

Research

New Issue: Chetwood Funding 2024-1 PLC

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Related Criteria

Related Research

New Issue: Chetwood Funding 2024-1 PLC

Ratings Detail

Ratings							
Class	Rating*	Amount (mil. £)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	997.491	12.1	Compounded daily SONIA plus 1.18%	Compounded daily SONIA plus 1.77%	December 2028	October 2059
Z	NR	123.286	0.0	Fixed rate of 0.90%	N/A	N/A	October 2059

*Our rating on the class A notes addresses the timely payment of interest and ultimate payment of principal. §Credit enhancement is provided by subordination and the general reserve fund. SONIA—Sterling Overnight Interbank Average. NR--Not rated. N/A--Not applicable.

Transaction Summary

- Chetwood Funding 2024-1 PLC (CF 2024-1) is a static RMBS transaction that securitizes a portfolio of first-lien buy-to-let (BTL) mortgage loans secured on properties in the U.K.
- The loans in the pool were originated between 2016 and 2023, with most originated in 2022 and 2023, by Landbay Partners Ltd. (41.7%), Paratus AMC Ltd. (under the brand name Foundation Home Loans; 25.5%), LendInvest BTL Ltd. (21.3%), and Topaz Finance Ltd. (under the brand name Zephyr Homeloans; 11.6%).
- All four originators are nonbank specialist lenders and we have rated transactions featuring all four originators previously.
- The seller, Chetwood Financial Ltd., is a digital U.K. retail savings bank and acquired the mortgages prior to closing through a combination of forward flow agreements and portfolio acquisitions with each of the four respective originators or their respective funding partners.
- Product switches are not permitted in this transaction.
- The transaction benefits from liquidity support and credit enhancement provided by a general reserve fund, which can be used to pay senior fees and interest on the class A notes, and to clear the class A principal deficiency ledger (PDL).
- The transaction incorporates a swap to hedge the mismatch between the notes, which pay a coupon based on the compounded daily Sterling Overnight Index Average (SONIA), and the loans, which primarily pay a fixed-rate interest before reversion.
- At closing, the issuer used the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller. The issuer granted security over all its assets in favor of the security trustee.
- Paratus AMC Ltd. continues in its role as servicer for the Paratus assets, LendInvest BTL Ltd. continues in its role as servicer for the LendInvest assets and continues to delegate servicing to Pepper (UK) Ltd., Landbay Partners Ltd. continues in its role as servicer for the Landbay assets and continues to delegate servicing to BCMGlobal Mortgage Services Ltd., and Topaz Finance Ltd. (part of the wider Computershare group) continues in its role as servicer for the Topaz assets.
- 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	Concerns and mitigating factors
Each of the originators is a specialist lender with a significant track record in BTL origination. Across all four originators, historical asset performance has proven strong to date with lower arrears than our U.K. BTL index and limited losses realized to date. Additionally, the performance of previous transactions that we have rated featuring assets from each of the four originators has been strong to date.	Even though none of the originators are specifically bound by the Prudential Regulatory Authority's (PRA) underwriting guidance on BTL loans, they generally adhere to its principles. However, for LendInvest BTL, the stressed rate used to assess affordability for loans with an initial fixed-rate period of less than five years is 5%. This is lower than the stressed rate used by Landbay Partners, Paratus AMC, and Topaz Finance. We have captured this risk in our payment shock adjustment for the LendInvest BTL loans.
The eligibility criteria outlined by the seller for this transaction is stricter than that permitted by the lending policies for each of the respective originators (see "Originators And Seller").	Given the professional nature of the borrowers that all four originators lend to, the pool is exposed to multifamily properties such as houses in multiple occupation (HMOs). The exposure to HMOs and multi-unit freehold blocks (MUFBs) stands at 19.5%. However, 8.3% of the pool refers to HMOs/MUFBs that contain six or more rooms or units. We consider multifamily properties to have both strengths, such as higher rental income, but also potential weaknesses such as liquidity. We consider underwriting on multifamily properties for each of the originators 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.
Excess spread at closing was 0.42% and excess spread after the step-up date is 2.75%, after deducting swap costs and fees. We excluded class Z interest from this calculation given the position of class Z interest in the revenue waterfall.	Of the properties, 35.5% 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.
All valuations are full internal inspections on every property.	The majority of the loans (94.2%) bear a fixed rate of interest initially, after which the interest rate becomes floating. Another 5.6% of the loans pay a discounted floating margin initially, before reverting to a higher margin. Of the pool, 47% has an interest revision date in 2027. Higher reversion floating rates on the loans pose a prepayment risk for noteholders, which we incorporated in our cash flow analysis.
All four lenders must achieve a minimum of 125% interest coverage ratio using the relevant stress rate, using rental income only (given none of the assets being securitized passed affordability using top-slicing).	The transaction contains some loans advanced to limited liability companies rather than directly to individuals. All these loans benefit from personal guarantees and a first-ranking charge on the security property.
The debt service coverage ratio (DSCR) of the securitized pool is stronger than we have observed in recent prime BTL transactions, including those that feature assets originated by each of the four lenders. The proportion of loans with a DSCR of more than 1.35x is 46.6%, and these loans attract our lowest BTL adjustment of 1.25x.	Of the portfolio, 51.6% is classified as loans to withdraw equity or remortgage loans to consolidate debt or take on additional borrowing. We consider loans for this purpose, rather than to purchase a property, to be higher risk. This is reflected in our analysis.
None of the borrowers in the pool have prior adverse credit markers such as county court judgements (CCJs), bankruptcies, or individual voluntary arrangements (IVAs).	After the reversion date for each of the mortgages, 100% of the pool will revert to paying a margin above the Bank of England base rate (BBR), while the notes pay a rate of interest based on compounded daily SONIA. Therefore, after loans revert, the transaction is exposed to basis risk. We have therefore stressed this basis risk in our cash flow analysis.
The top 10 borrowers' exposure of the final pool is 3.3%, which is lower than in recent peer BTL transactions.	The representations and warranties package is weaker than we have typically seen in peer transactions. As a result, we have applied an adjustment to our weighted-average foreclosure frequency (WAFF) assumptions to capture this risk.

Overview (cont.)

Strengths	Concerns and mitigating factors
Most of the properties in the pool are established properties with a long-term valuation history as compared with new builds.	We expect inflation and interest rates to remain high in the U.K. in the near term. Although high inflation and interest rates are overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others, and to the extent that inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge. The transaction is a BTL transaction and although underlying tenants may be affected by inflationary pressures, the borrowers in the pool are generally considered to be professional landlords and will benefit from diversification of properties and rental streams. Our credit and cash flow analysis and related assumptions consider the transaction's ability to withstand the potential repercussions of the current economic environment 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 rating assigned. As the situation evolves, we will update our assumptions and estimates accordingly.
The transaction does not allow for any further advances, product switches, or porting, and does not contain loans with flexible features.	
The transaction features a general reserve fund, providing both credit enhancement and liquidity support for the class A notes. The general reserve fund was fully funded at closing and will stop amortizing after the step-up date or if cumulative defaults exceed 5% of the closing collateral balance.	
The transaction can use principal receipts to pay senior fees and interest on the class A notes.	
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.	
In our cash flow modelling, there is overcollateralization following the step-up date. The overcollateralization will result from the release of the excess amount from the revenue priority of payments to the principal priority of payments, after any PDL on the class Z notes is cleared.	

Originators And Seller**Originators**

The loans in the pool were originated between 2016 and 2023, with most originated in 2022 and 2023, by Landbay Partners (41.7%), Paratus AMC (under the brand name Foundation Home Loans; 25.5%), LendInvest BTL (21.3%), and Topaz Finance (under the brand name Zephyr Homeloans; 11.6%).

All four originators are U.K. nonbank residential mortgage lenders and are authorized by the U.K. Financial Conduct Authority (FCA). Even though none of the originators are specifically bound by the PRA's underwriting guidance on BTL loans, they generally adhere to its principles. However, for LendInvest BTL, the stressed rate used to assess affordability for loans with an initial fixed-rate period of less than five years is 5%. This is lower than the stressed rate used by Landbay Partners, Paratus AMC, and Topaz Finance. We have captured this risk in our payment shock adjustment for the LendInvest BTL loans.

All of the originators focus on individuals and limited companies (with personal guarantees) with a specific focus on

professional landlords. They also offer specific products for focusing on HMOs and MUFBs.

Landbay Partners commenced lending in 2014 as a peer-to-peer lender and is now fully funded by institutional investors. In 2021, Landbay Partners reached £1.0 billion of lending. We have rated several transactions from the Canada Square Funding series of transactions that feature Landbay Partners assets, and the last Canada Square transaction featuring Landbay Partners assets that we rated was Canada Square Funding 6 PLC, which closed in February 2022. Small proportions of loans where Landbay Partners was the initial lender of record have featured in Twin Bridges 2023-2 PLC and Twin Bridges 2022-2 PLC, which closed in August 2023 and August 2022, respectively.

Paratus AMC was set up in February 2015 to originate BTL mortgages loans, through its brand Foundation Home Loans. Since its launch, Foundation Home Loans has focused on developing a stable platform for sustainable growth. Foundation Home Loans relies heavily on its securitization platform (Twin Bridges) to fund its mortgage business, and to date it has completed 12 transactions. We have rated several of these transactions, and the last transaction we rated was Twin Bridges 2023-2 PLC, which closed in November 2023.

LendInvest BTL started operating in late 2008 under the name Montello Bridging Finance. It originally provided short-term financing through bridging products. In November 2017, it started lending in the U.K. BTL space. As of October 2023, LendInvest BTL's cumulative originations in all products reached £6 billion since 2010. A large proportion of its BTL book was securitized in the Mortimer or Pierpont series of transactions that we have rated. The last Mortimer transaction we rated was Mortimer BTL 2023-1 PLC, which closed in November 2023.

Topaz Finance began originating under the Zephyr Homeloans brand in 2019. Topaz Finance forms part of the wider Computershare Group, a well-established company in the mortgage market, which has been operating since 2006 and benefits from strong experience in both servicing and origination of BTL loans. We have rated several transactions from the Canada Square Funding series of transactions that feature Topaz Finance assets, and the last Canada Square transaction featuring Topaz Finance assets that we rated was Canada Square Funding 6 PLC, which closed in February 2022.

Table 1

Key originator considerations	
	Description
Collateral type	Each of the originators focuses on originating prime BTL collateral with limited tolerance to prior adverse credit. However, each of the originators is a nonbank and therefore not bound by the PRA's underwriting guidance on BTL loans, although they do abide by FCA guidelines. We performed our operational review and consider that all four lenders generally adhere to PRA's principles. However, rental income calculations disregard ongoing costs, deviating from PRA guidelines. At the same time, stressed rate used by LendInvest BTL to assess affordability for loans with an initial fixed-rate period of less than five years is 5%. This is lower than the stressed rate used by Landbay Partners, Paratus AMC, and Topaz Finance. We captured this risk in our originator adjustment.
Lending policy versus peers and market standards	Lending policy follows market standards for all originators in this transaction. While some of the originators accept top-slicing, for this transaction top-slicing is not permitted.
Track record and experience	We rated several BTL transactions from each of the respective originators and the originators have extensive experience in the securitization market with several previous issuances that we have rated.
Historical performance	The historical performance of each of the originator's mortgage books has proven relatively strong to date, with lower arrears than our index for BTL assets in the U.K.
Qualitative factors not captured above	None

Seller

The seller, Chetwood Financial Ltd., is a digital U.K. retail savings bank and acquired the mortgages prior to closing through a combination of forward flow agreements and portfolio acquisitions with each of the four respective originators or their respective funding partners.

Chetwood was founded in 2016 and had a full U.K. banking licence approved in December 2018. Chetwood has materially grown its balance sheet into lower credit risk secured prime BTL lending. As of March 31, 2023, 82.6% of the net loan book was secured mortgage assets.

The seller's eligibility criteria for this transaction is stricter than that permitted by the lending policies of each of the respective originators. For example, some of the originators permit top-slicing of income to meet affordability requirements, borrowers with CCJs or bankruptcies and IVAs, short-term lets, and very large HMOs. However, in this transaction, top-slicing of income is not permitted, borrowers with CCJs and bankruptcies/IVAs are not permitted, there are no short-term lets within the pool, and HMOs with more than 12 bedrooms, and MUFBs with more than 10 units are not permitted.

Table 2

Chetwood Funding 2024-1 eligibility criteria					
Lending policy	Landbay Partners	Paratus AMC	LendInvest BTL	Zephyr Homeloans	Chetwood Funding 2024-1 PLC eligibility
Maximum age (private individual)	85	85	85	95	95
Maximum loan size (mil. £)	2.0	2.0	1.0	2.0	2.0
Maximum loan size (HMO/MUFB; mil. £)	1.5	2.0	1.0	1.5	1.3
Maximum LTV ratio (%)	80	85	75	80	85*
Maximum LTV ratio (HMO/MUFB; %)	75	85	70	75	81*
Minimum ICR (%)	125	125	125	125	125
HMO/MUFB Limits	HMOs up to 12 bedrooms, MUFBs up to 12 units	HMOs up to 8 bedrooms, MUFBs up to 10 units	HMOs up to 15 bedrooms, MUFBs up to 10 units	HMOs up to 6 bedrooms, MUFBs up to 6 units	HMOs up to 12 bedrooms, MUFBs up to 10 units
Bankruptcy/IVA	None	None	None	None in the last six years	None
CCJs	None	Permitted but all CCJs must be satisfied at application	None in last three years and all CCJs satisfied	Max 1 up to £250 in last 3 years and 0 in last 12 months	None
Employment	At least one applicant employed, self-employed, or retired	Employed, self-employed, or retired.	Employed, self-employed, or retired.	Employed, self-employed, or retired.	Employed, self-employed, or retired.
First-time landlord	At least one applicant a residential/property owner	Acceptable if they are an owner-occupier	Acceptable if they are an owner-occupier for at least six months	At least one applicant must be a residential/property owner for twelve months	No first-time buyer landlords
Top-slicing	Permitted	Not permitted	Not permitted	Permitted	Not permitted

*Maximum original LTV ratio of 80% excluding fees. LTV--Loan-to-value. ICR--Interest coverage ratio. HMO--House in multiple occupation. MUFB--Multi-unit freehold block. CCJ--County court judgement. IVA--Individual voluntary arrangement.

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 securitizes a static pool with no reinvestment or prefunding features, the originator's role becomes less active over the transaction's life, mitigating the risk of loosening underwriting standards or potential adverse selection. In addition, each of the originators has strong internal control frameworks with significant relevant experience at key stages of the process. Finally, the origination process is subject to regular post-completion scrutiny and checking and oversight.

Servicing

Paratus AMC Ltd. continues in its role as servicer for the Paratus assets, LendInvest BTL Ltd. continues in its role as servicer for the LendInvest assets and continues to delegate servicing to Pepper (UK) Ltd., Landbay Partners Ltd. continues in its role as servicer for the Landbay assets and continues to delegate servicing to BCMGlobal Mortgage Services Ltd., and Topaz Finance Ltd. (part of the wider Computershare group) continues in its role as servicer for the Topaz assets.

We have reviewed each of the servicers' and delegated servicers' default management processes, and we believe that they are capable of performing their functions in the transaction. The servicing setup is unchanged from previous transactions that we have rated from each of the originators, and the respective transactions have continued to perform well with no concerns on servicing strategy and standards.

Collateral

We received loan-level data as of Oct. 31, 2023, and historical performance data on each of the originator's books that spans back to their first origination. The quality of data provided is in line with our standards.

We received a 99/1 pool audit report and applied an adjustment to our WAFF because the number of errors is slightly higher than we would typically expect to see. We note that while a significant number of errors are administrative errors, we have applied an adjustment due to the number of errors we observed.

We present below the stratification for the pool at cutoff.

Table 3

Collateral key features*					
	Chetwood Funding 2024-1 PLC	Twin Bridges 2023-2	Mortimer BTL 2023-1 PLC	Canada Square Funding 6 PLC	Canada Square Funding 7 PLC
Pool cutoff date	Oct. 31, 2023	Aug. 31, 2023	Oct. 31, 2023	Nov. 30, 2021	Sept. 30, 2022
Jurisdiction	U.K.	U.K.	U.K.	U.K.	U.K.
Originator	Landbay Partners Ltd., Paratus AMC Ltd., LendInvest BTL Ltd., Topaz Finance Ltd.	Paratus AMC Ltd., Keystone Property Finance and Landbay Partners Ltd.	LendInvest BTL Ltd.	Fleet Mortgages Ltd., Landbay Partners Ltd., Hey Habito Ltd., and Topaz Funding Ltd.	Fleet Mortgages Ltd.
Principal outstanding of the pool (mil. £)	1,120.8	457.4	409.9	362.0	237.4
Number of properties	5,753	2,085	2,075	1,914	952
Weighted-average reversion margin (%)	4.62	4.73	4.48	4.91	4.55
Average loan balance (£)	194,816	219,361	197,550	189,157	249,366
Weighted-average indexed current LTV ratio (%)	70.4	61.2	66.4	70.9	63.1
Weighted-average original LTV ratio (%)	72.2	69.9	71.0	72.0	70.1
Weighted-average seasoning (months)	13	43	24	3.4	47
Top three regional concentration (by balance)	Greater London (35.5%), South East (14.1%), and East Anglia (10.6%)	Greater London (51.6%), South East (13.5%), and East Anglia (8.9%)	Greater London (36.5%), South East (14.1%), and East Anglia (9.3%)	Greater London (39.1%), South East (16.5%), and East Anglia (10.5%)	Greater London (59.0%), South East (14.03%), and East Anglia (8.46%)
Buy-to-let (%)	100	100	100	100	100
One or more CCJ (%)	0.0	0.55	0.9	0.9	0.6
Interest-only and part-and-part (%)	98.6	97.1	100	94.6	94.6
Jumbo valuations (%)	5.6	8.0	6.5	9.2	5.7
Weighted-average 'AAA' RMVD (%)	61.7	63.9	61.8	62.5	64.9
Current arrears greater than or equal to one month (%)	0.0	2.3	0.0	0.0	0.3

*Calculations are according to S&P Global Ratings' methodology. LTV--Loan-to-value. CCJ--County court judgment. RMVD--Repossession market value declines

Asset description

The portfolio has a weighted-average current LTV ratio of 70.4% and a weighted-average original LTV ratio of 72.2%.

Of the portfolio, 98.6% comprises interest-only loans and part-and-part BTL mortgage loans. Given interest-only is a

standard product in the U.K. BTL market, we do not consider this to pose additional credit risk. As part of our surveillance process, we will monitor the success ratio of bullet payments at maturity. While the pool itself has limited seasoning, the historical book performance of the originators has been strong to date, and most of the loans are to experienced landlords with experience handling BTL portfolios. Of the borrowers, 74.2% are limited liability companies. All these loans must present personal guarantees during the underwriting process.

The assets are concentrated in Greater London (35.5%), South East (14.1%), and East Anglia (10.6%). The Greater London region exceeds the threshold defined in our criteria (26%) (see chart 3).

We applied a 1.2x adjustment to 51.6% of the pool to account for borrowers that increased their loan when remortgaging (whether to raise additional capital, for debt consolidation, BTL purchase, home improvement purposes, or where the loan purpose was equity release). The additional leverage might increase default risk compared with a refinance where no further funds are drawn.

Of the pool, 99.7% 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 1.1x adjustment to the foreclosure frequency where interest was stressed at origination as part of the affordability assessment (e.g., for the loans that have an initial fixed period of less than five years or are discount loans), and a 1.2x adjustment where interest was not stressed at origination (where the initial fixed-rate period was five or more years).

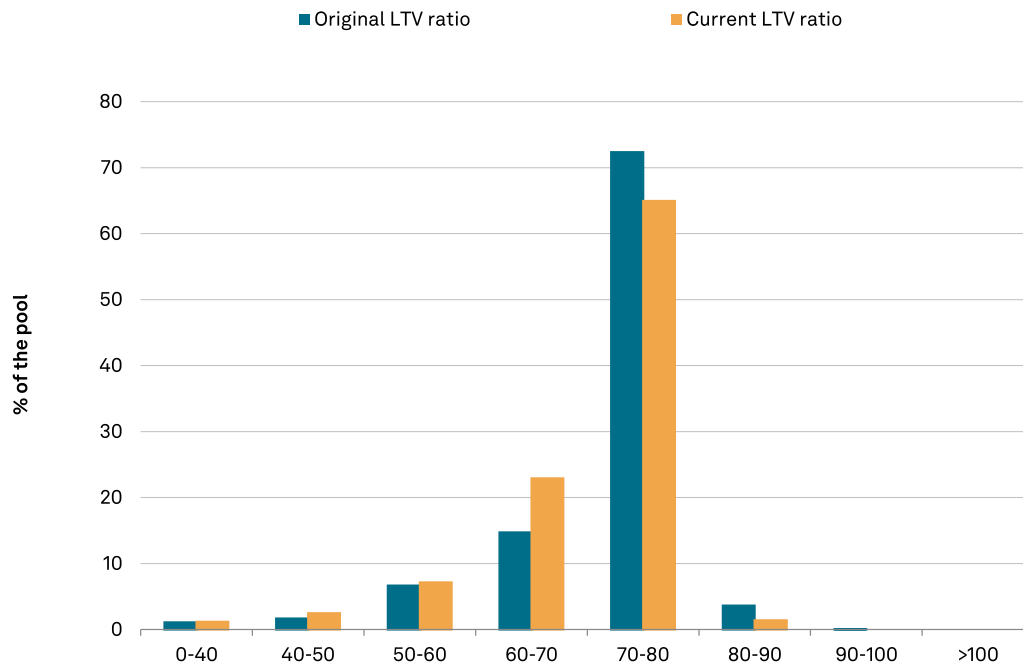
For the LendInvest BTL loans, we applied a 1.2x payment shock adjustment for all loans as a 5% stressed rate is used to assess affordability for the loans that have a fixed rate of less than five years and for loans that are discount loans, which is lower than the floored 5.5% rate that the three other originators use.

The pool has 46.6% fixed-rate or discount loans with an interest revision date in 2027. Therefore, the prepayment rates might increase significantly, causing a reduction in excess spread. We have assessed this in our cash flow analysis.

Borrower concentration is lower than other peer BTL transactions, with the top 10 borrowers accounting for 3.3% of the pool's current balance.

Chart 1

Original and current LTV ratio distribution

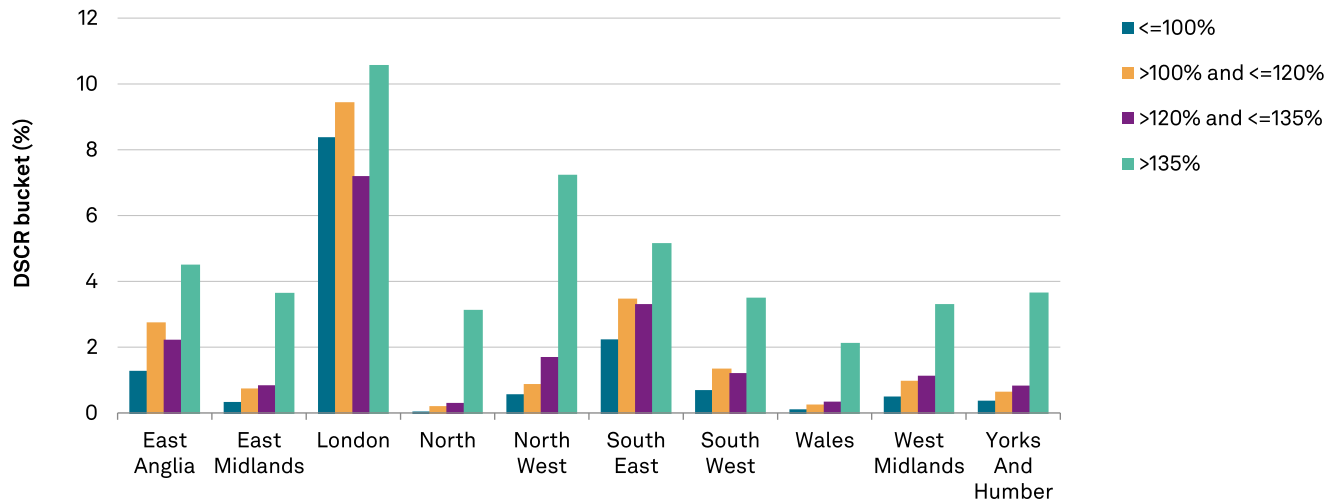


LTV--Loan-to-value.

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Chart 2

Debt service coverage ratio distribution per region

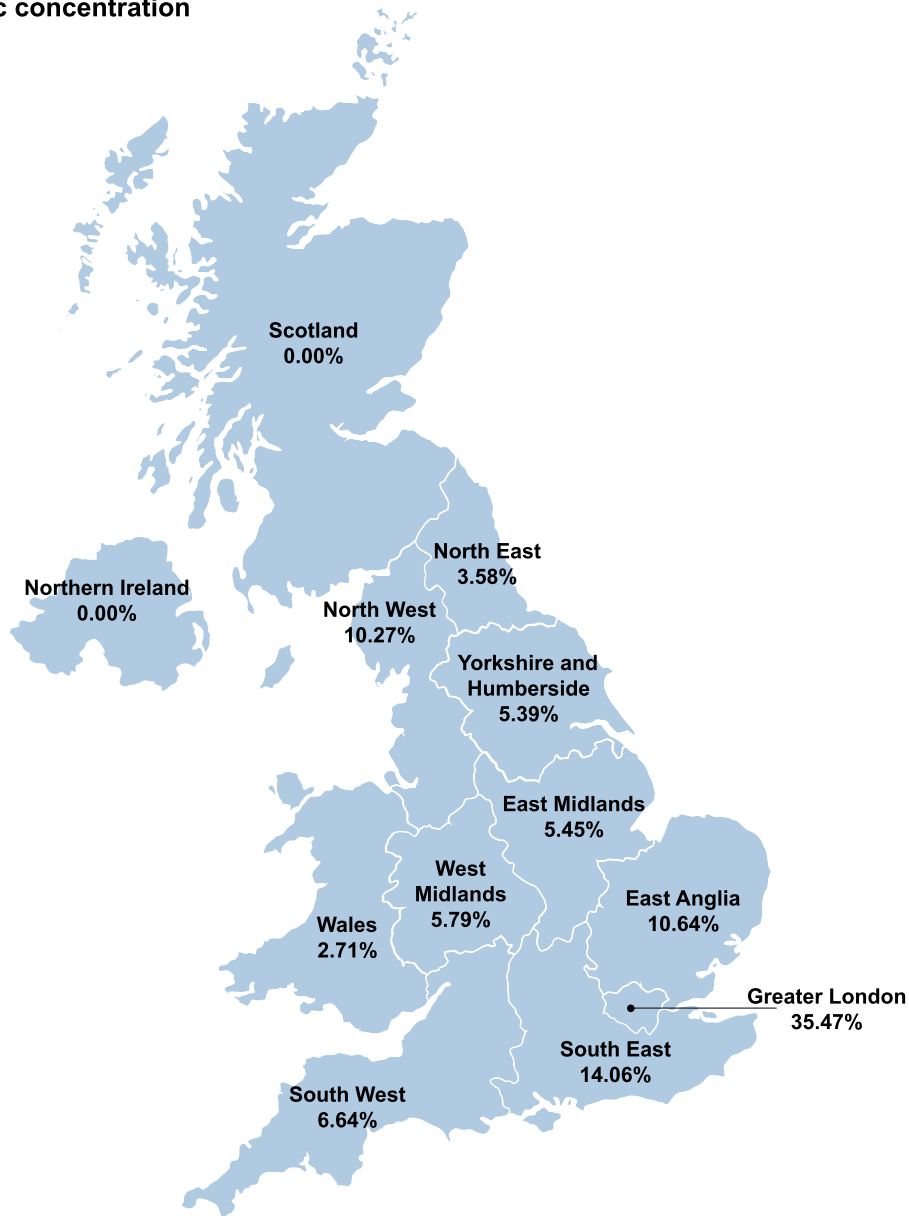


DSCR--Debt service coverage ratio

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Chart 3

Geographic concentration



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Asset performance

None of the loans in the pool are in arrears. We have received the historical performance data for all four originators' BTL books, and the performance has been good with a very low arrears level to date.

Credit Analysis And Assumptions

We applied our global residential loans criteria to the pool in order to derive the WAFF and the weighted-average loss severity (WALS) at each rating level (see table 4).

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.

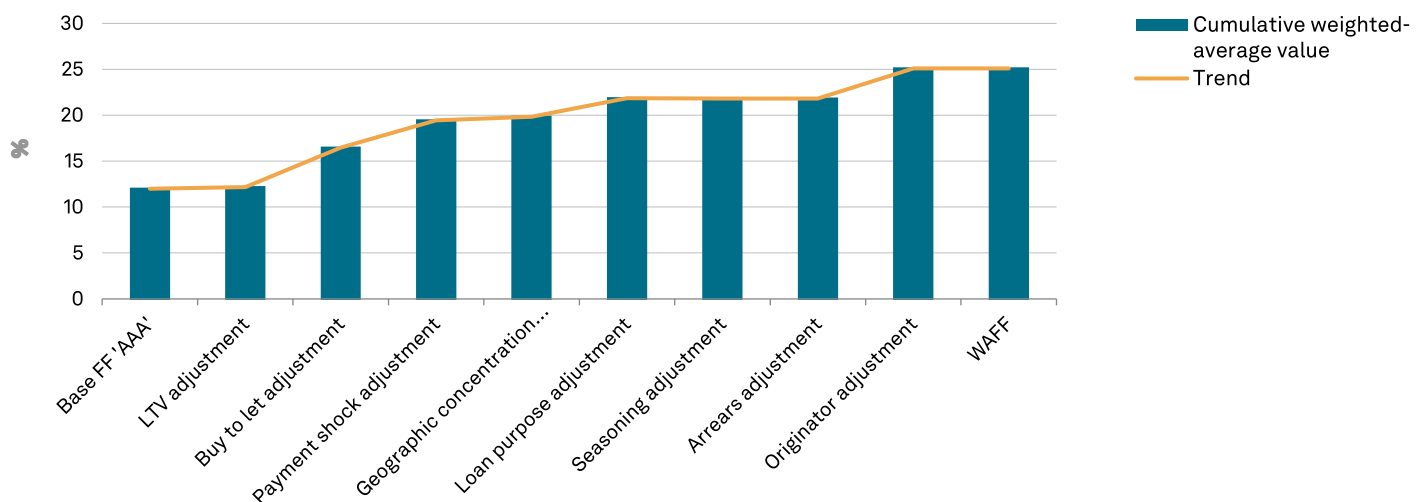
Table 4

Portfolio WAFF and WALS			
Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	25.10	49.38	12.40
AA	16.94	42.08	7.13
A	12.76	30.26	3.86
BBB	8.79	22.90	2.01
BB	4.60	17.50	0.81
B	3.66	12.52	0.46

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 judgment.
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Table 5

Weighted-average repossession market value declines at each rating level (post-jumbo adjustment; %)						
Region	AAA	AA	A	BBB	BB	B
East Anglia	55.22	50.92	43.20	38.45	34.86	31.37
East Midlands	55.23	50.92	43.20	38.46	34.87	31.38
London	68.64	62.34	52.65	46.23	41.26	36.42
North	55.06	50.75	43.03	38.29	34.70	31.21
North West	55.84	51.54	43.82	39.07	35.48	31.99
South East	68.95	62.81	53.13	46.71	41.74	36.90
South West	55.31	51.00	43.29	38.54	34.95	31.46
Wales	55.01	50.70	42.98	38.24	34.65	31.16
West Midlands	55.28	50.98	43.26	38.51	34.92	31.43
Yorks And Humber	55.02	50.71	43.00	38.25	34.66	31.17

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 6

U.K. housing market statistics					
	2022	2023f	2024f	2025f	2026f
Nominal house prices, % change y/y	9.6	(6.6)	(4.9)	1.4	3.0
Real GDP, % change	4.3	0.5	0.4	1.5	1.6
CPI inflation, average % change y/y	9.1	7.3	3.0	2.2	2.0
Unemployment rate	3.7	4.2	4.6	4.3	4.2

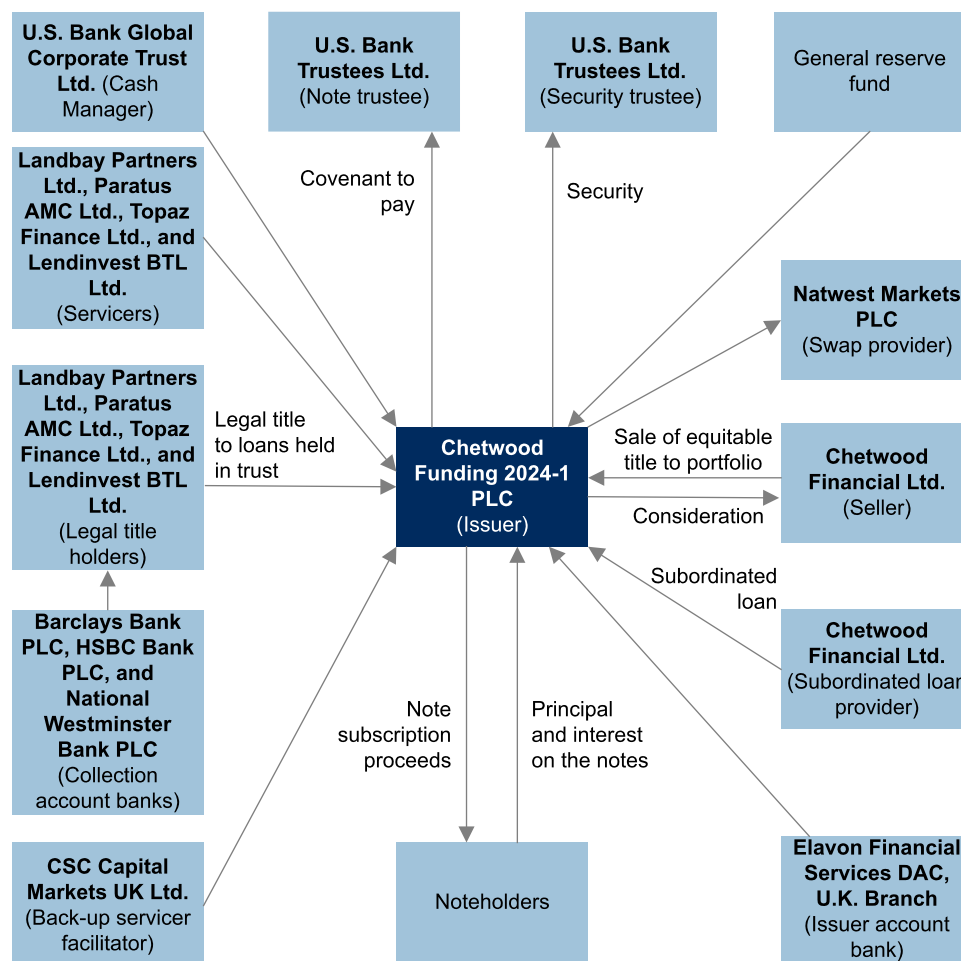
Sources: S&P Global Ratings. Y/Y--Year on year. CPI--Consumer Price Index. f--Forecast.

We have also considered the transaction's ability to withstand higher defaults and extended foreclosure timing assumptions. The assigned rating remains 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. The legal documents are in line with our legal criteria.

Interest is paid monthly on the interest payment dates (IPDs), beginning in January 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 December 2028. All the notes will reach legal final maturity in October 2059.

General reserve fund

At closing, a general reserve fund was fully funded at 1.25% of the class A notes' balance at closing. The general reserve has a required amount of 1.25% of the class A notes' outstanding balance on each IPD. If the step-up date occurs, or if cumulative defaults exceed 5% of the closing collateral balance, the required amount will be 1.25% of the class A notes' balance on the prior IPD and the general reserve fund will no longer amortize. Excess amounts of the

general reserve fund are released to the revenue waterfall.

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 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. 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 deficiency ledgers

The PDL comprises two subledgers, one for each of the mortgage-backed classes of notes.

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

Payment priority

Table 7

Priority of payments	
Revenue priority of payments	Principal priority of payments
Senior fees and expenses	Principal borrowing
Senior swap payments	Class A notes' principal
Issuer profit	Class Z notes' principal
Class A notes' interest	All remaining amounts to be applied as available revenue receipts
Class A notes' PDL	
General reserve to target	
Class Z notes' PDL	
On or after the step-up date, all amounts diverted to principal waterfall until the notes are fully redeemed	
Class Z notes' interest	
Swap subordinated payments	
Interest due on the subordinated loan	
Principal due on the subordinated loan	
All remaining amounts to be credited to the deposit account to be applied on the next IPD as available revenue receipts	
Deferred consideration	

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 rating on the class A notes addresses the timely payment of interest and ultimate payment of principal.

Interest rate risk

To address the interest mismatch between the mortgage loans and the rated notes, the transaction features a fixed-to-floating interest rate swap, where the issuer pays a fixed rate and receives SONIA to mirror the index paid on the notes.

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 BBR. To account for this risk, we applied basis risk stresses in our cash flow modeling.

Spread compression

The asset yield on the 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 0.12% at the 'AAA' level post-reversion.

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 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. On a weighted-average basis, the stressed servicing fee that we apply is 0.29%.

Commingling risk

Borrowers pay into collection accounts in the name of each of the legal title holders and funds are then swept daily into a collection account in the name of the seller. These funds are then swept daily from the seller collection account to the issuer's bank account.

If the legal title holders or the seller were to become insolvent, the mortgage collection amounts in the collection account may become part of the legal title holders' or seller's bankruptcy estate. To mitigate this risk, collections are transferred daily into the seller's collection account and then transferred daily to the issuer's bank account. Each legal title holder provides a declaration of trust in favor of the seller and then the seller provides a declaration of trust over the seller collection account in favor of the issuer.

However, the transaction documents do not contain any replacement language on any of the collection accounts. Therefore, in our analysis, we apply a loss stress equal to one month of collection of interests and principal.

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.

Default and recovery timings

We used the WAFF and WALs derived in our credit analysis as inputs in our cash flow analysis (see table 4). 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 8

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. We have also tested the sensitivity of the structure to increased foreclosure timing assumptions of six months, to account for delays in repossession due to court backlogs.

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 9).

Table 9

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 2027, which could increase prepayments and reduce the asset yield. We have captured this in our cash flow analysis by performing a sensitivity run with an increase in prepayments. The assigned ratings remain robust.

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 10).

Table 10

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 Natwest Markets PLC as swap counterparty, and to Barclays Bank PLC, HSBC Bank PLC, and National Westminster Bank PLC as collection account providers (see table 11). The documented replacement mechanisms for the swap provider and the transaction account provider adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria at closing.

Table 11

Supporting ratings				
Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Elavon Financial Services DAC, U.K. Branch as transaction account provider*	A+ /Stable/A-1	A	60	AAA
Natwest Markets PLC as swap counterparty	A+ /--/ A-1§	A-	90 calendar days to find a replacement and 10 business days for collateral posting	AAA
Barclays Bank PLC, seller collection account provider, Paratus AMC collection account provider, and LendInvest BTL collection account provider	A+ /Stable/A-1	N/A	N/A	'AAA' (stressed in our cash flow analysis)
HSBC Bank PLC as Topaz Finance collection account provider	A+ /Stable/A-1	N/A	N/A	'AAA' (stressed in our cash flow analysis)
National Westminster Bank PLC as Landbay Partners collection account provider	A+ /Stable/A-1	N/A	N/A	'AAA' (stressed in our cash flow analysis)

*Rating derived from the rating on the parent entity. §Resolution counterparty rating.

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 rating 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 rating 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 rating to two different levels of movements.

Under our scenario analysis, the rating 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 rating 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 12

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 13

Sensitivity analysis results									
Class	Base Case	Sensitivity 1	Sensitivity 2	Sensitivity 3	Sensitivity 4	Sensitivity 5	Sensitivity 6	Sensitivity 7	Sensitivity 8
A	AAA	AAA	AA+	AAA	AAA	AAA	AA+	AA+	AA+

Appendix

Transaction participants	
Role	Participant
Arrangers	Banco Santander, S.A.
Cash manager	U.S. Bank Global Corporate Trust Ltd.
Corporate services provider	CSC Capital Markets UK Ltd.
Issuer	Chetwood Funding 2024-1 PLC
Note trustee	U.S. Bank Trustees Ltd.
Originators/legal title holders	Landbay Partners Ltd., Paratus AMC Ltd., Topaz Finance Ltd., and LendInvest BTL Ltd.

Transaction participants (cont.)

Role	Participant
Principal paying agent/agent bank	Elavon Financial Services DAC., U.K. Branch
Security trustee	U.S. Bank Trustees Ltd.
Seller	Chetwood Financial Ltd.
Back-up servicer facilitator	CSC Capital Markets UK Ltd.
Share trustee	CSC Corporate Services (UK) Ltd.

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