S&P Global Ratings

Research

New Issue: Hazel Residential PLC

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New Issue: Hazel Residential PLC

Ratings Detail

Transaction profile	
Issuer	Hazel Residential PLC
Collateral type	RMBS nonconforming
Domicile of assets	U.K.
Seller	Morgan Stanley Principal Funding, Inc.
Servicer and original seller	Santander UK PLC
Swap provider	Morgan Stanley & Co. International PLC

Capital structure

Class	Rating	Amounts (mil. £)	Credit enhancement (%)	Coupon (%)	Step-up coupon (%)	Step-up date	Legal final maturity
A Loan*	AAA (sf)	247.235	12.66	Daily Compounded SONIA + 0.85	Daily Compounded SONIA + 1.28	March 2028	December 2068
A*	AAA (sf)	273.265	12.66	Daily Compounded SONIA + 0.85	Daily Compounded SONIA + 1.28	March 2028	December 2068
B-Dfrd§	AA (sf)	19.010	9.42	Daily Compounded SONIA + 1.20	Daily Compounded SONIA + 1.80	March 2028	December 2068
C-Dfrd§	A (sf)	17.540	6.43	Daily Compounded SONIA + 1.60	Daily Compounded SONIA + a 2.40	March 2028	December 2068
D-Dfrd§	BBB (sf)	13.160	4.18	Daily Compounded SONIA + 2.00	Daily Compounded SONIA + 3.00	March 2028	December 2068
E-Dfrd§	BB+ (sf)	5.850	3.10	Daily Compounded SONIA + 3.25	Daily Compounded SONIA + 4.25	March 2028	December 2068
F-Dfrd§	B (sf)	5.850	2.18	Daily Compounded SONIA + 4.25	Daily Compounded SONIA + 5.25	March 2028	December 2068
RFN-Dfrd	B- (sf)	8.770	0.69	Daily Compounded SONIA + 6.00	N/A	N/A	December 2068
Z	NR	2.920	0	Daily Compounded SONIA + 7.50	N/A	N/A	December 2068
Residual Certificates	NR	N/A	N/A	N/A	N/A	N/A	N/A

*The class A loan and class A notes always rank pro rata and pari passu without preference or priority among themselves for the payment of interest and principal. §Our rating on this class considers the potential deferral of interest payments. SONIA-- Sterling Overnight Index Average. NR--Not rated. N/A--Not applicable.

The Credit Story

Hazel Residential PLC is an RMBS transaction securitizing a portfolio of owner-occupied (95.8%) and buy-to-let (BTL) (4.2%) mortgage loans secured against properties in the U.K.

The loans in the pool are mainly legacy loans (61%) originated before 2014 by Santander UK PLC. Although the loans were originated as prime, there are some nonconforming characteristics to the pool.

Credit strengths

Key factor	Description
Current valuations	The pool has a low current indexed loan-to-value (LTV) ratio of 49%, which is less likely to incur loss severities if the borrower defaults.
Historical performance	The arrears in the pool are in line with comparable nonconforming legacy transactions, with 8.6% of loans 90+ days delinquent, significantly lower than the U.K. nonconforming index for post-2014 originations (see "Related Research"). Many borrowers maintain pay rates above 70.00%, with 80.43% of loans more than three months in arrears having a pay rate above this threshold. We have reflected this high pay rate in our credit analysis.
Experienced servicer	The servicer, Santander UK PLC, is an established and leading U.K. servicer. We believe its team is experienced, and it has already serviced several transactions that we have rated. Moreover, they are among the top six lenders in the U.K. market for mortgage stock and gross lending.
Tight underwriting criteria	Santander UK's underwriting criteria are among the best in the market, in our view. We would typically consider it as a prime originator. Although some of the loans selected for this transaction display some nonconforming characteristics, the origination process is subject to regular post-completion scrutiny, checking, and oversight. Self-employed income is assessed based on the derivation of a sustainable net income figure using a track record with a minimum of two years of trading. Furthermore, they have internal system in place to avoid granting a high LTV ratio loan (higher than 85%) to a borrower that had any county court judgment (CCJ) or defaults in the last six years.
Experienced management team	The lender's competent management team has significant experience in the sector and operates a clear, customer-focused strategy with a strong market position. Origination standards have remained generally consistent since the company was founded.

Credit concerns

Key factor	Description	Mitigant
Proportion of loans in arrears and legacy pool	Of the pool, 61% was originated before 2014. A total of 19.6% of the pool is in arrears, with 8.6% of loans delinquent by more than 90 days	We have considered these additional risks in our originator adjustment.
Interest-only proportion	Of the loans, 42.3% are interest only.	We consider these borrowers' credit performance more vulnerable to economic stress and considered this in our credit analysis.
High loan-to-income (LTI) ratio	Of the loans, 42.7% have an LTI ratio above 3.25x.	We consider such borrowers as more likely to default since mortgage repayments represent a greater proportion of their income than borrowers with a lower LTI ratio. We have addressed this accordingly within our credit analysis.
Self-employed and first-time buyers	Of the loans in the pool, 27.4% were advanced to self-employed borrowers and secured by owner-occupied properties, and 24.5% of all borrowers are first-time buyers where the security is an owner-occupied property.	We consider loans with these characteristics more likely to exhibit a higher default probability than otherwise-similar loans. We have addressed these features accordingly in our credit analysis.
Setoff risk	Santander UK is a deposit-taking institution. If it were to become insolvent, borrowers could set off their mortgage payments against their deposits. The amount exposed to setoff risk will crystallize at the point of the borrowers' notification. Deposit setoff risk is considered in the minimum seller share and is re-evaluated on an ongoing basis.	We have considered this risk in our cash flow analysis by checking liquidity for deposits above £85,000, which is the amount covered by the Financial Services Compensation Scheme.
Loans without full valuation and legacy valuations	Of the loans in the pool, only 77.6% had a full valuation. Some historical loan valuations may have been aggressive.	As valuations for legacy loans originated before the global financial crisis may have been overstated, we have mitigated this risk in our credit analysis by applying a 15% valuation haircut to properties without a full valuation and a 10% haircut to those with a full valuation.
Pay rate volatility	Of the loans in the pool with more than three months in arrears, 80.43% have a payrate above 70.00%.	We have accounted for this risk in our credit analysis by giving no credit to these levels at 'AAA' and 'AA'. We revised the arrears adjustment from the 'A' stress level to the 'B' stress level for borrowers who have been in arrears for more than three months but maintain a pay rate greater than 70%, but not below this level.

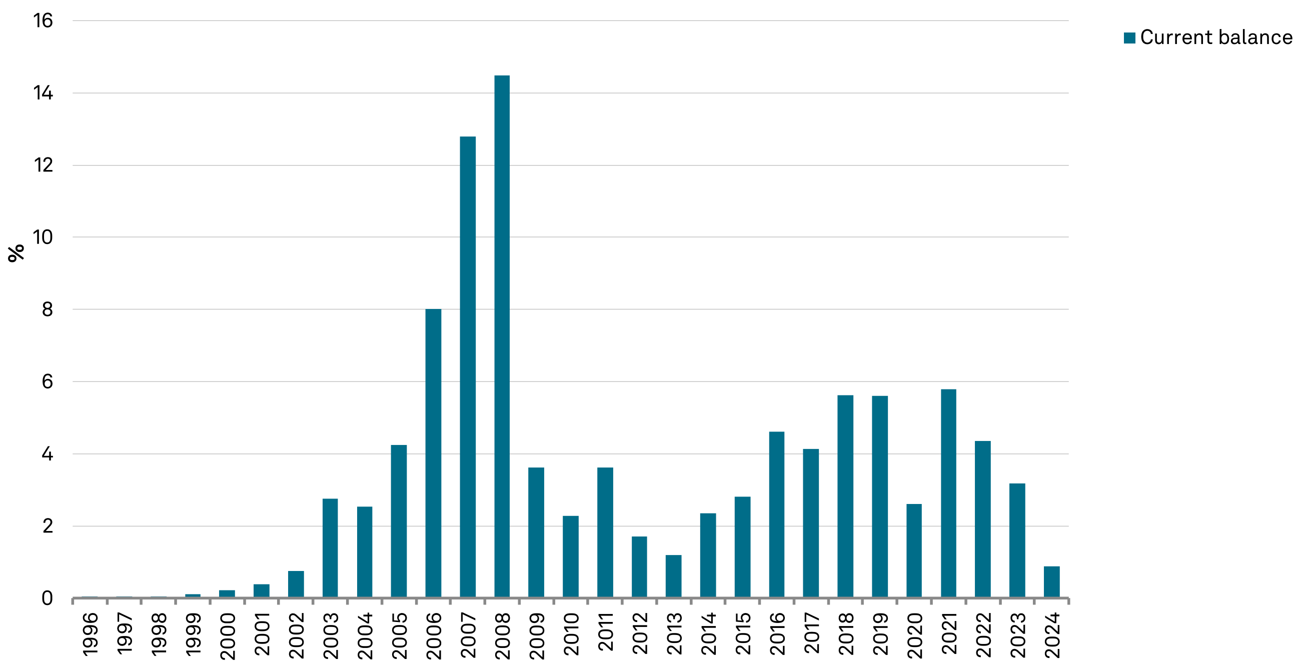
Origination, Collateral, And Servicing

Originators

Santander UK PLC originated the loans in the portfolio between 1996 and 2024. It is the fourth-largest residential mortgage lender in the U.K. based on the mortgage stock. Its principal activity is retail banking, which includes residential mortgage lending. We consider Santander UK's underwriting standards to be among the best in the market.

Chart 1

Origination years



Valuations generally require a full internal inspection and there is limited usage of automated valuation model (AVM) valuations. AVM valuations (9.13%) are used based on accuracy and confidence criteria, considering factors like the LTV ratio, the property type, and location. Their performance is reviewed quarterly through blind comparisons with surveyor valuations to ensure reliability.

The overall performance of the pool has displayed higher arrears levels than the originator's wider book. A total of 19.6% of the pool is in arrears, with 8.6% of loans delinquent by more than 90 days. We considered these arrear levels as well as potential future volatility.

In our view, the originator has appropriate specialist knowledge of the sectors it operates in.

Table 1

Key considerations

Description	Consideration
Collateral type	We consider the pool to have nonconforming characteristics.
Lending policy versus peers and market standards	The lending policy is overall better than that of a nonconforming lender, though the actual level of arrears reflects the legacy nature of the loan book.
Track record and experience	Santander UK is an established player in the U.K. mortgage market, with a long track record of performance through various economic cycles.
Historical performance	The historical performance of this nonconforming collateral has been relatively in line with peers. We have received performance data since 2018. Overall, the arrears performance of the loans has improved over the past two years, but remains in line with market standards. This is likely due to the cost of living crisis, which would have been felt more strongly by these types of borrowers, as well as the previously rising interest rate environment. With rates now starting to decline, the pressure on borrowers may begin to ease.
Data adequacy	The data provided meets our minimum requirements.
Qualitative factors not captured above	N/A

N/A--Not applicable.

Servicer

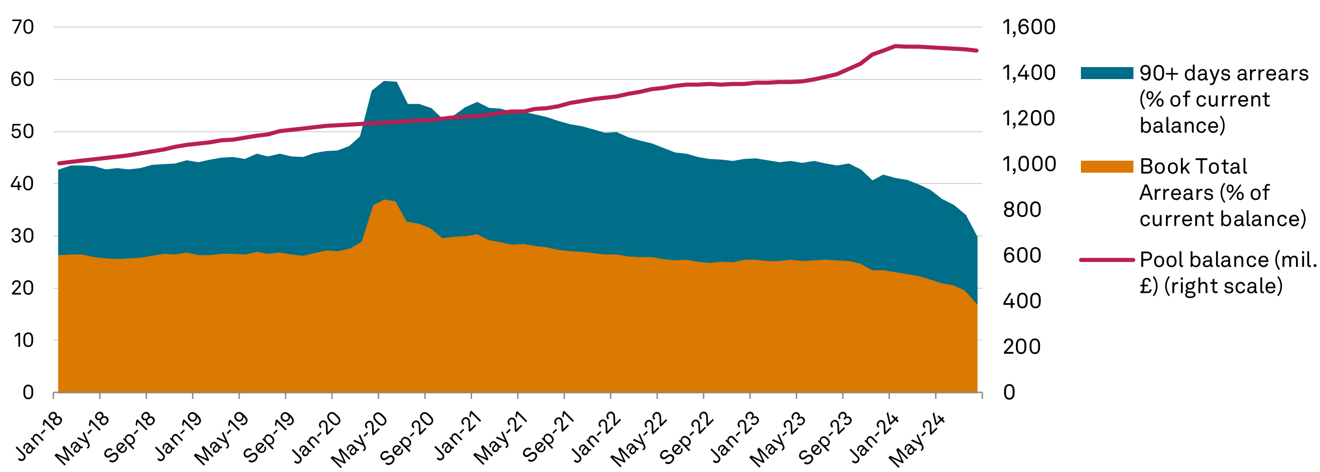
Santander UK services the loans in the pool.

As part of our analysis for this transaction, we examined Santander UK's servicing and default management processes. We view that it has well-established servicing operations with systems and staffing in place capable of adequately servicing the portfolio, in particular the current arrears levels. Although it plans for flat arrears in 2025, the business does allow for increased surge capacity without additional recruitment.

Historical performance

Chart 2

Historical delinquency performance of the pool



Collateral Characteristics And Peer Comparisons

We received loan-level data as of Nov. 30, 2024.

We received a 99/1 pool audit report, which indicated several exceptions on key fields in our analysis. Therefore, we adjusted our weighted-average foreclosure frequency (WAFF). However, we also considered the loans' high seasoning as one of the mitigants to the audit findings.

As of the Nov. 30, 2024, pool cutoff date, the pool of £584,829,344 comprised 6,667 loans secured on owner-occupied (95.8%) and BTL (4.2%) (mainly in the South East, North West, and Greater London; see table 2). The transaction comprises loans originated between 1993 and 2024.

Table 2

Collateral characteristics and peer comparisons*

	Hazel Residential PLC	Polaris 2025-1 PLC	Barrow Funding PLC
Jurisdiction	U.K.	U.K.	U.K.
Originator(s)	Santander UK PLC	UK Mortgage Lending Ltd.	Bank of Scotland
Collateral characteristics			
Pool cutoff date	Nov. 30, 2024	Dec. 31, 2024	March 31, 2024
Principal outstanding of the pool (mil. £)	584.8	549.4	1.004
Number of loans	6,667	3,557	7,826
Average loan balance (£)	87,720	154,267	128,409
WA indexed current LTV ratio (%)	49	64.2	44.9
WA original LTV ratio (%)	77.3	65.00	83.8
WA seasoning (months)	149	8	217
First-time buyers (%)	24.5	37.5	18.2
Buy-to-let (%)	4.2	0.00	1.8
Restructured (ever) (%)	17.9	0.00	0.00
Reperforming adjustment (%)	0.00	0.00	2
Interest only or part-and-part (%)	42.3	6.7	87.2
Jumbo valuations (%)	7.2	3.8	19.1
Over/under valuation (%)	35.1	30.3	32
Current arrears greater than or equal to one month (%)	19.6	2.3	19.6
Geographic concentration (by balance)			
First	Greater London (26.9%)	South East (23.6%)	Greater London (28.3%)
Second	South East (23.3%)	North West (13.8%)	South East (12.2%)
Third	North West (9.5%)	South West (10.8%)	North West (7.9%)
Credit assumptions			
Portfolio WAFF (%)			
AAA	29.19	32.65	9.53
AA	23.42	25.41	5.95
A	17.20	16.00	2.75
BBB	13.41	11.51	1.54

Table 2

Collateral characteristics and peer comparisons* (cont.)			
BB	9.57	8.83	0.85
B	8.61	6.74	0.58
Portfolio WALS (%)			
AAA	32.65	38.63	40.08
AA	25.41	32.32	35.89
A	16.00	22.95	33.52
BBB	11.51	17.70	31.03
BB	8.83	14.07	28.17
B	6.74	10.85	27.52
Credit coverage (%)			
AAA	9.74	11.21	11.71
AA	6.08	6.44	6.80
A	2.81	3.51	3.69
BBB	1.58	1.87	2.01
BB	0.86	0.82	0.91
B	0.59	0.50	0.58

*Calculations are according to S&P Global Ratings' methodology. LTV--Loan-to-value. WA--Weighted-average. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Credit Analysis And Assumptions

We applied our global residential loans criteria to the provisional pool to derive the WAFF and the weighted-average loss severity (WALS) at each rating level (see table 3). The WAFF and 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. Our credit analysis reflects the characteristics of the loans, properties, and associated borrowers.

Table 3

Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	29.19	32.65	9.53
AA	23.42	25.41	5.95
A	17.20	16.00	2.75
BBB	13.41	11.51	1.54
BB	9.57	8.83	0.85
B	8.61	6.74	0.58

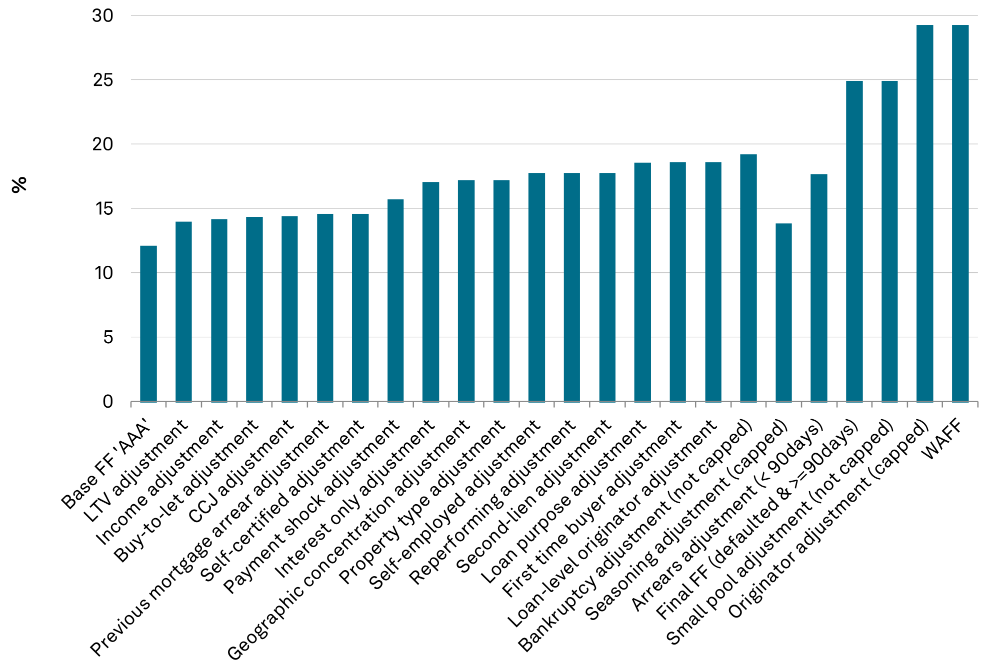
WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Foreclosure frequency

Our current 'B' foreclosure frequency assumption for the U.K. archetypal pool is 1.75% and our base 'AAA' foreclosure frequency assumption is 12.0% (see "Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts," published on May 1, 2020). Chart 3 and table 4 summarize how the base 'AAA' foreclosure frequency has been adjusted to account for the characteristics of the securitized portfolio.

Chart 3

'AAA' cumulative WAFF distribution



WAFF--Weighted-average foreclosure frequency. FF--Foreclosure frequency. LTV--Loan to value. CCJ--County court judgment.

Table 4

WAFF adjustments

Factor	Description	Adjustment	Cumulative WAFF (%)
Base WAFF	Archetypical pool.	N/A	12.000
LTV ratio	The original LTV ratios and current LTV ratios were used to calculate the WAFF for the pool.	1.156x	13.875
Income	Of the pool, 42.7% attracted our highest income adjustment.	1.016x	14.093
BTL	There are 4.2% of BTL properties in the pool.	1.017x	14.284
CCJ	Of the pool, 2.9% receive a CCJ adjustment.	1.002x	14.306
Previous mortgage arrears	We applied an adjustment to the borrowers that were previously in arrears by more than three months and are now performing (0.5%).	1.015x	14.487
Self-certified	None of the loans in the pool are marked as self-certified loans.	1.000x	14.487
Payment shock	A high proportion of fixed-rate loans revert to higher reversionary rates. For these loans, we have applied a lower payment shock adjustment	1.077x	15.630
Interest-only	Of the pool, 42.3% are interest-only loans.	1.094x	16.967
Geographic concentration	Of the pool, 0.9% are above the geographic area threshold for Greater London, hence we apply an adjustment to that excess.	1.009x	17.102
Property type	There are no commercial properties in this portfolio.	1.000x	17.102
Self-employed	We applied our adjustment for self-employed borrowers to 30% of the pool.	1.039x	17.704

Table 4

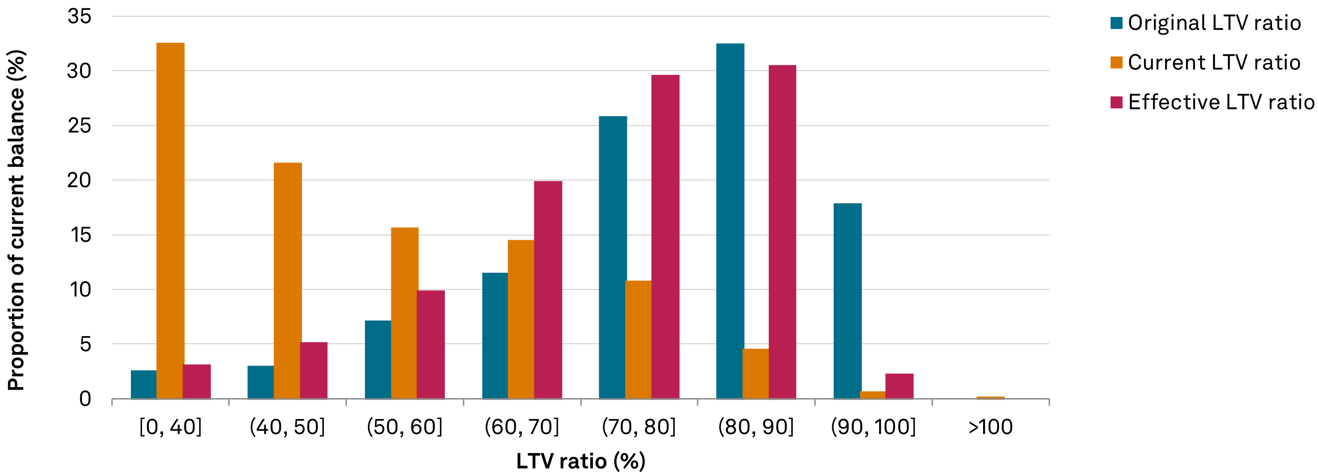
WAFF adjustments (cont.)

Factor	Description	Adjustment	Cumulative WAFF (%)
Reperforming	In line with our criteria, we consider the reperforming date to be the most recent of the latest restructure date or the date on which the loan was in 90+ days in arrears. A loan will only attract this adjustment if it is currently performing and the appropriate date is within the last five years. In this pool, none of the loans attract our reperforming adjustment.	1.000x	17.704
Second-lien	There are no second-lien loans present in the pool.	1.000x	17.704
Loan purpose	Of the loans, 62.8% are for property purchase, while 24.5% are remortgage loans that went through a full underwriting process. We therefore did not apply any adjustment. However, we have applied an adjustment for the portion of the pool classified as cash-out (12.7%) and debt consolidation (13.4%)	1.053x	18.467
First-time buyer	This adjustment is applied only to first-time buyers with seasoning less than 18 months. We applied our adjustment to 1.4% of the pool.	1.001x	18.505
Bankruptcy (not capped)	6.7% present in the pool.	1.033x	19.110
Seasoning (capped)	The transaction comprises loans originated between 1993 and 2024, with a weighted-average seasoning of 146 months. 10.1% of the loans have a seasoning between two and four years. Any loans that have been restructured or have been in arrears for more than three months receive seasoning credit from those dates.	0.703x	13.761
Arrears (<90 days)	The provisional pool includes 11% loans of greater than or equal to one month in arrears, but less than three months in arrears.	1.239x	17.590
Final foreclosure frequency (defaulted and >=90 days)	Of the pool, 8.6% have arrears in the 90+ day bucket.	100% foreclosure frequency to all loans defaulted or in arrears for three months or greater (1.412x)	24.846
Loan-level originator adjustment	We apply multiple layers of adjustments through the originator adjustment to reflect different risks that we consider material in the assets.This adjustment includes adjustments for the quality of the origination of the assets, the strength of the representations and warranties within the documentation, the audit reports conducted on the assets, and other data adjustments.The originator adjustment seen here is in line with similar collateral and peer transactions.	1.200x	29.195
'AAA' WAFF	Actual collateral pool.	N/A	29.195

WAFF--Weighted-average foreclosure frequency. N/A--Not applicable. LTV--Loan-to-value. BTL--Buy-to-let.

Chart 4

Original, effective, and current LTV ratio distribution



LTV--Loan-to-value.

Chart 5

Repayment type distribution

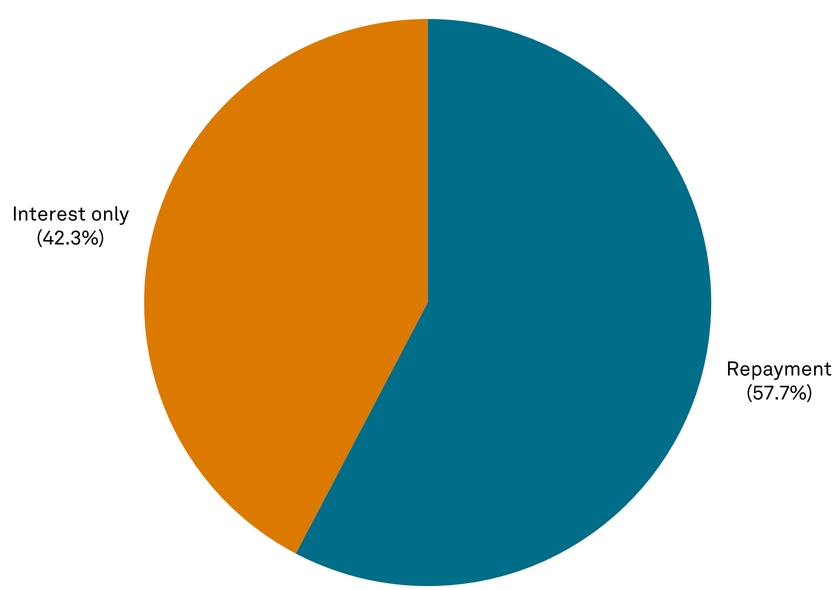


Table 5

Geographic distribution

Region	Percentage of the pool (%)
East Anglia	2.98
East Midlands	3.79
Greater London	26.94
North	3.00
North West	9.53
Northern Ireland	9.36
Scotland	4.42
South East	23.26
South West	5.05
Wales	3.14
West Midlands	4.81
Yorks And Humber	3.72

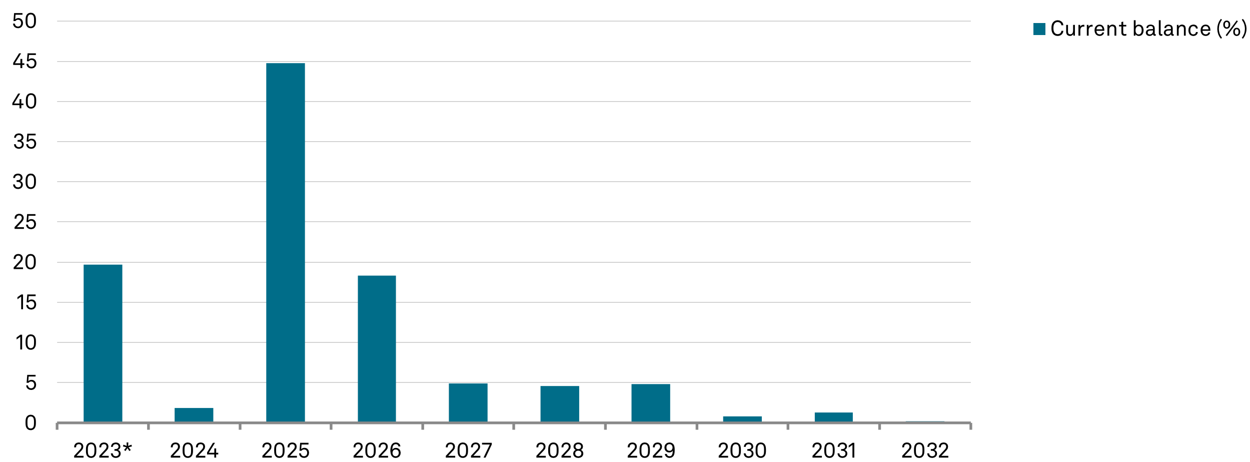
Most (75.45%) of the assets within the closing pool pay an initial fixed interest rate and then revert to paying a standard variable rate (SVR) rate or the Bank of England Base Rate (BBR) plus a contractual margin. These loans will revert to higher reversionary rates when incorporating the new indices. Therefore, borrowers who are not able to refinance might be exposed to a payment shock. We adjusted our foreclosure frequency assumptions accordingly.

As Santander UK stresses affordability for all the fixed-float loans, these will be less affected by a payment shock. Therefore, we applied a lower payment shock adjustment.

All the fixed-rate loans have a reversionary date within the next five years, with a large amount reverting in 2025 and 2026. As a result, we have performed additional sensitivities with higher conditional prepayment rates (CPRs) to compress excess spread (see "Prepayments").

Chart 6

Interest revision schedule



*2023 includes anything before Dec. 3, 2024, including the loans that do not revert.

Loss severity

Our base 'B' market value decline (MVD) is 15% and our base 'AAA' MVD is 40% (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). Table 6 provides details used in the derivation of the stressed repossession MVD (RMVD).

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Table 6

Repossession market value decline (RMVD) adjustments

Rating category	Base fixed MVD (%)	Over/undervaluation (%)	Forced sale discount (%)	Jumbo valuations adjustment	RMVD (%)*
AAA	40.0	17.53	10.0	1.0x	62.17
AA	36.0	15.07	11.0	1.0x	56.88
A	28.0	12.62	12.0	1.0x	48.18
BBB	23.0	10.52	13.0	1.0x	42.59
BB	19.0	8.77	14.0	1.0x	38.31
B	15.0	7.01	15.0	1.0x	34.14

*RMVD = 1-[1-(Fixed MVD+/-percentage of over/undervaluation x over/undervaluation)] x (1-FSD), plus any additional repossession MVD adjustment factors such as jumbo valuations. MVD--Market value decline. RMVD--Repossession market value decline.

The weighted-average indexed current LTV ratio stands at 49.48% and the weighted-average original LTV ratio 77.33%.

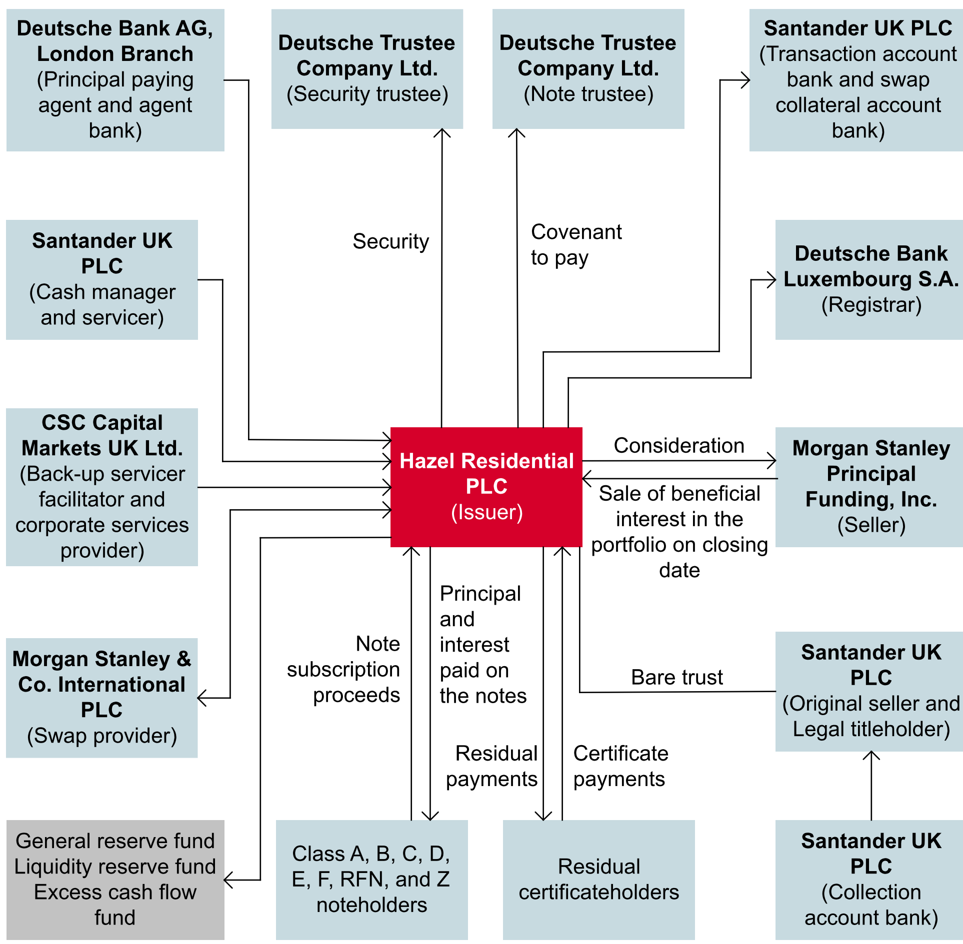
We have capped the original LTV ratio at the borrower level at 100% because the loan underwriting criteria at origination did not allow for lending above 100%. Borrowers with minimal equity in their property are more likely to default on their obligations than borrowers with more equity. At the same time, loans with high current LTV ratios are likely to incur greater loss severities if the borrower defaults.

In addition, we applied a 15% valuation haircut to properties without a full valuation and a 10% haircut to others, given the number of legacy valuations carried out before the global financial crisis.

Transaction Structure

Chart 7

Transaction structure



The issuer is an English special-purpose entity (SPE), which we consider to be bankruptcy remote, after our review of the executed transaction documents and legal opinions. We received legal opinions that provide comfort that the sale of the receivables would survive the seller's insolvency.

There are no rating constraints under our counterparty, operational risk, legal, or structured finance sovereign risk criteria.

Payment Structure And Cash Flow Mechanics

Collections

Borrowers pay into collection accounts held with Santander UK in the name of the legal titleholder.

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 that collections could be delayed in an insolvency. We therefore applied a liquidity stress of one month of collections.

Available revenue funds

The issuer's available revenue funds primarily comprise interest collections, amounts received under the swap, recoveries on defaulted loans (with principal recoveries allocated to principal, and interest recoveries allocated to interest in the respective waterfall), the general reserve fund, the liquidity reserve fund, and, if necessary, principal reallocated to cover any senior fees or interest shortfalls on the class A Loan and class A notes. The class A Loan and the class A notes (hereinafter referred to as the class A debt) always rank pro rata and pari passu without preference or priority among themselves in relation to payment of interest and principal.

Principal borrowing can be used to pay interest and senior expenses with no condition, while on the other classes of notes--except the class Z and RFN-Dfrd notes--when they become the most senior class outstanding.

The excess cash flow reserve fund is funded from available revenue receipts up to the step-up date and is used to cover shortfalls in interest payments on the class RFN-Dfrd and Z notes. After the step-up date, any remaining funds will be applied as principal.

Available principal funds

The issuer's available principal funds primarily comprise principal collections and amounts applied to credit principal deficiency ledgers (PDLs) in the interest waterfall.

Pre-enforcement priority of payments

There are separate waterfalls for interest (revenue) and principal collections. On each quarterly payment date, the issuer will apply the available revenue and principal funds in the priority shown in table 7.

Table 7

Priority of payments

Revenue priority of payments	Principal priority of payments
Interim funding cost (only to the first IPD)	Principal addition amounts to be applied to meet any senior expenses deficit
Senior fees and expenses (including servicing fees)	Class A debt's principal
Issuer profit amount payable to the swap counterparty under the swap agreement amounts	Class B-Dfrd notes' principal
Class A debt's interest	Class C-Dfrd notes' principal
Class A debt's PDL	Class D-Dfrd notes' principal

Table 7

Priority of payments (cont.)

Revenue priority of payments	Principal priority of payments
Top up the liquidity reserve fund	Class E-Dfrd notes' principal
Class B-Dfrd notes' interest	Class F-Dfrd notes' principal
Class B-Dfrd notes' PDL	Class RFN-Dfrd notes' interest and principal
Class C-Dfrd notes' interest	Class Z notes' interest and principal
Class C-Dfrd notes' PDL	All remaining excess amounts to be applied as available revenue receipts and to be applied by the pre-enforcement revenue priority of payments
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Class E-Dfrd notes' interest	
Class E-Dfrd notes' PDL	
Class F-Dfrd notes' interest	
Class F-Dfrd notes' PDL	
Class Z notes' PDL	
Top up the general reserve fund	
Swap subordinated amounts	
Class RFN-Dfrd notes' interest	
From and excluding the step-up date, all remaining available revenue receipts to be applied as available principal receipts until the class A debt to RFN-Dfrd notes have been fully redeemed	
Class Z notes' interest	
From and including the step-up date, top up to the excess cash flow reserve fund with the reminder of any available revenue receipts	
Excess to residual certificates	

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

Table 8

Payment structure details

Note terms	
Payment frequency	Quarterly
First interest payment date	June 25, 2025
Interest rate	Compounded daily SONIA plus a margin
Optional call	From the first optional redemption date or any IPD after that, the issuer may redeem the notes in full using proceeds from the mortgage pool sale.
Step-up date and first optional redemption date	March 2028
Legal final maturity date	December 2068
Liquidity reserve	
Initial amount	It was funded at closing from part of the proceeds of the class RFN-Dfrd notes.
Required amount	1.5% of the class A debt balance on each IPD.
Amortizing	Yes
Amortizing conditions	The excess will be released to the interest waterfall.
Available for	Payment of senior fees and expenses and issuer profit and class A debt's interest.
Additional details	The excess will be released to the interest waterfall.

Table 8

Payment structure details (cont.)	
General reserve	
Initial amount	Funded at closing through class RFN-Dfrd notes
Required amount	1.5% of the original class A debt to Z notes' balance (excluding the class RFN-Dfrd notes) less the current liquidity reserve required amount.
Amortizing	Increasing in size due to the liquidity reserve amortization
Amortizing conditions	It will be released after the class F-Dfrd notes are paid down.
Available for	Payment of senior fees and expenses and issuer profit, top up of the liquidity reserve, class A debt to F-Dfrd notes' interest and PDL, and class Z PDL.
Additional details	The excess will be released to the principal waterfall, only once the class F notes are redeemed.
Principal deficiency ledgers	
Number of ledgers	Seven. One for each class of the mortgage-backed notes (excluding the class RFN-Dfrd notes)
PDL amounts to be recorded	The PDLs will be loss-based. Any losses resulting from the liquidation of repossessed properties, as well as any amount of principal diverted to the revenue priority of payments will be recorded in the PDL. The PDL will be split into a sub-ledger for each class of asset-backed notes.

SONIA--Sterling Overnight Index Average. IPD--Interest payment date. PDL--Principal deficiency ledger.

Principal to pay interest

In high-delinquency scenarios, there may be liquidity stresses where the issuer would not have sufficient revenue receipts to pay senior fees or interest on the outstanding classes of notes. 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 debt. In addition, it can use them to pay interest on the other classes of notes--except the class RFN-Dfrd and Z notes (although both classes can be paid down in the principal waterfall regardless)--when they become the most senior class outstanding. The use of principal to pay interest would result in the registering of a debit in the PDL and may reduce the credit enhancement available to the notes.

Events of default

We view all events of default as ratings remote and, therefore, do not factor the post-enforcement priority of payments into our analysis. The events of default include, among others, a default in the payment of interest on the class A debt on any IPD when they are the most senior notes outstanding or a failure to pay principal when due. However, deferring interest on the class B-Dfrd to F-Dfrd notes when they are the most senior notes outstanding will constitute an event of default.

Early redemption

The notes may be redeemed upon the exercise of a mortgage pool option holder's optional redemption, a risk retention regulatory change call option, or a tax call option. In each case, redemption requires sufficient funds to repay all outstanding notes at par, along with accrued and unpaid interest, and to cover any other associated costs or payments required under the priority of payments.

Cash Flow Modeling Assumptions

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 timely payment of interest and ultimate payment of principal on the class A debt, and they reflect ultimate payment of interest and principal on all other rated notes.

Our standard cash flow analysis indicates that the available credit enhancement for the class C-Dfrd, D-Dfrd, E-Dfrd, and F-Dfrd notes is commensurate with higher ratings than those currently assigned.

However, the ratings on these notes also reflect the results of sensitivities related to higher levels of defaults, extended recoveries, as well as sensitivity to reductions in excess spread caused by prepayments.

Interest rate risk and hedging

Interest will be paid quarterly, beginning in June 2025.

Most of the pool (75.45%) will bear a fixed interest rate, which will switch to a floating interest rate at a later stage. Given the rated notes will receive a floating coupon based on compounded daily Sterling Overnight Index Average (SONIA), the transaction is exposed to interest rate risk. To address this risk, the issuer entered into a fixed-floating balance guaranteed 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 will vary based on the fixed-rate loan amount, subject to an upper and lower band, which we have modeled in our cash flows.

When the fixed-rate loans switch to floating, the transaction will be exposed to basis risk between the compounded daily SONIA index paid on the notes and the indices applied the loans. The index will be either BBR plus a margin or SVR.

We applied rating-specific haircuts in our cash flows to account for the fact that the lender may change its SVR at any time and for a variety of reasons. The SVR is based on SONIA plus a credit adjustment spread determined according to Santander UK's funding costs.

Table 9

Cash flow modeling assumptions	
Spread compression	
Applied	Yes, as the asset yield on the pool can decrease if higher-paying assets default or prepay.
Details	We have incorporated this in our cash flow analysis by assuming that the weighted-average yield on the portfolio drops by 0.430% at the 'AAA' rating level, 0.033% at the 'AA' rating level, 0.230% at the 'A' rating level, 0.180% at the 'BBB' rating level, 0.120% at the 'BB' rating level, and 0.11% at the 'B' rating level.
Fees modelled	
Servicing fee	0.40%, which is the higher of 1.5x of the actual fees and 0.40% of the pool balance as per our global RMBS criteria. The higher fee is applied to account for the potential increase in costs to attract a replacement servicer.
Fixed fees	£200,000 per year.
Bank account replacement costs	£100,000 one-off fee.

Table 9

Cash flow modeling assumptions (cont.)

Commingling risk	
Details	Liquidity stress applied equal to one month of collections, which is returned after four periods.
Setoff risk	
Details	Santander UK is a deposit-taking institution. As a result, the transaction is exposed to deposit setoff risk. Legally we have received comfort that the U.K. government bank deposit scheme would cover any setoff risk for deposits up to £85,000. All excess deposit are very minimal, hence we do not stress any setoffs.

Table 10

Default curves

Front-loaded and back-loaded

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

Prepayment assumptions

	High (%)	Low (%)*
Pre-recession	30.0	4.0
During recession	3.0	3.0
Post-recession	30.0	4.0

*See "Prepayments" for further description on the level of low prepayments modeled. WAFF--Weighted-average foreclosure frequency.

Default and recovery timings

We used the WAFF and WALS derived in our credit analysis as inputs in our cash flow analysis. At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction's life. Defaults are applied on the outstanding balance of the assets as of the closing date (see table 10). We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period (see table 10). During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years. We assume recoveries on the defaulted assets will be received 12 months after default for BTL properties and after 18 months for owner-occupied. The weighted-average period used for this pool is 18 months.

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

Prepayments

To assess the effect 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 11). A high proportion of fixed-rate loans have a discount period reverting in 2025 and 2026, which could increase prepayments and reduce the asset yield. As a result, we have tested additional sensitivities with higher CPR and the assigned ratings remain robust to the result of these sensitivities.

Interest rates

We modeled two interest rate scenarios in our analysis: up and down.

Summary

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

Table 11

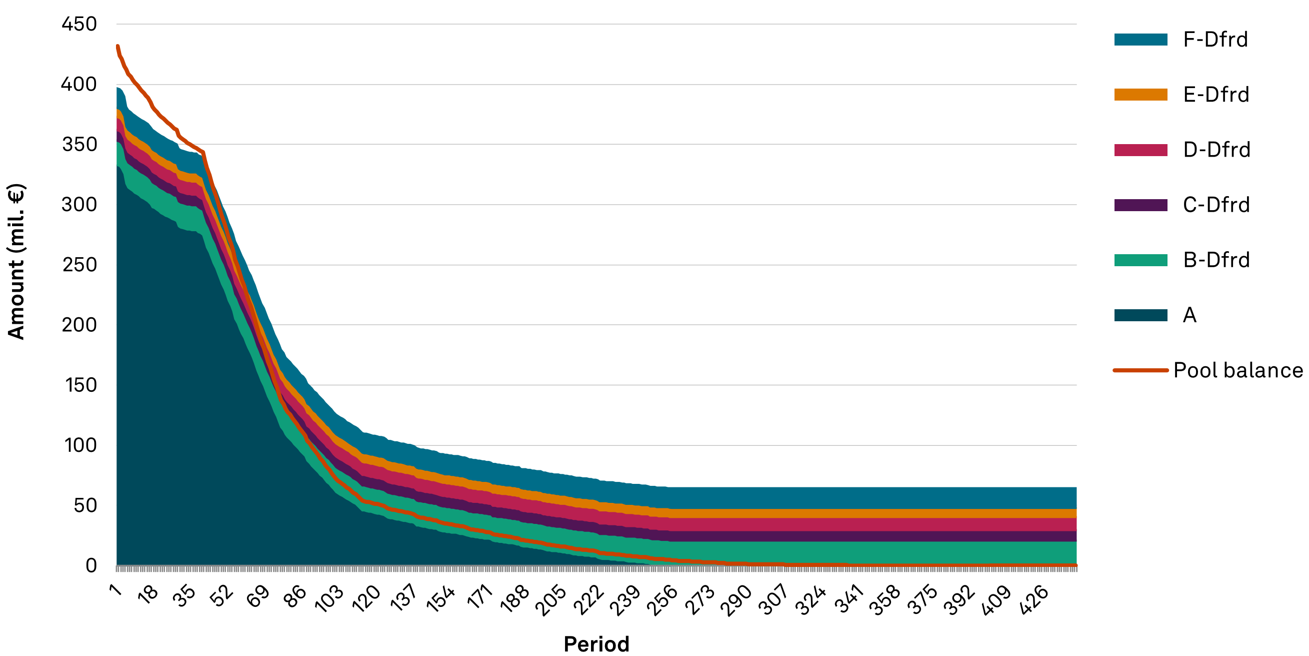
RMBS stress scenarios

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

The modeled amortization of the notes under our 'AAA' stress is shown in chart 7. The driving cash flow run for 'AAA' is low prepayments, rising interest rates, and front-loaded defaults.

Chart 8

Note amortization profile



Excess spread

Excess spread is created through the difference between the asset's yield and the issuer's expenses. Table 12 outlines the initial excess spread estimate. The pool yield includes the adjusted interest rates effective February 2025.

Table 12

Initial excess spread (estimate)*

	Pool (%)
Pool yield	5.51
Swap inflows to the issuer	3.63
Less the weighted-average note coupon (pre-step-up)	5.87
Less swap outflows from the issuer	2.27
Senior fees	0.40§
Excess spread remaining	0.60

*Excess spread calculations are according to our methodology. §0.40% senior servicing fee plus £200,000 annual fees. Three-months compounded SONIA of 4.8% assumed.

Counterparty Risk

The issuer is exposed to Santander UK as the transaction account provider and the collection account provider, Morgan Stanley & Co. International PLC as the swap counterparty. The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk, in line with our counterparty criteria.

Table 13

Supporting ratings

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Santander UK PLC as the collection account bank and transaction account provider	A/Stable/A-1 (ICR)	A/A-1 (or 'A+' if a short-term rating is not available)	60 calendar days	AAA
Swap Provider	A+/-- /A-1(RCR)	A	90 calendar days	AAA

ICR--Issuer credit rating. RCR--Resolution counterparty rating.

Commingling risk

Borrowers pay into collection accounts held with Santander UK 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. 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 that collections could be delayed in an insolvency. We therefore applied a liquidity stress of one month of collections.

Hedging Features

Table 14

Details of the hedging features	
Type of hedging instrument	Interest rate swap instrument. The instrument minimizes the exposure of the assets paying a fixed interest rate pre-reversion and the liabilities paying daily compounded SONIA. The notional of the swap amortizes in line with the assets of the pool paying a fixed rate, subject to an upper and lower band.
Collateral posting triggers	In line with counterparty criteria
Replacement triggers	In line with counterparty criteria
Modeled in our cash flow analysis	Yes

Sovereign Risk

Table 15

Details of sovereign risk	
Jurisdiction	U.K.
Long-term sovereign credit rating	AA
Rating constrained by sovereign risk criteria	No

Scenario Analysis

Downside scenario

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 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.

In our view, the ability of the borrowers to repay their mortgage loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate, consumer price inflation and interest rates. Given the loans in the transaction will revert to floating within five years, we believe material interest rates increases will have a negative effect on these borrowers' ability to service their loans. As of today, our policy interest rate forecast for the U.K. is 3.75% by the end of 2025, and our forecast for unemployment is 4.1%.

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

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

We therefore ran eight scenarios with increased defaults and higher loss severity, as shown in table 16.

Table 16

Sensitivity analysis

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

		Scenario							
Class of notes	Initial rating	1	2	3	4	5	6	7	8
A	AAA	AA+	AA+	AA+	AA+	AA+	AA	AA	AA
B-Dfrd	AA	AA	AA-	AA	AA	AA	AA-	AA-	A+
C-Dfrd	A	A	A	A	A	A	A	A	A-
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	'B-' or below	B	B	B	'B-' or below	'B-' or below	'B-' or below
RFN	B-	'B-' or below	'B-' or below	'B-' or below	'B-' or below	'B-' or below	'B-' or below	'B-' or below	'B-' or below

No change

One-notch downgrade

Two-notch downgrade

Three-notch or more downgrade

Source: S&P Global Ratings.

The results of the above sensitivity analysis indicate a deterioration of no more than one category for the notes, which is in line with the credit stability considerations in our rating definitions.

A general downturn of the housing market may delay recoveries. We have also run extended recovery timings to understand the transaction's sensitivity to liquidity risk.

The transaction embeds some strengths that may offset deteriorating collateral performance. Given its sequential amortization, credit enhancement is expected to build-up over time. The existence of both a liquidity general reserve and liquidity funds may, to a certain extent, insulate the notes against credit losses and liquidity stresses. In addition, the interest rate swap mitigates the effect on note coupon payments from rising daily compounded SONIA rates that they are linked to.

The class RFN-Dfrd notes did not pass any of the rating scenario stresses, but they do pass our steady state scenarios. However, because our rating on these notes addresses ultimate payment of principal and interest, we believe default is not virtually imminent, as the notes can continue to defer interest until maturity. Under our 'CCC' criteria, we think these notes will not require favorable economic conditions for repayment at maturity to occur (see "Related Criteria"). We therefore assigned a 'B- (sf)' rating.

Upside scenario

We could raise the ratings on the class B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, and F-Dfrd notes if credit enhancement builds as the transaction deleverages, or if the credit quality of the collateral pool improves over time, such as through lower arrears and current LTV ratios.

Environmental, Social, And Governance

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). For this transaction, we view the exposure to environmental credit factors as average, in line with the benchmark, as the pool is diversified geographically and does not have concentration risk. Social credit factors are considered above average, in line with the benchmark, because housing is viewed as one of the most basic human needs. Conduct risk presents a direct social exposure for lenders and servicers, particularly as regulators are increasingly focused on ensuring fair treatment of borrowers, predominately retail ones. Aggressive collection practices would increase legal and regulatory risks.

We view the exposure to governance factors as below average because, in line with other structured finance transactions, there are strong governance frameworks through, for example, the generally very tight restrictions on what activities the SPE can undertake, compared with other entities.

Appendix 1

Table 17

Transaction participants

Role	Participant
Issuer	Hazel Residential PLC
Holdings	Hazel Residential Holdings Ltd.
Original seller and legal titleholder	Santander UK PLC
Seller	Morgan Stanley Principal Funding Inc.
Servicer	Santander UK PLC
Cash manager	Santander UK PLC
Transaction account provider	Santander UK PLC
Swap collateral account bank	Santander UK PLC
Collection account bank	Santander UK PLC
Swap counterparty	Morgan Stanley & Co. International PLC
Back-up servicer	CSC Capital Markets UK Ltd.
Security trustee	Deutsche Trustee Co. Ltd.
Note trustee	Deutsche Trustee Co. Ltd.
Principal paying agent and agent bank	Deutsche Bank AG (London Branch)

Table 17

Transaction participants (cont.)

Role	Participant
Corporate services provider	CSC Capital Markets UK Ltd.
Share trustee	CSC Corporate Services (UK) Ltd.
Arranger and lead manager	Morgan Stanley & Co. International PLC
Lead manager	BofA Securities

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
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European RMBS Index Report Q4 2024, Feb. 20, 2025
- Highlights From S&P Global Ratings' European Structured Finance Conference 2024, Sept. 9, 2024
- Sector And Industry Variables Updated For European RMBS Criteria, July 26, 2024
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017

- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016