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Ratings

Research

New Issue: Merrion Square Residential 2024-1 DAC

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Related Research

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New Issue: Merrion Square Residential 2024-1 DAC

Ratings Detail

Ratings

Class	Rating*	Class size (€)	Credit enhancement (%)§	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	506,800,000	20.81	1ME + 110 bps	1ME + 180 bps	June 2027	March 2081
B-Dfrd	AA (sf)	23,900,000	17.06	1ME + 175 bps	1ME + 265 bps	June 2027	March 2081
C-Dfrd	A- (sf)	20,700,000	13.81	1ME + 235 bps	1ME + 335 bps	June 2027	March 2081
D-Dfrd	BBB (sf)	19,100,000	10.81	1ME + 325 bps	1ME + 425 bps	June 2027	March 2081
E-Dfrd	BB (sf)	15,900,000	8.31	1ME + 425 bps	1ME + 525 bps	June 2027	March 2081
F-Dfrd	B- (sf)	18,500,000	5.41	1ME + 525 bps	1ME + 625 bps	June 2027	March 2081
RFN	NR	9,600,000	N/A	1ME + 650 bps	1ME + 750 bps	June 2027	March 2081
Z1-Dfrd	NR	14,400,000	N/A	1ME + 750 bps	1ME + 850 bps	June 2027	March 2081
Z2-Dfrd	NR	18,200,000	N/A	1ME + 850 bps	1ME + 950 bps	June 2027	March 2081
S	NR	100,000	N/A	N/A	N/A	N/A	March 2081
X	NR	2,000,000	N/A	N/A	N/A	N/A	March 2081

*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. Our ratings on the class D-Dfrd to F-Dfrd notes also address the payment of interest based on the lower of the stated coupon and the net weighted-average coupon.
§Credit enhancement is calculated based on subordination and the non-liquidity reserve fund. 1ME--One-month EURIBOR. Dfrd--Deferrable. NR--Not rated. N/A--Not applicable.

Overview

- S&P Global Ratings has assigned ratings to Merrion Square Residential 2024-1 DAC's (Merrion Square 2024-1) class A to F-Dfrd Irish RMBS notes. At closing, the transaction also issued unrated class RFN, Z1-Dfrd, Z2-Dfrd, S, and X notes.
- Merrion Square 2024-1 is a static RMBS transaction that securitizes a portfolio of loans totaling €637.5 million. The portfolio consists of performing and reperforming owner-occupied and buy-to-let mortgage loans secured over residential properties in Ireland.
- The securitization comprises assets previously contained in the RMBS transaction Primrose Residential 2021-1 DAC, which were earlier securitized in two different RMBS transactions, ERLS 2019 PL1 and Grand Canal Securities 1 (GCS1). They aggregate assets from three Irish originators. The loans were mostly originated between 2003 and

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2009 (more than 87% of the pool was originated in this period) by Permanent TSB PLC, Irish Nationwide Building Society, and Springboard Mortgages Ltd.

- Our rating on the class A notes addresses the timely payment of interest and the ultimate payment of principal. Our ratings on the class B to F-Dfrd notes address the ultimate payment of interest and principal. A liquidity reserve supports the timely payment of interest on the class A notes and was fully funded at closing to its required level of 1.5% of the class A notes' balance. Furthermore, the transaction benefits from the ability to use principal to cover certain senior items.
- Mars Capital Finance Ireland DAC (Mars Capital Finance), the administrator, is responsible for day-to-day servicing. Start Mortgages DAC previously serviced a portion of the assets, but its roles as servicer and legal title holder were transferred to Mars Capital Finance on May 31, 2024 as part of Start Mortgages' exit from the Irish market.
- At closing, the issuer used the issuance proceeds to purchase the beneficial interest in the mortgage loans from the seller. The issuer grants security over all its assets in favor of the security trustee. The issuer is bankruptcy remote under our legal criteria.
- There are no rating constraints in the transaction under our structured finance operational, sovereign and counterparty risk criteria.

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Transaction key features*

Closing date	July 2024
Note payment frequency	Monthly
Collateral	Performing and reperforming first-lien Irish owner-occupied mortgage loans and buy-to-let mortgages
Sources of credit enhancement	Initial subordination and non-liquidity reserve fund ledger
Outstanding principal of the pool	€637,007,420 (excluding for the purpose of our analysis €514,002 of loans subject to future write-off)
Country of origination	Ireland
Concentration	Dublin: 35.6%
Property occupancy	58.4% owner-occupied, 41.6% buy-to-let
Deferral	Class B-Dfrd to Z2-Dfrd notes
Coupon (on the class D-Dfrd to F-Dfrd notes)	Minimum of stated coupon and net WAC
Weighted-average original LTV ratio§	75.1%
Weighted-average current LTV ratio§	58.7%
Weighted-average seasoning	214 months
Arrears greater than or equal to one month§	22.3%
Reperforming loans	13.2%
Asset redemption profile	42.0% repayment, 58.0% interest-only and part and part
Liability redemption profile	Fully sequential
Reserve fund at closing	1.50%

*Data is based on a pool as of May 31, 2024. §Calculations are according to S&P Global Ratings' methodology. WAC--Weighted-average coupon. LTV--Loan-to-value.

The credit story

Strengths	**Concerns and mitigating factors**
The capital structure provides 20.81% of available credit enhancement for the class A notes through subordination and the non-liquidity reserve fund. A fully funded liquidity reserve fund and non-liquidity reserve fund are available to meet revenue shortfalls on the most senior tranche and to provide credit enhancement to all rated notes.	Over half of the borrowers (61%) have had their loans restructured in the past. In a stressed economic environment, there is increased probability of these borrowers going back into arrears. We have considered this risk in our analysis and increased our weighted-average foreclosure frequency (WAFF) assumptions via our reperforming adjustment. In our analysis, we have applied our reperforming adjustment to those loans that were restructured or were in arrears for more than three months in the last 60 months and are currently performing (13.2%).
Geographic concentration within the pool is limited, and there are no counties with an exposure above the thresholds outlined in our residential loans criteria.	Within the pool, 22.3% of the loans are currently at least one month in arrears, with 16.1% at least three months in arrears. Over the last 18 months we have seen a material increase in arrears (see performance charts below). In line with our global RMBS criteria, we have increased our WAFF estimates (by factors of 1.1x and 1.3x) accordingly to address this increased risk.
The administrator--Mars Capital Finance Ireland--is an experienced servicer with well-established and fully integrated servicing systems and policies.	Of the portfolio, 15.2% consists of split mortgages, which we have considered in our analysis of reperforming loans. Some of these loans (€0.5 million) are subject to potential future write-offs. We have considered this in our analysis by using the current balance, net of any write-offs.
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.	Split mortgages rely on a bullet payment to be made toward the maturity of the loan if the borrower's affordability does not improve over the loan term. 75% of the split mortgages are secured by owner-occupied properties. Given the borrowers' age profile and these loans' terms, these borrowers may have limited refinancing options available at contract maturity. Also, they may be older borrowers, making it more difficult for the servicer to repossess the properties. We have considered this in our analysis by testing the impact of extended recovery timings, and the ratings remain robust.

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The credit story (cont.)	
Strengths	**Concerns and mitigating factors**
The interest rate cap hedges exposure to liquidity risks in a rising interest rate scenario.	Based on our analysis of the historical property sales data provided by the servicer on similar loans from the originator and the difference between updated property valuations and indexed original property valuations on pools of other comparable assets, we concluded that the original property valuations may be overstated. Considering this, along with findings from the audit report and possible legal title issues with some of the loans, we have applied a 10% valuation haircut to the original property valuations for the portfolio.
The structure incorporates an arrears provisioning mechanism rather than being linked solely to the loans' loss status. We consider this more positive for the transaction, given that any excess spread is trapped as soon as the loan is in arrears rather than waiting until the recovery process is completed. We have considered this feature in our cash flow analysis.	Of the pool, 21 loans may have a legal title issue. We have considered how this may affect the cashflow results by under-collateralizing the pool by the amount of their exposure, and the ratings remain robust.
	We received an updated audit report prior to closing, but it included only dynamic fields. We mostly considered the audit conducted at closing of the previous transaction (Primrose Residential 2021-1) in our analysis which was more in depth. This audit report generated more errors than we typically see in European RMBS transactions. We have reflected this in our credit analysis through an increased originator adjustment. In addition, some material fields for our analysis, in particular for valuations, were not checked against the loan documentation primarily due to missing documentation. We have taken this into account in our credit analysis through a valuation haircut as outlined above. (in addition, see "Data adequacy").
	The pool features cross-collateralization, as there are multiple loans secured by the same property, one loan secured by multiple properties, or one property linked to multiple borrowers. To account for these characteristics, we have considered the default risk at the borrower level (see "Asset description").
	Of the loans in the portfolio, 58.0% are interest-only loans and part-and-part loans. In our view, interest-only loans on owner-occupied properties have historically exhibited a higher default probability than otherwise similar loans, and we have increased the foreclosure frequency on these type of loans on owner-occupied properties in our analysis in line with our criteria.
	The seller and retention holder provide representations, warranties, and remedies in the mortgage sale agreement which we consider to be weaker than typical Irish RMBS transactions. We have therefore increased our foreclosure frequency estimates to address this risk. We have also considered the pool's high seasoning as a supporting factor in this regard.
	The notes pay one-month EURIBOR plus a margin. Of the loans in the portfolio, 58.8% are linked to the European Central Bank (ECB) tracker rate, and 12.3% are fixed-rate loans. The remaining 28.9% are linked to a standard variable rate (SVR). The SVR loans are floored at one-month EURIBOR plus 2.5%, which we considered in our cash flow analysis. The transaction does not have a basis swap to mitigate the basis risk between the ECB tracker loans and the interest on the liabilities. We have therefore accounted for this basis risk in our analysis.

Environmental, Social, And Governance

Our analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For RMBS, we view the exposure to environmental credit factors as average, social credit factors as above average, and governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published on March 31, 2021).

In our view, the exposure to social credit factors is in line with the sector benchmark. Social credit factors are generally considered above average because housing is viewed as one of the most basic human needs. Conduct risk presents a

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direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of borrowers. This is particularly the case in Ireland, where the owners of loans and the respective servicers are encouraged to agree sustainable restructuring solutions for struggling borrowers. For RMBS, social risk is generally factored into our base-case assumptions.

In our view, the exposure to environmental credit factors is in line with the sector benchmark. Physical climate risks could severely damage properties and reduce their value, affecting recoveries if borrowers default. We believe that well-diversified portfolios reduce exposure to extreme weather events.

In our view, the transaction has a relatively high exposure to governance credit factors than our sector benchmark. We have not received certain information within the loan-level data that we typically receive. Although the data provided meets our minimum requirements, we have accounted for the limitations in loan-level data provided in our originator adjustment.

Collateral Summary

We have received loan-level data as of March 31, 2024. The pool of €637,007,420 comprises 4,477 loan parts originated by those listed in table 1.

Table 1

Originators

Originator	Outstanding balance (%)
Permanent TSB PLC	74.4
Irish Nationwide Building Society	12.6
Springboard Mortgages Ltd.	13.0

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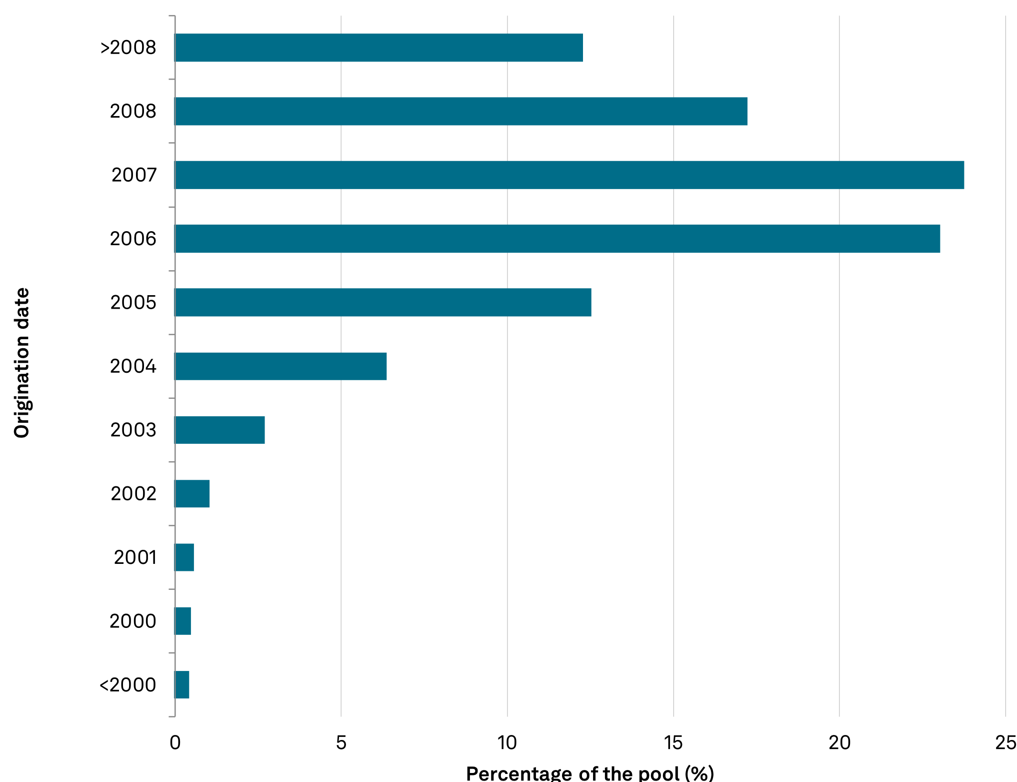
Chart 1

Origination date



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The assets are first-ranking owner-occupied and buy-to-let mortgage loans secured against properties in Ireland. Only the portion of the portfolio originated by Springboard was originated as nonconforming loans; the rest of the portfolio was originated as prime. However, Irish mortgage performance was significantly impacted by rising unemployment in the aftermath of the global financial crisis, and the performance of the loans originated as prime was also impacted.

In our analysis, the total secured pool balance is €637,521,422. We have excluded €514,002 of loans subject to potential write-off, and have undercollateralized by that amount in our cashflow analysis.

Data adequacy

We have received historical arrears performance data for the GCS1 loans in the portfolio since 2011 and since 2014 for ERLS 2019 PL1, details of all restructurings in the portfolio, and payment rate data since 2011. The historical data for the ERLS 2019 PL1 subpool spans a relatively benign economic environment given that most of the pool was originated before 2008. We also have historical data for Primrose Residential 2021-1 since it closed in 2021. We have considered this in our credit analysis by increasing our originator adjustment.

Based on our analysis of historical property sales data provided by the servicer on similar loans from the originators and the difference between updated property valuations and indexed original property valuations on pools of other comparable assets, we concluded that the original property valuations may be overstated.

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In addition, a third-party due diligence provider audited the assets at the time of closing of the previous transaction, Primrose Residential 2021-1. Due to documentation limitations, particularly with the valuation reports, the scope was more limited than we typically see in the Irish market.

To address this, along with the factors above, we have applied a 10% valuation haircut to the original property valuations in this portfolio.

We have also addressed the errors in the audit report by including an adjustment to our WAFF through the originator adjustment.

We have received an updated audit for this transaction on dynamic fields and no errors were included. Given the limited scope of this audit we focused mainly on the audit that was provided for the previous transaction on the same assets.

Table 2

Collateral key features*

	Merrion Square Residential 2024-1 DAC	Kinbane 2024-RPL1 DAC	Shamrock Residential 2023-1 DAC
Pool cut-off date	May 31, 2024	Dec. 31, 2023	Jan. 31, 2023
Jurisdiction	Ireland	Ireland	Ireland
Principal outstanding of the pool (€)	637,007,420	290,171,954	340,019,011
Number of loan parts	4,477	2,594	1,881
Average loan balance (€)	142,284	111,862	180,765
Weighted-average indexed current LTV ratio (%)	58.7	66.1	73.0
Weighted-average original LTV ratio (%)	75.1	80.8	76.9
Weighted-average seasoning (months)	214	208	196
Self-certified loans (%)§	8.3	0.0	4.9
Interest-only and part and part (%)	58.0	21.2	26.6
Buy-to-let (%)	41.6	12.7	8.2
Jumbo valuations (%)	13.4	24.5	13.2
'AAA' RMVD (%)	51.9	51.8	49.6
Current arrears > one month (%)	22.3	56.6	45.3
Historical restructures (%)	61.0	76.3	95.5

*Calculations are according to S&P Global Ratings' methodology. §We did not receive data for all of the loans in the pool. These amounts are based on the available data. LTV--Loan-to-value. RMVD--Repossession market value declines.

Asset description

The portfolio's weighted-average current indexed loan-to-value (LTV) ratio is 58.7%, and the weighted-average original LTV (OLTV) is 75.1% (see chart 2).

We have capped the OLTV ratio at the borrower level at 100% because the loan underwriting criteria at origination did not allow lending above 100%.

The weighted-average CTLV ratio of 58.7% is based on our methodology and incorporates the 10% valuation haircut.

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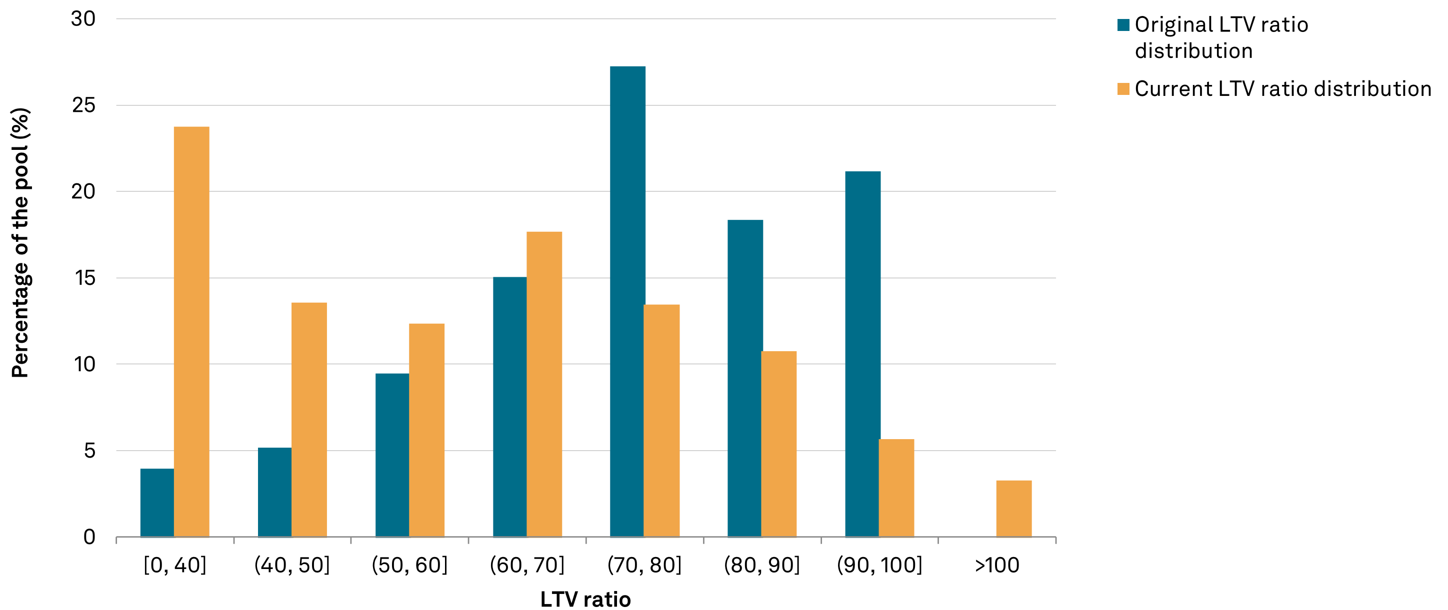
We consider that borrowers with minimal equity in their property are more likely to default on their obligations than borrowers with lower original loans. At the same time, loans with high current LTV ratios are likely to incur greater loss severities if the borrower defaults.

Chart 2



LTV--Loan to value.

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Approximately 58.0% of loans are interest-only or part and part loans, with 17.4% of the portfolio interest-only or part and part on owner-occupied properties. In our view, interest-only loans on owner-occupied properties have historically exhibited a higher default probability than otherwise similar loans.

Additionally, split mortgages rely on a bullet payment toward the maturity of the loan if the borrower's affordability does not improve over the loan term. The borrower may not be able to sell the property at that time. We have increased the foreclosure frequency of these loans.

At the same time, given the borrowers' age profile and the loans' terms, some of these borrowers may be elderly when the warehouse portion is due, making it difficult for the servicer to repossess the house. We have considered this in our analysis by testing the impact of extending recovery timings.

The portfolio's weighted-average seasoning is 212 months, but this is offset by the fact that we have not given any benefit to the seasoning of loans that have been classified as reperforming in the past five years.

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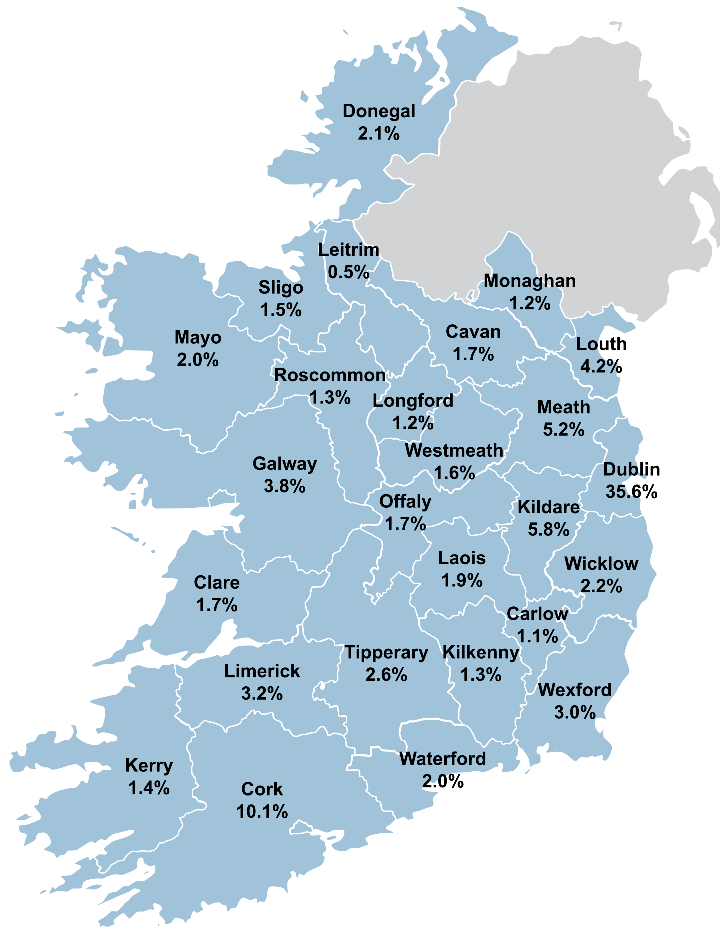
In line with other Irish portfolios, the assets are primarily concentrated in Dublin (35.6%), but no counties breach our concentration limits.

The seller is a special-purpose entity (SPE). It did not originate the loans, and it has limited resources to meet its financial obligations. While the seller provides certain representations and warranties on the assets, its responsibility to indemnify the issuer is limited. We consider the seller's responsibility in case of a breach to be weaker than typical European RMBS transactions, and we have increased the originator adjustment accordingly. We have also considered the pool's high seasoning as a supporting factor in this regard.

Chart 3

Geographical distribution



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13.4% of the pool has jumbo valuations. Due to the illiquid nature of larger valued properties, these loans may suffer an additional market value decline, in our view. A property is classified as jumbo under our criteria if its value exceeds €850,000 for Dublin properties and €500,000 for properties outside Dublin.

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Asset performance

Mortgage arrears in Ireland increased steadily from the beginning of 2009 until 2013 after the onset of the global financial crisis. Since the peak, total delinquencies have halved, partly driven by the improving economic environment, but also reflecting implementation of the Central Bank of Ireland's Mortgage Arrears Resolution Process (MARP), which was first introduced in 2011.

We have received 10 years of data (from 2014 to 2024) for the ERLS 2019 PL1 portfolio and 13 years for the GCS1 portfolio (2011 to 2024). Apart from recent periods where interest rates have increased and cost of living pressures have heightened, this spans a relatively benign economic environment, given that most of the pool was originated before 2008. We therefore have limited visibility on when arrears peaked (see chart 5).

Although the data provided meets our minimum requirements, we have accounted for the lack of performance history during the recessionary period in the Irish mortgage market in our originator adjustment. For the GCS1 portfolio, we have historical data since 2011, which incorporates the rise in arrears after the financial crisis (see chart 5).

More recent periods show a clear increase in the proportion of loans in arrears, predominantly from the PTSB originated loans (originally the ERLS 2019 subpool). Arrears have increased across collateral in similar transactions over the last 18-24 months, but arrears in this transaction have climbed at a faster pace. We reflected this in our WAFF assumptions and tested for potential further arrears increases in our cashflow analysis.

Reperforming analysis

Of the portfolio, 13.2% of loans are classified as reperforming under our criteria, and we increased our WAFF assumptions for these assets based on the date when the loan was last 90 days or more in arrears or restructured over the last 60 months, in line with our criteria.

When a restructuring arrangement occurred, it included a full reassessment of the borrower's affordability. We have therefore calculated our seasoning credit on these loans based on the date a loan was last 90 or more days in arrears or restructured. We have considered those borrowers under an active personal insolvency agreement or one that occurred in the last five years as restructured.

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Chart 4

Loans restructured in the past

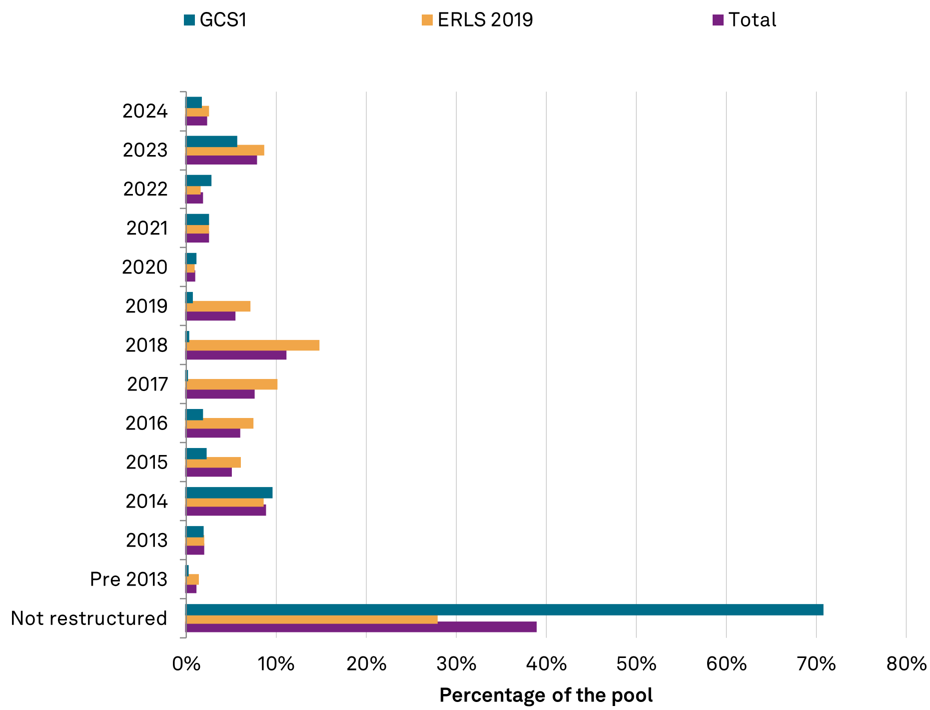

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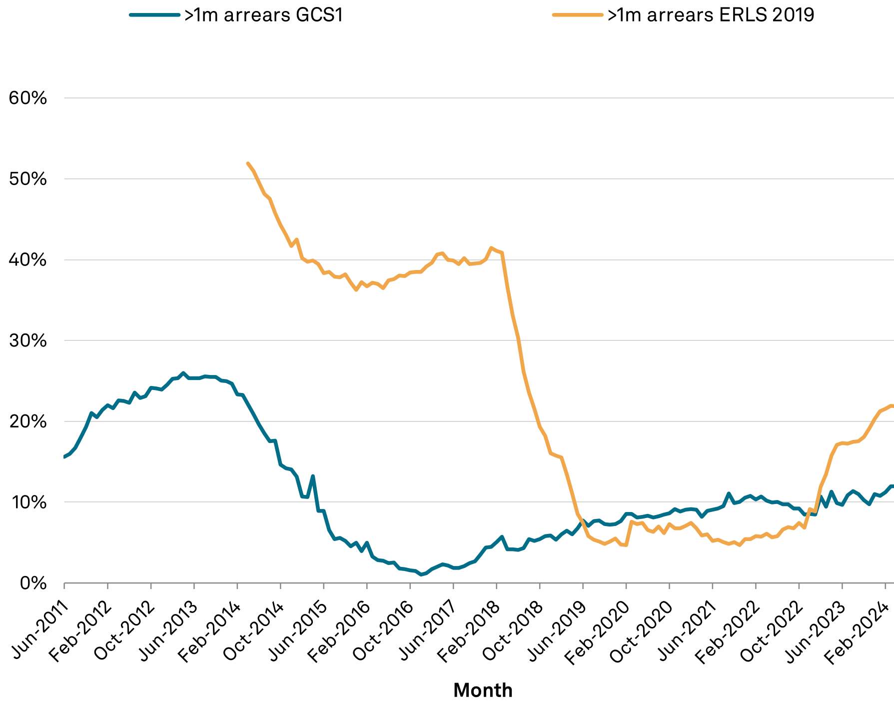
Chart 5

Historical delinquency performance



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Of the loans in the overall pool, 22.3% are now currently in arrears of greater than one month, and approximately 61% of the loans in the combined pool have been restructured (see chart 4). A long-term split arrangement--where the largest cohort of the loan is on a full repayment trajectory, with the smaller tranche on an interest-only arrangement--is a common forbearance treatment for owner-occupied mortgages in the pool. The interest-only arrangement is reviewed at regular intervals, and step-ups in repayment are sought as a means of achieving full repayment without relying on the sale of the underlying collateral at maturity.

Some of these split mortgages incorporate future write-off agreements if the borrower remains current. In our cash flow analysis, we have considered this by reducing the collateral balance.

The payment rate for the overall portfolio has remained relatively high but has seen a decline in recent periods as a result of the increased proportion of 90+ days in arrears loans, for which payment rates have been decreasing (see chart 6). This trend reflects the effect of recent interest rate increases and the material uplift in cost of living pressures. We have factored this into our analysis.

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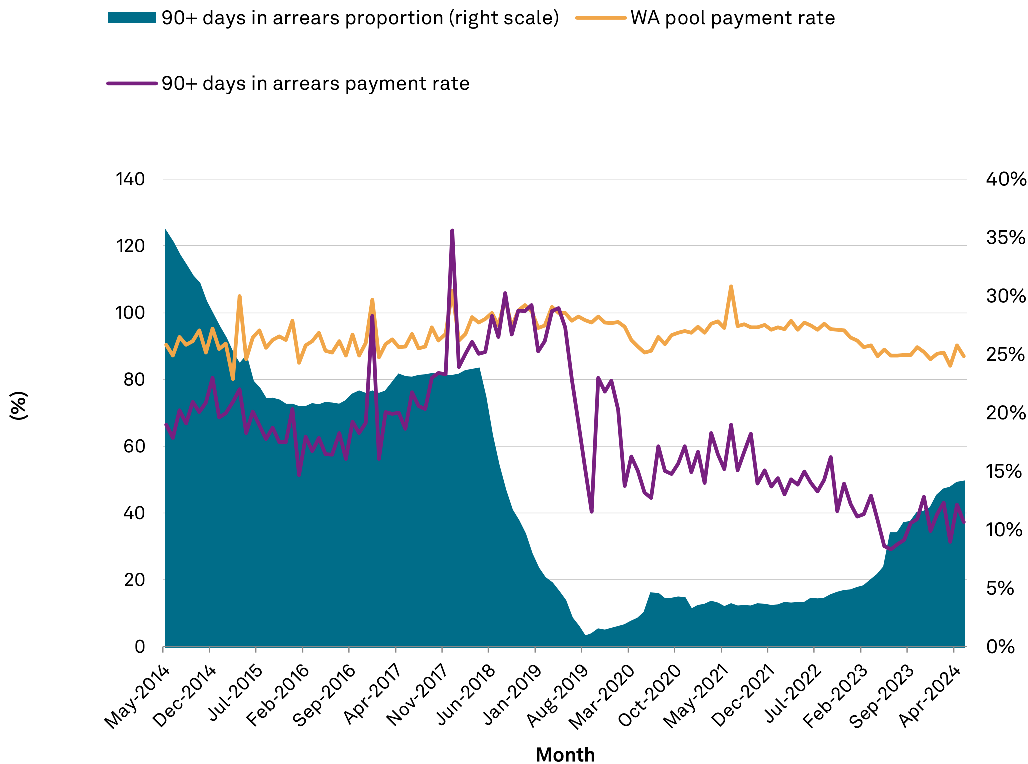
Chart 6

Historical payment rate



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Given the increase in arrears in the past periods (and not the presence of legacy arrears showing recent positive characteristics) we have not given any credit to payment rates in our analysis.

Servicer

Previously, two administrators provided day-to-day operational servicing capabilities for the securitized assets. Start Mortgages was administrator for the ERLS 2019 PL1 portfolio, and Mars Capital Finance was administrator for the GCS1 portfolio.

From May 31, 2024, Mars Capital Finance will be the administrator for all assets in the portfolio. This is in line with the agreement reached between Mars Capital Finance and Start Mortgages which includes the takeover of all Start Mortgages-serviced portfolios by Mars Capital Finance under the same agreements and employing the same staff that were employed with Start under a similar role. Hudson Advisors Ireland DAC will continue to provide consulting services to Mars Capital Finance for the previously Start Mortgages-administrated portfolio (ERLS 2019).

The administrator and the issuer administration consultant together will implement the servicing business strategy for the loans in this transaction. The servicing strategy is to proactively use restructuring techniques as outlined under MARP to help cure borrowers struggling to make payments and those in long-term arrears. These restructures will include reduced payments, term extensions, and eventual arrears capitalizations.

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A large portion of both portfolios has already gone through a permanent restructure considering borrowers' circumstances. Should these restructure agreements fail, and a sustainable solution not be available, the servicing strategy aims to realize the real estate value in the most efficient manner available.

Mars Capital Finance is an experienced servicer in the Irish market with well-established and fully integrated servicing systems and policies. We have considered its ability to service the portfolio under our operational risk criteria, and are satisfied that it can perform its functions in the transaction. There is no cap on the ratings on the notes from an operational risk perspective.

Credit Analysis And Assumptions

WAFF and WALS

We have applied our global residential loans criteria to the 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 with 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 archetypical Irish mortgage loan pool (%)
AAA	43.13	25.35	10.94	14.00
AA	35.51	21.44	7.61	9.2
A	31.26	15.12	4.73	6.9
BBB	26.31	11.93	3.14	4.5
BB	20.63	9.81	2.02	2.0
B	19.45	8.03	1.56	1.50

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

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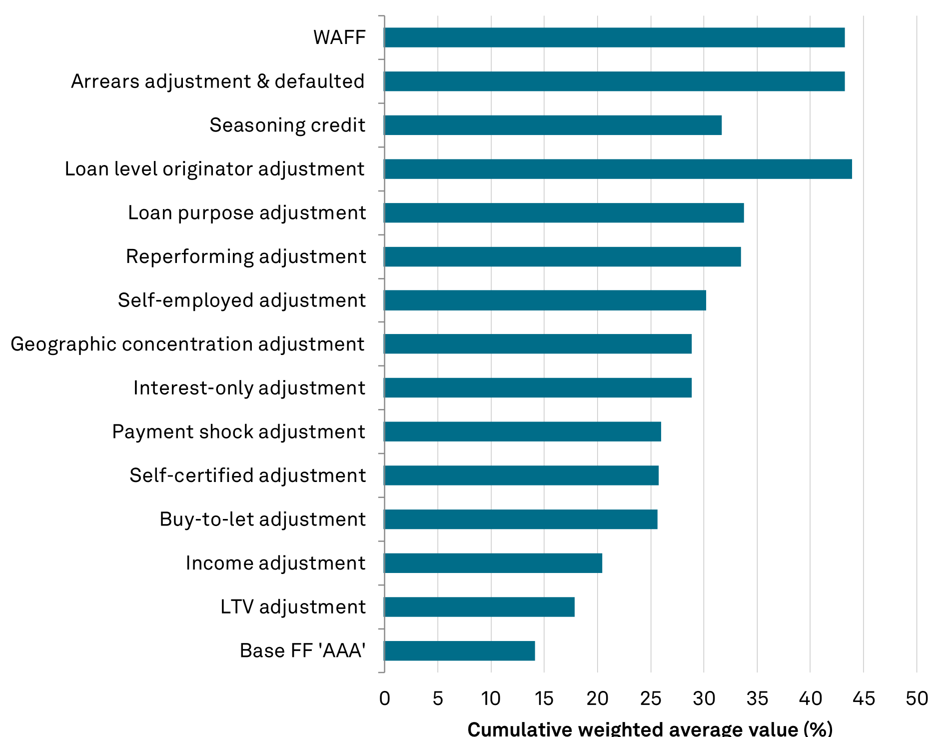
Chart 7

Cumulative WAFF migration



FF--Foreclosure frequency. LTV--Loan to value.

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Macroeconomic and sector outlook

We estimate that Ireland's underlying domestic economy expanded by 2.0% in 2023. The Irish economy will feel the lasting effects of the soaring inflation witnessed in 2022 of 8.1%, and consumers will continue to feel the increased cost of living. Headline inflation is forecast to have fallen to about 5.6% in 2023 and to fall to 2.7% in 2024, which will continue to reduce household purchasing power, albeit at a slower pace than prior years. The tight labor market that is persevering through the current environment will support consumption. Tighter monetary conditions and inflationary pressures may limit business investments, especially housing, but given the property shortage in Ireland and still-strong price growth, we expect some momentum to persist. Irish exports--with pharmaceuticals and information and communications technology services being the most important--are reasonably non-cyclical and therefore we expect these to hold up despite a general slowdown in global demand. The 2.0% GDP growth for 2023 was still ahead of the 0.5% European-wide estimate, driven by the resilient sectors in Ireland in which unemployment levels are forecast to remain lower than the European average into the potential credit headwinds of 2024.

Table 5

Irish market statistics

	2021	2022	2023	2024f	2025f
Nominal house prices, % change year on year	13.8	8.6	1.8	1.3	2.1

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Table 5

Irish market statistics (cont.)

	2021	2022	2023	2024f	2025f
Real GDP (% change)	13.6	9.4	2.0	2.1	2.8
Unemployment rate	6.2	4.5	4.7	4.6	4.5

Sources: S&P Global Ratings, Eurostat, Organization for Economic Co-operation and Development, Central Statistics Office. f--Forecast.

Based on our macroeconomic forecasts, we revised the 'B' foreclosure frequency assumptions in our global residential loans criteria for Ireland's archetypal pool to 1.5% from 1.85% on May 17, 2024 (see "Sector And Industry Variables Updated For Europe Supplement Of Global RMBS Criteria").

Transaction Summary

At closing, Merrion Square 2024-1 acquired the beneficial interest in the mortgage loans from the seller. Merrion Square 2024-1 issued six classes of rated notes (class A to F-Dfrd) to fund the purchase of the portfolio. At the same time, Merrion Square 2024-1 used the proceeds of the class RFN notes to establish the reserve fund ledger which is split between the liquidity reserve and the non-liquidity reserve. The issuer grants security over all of its assets to the trustee (see chart 8). Mars Capital Finance holds the legal title to the mortgage loans on trust for the issuer, until a perfection of title event occurs.

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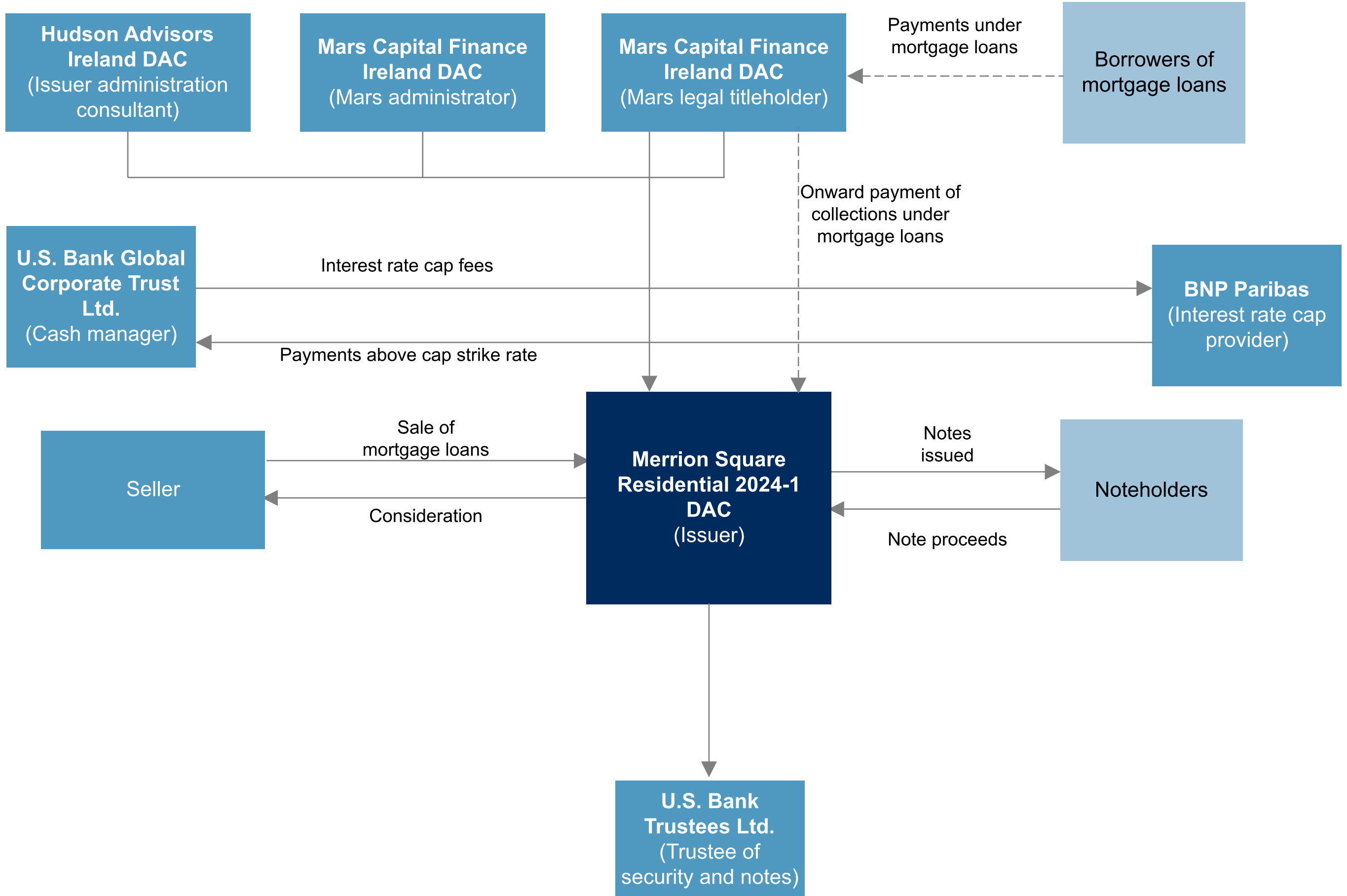
Chart 8



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The issuer is an Irish SPE, which we assume to be bankruptcy remote for our credit analysis. We analyzed its corporate structure in line with our legal criteria. We have received and reviewed final versions of the legal opinions.

We have also reviewed the Irish opinion and the tax opinion for this transaction.

Stated coupon and net WAC

Interest will be paid monthly, beginning in July 2024.

The class A, B-Dfrd, C-Dfrd, RFN, Z1-Dfrd, and Z2-Dfrd notes pay interest equal to one-month EURIBOR plus a margin with a further step-up in margin following the optional call date in June 2027.

The class D-Dfrd to F-Dfrd notes pay interest based on the lower of the coupon on the notes (one-month EURIBOR plus a class-specific margin) and the net weighted-average coupon (WAC). The annualized net WAC is calculated

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based on the interest accrued on the assets (whether it was collected or not) during the month, less senior fees, divided by the current balance of the assets at the beginning of the collection period. The net WAC is then applied to the outstanding balance of the notes in question to determine the required interest. A failure to pay the lower of these amounts will result in interest being deferred. Deferred interest will also accrue at the lower of the two rates.

Our rating on the class A notes addresses timely payment of interest and the ultimate payment of principal. Our ratings on the class B-Dfrd to F-Dfrd notes address the ultimate payment of interest and principal.

Net WAC additional amounts

The net WAC additional amounts refer to the difference between the stated coupon and the net WAC where the stated coupon exceeds the net WAC. For instance, should the coupon be 2.0% and the net WAC 1.5%, the noteholders will receive interest based on 1.5%, which is what our ratings address. The 0.5% difference between the coupon and the net WAC constitutes the net WAC additional amount and will be subordinated in the revenue priority of payments. No additional interest will accrue on the net WAC additional amount.

In our view, the initial coupons on the notes are not "de minimis", and nonpayment of the additional note interest amounts is not considered an event of default under the transaction documents. Therefore, we do not need to consider these amounts in our cash flow analysis, in line with our criteria. Our ratings do not address the repayment of such amounts.

Reserve fund

At closing, the class RFN notes' issuance proceeds fully funded the reserve fund ledger to its required amount of 1.5% of the class A through Z2-Dfrd notes' closing balance, excluding the RFN notes. The reserve fund ledger is split between a liquidity component and a non-liquidity component.

The liquidity component's required balance is the higher of 0.5% of the class A notes' closing balance and 1.5% of the class A notes' outstanding balance, while the non-liquidity component is the difference between the reserve fund required amount and the reserve fund liquidity required amount. As the class A notes amortize, the proportion attributable to the liquidity component will decrease, while the non-liquidity component will increase--providing additional credit enhancement to the notes.

The liquidity component may only be used to cover senior fees (which includes class S interest pre-step up) and the class A notes' interest.

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 or the most-senior class of 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 principal deficiency ledger (PDL) and may reduce the credit enhancement available to the notes.

Principal deficiency ledgers

The PDL will comprise eight subledgers, one for each of the class A to Z2-Dfrd notes.

The PDL will be a hybrid between loss-based and default-based. Amounts will be recorded on the PDL if the portfolio

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suffers any losses or if the transaction uses principal as available revenue receipts or to top up the liquidity reserve fund. A PDL will also be recorded in cases where a loan goes into arrears for more than 180 days, and if the last 12 months' interest coverage ratio was below 100%, the PDL will be 20%.

If forbearance occurs and a loan becomes a split mortgage, any warehoused portion subject to potential future write-off will also be recorded as a PDL.

PDL amounts will first be recorded in the class Z2-Dfrd notes' PDL, up to the class Z2-Dfrd notes' outstanding amount. They will then be debited sequentially upward.

Revenue priority of payments

Table 5

Priority of payments

Revenue priority of payments	**Principal priority of payments**
Senior fees (includes class S payments)	To top up the liquidity reserve fund
Senior servicer fees	Class A notes' principal
Other senior fees	Class B-Dfrd notes' principal
Issuer profit amounts	Class C-Dfrd notes' principal
Class A notes' interest	Class D-Dfrd notes' principal
Class A notes' PDL	Class E-Dfrd notes' principal
Top up the liquidity reserve fund	Class F-Dfrd notes' principal
Class B-Dfrd notes' interest	Deferred net WAC additional amount payable on the class D-Dfrd notes*
Class B-Dfrd notes' PDL	Deferred net WAC additional amount payable on the class E-Dfrd notes*
Class C-Dfrd notes' interest	Deferred net WAC additional amount payable on the class F-Dfrd notes*
Class C-Dfrd notes' PDL	Class RFN notes' interest
Class D-Dfrd notes' interest	Class RFN notes' principal
Class D-Dfrd notes' PDL	Class Z1-Dfrd notes' interest
Class E-Dfrd notes' interest	Class Z1-Dfrd notes' principal
Class E-Dfrd notes' PDL	Class Z2-Dfrd notes' interest
Class F-Dfrd notes' interest	Class Z2-Dfrd notes' principal
Class F-Dfrd notes' PDL	Deferred consideration to the revenue priority of payments
Junior performance subordinated fees	
Top up the non-liquidity reserve fund	
Class S payment (post-step up)	
Warranty rebate payments	
Junior fee to the issuer administration consultant	
Net WAC additional amount due and payable on the class D-Dfrd notes*	
Net WAC additional amount due and payable on the class E-Dfrd notes*	
Net WAC additional amount due and payable on the class F-Dfrd notes*	
Class RFN notes' interest	
After the step-up, all revenue to principal waterfall	
Class Z1-Dfrd notes' interest	

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Table 5

Priority of payments (cont.)

Revenue priority of payments	Principal priority of payments
Class Z1-Dfrd notes' PDL	
Class Z2-Dfrd notes' interest	
Class Z2-Dfrd notes' PDL	
Class X notes' interest	
Class X notes' principal	

*Our ratings do not address the payment of what are termed "net WAC additional amounts" i.e., the difference between the coupon and the net WAC where the coupon exceeds the net WAC. These amounts will be subordinated in the interest priority of payments. PDL--Principal deficiency ledger. WAC--Weighted-average coupon.

Hedging

The issuer in this transaction benefits from an interest rate cap with notional values and strike rates as set out in the table below. The interest rate cap minimizes exposure to liquidity stresses up to 10 years after closing.

Table 6

Interest rate notional values and strike rates

Ending period (from closing)	Notional (€)	Strike rate
12	150,000,000.00	1.0%
24	125,000,000.00	1.5%
48	100,000,000.00	2.0%
72	75,000,000.00	2.5%
84	75,000,000.00	3.0%
120	50,000,000.00	3.5%

Of the loans in the portfolio, 58.8% are linked to the ECB tracker rate, 12.3% are fixed-rate loans, and one loan is linked to one-month EURIBOR. The remaining 28.9% are linked to an SVR. The transaction does not have a basis risk swap. However, the portion of the pool that references the SVR is linked (via covenants in the transaction documentation) to one-month EURIBOR, which is reset on the same day as the one-month EURIBOR on the notes. This mitigates the basis risk. The ECB tracker loans are exposed to basis risk and hence we have applied a basis risk stress on these loans.

SVR loans

Mars Capital Finance has proposed to commit to maintain a minimum SVR of one-month EURIBOR plus 2.5%. This floor was in place for Primrose Residential 2021-1 and the floor was held for these SVR loans. We have therefore given credit to this floor again in our analysis. In the event of Mars Capital Finance's insolvency, the right to set the SVR rate will transfer to the replacement servicer.

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.

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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 principal and timely interest when due. Our ratings on the class B-Dfrd to F-Dfrd notes address the payment of ultimate interest and principal.

Our standard cash flow analysis indicates that the available credit enhancement for the class B-Dfrd to E-Dfrd notes is commensurate with higher ratings than those assigned. The ratings on these notes also reflect their sensitivity to an increase in arrears given recent trends of the assets, and their ability to withstand the potential extension of recoveries given the high proportion of the loans that are on interest-only or part-and-part payments.

In our analysis, the class F-Dfrd notes are unable to withstand the stresses we apply at our 'B' rating level. Therefore, we applied our 'CCC' criteria (see "Criteria for Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings" published Oct. 1, 2012), to assess if either a rating in the 'B–' or 'CCC' category would be appropriate. According to our 'CCC' criteria, for structured finance issues, expected collateral performance and the level of credit enhancement are the primary factors in our assessment of the degree of financial stress and likelihood of default.

We performed a qualitative assessment of the key variables, along with considering the cash flow results without increased defaults, actual servicing fees, and actual prepayment rates, and we do not consider repayment of this class of notes to be dependent upon favorable business, financial, and economic conditions. Consequently, we have assigned a 'B- (sf)' rating to the notes in line with our criteria.

Spread compression

The asset yield on the pool can decrease if higher-paying assets default or prepay. We have taken this into account in our cash flow analysis. At 'AAA', we have compressed the available yield by 0.40%. At 'B', we have applied 0.25% as spread compression.

Commingling risk

The borrowers pay into collection accounts held with Barclays Bank Ireland PLC. The collection accounts are in the name of the legal titleholders. All amounts in the collection accounts will be transferred weekly respectively to the bank account provider (Elavon Financial Services DAC).

If a legal titleholder were to become insolvent, mortgage collection amounts in the relevant collection account may become part of the legal titleholder's bankruptcy estate. To mitigate this risk, collections are transferred regularly into the issuer's bank account and a declaration of trust is in place over the collection account. The transaction documents contain replacement language in line with our current 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

The issuer must 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, and in line with our global residential loans criteria, we have applied a stressed servicing fee to account for the potential increase in costs to attract a replacement servicer.

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Set-off

As the legal titleholders and the seller are not deposit-taking institutions, we have not applied a stress to account for potential deposit set-off risk in our analysis.

Default timing and recoveries

We used the WAFF and WALS derived in our credit analysis as inputs in our cash flow analysis (see table 7). At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction's life. Defaults are applied on the outstanding balance of the assets 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 7

Default timings for front-loaded and back-loaded default curves

Year after closing	Front-loaded defaults (% of WAFF per year)	Back-loaded defaults (% of WAFF per year)
1	25.0	5.0
2	25.0	10.0
3	25.0	10.0
4	10.0	25.0
5	10.0	25.0
6	5.0	25.0

WAFF--Weighted-average foreclosure frequency.

We assume recoveries on defaulted assets to be received 42 months after default for owner-occupied and 24 months for buy-to-let properties. The weighted-average recovery timing assumed for this deal is 34 months. Foreclosure costs are estimated at 3% of the repossession value and €10,000.

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 two prepayment scenarios: high and low (see table 8).

Table 8

Prepayment assumptions

	High	Low
Pre-recession	24.0	1.0
During recession	1.0	1.0
Post-recession	24.0	1.0

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Interest rates

We modeled two interest rate scenarios in our analysis: up and down. Given that the transaction incorporates an interest rate cap, upward interest rate stress assumptions exceeding the cap level may be unduly beneficial for the transaction's cash flow projection. Therefore, we have also considered the rating sensitivity to the strike rate under the interest rate cap as part of our analysis.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 9).

Table 9

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.

We also conducted additional sensitivity analysis to assess the impact of, all else being equal, increased WAFF and WALS on our ratings on the notes. For this purpose, we ran eight scenarios by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 10

Sensitivity stresses

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

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

Table 11

Sensitivity scenarios

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

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Counterparty Risk

The issuer is exposed to Elavon Financial Services DAC, as the transaction's account provider, Barclays Bank Ireland PLC as collection bank accounts providers of the servicers' collection account, and BNP Paribas S.A. as swap counterparty. The documented replacement mechanisms adequately mitigate the transaction's exposure to counterparty risk in line with our current counterparty criteria, and therefore, it does not constrain our ratings.

Table 12

Supporting ratings

Institution/role	Rating	Replacement trigger	Collateral posting trigger
Elavon Financial Services DAC, as the transaction bank account provider*	A+/Stable/A-1	A	N/A
Barclays Bank Ireland PLC, as collection bank accounts provider	A+/Stable/A-1	BBB	N/A
BNP Paribas S.A., as interest rate cap provider	AA-/A-1+ (resolution counterparty rating)	A+	Weak

Note: The replacement language in the documentation is in line with our current counterparty criteria.

Sovereign Risk

Our long-term credit rating on Ireland is 'AA'. This enables the notes to achieve a maximum potential rating of up to 'AAA'. Therefore, our structured finance sovereign risk criteria do not constrain our ratings in this transaction.

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.

Appendix

Transaction participants

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

Transaction participants	
Originators	Permanent TSB PLC, Irish Nationwide Building Society, and Springboard.
Arranger	Morgan Stanley & Co. International PLC.
Lead manager	Morgan Stanley & Co. International PLC.
Primary servicer	Mars Capital Finance Ireland DAC.
Issuer administration consultant	Hudson Advisors Ireland DAC.
Cash manager	U.S. Bank Global Corporate Trust Ltd.

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Transaction participants (cont.)	
Corporate services provider	Intertrust Finance Management (Ireland) Ltd.
Principal paying agent	Elavon Financial Services DAC.
Registrar	U.S. Bank Global Corporate Trust Ltd.
Interest rate cap provider	BNP Paribas.
Trustee	U.S. Bank Trustee Ltd.
Bank account provider	Elavon Financial Services DAC.
Collection bank account provider	Barclays Bank Ireland PLC

Related Criteria

- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
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