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DBRS Morningstar Takes Rating Actions on Dilosk RMBS No. 2 DAC Resolving DBRS Morningstar's Error

Bloomberg: DBRS Morningstar Resolves Its Error on Dilosk RMBS No. 2

Industry Group: Structured Finance

Sub-Industry: Residential Mortgage

Region: Europe

DBRS Ratings Limited (DBRS Morningstar) took rating actions on the following classes of notes issued by Dilosk RMBS No. 2 DAC (the Issuer):

- Class A confirmed at AAA (sf)
- Class B confirmed at AA (high) (sf)
- Class C downgraded to A (sf) from AA (sf)
- Class D downgraded to BBB (sf) from A (sf)
- Class E downgraded to B (high) (sf) from BB (high) (sf)
- Class F downgraded to CCC (sf) from BB (sf)

The rating on the Class A notes addresses the timely payment of interest and ultimate payment of principal on or before the legal final maturity date. The ratings on the Class B, Class C, Class D, Class E and Class F notes address the ultimate payment of interest and principal on or before the legal final maturity date while junior, and timely payment of interest while the senior-most class outstanding.

The rating actions follow an annual review of the transaction and are based on the following analytical considerations:

- Correction of a cash flow input error made by DBRS Morningstar at the time of the initial rating.
- Portfolio performance, in terms of delinquencies, defaults and losses.
- Probability of default (PD), loss given default (LGD) and expected loss assumptions on the remaining receivables.
- Current available credit enhancement to the notes to cover the expected losses at their respective rating levels.

Dilosk RMBS No. 2 DAC is a securitisation of residential mortgage loans originated by Pepper Finance Corporation (Ireland) DAC (formerly, GE Capital Woodchester Home Loans Limited) and Leeds Building Society.

The downgrades on the Class C, D, E and F notes are driven solely by a correction made to the implementation of the coupon caps applicable to each class of rated notes in DBRS Morningstar's cash flow analysis. At the time of the DBRS Morningstar initial rating, the coupon caps of either 6.0% or 8.0% applicable to the rated notes were incorrectly entered into DBRS Morningstar's cash flow engine as 0.06% and 0.08%, respectively.

This was an error solely on the part of DBRS Morningstar and is not connected in any way to the transaction collateral performance, which DBRS Morningstar considers to be in line with initial expectations, or to the data and information provided by the Issuer for the purposes of providing these ratings, which DBRS Morningstar considers to be of satisfactory quality. For more information please refer to: <https://www.dbrs.com/research/351798/dbrs-morningstar-comments-on-credit-ratings-of-rmbs-transaction-potentially-affected-by-dbrs-morningstar-error>.

PORTFOLIO PERFORMANCE

As of the end of August 2019, loans that were two- to three-months in arrears represented 1.0% of the outstanding portfolio balance, the 90+ delinquency ratio was 2.4% and the cumulative default ratio was 4.2%.

PORTFOLIO ASSUMPTIONS

DBRS Morningstar conducted a loan-by-loan analysis of the remaining pool of receivables and has updated its base case PD and LGD assumptions for the performing portfolio to 20.1% and 25.7%, respectively.

CREDIT ENHANCEMENT

As of the September 2019 payment date, credit enhancement to the Class A, B, C, D, E and F notes was 41.0%, 34.2%, 29.0%, 22.7%, 13.4% and 10.2% respectively, up from 39.1%, 32.6%, 27.6%, 21.6%, 12.6% and 9.6% respectively, at the DBRS Morningstar initial rating. In each case, credit enhancement is provided by subordination of junior classes, and amounts standing to the credit of the general reserve fund above the first target level.

The transaction benefits from a general reserve fund of EUR 8.3 million. Amounts standing to the credit of the general reserve fund up to the first target level of EUR 2.6 million are available to cover senior fees and Class A interest, while amounts above the first target level and up to the second target level of EUR 5.7 million are available to cover senior fees, interest and principal (via the principal deficiency ledgers) to the rated notes.

Citibank N.A., London Branch acts as the account bank for the transaction. Based on the DBRS Morningstar private rating of Citibank N.A., London Branch, the downgrade provisions outlined in the transaction documents, and other mitigating factors inherent in the transaction structure, DBRS Morningstar considers the risk arising from the exposure to the account bank to be consistent with the rating assigned to the Class A notes, as described in DBRS Morningstar's "Legal Criteria for European Structured Finance Transactions" methodology.

The transaction structure was analysed in Intex DealMaker.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology applicable to the ratings is the "Master European Structured Finance Surveillance Methodology".

DBRS Morningstar has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

A review of the transaction legal documents was not conducted as the legal documents have remained unchanged since the most recent rating action.

Other methodologies referenced in this transaction are listed at the end of this press release. These may be found on www.dbrs.com at: <http://www.dbrs.com/about/methodologies>.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to "Appendix C: The Impact of Sovereign Ratings on Other DBRS Credit Ratings" of the "Global Methodology for Rating Sovereign Governments" at: <https://www.dbrs.com/research/350410/global-methodology-for-rating-sovereign-governments>.

The sources of data and information used for these ratings include investor reports provided by Citibank N.A., London Branch and loan-level data provided by the European DataWarehouse GmbH.

DBRS Morningstar did not rely upon third-party due diligence in order to conduct its analysis.

At the time of the initial rating, DBRS Morningstar was supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS Morningstar considers the data and information available to it for the purposes of providing these ratings to be of satisfactory quality.

DBRS Morningstar does not audit or independently verify the data or information it receives in connection with the rating process.

The last rating action on this transaction took place on 19 November 2018, when DBRS Morningstar finalised its provisional ratings on the Class A to F notes.

The lead analyst responsibilities for this transaction have been transferred to Andrew Lynch.

Information regarding DBRS Morningstar ratings, including definitions, policies and methodologies is available at www.dbrs.com.

To assess the impact of changing the transaction parameters on the rating, DBRS Morningstar considered the following stress scenarios as compared with the parameters used to determine the rating (the Base Case):

- DBRS Morningstar expected a lifetime base case PD and LGD for the pool based on a review of the current assets. Adverse changes to asset performance may cause stresses to base case assumptions and therefore have a negative effect on credit ratings.
- The base case PD and LGD of the current pool of loans for the Issuer are 20.1% and 25.7%, respectively.
- The risk sensitivity overview below illustrates the ratings expected if the PD and LGD increase by a certain percentage over the base case assumption. For example, if the LGD increases by 50%, the rating of the Class A notes would be expected to fall to AA (sf), assuming no change in the PD. If the PD increases by 50%, the rating of the Class A notes would be expected to fall to A (high) (sf), assuming no change in the LGD. Furthermore, if both the PD and LGD increase by 50%, the rating of the Class A notes would be expected to fall to BBB (sf).

Class A Risk Sensitivity:

- 25% increase in LGD, expected rating of AA (high) (sf)
- 50% increase in LGD, expected rating of AA (sf)
- 25% increase in PD, expected rating of AA (high) (sf)
- 50% increase in PD, expected rating of A (high) (sf)
- 25% increase in PD and 25% increase in LGD, expected rating of AA (low) (sf)
- 25% increase in PD and 50% increase in LGD, expected rating of A (low) (sf)
- 50% increase in PD and 25% increase in LGD, expected rating of A (low) (sf)
- 50% increase in PD and 50% increase in LGD, expected rating of BBB (sf)

Class B Risk Sensitivity:

- 25% increase in LGD, expected rating of AA (low) (sf)
- 50% increase in LGD, expected rating of A (low) (sf)
- 25% increase in PD, expected rating of A (low) (sf)
- 50% increase in PD, expected rating of BBB (high) (sf)
- 25% increase in PD and 25% increase in LGD, expected rating of BBB (high) (sf)
- 25% increase in PD and 50% increase in LGD, expected rating of BBB (low) (sf)
- 50% increase in PD and 25% increase in LGD, expected rating of BBB (low) (sf)
- 50% increase in PD and 50% increase in LGD, expected rating of BB (high) (sf)

Class C Risk Sensitivity:

- 25% increase in LGD, expected rating of BBB (high) (sf)
- 50% increase in LGD, expected rating of BBB (sf)
- 25% increase in PD, expected rating of BBB (low) (sf)
- 50% increase in PD, expected rating of BB (high) (sf)
- 25% increase in PD and 25% increase in LGD, expected rating of BB (high) (sf)
- 25% increase in PD and 50% increase in LGD, expected rating of BB (high) (sf)
- 50% increase in PD and 25% increase in LGD, expected rating of BB (sf)
- 50% increase in PD and 50% increase in LGD, expected rating of BB (sf)

Class D Risk Sensitivity:

- 25% increase in LGD, expected rating of BB (high) (sf)
- 50% increase in LGD, expected rating of BB (sf)
- 25% increase in PD, expected rating of BB (high) (sf)
- 50% increase in PD, expected rating of B (high) (sf)
- 25% increase in PD and 25% increase in LGD, expected rating of BB (sf)
- 25% increase in PD and 50% increase in LGD, expected rating of BB (low) (sf)
- 50% increase in PD and 25% increase in LGD, expected rating of B (high) (sf)
- 50% increase in PD and 50% increase in LGD, expected rating of B (high) (sf)

Class E Risk Sensitivity:

- 25% increase in LGD, expected rating of B (sf)
- 50% increase in LGD, expected rating below B (sf)
- 25% increase in PD, expected rating below B (sf)
- 50% increase in PD, expected rating below B (sf)
- 25% increase in PD and 25% increase in LGD, expected rating below B (sf)
- 25% increase in PD and 50% increase in LGD, expected rating below B (sf)
- 50% increase in PD and 25% increase in LGD, expected rating below B (sf)
- 50% increase in PD and 50% increase in LGD, expected rating below B (sf)

The rating on the Class F notes would not be affected by any hypothetical increases in the base case PD or LGD.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see:

<http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Ratings assigned by DBRS Ratings Limited are subject to EU and US regulations only.

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Rating Committee Chair: Alfonso Candelas, Senior Vice President
Initial Rating Date: 24 October 2018

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The rating methodologies used in the analysis of this transaction can be found at:

<http://www.dbrs.com/about/methodologies>.

- Legal Criteria for European Structured Finance Transactions
- Master European Structured Finance Surveillance Methodology
- Operational Risk Assessment for European Structured Finance Servicers
- Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda
- Interest Rate Stresses for European Structured Finance Transactions

A description of how DBRS Morningstar analyses structured finance transactions and how the methodologies are collectively applied can be found at: <http://www.dbrs.com/research/278375>.



For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

<u>Issuer</u>	<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
Dilosk RMBS No. 2 DAC	Class A (XS1893602828)	Confirmed	AAA (sf)	-
Dilosk RMBS No. 2 DAC	Class B (XS1893603552)	Confirmed	AA (high) (sf)	-
Dilosk RMBS No. 2 DAC	Class C (XS1893603636)	Downgraded	A (sf)	-
Dilosk RMBS No. 2 DAC	Class D (XS1893603800)	Downgraded	BBB (sf)	-
Dilosk RMBS No. 2 DAC	Class E (XS1893603982)	Downgraded	B (high) (sf)	-
Dilosk RMBS No. 2 DAC	Class F (XS1893604287)	Downgraded	CCC (sf)	-

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