

Research

New Issue: Canada Square Funding 2021-1 PLC

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Related Research

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Ratings Detail

Ratings							
Class	Rating*	Class size (%)§	Credit enhancement (%)	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	88.50	11.50	SONIA plus 0.95%	SONIA plus 1.66%	Dec. 17, 2025	June 2058
B-Dfrd	AA- (sf)	6.00	5.50	SONIA plus 1.50%	SONIA plus 2.50%	Dec. 17, 2025	June 2058
C-Dfrd	A (sf)	2.75	2.75	SONIA plus 1.80%	SONIA plus 2.80%	Dec. 17, 2025	June 2058
D-Dfrd	BBB (sf)	1.50	1.25	SONIA plus 2.10%	SONIA plus 3.10%	Dec. 17, 2025	June 2058
E-Dfrd	BB+ (sf)	1.25	0.00	SONIA plus 2.30%	SONIA plus 3.30%	Dec. 17, 2025	June 2058
X-Dfrd	B+ (sf)	4.00	N/A	SONIA plus 4.00%	SONIA plus 4.00%	Dec. 17, 2025	June 2058
VRR loan note	NR	5.00	N/A	N/A	N/A	Dec. 17, 2025	June 2058
S1 certificates	NR	N/A	N/A	0.09%	N/A	Dec. 17, 2025	June 2058
S2 certificates	NR	N/A	N/A	N/A	N/A	Dec. 17, 2025	June 2058
Y certificates	NR	N/A	N/A	N/A	N/A	Dec. 17, 2025	June 2058

*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. The mezzanine and junior rated tranches pay timely interest once they become the most senior notes outstanding. §As a percentage of 95% of the pool for the class A to X-Dfrd notes. SONIA--Sterling Over Night Index Average. NR--Not rated. N/A--Not applicable. VRR--Vertical risk retention.

Transaction Summary

- S&P Global Ratings has assigned ratings to Canada Square Funding 2021-1 PLC's (CSF 2021-1) class A notes, class B-Dfrd to X-Dfrd interest deferrable notes. CSF 2021-1 is a static RMBS transaction that securitizes a portfolio of £244.6 million buy-to-let (BTL) mortgage loans secured on properties located in the U.K. The loans in the pool were originated by Fleet Mortgages Ltd. (53.4%), Landbay Partners Ltd. (34.2%), Topaz Funding Limited (under the brand name Zephyr Homeloans) (9.5%), and Hey Habito Ltd. (2.9%). All loans were originated between December 2019 and January 2021.
- At closing, the issuer used the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller. The issuer granted security over all of its assets in favor of the security trustee.
- In terms of collateral and the structural features, this transaction is very similar to Canada Square Funding 2020-2, to which we assigned ratings in July 2020.
- Of the pool, only six loans of the mortgage loans have been granted payment holidays due to COVID-19.
- Citibank, N.A., London Branch, retains an economic interest in the transaction in the form of a vertical risk retention (VRR) loan note accounting for 5% of the pool balance at closing. The remaining 95% of the pool was funded

through the proceeds of the mortgage-backed rated notes.

- We consider the collateral to be prime, based on the overall historical performance of Fleet Mortgages', Landbay Partners', Zephyr Homeloans', and Habito's respective BTL residential mortgage books as of February 2021, the originators' conservative lending criteria, and the absence of loans in arrears in the securitized pool.
- Credit enhancement for the rated notes consists of subordination from the closing date and overcollateralization, which will result from the release of the liquidity reserve excess amount to the principal priority of payments.
- The class A notes benefit from liquidity support in the form of a liquidity reserve, and the class A and B-Dfrd through E-Dfrd notes benefit from the ability of principal to be used to pay interest, provided that, in the case of the class B-Dfrd to E-Dfrd notes, the respective tranche's principal deficiency ledger (PDL) does not exceed 10% unless they are the most senior class outstanding.
- There are no rating constraints in the transaction under our counterparty, operational risk, or structured finance sovereign risk criteria. We consider the issuer to be bankruptcy remote.

The Credit Story

Strengths	Concerns and mitigating factors
Fleet Mortgages and Landbay Partners are experienced lenders with significant track record in both specialist BTL origination and servicing, including effective use of receiver of rent and repossession. Most of the securitized pool comes from these two originators.	Zephyr Homeloans and Habito are new lenders in the BTL market, with a very limited track record. We have taken this into account in our analysis via our originator adjustment. However, the key characteristics of its mortgage book are aligned with their peers. Computershare Ltd.--Zephyr Homeloans' ultimate parent company--and Pepper U.K. Ltd. service the loans originated by Zephyr Homeloans and Habito, respectively. These two originators only represent a small proportion of the overall loan pool.
The transaction benefits from a minimum excess spread of 2.5%.	Only six borrowers in the pool have been granted payment holidays as of the cut-off date of our analysis. This figure is broadly in line with recent U.K. Finance estimates. We have considered these factors in our credit analysis. Our cash flow analysis incorporates liquidity and credit stresses to capture the risk of a rise in payment holidays (see "Payment Holiday"). The assigned ratings remain robust.
Zephyr Homeloans forms part of the wider Computershare Group, a well-established company in the mortgage market, which benefits from strong experience in both servicing and origination of BTL loans. Pepper U.K. is also a well-established servicer with a long experience operating in the U.K. mortgage market.	Given the professional nature of the lending markets, the originators have exposure to houses in multiple occupations (HMOs) and other assets that may be considered to have specialist appeal such as multi-unit blocks (27.9% combined). The lenders' valuation process for these assets are appropriate, in our view, and all HMO valuations are performed on a bricks and mortar basis rather than on an investment valuation basis, which we typically believe to be market standard.
Even though none of the lenders is specifically bound by the Prudential Regulatory Authority's (PRA) underwriting guidance on BTL loans, they adhere to its principles.	About 53% of the loans were granted to limited companies, as opposed to private individuals. Loans granted to these companies must benefit from personal guarantees from their directors and significant shareholders, and from a first ranking charge on the security property. Also, the primary purpose of these limited companies must be the purchase and the holding of residential investment properties.
All four lenders must achieve a minimum of 125% interest coverage ratio using the relevant stress rate, using rental income only.	Of the loans, 64% bear a fixed rate of interest with a five-year tenure, after which the interest rate will become floating. Higher reversion floating rates on the loans pose a prepayment risk for noteholders, which we have incorporated in our cash flow analysis.
The historical performance of the lenders' respective mortgage books has proven strong to date, with no outstanding loan in arrears in this transaction.	Of the loans, 34.8% have a DSCR lower than 120% when assuming the 5.5% stress rate used under the PRA's guidelines. We have incorporated this in our credit analysis.
The transaction does not allow for any further advances or product switches within the structure. Depending on prepayment at the end of the loans' initial fixed rate period, prepayments may rise at this time, which we have considered in our cashflow analysis.	42.5% of the portfolio is classified as remortgage loans in order to withdraw equity. We consider loans for this purpose, rather than to purchase a property, to be higher risk. This is reflected in our analysis.

The Credit Story (cont.)

Strengths	Concerns and mitigating factors
The liquidity reserve fund was fully funded at closing to meet revenue shortfalls on the class A notes. The transaction can also use principal receipts to pay for interest shortfalls on the class A and B-Dfnd through E-Dfnd notes outstanding, provided that the respective tranche's principal deficiency ledger (PDL) does not exceed 10% unless they are the most senior class outstanding.	The Financial Conduct Authority's proposed guidance provides that lenders should not start or continue repossession due to the COVID-19 pandemic until April 2021. This could delay the recoveries from defaulted mortgage loans. We have tested the sensitivity of extended recovery timing assumptions by nine months in our analysis and the ratings remain robust.
The capital structure is fully sequential for the application of principal proceeds. Credit enhancement can therefore build up over time for the senior rated notes, enabling the capital structure to withstand performance shocks.	The notes pay a coupon based on the compounded daily Sterling Over Night Index Average (SONIA), while interest rates on the mortgage loans are based on three-month British pound sterling London Interbank Offered Rate (LIBOR) and the Bank of England Base Rate (BBR; after the end of their fixed rate period). To account for this risk, we applied basis risk stresses in our cash flow modeling.
	Our credit and cash flow analysis and related assumptions consider the transaction's ability to withstand the potential repercussions of the COVID-19 outbreak, namely, higher defaults, longer recovery timing, and additional liquidity stresses. Considering these factors, we believe that the available credit enhancement is commensurate with the ratings assigned. As the situation evolves, we will update our assumptions and estimates accordingly.
	Zephyr Homeloans and Landbay Partners may consider top-slicing (the additional of personal income to the calculation of the debt service coverage ratio [DSCR]) in limited cases.

The Originators

The pool comprises loans originated by four lenders specializing in the residential BTL sector: Fleet Mortgages, Landbay Partners, Zephyr Homeloans, and Habito. All four lenders but Habito were also involved in the preceding transaction (Canada Square 2020-2 PLC).

- Fleet Mortgages commenced lending in 2014 and concentrates its activities in the specialist BTL sector.
- Landbay Partners commenced lending in 2014 as a peer-to-peer lender and is now fully funded by institutional investors. The company concentrates its activities in the specialist BTL sector, with a focus on portfolio landlords.
- Zephyr Homeloans completed its first loan in 2019 and also focuses on the specialist BTL sector.
- Habito completed its first loan in December 2019 and also focuses on the specialist BTL sector. It is also the best-known broker in the U.K., roughly four years after opening.

Overall, we consider the control frameworks of the origination process to be appropriate for the four lenders, with significant relevant experience at key stages of the process. In addition, the origination process is subject to regular pre- and post-completion scrutiny (100% of Zephyr Homeloans and Habito loans are re-underwritten by an external party, Risk Advisory Europe, at the pre-offer stage), checking, and oversight.

Key factors of the origination process include the following:

- In response to COVID-19, Fleet Mortgages, Landbay Partners, and Zephyr Homeloans initially tightened their lending criteria (e.g., the maximum LTV ratio at origination was reduced to 60% for a period of time). Habito only

started lending in 2019, albeit it was a soft launch.

- The overall lending policy is owned by the company's credit committee, which meets frequently and is responsible for considering changes to it.
- Although a scoring system is used to assess borrowers' creditworthiness, it is supplemented by manual underwriting. All underwriters are suitably mandated, and there is a clear mandate structure in place for the approval of larger and/or more complicated cases.
- There is very limited tolerance to adverse credit such as county court judgments (CCJs), and all borrowers must meet minimum age and income thresholds. The interest coverage ratio is calculated with a stressed rate of 5.5% for loans with a fixed rate period of up to five years, in line with the PRA's guidelines on affordability assessment. We consider this to be current market standard practice.
- All exceptions to policy are referred to the risk function for consideration.
- All valuations are instructed by the relevant lender and are full internal inspections requiring relevant comparables and photographs. Rental income is validated by the valuer in all cases. Audit valuations are performed on both a random sample basis, for lower value properties, and automatically for larger value properties.
- Each lender's valuation panel is managed by an experienced third-party manager with national coverage, and all valuers must have suitable professional indemnity insurance in place and local knowledge and residential experience.
- All HMOs, irrespective of the number of rooms, are valued using a bricks and mortar basis, which is typically the most conservative valuation approach. We view lending policies on construction types and exposures to individual blocks of flats to be in line with market standards.

Servicing

Fleet Mortgages services the loans in the pool that it originated. Landbay Partners outsources the servicing of its loans to Link Asset Services. Computershare--Zephyr Homeloans' ultimate parent company-- services the loans originated by Zephyr Homeloans and Habito outsources the servicing to Pepper U.K. while remaining the master servicer.

As part of our analysis for CSF 2021-1, we conducted several calls with each servicer to better understand the approach taken in response to COVID-19. We reviewed their servicing and default management processes and believe they are capable of performing their functions as part of the transaction. We were satisfied that all three services have implemented appropriate measures to respond to the impact of COVID-19 on borrowers.

Collateral

Table 1

Collateral Key Features*			
	CSF 2021-1	CSF 2020-2	CSF 2020-1
Pool cut-off date	Jan. 31, 2021	May 31, 2020	Feb. 29, 2020
Jurisdiction	U.K.	U.K.	U.K.
Principal outstanding of the pool (mil. £)	244.6	154.1	299.1

Table 1

Collateral Key Features* (cont.)			
	CSF 2021-1	CSF 2020-2	CSF 2020-1
Number of loans	1,187	679	1,253
Number of properties	1,187	679	1,253
Number of borrowers	1,015	541	997
Weighted-average interest rate (%)	3.7	3.5	3.5
Average loan balance (£)	206,058	226,990	238,716
Weighted-average indexed current LTV ratio (%)	70.6	71.3	71.3
Weighted-average original LTV ratio (%)	70.6	71.3	71.3
Weighted-average effective LTV ratio (%)	70.6	71.3	N/A
Weighted-average seasoning (months)	3.0	2.0	3.3
Top two regional concentration (by balance)	Greater London (42.1%) and South East (20.8%)	Greater London (41.8%) and South East (15.0%)	Greater London (46.4%), South East (15.5%)
Interest-only loans (%)	95.6	97.2	97.5
Buy-to-let (%)	100	100	100
CCJs >= one (%)	0.9	0.2	N/A
Bankruptcy	0	0	0
Jumbo valuations (%)	7.4	15.4	11.0
'AAA' RMVD (%)	68.9	68.0	69.4
Current arrears > one month (%)	0.0	0.0	0.0
'AAA' WAFF (%)	21.51	25.06	24.11
'AAA' WALs (%)	58.20	57.42	58.99

*Calculations are according to S&P Global Ratings' methodology. LTV--Loan-to-value. N/A--Not available. RMVD--Repossession market value declines. WAFF--Weighted-average foreclosure frequency. WALs--Weighted-average loss severity.

We received loan-level data as of Jan. 31, 2021. The overall quality of data provided is in line with our standards.

The transaction comprises a U.K. pool of residential mortgage loans (100% first-ranking and BTL). We benchmarked the transaction against the recently closed Canada Square Funding 2020-2 and 2020-1, which are also 100% BTL. Our ratings are based on the pool of £244.6 million (as of Jan. 31, 2021).

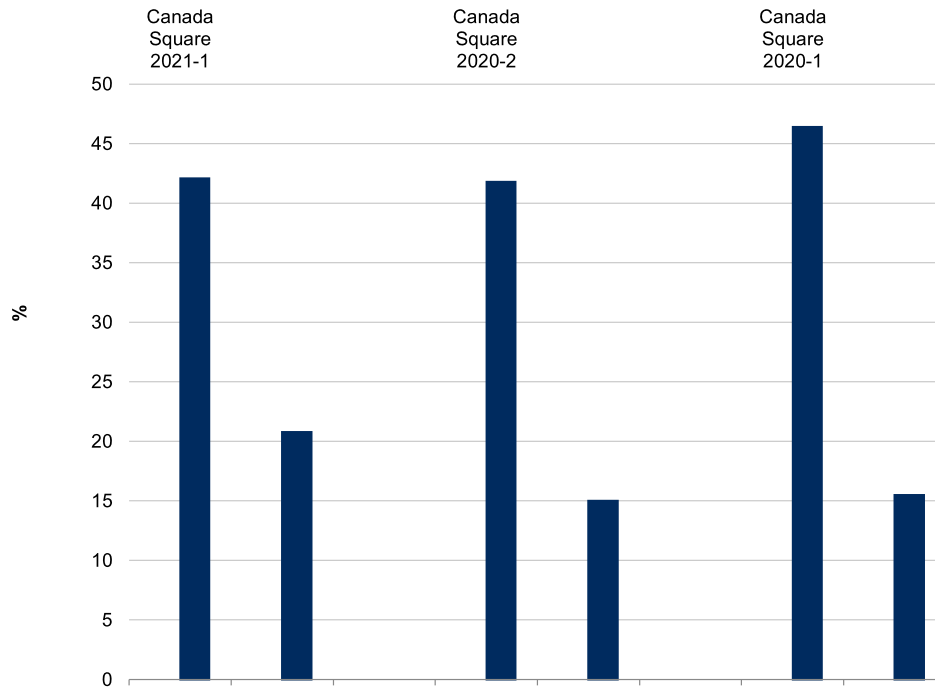
We received a pool audit report and did not apply any adjustment to our weighted-average foreclosure frequency (WAFF) given there were no material errors in the report.

More than 96% of the loans in the portfolio are interest-only mortgage loans. Given that interest-only is a standard product in the U.K. BTL market, we do not consider this to pose additional credit risk. As part of our surveillance process we will monitor the success ratio of bullet payments at maturity.

The assets are primarily concentrated in Greater London (42.1%) and the South East (20.8%). Pools from peer originators shown similar propensity towards these two regions, which is a common feature in U.K. BTL transactions. However, given that the concentration in Greater London exceeds the threshold defined in our criteria (26.0%), we applied an adjustment to the excess (16.1%) in our WAFF calculation.

Chart 1

Exposure To Greater London And The South East
As a percentage of the pool



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We applied a 1.2x adjustment for those cases where the borrower increased the size of the loan when remortgaging (whether to raise additional capital, for debt consolidation, or home improvement purposes) or there was no data regarding the purpose of the remortgage. The additional leverage might increase the risk of default when compared to a refinance where no further funds are drawn. In our view, in a professional BTL context remortgages are normally used as a means to fund the purchase of additional properties.

The pool is newly originated with low seasoning and most of the loans are to professional portfolio BTL landlords. Of the pool, slightly more than half of the loans have been granted to U.K. limited companies and U.K. limited liability partnerships, reflecting the recent trend of lending to corporate borrowers in the BTL space. These loans benefit from personal guarantees provided by the directors and a first-ranking charge on the property.

The exposure to new builds is limited to 13.0% of the current pool balance, which we do not deem excessive. New build or converted properties must benefit from a third-party warranty or equivalent and have all planning consents at the time of application. New builds with an original LTV above 75% are limited to a handful of cases and the weighted-average original LTV of all new builds in the pool is 69.5%.

Of the pool, 93.2% of the loans are fixed-rate loans with a future switch to a floating rate. Therefore, borrowers who

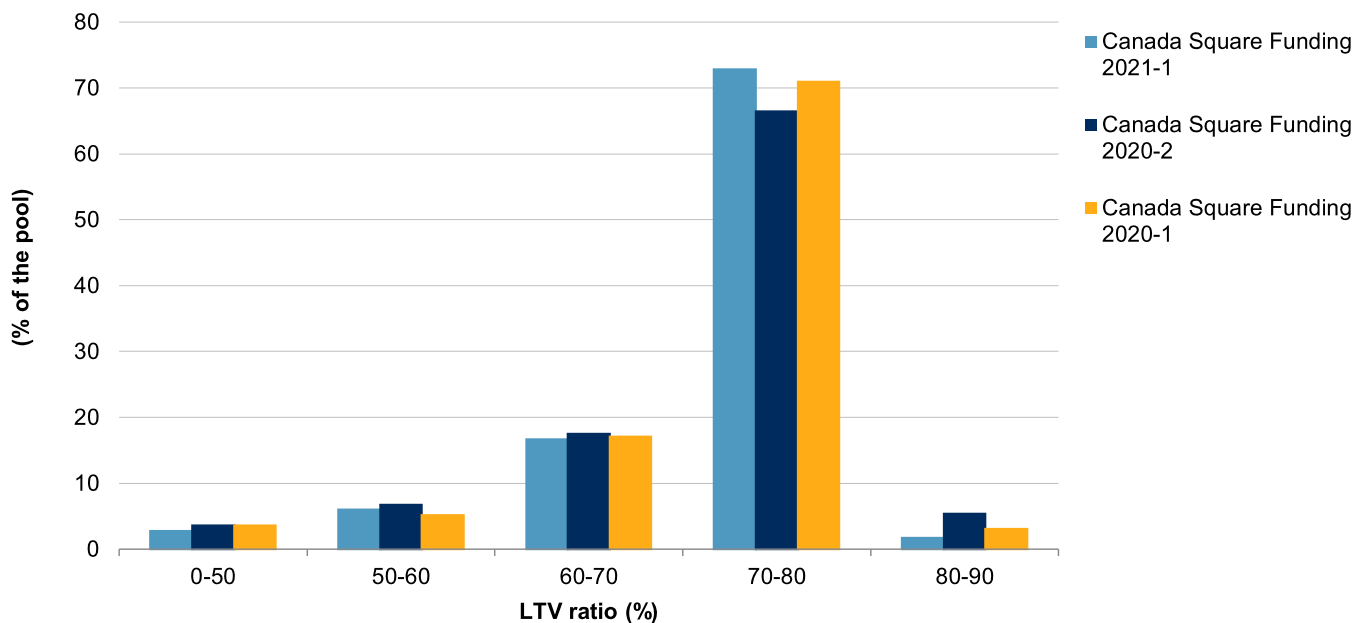
are not able to refinance might be exposed to a payment shock. We have reflected this in our analysis by applying a 1.2x adjustment to the foreclosure frequency.

The top 10 borrowers in the portfolio account for 5.5% of the pool, which we do not deem excessive as higher concentrations are not unusual in BTL portfolios.

The portfolio has a weighted-average current LTV ratio of 70.6% and a weighted-average original LTV ratio of 70.6%. We consider borrowers with minimal equity in their property to be less likely able to refinance and more likely to default on their obligations than borrowers with lower-current-indexed LTV ratio loans. At the same time, loans with high-current-indexed LTV ratios are likely to incur greater loss severities if the borrower defaults.

Chart 2

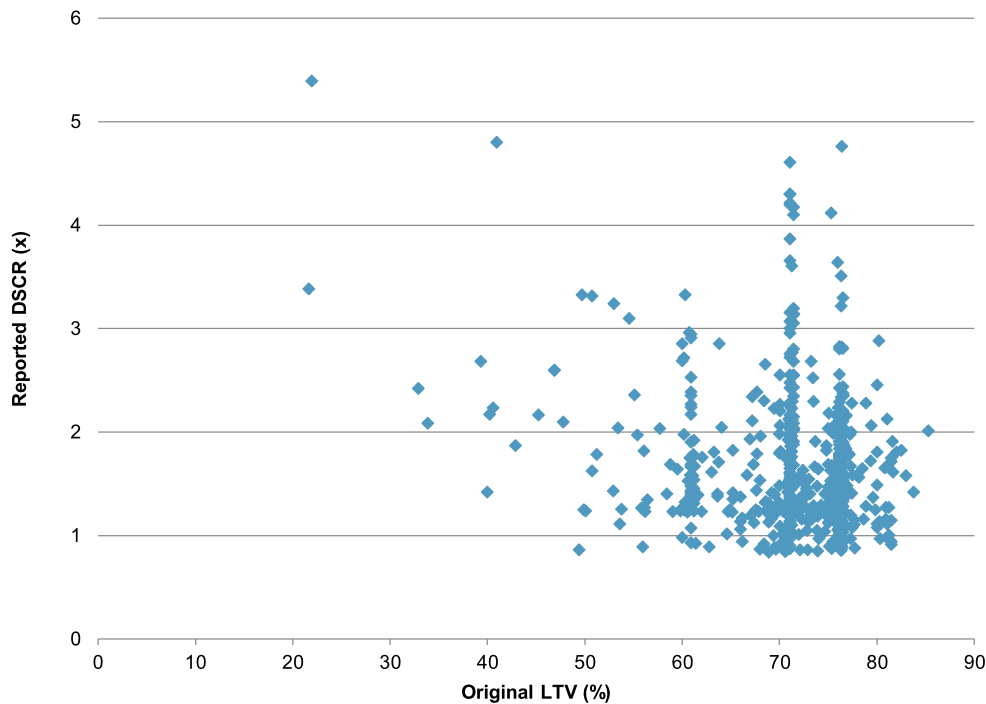
Original LTV Ratio Distribution



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Chart 3

Debt-Service Coverage Ratio



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Payment holidays

As of Dec. 31, 2020, only six loans in the portfolio are currently under payment moratoria due to COVID-19 (see table 2).

Table 2

Payment Holidays	
Subpool	Number of loans
Fleet Mortgages	1
Landbay Partners	0
Zephyr Homeloans	4
Habito	1
Total	6

The monthly payments for these borrowers are deferred to a later date, while interest continues to accrue. Borrowers that are under payment holidays won't be classified as in arrears if they were previously up to date on payments and any arrears balance is frozen for borrowers who were in arrears when availing of the payment holiday.

In order to test the structure's robustness to credit/liquidity shocks resulting from current and potential future payment

holidays, we have incorporated an increase in the recovery period by nine months and assumed that some of the borrowers that are currently under payment holidays could move into arrears and/or default on their mortgage loan. We have incorporated this risk in our foreclosure frequency assumptions (see "Macroeconomic And Sector Outlook"). The ratings assigned withstand these stresses.

Historical performance data

There are currently no loans in arrears in the portfolio although there were early stage delinquencies in the originators' wider portfolios in the second half of 2020. By way of background, Canada Square 2019-1 PLC, Canada Square 2020-1 PLC, and Canada Square 2020-2 PLC have only between one and three loans in arrears each, as of their last investor report.

We received historical performance data since 2015 for the loans originated in the Fleet Mortgages portfolio, 2014 for the Landbay Partners loans, and 2019 for the Zephyr Homeloans loans. There was limited historical information on Habito mortgage loans due to the recent start of origination.

Credit Analysis And Assumptions

We applied our global residential loans criteria to the pool in order to derive the WAFF and the weighted-average loss severity (WALS) at each rating level (see table 3).

The WAFF and WALS assumptions increase at each rating level because notes with a higher rating should be able to withstand a higher level of mortgage defaults and loss severity. Our credit analysis reflects the characteristics of the loans, properties, and associated borrowers.

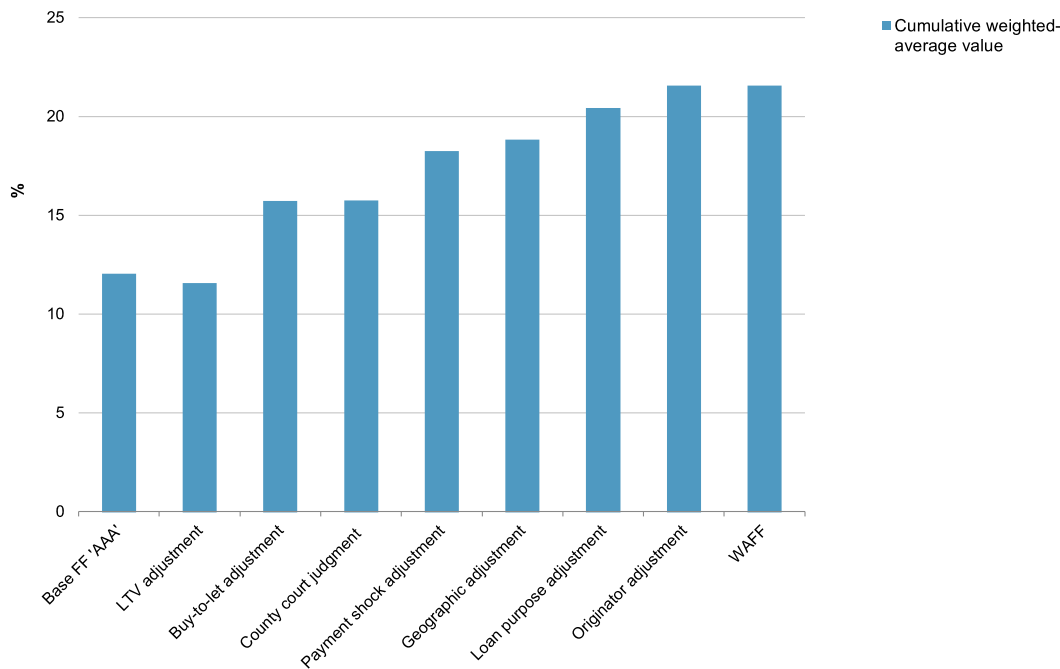
Table 3

Portfolio WAFF And WALS						
Rating level	WAFF (%)	WALS (%)	Credit coverage (%)	Base foreclosure frequency component for an archetypical U.K. mortgage loan pool (%)	Credit coverage, including interest foregone (%)	
AAA	21.51	58.20	12.52	12.00	13.59	
AA	14.52	50.78	7.37	8.10	8.10	
A	10.93	37.42	4.09	6.10	4.63	
BBB	7.53	28.71	2.16	4.20	2.53	
BB	3.94	22.11	0.87	2.20	1.06	
B	3.14	15.94	0.50	1.75	0.64	

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

Chart 4

'AAA' Cumulative WAFF Distribution



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Macroeconomic And Sector Outlook

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Our most recent published expectations is for GDP in the U.K. to shrink by 11.0% in 2020 before rebounding by 6.0% in 2021 (see "European Economic Snapshots: Policy Is Keeping The Impact Of The Second COVID Wave At Bay," published on Dec. 16, 2020, and "Pandemic Won't Derail European Housing Price Rises," published on Oct. 20, 2020). Our current expectations are described in table 4.

Table 4

U.K. Housing Market Statistics					
	2018	2019	2020f	2021f	2022f
Nominal house prices, % change y/y	2.4	1.6	1.6	(1.9)	3.7
Real GDP, % change	1.3	1.3	(11.0)	6.0	5.0
CPI inflation (%)	2.5	1.8	0.9	1.8	1.9
Unemployment rate	4.1	3.8	4.8	6.7	5.2

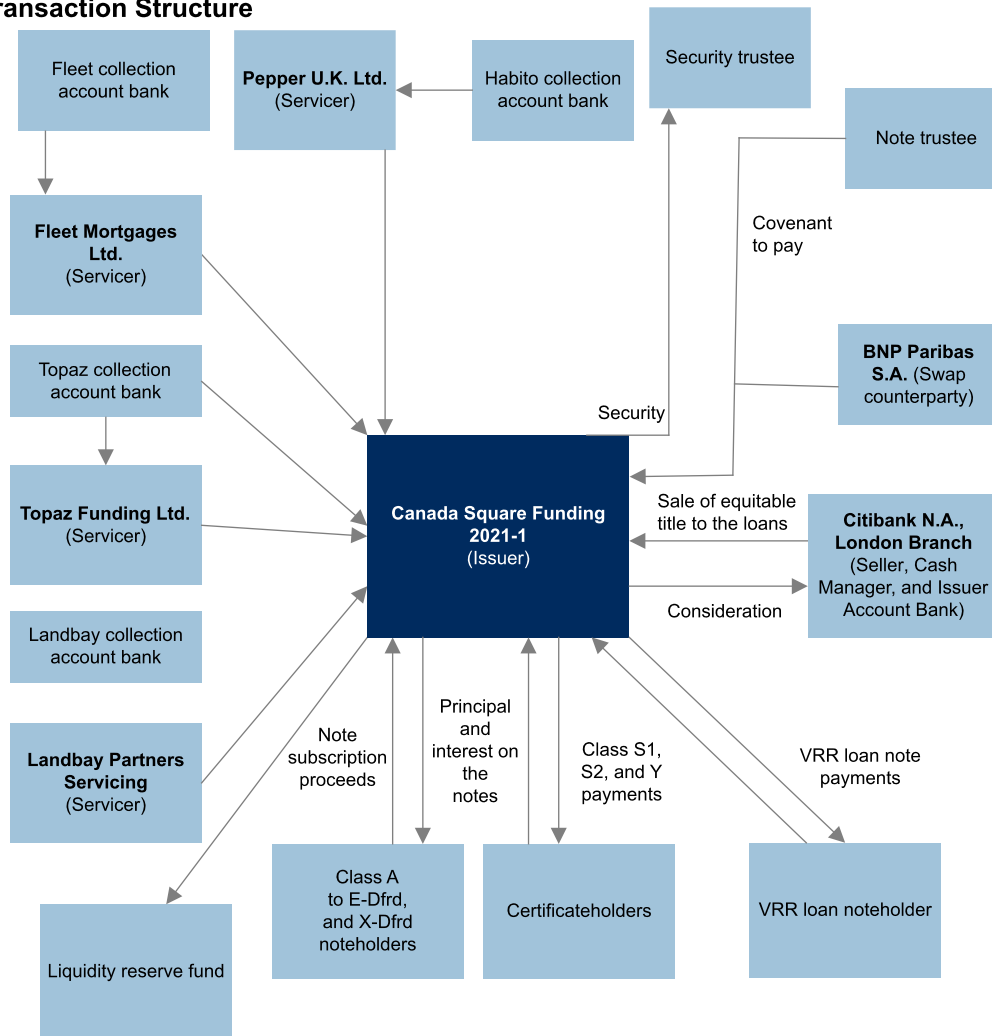
Sources: S&P Global Ratings, Eurostat, Organisation for Economic Co-operation and Development, Department for Communities and Local Government, Office for National Statistics. Y/Y--Year on year. CPI--Consumer price index. e--estimate. f--Forecast.

Based on our macroeconomic forecasts we revised the 'B' foreclosure frequency assumptions in our global residential loans criteria for the U.K. archetypal pool to 1.75% from 1.50% on May 1, 2020 (see "Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts," published on May 1, 2020).

Transaction Summary

Chart 5

Transaction Structure



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CSF 2021-1 is an English special-purpose entity, which we consider to be bankruptcy remote. The legal documents are in line with our legal criteria.

Interest is paid quarterly on the interest payment dates in March, June, September, and December, beginning in June 2021. The rated notes pay interest equal to compounded daily SONIA plus a class-specific margin, with a further step up in margin following the optional call date in March 2026. All of the notes will reach their legal final maturity in June 2058.

Deferral of interest

Under the transaction documents, interest payments on the class B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, and X-Dfrd notes can be deferred. Consequently, any deferral of interest on these classes of notes would not constitute an event of default. Unpaid interest will accrue at the note-specific coupons and be due at the notes' legal final maturity.

Our 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. Please note that the mezzanine and junior rated tranches pay timely interest once they become the most senior notes outstanding. Our analysis reflects our view that, at the assigned rating, the senior fees and swaps outflows, if any, will be paid on time.

Liquidity reserve

The transaction features a liquidity reserve to cover shortfalls on the senior fees, the issuer profit, the swap outflows, the interest payment on the S1 and S2 certificates, and the interest payment on the class A notes.

The required liquidity reserve amount will evolve throughout the transaction's life as follows:

- At closing: 1.05% (i.e., at 1.00% * 100/95) of the class A notes;
- Until the step-up date (inclusive): the maximum of 1.32% (i.e., at 1.25% * 100/95) of the class A notes at each interest payment date (IPD) (prior to running the waterfall) and 1.05% (i.e., at 1.00% * 100/95) of the initial balance of the class A notes. Principal receipts will be used to fund the reserve; and
- From the step-up date (exclusive): 1.32% of the class A notes at each IPD (prior to running the waterfall).

Excess amounts will be released down the principal priority of payments.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses where the issuer would not have sufficient revenue receipts to pay interest due on senior fees or the most-senior outstanding class of notes. To mitigate this risk, the issuer can use any existing principal receipts. The use of principal to pay interest would result in the registering of a debit in the PDL and may reduce the credit enhancement available to the notes. Principal can only be used to cover class A interest if the liquidity reserve has been exhausted.

PDLs The PDL comprises six subledgers, one for each of the rated mortgage-backed class of notes, and one for the VRR loan.

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

Payment priority

Table 5

Priority of Payments	
Revenue priority of payments	Principal priority of payments
Senior fees (incl. servicing fees)	To pay shortfalls on senior fees, the issuer profit, the swap outflows, the interest on the S1 and S2 certificates, and the class A to E-Dfrd notes' interest, provided that, in the case of the class B-Dfrd to E-Dfrd notes, the respective tranche's PDL does not exceed 10% unless they are the most senior class outstanding
Issuer profit	Top up liquidity reserve fund to target
Swap payments	Class A notes' principal
S1 certificate interest payment (before the call date)	Class B-Dfrd notes' principal
S2 certificate interest payment (after the call date)	Class C-Dfrd notes' principal

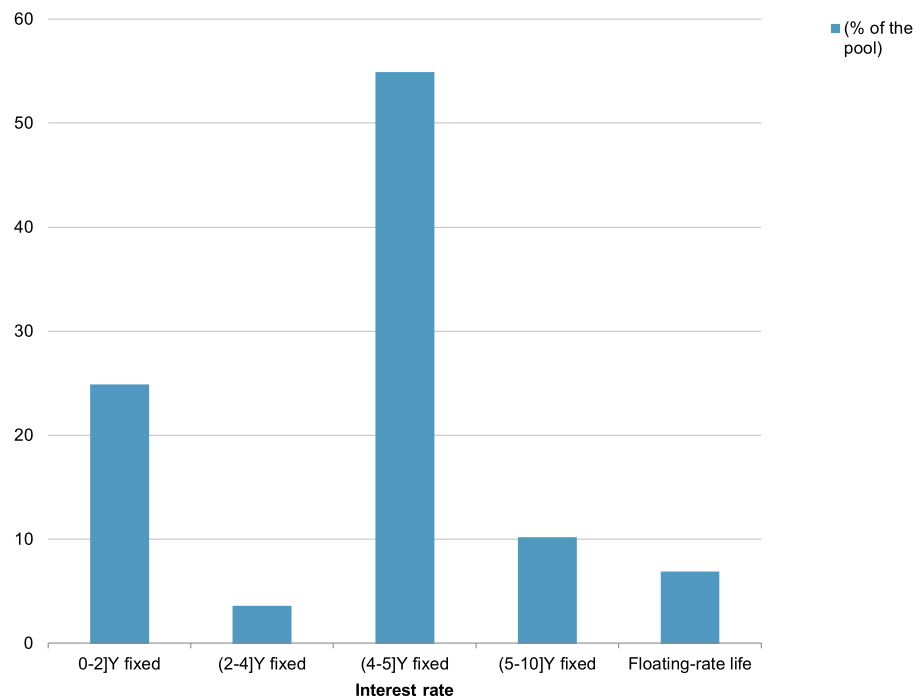
Table 5

Priority of Payments (cont.)	
Revenue priority of payments	Principal priority of payments
Class A notes' interest	Class D-Dfrd notes' principal
Class A notes' PDL	Class E-Dfrd notes' principal
Class B-Dfrd notes' interest	Excess amounts to the revenue waterfall
Class B-Dfrd notes' PDL	
Class C-Dfrd notes' interest	
Class C-Dfrd notes' PDL	
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Class E-Dfrd notes' interest	
Class E-Dfrd notes' PDL	
Class X-Dfrd notes' interest	
Class X-Dfrd notes' principal	
Excess to Y certificates	

PDL--Principal deficiency ledger.

Interest rate risk

Approximately 93.2% of the pool pays interest based on a fixed rate, but all will revert to a floating interest rate, linked to three-month LIBOR (see chart 5). The remaining assets pay a floating interest rate linked to three-month LIBOR.

Chart 6**Interest Rate Distribution**

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To address the interest mismatch between the mortgage loans and the rated notes, the transaction features a fixed-to-floating interest rate swap, where the issuer pays a fixed rate and receives SONIA to mirror the index paid on the notes. The balance of the swap is a fixed amortization schedule, assuming 0% prepayments on the fixed-rate loans.

Cash Flow Modeling And Analysis

Our rating on the class A notes is commensurate with the available credit enhancement.

Our assigned ratings on the class B-Dfrd to E-Dfrd notes and X-Dfrd notes are lower than those under our standard cash flow analysis. The assigned ratings consider the sensitivity to high prepayment rates, which could occur due to a significant proportion of discount loans resetting after five years.

We stress the transaction's cash flows to test the credit and liquidity support that the assets, subordinated tranches, and liquidity 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 interest and full principal by the legal final maturity. Our ratings on the class B-Dfrd to E-Dfrd

notes address the ultimate payment of principal and interest. The mezzanine and junior rated tranches pay timely interest once they become the most senior notes outstanding.

Commingling risk

Borrowers pay their installments into collection accounts held with Barclays Bank PLC, NatWest Bank PLC, and HSBC Bank PLC in the name of the respective legal titleholders.

If any of the legal titleholders were to become insolvent, the mortgage collection amounts in the collection accounts may become part of the legal titleholder's bankruptcy estate. In order to mitigate this risk, collections are transferred daily into the issuer's bank account, and a declaration of trust in favor of the issuer is in place over the collection account. The transaction documents contain replacement language in line with our counterparty criteria.

Although we believe that the above mechanisms (downgrade language and declaration of trust) mitigate against loss of collections, the collections could be delayed in the event of an insolvency. In our analysis, we, therefore, applied a liquidity stress equal to one month of collections.

Spread compression

The asset yield on the pool can decrease if higher-paying assets default or prepay. Our cash flow analysis takes this risk into account by assuming that the weighted-average yield on the portfolio drops by 0.07% at the 'AAA' level. We also performed a sensitivity test to higher spread compression due to a risk of elevated prepayment rates and the ratings remain robust.

Fees

Contractually, the issuer is obliged to pay periodic fees to various parties providing services to the transaction such as servicers, trustees, and cash managers, among others. We accounted for these in our analysis. In particular, we applied a stressed servicing fee of 0.33% (the higher of 1.5x actual fees and 0.25% for prime or BTL loans) to account for the potential increase in costs to attract a replacement servicer, based on our global RMBS criteria.

We expect fixed fees to be £196,000 per year including VAT but for our ratings analysis we have proportionally reduced this fee to reflect the fact that we expect the total transaction size to increase prior to closing. We modeled fixed fees of £196,000 when assigning ratings.

Setoff risk

There are no employee loans or deposit set-off exposure in the transaction because the seller is not a deposit-taking institution.

Default and recovery timings

We used the WAFF and WALS derived in our credit analysis as inputs in our cash flow analysis (see table 6). At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction's life. Defaults are applied on the outstanding balance of the assets as of the closing date. We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period. During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

Table 6

Default Timings For Front-Loaded And Back-Loaded Default Curves		
Year after closing	Front-loaded defaults (% of WAFF per year)	Back-loaded defaults (% of WAFF per year)
1	25.0	5.0
2	25.0	10.0
3	25.0	10.0
4	10.0	25.0
5	10.0	25.0
6	5.0	25.0
Total	100.0	100.0

WAFF--Weighted-average foreclosure frequency.

We assume recoveries on the defaulted assets will be received 12 months after default for BTL properties. Foreclosure costs are estimated at 3.0% of the repossession value and £5,000. We have also tested the sensitivity of the structure to increased foreclosure timing assumptions of nine months, and higher default rates given the potential effect of COVID-19 on the forbearance process and an expected deterioration in the labor market, and the ratings remain robust.

Our loss severities are based on loan principal and do not give any credit to the recovery of interest accrued on the loan during the foreclosure process.

Prepayments

To assess the impact on excess spread and the absolute level of defaults in a transaction, we model both high and low prepayment scenarios at all rating levels (see table 7).

Table 7

Prepayment Assumptions		
	High	Low
Pre-recession	30.0	4.0
During recession	3.0	3.0
Post-recession	30.0	4.0

Interest rates

We modeled two interest rate scenarios in our analysis: up and down.

We derived the stressed interest rate curves for compounded SONIA by subtracting a spread of 0.25% from the LIBOR curves we model. There has been a strong correlation between the backward-looking compounded SONIA and the forward-looking LIBOR determined for the same period. However, since SONIA does not include the various risk premiums reflected in LIBOR, the former has generally been lower. The spread adjustment applied to the interest rate reflects the lower SONIA rates historically observed.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 8).

Table 8**RMBS Stress Scenarios**

Total number of scenarios	Prepayment rate	Interest rate	Default timing
8	High and low	Up and down	Front-loaded and back-loaded

Scenario analysis

We analyzed the effect of a moderate stress on our WAFF assumptions and its ultimate effect on our ratings on the notes. We ran two stress scenarios to demonstrate the rating transition of a note, and the results are in line with our credit stability criteria.

Counterparty Risk

The issuer is exposed to Citibank N.A., London Branch as the transaction account provider, and Barclays Bank, HSBC Bank, and NatWest Bank as the servicers' collection accounts (see table 9). The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

Table 9**Supporting Ratings**

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Barclays Bank PLC as collection account provider for Fleet Mortgages	A/Negative/A-1	'BBB/A-2' or 'BBB+' (if no short-term rating)	60	AAA
HSBC Bank PLC as collection account provider for Zephyr Homeloans	A+/Stable/A-1	'BBB/A-2' or 'BBB+' (if no short-term rating)	60	AAA
NatWest Bank PLC as collection account provider for Landbay Partners and Habito	A/Negative/A-1	'BBB/A-2' or 'BBB+' (if no short-term rating)	60	AAA
Citibank N.A., London Branch as transaction account provider*	A+/Stable/A-1	'A/A-1' or 'A+' (if no short-term rating)	60	AAA
BNP Paribas S.A.	AA-/A-1+*	'A+'	10 business days to post collateral and 90 calendar days to find a replacement	AAA

*Based on resolution counterparty rating.

Sovereign Risk

Our long-term unsolicited credit rating on the U.K. is 'AA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria.

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.

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 defaults by testing the sensitivity of the ratings to two different levels of movements.

Under our scenario analysis, the ratings on the notes in both scenarios would not suffer a rating transition outside of that considered under our credit stability criteria.

We also conducted additional sensitivity analysis to assess the impact of, all else being equal, increased WAFF and WALs on our ratings on the notes. For this purpose, we ran eight scenarios by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below (see tables 10 and 11).

Table 10

Sensitivity Stresses			
	WALS		
WAFF	1.0x	1.1x	1.3x
1.0x	Base case	Sensitivity 3	Sensitivity 4
1.1x	Sensitivity 1	Sensitivity 5	Sensitivity 7
1.3x	Sensitivity 2	Sensitivity 6	Sensitivity 8

Table 11

Sensitivity Analysis Results									
Class	Base case	1	2	3	4	5	6	7	8
A	AAA	AA+	AA+	AA+	AA+	AA+	AA	AA	AA
B-Dfrd	AA-	A+	A	AA-	A	A+	A	A	A-
C-Dfrd	A	A-	BBB+	A-	BBB+	A-	BBB	BBB	BBB
D-Dfrd	BBB	BBB	BBB-	BBB	BBB	BBB	BBB-	BBB-	BB+
E-Dfrd	BB+	BB	BB	BB	BB	BB	BB	BB	BB
X-Dfrd	NR	NR	NR	NR	NR	NR	NR	NR	NR

NR--Not rated.

Appendix

Transaction Participants

Role	Participant
Arranger	Citibank Europe PLC, U.K. Branch.
Backup servicer facilitator	CSC Capital Markets U.K. Ltd.
Cash manager	Citibank N.A., London Branch.
Corporate services provider	CSC Capital Markets U.K. Ltd.
Issuer	Canada Square Funding 2021-1 PLC
Lead manager	Citibank Europe PLC, U.K. Branch.
Note trustee	U.S. Bank Trustees Ltd.

Transaction Participants (cont.)

Role	Participant
Originator/legal holder	Fleet Mortgages Ltd.
Originator/legal holder	Landbay Partners Ltd
Originator/legal holder	Topaz Finance Ltd.
Originator/legal holder	Hey Habito Ltd.
Principal paying agent/agent bank	Citibank N.A, London Branch.
Registrar	Citibank N.A, London Branch.
Security trustee	U.S. Bank Trustees Ltd.
Seller	Citibank N.A., London Branch.
Servicer	Topaz Finance Ltd.
Servicer	Fleet Mortgages Ltd.
Servicer	Landbay Partners Ltd.
Servicer	Pepper (U.K.)Ltd.
Share trustee	CSC Corporate Services (U.K.) Ltd.
VRR loan noteholder	Citibank N.A, London Branch.
VRR registrar	CSC Capital Markets U.K. Ltd.

VRR--Vertical risk retention.

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