S&P Global Ratings

Research

New Issue: Trinity Square 2021-1 PLC

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New Issue: Trinity Square 2021-1 PLC

Ratings Detail

Ratings							
Class	Rating*	Class size (£)	Initial credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	555,670,000	12.00	Compounded daily SONIA plus 0.90%	Compounded daily SONIA plus 1.35%	April 2027	July 2059
B-Dfrd	AA- (sf)	31,217,000	7.00	Compounded daily SONIA plus 1.30%	Compounded daily SONIA plus 1.95%	April 2027	July 2059
C-Dfrd	A- (sf)	10,926,000	5.25	Compounded daily SONIA plus 1.65%	Compounded daily SONIA plus 2.475%	April 2027	July 2059
D-Dfrd	BBB (sf)	4,682,000	4.50	Compounded daily SONIA plus 2.00%	Compounded daily SONIA plus 3.00%	April 2027	July 2059
E-Dfrd	BB- (sf)	4,682,000	3.75	Compounded daily SONIA 3.00%	Compounded daily SONIA plus 4.00%	April 2027	July 2059
F-Dfrd	B- (sf)	4,682,000	3.00	Compounded daily SONIA plus 3.75%	Compounded daily SONIA plus 4.75%	April 2027	July 2059
G-Dfrd	CCC (sf)	4,682,000	2.25	Compounded daily SONIA plus 4.50%	Compounded daily SONIA plus 5.50%	April 2027	July 2059
H-Dfrd	NR	7,804,000	0.00	N/A	N/A	April 2027	July 2059
X-Dfrd	B- (sf)	9,365,000	N/A	Compounded daily SONIA plus 6.00%	Compounded daily SONIA plus 6.00%	April 2027	July 2059
Z	NR	6,244,000	N/A	Compounded daily SONIA plus 5.00%	Compounded daily SONIA plus 5.00%	April 2027	July 2059
S1 certificate†	NR	N/A	N/A	Fixed rate of 0.06%	N/A	April 2027	July 2059
S2 certificate†	NR	N/A	N/A	N/A	Fixed rate of 0.09%	April 2027	July 2059
Y certificate	NR	N/A	N/A	N/A	N/A	N/A	July 2059
VRR loan	NR	33,682,000	N/A	N/A	N/A	N/A	July 2059

*Our ratings address timely receipt of interest and ultimate repayment of principal for the class A notes, and the ultimate payment of interest and principal on the other rated notes. §This is the credit enhancement based on subordination plus the general reserve fund, expressed as a percentage of 95% of the collateral amount including loans with past maturities. †The S1 and S2 certificates pay a fixed rate on the loans' outstanding balance. N/A--Not applicable. NR--Not rated. SONIA--Sterling Overnight Index Average. VRR--Vertical risk retention.

Transaction Summary

- S&P Global Ratings has assigned credit ratings to Trinity Square 2021-1 PLC's class A, B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, F-Dfrd, G-Dfrd, and X-Dfrd U.K. RMBS notes. At closing, Trinity Square 2021-1 also issued unrated classes H-Dfrd and Z notes.
- Trinity Square 2021-1 is a static RMBS transaction that securitizes a portfolio of £657 million owner-occupied and buy-to-let (BTL) mortgage loans secured on properties in the U.K.
- The transaction is a refinancing of the Trinity Square 2021-1 PLC transaction, which closed in March 2021 (see "New Issue: Trinity Square 2021-1 PLC," published on March 26, 2021). The original Trinity Square PLC 2021-1 transaction was a refinancing of the Trinity Square 2015-1 PLC and Trinity Square 2016-1 PLC transactions, which closed in December 2015 and February 2016, respectively. In the March 2021 transaction, unrated S1, S2, and Y

certificates and a VRR Loan note were issued, which were subsequently not reissued as part of the 2024 refinancing.

- At closing, there was no sale of mortgages as this happened during the original transaction.
- On the closing date, the issuer issued new notes and used the issuance proceeds to fully redeem the original notes on their optional redemption date (April 15, 2024). The portfolio secures the new notes with the beneficial interest remaining with the issuer. The transaction parties will acknowledge that there are no further liabilities outstanding for the original notes after the closing date.
- We consider the collateral to be nonconforming based on the prevalence of loans to self-certified borrowers and borrowers with adverse credit history, such as prior county court judgments (CCJs), an individual voluntary arrangement, or a bankruptcy order.
- The pool is well-seasoned with more than 99% of loans being more than 10 years seasoned.
- Approximately 4.8% of the pool comprises BTL loans, and the remaining 95.2% are owner-occupier loans.
- There is high exposure to interest-only loans in the pool at 74.6%, and 13.4% of the mortgage loans are currently in arrears greater than (or equal to) one month.
- A general reserve fund provides credit enhancement for the class A to G-Dfrd notes, a liquidity reserve fund provides liquidity support for the class A and B-Dfrd notes, and principal can be used to pay senior fees and interest on the notes subject to various conditions.
- Kensington Mortgage Company Ltd. is the mortgage administrator in this transaction.
- 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.
- Our credit and cash flow analysis and related assumptions consider the transaction's ability to withstand the potential repercussions of the cost of living crisis, namely higher defaults and longer recovery timing. As the situation evolves, we will update our assumptions and estimates accordingly.

The credit story

Strengths	Concerns and mitigating factors
The pool is well-seasoned with a weighted-average seasoning of more than 10 years for almost the full pool. In our view, more-seasoned performing loans exhibit lower risk profiles than less-seasoned loans.	The borrowers in this pool have previously been subject to a prior CCJs (13.2%), an individual voluntary arrangement, a bankruptcy order (1.3%), may be self-employed (32.3%), have self-certified their incomes (31.3%), or were otherwise considered by banks and building societies to be nonprime borrowers. We consider that loans with these characteristics are more likely to exhibit a higher historical default probability than otherwise-similar loans. We have addressed these features accordingly in our credit analysis.
The pool has a low current indexed loan-to-value (LTV) ratio of 44.0%, which is most likely to incur lower loss severities if the borrower defaults.	There is a high proportion (74.6%) of interest-only loans in the preliminary pool. Since there is no mandatory capital repayment over the term of the loan, there is a risk that the outstanding principal balance will not be paid by the end of the loan term. We have captured this risk by increasing our interest-only adjustment for owner-occupied loans maturing in the next five years to 1.5x from 1.3x.We understand when the maturity of a loan is reached, but it is yet to be redeemed, in some cases the servicer does not automatically classify a loan as in default, but where possible allows for short-term extensions in order for the borrower to refinance or sell without the need for litigation. To address this point, we have run an additional sensitivity in our cash flow analysis to test a maturity extension of 12 months of the maturity of interest-only loans in the pool.
The application of principal proceeds is fully sequential. Credit enhancement can therefore build up over time for the rated notes, enabling the capital structure to withstand performance shocks.	Of the pool, 13.4% comprises loans in arrears, including 9.6% in over 90 days' delinquency. We reflected these features in our foreclosure frequency assumptions.

The credit story (cont.)	
Strengths	**Concerns and mitigating factors**
The transaction features an amortizing general reserve, which was fully funded at closing and provides credit and liquidity to meet revenue shortfalls for the class A to G-Dfrd notes. The transaction can also use principal receipts to pay senior fees and interest on the notes subject to various conditions. The transaction also features an amortizing liquidity reserve fund to provide liquidity to the class A and B-Dfrd notes.	Of the portfolio, 1.7% of the loans have passed their maturity. In our analysis, we have assumed these loans to be defaulted.
Any losses on the portfolio and any use of principal as available revenue receipts would result in the issuer recording an amount in the principal deficiency ledger (PDL). This will provide additional protection to the notes as excess spread can be used to pay them down.	We received a 99/1 pool audit report for this transaction that covers the dynamic loan-level fields only. For the static fields within the loan-level data, we used two 99/1 pool audit reports, one received before closing for each of the Trinity Square 2015-1 and Trinity Square 2016-1 transactions. There were a number of exceptions in each of the audit reports. We have applied an adjustment to our weighted-average foreclosure frequency (WAFF) to reflect these exceptions.
	The issuer is not a newly established special-purpose entity (SPE), but the one used in the original Trinity Square 2021-1 transaction. This creates risks of pre-existing contingent or actual liabilities that could interrupt rated debt payments. The SPE is in line with our legal criteria.
	The loan warranties granted in the original transaction have either expired or are about to expire shortly and will not be repeated as at closing. We have increased our WAFF estimates to address this risk.
	Although high inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others, and to the extent inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge. We ran sensitivity scenarios addressing higher defaults to test the robustness of the cash flow results.

Originator

The pool comprises well-seasoned mortgage loans originated by GE Money Home Lending Ltd. (95.2%) and GE Money Mortgages Ltd. (4.8%) between 2004 and 2014. The assets in this transaction were previously securitized in Trinity Square 2015-1 and Trinity Square 2016-1.

Servicing

Kensington Mortgage Company Ltd. (KMC) is and will continue to be the mortgage administrator in the transaction. The servicing team uses a fully integrated servicing platform. Servicing is very proactive with early identification for vulnerable borrowers.

KMC provides third-party servicing as well and therefore has established servicing systems and policies. We reviewed KMC's servicing and default management processes, and we believe it is capable of performing its functions in the transaction.

Collateral

We have received loan-level data as of Feb. 29, 2024. We have also received historical performance data (since 2019) for the loans in the pool, and we have used performance data since 2021 that we received as part of our analysis of the original Trinity Square 2021-1 transaction. The quality of data provided is in line with our standards.

We received a 99/1 pool audit report for this transaction that covers the dynamic loan-level fields only. For the static fields within the loan-level data, we used two 99/1 pool audit reports, one received before closing for each of the Trinity Square 2015-1 and Trinity Square 2016-1 transactions. There were a number of exceptions in each of the audit reports. We have applied an adjustment to our WAFF to reflect these exceptions.

In line with the original transaction, the beneficial title seller is an SPE. It did not originate the loans, and it has limited resources to meet its financial obligations. The seller provided certain representations and warranties on the assets in the original transaction. These will not be repeated from closing as they either expired or were soon to expire. No claims have been filed for a breach of a loan warranty since the closing of the original Trinity Square 2021-1 transaction.

However, the seller will indemnify the issuer against any breach in the loan warranties (with a longer time period available for claims, e.g., payment protection insurance claims), but its ability to meet this obligation depends on the ability to settle a similar claim against the sponsor. We consider the seller's responsibility for breaching the package to be weaker than what we normally see in U.K. RMBS transactions, and we have increased the originator adjustment to incorporate this risk.

Table 1

Collateral key features*	
Pool cutoff date	March 31, 2024
Jurisdiction	U.K.
Originators	GE Money Home Lending Ltd. and GE Money Mortgages Ltd.
Principal outstanding of the preliminary pool (mil. £)	657
Number of properties	7,989
Average loan balance (£)	82,264
Weighted-average indexed current LTV ratio (%)	44.0
Weighted-average original LTV ratio (%)	79.7
Weighted-average seasoning (months)	203.00
Top two regional concentration (by balance)	Greater London (17.1%) and North West (14.1%)
Buy-to-let (%)	4.8
CCJ (%)	13.2
Bankruptcy (%)	1.3
Self-certified loans (%)	31.3
Self-employed (%)	32.3
Interest-only and part-and-part (%)	74.6
Jumbo valuations (%)	2.8
'AAA' RMVD (%)	59.2
Current arrears greater than or equal to one month (%)	13.4

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

Asset description

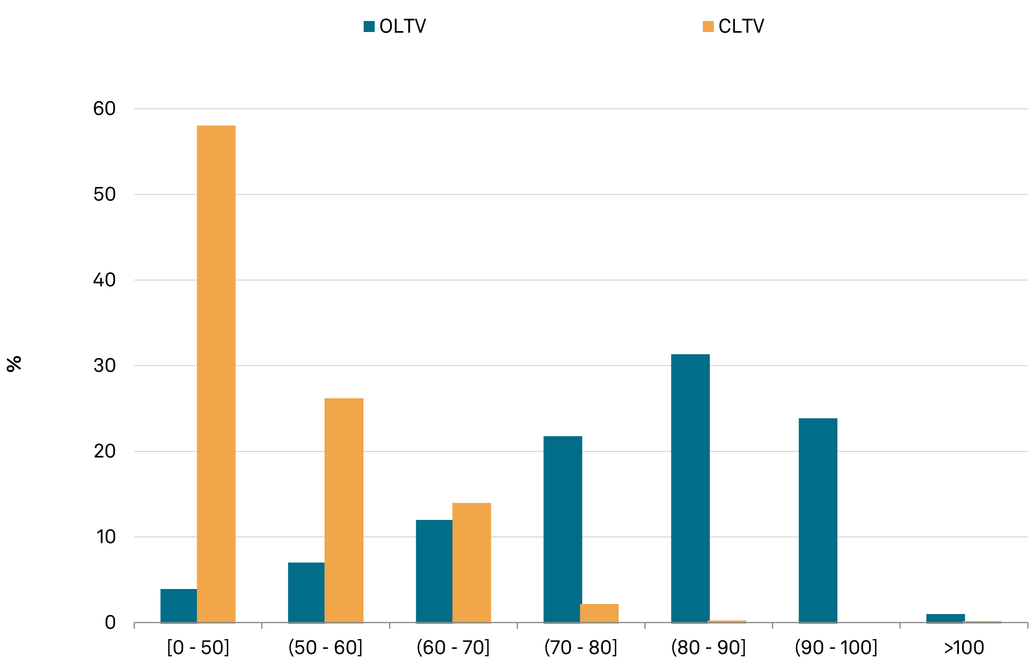
The portfolio comprises first-lien U.K. BTL mortgage loans (4.8%) and owner-occupied loans (95.2%). It has a weighted-average current indexed LTV ratio of 44.0% and a weighted-average original LTV ratio of 79.7%. The pool is well-seasoned with a weighted-average seasoning of 16.9 years. The assets are primarily concentrated in London (17.1%) and the North West (14.1%). However, no regions breach our concentration limits.

We consider the collateral to be nonconforming based on the prevalence of loans to self-certified borrowers and borrowers with adverse credit history, such as prior CCJs, an individual voluntary arrangement, or a bankruptcy order.

The portfolio has a weighted-average current indexed LTV ratio of 44.01% and a weighted-average original LTV ratio of 79.7%. We consider that borrowers with minimal equity in their property are less likely to be able to refinance and are more likely to default on their obligations than borrowers with lower current-indexed LTV ratio loans. At the same time, loans with higher current-indexed LTV ratios are likely to incur greater loss severities if the borrower defaults.

Chart 1

OLTV/CLTV ratio distribution
Percentage of the pool



OLTV--Original loan-to-value. CLTV--Current loan-to-value.

Table 2

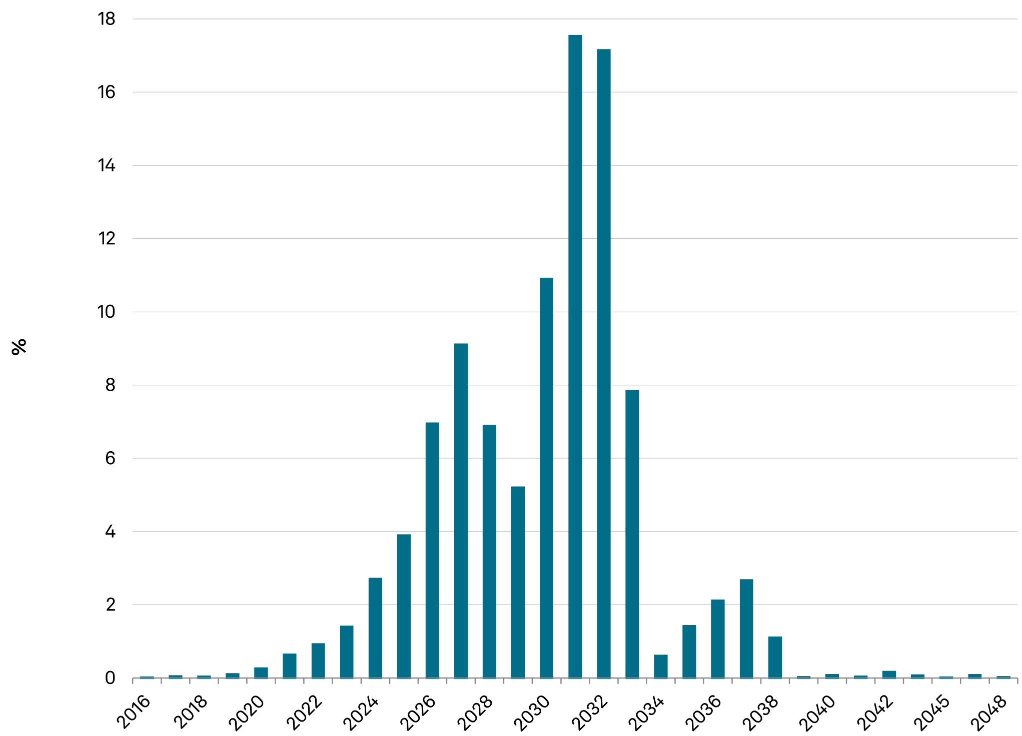
Geographic distribution

Region	Percentage of the pool (%)
East Anglia	11.31
East Midlands	7.13
Greater London	17.13
North	3.76
North West	14.12
Northern Ireland	0.00
Scotland	0.00
South East	13.87
South West	8.72
Wales	5.10
West Midlands	10.34
Yorks And Humber	8.52

There is a high proportion (74.6%) of interest-only loans in the pool. We understand when the maturity of a loan is reached, but it is yet to be redeemed, in some cases, the servicer does not automatically classify a loan as in default, but where possible allows for short-term extensions in order for the borrower to refinance or sell without the need for litigation. Therefore, we have run an additional sensitivity in our cash flow analysis to test a maturity extension of 12 months of the maturity of interest-only loans in the pool.

Chart 2

Interest-only maturity distribution



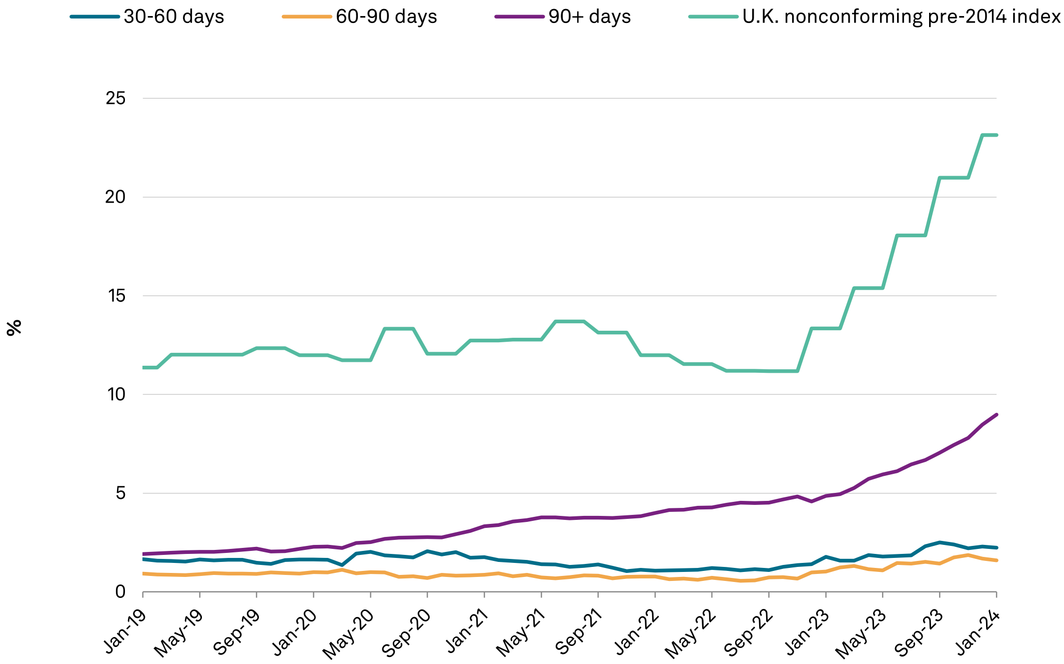
Asset performance

As part of our analysis, we have considered previous performance data for each loan in the pool.

Arrears have increased in the last year due to the macroeconomic environment and cost of living crisis, with 90+ arrears at 9.4% and total arrears of 13.1%. This same trend can be seen in the nonconforming (pre-2014) delinquency index, which currently stands at 23.1%.

Chart 3

Historical arrears distribution



Credit Analysis And Assumptions

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

The WAFF and the WALS assumptions increase at each rating level because notes assigned a higher rating should be able to withstand a higher level of mortgage defaults and loss severity. We base our credit analysis on the loans, the properties, and the associated borrowers' characteristics.

Table 3

Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)	Base foreclosure frequency component for an archetypal U.K. mortgage loan pool (%)
AAA	32.45	19.74	6.41	12.00
AA	27.64	13.62	3.76	8.10
A	25.03	5.82	1.46	6.10
BBB	22.41	2.65	0.59	4.20
BB	19.56	2.00	0.39	2.20

Table 3

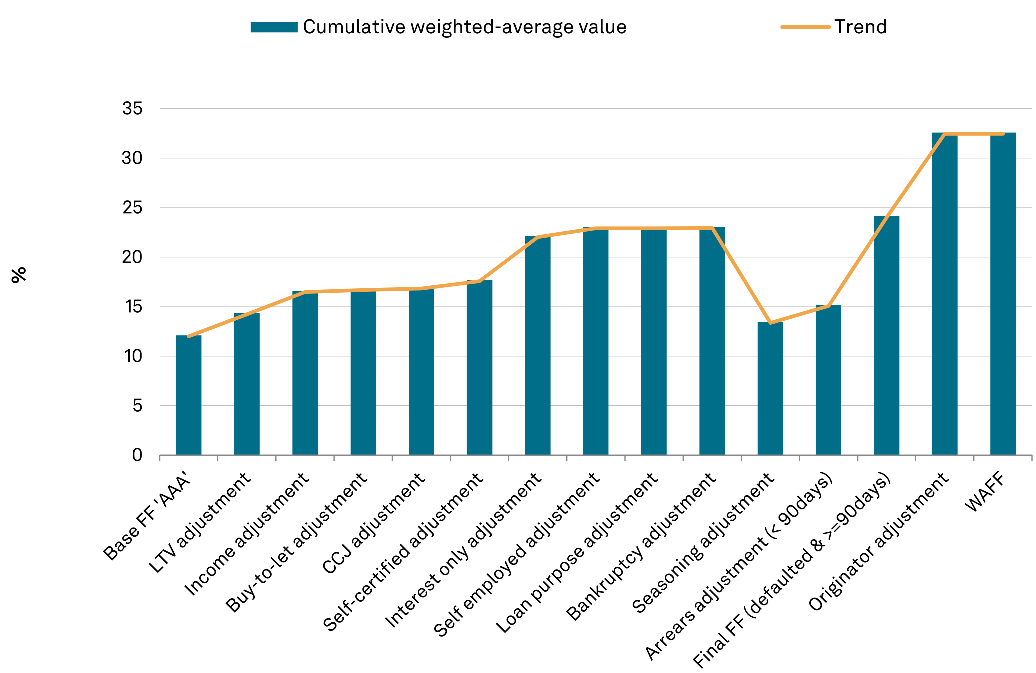
Portfolio WAFF and WALS (cont.)

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)	Base foreclosure frequency component for an archetypal U.K. mortgage loan pool (%)
B	18.92	2.00	0.38	1.75

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

Chart 4

'AAA' cumulative WAFF distribution



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

Macroeconomic And Sector Outlook

The information in this section reflects our most recent published economic forecasts (see "Related Research"). The current U.K. macroeconomic outlook remains uncertain against a backdrop of economic weakness in 2024, with GDP growth of just 0.4%, as interest rates remain restrictive for an extended period. Even though headline inflation has now eased markedly, core price pressures persist. This has taken its toll on households' purchasing power. At the same time, higher interest rates are incentivizing consumers to save more and delay major purchases and investment decisions. The ratings assigned reflect this market uncertainty and our overall analysis considers the implications of further deterioration in credit conditions. The ratings assigned reflect this market uncertainty and our overall analysis considers the implications of a further deterioration in credit conditions.

Table 4

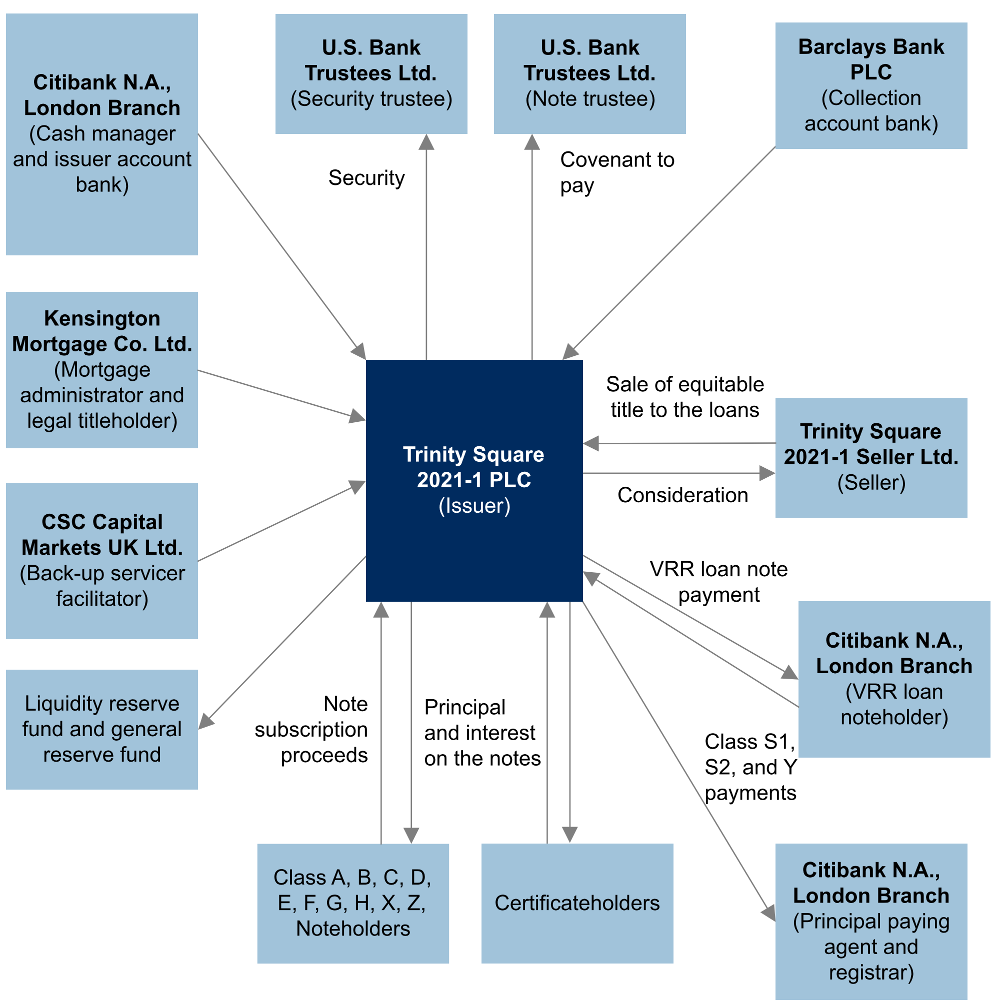
U.K. housing market statistics

	2022	2023	2024f	2025f
Nominal house price, % change y/y	9.0	(1.5)	1.0	2.1
Real GDP, % change	4.3	0.5	0.4	1.5
Unemployment rate (%)	3.7	4.2	4.6	4.3

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.

Transaction Structure

Transaction structure



At closing, there was no sale of mortgages as this had happened during the original transaction. The issuer keeps the beneficial interest in the portfolio of U.K. residential mortgages from the seller, Trinity Square 2021-1 Seller Ltd. The notes were issued and backed by the same security as the original notes, and are collateralized by the issuance proceeds of the newly issued notes from closing until the exercise of the call on the original notes and their repayment.

The issuer is a U.K. SPE, which we assume to be bankruptcy remote for our credit analysis. We analyzed its corporate structure in line with our legal criteria. The issuer granted security over all its assets in favor of the security trustee.

The class A to H-Dfrd notes are asset-backed notes. The class H notes are zero coupon notes. The class S certificates pay a fixed coupon on the outstanding balance of the loans pari passu with class A interest. The class X-Dfrd notes are excess spread notes.

Interest will be paid quarterly on the interest payment dates in January, April, July, and October, beginning on July 15, 2024. The rated notes will pay interest equal to the daily Sterling Overnight Index Average (SONIA) plus a class-specific margin, with a further step up in margin following the optional call date in April 2027. The margin will remain the same before and after the optional call date for the class X-Dfrd notes. All the notes reach legal final maturity on July 15, 2059. The unrated S certificates have no principal amount and are interest bearing (a fixed rate before and after the optional call date, calculated on the outstanding portfolio balance).

VRR loan notes

The size of the VRR loan notes represents 5% of the collateral. On every interest payment date (IPD), revenue and principal collections (after deducting senior expenses) are split in a 95/5 proportion between noteholders and certificate holders, on one hand, and the VRR loan noteholders, on another. Then the funds are distributed within each group in accordance with the payment waterfall. The VRR loan noteholders do not have separate ability to accelerate the amounts owed regarding VRR loan notes, or to direct the note trustee or the security trustee in relation to the enforcement of the security. Our analysis does not address the issuer's ability to make interest and principal payments on VRR loan notes.

Class S1 and S2 certificates

The class S1 and S2 certificates represent senior deferred consideration payable by the issuer to the seller. The class S1 certificates are entitled to receive 0.06% per year of 95% of the current collateral balance prior to the step-up date, and no payments thereafter. The class S2 certificates are entitled to receive 0.09% per year of 95% of the current collateral balance after the step-up date, and no payments beforehand. Given that the payments due on the class S1 and S2 certificates rank pari passu with the class A notes interest, they are addressed in our cash flow model.

Deferral of interest

Under the transaction documents, interest payments on all classes of rated notes (except for the class A notes) can be deferred if the class of notes is not the most senior outstanding. Once the notes become the most senior class of notes outstanding, all previously deferred interest accrued before becoming the most senior class can be deferred until maturity.

Consequently, any deferral of interest on the class B-Dfrd to H-Dfrd and X-Dfrd notes would not constitute an event of default. Deferred interest will accrue interest at the note-specific coupons and will become due and payable on the legal final maturity date.

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 G-Dfrd notes and X-Dfrd notes reflect the ultimate payment of interest and principal.

Liquidity reserve fund

The transaction features a liquidity reserve, which has a required amount equal to 1.58% (i.e., 1.50% * 100/95, to include the VRR notes) of class A to B-Dfrd notes' outstanding balance (not funded at closing) if the general reserve fund balance at the end of the current IPD falls below 0.79% (i.e., 0.75% * 100/95, to include the VRR notes) of the class A to H-Dfrd notes' outstanding balance. The liquidity reserve fund is funded from principal receipts. It is available to cover shortfalls on the senior fees and expenses, the interest payment on the class A notes, and the interest payment on the class B-Dfrd notes, provided the class B PDL balance does not exceed 0% of the outstanding class B-Dfrd balance. If the class A notes are fully redeemed, the liquidity reserve fund can be used to pay class B-Dfrd interest without any PDL conditions. 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.

General reserve fund

The transaction features a general reserve fund that was funded at closing and available to cover shortfalls on the senior fees and expenses, interest payments on the class A to G-Dfrd notes, and amounts debited to the class A to G-Dfrd notes' PDLs, to the extent there is a shortfall after applying the interest collections.

The general reserve fund was funded at closing and has a required amount of 1.05% (i.e., 1.00% * 100/95, to include the VRR notes) of the outstanding principal balance of the class A to H-Dfrd notes, until the class A to G-Dfrd notes have fully redeemed, when it will be released to the revenue waterfall. The general reserve fund amortizes in line with the principal outstanding on the class A to H-Dfrd notes.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses, whereby the issuer would not have sufficient revenue receipts to pay interest due on senior fees, payments due on the class S1 and S2 certificates, or the most senior class of notes up to the class G-Dfrd notes. To mitigate this risk, the issuer can use any existing principal receipts. The use of principal to pay interest would result in the registering of a PDL and may reduce the credit enhancement available to the notes.

Principal deficiency ledgers

The PDL comprises eight subledgers, one for each of the rated asset-backed classes of notes.

Amounts will be recorded on the PDL if the portfolio suffers any losses and if the transaction uses principal as available revenue receipts or when the liquidity reserve fund is used to cure interest shortfalls.

Product switches

Product switches of up to £75.0 million are permitted for loans up until the step-up date. The ratings reflect the risk of margin deterioration from product switches.

Revenue priority of payments

Table 5

Priority of payments	
Revenue priority of payments	**Principal priority of payments**
Senior fees and expenses (including issuer profit amounts).	Liquidity reserve fund up to required amount.
Pro rata, the class A notes' interest and class S1 and S2 certificates payments.	Interest shortfalls on senior fees and expenses as well as the most senior notes outstanding (up to class G-Dfrd) by using principal addition amounts.
Class A notes' PDL.	Class A notes' principal.
Class B-Dfrd notes' interest.	Class B-Dfrd notes' principal.
Class B–Dfrd notes' PDL.	Class C-Dfrd notes' principal.
Class C-Dfrd notes' interest.	Class D-Dfrd notes' principal.
Class C-Dfrd notes' PDL.	Class E-Dfrd notes' principal.
Class D-Dfrd notes' interest.	Class F-Dfrd notes' principal.
Class D-Dfrd notes' PDL.	Class G-Dfrd notes' principal.
Class E-Dfrd notes' interest.	Class H-Dfrd notes' principal.
Class E-Dfrd notes' PDL.	Any remainder to form part of available revenue receipts.
Class F-Dfrd notes' interest.	
Class F-Dfrd notes' PDL.	
Class G-Dfrd notes' interest.	
Class G-Dfrd notes' PDL.	
General reserve fund up to required amount	
Class H-Dfrd notes' PDL.	
Class X-Dfrd notes' interest.	
Class X-Dfrd notes' principal.	
Class Z notes' interest.	
Class Z notes' principal.	
Excess to certificate holders.	

PDL--Principal deficiency ledger.

Cash Flow Assumptions And Analysis

We stress the transaction's cash flows to test the credit and liquidity support that the assets, subordinated tranches, and cash reserve provide.

We apply these stresses to the cash flows at all relevant rating levels. In our stresses on the class A notes, all notes must pay full and timely principal and interest. Our ratings on the other rated notes address the payment of ultimate principal and interest.

The ratings on these notes also reflect their ability to withstand the potential repercussions of the current cost of living crisis, including higher defaults and longer foreclosure timing stresses, also considering their relative positions in the capital structure, and the increased exposure to potential tail-end risk.

In our standard cash flow analysis, the class F-Dfrd, G-Dfrd, and X-Dfrd notes do not pass at the 'B' stress level. However, the class F-Dfrd and X-Dfrd notes do attain a rating in a steady state scenario with actual fees, historical prepayment, no spread compression, and no commingling. Therefore, we have assigned a 'B- (sf)' ratings to the class F-Dfrd and X-Dfrd notes as they do not depend on favorable economic and financial conditions to service its debt obligations and remain current. The class G-Dfrd notes in the steady state scenario continue to not pass at the 'B' stress level. Consequently, in our view, the payment of interest and principal on the class G-Dfrd notes depends on favorable business, financial, and economic conditions (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012.) We have therefore assigned our 'CCC (sf)' rating to the class G-Dfrd notes.

Interest rate risk

Interest on the rated notes is equal to daily SONIA plus class-specific margins that step up following the optional redemption date. The underlying collateral is linked to the Barclays Bank PLC base rate (97.4%), which has historically been equal to the Bank of England base rate, or to an SVR (2.6%). Hence, there is basis risk for the underlying collateral, and the transaction does not benefit from a swap to mitigate this risk. As a result, we stress the historical timing mismatch between the index paid on the assets and that paid on the liabilities.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. We have taken this into account in our cash flow analysis by assuming at a 'AAA' level that the portfolio's weighted-average margin might compress by 0.35%.

Commingling risk

Borrowers pay into a collection account held with Barclays Bank PLC in the name of the legal titleholder. All amounts in the collection account are swept to the transaction account held with Citibank N.A., London branch in the name of the issuer on the next business day.

If the legal titleholder were to become insolvent, mortgage collection amounts in the collection account may become part of the legal titleholder's bankruptcy estate. In order to mitigate this risk, a declaration of trust is in place over the collection account. To address the risk of the collection bank's insolvency, the transaction documents contain replacement language in line with our counterparty criteria.

Although we believe that the above mechanisms (downgrade language and declaration of trust) mitigate against loss of collections, we have considered that collections could be delayed in the event of an insolvency. In our analysis, we have therefore applied a liquidity stress of one month of collections.

Fees

Contractually, the issuer is obliged to pay periodic fees to various parties providing services to the transaction such as servicers, trustees, and cash managers, among others. We have accounted for these in our analysis. In particular, we have applied a stressed servicing fee of 0.40% (the higher of 1.5x actual fees and 0.40% per year) to account for the potential increase in costs to attract a replacement servicer, increasing by 2.5% per year after the step-up date, in line with the transaction documentation. We have also modeled other senior fixed fees, some of which are also subject to an annual uplift after the step-up date and a subsequent cap.

Setoff risk

There are no employee loans or deposit setoff exposure in the transaction because the seller and legal titleholder is not a deposit-taking institution.

There are no flexible loans in the provisional pool.

Default timing and recoveries

We have used the WAFF and WALS derived under our credit analysis as inputs in our cash flow analysis.

At each rating level, the WAFF specifies the total balance of the mortgage loans we assume to default over the transaction's life. Defaults are applied on the assets' outstanding balance as of the closing date. We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period. During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

Table 6

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 (1-WALS) on defaulted assets to be received 18 months after default for owner-occupied properties. Foreclosure costs are estimated at 3% of the repossession value and £5,000.

Our loss severities are based on loan principal and do not give any credit to the recovery of interest accrued on the loan during the foreclosure process.

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 we assume a full recovery of these delinquencies to occur 36 months after they arise.

Prepayments

To assess the impact on excess spread and the absolute level of defaults in a transaction we model both high and low prepayment scenarios at all rating levels.

Table 7

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

In combination, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level.

Table 8

RMBS stress scenarios			
Total number of scenarios	**Prepayment rate**	**Interest rate**	**Default timing**
8	High and low	Up and down	Front-loaded and back-loaded

Scenario Analysis

We analyzed the effect of a moderate stress on our WAFF assumptions and its ultimate effect on our ratings on the notes. We ran two stress scenarios to demonstrate the rating transition of a note, and the results are in line with our credit stability criteria.

Counterparty Risk

The issuer is exposed to Citibank N.A., London Branch, as the transaction account provider, and Barclays Bank PLC as the servicers' collection account. The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

Table 9

Supporting ratings			
Institution/role	**Ratings**	**Replacement trigger**	**Collateral posting trigger**
Barclays Bank PLC as collection account provider	A+/Stable/A-1	BBB/A-2	N/A
Citibank N.A., London Branch as transaction account provider*	A+/Stable/A-1	A/A-1	N/A

*Rating derived from the rating on the parent entity. There are no counterparty constraints on the ratings on the notes in this transaction. The replacement language in the documentation is in line with our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). For a full list of transaction participants, please refer to the appendix. N/A--Not applicable.

Sovereign Risk

Our long-term unsolicited sovereign credit rating on the U.K. is 'AA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria.

Surveillance And Forward-Looking Analysis

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that any material changes in the servicer's operations are communicated and assessed.

Various factors could lead us to lower our ratings on the notes, such as increasing foreclosure rates in the underlying pool and changes in the pool composition. We have analyzed the effect of increased defaults by testing the sensitivity of the ratings to two different levels of movements.

We expect U.K. inflation to remain above the Bank of England's 2% target in 2024 and forecast the year-on-year change in house prices in the fourth quarter of 2024 to be 1.0% (see "European Housing Markets: Forecast Brightens Amid Ongoing Correction," published Jan. 25, 2024). Although high inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others, and to the extent inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge.

We consider the borrowers in this transaction to be nonconforming and as such generally less resilient to inflationary pressure than prime borrowers. At the same time, all of the borrowers are currently paying a floating rate of interest and so will be affected by rate rises.

Given our current macroeconomic forecast and our forward-looking view of the U.K. housing market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of different combinations of:

- An increase in WAFF (foreclosure frequency/defaults) by up to 30% at each rating level; and
- An increase in WALS (loss severity) by up to 30% at each rating level.

We therefore ran eight scenarios with increased defaults and higher loss severity, as shown in the table below. 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.

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.

Table 10

Sensitivity stresses

	WALS		
WAFF	**1.0x**	**1.1x**	**1.3x**
1.0x	Base Case	Sensitivity 3	Sensitivity 4
1.1x	Sensitivity 1	Sensitivity 5	Sensitivity 7
1.3x	Sensitivity 2	Sensitivity 6	Sensitivity 8

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

The results of the above sensitivity analysis indicate deterioration of the ratings on the notes (see table 11).

Table 11

Sensitivity analysis results

Class	Base case	1	2	3	4	5	6	7	8
A	AAA	AA+	AA	AA+	AA+	AA+	AA	AA	AA

Table 11

Sensitivity analysis results (cont.)

Class	Base case	1	2	3	4	5	6	7	8
B-Dfrd	AA-	A+	A	A+	A+	A+	A	A	A
C-Dfrd	A-	BBB+	BBB	A-	BBB+	BBB+	BBB	BBB	BBB-
D-Dfrd	BBB	BBB-	BB	BBB	BBB	BBB-	BB-	BB+	B+
E-Dfrd	BB-	'B-' or lower	'B-' or lower	B+	B	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower
F-Dfrd	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower
G-Dfrd	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower
X-Dfrd	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower	'B-' or lower

Appendix

The full list of transaction parties (excluding those providing supporting ratings) are listed below.

Transaction participants

Role	Participant
Issuer	Trinity Square 2021-1 PLC
Holdings	Trinity Square 2021-1 Parent Ltd.
Mortgage administrator	Kensington Mortgage Company Ltd.
Seller	Trinity Square 2021-1 Seller Ltd.
Legal title holder	Kensington Mortgage Company Ltd.
Back-up service facilitator	CSC Capital Markets UK Ltd.
Cash manager and issuer account bank	Citibank N.A., London branch
Collection account provider	Barclays Bank PLC
Security trustee and note trustee	U.S. Bank Trustees Ltd.
Principal paying agent and agent bank	Citibank N.A., London branch
Registrar	Citibank N.A., London branch
Corporate services provider	CSC Capital Markets UK Ltd.
Share trustee	CSC Corporate Services (UK) Ltd.
Arranger and lead manager	Citibank Europe PLC, UK Branch
VRR loan note holder	Citibank N.A., London branch
VRR registrar	CSC Capital Markets 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
- 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: 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
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- EMEA Structured Finance Chart Book: March 2024, March 28, 2024
- EMEA ABS And RMBS Counterparty Monitor Q4 2023, Feb. 12, 2024
- European RMBS Index Report Q4 2023, Feb. 9, 2024
- U.K. Economic Outlook 2024: More Stagflation Ahead, Nov. 27, 2023
- Economic Outlook U.K. Q4 2023: High Rates Keep Growth Muted, Sept. 25, 2023
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- U.K. Residential Mortgage Servicing Flexibility Could Ease Arrears Pain, April 26, 2023
- Scenario Analysis: How Much Shock Can U.K. RMBS Take?, March 1, 2023
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- New Issue: Trinity Square 2021-1 PLC, March 26, 2021
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- 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