

Presale:

Braccan Mortgage Funding 2024-1 PLC

August 27, 2024

Preliminary ratings

Class	Prelim. rating*	Class size (%)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	89.50	11.00	Compounded daily SONIA plus a margin	Compounded daily SONIA plus a margin	February 2029	February 2067
B	AA- (sf)	5.75	5.25	Compounded daily SONIA plus a margin	Compounded daily SONIA plus a margin	February 2029	February 2067
C-Dfrd	A (sf)	3.00	2.25	Compounded daily SONIA plus a margin	Compounded daily SONIA plus a margin	February 2029	February 2067
D-Dfrd	BBB+ (sf)	1.75	0.50	Compounded daily SONIA plus a margin	Compounded daily SONIA plus a margin	February 2029	February 2067
X-Dfrd	B- (sf)	2.50	0.00	Compounded daily SONIA plus a margin	Compounded daily SONIA plus a margin	February 2029	February 2067
Z	NR	0.50	N/A	N/A	N/A	N/A	February 2067
RC1 Residual Certificates	NR	N/A	N/A	N/A	N/A	N/A	February 2067
RC2 Residual Certificates	NR	N/A	N/A	N/A	N/A	N/A	February 2067

Note: This presale report is based on information as of Aug. 27, 2024. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *Our preliminary ratings address timely receipt of interest and ultimate repayment of principal on the class A and B notes, and the ultimate payment of interest and principal on all the other rated notes. Our preliminary ratings also address timely receipt of interest and full immediate repayment of all previously deferred interest on the class C-Dfrd, D-Dfrd, and X-Dfrd notes when they become the most senior outstanding. §Credit enhancement is provided by subordination and the general reserve fund. SONIA--Sterling Overnight Interbank Average. NR--Not rated. N/A--Not applicable.

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Transaction Summary

- Braccan Mortgage Funding 2024-1 PLC (Braccan 2024-1) is an RMBS transaction that securitizes a portfolio of buy-to-let (BTL) and owner-occupied mortgage loans secured on properties in the U.K.
- The loans in the pool were originated between 2015 and 2024, with most originated in 2024, by Paratus AMC Ltd., a nonbank specialist lender. The loans were originated under the Foundation Home Loans (FHL) brand.
- The collateral comprises first-lien U.K. BTL residential mortgage loans (70.3%), and owner-occupied mortgages (29.7%) advanced to complex income borrowers with limited credit impairments. There is high exposure to self-employed borrowers and first-time buyers within the owner-occupied proportion of the pool.
- At closing, the issuer will use the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller. The issuer grants security over all its assets in favor of the security trustee.
- 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

Overview

Strengths

Securitization is an integral part of the lender's funding strategy, with Paratus raising more than £5.5 billion in securitizations since 2017.

Concerns and mitigating factors

The transaction includes a prefunded amount of up to 21%, where the issuer can purchase loans until the first interest payment date (IPD). There is the risk that the addition of these loans could adversely affect the pool's credit quality. Portfolio limitations are in place that mitigate this risk. We have considered possible migration of the portfolio characteristics toward the limits outlined in the eligibility criteria and have also performed credit analysis on the offer pipeline. Based on this analysis, we have not applied any adjustments to our weighted-average foreclosure frequency (WAFF) or weighted-average loss severity (WALS) assumptions as the eligibility criteria for prefunding are strict. We also considered potential spread compression from the purchase of lower-yielding loans, an increase in the cost of hedging these additional loans (a requirement but is subject to conditions), and negative carry risk in our cash flow analysis.

Overview (cont.)

Strengths

Servicing is in-house and Paratus has well-established and fully integrated servicing systems and policies. Paratus has serviced residential mortgage loans for more than 20 years, including the assets originated under the GMAC brand.

Paratus' underwriting criteria are relatively strict concerning security, with relatively low exposure to higher-risk property types such as new-build flats. All valuations are full internal inspections on every property. In-house desktop valuations are also undertaken as a further control to establish the market value. The rental income used by Paratus to calculate the debt service coverage ratio (DSCR) is the lower of the valuer's rent projection and the actual rental income. The origination process is subject to regular post-completion scrutiny, checking, and oversight.

The historical performance of the lender's mortgage book has proven relatively strong to date. Just eight loans have suffered losses totaling £212,534 across a book that has a current principal balance of £3.34 billion.

Paratus' lending policy is in line with market standards. However, Paratus does not permit top-slicing on BTL loans, whereas several of its peers do. We consider top-slicing to be an additional risk factor.

The pool has a low current indexed LTV ratio of 64.4%, which is more likely to incur lower loss severities if the borrower defaults.

Concerns and mitigating factors

Product switches are permitted under the transaction documentation until the step-up date to enable borrowers to re-fix their mortgage payments, subject to the eligibility criteria. Further advances are also permitted subject to certain conditions, including a requirement that there must be sufficient principal receipts. There is no obligation on Paratus to make further advances on the underlying mortgage contracts. The aggregate current balance of all product switch loans and further advances cannot exceed 15% and 2.5%, respectively, expressed as a percentage of the pool as of closing, including the prefunded amount. All product switches and further advances that are not eligible will be repurchased by the seller. The product switch criteria outline a minimum post-swap yield for each product switch loan. We performed additional sensitivities that capture the risk of margin deterioration, and the assigned preliminary ratings reflect the results of these sensitivities (see "Product switches and further advances"). The further advance criteria outline the maximum indexed loan-to-value (LTV) ratios permitted and there is limited scope for deterioration. As such, we have not sized any adjustments to our WAFF and WALs assumptions.

The borrowers in the pool are typically those to whom high street banks do not provide mortgages. This may be because they have less-than-perfect credit or have complex income streams that require more prudent analysis during underwriting. We have considered this in our assessment of the lending policy and underwriting standards and captured this within the originator adjustment.

Given the professional nature of the borrowers Paratus lends to on BTL properties, the transaction is exposed to multifamily properties such as houses in multiple occupation (HMOs; 4.0% of the pool) and multiunit freehold blocks (MUFBs; 5.2%). Of the pool, 2.6% are large HMOs that contain more than five bedrooms. We consider multifamily properties to have both strengths, such as higher rental income, but also potential weaknesses, such as liquidity. We consider Paratus' underwriting on multifamily properties to be in line with the market standard. Additionally, in transactions we have analyzed, we have not observed higher delinquencies in multifamily properties. For further information please see "Credit FAQ: Assessing The Impact Of Increasing Multifamily Exposure On U.K. Buy-To-Let RMBS Transactions," published on Nov. 24, 2022.

The lender is a nonbank lender and therefore not bound by the Prudential Regulatory Authority's (PRA) underwriting guidance on BTL loans, although it does abide by the Financial Conduct Authority's (FCA) guidelines. We have performed our operational review and we believe the company generally adheres to PRA's principles. However, rental income calculation disregards ongoing costs, deviating from the PRA's guidelines. We captured this risk in our originator adjustment.

Of the properties, 36.5% are based in London, which is above the geographic concentration threshold outlined in our criteria. We captured this in our credit analysis by applying the geographic concentration adjustment to the excess above the threshold. No other geographic regions are beyond the concentration limits.

Overview (cont.)

Strengths	Concerns and mitigating factors
<p>A nonamortizing general reserve will be fully funded at closing and will provide credit enhancement and liquidity for the class A to class D-Dfrd notes. The transaction can also use principal receipts to pay senior fees and interest on the collateralized rated notes subject to conditions. An amortizing liquidity reserve fund will provide liquidity to the class A and B notes, subject to conditions. This will not be funded at closing. Instead, the principal waterfall will initially fund this reserve.</p>	<p>Of the portfolio, 46.6% is classified as remortgage loans with additional borrowing. We consider loans for this purpose, rather than to purchase a property, to be higher risk. This is reflected in our analysis.</p>
<p>The application of principal proceeds is fully sequential. Credit enhancement can therefore build up over time for the rated notes, enabling the capital structure to withstand performance shocks.</p>	<p>The majority of the loans (98.2%) initially bear a fixed rate of interest, after which the interest rate becomes floating. Another 1.8% of the loans initially pay a discounted floating margin, before reverting to a higher margin. Higher reversion floating rates on the loans pose a prepayment risk for noteholders, which we incorporated in our cash flow analysis.</p>
<p>There will be positive excess spread in the transaction from closing. At closing, we estimate excess spread will be 0.90% and after the step-up date, we estimate excess spread will be 3.02% per year after the cost of the liabilities and stressed senior fees.</p>	<p>The transaction contains some loans advanced to limited liability companies and to limited liability partnerships rather than directly to individuals. All these loans benefit from personal guarantees and a first-ranking charge on the security property.</p>
<p>If the notes are not redeemed on the optional redemption date, all the revenue proceeds, after any subordinated swap payment amounts that are due (if any) are paid, will be diverted to pay principal on the notes, therefore providing more protection to the senior notes.</p>	<p>A high proportion of fixed-rate loans will revert to higher reversionary rates. Therefore, the borrowers who are not able to refinance may be exposed to a payment shock. FHL's affordability assessment for fixed-rate BTL loans for five or more years is assessed in line with the PRA's BTL underwriting standards at the payment rate. However, for those loans whose reversion date is within five years, a 2% stress is applied on the initial rate with a floor of 6.0%. For owner-occupied mortgages, the initial rate is used to assess affordability where the initial fixed-rate period is five or more years. Where the initial fixed-rate period is less than five years, a stressed interest rate is calculated at the reversionary rate (including the Bank of England base rate) plus 1%. While we consider that the payment shock risk is partially mitigated where a loan has had interest stressed at origination for the affordability assessment, we have still applied a 1.2x payment shock adjustment in our analysis for all loans as the pool composition may shift toward loans that did not have their interest stressed at origination due to the prefunding mechanism.</p>
	<p>The collateral pool includes short-term lets (5.9% of the pool), which are considered riskier than traditional BTLs due to their short-term nature. We therefore applied the commercial adjustment for these loans in our credit analysis.</p>
	<p>Of the portfolio, 4.3% have had prior county court judgements (CCJs). Additionally, 62.1% of the owner-occupied loans in the pool were advanced to self-employed borrowers, and 27.9% of all owner-occupied borrowers are first-time buyers. We consider that loans with these characteristics are more likely to exhibit a higher default probability than otherwise similar loans. We have addressed these features accordingly in our credit analysis.</p>

Changes From The Previous Transaction

The transaction is similar to the Twin Bridges 2023-2 PLC transaction, with some differences listed below.

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- The transaction includes a prefunded amount of up to 21%, where the issuer can purchase loans until the first IPD.
- Further advances are permitted up to a limit of 2.5% of the closing balance of the portfolio's aggregate amount, including prefunded amounts. This was not permitted in the prior transaction.
- While the previous Twin Bridges transaction also featured a liquidity reserve fund, it was previously fully funded at closing. In this transaction, the liquidity reserve fund will be unfunded at closing and will be funded initially through available principal receipts.
- While Paratus has previously securitized owner-occupied loans in the Brants Bridge transactions and BTL loans in the Twin Bridges transactions, this transaction features both BTL and owner-occupied loans. The underlying assets are similar to those securitized in previous transactions.

Environmental, Social, And Governance

Our analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For RMBS, we view the exposure to environmental credit factors as average, social credit factors as above average, and governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published on March 31, 2021).

In our view, the exposure to social credit factors is in line with the sector benchmark. Social credit factors are generally considered above average because housing is viewed as one of the most basic human needs, and conduct risk presents a direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of borrowers. For RMBS, social risk is generally factored into our base-case assumptions.

The transaction's exposure to environmental credit factors is also in line with the sector benchmark. Physical climate risks could severely damage properties and reduce their value, decreasing recoveries if borrowers default. We believe that well-diversified portfolios reduce exposure to extreme weather events.

In our view, the exposure to governance credit factors is in line with the sector benchmark. There are very tight restrictions on what activities the special-purpose entity can undertake compared with other entities. Given that this transaction has a relatively short prefunding period in relation to the legal final maturity of the notes, the originator's role becomes less active over the transaction's life, mitigating the risk of loosening underwriting standards or potential adverse selection. The eligibility criteria for the prefunding is also strict, with limited scope for deterioration compared with the closing pool.

Originator

Paratus is a U.K. nonbank residential mortgage lender and servicer, which is authorized and regulated by the U.K. FCA. It was set up in February 2015 to originate BTL mortgages loans, through its brand FHL. In 2017, Paratus began to originate owner-occupied loans after reinstating FCA permission for regulated lending. Since launch, FHL has focused on developing a stable platform for sustainable growth.

FHL relies heavily on its securitization platform (Twin Bridges, Brants Bridge, and now Braccan) to fund its mortgage business, and to date it has completed 16 transactions.

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FHL offers a range of specialist BTL and residential mortgage products focused on areas of the market that are not catered for by the typical high street lenders. FHL's business is fully intermediated via mortgage brokers in line with peers, and the brokers' performance is reviewed regularly.

For BTL loans, FHL focuses on individuals and limited companies (with personal guarantees). It also has specific products for professional landlords focusing on HMOs (4.0% of the portfolio) and MUFBs (5.2% of the portfolio).

All underwriting is assessed and completed manually by an appropriately experienced physical underwriter. All underwriters are suitably mandated, and there is a clear mandate structure in place for the approval of complicated cases.

FHL's affordability assessment for fixed-rate BTL loans for five or more years is assessed in line with the PRA's BTL underwriting standards at the payment rate. However, for those loans whose reversion date is within five years, a 2% stress is applied on the initial rate with a floor of 6.0%.

For owner-occupied mortgages, the initial rate is used to assess affordability where the initial fixed-rate period is five or more years. Where the initial fixed-rate period is less than five years, a stressed interest rate is calculated at the reversionary rate (including the Bank of England base rate) plus 1%.

The rental income calculation disregards ongoing costs, deviating slightly from the PRA guidelines. However, rental income used is the lower between the actual and valuers' estimation. We view this as a strong market practice and a more conservative approach as it is rare to accept appeals, only if properly documented.

There is limited tolerance to adverse credit such as CCJs and bankruptcies, and we note that the tolerance to unsatisfied CCJs and active debt management plans is extremely limited as compared with other peers in the market.

The lender instructs all valuations, and they are full internal inspections requiring relevant comparables and photographs. The valuer validates rental income in all cases and considers costs.

Exceptions to the lending policy may occur, but, depending on the exception, these can be approved by a suitably mandated individual or may need to be approved by a credit committee including senior management.

Overall, we consider the control framework of the origination process to be appropriate, with appropriate relevant experience at key stages of the process. In addition, the origination process is subject to regular post-completion scrutiny, checking, and oversight.

Table 1

Key originator considerations

Paratus	Description
Collateral type	Paratus originates BTL and owner-occupied collateral. Paratus advances mortgages to borrowers with complex incomes, borrowers with immature credit profiles, first-time landlords and borrowers with historic credit issues. Paratus is a nonbank and therefore is not bound by the PRA's underwriting guidance on BTL loans, although it does abide by FCA guidelines. We performed our operational review and consider that the company generally adheres to PRA's principles. However, rental income calculation disregards ongoing costs, deviating from PRA guidelines. We captured this risk in our originator adjustment.
Lending policy versus peers and market standards	For BTL, lending policy follows market standards overall and is stricter than some peers in not permitting top-slicing. For owner-occupied, lending policy also follows market standards overall and is tighter than some peers in relation to tolerance to prior adverse credit.

Table 1

Key originator considerations (cont.)

Paratus	Description
Track record and experience	We rated several BTL and owner-occupied transactions from Paratus post-2014, though they have been lending for less than ten years. Securitization is integral to the lender's funding strategy, with Paratus raising more than £5.5 billion in securitizations since 2017.
Historical performance	The historical performance of the lender's mortgage book has proven relatively strong to date, with just eight loans suffering losses totaling £212,534 across a book that has a current principal balance of £3.34 billion.
Qualitative factors not captured above	None

Servicing

Servicing is in-house, and the servicing team uses a fully integrated servicing platform. Servicing is very proactive with early identification for vulnerable borrowers. FHL has well-established servicing systems and policies. We reviewed FHL's servicing and default management processes, and we believe it is capable of performing its functions in the transaction.

Collateral

We received loan-level data as of July 31, 2024, and historical performance data on the originator book since June 2015. We have also been provided with the offer pipeline as of July 31, 2024. The quality of data provided is in line with our standards.

We have not received a pool audit report at this stage but expect to receive one prior to closing. We have not applied any audit adjustments given the limited number of errors observed in the audit reports we have received previously for the Twin Bridges and Brants Bridge transactions.

We present below the stratification for the pool at cutoff.

Table 2

Collateral key features*

	Braccan Mortgage Funding 2024-1 PLC	Twin Bridges 2023-2 PLC	Twin Bridges 2023-1 PLC	Brants Bridge 2023-1 PLC	Brants Bridge 2022-1 PLC
Pool cutoff date	July 2024	August 2023	February 2023	May 2023	April 2022
Jurisdiction	U.K.	U.K.	U.K.	U.K.	U.K.
Originator	Foundation Home Loans (Paratus AMC Ltd.)	Foundation Home Loans (Paratus AMC Ltd.), Keystone Property Finance and Landbay Partners Ltd.	Foundation Home Loans (Paratus AMC Ltd.) and Keystone Property Finance	Foundation Home Loans (Paratus AMC Ltd.)	Foundation Home Loans (Paratus AMC Ltd.)
Principal outstanding of the pool (mil. £)	437.8	457.4	449.2	302.5	334.0
Potential prefunding	21%	None	None	None	None

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Table 2

Collateral key features* (cont.)

	Braccan Mortgage Funding 2024-1 PLC	Twin Bridges 2023-2 PLC	Twin Bridges 2023-1 PLC	Brants Bridge 2023-1 PLC	Brants Bridge 2022-1 PLC
Number of properties	2,126	2,085	2,064	1,061	1,257
WA interest rate	6.60% (pre-reversion, excluding index), 4.99% (WA margin post-reversion)	4.05% (pre-reversion), 4.73% (WA margin post-reversion)	3.98% (pre-reversion), 4.75% (WA margin post-reversion)	4.33% (pre-reversion), 4.99% (WA margin post-reversion)	3.73% (pre-reversion), 4.95% (WA margin post-reversion)
Average loan balance (£)	205,921	219,361	217,619	285,082	265,691
WA indexed current LTV ratio (%)	64.4	61.2	67.8	69.6	63.7
WA original LTV ratio (%)	69.5	69.9	71.5	70.7	66.3
WA seasoning (months)	28	43	27	9	9
Top three regional concentration (by balance)	Greater London (36.5%), South East (14.3%), and East Anglia (10.6%)	Greater London (51.6%), South East (13.5%), and East Anglia (8.9%)	Greater London (46.3%), South East (12.1%), and North West (6.9%)	Greater London (22.3%), South East (21.2%), and East Anglia (15.7%)	South East (23.3%), Greater London (22.9%), and East Anglia (15.9%)
Buy-to-let (%)	70.3	100	100	0	0
First-time buyers (on owner-occupied property) (%)	27.9	N/A	N/A	29.1	18.7
Self-employed (on owner-occupied property) (%)	62.1	N/A	N/A	60.2	54.2
One or more CCJ (primary and secondary borrowers)(%)	4.3	0.55	0.63	11.0	8.9
Interest-only and part-and-part (%)	76.6	97.1	96.6	30.2	34.8
Jumbo valuations (%)	12.5	8.0	5.2	22.4	30.1
WA 'AAA' RMVD (%)	61.9	63.9	62.9	60.9	61.2
Current arrears greater than or equal to one month (%)	1.3	2.3	0	0	0

*Calculations are according to S&P Global Ratings' methodology.
 WA--Weighted-average.
 LTV--Loan-to-value.
 CCJ--County court judgement.
 RMVD--Repossession market value declines.
 N/A--Not applicable.

Asset description

The transaction comprises a pool of first-ranking BTL (70.3%) and owner-occupied (29.7%) residential mortgage loans secured on properties in the U.K.

Of the provisional portfolio, 76.6% comprises interest-only loans and part-and-part mortgage loans. The majority of these are secured on BTL properties, but 9.8% of the pool refers to interest-only or part-and-part mortgage loans secured on owner-occupied properties. Since there is no mandatory capital repayment over the loan's term, there is a risk that the outstanding principal balance will not be paid by the end of the term. That said, we do not consider this to pose additional credit risk for U.K. BTL loans, as it is a standard product. We have therefore only applied an adjustment to our WAFF assumptions for the owner-occupied loans.

Of the borrowers, 44% are limited liability companies. All these loans must present personal guarantees during the underwriting process.

The assets are concentrated in Greater London (36.5%), South East (14.3%), and East Anglia (10.6%). The Greater London region exceeds the threshold defined in our criteria (26%) (see chart 5).

We applied a 1.2x adjustment to 46.6% of the pool to account for borrowers that increased their loan when remortgaging (whether to raise additional capital, for debt consolidation, BTL purchase, or home improvement purposes). The additional leverage might increase default risk compared to a refinance where no further funds are drawn.

Of the pool, 99.9% of the loans are either fixed-rate with a future switch to floating, or discount loans. Therefore, borrowers 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 pool has 44.5% fixed-rate loans with an interest revision date in 2026. Therefore, the prepayment rates might increase significantly, causing a reduction in excess spread. We have assessed this in our cash flow analysis.

Table 3

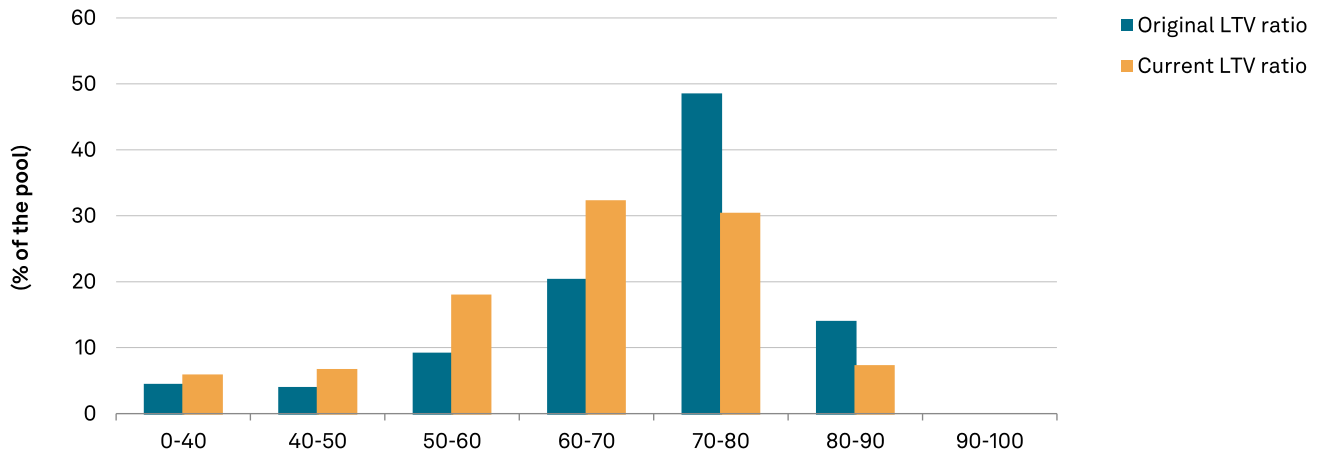
Fixed to floating rate and discount loans by reversion year

Year	% of pool
2024	0.84
2025	10.86
2026	44.54
2027	0.35
2028	6.05
2029	37.30

Borrower concentration is lower than in other BTL transactions, with the top 10 borrowers accounting for 5.0% of the pool's current balance. This is because 29.7% of the pool is owner-occupied.

Chart 1

Original and current LTV ratio distribution

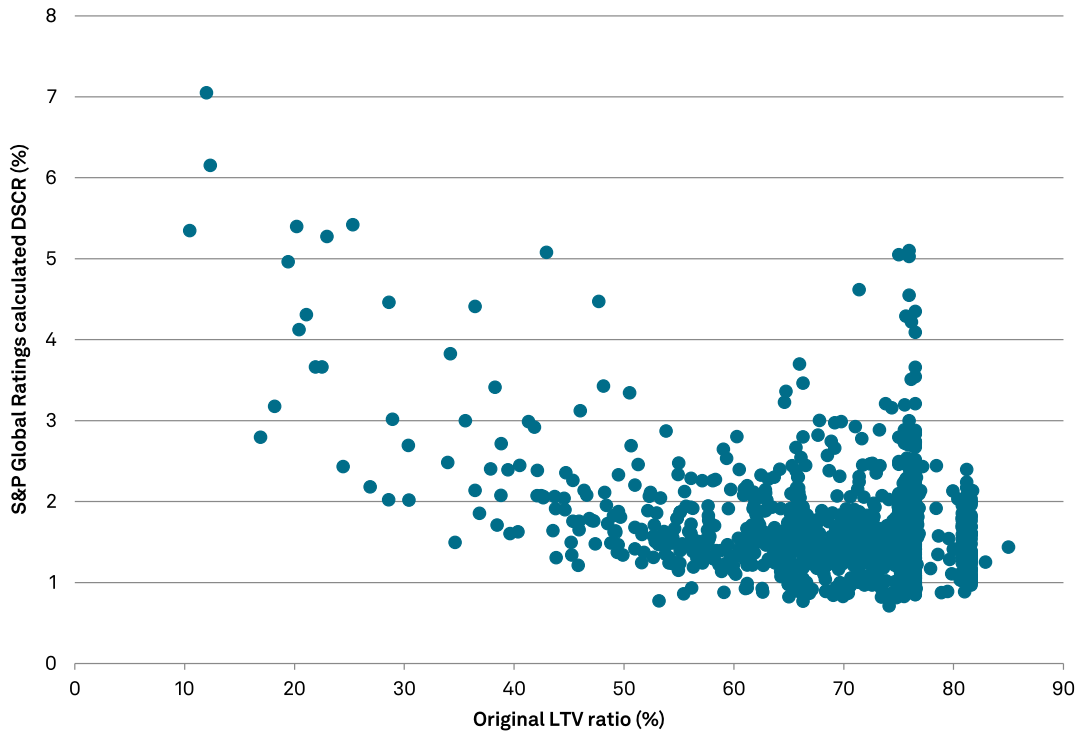


LTV--Loan-to-value.

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Chart 2

Debt service coverage ratio (DSCR)

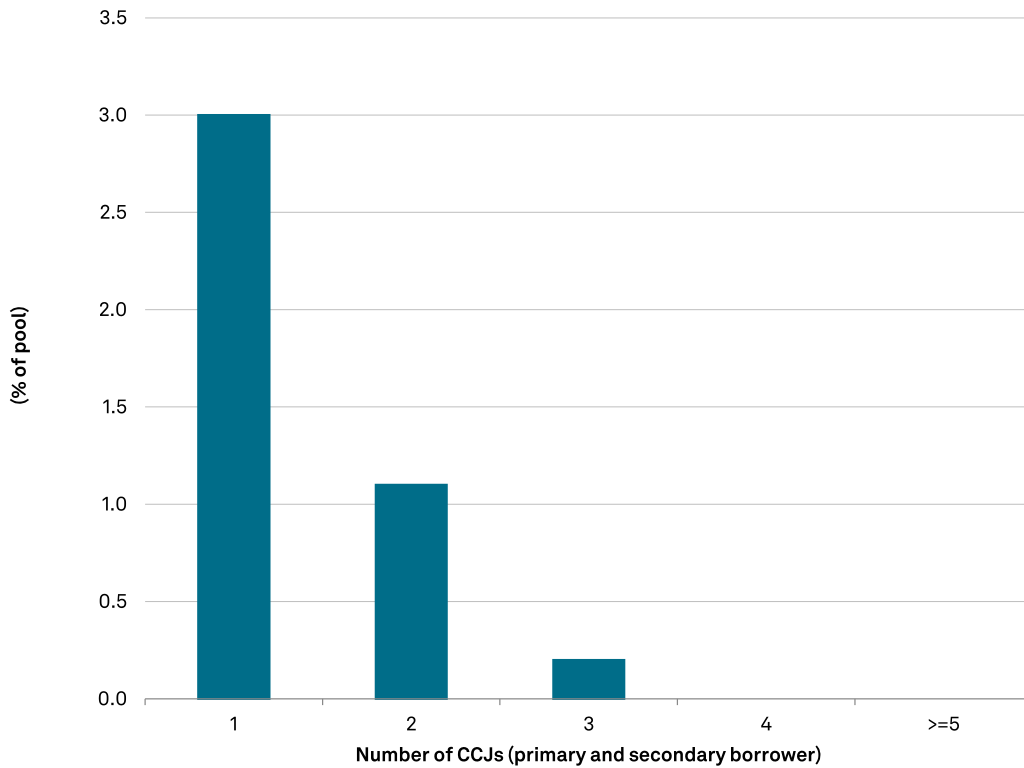


LTV--Loan to value.

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Chart 3

Number of county court judgements (CCJs)



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Table 4

Geographic concentration

Region	% of pool
East Anglia	10.6
East Midlands	4.2
Greater London	36.5
North	1.5
Northwest	9.9
Northern Ireland	0.0
Scotland	4.9
Southeast	14.3
Southwest	4.1
Wales	2.5
West Midlands	7.7
Yorks And Humber	3.9

Asset performance

The pool contains 1.3% of loans with at least one month of arrears. Within these, 0.4% are greater than 90 days in arrears. We have received the historical performance data on the originator's book, and the originations' performance has been good with limited losses to date.

Credit Analysis And Assumptions

We applied our global residential loans criteria to the provisional pool in order to derive the WAFF and WALs at each rating level (see table 5).

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 loans, properties, and associated borrowers.

Table 5

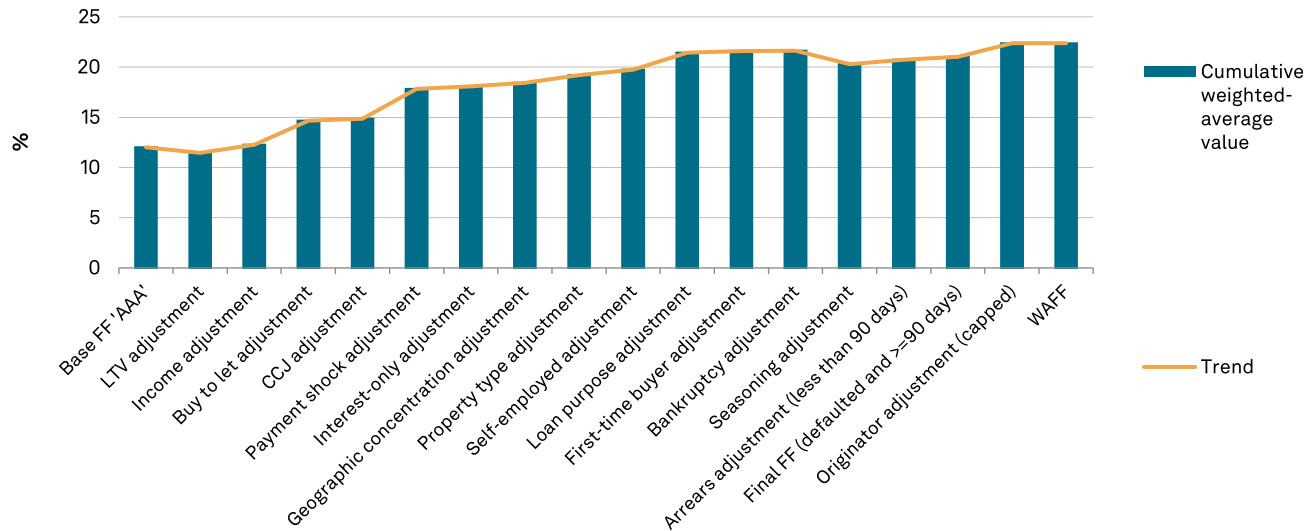
Portfolio WAFF and WALs

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	22.38	44.88	10.05
AA	15.13	37.30	5.64
A	11.46	25.30	2.90
BBB	7.78	18.22	1.42
BB	4.11	13.28	0.55
B	3.19	9.08	0.29

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

Chart 4

'AAA' cumulative WAFF distribution



WAFF--Weighted-average foreclosure frequency. LTV--Loan to value. CCJ--County court judgement. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Table 6

Weighted-average repossession market value declines at each rating level (post-jumbo adjustment)

Region	AAA (%)	AA (%)	A (%)	BBB (%)	BB (%)	B (%)
East Anglia	57.31	52.99	45.24	40.47	36.87	33.37
East Midlands	56.52	52.16	44.36	39.56	35.93	32.40
London	68.89	62.69	53.02	46.59	41.61	36.76
North	56.14	51.75	43.87	39.03	35.37	31.80
North West	56.48	52.14	44.35	39.57	35.95	32.43
Scotland	57.36	52.88	44.86	39.93	36.20	32.57
South East	69.75	63.95	54.23	47.77	42.76	37.88
South West	56.40	52.01	44.14	39.31	35.65	32.09
Wales	56.56	52.14	44.22	39.35	35.66	32.08
West Midlands	57.37	53.02	45.22	40.43	36.80	33.27
Yorks And Humber	57.21	52.80	44.89	40.02	36.34	32.76

Macroeconomic And Sector Outlook

The information in this section reflects our most recent published economic forecasts. The current U.K. macroeconomic outlook remains uncertain and has recently been subject to significant changes within short timeframes. In addition to increased energy costs and the overall cost of living, rate rise expectations remain fluid against a backdrop of a stagnating macroeconomic environment. The ratings assigned reflect this market uncertainty and our overall analysis considers the implications of a further deterioration in credit conditions.

Table 7

U.K. housing market statistics

	2023	2024f	2025f	2026f	2027f
Nominal house prices, % change y/y in Q4	(1.7)	1.4	2.3	2.6	2.9
Real GDP, % change	0.1	0.6	1.2	1.7	1.7
CPI inflation, % change y/y	7.3	2.8	2.4	2.1	2.0
Unemployment rate	4.0	4.4	4.6	4.4	4.4

Sources: S&P Global Ratings. Y/Y--Year on year. f--Forecast. CPI--Consumer Price Index.

We have also considered the transaction's ability to withstand extended foreclosure timing assumptions. The assigned preliminary ratings remain robust under these stresses.

Transaction Summary

Chart 5

Transaction structure



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The issuer is an English special-purpose entity (SPE), which we consider to be bankruptcy remote. We expect to assign credit ratings on the closing date subject to a satisfactory review of the transaction documents and legal opinions.

Interest will be paid quarterly on the IPDs, beginning in February 2025. The rated notes pay interest equal to compounded daily Sterling Overnight Index Average (SONIA) plus a class-specific margin, with a further step-up margin following the optional call date in February 2029. All the notes will reach legal final maturity in February 2067.

Deferral of interest

Under the transaction documents, interest payments on the class B to D-Dfrd notes can be deferred until they become the most senior. In addition, interest on the class X-Dfrd notes can be deferred until maturity, even when the class X-Dfrd notes are considered most senior following

redemption of the class D-Dfrd notes.

However, our preliminary rating on the class B notes addresses timely payment of interest, and our preliminary rating on the class X-Dfrd notes addresses the timely payment of interest and full, immediate repayment of all previously deferred interest once the class D-Dfrd notes are redeemed and the class X-Dfrd notes are the most senior class.

Prefunding

The transaction includes a prefunded amount of up to 21%, where the issuer can purchase loans until the first IPD in February 2025. There is the risk that the addition of these loans could adversely affect the pool's credit quality. Portfolio limitations are in place that mitigate this risk.

We have considered possible migration of the portfolio characteristics toward the limits outlined in the eligibility criteria, and have also performed credit analysis on the offer pipeline. Based on this analysis, we have not applied any adjustments to our WAFF or WALs assumptions as the eligibility criteria for prefunding are strict.

The transaction documents outline a weighted-average minimum post-swap margin and a minimum weighted-average reversionary rate for additional mortgages purchased after the closing date. This is to cover the risk that lower-yielding assets are purchased, or that there is an increase in the cost of hedging these additional loans during any initial fixed rate period, which is a requirement under the transaction docs, subject to conditions (see "Interest rate risk").

We have considered potential spread compression from the purchase of lower-yielding loans, rising swap costs, and negative carry risk in our cash flow analysis. The assigned preliminary ratings reflect the results of this analysis.

Product switches and further advances

The transaction documentation permits product switches. They are capped at 15% of the current balance of the portfolio's aggregate amount at closing, plus the prefunded amounts. They enable borrowers to re-fix their mortgage payments, subject to eligibility criteria. Product switches are only permitted before the step-up date. The product switch eligibility criteria outline a minimum post-swap yield for each product-switch loan, and a minimum weighted-average reversion margin on the product switch loans, which are fixed-rate mortgage loans and tracker mortgage loans. We performed additional sensitivities that capture the risk of margin deterioration, and the assigned preliminary ratings reflect the results of these sensitivities.

The transaction documentation also permits further advances. They are capped at 2.5% of the current balance of the portfolio's aggregate amount at closing, plus the prefunded amounts. Further advances are not permitted after the step-up date, and there is no obligation on the legal titleholder to offer a further advance on the underlying mortgage contract. Further advances can therefore only be offered if there are sufficient principal receipts in the transaction. To cover the risk that the LTV ratio of the pool may increase from further advances, the further advance eligibility criteria outlines a maximum indexed LTV ratio of the loans. As this condition is relatively strict as compared with the indexed LTV ratio of the pool at closing, we have not applied any adjustment to our WAFF and WALs.

General reserve fund

At closing, a nonamortizing general reserve fund will be fully funded by the proceeds of the

subscription of the class Z notes. The general reserve fund will provide liquidity support and credit enhancement to the class A to D-Dfrd notes. The general reserve has a required amount 0.5% of the class A, B, C-Dfrd, and D-Dfrd notes' closing balance. On each IPD, the general reserve fund is released to the revenue waterfall. On the IPD on which the balance of the general reserve and collections are sufficient to redeem the class D-Dfrd notes, the general reserve will be used to redeem the class D-Dfrd notes.

Liquidity reserve fund

A liquidity reserve fund will be established at closing but will be unfunded. It will be funded from principal receipts initially, until the cumulative amount of principal transferred equals the initial required amount of 1.3% of the class A and B notes' balance at closing. After this, it will be subsequently funded from available revenue receipts. As the class A and B notes amortize, the liquidity reserve fund will also amortize with a required amount of 1.3% of the class A and B notes' outstanding balance, with excess amounts released to available principal receipts.

The liquidity reserve fund will provide liquidity support for the class A notes at all times, and will only be available to provide liquidity support to the class B notes if the debit balance on the class B principal deficiency ledger (PDL) does not exceed 10% of its outstanding balance, or if the class B notes are the most senior.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses where the issuer would not have sufficient revenue receipts to pay senior fees or interest on the outstanding classes of notes. To mitigate this risk, the issuer can use any existing principal receipts to pay shortfalls in senior fees and interest on the class A notes. It can also use them to pay interest on the class B notes if the debit balance on the class B PDL does not exceed 10% of its outstanding balance or if the class B notes is the most senior class outstanding. It can use them to pay interest on the class C-Dfrd and D-Dfrd notes if that class is the most senior outstanding. 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 will be used only if the liquidity reserve and the general reserve fund have been exhausted.

Principal deficiency ledgers

The PDL will comprise four subledgers, one for each of the mortgage-backed classes of notes.

Amounts will be recorded on the PDL if the portfolio suffers any losses or if the transaction uses principal as available revenue receipts. Amounts will also be recorded on the PDL when the liquidity reserve fund is drawn.

Payment priority

Table 8

Priority of payments

Revenue priority of payments	Principal priority of payments
Senior fees and expenses (including servicing fees)	Top up liquidity reserve fund to target (until cumulative amount transferred from principal waterfall equals initial required amount)
Issuer profit	Principal borrowing (see "Principal to pay interest")
Swap payments	Class A notes' principal
Class A notes' interest	Class B notes' principal
Class A notes' PDL	Class C-Dfrd notes' principal
Class B notes' interest	Class D-Dfrd notes' principal
Top up liquidity reserve fund to target (after cumulative amount transferred from principal waterfall equals initial required amount)	Class Z notes' principal
Class B notes' PDL	Excess to revenue waterfall
Class C-Dfrd notes' interest	
Class C-Dfrd notes' PDL	
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Top up the general reserve fund to target	
Swap subordinated payments	
On or after step-up date, to principal waterfall until the class D-Dfrd notes are fully redeemed	
Class X-Dfrd notes' interest	
Class X-Dfrd notes' principal	
Excess to residual certificates	

PDL--Principal deficiency ledger.

Cash Flow Modeling And Analysis

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

Our preliminary ratings on the class A and B notes address the timely payment of interest and ultimate payment of principal, although the terms and conditions of the class B notes allow for the deferral of interest until they are the most senior class outstanding. Our preliminary ratings on the class C-Dfrd to X-Dfrd notes address ultimate payment of principal and interest while they are not the most senior class outstanding. When the class C-Dfrd to X-Dfrd notes become the most senior class outstanding, our ratings will address the timely payment of interest, including full immediate repayment of all previously deferred interest, and ultimate payment of principal, though the terms and conditions of the class X-Dfrd notes allow for the deferral of all interest even when they are the most senior.

The preliminary rating on the class B notes is below that indicated by our standard cash flow analysis. The assigned preliminary rating reflects the results of a sensitivity with extended

recovery timing.

The preliminary rating on the class X-Dfrd notes reflects the results of cash flow runs with higher levels of prepayments, interest rate deterioration due to the purchase of lower-yielding loans as part of the prefunding mechanism, interest rate deterioration due to borrowers taking product switches at a lower rate of interest, and cash flow runs that capture the negative carry during the prefunding period. In these cash flow runs, the class X-Dfrd notes face shortfalls at the 'B' rating level. Therefore, we applied our 'CCC' criteria to assess if either a rating of 'B-' or in the 'CCC' category would be appropriate for these notes (see "Related Criteria"). The 'CCC' criteria specify the need to assess whether there is reliance on favorable business, financial, and economic conditions to meet the payment of interest and principal.

Under our ratings definitions, a security would generally be rated 'B-' if we believe the obligor has the capacity to meet its financial commitment on the obligation under the current conditions (see "Related Research").

In the steady state scenario, where the current level of stress shows little to no increase and collateral performance remains steady, the class X-Dfrd notes no longer face shortfalls at the 'B' rating level. Therefore, we do not consider this class of notes to be currently vulnerable and dependent upon favorable business, financial, and economic conditions to pay timely interest and ultimate principal. Therefore, we have assigned a preliminary 'B- (sf)' rating to the class X-Dfrd notes.

Swap subordinated amounts

After the step-up date, after swap subordinated payments are made, any excess amounts in the revenue waterfall are diverted to the principal waterfall until the class D-Dfrd notes are fully redeemed. In our analysis, we have not sized for these swap subordinated amounts, but have instead assessed the rating of the swap counterparty in order to determine the rating levels at which we give credit to the turbo feature.

While the class X-Dfrd notes are below swap subordinated amounts in the revenue waterfall, the preliminary rating that we have assigned is below that of the swap counterparty.

Interest rate risk

To address the interest mismatch between the mortgage loans and the rated notes, the transaction will feature a fixed-to-floating interest rate swap, where the issuer will pay a fixed rate and receive SONIA to mirror the index paid on the notes. There is also a requirement that all fixed-rate exposure incurred after closing (from prefunding, product switches, and further advances) must be hedged. However, for product switches and further advances, the transaction can be underhedged by up to £2 million. We have considered the fact that the transaction can be underhedged by £2 million in our cash flow analysis and this is reflected in the preliminary ratings that we have assigned.

After all loans have reverted, the notes will pay a coupon based on the compounded daily SONIA, while interest rates on the mortgage loans are based on the Bank of England base rate. To account for this risk, we applied basis risk stresses in our cash flow modeling.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. We

have incorporated this in our cash flow analysis by assuming that the weighted-average yield on the portfolio drops by 0.22% at the 'AAA' level pre-reversion.

Once the loans switch to a floating interest rate, 99.9% of the loans will pay the Bank of England base rate plus 4.99%. Therefore, we consider the risk of spread compression to be limited after the reversion date.

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. In our analysis, we applied a stressed servicing fee of 0.36% (the higher of 1.5x actual fees and 0.25% of the pool balance) to account for the potential increase in costs to attract a replacement servicer, based on our global RMBS criteria.

Commingling risk

Borrowers pay into collection accounts held with Barclays Bank PLC in the name of the legal titleholder.

If the legal titleholder were to become insolvent, the mortgage collection amounts in the collection account may become part of the legal titleholder's bankruptcy estate. 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 accounts. The transaction documents do not contain replacement language in line with our counterparty criteria on the collection account, therefore we assume the loss of collections in an insolvency.

Although we believe that the declaration of trust partially mitigates against the loss of collections if there is an insolvency, given the lack of downgrade language on the collection account we have considered that collections could be lost in an insolvency. We have therefore applied a loss stress of one month of collections.

Setoff risk

There are no employee loans or deposit setoff exposure in the transaction. In addition, the borrowers are not entitled to flexible drawings or further advances under the loan conditions, and the granting of a further advance is at the full discretion of the legal titleholder.

Default and recovery timings

We used the WAFF and WALs derived in our credit analysis as inputs in our cash flow analysis (see table 9). 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 9

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

WAFF--Weighted-average foreclosure frequency.

We assume recoveries on the defaulted assets will be received 12 months after default for BTL properties, and 18 months after default for owner-occupied properties. We have also tested the sensitivity of the structure to increased foreclosure timing assumptions, to account for delays in repossession due to court backlogs and the Mortgage Charter.

Delinquencies

To simulate the effect of delinquencies on liquidity, we model a proportion of scheduled collections equal to one-third of the WAFF (in addition to assumed foreclosures reflected in the WAFF) to be delayed. We apply this in each of the first 18 months of the recession and assume a full recovery of these delinquencies will occur 36 months after they arise.

Prepayments

To assess the effect 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 10).

Table 10

Prepayment assumptions

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

A high proportion of fixed-rate loans have an interest revision date in 2026 and 2029, which could increase prepayments and reduce the asset yield. However, we believe that our 30% prepayment rate stress covers this risk for the mortgage-backed notes, given it is applied every year outside of the recession, and the fact that product switches are permitted up to 15% of the pool balance at closing, including prefunded amounts.

However, as the class X-Dfrd notes have a weighted-average life of less than six years, which is the length of our default curve, we have performed cash flow runs with higher levels of prepayments to capture the fact that there is otherwise limited stress applied to these notes in our cash flow analysis.

Interest rates

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

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 11).

Table 11

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 Elavon Financial Services DAC, U.K. Branch as the transaction account provider, to National Australia Bank Ltd. as swap counterparty, and to Barclays Bank PLC as the servicer's collection account (see table 12).

The documented replacement mechanisms for the transaction account and swap provider adequately mitigate the transaction's exposure to counterparty risk, in line with our counterparty criteria. No downgrade language applies to the collection account, so we assume a loss stress on collections in our cash flow analysis and whether the structure can withstand this event (see "Commingling risk")

Table 12

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	A+/Stable/A-1	N/A	N/A	'AAA' (commingling loss stress applied in our cash flow analysis)
Elavon Financial Services DAC, U.K. Branch as transaction account provider*	A+/Stable/A-1	A	30	AAA

Table 12

Supporting ratings (cont.)

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
National Australia Bank Ltd. as swap counterparty	AA-/Stable/A-1+	BBB+	90 calendar days to find a replacement and 10 business days for collateral posting	AAA

*Rating derived from the rating on the parent entity.

Sovereign Risk

Our long-term unsolicited sovereign credit rating on the U.K. is 'AA'. This enables the notes to achieve a maximum potential rating of up to 'AAA'. Therefore, our structured finance sovereign risk criteria do not constrain our preliminary ratings in this transaction.

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.

Table 13

Sensitivity stresses

WAFF	WALS		
	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

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

Table 14

Sensitivity analysis results

Class	Base Case	Sensitivity 1	Sensitivity 2	Sensitivity 3	Sensitivity 4	Sensitivity 5	Sensitivity 6	Sensitivity 7	Sensitivity 8
A	AAA	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA
B	AA-	AA-	A+	AA-	AA-	AA-	A+	A+	A
C-Dfrd	A	A	A-	A	A	A	A-	A-	BBB+
D-Dfrd	BBB+	BBB	BBB	BBB+	BBB	BBB	BBB	BBB	BBB-
X-Dfrd	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower

Appendix

Transaction participants

Role	Participant
Arrangers	Natixis S.A. and Lloyds Bank Corporate Markets PLC
Cash manager	U.S. Bank Global Corporate Trust Ltd.
Corporate services provider	CSC Capital Markets UK Ltd.
Issuer	Braccan Mortgage Funding 2024-1 PLC
Joint lead managers	Deutsche Bank AG, London Branch, Lloyds Bank Corporate Markets PLC, Natixis S.A., RBC Europe Ltd., SMBC Nikko Capital Markets Ltd., and BNP Paribas S.A.
Note trustee	U.S. Bank Trustees Ltd.
Originator/legal title holder/servicer	Paratus AMC Ltd.
Principal paying agent/agent bank	Elavon Financial Services DAC., U.K. Branch
Registrar	Elavon Financial Services DAC
Security trustee	U.S. Bank Trustees Ltd.
Seller	Paratus AMC Ltd.
Share trustee	CSC Corporate Services (UK) Ltd.

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