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Ratings

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New Issue: Dilosk RMBS No.3 DAC

Residential mortgage-backed floating- and fixed-rate notes (including unrated notes)

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Ratings Detail

Ratings Assigned

Class	Rating*	Amount (€)	Available credit enhancement (%)§	Interest	Step-up margin	Step-up date
A	AAA (sf)	167,552,000	22.5	Three-month EURIBOR plus a 0.75%	Three-month EURIBOR plus a 1.50%	April 2022
B-dfrd	AA (sf)	13,613,000	16.00	Three-month EURIBOR plus a 1.20%	Three-month EURIBOR plus a 1.80%	April2022
C-dfrd	AA- (sf)	12,042,000	10.25	Three-month EURIBOR plus a 1.60%	Three-month EURIBOR plus a 2.40%	April 2022
D-dfrd	A (sf)	10,995,000	5.00	Three-month EURIBOR plus a 2.00%	Three-month EURIBOR plus a 3.00%	April 2022
Z1	NR	5,239,000	2.50	8% fixed	N/A	April 2022
X1-dfrd	CCC (sf)	10,472,000	N/A	Three-month EURIBOR plus a 0.365%	N/A	April 2022
X2-dfrd	NR	16,755,000	N/A	Three-month EURIBOR plus a 7.00%	N/A	April 2022
Z2	NR	5,237,000	N/A	8% fixed	N/A	April 2022
R	NR	3,000,000	N/A	Residual	N/A	April 2022

Note: One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published criteria. For more information regarding the exception to our criteria, please see the "Timing of recoveries" section. *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 the other rated notes. §Credit enhancement includes only subordination and the reserve fund. EURIBOR--Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable. Dfrd--Deferrable.

Transaction Participants

Originator	Dilosk DAC
Arranger	NatWest Markets PLC
Seller	Dilosk DAC
Servicer	Dilosk DAC
Delegate servicer	Link Asset Services Ltd.
Back-up servicer facilitator	Wilmington Trust SP Services (Dublin) Ltd.
Corporate services provider	Wilmington Trust SP Services (Dublin) Ltd.
Cash manager	The Bank of New York Mellon, London Branch
Principal paying agent	The Bank of New York Mellon, London Branch
Agent bank	The Bank of New York Mellon, London Branch
Trustee	BNY Mellon Corporate Trustee Services Ltd.
Account bank	The Bank of New York Mellon, London Branch
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Collection account bank	BNP Paribas Dublin Branch

Transaction Participants (cont.)	
Share trustee	Wilmington Trust SP Services (Dublin) Ltd.

Supporting Ratings

Institution/role	Rating
Bank of New York Mellon, London Branch* as the transaction account provider	AA-/Stable/A-1+
BNP Paribas Dublin Branch* as the collection account provider	A+/Stable/A-1

*Rating derived from the rating on the parent entity.

Transaction Key Features*	
Closing date	April 18, 2019
Note payment frequency	Quarterly
Collateral	First-lien Irish buy-to-let mortgages
Sources of credit enhancement	Subordination of the junior notes, general reserve, and excess available revenue receipts
Outstanding principal of the provisional pool (€)	174,533,959
Maximum prefunded pool (€)	34,906,792
Country of origination	Ireland
Concentration	Dublin (74.96%)
Property occupancy	100% buy-to-let
Weighted-average current indexed LTV ratio (%)	53.95
Weighted-average original LTV ratio (%)	56.81
Average loan size balance (€)	192,007
Largest loan size (€)	1,073,029
Weighted-average seasoning (months)	11.33
Arrears greater than or equal to one month (%)	0
Arrears greater than or equal to nine months (%)	0
Projected arrears (%)	3.5
Asset redemption profile	75.55% interest-only; 5.75% flexible
Liability redemption profile	Fully sequential
General reserve fund at closing (as a percentage of the class A through Z1 notes)	2.5%
Senior reserve fund at closing (as a percentage of the class A notes' initial balance)	1.5% (0.75% floor of the initial class A notes' initial balance)

*Data is based on a provisional pool as of March 29, 2019. §Calculations are according to S&P Global Ratings' methodology (including any applicable valuation haircuts). LTV--Loan-to-value.

Transaction Summary

One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published criteria (see the "Timing of recoveries" section). S&P Global Ratings has assigned its credit ratings to Dilosk RMBS No.3 DAC's (Dilosk 3's) class A, B-dfrd, C-dfrd, D-dfrd, and X1-dfrd notes. At closing, Dilosk 3 also issued unrated class Z1, X2, Z2, and R notes.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A notes. Our ratings on the class B-dfrd, C-dfrd, D-dfrd, and X1-dfrd notes address the ultimate payment of interest and principal on these 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. 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.

Based on the origination criteria and process used we consider the mortgages to be prime mortgages, and there are no arrears at the time of our assigning the ratings. The Central Bank of Ireland's mortgage measures restrict the buy-to-let mortgage advance to 70% on a loan level, ensuring the weighted-average original loan-to-value (LTV) ratio (56.81%) at a portfolio level is lower than that for other comparable European buy-to-let transactions.

Strengths, Concerns, And Mitigating Factors

Strengths

- The capital structure provides 22.5% of credit enhancement for the class A notes through subordination and the reserve fund.
- There is a fully funded nonamortizing general reserve fund at closing, and the liquidity reserve fund will be topped up to the required amount to provide liquidity support to the class A notes. Initially this is 1.5% of the original class A note balance and will be floored at 0.75% of the original class A note balance.
- The issuer can also apply principal addition amounts to certain items in the pre-enforcement revenue priority of payments to make up any further revenue shortfalls. This is quite beneficial for the senior notes, but will reduce the credit enhancement available for junior notes.
- The capital structure allocates principal proceeds fully sequentially. Credit enhancement can therefore build over time for the rated notes.
- Principal deficiency ledgers (PDLs) provision for both losses and long-term arrears, which reduced negative carry in our analysis.
- Although not beneficial to the junior notes, following the step-up date, the turbo feature directs excess spread to repay the rated notes sequentially.
- The weighted-average current and original LTV is 53.95% and 56.81% respectively.
- No loans in the pool have arrears, county court judgements, or adverse credit history.
- Recent vintage originations were underwritten in line with the central bank's mortgage regulation, which ensures all buy-to-let loans have a minimum 30% equity.
- The seller provides appropriate representations and warranties in the mortgage sale agreement, which we consider to be in line with the market standard for an Irish residential mortgage-backed securities (RMBS) transaction.

Concerns and mitigating factors

- The transaction includes a 20% pre-funded amount where the issuer can add loans up until the first interest payment date. There is the risk that the addition of these loans could adversely affect the pool's credit quality. Portfolio limitations are in place that mitigate this risk, and our weighted-average foreclosure frequency (WAFF) incorporates this.

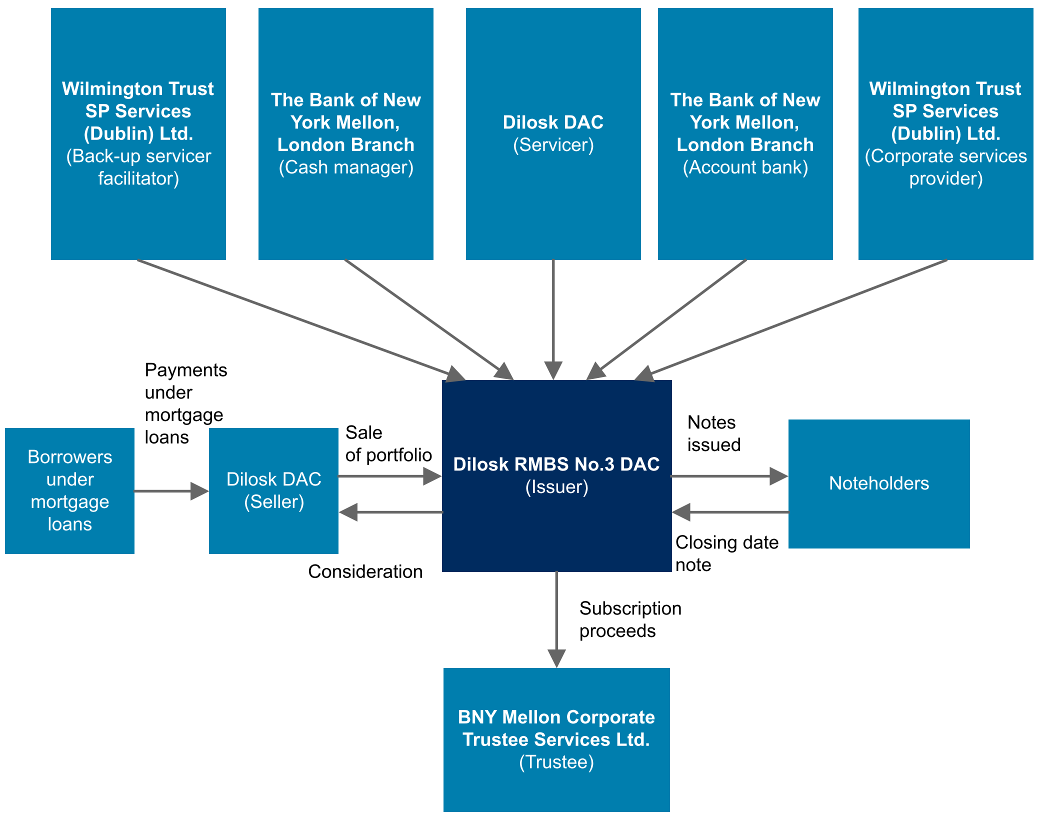
- The pool contains a significant proportion of loans that are interest-only (75.55%) and flexible (5.75%). Loans with these characteristics have historically exhibited poorer performance than otherwise similar loans. In addition, natural deleveraging will be slower than for a repayment pool, and prepayment is the only likely source of significant deleveraging. However, the weighted-average original LTV is low at 56.81%, and we have addressed these factors in our credit and cash flow analysis.
- The average seasoning of the pool is only 11.33 months, and as a result we do not give any seasoning benefit to the portfolio.
- We classify a large proportion (36.24%) of the loans as jumbo loans. This is a function of the high number loans secured by properties in Dublin (74.96%). Our analysis incorporates an adjustment to these loans given the greater risk of higher loss severities, and we also apply a geographical penalty due to the Dublin concentration.
- There is potential for excess spread to erode over time due to a reduction of the weighted-average margin on the loans; however, this is mitigated by the three-month Euro Interbank Offered Rate (EURIBOR) plus 3.25% floor covenant for the underlying loans. In our cash flow analysis, we assume the 3.25% floor.
- Borrowers currently pay collections into a collection account held at BNP Paribas, Dublin Branch. If the collection account holder were to become insolvent, mortgage collection amounts in the collection account may become part of its bankruptcy estate. In order to mitigate this risk, collections are transferred daily into the issuer's bank account, and a declaration of trust is in place for the collection accounts. Also, there is downgrade language in place for the bank account provider to ensure replacement in line with our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). We have accounted for commingling risk in our cash flow analysis by applying a one-month liquidity stress of principal and interest collections.
- The loan pool includes commercial and pension trustee borrowers, which we regard as weaker than personal borrowers. However, these loans are underwritten at a lower LTV than the central bank requirements, and we have applied an increased originator adjustment to reflect this cohort of borrowers.

Transaction Structure And Features

At closing, Dilosk 3 used the class A to Z1 notes' issuance proceeds to purchase the beneficial title of the mortgage loans from the seller. Proceeds from the class Z2 notes are used to fund the general reserve fund up to the general reserve fund required amount, and the X notes fund the issuer costs and expenses. The issuer will grant security over all of its assets to the trustee (see chart 1). Dilosk DAC will hold the legal title to the mortgage loans on trust for the issuer, until a perfection of title event occurs.

Chart 1

Dilosk RMBS No.3 DAC
Transaction Structure



Pre-funding period

The issuer may purchase additional mortgage loans on any business day during the pre-funding period, which ends on the first calculation date in October 2019. These additional loans may represent up to 20% of the initial loan balance and can be added subject to various portfolio-level limitations. We have incorporated the potential portfolio migration subject to these limits in our analysis. In the event that the pre-funding principal reserve is not utilized in full during the pre-funding period, the class A, B, C, D, and Z1 notes will be partially redeemed on a pro rata basis, in an amount equal to the funds then standing to the credit of the pre-funding principal reserve. Based on our analysis of Dilosk DAC's recent underwriting run rate, we deem its ability to fully utilize the pre-funding feature achievable, particularly given the long first interest period.

Operational Risk

Dilosk was formed in August 2013 with a view to becoming a specialist buy-to-let lender in the Irish market. To date it has successfully issued two Irish RMBS transactions because of loan portfolio purchases. Dilosk will act as the servicer in this transaction and will also hold the legal title to the mortgage loans until a perfection of title event occurs. Dilosk will sub-delegate the portfolio's day-to-day servicing to Link Asset Services Ltd. S&P Global Ratings' residential loan servicer and residential special servicer rankings on Link Asset Services Ireland Ltd. are AVERAGE, and we believe its systems and processes are sufficiently robust to service a residential mortgage book.

We believe that the company's underwriting, servicing, and risk management policies and procedures are in line with market standards and adequate to support the ratings assigned to the transaction. Significantly, the central bank's mortgage measures limit the LTV of new buy-to-let originations to 70%. Our operational risk criteria focus on key transaction parties (KTPs) and the potential effect of a disruption in the KTPs' services on the issuer's cash flows, as well as the ease with which the KTPs could be replaced if needed (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). For this transaction, the delegate servicer, Link Asset Services Ltd., is the only KTP we have assessed under this framework. Based on our analysis, we believe that our operational risk criteria do not constrain the maximum potential rating on the transaction's notes.

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, 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.

Note Terms And Conditions

Dilosk 3 will pay interest quarterly beginning in October 2019. The class A, B-dfrd, C-dfrd, D-dfrd, X1-dfrd, and X2-dfrd notes pay three-month EURIBOR, plus a class-specific margin. Following the step-up date in April 2022, the class-specific margins for the rated A- D notes will increase. We have accounted for this in our analysis. All of the notes will reach legal final maturity in October 2057.

The issuer will pay interest according to the interest priority of payments. Under the transaction documents, interest payments on all classes of notes (excluding the most senior class of notes at any point in time) can be deferred. Consequently, any deferral of interest would not constitute an event of default.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A notes. Our ratings on the class B-dfrd to D-dfrd notes and X1-dfrd notes are interest-deferred ratings and address the ultimate payment of interest and principal.

Optional redemption of the notes

The issuer may redeem all (but not some only) of the notes in each class at their principal amount outstanding, on any interest payment date for taxation or other reasons. These include changes in tax law, which could result in a tax deduction in respect of a relevant payment; application of corporation tax that materially exceeds the aggregate issuer profit amount retained during that accounting period; or law changes that make it unlawful for the issuer to make, fund, or allow to remain outstanding all or any of the notes.

Mandatory redemption of the notes

The issuer will apply available principal receipts to redeem the notes on each interest payment date, subject to the principal priority of payments.

Mandatory redemption in whole can occur:

- On any interest payment date falling on or after the step-up date following the issuer receiving notice from the seller that it intends to exercise its option under the mortgage sale agreement to purchase, or arrange for the purchase of, the remaining mortgage loans in the mortgage portfolio from the issuer.
- on any interest payment date when, on the related calculation date, the notes' aggregate principal amount outstanding is equal to or less than 10% of the notes' principal amount outstanding as of the closing date.

Collateral Description And Credit Analysis

We have conducted a loan-level analysis to assess the mortgage pool's credit quality by applying our European residential loans criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published Aug. 4, 2017).

For each loan in the portfolio, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency) and the amount of loss upon the property's subsequent sale (the loss severity, expressed as a percentage of the outstanding loan) based on the individual loan, borrower, and property-level characteristics. We determine the total amount of this defaulted balance that is not recovered for the entire portfolio by calculating the WAFF and the weighted-average loss severity (WALS).

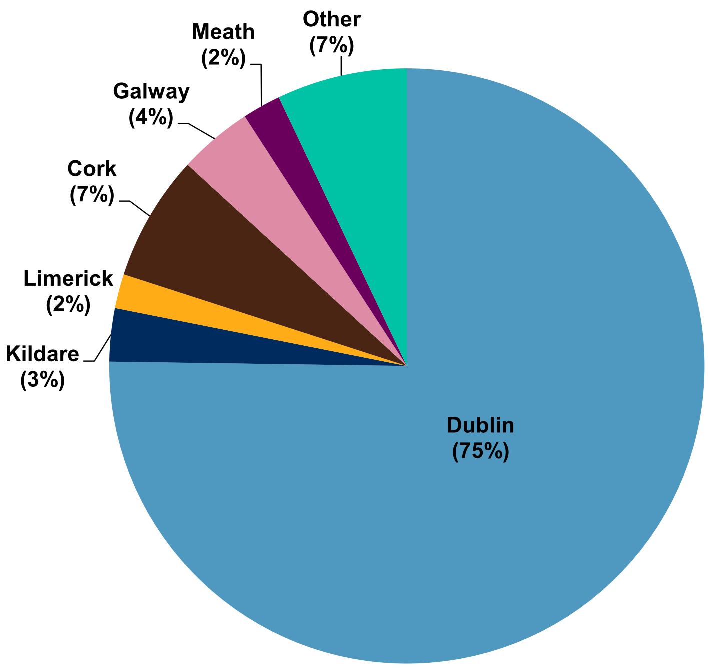
As of the March 29, 2019, pool cut-off date, the pool comprised 909 (€174,533,959) loans originated by Dilosk DAC under the ICS Mortgages Brand. All loans are secured against properties in Ireland, and there have been no arrears to date. As part of our analysis, we have assumed an arrears projection of 3.5%.

Approximately 75.55% of loans are interest-only and 5.75% are flexible loans, which go from interest-only to repayment. In our view, such loans have historically exhibited a higher default probability than otherwise similar loans.

The pool is mainly concentrated in Dublin (74.96%; see chart 2). This concentration is above the level that we consider being excessive, and we have incorporated haircuts for this aspect in our analysis.

Chart 2

Portfolio Geographic Distribution (Percentage Of The Pool)



The weighted-average original loan-to-value (LTV) ratio of the collateral pool is 56.81% (see chart 3). In our view, a borrower that has minimal equity in their property is less likely to be able to refinance and more likely to default on their obligations than borrowers that have lower original LTV ratio loans. At the same time, loans that have high current indexed LTV (CLTV) ratios are likely to incur more severe losses if the borrower defaults. Of the loans, 35.97% have a CLTV ratio greater than 60% (see chart 4). The weighted-average CLTV ratio is 53.95%. The LTV calculations are based on our methodology, and none incorporates valuation haircuts as all have undergone a full valuation (including re-mortgages).

Chart 3

Original Loan-To-Value Ratio Distribution

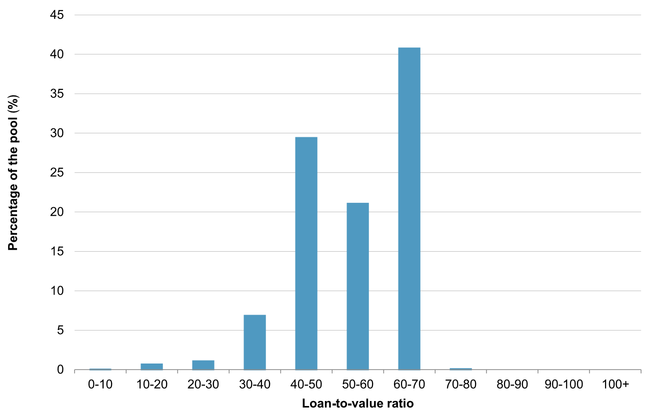
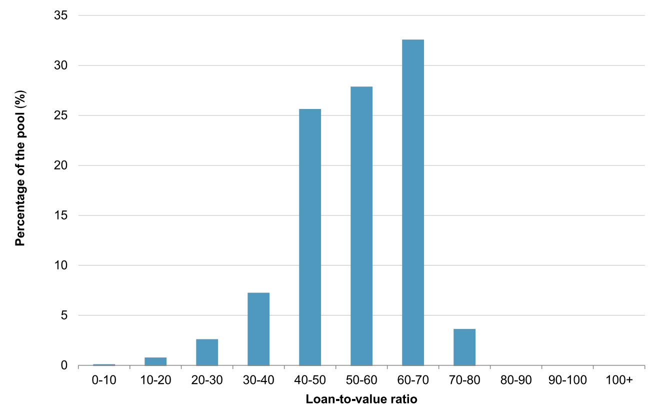


Chart 4

Current Loan-To-Value Ratio Distribution



The results of our credit analysis, which were subsequently used as inputs in our cash flow analysis, are displayed in table 1 below.

Table 1

Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)
AAA	35.44	25.42
AA	24.79	18.85
A	19.46	9.02
BBB	14.34	4.69
BB	10.08	2.73
B	6.89	2.00

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

For modeling purposes, the repossession market value declines we apply in accordance with our European residential loans criteria to calculate the loss severity incorporate our calculation of the degree of over- or under-valuation for Ireland as a whole. Table 2 shows the resulting market value declines that we used in our analysis of this pool.

Table 2

Repossession Market Value Declines At 'AAA', 'AA', 'A', And 'BBB' Rating Levels

	AAA (%)	AA (%)	A (%)	BBB (%)	BB (%)	B (%)
All counties	53.55	49.37	41.88	37.32	33.89	30.56

Cash Flow Mechanics

The notes pay interest and principal on quarterly interest payment dates. The class A, B-Dfrd, C-Dfrd, D-Dfrd, X1, and

X2 notes pay interest at a floating rate, while the Z1 and Z2 notes pay a fixed rate. The class R notes pay at a variable rate dependent on remaining interest after paying senior items in the waterfall.

Before the service of an acceleration notice to the issuer, the transaction operates separate interest and principal waterfalls. The issuer makes principal and interest payments to the notes strictly sequentially.

Available revenue receipts

- Revenue collections on the assets;
- Interest on the issuer accounts;
- Amounts withdrawn from the general reserve fund to remedy a shortfall;
- Principal deficiency excess revenue;
- amounts withdrawn from the liquidity reserve fund in order to remedy a revenue shortfall;
- Available principal receipts applied in order to remedy a remaining revenue shortfall;
- Amounts applied as available revenue receipts in accordance with reconciliation conditions;
- Any principal receipts applied as available revenue; and
- Other net income of the issuer received.

Revenue priority of payments

- Senior fees;
- Issuer profit amount and other third-party fees;
- Senior servicing fees;
- The class A notes' interest;
- Fund liquidity reserve to required amount and liquidity ledger top-up;
- The class A notes' PDL;
- The class B-dfrd notes' interest;
- The class B-dfrd notes' PDL;
- The class C-dfrd notes' interest;
- The class C-dfrd notes' PDL;
- The class D-dfrd notes' interest;
- The class D-dfrd notes' PDL;
- Top up the general reserve fund;
- The class Z1-dfrd notes' PDL;
- Junior servicing fee;
- The class X1 notes' interest;
- Class X1 principal (maximum payment of 1/8th of the original balance can be repaid on each interest payment

date);

- From the step-up date, amounts to be applied to available principal receipts;
- The class X2 notes' interest;
- Class X2 principal;
- The class Z1 notes' interest;
- The class Z2 notes' interest; and
- The class R notes' interest.

Available principal receipts

Available principal receipts mainly include:

- Principal receipts received by the issuer, during the immediately preceding calculation period, which have been designated as available principal receipts;
- Liquidity reserve fund excess amounts;
- PDL credits;
- From and including the step-up date, and until the notes have been redeemed in full, any available revenue receipts applied as available principal receipts;
- Any amount to be applied as available principal receipts in accordance with reconciliation amounts;
- Amounts released from the liquidity reserve fund when the liquidity reserve fund required amount is reduced to zero; and
- Amounts released from the general reserve fund when the general reserve fund requirement amount is reduced to zero (after all the rated notes other than the class X1 notes have been redeemed in full).

Principal priority of payments

- Prior to the liquidity reserve initial funding date, to fund the liquidity reserve fund up to the liquidity reserve fund required amount;
- Any remaining revenue shortfall;
- To redeem the class A notes in full;
- To redeem the class B notes in full;
- To redeem the class C notes in full;
- To redeem the class D notes in full;
- To redeem the class Z1 notes in full;
- To redeem the class Z2 notes in full; and
- Available revenue receipts.

Step-up date

After the step-up date in April 2022, the margins on the class A to D will increase, and all available revenue collections in the waterfall after providing for all items down to class X1 principal will be swept to the principal waterfall and used to pay down the notes.

General reserve fund

At closing, the seller has funded the general reserve fund to 2.5% of the principal amount outstanding of the class A, B, C, D, and Z1 notes on the issue date. The general reserve fund is nonamortizing. The issuer may use the general reserve fund to cure senior fee shortfalls, liquidity reserve shortfalls, class A to D interest shortfalls, and to clear PDLs (except class Z1 PDL).

Liquidity reserve fund

The liquidity reserve is not funded at closing. After closing, principal collections will be used until the liquidity reserve fund required amount is reached, at 1.5% of the aggregate principal amount outstanding of the class A notes on the issue date. It can amortize on each subsequent interest payment date as the class A amortizes, subject to a 0.75% floor calculated off the original class A balance. The issuer may use this to cure any class A interest and senior fees shortfalls in accordance with the revenue priority of payments.

Principal deficiency ledger

The PDL comprises five subledgers, one for each of the class A to Z1 notes.

A PDL will be recorded if any losses occur on a mortgage loan in the pool or if principal is used to remedy senior fees and/or interest shortfalls. A PDL will also be incrementally recorded as follows:

- For loans between 180 days and 269 days in arrears, 30%.
- For loans between 270 days and 359 days in arrears, 60%.
- For loans more than 359 days in arrears, 100%.

PDL amounts will first be recorded in the class Z1 notes' PDL, up to the class Z1 notes' outstanding amount. They will then be debited sequentially upward.

Loan interest rate covenant

The underlying loans benefit from a three-month EURIBOR plus 3.25% covenant.

Basis risk

Because the notes are set on the basis of a three-month EURIBOR, the loans are set at the ICS Mortgages variable rates, and the transaction does not have a basis-risk swap in place, so there is basis risk. However, because we assume all loans have reverted to 3.25%, we have not applied a basis risk stress.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. Because we model the interest rate floor, we do not apply spread compression.

Commingling

Borrowers pay into collection accounts. From and including the first interest payment date, all amounts in the collection account will be transferred daily to the bank account provider (Bank of New York Mellon, London Branch). The transaction documents will establish a declaration of trust in favor of the issuer, over any amounts in the collection account attributable to the mortgage loans in the portfolio. However, there will not be any replacement triggers related to a downgrade on the collection account bank. We have therefore applied a commingling liquidity of one months' principal and interest collection (recovered three months later) in our analysis.

Set-off

Because the seller is not a deposit-taking institution, we have not assessed the potential for deposit set-off risk in our analysis. We have also considered possible exposure to set-off risk relating to further advances and concluded that this risk is immaterial.

Timing of defaults

The WAFF at each rating level specifies the mortgage loans' total balance, assumed to default over the transaction's life. We model these defaults to occur over a three-year recession. Furthermore, we assess the effect of the recession's timing on the ability to repay the liabilities by starting the recessionary period at closing and year three.

We applied the WAFF to the principal balance outstanding at closing. We model defaults to occur periodically, in amounts calculated as a percentage of the WAFF. The timing of defaults follows two paths, referred to as "front-loaded" and "back-loaded" (see table 3).

Table 3

Default Timings For Front-Loaded And Back-Loaded Default Curves

Recession month	Front-loaded defaults (percentage of WAFF per month) (%)	Back-loaded defaults (percentage of WAFF per month) (%)
1–6	5.0	0.8
7–12	5.0	0.8
13–18	3.3	1.7
19–24	1.7	3.3
25–30	0.8	5.0
31–36	0.8	5.0

WAFF--Weighted-average foreclosure frequency.

Timing of recoveries

Given that this pool comprises only buy-to-let mortgages, we have applied an exception from the foreclosure timing assumption of 42 months in our Irish RMBS criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published Aug. 4, 2017. Buy-to-let mortgages are typically not subject to the same Code of Conduct on Mortgage Arrears regulations as owner-occupied mortgages, and given that the underlying loan contracts permit the direct appointment of a receiver, we assume that the issuer regains any recoveries 24 months after a payment default in our analysis.

Delinquencies

We model the liquidity stress arising from short-term delinquencies; that is, those mortgages that cease to pay for a time period but then recover and become current on both interest and principal payments. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each of the first 18 months of the recession, and we model full recovery of these delinquencies to occur 36 months after they arise. Therefore, if in month five of the recession, the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 41.

Interest and prepayment rates

We modeled five different interest rate scenarios: up, down, up-down, down-up, and forward.

We modeled three prepayment scenarios at all rating levels: high, low, and forecast. We modeled the prepayment rate at 1% for the recession period, before gradually reverting to a high prepayment rate under both scenarios. At the 'AA' level and above, we modeled an additional low prepayment scenario, which also reverts to a low prepayment rate after the recession period.

In combination, the default timings, recession timings, interest rates, and prepayment rates described above result in 48 different scenarios at a 'AA' rating level and above (see table 4).

Table 4

RMBS Stress Scenarios

Rating level	Total number of scenarios	Prepayment rate	Recession start	Interest rate	Default timing
'AAA'	60	High, expected, and low	Closing and year three	Up, down, up-down, down-up, and forward	Front-loaded and back-loaded
'AA-' and below	40	High and expected	Closing and year three	Up, down, up-down, down-up, and forward	Front-loaded and back-loaded

We have also incorporated a qualitative assessment of the timing of cash flows in certain back-ended rating scenarios. In assigning our ratings on the notes, in addition to applying our credit and cash flow analysis, we have considered that the transaction may be subject to tail-end risks given the interest-only exposure in the pool.

Legal risk

We have assessed the transaction from a legal perspective, and we have applied our legal criteria (see "Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). As part of our legal analysis, we have considered the transaction in the context of the legal opinions and have performed analyses at the asset, special-purpose entity, and liability levels.

We consider the issuer to be a bankruptcy-remote entity, and we have received legal opinions that indicate that the sale of the assets would survive the seller's insolvency. We expect to receive confirmation of the legal opinions prior to closing.

Counterparty risk

The transaction is exposed to The Bank of New York Mellon, London Branch as the issuer bank account provider. The transaction is also exposed to BNP Paribas Dublin Branch as collection account provider.

The documented replacement language for the bank account provider and collection account provider is in line with our current counterparty criteria.

Sovereign risk

Our ratings also reflect the application of our criteria for incorporating sovereign risk in rating structured finance securities; see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

These criteria designate the sovereign risk sensitivity for RMBS as low. This transaction's notes can therefore be rated up to six notches above the sovereign rating, if they have sufficient credit enhancement to withstand a sovereign default stress. Consequently, these criteria do not currently constrain our ratings on this transaction.

Class X1-dfrd notes

In our analysis, the class X1-dfrd notes are unable to withstand the stresses we apply at our 'B' rating level. Those notes are not supported by any subordination or the general reserve fund; therefore we consider their repayment to be dependent upon favorable conditions and consider them vulnerable to default. Consequently, we have assigned a 'CCC (sf)' rating to the notes in line with our criteria.

Scenario Analysis

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 conducted our scenario analysis, in which we tested our ratings under two scenarios and examined the transaction's performance by applying our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

In the first scenario, in addition to the rating-dependent stress assumptions, we apply a further 8% increase in performing loans. These are split equally between the one-month and three-month delinquency buckets. In the second scenario, we also apply an increase of 8%, but all the loans are deemed to have missed three monthly payments.

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.

Sector Credit Highlights

We expect that house price growth in Ireland will moderate to 5.5% this year and 4.5% in 2020 from an estimated 7.5% in 2018, as the economic recovery levels off, macroprudential lending rules remain in place, and supply gradually catches up with demand. A no-deal Brexit poses downside risks. The combination of supply shortages and a strong economic recovery has been pushing up the price of Irish homes, which rose a staggering 30% over 2016-2018.

However, house price growth should moderate, as macroprudential lending rules, in particular caps on loan-to-income ratios, become increasingly binding. We note that current house price growth is not being spurred by excess credit; recent lending growth comes from levels close to post-crisis lows, and prudential lending rules, introduced in 2015, have just been reaffirmed by the central bank (see "Europe's Housing Markets Ease Off The Accelerator," published on

Feb. 19, 2019).

From 2008, rental values across Ireland fell dramatically before the recovery began in 2013. According to the Residential Tenancies Board, they now stand well above their pre-crisis peak. However, supply started to increase in 2018, and the Irish Government has introduced measures such as rent pressure zones to control future rental inflation.

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.

The key performance indicators in the surveillance of this transaction are:

- Increases in credit enhancement for the notes;
- Total and 90-day delinquencies;
- Cumulative realized losses;
- LTV ratios;
- Constant prepayment rates; and
- Increases in the seasoning of the collateral pool.

Related Criteria

- 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 | General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 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: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process, Jan. 8, 2019
- Outlook Assumptions For The U.K. Residential Mortgage Market, Sept. 4, 2018
- Europe's Housing Markets Are Staging A Soft Landing, Sept. 3, 2018
- Third Of Interest-Only Borrowers In Nonconforming RMBS Deals Failed To Make Bullet Payment At Maturity In Past 18 Months, Dec. 18, 2017
- 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