S&P Global
Ratings

Research

Presale:

Tower Bridge Funding 2024-3 PLC

August 27, 2024

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Preliminary ratings

Class	Preliminary rating*	Amount (%)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	87.00	14.50	Compounded daily SONIA plus margin	Compounded daily SONIA plus margin	September 2026	December 2066
B-Dfrd	AA (sf)	6.50	8.00	Compounded daily SONIA plus margin	Compounded daily SONIA plus margin	September 2026	December 2066
C-Dfrd	A (sf)	3.25	4.75	Compounded daily SONIA plus margin	Compounded daily SONIA plus margin	September 2026	December 2066
D-Dfrd	BBB- (sf)	2.75	2.00	Compounded daily SONIA plus margin	Compounded daily SONIA plus margin	September 2026	December 2066
E-Dfrd	BB (sf)	0.50	1.50	Compounded daily SONIA plus margin	Compounded daily SONIA plus margin	September 2026	December 2066
X-Dfrd	B- (sf)	2.00	N/A	Compounded daily SONIA plus margin	N/A	N/A	December 2066
Z	NR	1.50	N/A	Fixed rate of 0%	N/A	N/A	December 2066
Certificates	NR	N/A	N/A	N/A	N/A	N/A	December 2066

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 notes, and the ultimate payment of interest and principal on all the other rated notes. Our ratings also address timely receipt of interest on the class B–Dfrd to E-Dfrd notes when they become the most senior outstanding and full immediate repayment of all previously deferred interest. §Credit enhancement for the class A to E-Dfrd notes is provided by subordination and the general reserve fund. SONIA--Sterling Overnight Index Average. NR--Not rated. N/A--Not applicable.

Transaction Summary

- Tower Bridge Funding 2024-3 PLC (TBF 2024-3) 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.
- At closing, the issuer will prefund the acquisition of an additional portfolio (subject to compliance with the respective eligibility criteria) of approximately 16.4% of the total transaction size that may be purchased before and up to the first interest payment date (IPD).
- Belmont Green Finance Ltd. (BGFL), a nonbank specialist lender, originated the loans in the preliminary pool between 2017 and 2024 via its specialist mortgage lending brand, Vida Homeloans.
- Approximately 25.7% of the assets in the transaction were previously securitized in prior Tower Bridge transactions that we rated. The loans were acquired from the respective transactions by the seller either as part of a call option being exercised or where loans were repurchased because product switch limits were reached in the transactions.
- The collateral comprises complex income borrowers with limited credit impairments, and has a high exposure to self-employed, contractors, and first-time buyers. Approximately 71.0% of the preliminary pool comprises BTL loans and the remaining are owner-occupier loans.
- The transaction documentation permits product switches and further advances until the step-up date, subject to certain conditions.
- The transaction will benefit from a fully funded general reserve fund, which provides credit support to the class A to class E-Dfrd notes. The transaction has a liquidity reserve fund, funded initially via the principal waterfall, to provide liquidity support to the class A and B-Dfrd notes. Principal can be used to pay senior fees and interest on the rated notes subject to conditions.
- At closing, the issuer will use the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller. The issuer will grant security over all its assets in the security trustee's favor.
- There are no rating constraints in the transaction under our counterparty, operational risk, or structured finance sovereign risk criteria. We expect the issuer to be bankruptcy remote at closing.
- At closing, BGFL will be the mortgage administrator, with servicing delegated to Homeloan Management Ltd. (HML), part of the Computershare group.

The credit story

Strengths	Concerns and mitigating factors
Securitization is an integral part of the lender's funding strategy, and it has issued 12 publicly rated transactions.	Of the loans in the preliminary pool, 30.10% have an interest reversion date in 2026, 7.10% have an interest reversion date in 2027, while 60.61% have an interest reversion date in 2028/2029. These borrowers are likely to face a payment shock when moving on to their floating rate, which we have reflected in our credit analysis. BGFL's affordability assessment for five-year-plus fixed-rate BTL loans is performed at the initial rate, instead of the higher of the 5.5% initial rate plus the residential interest rate stress; and the initial rate plus 2.0% for short-term fixed-rate loans. For owner-occupied loans, interest is not stressed at origination if the tenor is five years or more. We captured this differentiation between the interest rate stress applied between the different initial fixed-rate periods in our payment shock adjustment. Higher reversion floating rates on the loans also pose a prepayment risk for noteholders, which we incorporated in our cash flow analysis.
The historical performance of the lender's mortgage book has proven relatively strong to date when compared with competitors.	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. The product switch eligibility criteria outline a minimum post-swap yield for each product switch loan. Product switches are permitted up to a limit of 1.0% of the current balance of the portfolio's aggregate amount as of closing. This limit is 2.5% for further advances. Both product switches and further advances are only permitted subject to compliance with the respective eligibility criteria. We incorporated potential spread compression from product switches within our cash flow analysis.
The lender is a nonbank specialist lender. Although not specifically bound by the Prudential Regulatory Authority's underwriting guidance on lending, it adheres to its principles. BGFL uses an application scorecard developed in partnership with Experian, which BGFL monitors monthly.	The borrowers in the preliminary pool are typically those to whom "high street" banks do not provide mortgages. Typically, this may be because they have less-than-perfect credit, are self-employed, have complex income streams that require more prudent analysis during underwriting, or they may be first-time landlords. We have considered this in our assessment of the lending policy and underwriting standards and captured this within our credit analysis through the originator adjustment.
The lender has an effective governance framework, and the board approves all policies. Manual underwriting and independent risk oversight occurs if exceptions arise to mandates and credit policies.	Of the portfolio, 10.7% have had prior county court judgments (CCJs) (based on our methodology). Additionally, 5.3% of the owner-occupied loans were advanced to self-employed borrowers, and 15.6% to first-time buyers. Loans with these characteristics are more likely to exhibit a higher default probability than otherwise similar loans. We addressed these features in our credit analysis. At the same time, for approximately 30% of the loans advanced to first-time buyers, the average seasoning exceeds 18 months and the majority of these loans are not in arrears, which means they do not attract our first-time buyer adjustment given seasoning is a mitigant to this risk.
BGFL is the administrator in the transaction; however, the servicing is delegated to Computershare. Since Computershare also provides third-party servicing, it has well-established and fully integrated servicing systems and policies. BGFL oversees servicing and servicing practices, ensuring they comply with its policies.	Less than 1% of the loans within the preliminary pool have top slicing, i.e., the addition of borrowers' income to rental income, to meet stressed affordability requirements. These accounts were originated historically given that from July 2021, BGFL no longer supports lending that involves top-slicing. Generally, top slicing can be a concern if not done at the property portfolio level because borrowers may be using a single income stream to meet stressed affordability conditions on several loans. However, this risk was mitigated considering that BGFL assesses affordability with top-slicing. This is because BGFL can identify if borrowers were using additional income to supplement rental income under a different loan as part of the underwriting process. Effectively, this additional income was assessed on a net basis and avoids any double counting.

The credit story (cont.)

Strengths	Concerns and mitigating factors
The preliminary pool has a low current indexed loan-to-value (LTV) ratio of 68.9%, which is more likely to incur lower loss severities if the borrower defaults. Minimal loans have an LTV ratio above 80% and debt service coverage ratio (DSCR) below 1.2x. Therefore, the pool has limited risk layering, i.e., loans with high LTV ratios and low DSCRs.	Given BGFL's specialized lending in the BTL space, the preliminary pool has an exposure of 19.9% to multifamily properties, of which 14.1% is to houses in multiple occupation (HMOs) and 5.8% is multi-unit freehold blocks (MUFBs) (based on our methodology). Of the preliminary pool, 6.5% refers to multifamily properties that contain more than five units for MUFBs and more than five bedrooms for HMOs. We consider multifamily properties to have both strengths, such as higher rental income, but also potential weaknesses such as liquidity. We consider BGFL's underwriting on multifamily properties to be in line with market standards. 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.
A nonamortizing general reserve will be fully funded at closing and will provide credit enhancement and liquidity for the class A to class E-Dfrd notes. The transaction can also use principal receipts to pay senior fees and interest on the rated notes subject to conditions. An amortizing liquidity reserve fund provides liquidity to the class A and B-Dfrd notes. This will not be funded at closing. Instead, the principal waterfall will initially fund this reserve, which will absent sufficient excess spread create a principal deficiency ledger (PDL) on the most junior class of notes.	The notes pay a coupon based on the compounded daily SONIA, while interest rates on the mortgage loans before reversion are based on fixed rates for most loans. A swap mitigates this mismatch, which we considered in our cash flow analysis.
If the notes are not redeemed on the optional redemption date, all the revenue proceeds after paying the class X-Dfrd notes' principal will be diverted to pay principal on the most senior notes, therefore providing more protection to the senior notes.	The interest rates on all the mortgage loans after reversion is based on the Vida Variable Rate (VVR). VVR is a discretionary variable rate that BGFL can change. However, the transaction documents feature a floor on the VVR (at SONIA plus 1.5%). We modeled the VVR at the floor rate in our cash flow analysis to account for the risk of a reduced VVR.
The application of principal proceeds is fully sequential. Credit enhancement can therefore build up for the rated notes, enabling the capital structure to withstand performance shocks.	Of the preliminary pool, 1.8% by current balance are help-to-buy mortgages. We calculate LTV ratios based on the loan balance taken out with the mortgage lender and not with the combined LTV ratio considering the loan amounts to both the mortgage lender and the government. Given the high overall LTV ratios, we consider that refinancing opportunities will be lower for such borrowers in a period of economic stress. As such, certain servicing strategies that may prevent default may not be open to such borrowers. Consequently, we apply a product-specific adjustment to all help-to-buy loans within our credit analysis.
The transaction incorporates a swap to hedge the mismatch between the notes, which pay a coupon based on the compounded daily SONIA, and loans, which pay fixed-rate interest before reversion. This transaction also features dynamic hedging to hedge additional exposure to fixed-rate loans from loans purchased during the prefunding period, product switches, and further advances.	The seasoning of the preliminary pool is low, at 25 months. However, approximately 25.7% of the preliminary pool has historically been securitized and we have historical credit performance on the overall book of the originator.

The credit story (cont.)

Strengths	Concerns and mitigating factors
There will be positive excess spread in the transaction from closing. At closing, we estimate excess spread to be 0.5% and after the step-up date, we estimate excess spread to be 2.7% per year after the cost of the liabilities, senior fees, and the post-haircut standard variable rate (SVR) margin (see "Interest rate risk").	We expect inflation and interest rates to remain high in the U.K. in the near term. Our credit and cash flow analysis and related assumptions consider the transaction's ability to withstand the potential repercussions of the current economic environment--including higher inflation, an increase in the cost of living, and interest rate rises--such as higher defaults and longer recovery timing due to a potential backlog in court cases. Considering these factors, we believe that the available credit enhancement is commensurate with the preliminary ratings assigned. As the situation evolves, we will update our assumptions and estimates accordingly. 71.0% of the preliminary pool refers to BTL mortgages and although underlying tenants may be affected by inflationary pressures, the borrowers in the preliminary pool are generally considered to be professional landlords and will benefit from diversification of properties and rental streams.
	The transaction will include an approximately 16.4% prefunded amount where the issuer can purchase loans until the first IPD. Therefore, it could be exposed to negative carry, as no prefunding revenue reserve fund will cover this risk. We considered this in our cash flow analysis.There is the risk that the addition of these loans could adversely affect the pool's credit quality. Portfolio limitations and eligibility criteria are in place that mitigate this risk. We have factored into our credit analysis the offer pipeline (for mortgage offers that have been made on or before July 31, 2024) as well as the product switch pipeline (for borrowers switching in August/September 2024 as well as those that wish to switch at a later date). As the pipelines cover 100% of the prefunded loans, we are able to consider the characteristics of these loans in our credit analysis and to consider possible migration of these portfolio characteristics in our weighted-average foreclosure frequency (WAFF) assumptions. We have also considered potential spread compression in our cash flow analysis.

SONIA--Sterling Overnight Index Average.

Changes From The Previous Transaction

The transaction is similar to the Tower Bridge Funding 2024-2 PLC transaction, however some differences are listed below.

- Prefunding (16%) is present in this transaction. The last time we rated a Tower Bridge transaction with prefunding was Tower Bridge Funding 2021-2 PLC.
- The weighted-average indexed current loan-to-value (CLTV) ratio of the preliminary pool stands at 68.9%, compared with 63.3% in the previous transaction.
- The weighted-average indexed original loan-to-value (OLTV) ratio of the preliminary pool stands at 73.5%, compared with 71.4% in the previous transaction.
- The proportion of the preliminary pool that has a DSCR in excess of 1.35x stands at 39.0%, compared with 22.8% in the previous transaction.
- The exposure to Greater London has decreased to 32.5% for the current transaction from 40.4% in the previous transaction (based on our methodology). While both exposures are above our geographic concentration thresholds for Greater London, the excess above the threshold has decreased.
- Loan-level arrears greater than or equal to one month for the preliminary pool stand at 1.4%, compared with 2.5% for the previous transaction. Arrears of greater than equal to 90 days

stand at 0.3% compared with 0.6% in the previous transaction at closing.

- The product switch limit has decreased to 1.0% from 5.0%.

Environmental, Social, And Governance

Our rating 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.

We view the exposure to governance factors as below average because, in line with other structured finance transactions, there are strong governance frameworks through, for example, the generally very tight restrictions on what activities the special-purpose entity can undertake, compared with other entities.

Collateral And Originator

BGFL is a nonbank specialist lender in the U.K. It was set up in 2015 and launched its lending business later in 2016, through its brand Vida Homeloans. The business was initiated via private equity funding to target owner-occupied and BTL customers who may not fit the criteria currently demanded by high street lender banks, such as borrowers that need gifted deposits, U.K. overseas borrowers, unusual income like contractors or short work history, and small impaired credit history, among others.

BGFL relies on its securitization platform (Tower Bridge Funding) to fund its mortgage business, and it has issued 12 publicly placed transactions.

BGFL's current strategy, through the different products offered, focuses on borrowers with credit or income complexity such as self-employed, contractors, and first-time buyers. BGFL's business is fully intermediated via mortgage brokers in line with peers, and the brokers' performance is reviewed regularly.

For owner-occupied loans, BGFL's residential products vary from complex income borrowers with no recent adverse credit to borrowers who have had limited adverse credit events in the past year. For BTL loans, BGFL focuses on individuals and limited companies (with personal guarantees). It also has specific products for professional landlords focusing on HMOs or multiple units in the same block.

BGFL uses an underwriting application scorecard developed by Experian, with performance and stability metrics of the application score reviewed monthly. Manual checks also supplement underwriting. All underwriters are suitably mandated, and a clear mandate structure exists for the approval of complicated cases.

The underwriter fully verifies income and could consider up to 100% of a regular bonus in the affordability assessment. For self-employed borrowers, BGFL assesses income based on a minimum 12-month trading history, with income verified.

The lender instructs all valuations, and they are full internal inspections. For BTL cases, the valuer validates rental income.

For multifamily properties such as HMOs and MUFBs, BGFL values them using a brick-and-mortar basis. BGFL also considers the cost of managing the properties while underwriting.

Exceptions to the lending policy may occur, although these are limited and need to be appropriately approved.

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

Servicing

BGFL is the administrator in the transaction. However, the servicing is delegated to HML, part of the Computershare group. Since Computershare also provides third-party servicing, it has well-established and fully integrated servicing systems and policies. BGFL oversees servicing, and ensures servicing practices are in line with its policies. Servicing is very proactive with early identification for vulnerable borrowers.

We reviewed Computershare's servicing and default management processes, and we believe it can perform its functions in the transaction.

Collateral

We received loan-level data as of July 31, 2024, and historical performance data on the originator book. The quality of data provided is in line with our standards.

We received a 99/1 pool audit report for this transaction (similar to the previous Tower Bridge transaction). We therefore did not adjust our weighted-average foreclosure frequency (WAFF) given the report contained no major errors.

As of the July 31, 2024, pool cutoff date, the preliminary pool of £250.8 million comprised 1,351 loans secured on BTL and owner-occupied properties located in the U.K. (mainly in the South East and Greater London; see table 1). The transaction comprises loans originated between 2017 and 2024.

Table 1

Geographic concentration

Region	Proportion of loans by current balance (%)
East Anglia	10.9
East Midlands	5.2
Greater London	32.5
North	2.7

Table 1

Geographic concentration (cont.)

Region	Proportion of loans by current balance (%)
North West	6.5
Northern Ireland	0.0
Scotland	7.1
South East	12.7
South West	6.8
Wales	3.5
West Midlands	7.0
Yorks And Humber	5.1

Table 2

Source of assets being securitized

Originator	% of pool	Rated by S&P Global Ratings?
Tower Bridge Funding 2021-1 PLC	0.87	Yes
Tower Bridge Funding 2021-2 PLC	1.67	Yes
Tower Bridge Funding 2022-1 PLC	1.4	Yes
Tower Bridge Funding 2023-1 PLC	21.72	Yes
Not previously securitized	74.34	N/A

N/A--Not applicable.

Table 3

Collateral key features*

	Tower Bridge 2024-3 PLC	Tower Bridge 2024-2 PLC	Tower Bridge 2024-1 PLC	Tower Bridge 2023-2 PLC	Tower Bridge 2023-1 PLC	Tower Bridge 2022-1 PLC	Tower Bridge 2021-2 PLC (combined)	Tower Bridge 2021-1 PLC (combined)	Tower Bridge 2020-1 PLC
Pool cutoff date	July 2024	March 2024	November 2023	May 2023	December 2022	December 2021	June 2021	February 2021	June 2020
Jurisdiction	U.K.	U.K.	U.K.	U.K.	U.K.	U.K.	U.K.	U.K.	U.K.
Originator	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.	Belmont Green Finance Ltd..	Belmont Green Finance Ltd.	Belmont Green Finance Ltd.
Principal outstanding of the pool (mil. £))	250.8	300	306.04	400.00	350.00	400.00	324.31	354.57	343.12
Number of properties	1,351	1,484	1,645	1,910	1,673	1,807	1,594	1,871	1,785
Average loan balance (£)	185,617	202,156	186,041	209,424	209,205	221,360	203,455	189,507	192,223

Table 3

Collateral key features* (cont.)

	Tower Bridge 2024-3 PLC	Tower Bridge 2024-2 PLC	Tower Bridge 2024-1 PLC	Tower Bridge 2023-2 PLC	Tower Bridge 2023-1 PLC	Tower Bridge 2022-1 PLC	Tower Bridge 2021-2 PLC (combined)	Tower Bridge 2021-1 PLC (combined)	Tower Bridge 2020-1 PLC
Weighted-average indexed current LTV ratio (%)	68.8	63.3	63.9	68.4	68.62	66.27	69.30	71.40	71.40
Weighted-average original LTV ratio (%)	73.5	71.4	70.7	72.6	74.00	70.91	70.43	72.52	72.10
Weighted-average seasoning (months)	25	37	33	29	34	28	23	16	7
Top two regional concentration (by balance)	Greater London (32.5%), South East (12.7%)	Greater London (40.4%), South East (14.6%)	Greater London (35.9%), South East (13.5%)	Greater London (40.8%), South East (13.1%)	Greater London (45.54%), South East (13.57%)	Greater London (45.12%), South East (14.49%)	Greater London (46.66%), South East (13.39%)	Greater London (31.21%), South East (16.65%)	Greater London (43.1%), South East (22%)
First-time buyers (%)	20.9	19.0	19.7	16.4	12.87	7.33	8.31	25.11	11.10
Buy-to-let (%)	71.0	69.1	69.3	74.4	78.48	81.87	78.38	56.42	77.60
One or more CCJ (%)	10.7	8.6	12.0	10.8	7.50	6.48	8.38	15.65	7.50
Interest only (%)	69.1	69.5	68.9	73.7	76.98	80.62	77.99	57.35	75.90
Jumbo valuations (%)	2.9	3.6	2.7	3.2	2.10	6.23	3.38	4.66	3.90
Weighted-average 'AAA' RMVD (%)	61.1	62.4	61.7	62.3	N/A	N/A	N/A	N/A	N/A
Current arrears greater than or equal to one month (%)	1.4 (0.3% arrears of greater than or equal to 90 days)	2.5 (0.6% arrears of greater than or equal to 90 days)	2.5 (0.1% arrears of greater than or equal to 90 days)	1.62 (0.4% arrears of greater than or equal to 90 days)	1.42	0.90	1.15	1.30	0.50

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

Asset description

Of the portfolio, 31.0% comprises repayment mortgage loans, and 69.0% comprises interest-only loans. Just 0.7% of the preliminary pool refers to owner-occupied loans that are interest-only, hence the majority of interest-only loans are BTL loans. Given that interest-only loans are standard mortgage products in the BTL market, we do not consider this concentration a credit risk.

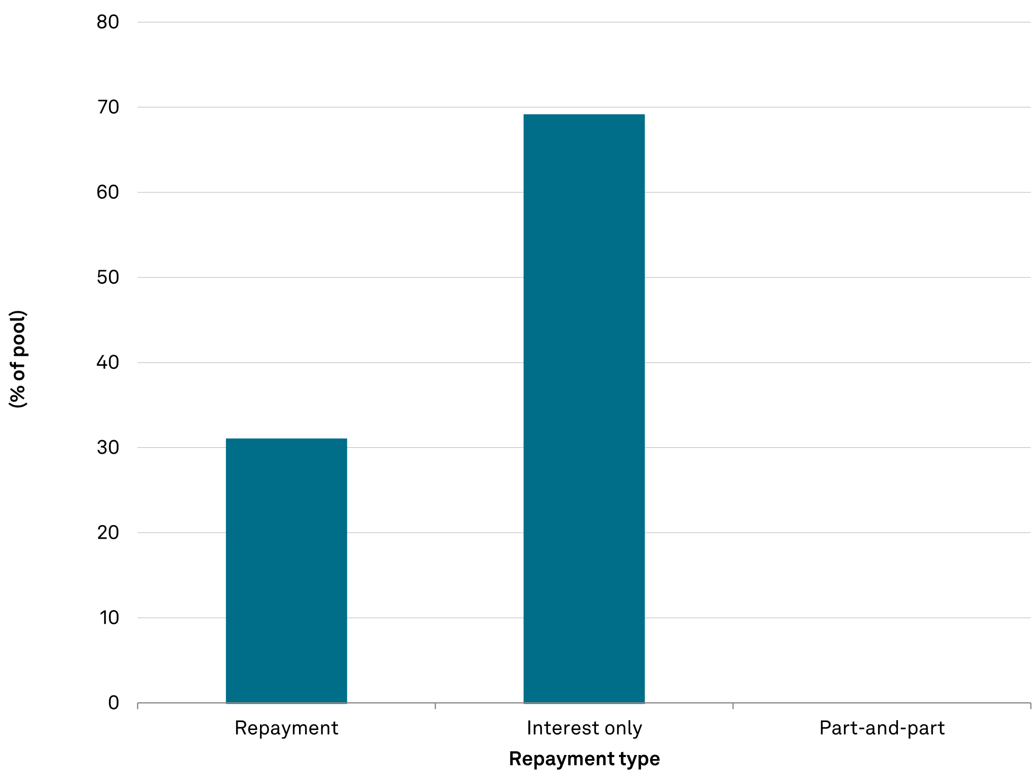
The assets are well-distributed geographically. However, there is some concentration in Greater

London given the exposure to BTL loans. We applied adjustments for regions exceeding the threshold defined in our criteria.

We also applied an adjustment for those cases where the borrower increased the loan size when remortgaging or where previous debts were consolidated in a new mortgage loan (42.6%). The additional leverage might increase the risk of default compared to a refinance in which no further funds are drawn. In our view, in a professional BTL context, remortgages are normally used to fund the purchase of additional properties.

Chart 1

Repayment type distribution



Of the preliminary pool, only 1.8% (previous transaction 9.3%) by current balance are help-to-buy mortgages. We calculate LTV ratios based on the loan balance taken out with the mortgage lender and not with the combined LTV ratio considering the loan amounts to both the mortgage lender and the government. However, given the high overall LTV ratios, we consider that refinancing opportunities will be lower for such borrowers in a period of economic stress, and as such, certain servicing strategies that may prevent default may not be open to such borrowers. Consequently, we apply a product-specific adjustment to all help-to-buy loans within our credit analysis. Borrower concentration is not significant given the preliminary pool's borrower profile.

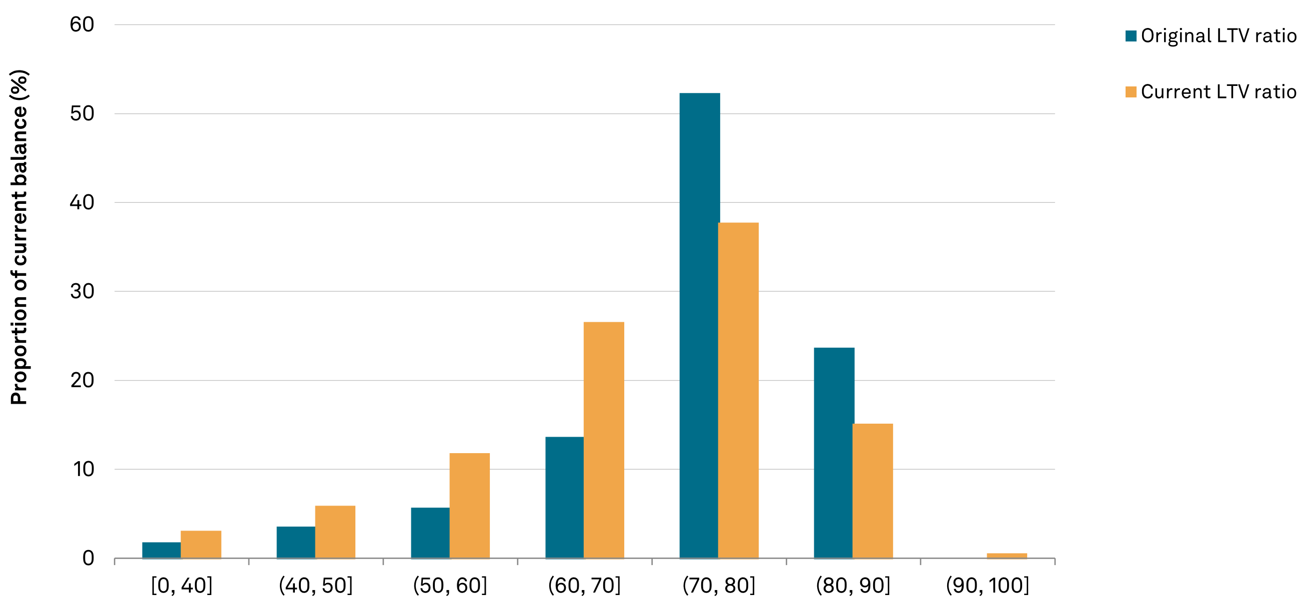
A high proportion of fixed-rate loans revert to higher reversionary rates when incorporating the VVR. Therefore, the borrowers who unable to refinance might be exposed to a payment shock. We adjusted our foreclosure frequency assumptions accordingly. We believe the short-term fixed-rate owner-occupied loans and short-term fixed-rate BTL loans (less than five years) in this portfolio will be less affected by a payment shock because they were underwritten using a stressed rate. For these loans, we applied a lower payment shock adjustment.

In addition, a high proportion of fixed-rate loans have a reversionary date in the next five years, with 2.19%, 30.10%, 7.10%, 0.41%, and 60.20% of the preliminary pool reverting in 2025, 2026, 2027, 2028, and 2029, respectively. Therefore, the prepayment rates might increase significantly, lowering excess spread. We captured this risk by performing sensitivities with higher levels of prepayments in our cash flow analysis. At the same time, the transaction documentation permits product switches. This may reduce this risk, which we also assessed in our cash flow analysis.

Just 3.27% of the BTL loans have original LTV ratios above 80% and DSCRs below 1.2x. Therefore, the preliminary pool has limited risk layering, i.e., loans with high LTV ratios and low DSCRs.

Chart 2

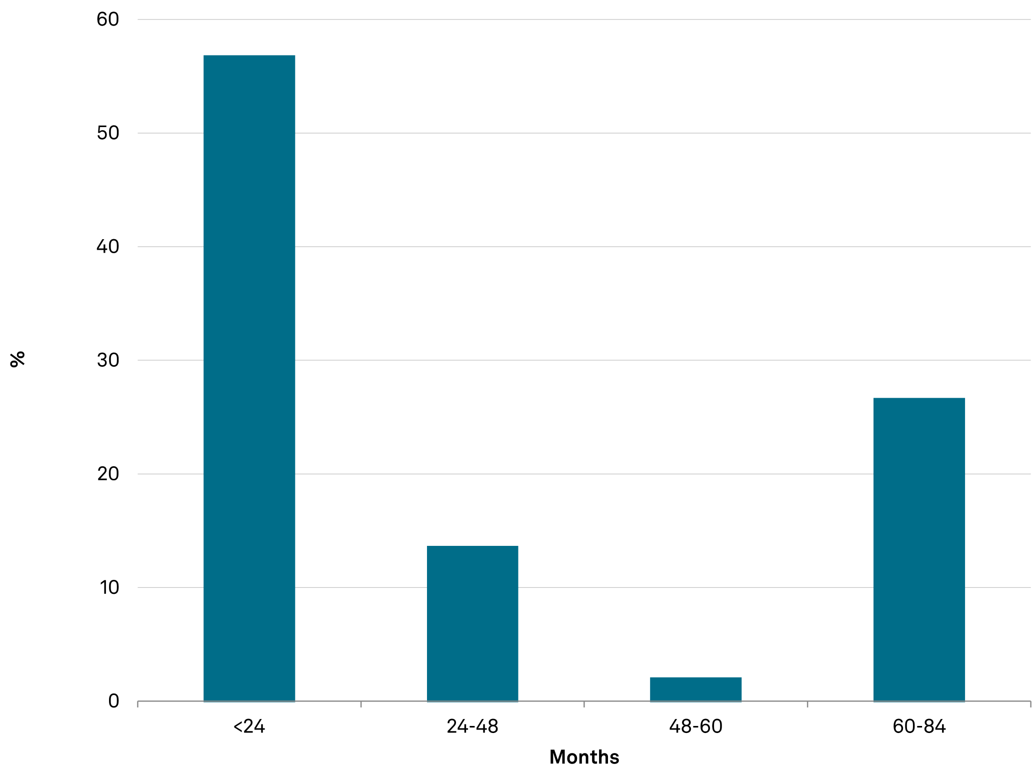
Original and current LTV ratio distribution



LTV--Loan-to-value.

Chart 3

Seasoning distribution



All loans in the preliminary pool pay interest based on a fixed rate, but all will revert to a floating interest rate.

Table 4

Loans by fixed-rate reversion year

Reversion year	As a proportion of all fixed-rate loans by current balance (%)
2025	2.19
2026	30.10
2027	7.10
2028	0.41
2029	60.20

Of the portfolio, 10.7% have had prior CCJs (based on our methodology), and only one was registered in the past year, and most of the borrowers with CCJs have had one prior CCJ. BGFL offers specific products to customers with minor credit impairments, like small life events, minor unsecured arrears, and satisfactory debt management plans. We reflected this in our analysis by adjusting the foreclosure frequency.

Asset performance

The preliminary pool comprises 1.4% of loans in arrears (greater than or equal to one month in arrears), with 0.3% of loans in 90+ days arrears. Additionally, we have received the historical performance data on the originator's book. The originations have performed well versus competitors, with generally low arrears.

Credit Analysis And Assumptions

We applied our global residential loans criteria to the preliminary pool to derive the WAFF and the weighted-average loss severity (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

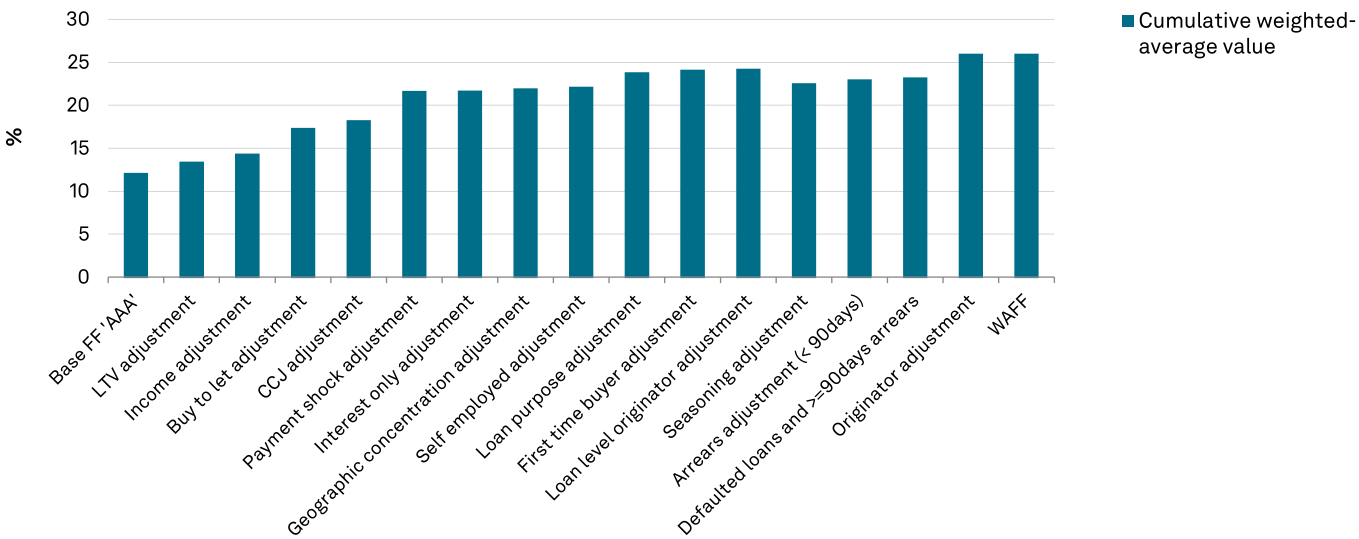
Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	25.88	46.30	11.98
AA	17.46	39.07	6.82
A	13.22	27.69	3.66
BBB	8.92	20.84	1.86
BB	4.63	16.02	0.74
B	3.55	11.76	0.42

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

Chart 4

'AAA' cumulative WAFF distribution



WAFF--Weighted-average foreclosure frequency. FF--Foreclosure frequency. LTV--Loan-to-value.

Table 6

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

Region	AAA	AA	A	BBB	BB	B
East Anglia	55.03	50.72	43.01	38.26	34.67	31.18
East Midlands	55.00	50.70	42.98	38.23	34.64	31.15
London	68.53	62.20	52.51	46.09	41.12	36.28
North	55.23	50.93	43.21	38.46	34.87	31.38
North West	55.00	50.70	42.98	38.23	34.64	31.15
Scotland	55.15	50.85	43.13	38.38	34.79	31.30
South East	68.53	62.21	52.51	46.09	41.12	36.28
South West	55.75	51.44	43.73	38.98	35.39	31.90
Wales	55.02	50.71	42.99	38.25	34.66	31.17
West Midlands	55.23	50.92	43.21	38.46	34.87	31.38
Yorks And Humber	55.08	50.78	43.06	38.31	34.72	31.23

Macroeconomic And Sector Outlook

Table 7

U.K. housing market statistics

	2022	2023	2024f	2025f
Nominal house prices, fourth quarter y/y % change	9.3	(1.7)	1.4	2.3
Real GDP, % change y/y	4.3	0.1	0.6	1.2
CPI inflation, average % change y/y	9.1	7.3	2.8	2.4
Unemployment rate (%)	3.9	4.0	4.4	4.6

Sources: S&P Global Ratings, Eurostat, Organisation for Economic Cooperation and Development, Department for Communities and Local Government, Office for National Statistics. Y/Y--Year on year. f--Forecast. CPI--Consumer Price Index.

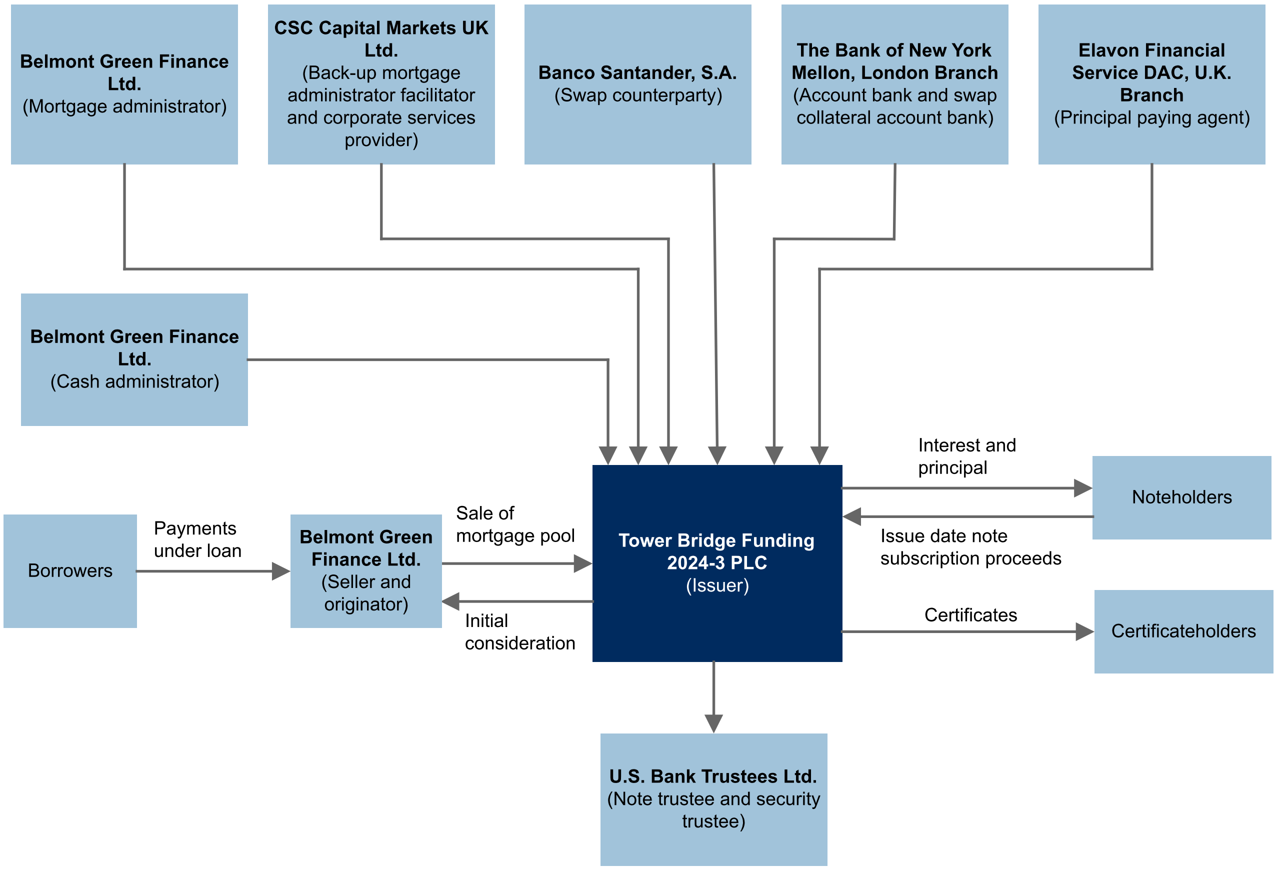
The U.K. faces yet another year of economic weakness in 2024, with GDP growth of just 0.6%, as interest rates remain restrictive for an extended period. Even though headline inflation has now eased markedly, core price pressures persist. This has taken its toll on households' purchasing power. At the same time, higher interest rates are incentivizing consumers to save more and delay major purchases and investment decisions. The preliminary ratings assigned reflect this market uncertainty and our overall analysis considers the implications of further deterioration in credit conditions.

We have considered the transaction's ability to withstand the potential repercussions of the cost of living crisis, such as higher levels of defaults and extended foreclosure timing assumptions.

Transaction Summary

Chart 5

Transaction structure



The issuer is a special-purpose entity (SPE) incorporated in England and Wales, which we consider to be bankruptcy remote. We expect the corporate structure to be in line with our legal criteria at closing.

Interest is to be paid quarterly on the interest payment dates, beginning in December 2024. The rated notes pay interest equal to compounded daily SONIA plus a class-specific margin, with a further step-up margin following the optional call date in September 2026 for the class A, B-Dfrd, C-Dfrd, D-Dfrd, and E-Dfrd notes. All the notes will reach legal final maturity in December 2066.

Deferral of interest

Under the transaction documents, interest payments on the class B-Dfrd, C-Dfrd, D-Dfrd, and E-Dfrd notes can be deferred until they become the most senior. Deferred interest on these notes will accrue interest and will become due and payable when the deferrable notes become the most senior. The interest payments on the class X-Dfrd notes can be deferred until the legal final maturity.

Our preliminary ratings address the timely payment of interest and the ultimate payment of principal on the class A notes and the ultimate payment of interest and principal on the other rated notes. Our preliminary ratings also address the timely payment of interest on the interest-deferrable notes once they become the most senior class of notes outstanding and full immediate payment of all previously deferred interest.

Product switches

The transaction documentation permits product switches. They will be capped at 1% of the current balance of the portfolio's aggregate amount at closing. 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. We incorporated potential spread compression from product switches within our cash flow analysis.

Further advances

Further advances are permitted under the transaction documents until the step-up date, subject to various limitations. The cumulative further advance amount of the further advance loans in the portfolio cannot exceed 2.5% of the current balance of the portfolio's aggregate amount at closing.

Prefunding

At closing, the issuer will prefund the acquisition of an additional portfolio (subject to compliance with the respective eligibility criteria) approximately 16.4% of the total transaction size that may be purchased before and up to the first IPD.

The transaction could be exposed to negative carry, as no prefunding revenue reserve fund mitigates this risk. We considered this in our cash flow analysis.

We reflected the potential deteriorating credit quality due to prefunding in our credit analysis through our originator adjustment. We have received loan-level data on the pipeline of loans that could be purchased during the prefunding period, which we considered in our analysis.

General reserve fund

A nonamortizing general reserve fund will be funded at closing and made available to cover shortfalls on the senior fees and expenses, the swap outflows, the interest payments on the class A to E-Dfrd notes, and amounts debited to the class A to E-Dfrd notes' PDLs, if a shortfall applies after applying the interest collections.

The general reserve fund has a required amount of 1.5% of the class A to E-Drd notes' closing balance, until the class A to E-Dfrd notes have fully redeemed, or the reserve fund's balance exceeds or equates the balance of the rated principal-backed notes (class A to E-Dfrd notes), when it will be released to the principal waterfall.

Liquidity reserve

A liquidity reserve equal to 1.5% of class A and B-Dfrd notes' balance (not funded at closing) will be funded from principal receipts initially. It will be available to cover shortfalls on the senior fees and expenses, the swap outflows, and the interest payments on the class A and B-Dfrd notes. The liquidity reserve will amortize in line with the class A and B-Dfrd notes' balance, and the excess will be released to the principal waterfall.

Principal to pay interest

In high-delinquency scenarios, the issuer may experience liquidity stresses where it would have insufficient revenue receipts to pay senior fees or interest on the outstanding classes of notes. To mitigate this risk, the issuer can use existing principal receipts to pay shortfalls on senior fees and interest on the class A notes. In addition, it can use them to pay interest on the class B-Dfrd to E-Dfrd notes when they become the most senior class outstanding. The use of principal to pay interest would register a debit in the PDL and may reduce the available credit enhancement. The issuer will only use principal if the liquidity reserve and the general reserve fund are depleted.

Principal deficiency ledgers

The PDL comprises five subledgers, one for each of the mortgage-backed class of rated notes.

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 8

Priority of payments

Revenue priority of payments	Principal priority of payments
Senior fees and expenses (including servicing fees)	Prefunding unused amount
Issuer profit	Before the liquidity reserve initial funding date, fund the liquidity reserve fund to the liquidity reserve fund required amount
Swap payments	To pay shortfalls on senior fees, the issuer profit, the swap outflows, class A notes' interest, and class B-Dfrd to D-Dfrd notes' interest (if most senior)
Class A notes' interest	Class A notes' principal
Class A notes' PDL	Class B-Dfrd notes' principal
Class B-Dfrd notes' interest	Class C-Dfrd notes' principal
Top up the liquidity reserve fund to target, after the liquidity reserve initial funding date	Class D-Dfrd notes' principal
Class B-Dfrd notes' PDL	Class E-Dfrd notes' principal
Class C-Dfrd notes' interest	Class Z notes' principal
Class C-Dfrd notes' PDL	Any remaining amounts to be applied as available revenue funds

Table 8

Priority of payments (cont.)

Revenue priority of payments	Principal priority of payments
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Class E-Dfrd notes' interest	
Class E-Dfrd notes' PDL	
Top up the general reserve fund to target	
Class X-Dfrd notes' interest	
Class X-Dfrd notes' principal	
On the step-up date and any IPD thereafter until the IPD on which the rated notes have been fully redeemed, all remaining available revenue funds to be applied as available principal funds	
Swap subordinated amounts	
Excess to residual certificates	

PDL--Principal deficiency ledger. IPD--Interest payment date.

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 standard cash flow analysis indicates that the available credit enhancement for the class E-Dfrd is commensurate with a higher rating than that currently assigned. However, the assigned preliminary rating also considers its ability to withstand the potential repercussions of the cost of living crisis, such as higher defaults and extended foreclosure timing assumptions.

In our standard cash flow analysis, the class X-Dfrd notes do not pass at the 'B' stress level. However, the class X-Dfrd notes do attain a rating in a steady state scenario with actual fees, no spread compression, and no commingling. Therefore, we have assigned a preliminary 'B- (sf)' rating to the class X-Dfrd notes as it does not depend on favorable economic and financial conditions to service its debt obligations and remain current.

Interest rate risk

All loans in the preliminary pool pay interest based on a fixed rate, but all will revert to a floating interest rate, linked to the VVR (100%).

To address the interest mismatch between the mortgage loans and the rated notes during the initial fixed-rate period for the loans, 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 5.0% prepayments on the fixed-rate loans. Therefore, while there is no basis risk during the initial fixed-rate period for the loans, there is basis risk and SVR risk after the loans revert.

VVR is a discretionary variable rate, and the transaction documents feature a floor on VVR. The VVR floor is compounded daily SONIA plus 1.50%. To account for this risk of reduction in the VVR rate, we have applied SVR haircuts in our cash flow analysis and have given credit to the SVR floor in our cash flow analysis where the post-haircut assumed margin is below the floor.

Spread compression and product switches

The above SVR haircuts also incorporate the spread compression arising from a decreasing asset yield on the preliminary pool if higher-paying assets default or prepay.

Given the potential for swap rates to increase due to the possibility of product switches and further advances that need to be hedged, the transaction documents outline a minimum post-swap margin for the product switches and further advances. We considered these in our cash flow analysis.

Fees

Contractually, the issuer must 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 0.25% (the higher of 1.5x actual fees and 0.25% of the preliminary 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 title holder were to become insolvent, the mortgage collection amounts in the collection account may become part of the legal title holder's bankruptcy estate. To mitigate this risk, collections are transferred daily into the issuer's bank account in the case of direct debit collections, and within three business days for non-direct debit collections, 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 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

The transaction has no employee loans or deposit setoff exposure.

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 at closing. 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 after 18 months for owner-occupied. We also tested the structure's sensitivity to increased foreclosure timing assumptions of six months for BTL loans and of nine months for owner-occupied mortgages and the preliminary ratings remain robust.

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, we model both high and low prepayment scenarios at all rating levels (see table 10). A high proportion of fixed-rate loans have a discount period ending in 2025 and 2029, which could increase prepayments and reduce the asset yield. We captured this in our cash flow analysis running sensitivities with higher levels of prepayments. The assigned preliminary ratings remain robust.

Table 10

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.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above create 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. We ran two stress scenarios to demonstrate the rating transition of a tranche, and the results are in line with our credit stability criteria.

Counterparty Risk

The issuer is exposed to The Bank of New York Mellon, London branch as the transaction account provider and swap collateral account provider; Banco Santander, S.A. as the swap counterparty; and Barclays Bank UK PLC as the mortgage administrator's collection account provider (see table 11). The documented replacement mechanisms for the transaction account, swap collateral 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").

Table 12

Supporting ratings

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Barclays Bank UK PLC as collection account provider	A+/Stable/A-1	N/A	N/A	'AAA' (commingling loss stress applied in our cash flow analysis)
The Bank of New York Mellon, London branch as transaction account provider*	AA-/Stable/A-1	A	60	AAA
The Bank of New York Mellon as swap collateral account provider*	AA-/Stable/A-1	A	60	AAA
Banco Santander, S.A. as swap counterparty	AA-/--/A-1+§	A-	10 business days to post collateral and 90 days to find a replacement	AAA

*Rating derived from the rating on the parent entity. §Resolution counterparty rating. N/A--Not applicable.

Sovereign Risk

Our long-term unsolicited sovereign credit rating on the U.K. is 'AA'. Therefore, sovereign risk does not constrain our ratings.

Surveillance

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular mortgage administrator 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 mortgage administrator'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 analyzed the effect of increased defaults by testing the sensitivity of the ratings to two different levels of movements.

Under our scenario analysis, the preliminary 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 assumptions on our ratings. 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

	WALS		
WAFF	0	1.1x	1.3x
0	Base Case	Scenario 3	Scenario 4
1.1x	Scenario 1	Scenario 5	Scenario 7
1.3x	Scenario 2	Scenario 6	Scenario 8

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

The results of the above sensitivity analysis indicate a deterioration of no more than one notch on the notes.

Table 14

Sensitivity scenarios

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

Table 14

Sensitivity scenarios (cont.)

Class	Base case	1	2	3	4	5	6	7	8
X-Dfrd	B-	'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	BNP Paribas S.A. and NatWest Markets PLC
Joint lead managers	BNP Paribas S.A., Barclays Bank PLC, Macquarie Bank Ltd. (London Branch), Macquarie Bank Europe DAC, acting through its Paris Branch, and NatWest Markets PLC
Back-up mortgage administrator facilitator	CSC Capital Markets UK Ltd.
Corporate services provider	CSC Capital Markets UK Ltd.
Note trustee	U.S. Bank Trustees Ltd.
Originator/legal title holder	Belmont Green Finance Ltd.
Cash administrator	Belmont Green Finance Ltd.
Principal paying agent/agent bank	Elavon Financial Services DAC, U.K. Branch
Registrar	Elavon Financial Services DAC, U.K. Branch
Security trustee	U.S. Bank Trustees Ltd.
Seller	Belmont Green Finance Ltd.
Mortgage administrator	Belmont Green Finance Ltd.
Share trustee	CSC Corporate Services (UK) Ltd.

Related Criteria

- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
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Related Research

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- EMEA RMBS And ABS Monitor Q2 2024, July 22, 2024
- EMEA Structured Finance Chart Book: July 2024, July 18, 2024
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