Dilosk RMBS No. 3 DAC Ratings Raised On Class B-Dfrd To D-Dfrd; Class A And X1-Dfrd Ratings Affirmed

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Overview

- We have reviewed Dilosk RMBS No.3 DAC following the implementation of our revised Irish RMBS criteria.
- Following our review, we have raised our ratings on the class B-Dfrd to D-Dfrd notes, and we have affirmed our ratings on the class A and X1-Dfrd notes.
- Dilosk RMBS No.3 DAC's issuance is an RMBS transaction backed by first-lien Irish buy-to-let mortgages.

DUBLIN (S&P Global Ratings) Jan. 23, 2020--S&P Global Ratings today raised its ratings on Dilosk RMBS No.3 DAC's class B-Dfrd to D-Dfrd notes and affirmed its ratings on the class A and X1-Dfrd notes.

Today's rating actions follow the implementation of our revised criteria and assumptions for assessing pools of Irish residential loans (see "Related Criteria"). They also reflect our full analysis of the most recent transaction information that we have received and the transaction's structural features.

Upon revising our Irish RMBS criteria, we placed our ratings on the class B-Dfrd to X1 Dfrd notes under criteria observation. Following our review of the transaction's performance and the application of our updated criteria for rating Irish RMBS transactions, our ratings on these notes are no longer under criteria observation.

Borrowers pay into collection accounts held with BNP Paribas, Dublin Branch, and the issuer transaction account with The Bank of New York Mellon, London Branch. The documented replacement framework is in line with our current counterparty criteria to support a 'AAA (sf)' rating on the notes.

Dilosk DAC officially acts as named servicer for all of the loans in the transaction, but the role is delegated to Link Asset Services Ltd. As a starting point for the rating analysis of RMBS transactions, we typically seek performance data (e.g., default, delinquency, and recovery/loss severity) spanning a minimum of three years, ideally spanning a period of economic stress that demonstrates performance that is consistent with our expectations of similar assets in the relevant asset class. In the case of Dilosk 3, we had only 26 months of data at closing, so we used alternative analytical considerations during our operational review (see "How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process," published Jan. 8, 2019). Following this analysis, we were satisfied that there was no requirement for a cap on the ratings but have incorporated this aspect in our credit analysis.

After applying our updated Irish RMBS criteria, the 'AAA' to 'B' weighted-average foreclosure frequency (WAFF) has decreased, primarily driven by the removal of the arrears projection, the calculation of the weighted-average effective loan-to-value (ELTV) ratio, and our treatment of interest-only buy-to-let borrowers. This is in addition to the decrease of our archetypal foreclosure frequency anchors at all rating levels. Our weighted-average loss severity (WALS) at all levels has remained broadly stable.

Credit Analysis Results

Rating level	WAFF (%)	WALS (%)
AAA	24.17	23.56
AA	15.89	17.66
A	11.91	9.23
BBB	7.77	5.33
BB	3.45	3.11
B	2.59	2.00

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

The results of our cash flow analysis supports the currently assigned rating on the class A notes. We have therefore affirmed our 'AAA (sf)' rating on this class of notes.

Our analysis indicates that the class B-Dfrd to D-Dfrd notes could withstand our stresses at higher ratings than those currently assigned. However, the ratings on these classes of notes are constrained by additional factors. Specifically, we considered their ability to defer until they become the most-senior class outstanding, the available credit enhancement for these notes, and their relative positions in the capital structure. Finally, we also considered the interest-only exposure in the pool, and each of these classes' sensitivity to tail-end risk, in particular for the class D notes. We have therefore raised to 'AA+ (sf)', 'AA (sf)', 'A+ (sf)', from 'AA (sf)', 'AA- (sf)', and 'A (sf)' our ratings on the class B-Dfrd, C-Dfrd, and D-Dfrd notes, respectively.

In our cash flow analysis, the class X1-Dfrd notes did not pass our 'B' rating level cash flow stresses. Therefore, we continue to apply our 'CCC' criteria (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012) to assess if either a 'B-' rating or a rating in the 'CCC' category would be appropriate. According to our 'CCC' criteria, for structured finance issuances, expected collateral performance and the level of credit enhancement are the primary factors in our assessment of the degree of financial stress and likelihood of default. The class X1-Dfrd notes are not supported by any subordination or the general reserve fund, so we performed a qualitative assessment of the collateral together with an additional quantitative analysis of the transaction's liquidity. In our view, given the transaction's structural features, we consider these notes dependent upon favorable business, financial, and economic conditions. We have therefore affirmed our rating on these notes at 'CCC (sf)'.

The transaction's performance has been stable, notwithstanding the fact that there has only been one payment period to date. The general reserve fund was fully funded at closing, and the liquidity reserve fund is now at target, having been funded from principal proceeds. The issuer was able to purchase additional mortgage loans during an initial pre-funding period, which ended on the first calculation date in October 2019. Pre-funding reserve amounts not utilized during the pre-funding period were allocated pro rata to the class A, B-Dfrd, C-Dfrd, D-Dfrd, and Z1 notes.

Dilosk 3 is a securitization of a pool of first-ranking residential mortgage loans, secured on properties in Ireland originated by Dilosk DAC under the ICS Mortgages brand. The transaction closed in April 2019.

Related Criteria

- 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
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Europe's Housing Markets Lose Speed As The Economy Weakens, Sept. 24, 2019
- European Economic Snapshots: Domestic Demand Still A Safety Net, April 12, 2019
- 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