S&P Global Ratings

Research

New Issue: Tower Bridge Funding 2024-1 PLC

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New Issue: Tower Bridge Funding 2024-1 PLC

Ratings Detail

Class	Rating*	Amount (mil. £)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	265.80	12.90	Compounded daily SONIA plus 1.10%	Compounded daily SONIA plus 1.65%	January 2026	January 2066
B-Dfrd	AA+ (sf)	12.30	8.80	Compounded daily SONIA plus 2.00%	Compounded daily SONIA plus 3.00%	January 2026	January 2066
C-Dfrd	AA (sf)	8.70	5.90	Compounded daily SONIA plus 3.00%	Compounded daily SONIA plus 4.00%	January 2026	January 2066
D-Dfrd	A (sf)	9.60	2.70	Compounded daily SONIA plus 4.00%	Compounded daily SONIA plus 5.00%	January 2026	January 2066
Z1	NR	3.60	N/A	Fixed rate of 0%	N/A	N/A	January 2066
Z2	NR	4.50	N/A	Fixed rate of 0%	N/A	N/A	January 2066
S	NR	4.00	N/A	Fixed rate of 0%	N/A	N/A	January 2066
Certificates	NR	N/A	N/A	N/A	N/A	N/A	January 2066

*Our ratings address timely receipt of interest and ultimate repayment of principal on the class A notes, and the ultimate payment of interest and principal on all the other rated notes. Our ratings also address timely receipt of interest on the class B–Dfrd to D-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 D-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 2024-1 PLC (TBF 2024-1) is an RMBS transaction that securitizes a portfolio of buy-to-let (BTL) and owner-occupied mortgage loans secured on properties in the U.K.
- Belmont Green Finance Ltd. (BGFL), a nonbank specialist lender, originated the loans in the pool between 2017 and 2023 via its specialist mortgage lending brand, Vida Homeloans.
- Approximately 46.3% of the assets in the transaction were previously securitized in prior Tower Bridge transactions that we rated. A further 7.9% were previously securitized in prior Tower Bridge transactions that we did not rate. 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.
- There is positive excess spread in the transaction from closing. At closing, we estimate excess spread to be 0.94% and after the step-up date, we estimate excess spread to be 2.20% per year after the cost of the liabilities, senior fees, and the post-haircut standard variable rate (SVR) margin (see "Interest rate risk").
- The collateral comprises complex income borrowers with limited credit impairments, and has a high exposure to self-employed, contractors, and first-time buyers. Approximately 69.3% of the 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. Product switches are permitted up to a limit of 7.5% 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.

- The transaction benefits from a fully funded general reserve fund, which provides credit support to the class A to class D-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.
- 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 loans, which pay 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 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 consider the issuer to be bankruptcy remote.
- At closing, BGFL was 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 10 publicly rated transactions.	Of the loans in the pool, 12.2% have an interest revision date in 2024, 53.5% have an interest revision date in 2025, and 34.3% have an interest revision date in 2028. 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 at the initial rate, instead of the higher of the 5.5% (5.0% for same value remortgage) 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. 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 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, 12.0% have had prior county court judgments (CCJs). Additionally, 21.8% of the owner-occupied loans were advanced to self-employed borrowers, and 53.5% 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 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 pool have top slicing, i.e., the addition of borrowers' income to rental income, to meet stressed affordability requirements. 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 is mitigated when BGFL assesses affordability with top-slicing. This is because BGFL can identify if borrowers are using additional income to supplement rental income under a different loan as part of the underwriting process. Effectively, this additional income is assessed on a net basis and avoids any double counting.

The credit story (cont.)

Strengths	Concerns and mitigating factors
The pool has a low current indexed loan-to-value (LTV) ratio of 63.9%, 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 pool has an exposure of 18.5% to multifamily properties, of which 15.1% is to houses in multiple occupation (HMOs) and 3.4% is multi-unit freehold blocks (MUFBs). Of the pool, 6.8% 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 was fully funded at closing and provides credit enhancement and liquidity for the class A to class D-Dfrd notes. The transaction can also use principal receipts to pay senior fees and interest on the rated notes subject to conditions. An amortizing liquidity reserve fund provides liquidity to the class A and B-Dfrd notes. This was not funded at closing. Instead, the principal waterfall will initially fund this reserve.	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 clearing the class Z1 notes' principal deficiency ledger (PDL) will be diverted to pay principal on the notes, therefore providing more protection to the senior notes.	The interest rates on 96.1% of 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 +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 remaining 3.9% of loans revert to paying a rate of interest above the Bank of England base rate (BBR), and we stress basis risk for these loans post-reversion.
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 pool, 3.3% 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. 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.
	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 ratings assigned. As the situation evolves, we will update our assumptions and estimates accordingly. 69.3% of the pool refers to BTL mortgages 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.

Changes From The Previous Transaction

The transaction is similar to the Tower Bridge Funding 2023-2 PLC transaction, however some differences are listed below.

- Of the assets being securitized, 30.4% have seasoning of five or more years, as compared with 2.7% in the previous transaction. Under our criteria, seasoning credit is applied after five or more years for loans that are not in arrears. As a result, the securitized pool receives greater seasoning benefit.
- The weighted-average indexed current loan-to-value (CLTV) ratio of the pool stands at 63.9%, compared with 68.4% in the previous transaction.
- The weighted-average indexed original loan-to-value (OLTV) ratio of the pool stands at 70.7%, compared with

72.6% in the previous transaction.

- The proportion of the pool that has a DSCR in excess of 1.35x stands at 38.9%, compared with 17.7% in the previous transaction.
- The exposure to Greater London has decreased to 35.9% for the current transaction from 40.8% in the previous transaction. While both exposures are above our geographic concentration thresholds for Greater London, the excess above the threshold has decreased.
- Loan-level arrears for the pool stand at 2.5%, compared with 1.6% for the previous transaction. Arrears of greater than equal to 90 days stand at 0.1% compared with 0.40% in the previous transaction at closing.
- The product switch limit has increased to 7.50% from 5.00%.

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 ten 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--typically the most conservative valuation approach. 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 Nov. 30, 2023, 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 Nov. 30, 2023, pool cutoff date, the pool of £306,037,361.02 comprised 1,645 loans secured on BTL and owner-occupied properties located in the U.K. (mainly in the South East and Greater London; see chart 1). The transaction comprises loans originated between 2017 and 2023.

Chart 1

Geographic concentration

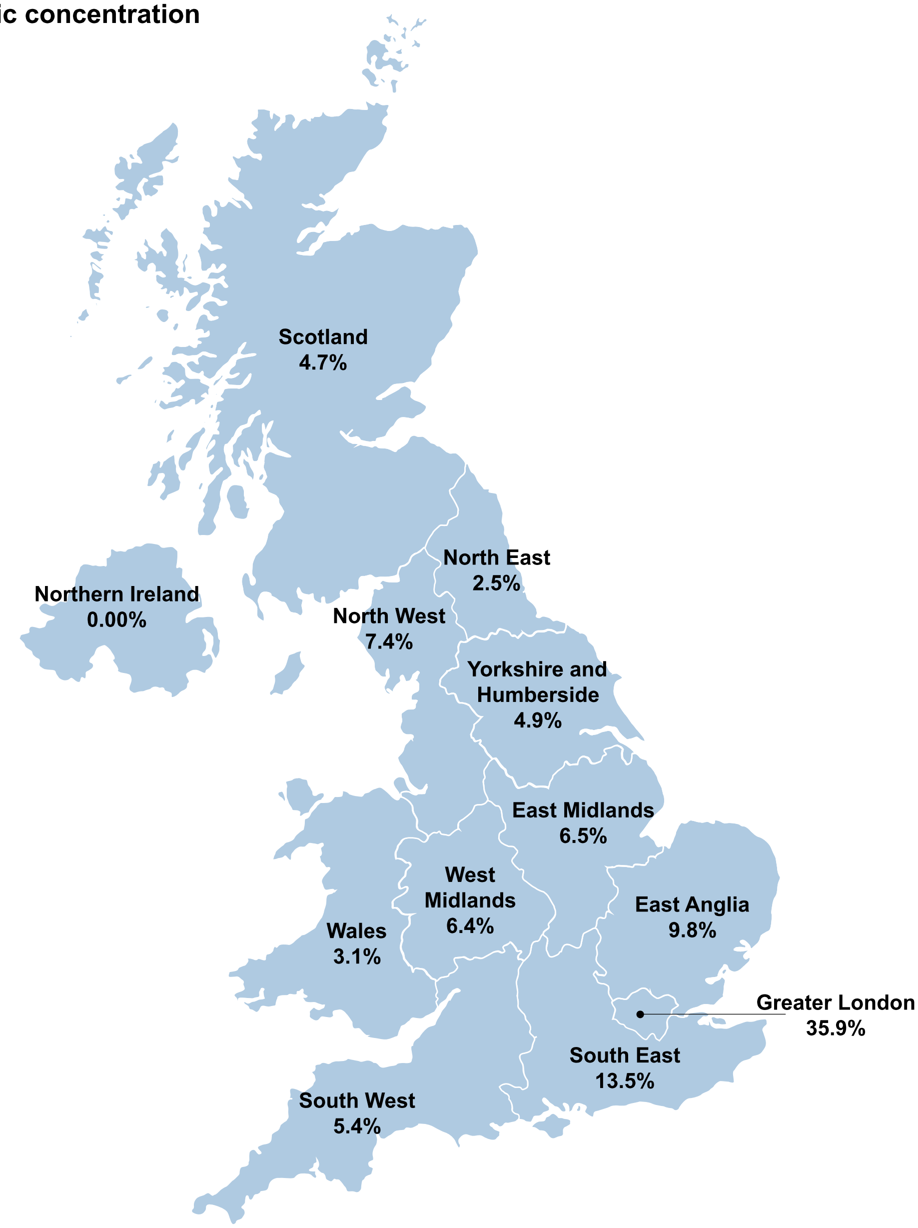


Table 1

Source of assets being securitized

Originator	% of pool	Rated by S&P Global Ratings?
Tower Bridge Funding No. 1 PLC	0.06	No

Table 1

Source of assets being securitized (cont.)

Originator	% of pool	Rated by S&P Global Ratings?
Tower Bridge Funding No. 3 PLC	2.80	No
Tower Bridge Funding No. 4 PLC	5.05	No
Tower Bridge Funding 2020-1 PLC	5.84	Yes
Tower Bridge Funding 2021-1 PLC	9.30	Yes
Tower Bridge Funding 2021-2 PLC	13.25	Yes
Tower Bridge Funding 2022-1 PLC	17.87	Yes
Tower Bridge Funding 2023-1 PLC	0.06	Yes
Not previously securitized	45.78	Yes

Chart 2

Loan origination date

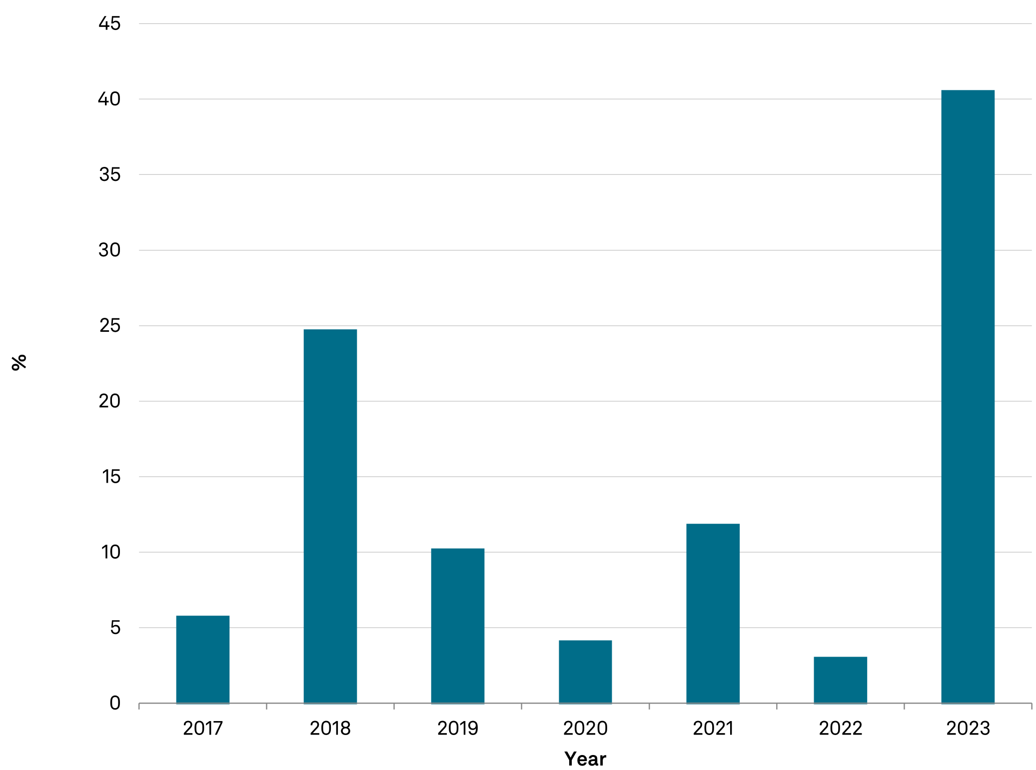


Table 2

Collateral key features*

	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	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.

Table 2

Collateral key features* (cont.)

	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
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.
Principal outstanding of the pool (mil. £))	306.04	400.00	350.00	400.00	324.31	354.57	343.12
Number of properties	1,645	1,910	1,673	1,807	1,594	1,871	1,785
Average loan balance (£)	186,041	209,424	209,205	221,360	203,455	189,507	192,223
Weighted-average indexed current LTV ratio (%)	63.9	68.4	68.62	66.27	69.30	71.40	71.40
Weighted-average original LTV ratio (%)	70.7	72.6	74.00	70.91	70.43	72.52	72.10
Weighted-average seasoning (months)	33	29	34	28	23	16	7
Top two regional concentration (by balance)	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 (%)	19.7	16.4	12.87	7.33	8.31	25.11	11.10
Buy-to-let (%)	69.3	74.4	78.48	81.87	78.38	56.42	77.60
One or more CCJ (%)	12.0	10.8	7.50	6.48	8.38	15.65	7.50
Interest only (%)	68.9	73.7	76.98	80.62	77.99	57.35	75.90
Jumbo valuations (%)	2.7	3.2	2.10	6.23	3.38	4.66	3.90
Weighted-average 'AAA' RMVD (%)	61.7	62.3	N/A	N/A	N/A	N/A	N/A
Current arrears greater than or equal to one month (%)	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

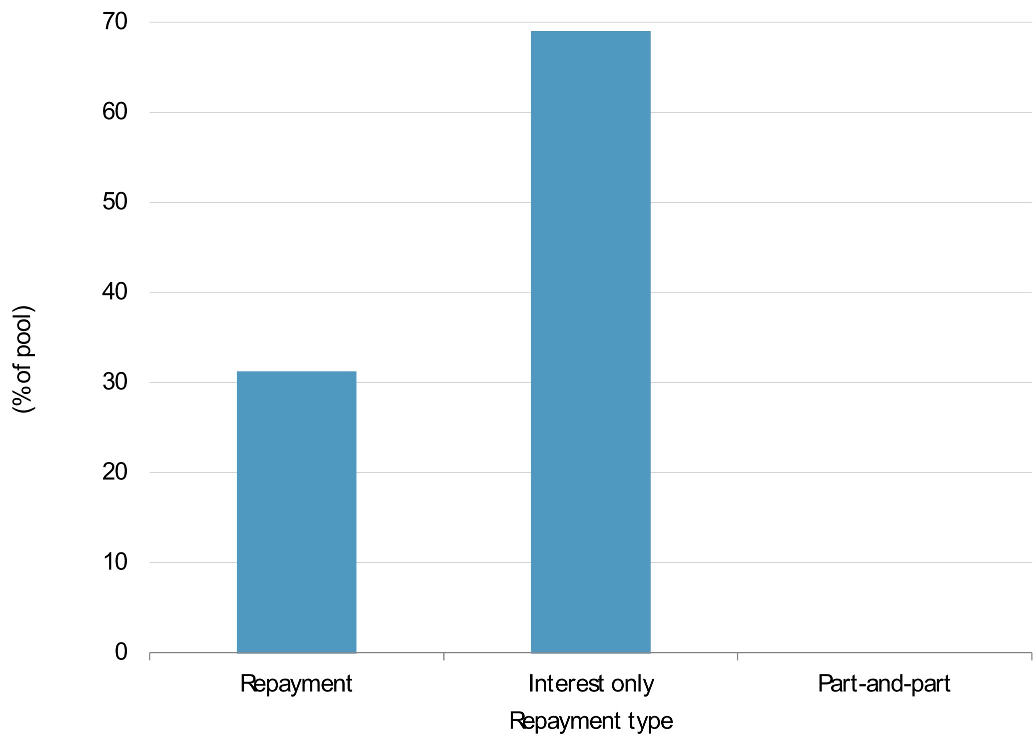
Of the portfolio, 31.1% comprises repayment mortgage loans, and 68.9% comprises interest-only loans. Just 1.4% of the pool refers to owner-occupied loans that are interest-only, hence the majority of interest-only loans are BTL loans. Given that interest-only loans are standard mortgage products in the 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 (41.4%). 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 3

Repayment type distribution



Of the pool, 3.3% by current balance refers to 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 pool's borrower profile.

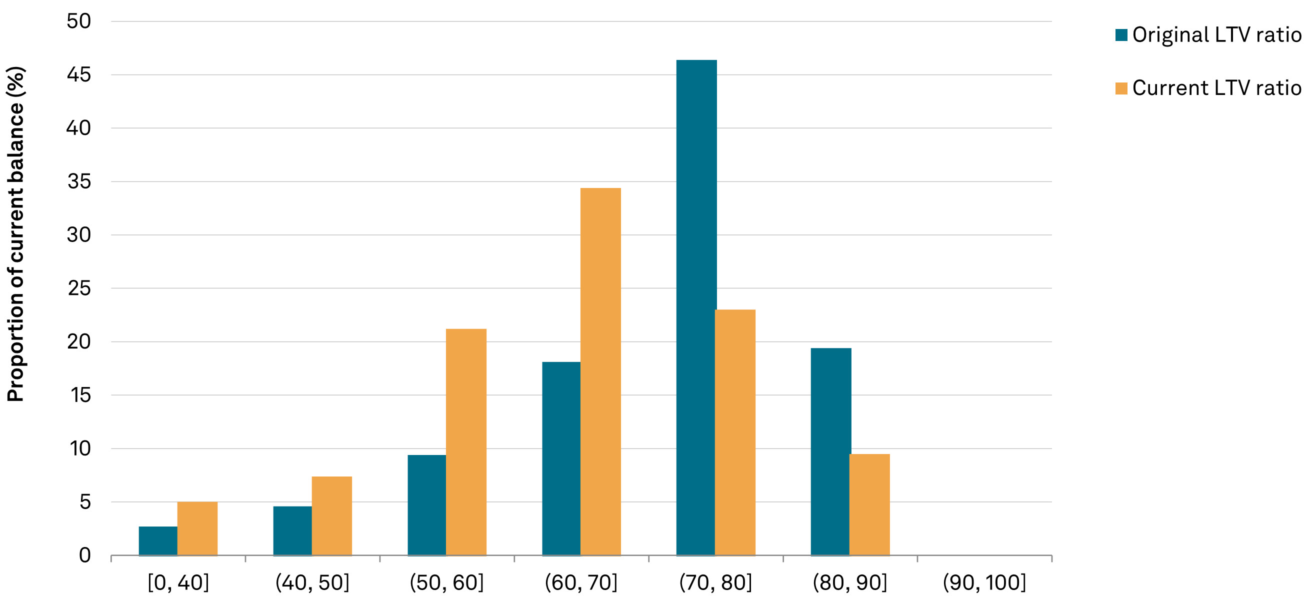
A high proportion of fixed-rate loans revert to higher reversionary rates when incorporating the VVR or BBR. Therefore, the borrowers who unable to refinance might be exposed to a payment shock. We adjusted our foreclosure frequency assumptions accordingly. We believe the short-term fixed-rate owner-occupied 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 12.2%, 53.5%, and 34.3% of the pool reverting in 2024, 2025, and 2028, 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 2.83% of the BTL loans have original LTV ratios above 80% and DSCRs below 1.2x. Therefore, the pool has limited risk layering, i.e., loans with high LTV ratios and low DSCRs.

Chart 4

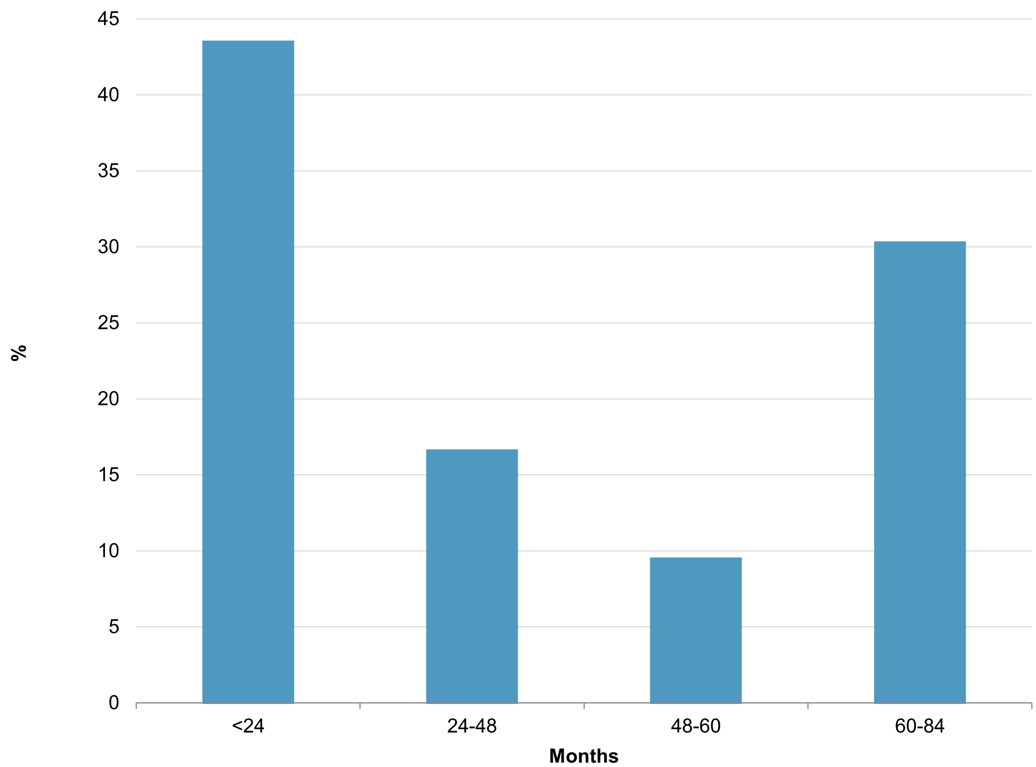
Original and current LTV ratio distribution



LTV--Loan-to-value.

Chart 5

Seasoning distribution



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

Table 3

Loans by fixed-rate reversion year

Reversion year	As a proportion of all fixed-rate loans by current balance (%)
2024	12.18
2025	53.50
2028	34.33

Of the portfolio, 12.0% have had prior CCJs, and only two were 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 pool comprises 2.5% of loans in arrears (greater than or equal to one month in arrears), with 0.1% 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 pool 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

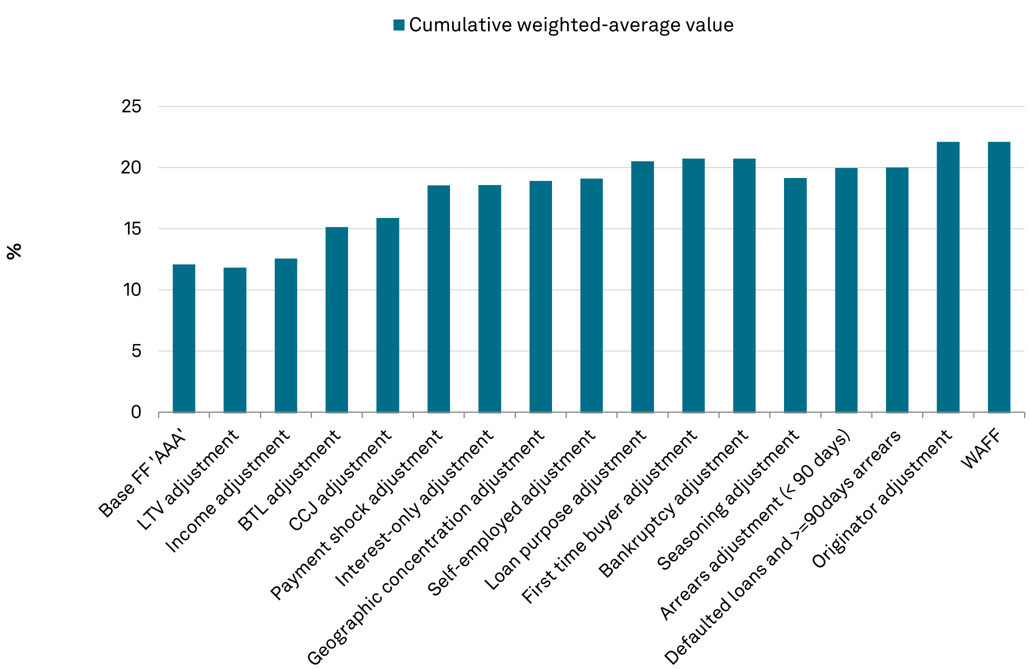
Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	22.03	42.74	9.42
AA	14.95	34.92	5.22
A	11.30	22.87	2.58
BBB	7.80	15.94	1.24
BB	4.12	11.38	0.47
B	3.29	7.62	0.25

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

Chart 6

'AAA' cumulative WAFF distribution



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

Table 5

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

Region	AAA	AA	A	BBB	BB	B
East Anglia	55.00	50.69	42.98	38.23	34.64	31.15
East Midlands	55.73	51.42	43.71	38.96	35.37	31.88
London	68.50	62.18	52.48	46.06	41.09	36.25
North	55.56	51.25	43.54	38.79	35.20	31.71
North West	55.64	51.34	43.62	38.87	35.28	31.79
Scotland	55.00	50.69	42.98	38.23	34.64	31.15
South East	68.50	62.18	52.48	46.06	41.09	36.25
South West	55.04	50.73	43.01	38.27	34.68	31.19
Wales	55.13	50.83	43.11	38.36	34.77	31.28
West Midlands	55.41	51.10	43.38	38.64	35.05	31.56
Yorks And Humber	55.13	50.82	43.10	38.36	34.77	31.28

Macroeconomic And Sector Outlook

Table 6

U.K. housing market statistics

	2022	2023f	2024f	2025f	2026f
Nominal house prices, fourth quarter y/y % change	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

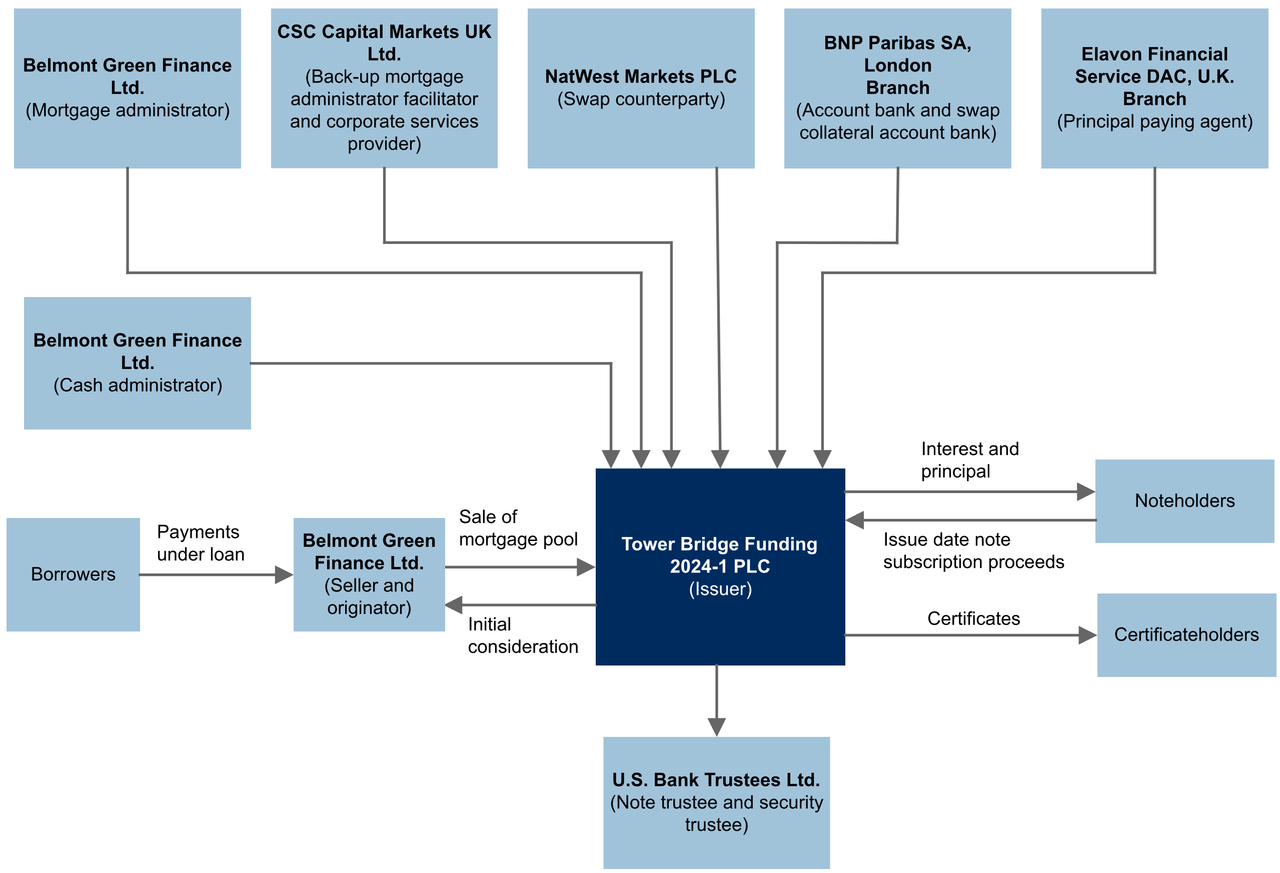
Sources: S&P Global Ratings, Eurostat, Organisation for Economic Cooperation and Development, Department for Communities and Local Government, Office for National Statistics. Y/Y--Year on year. f--Forecast.

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.

Transaction Summary

Chart 7

Transaction structure



The issuer is an English special-purpose entity (SPE), which we consider to be bankruptcy remote. We analyzed its corporate structure in line with our legal criteria.

Interest is to be paid quarterly on the interest payment dates, beginning in April 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 January 2026 for the class A, B-Dfrd, C-Dfrd, and D-Dfrd notes. All the notes will reach legal final maturity in January 2066.

Deferral of interest

Under the transaction documents, interest payments on the class B-Dfrd, C-Dfrd, and D-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.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A notes and the ultimate payment of interest and principal on the other rated notes. Our 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 are capped at 7.5% 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.

General reserve fund

A nonamortizing general reserve fund was funded at closing and available to cover shortfalls on the senior fees and expenses, the swap outflows, the interest payments on the class A to D-Dfrd notes, and amounts debited to the class A to D-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 collateral balance, until the class A to D-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 D-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 D-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 notes.

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

Payment priority

Table 7

Priority of payments

Revenue priority of payments	Principal priority of payments
Senior fees and expenses (including servicing fees)	Before the liquidity reserve initial funding date, fund the liquidity reserve fund to the liquidity reserve fund required amount
Issuer profit	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)
Swap payments	Class A notes' principal
Class A notes' interest	Class B-Dfrd notes' principal
Class A notes' PDL	Class C-Dfrd notes' principal
Class B-Dfrd notes' interest	Class D-Dfrd notes' principal
Top up the liquidity reserve fund to target, after the liquidity reserve initial funding date	Class Z1 notes' principal
Class B-Dfrd notes' PDL	Class Z2 notes' principal
Class C-Dfrd notes' interest	Any remaining amounts to be applied as available revenue funds
Class C-Dfrd notes' PDL	
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Top up the general reserve fund to target	
Class Z1 notes' PDL	
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	
Class S notes' principal	
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 ratings address timely payment of interest and ultimate payment of principal on the class A notes, and they reflect ultimate payment of interest and principal on all other rated notes.

The rating on the class B-Dfrd notes is below that indicated by our standard cash flow analysis. These notes are rated according to the payment of ultimate interest and principal, and interest can therefore defer on these notes when they are not the most senior class of notes outstanding. The presence of interest deferral mechanisms is, in our view, inconsistent with the definition of a 'AAA' rating (see "Related Research").

The rating on the class C-Dfrd notes is below that indicated by our standard cash flow analysis. The assigned rating reflects the relative position of the notes in the capital structure and the amount of credit enhancement available for the notes compared with the class B-Dfrd notes, which are more senior in the capital structure.

The rating on the class D-Dfrd notes is below that indicated by our standard cash flow analysis. The assigned rating reflects the results of sensitivities with higher levels of prepayments to capture the prepayment risk associated with a high proportion of fixed-rate loans having a discount period ending in 2025 and 2028.

Interest rate risk

All loans in the pool pay interest based on a fixed rate, but all will revert to a floating interest rate, linked to either a VVR (96.1%) or to the BBR (3.9%).

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 2.0% 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.

For the loans that are linked to the BBR post-reversion, we have applied basis risk stresses in our cash flow analysis for these loans given the index mismatch in relation to the notes that are on daily compounded SONIA.

Under the terms and conditions set out by BGFL in the standard documentation applicable to bank base rate mortgages, the interest rate will be set quarterly and vary in line with changes in the BBR, which is also the LIBOR replacement rate set at BBR plus 8 basis points (bps), rounded up to the nearest 5 bps, floored at 0.25%. We incorporated this floor in our cash flow analysis.

Spread compression and product switches

The asset yield on the pool can decrease if higher-paying assets default or prepay. We incorporated this in our cash flow analysis by assuming that the weighted-average yield on the portfolio drops by 0.10% at the 'AAA' level.

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 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 8). 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 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 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 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 9). A high proportion of fixed-rate loans have a discount period ending in 2025 and 2028, 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 ratings remain robust.

Table 9

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 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. 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 BNP Paribas SA, London branch as the transaction account provider and swap collateral account provider; NatWest Markets PLC 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 11

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)
BNP Paribas SA, London branch as transaction account provider*	A+/Stable/A-1	A	60	AAA
BNP Paribas SA, London branch as swap collateral account provider*	A+/Stable/A-1	A	60	AAA
NatWest Markets PLC as swap counterparty	A+/--/A-1§	A-	10 business days to post collateral and 90 days to find 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 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 12

Sensitivity stresses

	WALS		
WAFF	**0**	**1.1x**	**1.3x**
0	Base Case	Scenario 3	Scenario 4

Table 12

Sensitivity stresses (cont.)

	WALS		
WAFF	**0**	**1.1x**	**1.3x**
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 13

Sensitivity scenarios

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

Appendix

Transaction participants

Role	Participant
Arranger	Banco Santander, S.A.
Joint lead managers	Banco Santander, S.A., Barclays Bank PLC, Macquarie Bank Ltd. (London Branch), and Macquarie Bank Europe DAC, acting through its Paris Branch
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
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

- 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
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

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- U.K. Economic Outlook 2024: More Stagflation Ahead, Nov. 27, 2023
- EMEA Structured Finance Chart Book: November 2023, Nov. 21, 2023
- European RMBS Index Report Q3 2023, Nov. 21, 2023
- Sector Review: European RMBS And ABS Monitor Q3 2023, Nov. 10, 2023
- Economic Outlook U.K. Q4 2023: High Rates Keep Growth Muted, Sept. 25, 2023
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- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021

- Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts, May 1, 2020
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016