepayment rate under both scenarios. At the 'AA' level and above, we model an additional low prepayment scenario, which also reverts to a low prepayment rate after the recession period.

In combination, the default timings, recession timings, interest rates, and prepayment rates described above give rise to 240 different scenarios at a 'AAA' rating level (see table 8). The ratings we assign mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the assigned rating level.

Table 8

RMBS Stress Scenarios

Rating level	Total number of scenarios	Prepayment rate	Recession start	Interest rate	Default timing
'AAA'	96	High, expected, and low	Closing, years 1, 2, and 3.	Up, down, up-down, and down-up,	Front-loaded and back-loaded
'AA-' and below	64	High and forecast	Closing, years 1, 2, and 3.	Up, down, up-down, and down-up	Front-loaded and back-loaded

Class X1– Dfrd Notes

The class X1– Dfrd notes will not be supported by any subordination or the general reserve fund. In our analysis, the class X1– Dfrd notes are unable to withstand the stresses we apply at our 'B' rating level. Consequently, we consider that there is a one-in-two chance of a default on the class X1– Dfrd notes and that these notes are reliant upon favorable business conditions to redeem.

Scenario Analysis

Various factors could lead us to lower our ratings on the notes, such as increasing foreclosure rates in the underlying pool, and changes in the pool composition. We have analyzed the effect of increased delinquencies by testing the sensitivity of the ratings to two different levels of movements.

Increasing levels of delinquencies will likely cause more stress to a transaction, and would likely contribute to downgrades of rated notes.

In our analysis, our assumptions for increased delinquencies are specific to a transaction, although these levels may be similar (or the same) across different transactions. The levels do not reflect any views as to whether these deteriorations will materialize in the future. However, our analysis already incorporates additional adjustments to the pool's default probability by projecting buckets of expected arrears.

Even under these scenarios, structural features in securitizations may mitigate these deteriorations in performance.

Further delinquencies of 16%

In the first scenario, in addition to the rating-dependent stress assumptions, we apply a further 16% increase in nonperforming loans. These are split equally between the one-month and three-month buckets. In the second scenario, we apply an increase of 16%, but all the loans are deemed to have missed three monthly payments. The default probability we assign to a loan increases in tandem with the monthly payments missed. As a consequence, assuming that all loans have missed three monthly payments, the increase in the WAFF would be greater in the second scenario.

Tables 9 and 10 summarize the results of assuming increasing levels of delinquencies.

Table 9

Assuming An Additional 16% Of Arrears, Split Equally Between One Monthly Payment And Three Monthly Payments

Rating on the notes	WAFF (%)	WALS (%)
AAA	64.37	37.73
AA	57.00	29.98
A	47.56	19.02
BBB	41.71	13.33

Table 10

Assuming An Additional 16% Of Arrears, All Of Which Have Missed Three Monthly Payments

Rating on the notes	WAFF (%)	WALS (%)
AAA	70.37	37.73
AA	61.00	29.98
A	49.96	19.02
BBB	44.51	13.33

Under our scenario analysis, the ratings on the notes in the transaction would not suffer a ratings transition of more than one category (for example, the 'AAA (sf)' rated notes would achieve a rating of at least 'AA (sf)').

We based our analysis above on a simplified assumption, i.e., that the increase in arrears materialized immediately on the day after closing. In reality, these are likely to occur over a period of time. Therefore, other factors, such as seasoning or repayments of some loans, could partially mitigate the effect of deteriorating performance of other loans.

Sectoral Credit Highlights

The U.K. government triggered Article 50 on March 29, 2017, starting two years of arduous negotiations with the EU on the terms of the exit and the future relationship between the two.

After exhibiting resilience following the Brexit vote with an overall GDP growth of 1.8% in 2016, real GDP growth fell to 0.2% in Q1 2017 from 0.6% quarter-on-quarter, driven primarily by a reduction of consumer spending following an erosion of purchasing power caused by the depreciation of sterling. We have revised our GDP growth forecast for 2017 to 1.7% from 1.4% earlier, mainly reflecting a 1.0% carryover from 2016. Higher inflation, which we expect to average 2.6% this year, is likely to squeeze household budgets. Investment activity will probably be weak while uncertainty surrounding the U.K.'s EU exit persists. Net external trade won't be able to fully compensate for the loss in domestic activity, despite the favorable exchange rate.

Unemployment decreased to a record low of 4.6% from 4.8% in Q4 2016. Although we continue to expect an increase through 2017 and 2018, we have revised our forecast to 5.1% and 5.4%, respectively, in light of the better-than-expected job market performance.

On April 28, 2017, we affirmed our unsolicited 'AA/A-1+' long- and short-term foreign and local currency sovereign credit ratings on the United Kingdom, the outlook remains negative (see "Ratings On The United Kingdom Affirmed At 'AA/A-1+'; Outlook Remains Negative"). Our negative outlook reflects the continued institutional and economic uncertainty surrounding Brexit negotiations, and what arrangements will emerge post-departure.

The collateral performance of transactions in our nonconforming RMBS index continued to improve in Q1 2017, while overall and severe delinquencies remained stable quarter-on-quarter in our prime and buy-to let (BTL) index (see "U.K. RMBS Index Report Q1 2017," published on June 1, 2017).

Quarter-on-quarter, the constant prepayment rate in our prime index decreased by 140 basis points (bps) and increased by 70 bps in our BTL index. The prepayment rate in the nonconforming index remained stable.

Halifax reported lower quarterly house price growth of 0.1% in Q1 2017, compared with a house price growth of 2.5% in Q4 2016. That said, Nationwide reported a higher quarterly house price growth of 1.1%. Both Halifax and Nationwide report a softer annual growth of 3.8% and 3.5%, respectively. We expect house price growth to slow to 2.0% in 2017 and remain flat in 2018 (see "Europe's Housing Markets Continue To Recover Amid Extended QE," published on Feb. 15, 2017).

Surveillance

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that any material changes in the servicer's operations are communicated and assessed.

The key performance indicators in the surveillance of this transaction are:

- Increases in credit enhancement for the notes;
- Total and 90-day delinquencies;
- Size of redress required to be made as a result of the FCA's capitalization redress program;
- Cumulative realized losses;
- LTV ratios;
- Constant prepayment rates; and
- Increases in the seasoning of the collateral pool.

Related Criteria

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Dec. 23, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
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- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
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- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- U.K. RMBS Index Report Q1 2017, June 1, 2017
- Ratings On The United Kingdom Affirmed At 'AA/A-1+'; Outlook Remains Negative, April 28, 2017
- European Economic Snapshots: Resilience Despite Political Risk, Feb. 28, 2017
- Europe's Housing Markets Continue To Recover Amid Extended QE, Feb. 15, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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