

## Research

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# New Issue: Fylde Funding 2024-1 PLC

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# New Issue: Fylde Funding 2024-1 PLC

## Ratings Detail

Ratings								
Class	Rating*	Amount (mil. £)	Class size (%)	Initial credit enhancement (%)	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	196.715	75.00	25.00	Compounded daily SONIA plus 1.10%	Compounded daily SONIA plus 1.65%	October 2028	July 2052
B	AA (sf)	20.983	8.00	17.00	Compounded daily SONIA plus 1.40%	Compounded daily SONIA plus 2.10%	October 2028	July 2052
C-Dfrd	A (sf)	13.114	5.00	12.00	Compounded daily SONIA plus 1.85%	Compounded daily SONIA plus 2.78%	October 2028	July 2052
D-Dfrd	BBB (sf)	11.802	4.50	7.50	Compounded daily SONIA plus 2.40%	Compounded daily SONIA plus 3.40%	October 2028	July 2052
E-Dfrd	BB (sf)	9.179	3.50	4.00	Compounded daily SONIA plus 4.15%	Compounded daily SONIA plus 5.15%	October 2028	July 2052
F-Dfrd	B (sf)	6.556	1.50	5.25	Compounded daily SONIA plus 5.90%	Compounded daily SONIA plus 6.90%	October 2028	July 2052
X-Dfrd	BB (sf)	5.245	2.00	N/A	Compounded daily SONIA plus 5.50%	Compounded daily SONIA plus 5.50%	October 2028	July 2052
Z	NR	3.933	1.50	N/A	0%	0%	October 2028	July 2052
Certificates	NR	N/A	N/A	N/A	N/A	N/A	N/A	July 2052
VRR Loan Note	NR	14.0857	N/A	N/A	N/A	N/A	N/A	July 2052

Note: \*Our ratings address timely receipt of interest and ultimate repayment of principal on the class A and B notes, and the ultimate payment of interest and principal on all other rated notes. Our ratings also address timely interest on the rated notes when they become most senior outstanding. Any deferred interest is due immediately when the class becomes the most senior class outstanding. NR--Not rated. N/A--Not applicable. SONIA--Sterling Overnight Index Average.

## Transaction Summary

- Fylde Funding 2024-1 PLC is an RMBS transaction originated by Tandem Home Loans Ltd. (a related arm of Tandem Bank Ltd.) that securitizes a portfolio of £276.09 million second-lien mortgage loans secured over properties in the U.K. 4.16% of the loan in the pool are on buy-to-let properties.
- This is the first RMBS transaction originated by Tandem Home Loans that we have rated. We previously rated Polo Funding 2021-1 PLC, where Oplo HL Ltd. originated the collateral. Oplo Group merged with Tandem Bank in 2022. This transaction's collateral differs significantly from Polo Funding 2021-1 in terms of loan to value (LTV) and underwriting criteria.
- The assets backing the notes are U.K. second-lien mortgage loans, which are positively selected from the lender's book post the strengthening of its lending criteria since 2020. All of the loans in the pool were originated post April 2022.
- The transaction benefits from liquidity provided by a liquidity reserve fund (unfunded at closing), and principal can be used to pay senior fees and interest on the notes subject to various conditions.

- Day 1 credit enhancement for the rated notes consists of subordination.
- At closing, the issuer used the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller. The issuer grants security over all of its assets in the security trustee's favor.
- 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.
- Tandem Home Loans is also the servicer in the transaction. We reviewed Tandem Home Loans' servicing and default management processes, and we believe it is capable of performing its functions.
- In our analysis, we considered our current macroeconomic forecasts and forward-looking view of the U.K. residential mortgage market through additional cash flow sensitivities.

## The credit story

Strengths	Concerns and mitigating factors
The historical performance of the lender's mortgage book since the strengthening of its lending criteria in 2020 has proven relatively strong to date, with total arrears across the book consistently below 2.5% since the start of 2022. All loans in the pool have been positively selected (low LTVs and stricter underwriting criteria) and were originated post 2022.	Under the transaction documents, interest payments on the class B to F-Dfrd notes can be deferred if the class of notes is not the most senior outstanding. When it becomes the most senior class of notes outstanding, timely interest payments must be made and all previously deferred interest accrued and deferred prior to becoming the most senior class is due immediately. There isn't a dedicated liquidity reserve fund supporting the timely payment of interest and full immediate repayment of previously deferred interest (with the exception of the class B notes). These notes rely on principal borrowing to make these payments if there are insufficient interest collections. If collections decrease when the deferrable notes become the most senior class of notes outstanding, timely payment of interest and full immediate payment of previously deferred interest might not be made. We have considered this risk in our cash flow analysis by checking liquidity when the notes become the most senior class outstanding and by running low prepayment scenarios. The assigned ratings remain robust to this potential lack of liquidity.
Servicing is in house and Tandem Home Loans has well-established and fully integrated servicing systems and policies. We reviewed Tandem Home Loans' servicing and default management processes, and we believe it is capable of performing its functions as part of the transaction.	All of the loans in the pool are second-lien mortgages, which we have analyzed in line with our criteria (for more details on the U.K. second-lien market see "Related Research") including accruing stressed interest rates on the first-lien loans during the foreclosure period. Further, to account for additional default risk and loss severity risk associated with second-lien loans, the weighted-average current LTV ratio, at 66.19%, is lower than that of prime U.K. mortgage portfolios.
Though this is Tandem Bank's first RMBS transaction, it benefits from a seasoned management team with significant experience in the sector, operating a clear, customer-focused strategy with a strong market position.	Of the portfolio, 3.99% have had prior CCJs. Additionally, all the loans are newly originated with limited seasoning. We consider such loans as more likely to exhibit a higher default probability than otherwise similar loans. We have addressed these features accordingly in our credit analysis.
Although all loans in the transaction are second-lien loans, we have also analyzed the nature of the first-lien holders and consider most to be advances by lenders operating in the prime mortgage market.	Like most second-lien lenders, Tandem Home Loans makes significant use of AVMs in its underwriting. We consider the use of AVMs to be well controlled, with only high confidence scores used up to strict valuation limits. We have considered AVM-related risk in our loss severity analysis through a valuation haircut in line with our criteria.
Relative to second-lien loans originated before 2008, risk layering is low, LTV ratios are generally significantly lower, all loans are repayment loans, and adverse credit markers are limited. Accordingly, we have used an adjustment of 1.5x for second liens.	The transaction has low overall risk layering, however, 89.7% of the pool comprises loans taken out to consolidate debt. We factor this risk when calibrating the increase to default probabilities for second liens.
The capital structure is fully sequential for the application of principal proceeds. Credit enhancement can therefore build up for the rated notes, enabling the capital structure to withstand performance shocks.	Of the loans in the pool, 97% are fixed- to floating-rate loans. Given that the reversion rate is very similar to the current rate on the second-lien loans and that the affordability assessment is at a stressed rate for short term fixed-rate loans, we expect the potential payment shock to be lower for these loans. We have considered this in our calibration of the payment shock adjustment.

## The credit story (cont.)

Strengths	Concerns and mitigating factors
A swap with a fixed schedule hedges the mismatch between the interest rate paid under the loans (fixed rate until the start of the reversion period) and the interest rate paid under the notes (compounded daily SONIA).	This is Tandem Home Loans' first RMBS securitization, and originations only significantly picked up post 2021. However, the originator is bound by the Financial Conduct Authority's (FCA) guidelines. We have performed our operational review and we believe the company generally adheres to the FCA's principles. We have also captured this risk in our originator adjustment.
The class A and B notes benefit from a liquidity reserve fund which is unfunded at closing from principal receipts.	For loans below £100,000, the originator may take an equitable charge instead of legal charge. The originator has confirmed that legally there is no difference between equitable charge and full legal charge in terms of enforcement, provided that the charge is correctly noted in the register in the name of the lender as either an agreed notice or a unilateral notice, and that a copy of the mortgage deed executed by the borrowers by way of legal mortgage is available. The originator has taken a commercial decision to follow the equitable charge route, given the efficiency of the registration process.
The transaction generates a high level of excess spread given the high weighted-average interest rate on the portfolio (8.05%).	The seller has the option of either a buy-back, or to indemnify the issuer regarding the ineligible receivables. However, the seller shall not be obliged to make any indemnity payments until the aggregate amount of indemnity amounts since the closing date is equal to or greater than £100,000. We have therefore stressed £100,000 as loss in our analysis to address this risk.
	The asset yield on the pool can decrease if higher-paying assets prepay or refinance on the reversionary date. Lack of excess spread can result in a principal deficiency ledger (PDL) being recorded on the junior notes. We have considered this in our cash flow analysis by assuming that the weighted-average margin on the portfolio drops by 0.81% at 'AAA'. For the class X-Dfrd notes we have applied 40% prepayment stress and compression in spread to address the risk of reduction in excess spread.

## 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, and conduct risk presents a direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of 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, impacting recoveries if borrowers default. We believe that well-diversified portfolios reduce exposure to extreme weather events.

In our view, the exposure to governance credit factors is in line with the sector benchmark. There are very tight restrictions on what activities the special-purpose entity (SPE) can undertake compared to other entities. In addition, Tandem Bank has strong internal control frameworks with significant relevant experience at key stages of the process. Finally, the origination process is subject to regular post-completion scrutiny and checking and oversight.

## **Collateral And Originator**

Tandem Bank Ltd. is a challenger bank based in Blackpool, U.K., offering mortgage products through its related arm Tandem Home Loans Ltd. It has a strong focus on second lien mortgages, savings, motor, and green loans.

Tandem Bank merged with Oplo Group in 2022. We rated Polo Funding 2021-1 PLC in 2021, when the collateral was originated by Oplo HL Ltd. For Fylde Funding 2024-1 PLC, Tandem Home Loans originated the collateral. Loans were positively selected based on having higher credit scores and better affordability.

Tandem Bank's senior management team has significant financial services experience, having had similar roles at other lenders and banks. The bank is both FCA- and PRA-regulated.

Tandem Bank's second-charge product range for new customers can only be accessed through its network of approved intermediaries (brokers and direct channels), while the existing customers can reach out to the originator directly. Performance is monitored monthly by the originator's head of sales and distribution and mortgage governance manager.

All mortgage applications receive an automated decision in principle, via the originator's bespoke decision engine and scorecard, based on application and credit bureau data. All applications and third-party information are manually validated and approved prior to a binding mortgage offer being issued.

All second-charge mortgage applications must be processed through the originator's bespoke combination scorecard. The scorecard utilizes TransUnion's bureau data and G2 score to establish creditworthiness as part of the credit decisioning process.

Both pre- and post-origination quality assurance frameworks are in place. Independent re-underwriting and responsible lending checks are performed on a bi-annual basis by the risk advisory team covering policy adherence, responsible lending, and customer outcomes.

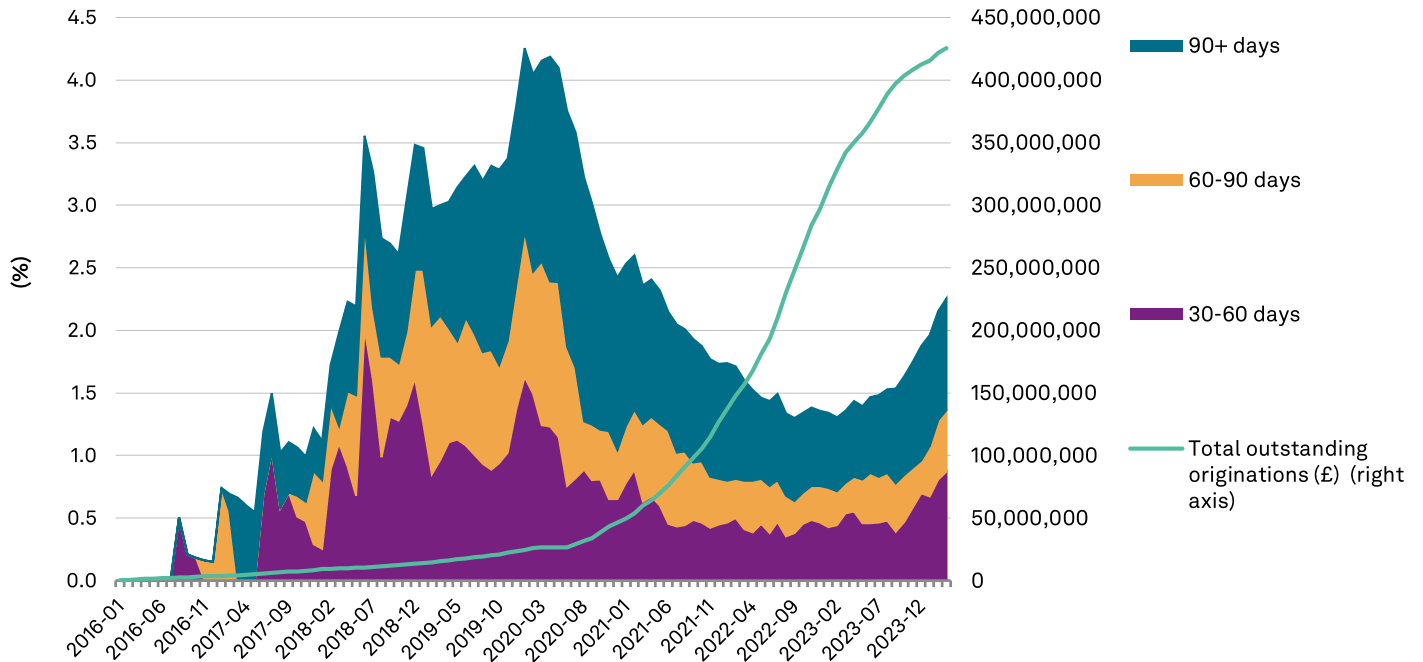
Although debt consolidation is a primary reason for many of the second-lien mortgages, we consider the affordability assessments to be appropriate.

Origination standards were strengthened significantly in 2020. Prior to 2020, the Transunion G1 scores were used in isolation for lending decisions. Lending policies were strengthened in 2020 to include stricter affordability tests and transition away from G1 to G2 scores. All loans in the Fylde pool were originated from March 2022 based on the Transunion G2 scores.

Arrears across the book have remained consistently low since lending activity commenced. Loans with 30+ days in arrears peaked at 4.26% during 2020, reflecting the effect of COVID and lower originations. Arrears in all buckets started decreasing from 2021, following the stricter underwriting criteria and increased origination volumes.

Chart 1

Historical arrears distribution



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Overall, we consider the control framework of the origination process to be suitable, with appropriate relevant experience at key stages of the process. In addition, the origination process is subject to regular post-completion scrutiny, checking, and oversight.

Table 1

Key originator considerations	
Description	Consideration
Collateral type	Tandem Home Loans Ltd. originates largely in near prime (limited tolerance to prior adverse credit) to prime second-lien collateral. Although debt consolidation is a primary reason for many of the second-lien mortgages, we consider the affordability assessments to be appropriate.
Lending policy versus peers and market standards	Lending policy follows market standards overall and there are no significant deviations from established market standards.
Track record and experience	Second-lien lending commenced in 2014. This transaction is the lender's first public term securitization. Market share has grown steadily since the business was launched and is among the top four market leaders in the second-charge mortgage lending segment.
Historical performance	The historical performance of the lender's mortgage book post the update in underwriting criteria has proven relatively strong to date, with limited credit losses.
Qualitative factors not captured above	There is insufficient historical performance data to conclude on the performance of the lender's originations through a period of economic stress.

## Servicing

Tandem Home Loans also services the loans in the pool and operates a centralized operations model with a centralized customer services team in Cardiff. This team is responsible for the servicing of all lending products, including second charge mortgages. Collections activity for second charge mortgages is completed by a dedicated group of arrears executives who work remotely.

The servicing and collections team comprises of approximately 22 staff. 16 are dedicated to second-lien mortgages, three form the specialist servicing team, and three are in the operations training team.

The servicing team oversees payment collection and cash management, pre-delinquency and early arrears management, and redemption. A vulnerable customer specialist servicing team provides support to second-charge mortgage customers in need of specialist support.

The servicer is currently working towards moving operations to an integrated servicing and collections system with a view to further increasing automation and self-service opportunities, reducing complexity, and enabling it to move to an operating model which it is hoped to deliver economies of scale and scope.

We reviewed Tandem Home Loans' servicing and default management processes, and we believe it is capable of performing its functions as part of the transaction.

## Collateral

We have received loan-level data as of Aug. 31, 2024. The quality of data provided is in line with our standards.

We received a 99/1 pool audit report and did not apply any adjustment to our weighted-average foreclosure frequency (WAFF) assumptions given that there were only a small number of non-material errors (exceptions) in the report. We don't believe this to be indicative of greater issues across the wider pool.

As of the Aug. 31, 2024, pool cut-off date, the pool of £276.09 million comprised 7,437 loans secured on properties located in the U.K. The transaction comprises loans originated between 2022 and 2024.

**Table 2**

Collateral key features*			
	Fylde 2024-1 PLC	Castell 2023-2 PLC	Polo Funding 2021-1 PLC
Pool cutoff date	August 2024	September 2023	August 2021
Jurisdiction	U.K.	U.K.	U.K.
Principal outstanding of the pool (mil. £)	276.09	275.4	209.6
Number of loans	7,437	6,909	8,249
Average loan balance (£)	37,124	39,862	25,411
Weighted-average interest rate (%)	8% (pre-reversion), 7.5% (weighted-average margin paid over LBR)§	7.11% (pre-reversion), 5.23% (weighted-average margin post-reversion)§	-
Weighted-average indexed current LTV ratio (%; including first lien)	66.19	58.9	93.7
Weighted-average original LTV ratio (%; including first lien)	66.6	63.8	90.2

Table 2

Collateral key features* (cont.)			
	Fylde 2024-1 PLC	Castell 2023-2 PLC	Polo Funding 2021-1 PLC
Weighted-average seasoning (months)	15.7	25	15
Self-certified loans (%)	0	0	0
Interest only (repayment post interest-only period; %)	0	0.3	0
Buy-to-let (%)	0	0	3.1
At least one CCJ (%)	3.99	2.5	6.5
Bankruptcy (%)	0.1	0.1	0.1
Loan purpose--debt consolidation (%)	89.8	77.3	76.7
Jumbo valuations (%)	3.99	11	1
Full valuation (%)	0	31.5	0
AAA' RMVD	58.3	59.4	57.8
Arrears >= one month (%)	0	2.6	0

\*Calculations are according to S&P Global Ratings' methodology. The figures are based on the current balance plus accrued interest. §The calculation for post-reversion uses the post-reversion margin and excludes the index. LTV--Loan to value. CCJs--County court judgments. RMVD--Repossession market value declines.

All the assets backing the notes are second-lien mortgage loans.

The portfolio has a weighted-average current LTV ratio of 66.19% (including the first lien) and a weighted-average original LTV of 66.64% (including the first lien).

Despite the pool having a lower-than-typical LTV ratio average, loss severities for second liens tend to be higher because the second-lien holder absorbs the loss before the first-lien holder. In estimating loss severity on second liens, there are certain subjective considerations, including the first lien's balance and the rate at which the first lien can accrue interest. In assessing these elements, we considered that given the low seasoning, there is unlikely to be any significant difference between the balance of the first lien at origination and at the point of our analysis. We assumed that, in the event of default of their second lien, the borrower would also be in arrears on their first lien. The first lien is entitled to be paid accrued interest from the recovery proceeds of the mortgaged property before the second-lien holder. In analyzing the appropriate rate to accrue interest on the first lien, we have analyzed who the first-lien holders are and used rating category-specific accrual rates.

In line with other U.K. portfolios, the assets are primarily concentrated in the South East (12.49%), North West (14.4%), and Greater London (12.30%), but no regions breach our concentration limits where we apply additional default adjustments.

Of the loans in the pool, 89.8% were taken out with some element of debt consolidation. Borrowers can often take out loans with multiple purposes, such as for home improvement and to consolidate debt. We consider equity withdrawal from the property to increase credit risk, and reflected the overall loan purpose and risk layering in our 1.5x second-lien adjustment.

The pool contains 0.1% of loans advanced to borrowers with a prior bankruptcy/default, and 3.99% of loans to



borrowers with a prior CCJ. We consider that loans with these characteristics are more likely to exhibit a higher historical default probability than otherwise similar loans.

In addition, a high proportion of fixed-rate loans and discount loans have a reversionary date in the next five years, with 40.01% of the loans reverting in 2027. Therefore, the prepayment rates might increase significantly, reducing excess spread. We have assessed this in our cash flow analysis.

**Table 3**

<b>Loans by fixed-rate reversion year</b>	
<b>Reversion year</b>	<b>As a percentage of the pool</b>
2027	40.01
2028	34.76
2029	22.31

All of the loans in the pool are current. The pool's weighted-average seasoning is 15.7 months.

**Chart 2**

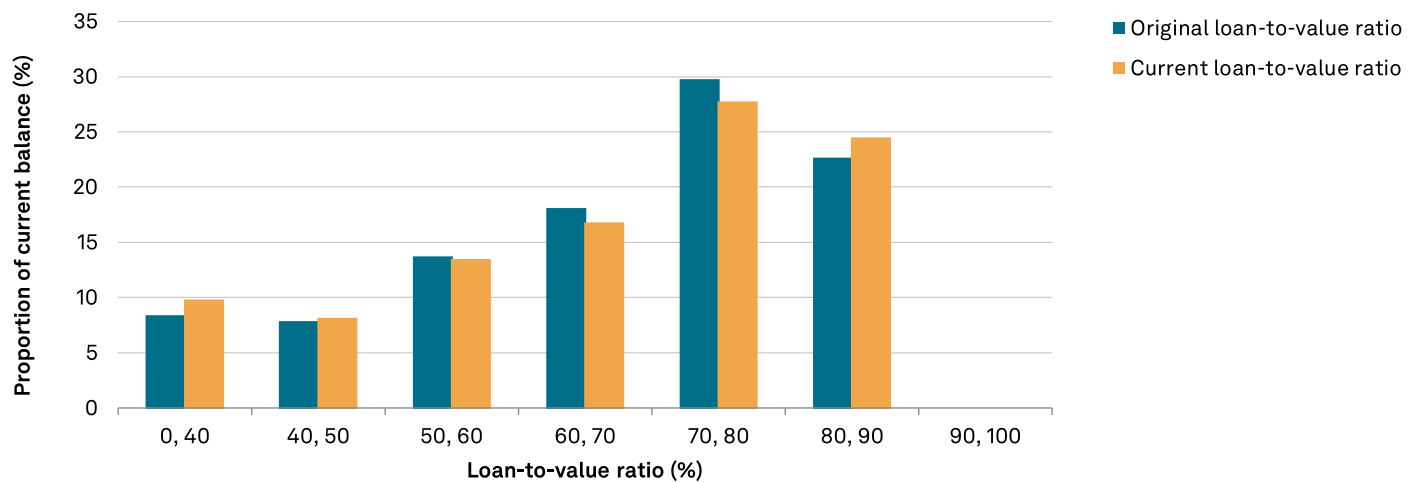
**Geographic concentration**



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**Chart 3**

**Original and current loan-to-value distribution**



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## Credit Analysis And Assumptions

### WAFF and WALs

We have applied our global RMBS 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 assigned a higher rating should be able to withstand a higher level of mortgage defaults and loss severity.

Our credit analysis reflects the characteristics of the loans, properties, and associated borrowers.

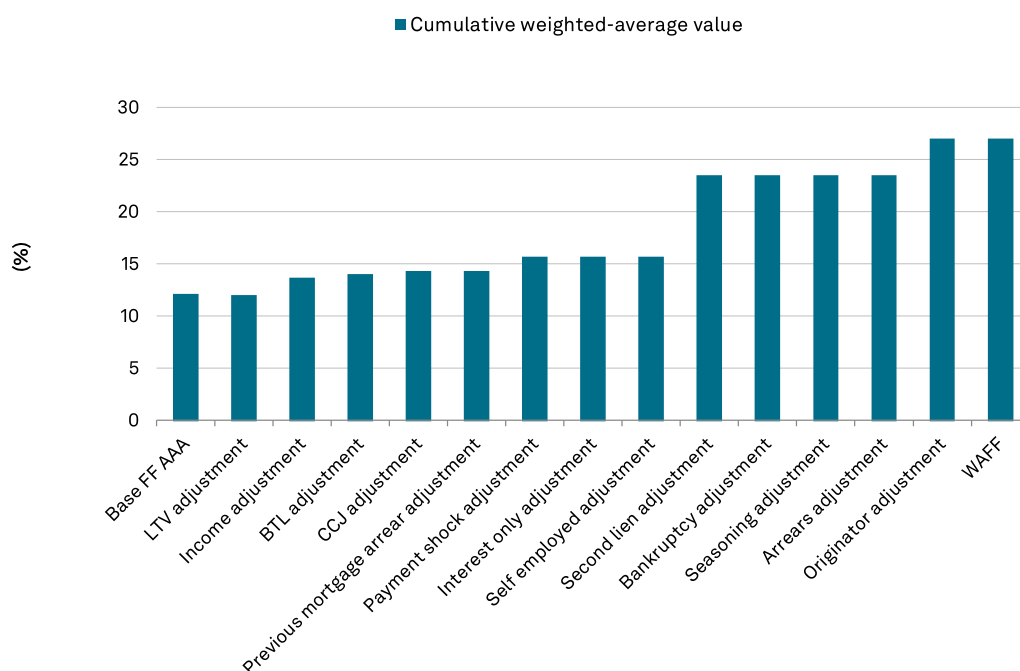
**Table 4**

Portfolio WAFF and WALs			
Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	26.89	88.86	23.89
AA	17.96	85.09	15.28
A	13.48	76.47	10.31
BBB	9	69.52	6.26
BB	4.52	63.35	2.86
B	3.4	56.78	1.93

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

Chart 4

## AAA' cumulative WAFF distribution



WAFF--Weighted-average foreclosure frequency. LTV--Loan-to-value. CCJ--County court judgment.  
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## Macroeconomic and sector outlook

The information in this section reflects our most recent published economic forecasts. The current U.K. macroeconomic outlook remains uncertain and has recently been subject to significant changes within short timeframes. In addition to increased energy costs and the overall cost of living, rate rise expectations remain fluid, against a backdrop of a stagnating macroeconomic environment. The ratings assigned reflect this market uncertainty and our overall analysis considers the implications of further deterioration in credit conditions.

Table 5

### U.K. housing market statistics

	2023	2024f	2025f	2026f	2027f
Nominal house prices, % change y/y	-1.7	1.4	2.3	2.6	2.9
Real GDP, % change	0.1	0.6	1.2	1.7	1.7
CPI inflation (%)	7.3	2.8	2.4	2.1	2
Unemployment rate	4	4.4	4.6	4.4	4.4

Sources: S&P Global Ratings, Eurostat, Organization for Economic Co-operation and Development, Department for Communities and Local Government, Office for National Statistics. y/y--Year on year. CPI--Consumer price index. f--Forecast.

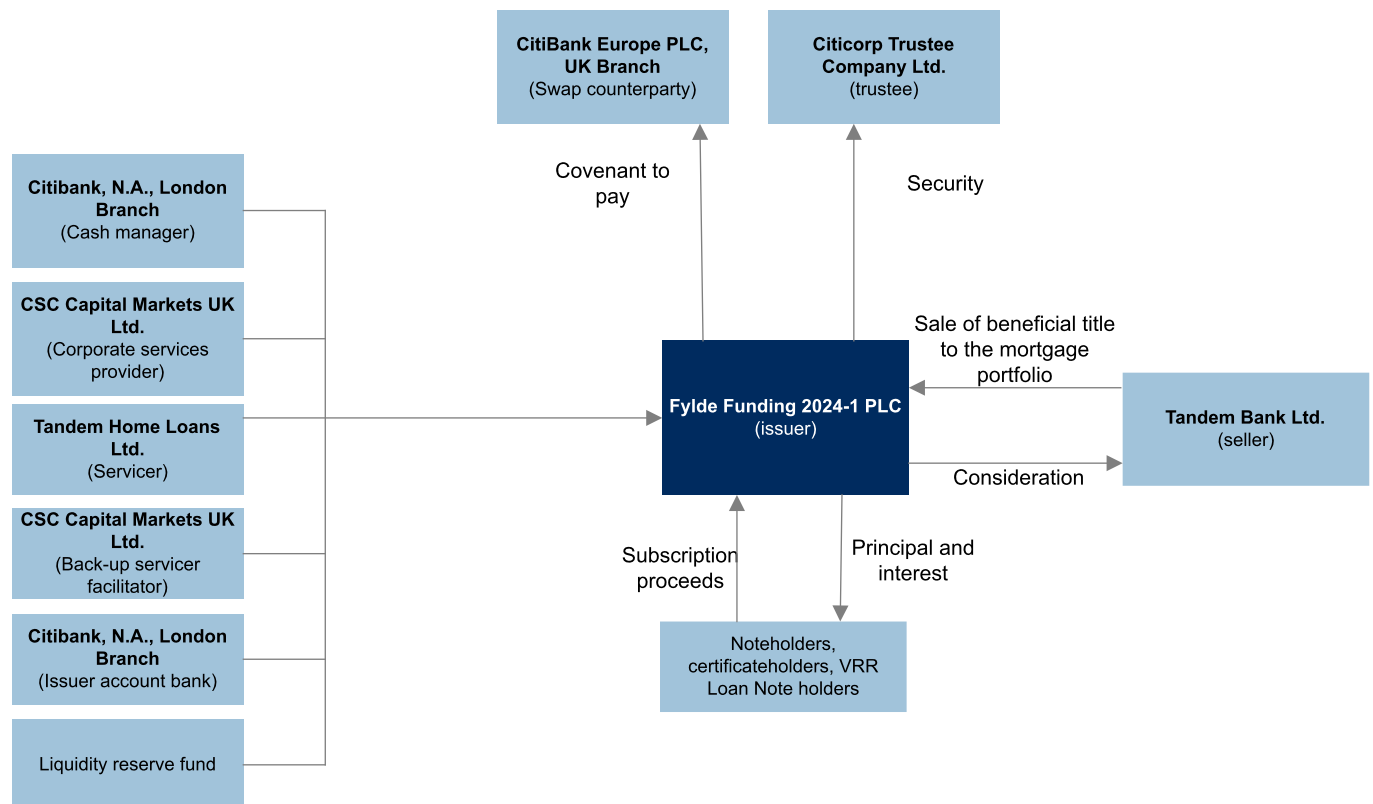
We have considered the transaction's ability to withstand higher levels of defaults, and extended foreclosure timing

assumptions. The assigned ratings remain robust under these stresses.

## Transaction Summary

Chart 5

### Transaction structure



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The issuer is an English SPE, which we consider to be bankruptcy remote for our credit analysis. The transaction documents and legal opinions are in line with our legal criteria.

Interest is paid quarterly on the interest payment dates beginning in January 2025. The rated notes pay interest equal to daily Compounded SONIA plus a class-specific margin with a further step up in margin following the optional call date in October 2028. All of the notes reach legal final maturity in July 2052.

### Deferral of interest

Under the transaction documents, interest payments on all classes of rated notes except for the class A notes can be deferred until maturity. However, once the notes become the most senior class outstanding, timely interest must be paid and all previously deferred interest is due immediately. Deferred interest also accrues interest at the same rate as

that of the note. The class X-Dfrd notes can defer interest to maturity under the transaction documents, although we do not rate to this provision.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A and B notes and the ultimate payment of interest and principal on the other rated notes. Our ratings also address timely receipt of interest and full immediate repayment of previously deferred interest on the class C-Dfrd to X-Dfrd notes when they become the most senior class of notes outstanding.

### **Product switches and further advances**

There is no obligation for the issuer to purchase a further advance loan, and there is no obligation for the seller or legal title holder to make one. If the seller or legal title holder agrees to make a further advance, there is a repurchase obligation on the seller.

Product switches are not permitted under this transaction.

If the further advance on the first-lien loan results in the current LTV being increased by greater than 2.5%, the seller will have the obligation to repurchase the loan.

### **Liquidity reserve fund**

The liquidity reserve fund was unfunded at closing. It will be funded from principal receipts and has a required amount of 1.0% of the class A and B notes' outstanding principal balance. Amounts in the reserve fund can only be used to pay senior fees and the interest on the class A and B notes. After the required amount has been met for the first time, on future interest payment dates the liquidity reserve fund will be funded via the revenue waterfall.

Therefore, for the class C-Dfrd to X-Dfrd notes where timely interest must be paid once they become the most senior class outstanding (including immediate full repayment of previously deferred interest), there is no liquidity support available. We have considered this risk in our cash flow analysis by checking for liquidity when the notes become the most senior note outstanding. The assigned ratings remain robust to this potential lack of liquidity.

### **Principal to pay interest (principal borrowing)**

In high-delinquency scenarios, there may be liquidity stresses, whereby the issuer would not have sufficient revenue receipts to pay interest outstanding on the notes, swap payments, and senior fees. To mitigate this risk, the issuer can use any existing principal receipts to pay shortfalls in senior fees and senior swap payments and interest on the class A notes. It can also use principal to pay interest on the class B, C-Dfrd, D-Dfrd, E-Dfrd, and F-Dfrd notes if the respective tranche's PDL does not exceed 10% of its outstanding balance, or if the note is the most senior class outstanding. 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 seven subledgers, one for each of the asset-backed classes of notes.

Amounts will be recorded on the PDL if the loans become defaulted (equal to or greater than 12 months in arrears) and if the transaction uses principal as available revenue receipts.

## Revenue priority of payments

Table 6

Priority of payments	
Revenue priority of payments	Principal priority of payments
Senior expenses	Class A principal in full
Issuer profit	Class B principal in full
Senior swap payments	Class C-Dfrd principal in full
Class A interest	Class D-Dfrd principal in full
Class A PDL	Class E-Dfrd principal in full
Class B interest	Class F-Dfrd principal in full
Credit the liquidity reserve fund after the liquidity reserve initial funding date	Class Z principal in full
Class B PDL	Any excess amounts to be applied as available revenue receipts
Class C-Dfrd interest	
Class C-Dfrd PDL	
Class D-Dfrd interest	
Class D-Dfrd PDL	
Class E-Dfrd interest	
Class E-Dfrd PDL	
Class F-Dfrd interest	
Class F-Dfrd PDL	
Class X-Dfrd interest	
Class X-Dfrd principal	
On the step-up date and any IPD thereafter until the IPD on which the rated notes have been fully redeemed, all remaining available revenue funds to be applied as available principal funds	
Subordinated swap payments	
Class Z PDL	
Certificates payments	

PDL--Principal deficiency ledger. IPD--Interest payment date.

## 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 reserves provide.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A and B notes, as well as the ultimate payment of interest and principal on the other rated notes. Our ratings also address timely receipt of interest and full immediate repayment of previously deferred interest on the class C–Dfrd to X-Dfrd notes when they become the most senior class of notes outstanding.

We assigned lower ratings to the class E-Dfrd, F-Dfrd, and X-Dfrd excess spread notes than those indicated by our standard cash flow analysis, considering the notes' high sensitivity to very high prepayment scenarios and sensitivity to spread compression.

### **Interest rate risk and hedging**

At closing, 100% of the mortgage loans pay a fixed rate of interest, 97% of which will switch to a floating rate of interest at a later stage, while 3% are fixed for life. Given the rated notes will receive a floating coupon based on the compounded daily SONIA index, the transaction is exposed to interest rate risk. To address this risk, the issuer entered into a fixed-floating rate swap agreement, (see "Counterparty Risk" below), the terms of which are the following:

- The issuer pays a fixed rate;
- The issuer receives compounded daily SONIA; and
- The notional is fixed based on a predefined schedule, which we have modelled in our cash flows.

The loans revert to a standard variable rate, which is equal to the margin plus lender base rate (LBR). The margin will be set at the previous payable fixed rate less 0.5%

The lender calculates LBR with reference to the Bank of England base rate (BBR).

The transaction features an LBR floor:

- From (and including) the closing date to (but excluding) Jan. 1, 2026, the then BBR less 1.00%; and
- From (and including) Jan. 1, 2026 to the final rated notes' redemption date, the then BBR less 0.5%.

We do not apply a standard variable rate haircut, given the transaction's LBR floor which we model in our analysis. However, considering the transaction's SONIA-to-BBR basis risk exposure, we have applied basis risk stresses in our cash flow analysis.

Of the pool, 3.0% pays a fixed interest rate for the life of the mortgage.

### **Spread compression**

The asset yield on the pool can decrease if higher-paying assets default or prepay. We have considered this in our cash flow analysis by assuming that the weighted-average margin on the portfolio drops by 0.81% at 'AAA'.

### **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 0.4%, which is higher than we typically apply to prime collateral, because we believe that in a highly stressed environment, servicing intensity for second-lien loans could be greater and such an amount may be necessary to attract a replacement servicer.

### **Commingling risk**

Borrowers pay into collection accounts held with National Westminster Bank PLC in the name of the legal titleholder.

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



Although we believe that the combination of downgrade language and declaration of trust mitigates against the loss of collections if there is an insolvency, we have considered collections could be delayed in an insolvency. We have therefore applied a liquidity stress of one month of collections.

### Setoff risk

According to the representations and warranties provided by the seller, no loan is subject to any right of setoff and no borrower is an employee or director of the seller, which in our view, mitigates employee setoff risk.

We have not received borrower deposit data, however, the originator has confirmed that no deposit exceeds the maximum amount covered under the Financial Services Compensation Scheme (£85,000). Considering this and the loans being second lien with an average loan size of £37,000, we view the risk of deposit setoff as minimal.

### Default timing and recoveries

We use the WAFF and WALs derived under our credit analysis (see table 9) as input 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 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 (1-WALS) on defaulted assets to be received within 21 months. We estimate foreclosure costs at 3% of the repossession value and £7,000.

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 (see table 10). Of the pool, 40.01% refers to fixed-to-floating rate loans with a fixed-rate period ending in 2027, which could increase prepayments and reduce the asset yield. We have captured this in our cash flow analysis by doing a sensitivity run with an increase in our prepayment assumptions. The assigned ratings remain robust to the results of this sensitivity.

**Table 8**

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 (see table 11).

**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

## Counterparty Risk

The issuer is exposed to Citibank N.A., London Branch as the transaction account provider, National Westminster Bank PLC as the collection account provider, and Citibank Europe PLC, UK Branch as swap counterparty (see table 12). The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

**Table 10**

Supporting ratings				
Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
National Westminster Bank PLC as collection account provider	A+/Stable/A-1	BBB	45	AAA
Citibank N.A., London Branch as transaction account provider*	A+/Stable/A-1	A	30	AAA
Citibank Europe PLC, UK Branch*	A+/-/A-1 (RCR)	A	10 business days to post collateral and 90 calendar days to find a replacement	AAA

\*Rating derived from the rating on the parent entity (the lower of the issuer credit rating on the parent and the sovereign rating on the sovereign where the branch is located). RCR--Resolution counterparty rating.

## Sovereign Risk

Our long-term unsolicited credit rating on the U.K. 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 and scenario 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.

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.

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 11**

Sensitivity stresses			
	WALS		
WAFF	0	1.1x	1.3x
0	Base case	Scenario 3	Scenario 4
1.1x	Scenario 1	Scenario 5	Scenario 7
1.3x	Scenario 2	Scenario 6	Scenario 8

**Table 12**

Sensitivity scenarios									
Class	Base case	1	2	3	4	5	6	7	8
A1	AAA	AA+	AA	AA+	AA+	AA+	AA	AA	AA
B	AA	AA-	A	AA-	A	A+	A	A	A
C-Dfrd	A	A-	BBB+	A-	A-	A-	BBB+	BBB+	BBB+
D-Dfrd	BBB	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
E-Dfrd	BB	BB	BB	BB	BB	BB	BB	BB	BB
F-Dfrd	B	B- or lower	B- or lower	B	B- or lower	B- or lower	B- or lower	B- or lower	B- or lower
X-Dfrd	BB	BB	BB	BB	BB	BB	BB	BB	BB

## Appendix

Transaction participants	
Role	Participant
Trustee	Citicorp Trustee Company Ltd.
Seller	Tandem Bank Ltd.
Back-up servicer facilitator	CSC Capital Markets UK Ltd.
Corporate services provider	CSC Capital Markets UK Ltd.
Principal paying agent	Citibank N.A., London Branch
Cash manager	Citibank N.A., London Branch
Registrar	Citibank N.A., London Branch
Share trustee	CSC Corporate Services (UK) Ltd.
Originator	Tandem Home Loans Ltd.
Arrangers	Citigroup Global Markets Ltd.
Issuer	Fylde Funding 2024-1 PLC
Servicer and legal title holder	Tandem Home Loans Ltd.
Manager	Citigroup Global Markets Ltd.

## Related Criteria

- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

## **Related Research**

- EMEA Structured Finance Chart Book: September 2024, Sept. 13, 2024
- European RMBS Index Report Q2 2024, Aug. 16, 2024
- EMEA RMBS And ABS Monitor Q2 2024, July 22, 2024
- European Housing Markets: Better Days Ahead, July 17, 2024
- Global Credit Conditions Q3 2024: Soft Landing, Fragmenting Trajectories, July 1, 2024
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- S&P Global Ratings' U.K. Second-Lien Mortgages Primer, Jan 31, 2022
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
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