S&P Global
Ratings

Research

New Issue: Castell 2025-1 PLC

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New Issue: Castell 2025-1 PLC

Ratings Detail

Transaction profile	
Issuer	Castell 2025-1 PLC
Collateral type	RMBS prime second-lien mortgages
Domicile of assets	U.K.
Seller	UK Seconds Lending Ltd.
Servicer	Pepper (UK) Ltd.
Counterparties	Citibank N.A., National Westminster Bank PLC, and Lloyds Bank Corporate Markets PLC

Capital structure

Class	Rating	Amount (mil. £)	Credit enhancement (%)	Coupon	Step-up coupon	Step-up date	Legal final maturity
A	AAA (sf)	256.36	24.60	Daily Compounded SONIA + 0.97%	Daily Compounded SONIA + 1.94%	January 2029	January 2062
B-Dfrd*	AA (sf)	28.22	16.30	Daily Compounded SONIA + 1.25%	Daily Compounded SONIA + 2.25%	January 2029	January 2062
C-Dfrd*	A (sf)	14.96	11.90	Daily Compounded SONIA + 1.55%	Daily Compounded SONIA + 2.55%	January 2029	January 2062
D-Dfrd*	BBB (sf)	14.45	7.65	Daily Compounded SONIA + 2.00%	Daily Compounded SONIA + 3.00%	January 2029	January 2062
E-Dfrd*	BB (sf)	12.24	4.05	Daily Compounded SONIA + 3.50%	Daily Compounded SONIA + 4.50%	January 2029	January 2062
F-Dfrd*	B+ (sf)	3.57	3.00	Daily Compounded SONIA + 4.62%	Daily Compounded SONIA + 5.62%	January 2029	January 2062
G	NR	3.40	2.00	Daily Compounded SONIA + 6.32%	Daily Compounded SONIA + 7.32%	January 2029	January 2062
H	NR	6.80	0.00	Daily Compounded SONIA	Daily Compounded SONIA	January 2029	January 2062
X1-Dfrd*	B (sf)	15.30	0.00	Daily Compounded SONIA + 4.15%	Daily Compounded SONIA + 4.15%	January 2029	January 2062
X2	NR	5.10	0.00	Daily Compounded SONIA + 4.15%	Daily Compounded SONIA + 4.15%	January 2029	January 2062
RC1 Certificates	NR	N/A	N/A	N/A	N/A	N/A	N/A
RC2 Certificates	NR	N/A	N/A	N/A	N/A	N/A	N/A

*Our rating on this class considers the potential deferral of interest payments. Our ratings also address timely interest on the rated notes when they become most senior outstanding. Any deferred interest is due immediately. SONIA--Sterling Overnight Index Average. NR--Not rated. N/A--Not applicable.

The Credit Story

Castell 2025-1 PLC is an RMBS transaction securitizing a portfolio of owner-occupied second-lien mortgage loans secured against properties in the U.K.

Of the loans in the pool, 99.9% were originated in the past two years by UK Mortgage Lending Ltd., which is wholly owned by Pepper Money (PMB) Ltd.

Prefunding of loans of up to 15% of the collateralized notes balance will take place up to the second interest payment date (IPD) using prefunding reserves plus up to £5 million of principal collections received on the first IPD. If these loans are not purchased, any unused prefunding amount will pay down the collateralized notes pro rata, while the unused principal collections will pay the class A notes.

Credit strengths

Key factor	Description
Historical performance	The historical performance of the lender's mortgage book has proven relatively strong to date, with total arrears at 4.6% for second-lien mortgages. To date, the entire second-lien book has experienced five credit losses representing 0.003% of total originations.
Experienced servicer	The servicer, Pepper (UK) Ltd., is an established and leading U.K. servicer, on which we have an ABOVE AVERAGE ranking as a primary and special servicer of residential mortgage loans. We believe its team is experienced, and it has serviced several transactions that we rate. Since Pepper (UK) also provides third-party servicing, it has well-established and fully integrated servicing systems and policies.
Prime borrowers	Although 13.0% of the loans are advanced to near-prime borrowers on the "Optimum+" product, we consider the mortgage portfolio to be prime in nature. 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.
Limited risk indicators	Relative to second-lien loans originated before 2008, risk layering is low, loan-to-value (LTV) ratios are generally significantly lower, all loans are repayment loans (except 0.5% to borrowers who have an initial interest-only period), and adverse credit markers are limited.
Structural features	A reserve provides liquidity to the class A and B-Dfrd notes, with principal proceeds applied sequentially down the capital structure.
Hedging	A swap with a fixed schedule will hedge the mismatch between the interest rate paid under the loans (fixed rate until the start of the reversion period) and the interest rate paid on the notes (compounded daily SONIA).

SONIA--Sterling Overnight Index Average.

Credit concerns

Key factor	Description	Mitigant
Second liens	The portfolio is comprised entirely of second-lien loans, which, by their nature, rank behind a prior charge. We consider these loans to have increased default and loss severity risk.	We have analyzed the portfolio in line with our criteria which stresses the expected foreclosure on second-lien mortgages. To mitigate the increased risk the weighted-average current LTV ratio, based on the S&P Global Ratings rating methodology, is 63.2%. This is lower than that of similar prime U.K. mortgage portfolios.
Use of AVMs	UK Mortgage Lending makes significant use of automated valuation models (AVMs) in its underwriting, which are not as accurate as a physical valuation. AVMs are also used as an audit tool for other types of valuations.	We consider the use of AVMs to be well controlled, with only high confidence scores used up to strict valuation limits. In line with our criteria, we have stressed their use in our loss severity analysis using a valuation haircut.
Debt consolidation	The portfolio comprises 75.5% loans used for debt consolidation purposes, which we generally consider having a higher default risk.	We have factored this risk when calibrating the increase to default probabilities for second liens, by applying a 1.5x multiple.

Credit concerns (cont.)

Key factor	Description	Mitigant
Interest deferral	Under the transaction documents, interest payments on the class B-Dfrd 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 (except for the class B-Dfrd 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 outstanding. The assigned ratings remain robust to this potential lack of liquidity.
Interest rate reversion payment shock	Of the loans in the pool, 94.4% are fixed-to-floating-rate loans or discount loans. This can lead to a payment shock when the loans revert to a potentially higher rate.	Given that the reversion rate is 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 relatively low for these loans. We have considered this in our calibration of the payment shock adjustment.
Prefunding	The seller can sell a maximum of £56 million of loans up to the second IPD. Our analysis is based on the pool as of the cutoff date, which does not include any prefunded loans. The prefunded loans may lead to a deterioration in credit quality or reduction in post swap margin.	The prefunded loan eligibility criteria are in line with the portfolio credit characteristics, and we have modelled the documented minimum post swap margin.

Origination, Collateral, And Servicing

Originator

UK Mortgage Lending was founded in 2013 and began origination in 2014. It has since become a leading second-lien lender in the U.K. This is UK Mortgage Lending's ninth public term securitization.

The senior management team has significant experience in the second-lien market, having fulfilled similar roles at other second-lien lenders.

UK Mortgage Lending has historically used both broker-led and direct-to-consumer distribution. The origination process is largely automated and utilizes both credit scoring and rules-based decisions. In addition, UK Mortgage Lending prices loans for risk, and uses Equifax's Risk Navigator 4. The originator prices loans using a proprietary decision tool, which is not transparent to brokers or applicants. We understand that although actual pricing is dynamic, score cutoffs have remained largely constant since origination.

Although lending decisions are largely automated, manual oversight is involved at appropriate points, for example validating income documentation and valuation reports.

The below tables list the lender's product offerings and their split in the pool.

Table 1

U.K. Mortgage Lending Ltd. credit product offering

Offering	Prime	Optimum+
Loan term	Maximum term of 30 years; minimum term of three years	Maximum term of 30 years; minimum term of three years
Max. LTV	Maximum LTV 85% (75% if mortgage loan is greater than £200,000, 65% if mortgage loan is greater than £500,000)	Maximum LTV 80% (70% if mortgage loan is greater than £150,000)
Property value	Minimum property value of £100,000	Minimum property value of £75,000
Adverse credit	Must be less than one "unit" of adverse credit attributable to a single application (i.e. default, CCJ, or arrears)	Maximum of six "units" of adverse credit attributable to a single application (i.e. default, CCJ, or arrears)
Defaults	No applications will be considered for borrowers with a previous bankruptcy within the last five years, IVA within last two years, or repossession/voluntary surrender within the last six years	Previous bankruptcy discharged or IVA satisfied more than one year prior to application can be accepted
LTI	LTIs over 6x must be referred to a suitably mandated underwriter	N/A
Employment	Applicants must have a one-year employment history in the U.K. and two years of accounts required for self-employed borrowers	Applicants must have a one-year employment history in the U.K. and one year of accounts required for self-employed borrowers. A higher percentage of variable income is allowed in the affordability calculation.

LTV--Loan-to-value. LTI--Loan-to-income. CCJ--County court judgment. IVA--Individual voluntary agreement. N/A--Not applicable.

Table 2

Product split for securitized pool

Product	As a percentage of the preliminary pool
Prime	87.05
Optimum+	12.95

The originator's second-lien portfolio credit performance remains within expectations, with arrears on their book approximately 4.6%. Owing to the benign economic environment it has operated in since it began lending, repossessions have been limited with only five loans recording losses.

UK Mortgage Lending makes significant use of AVMs and drive-by valuations in its underwriting. It has a clear policy on its use of limits on both confidence levels and property size. In addition, all properties receive an AVM irrespective of it being used in the lending decision. The AVM in this case would act as a point of comparison for other types of valuation, for example drive-by valuations and full inspections.

Origination standards have remained relatively stable. Like the rest of the U.K. mortgage market, there has been a movement toward a five-year-fixed product. For this product, affordability assessments are based on the five-year-fixed rate rather than a stressed rate.

Table 3

Key considerations

Description	Consideration
Collateral type	UK Mortgage Lending originates largely prime second-lien collateral with limited tolerance to prior adverse credit. 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.

Table 3

Key considerations (cont.)	
Description	**Consideration**
Track record and experience	Second-lien lending commenced in 2014. This transaction is the lender's ninth public term securitization and the retained second-charge mortgage book stands at £1.3 billion. Market share has grown steadily since the business was launched and UK Mortgage Lending is a market leader in the second-lien mortgage lending segment.
Historical performance	The historical performance of the lender's mortgage book has proven relatively strong to date, with minimal credit losses.
Data adequacy	The data provided meets our minimum requirements.
Qualitative factors not captured above	None.

Servicers

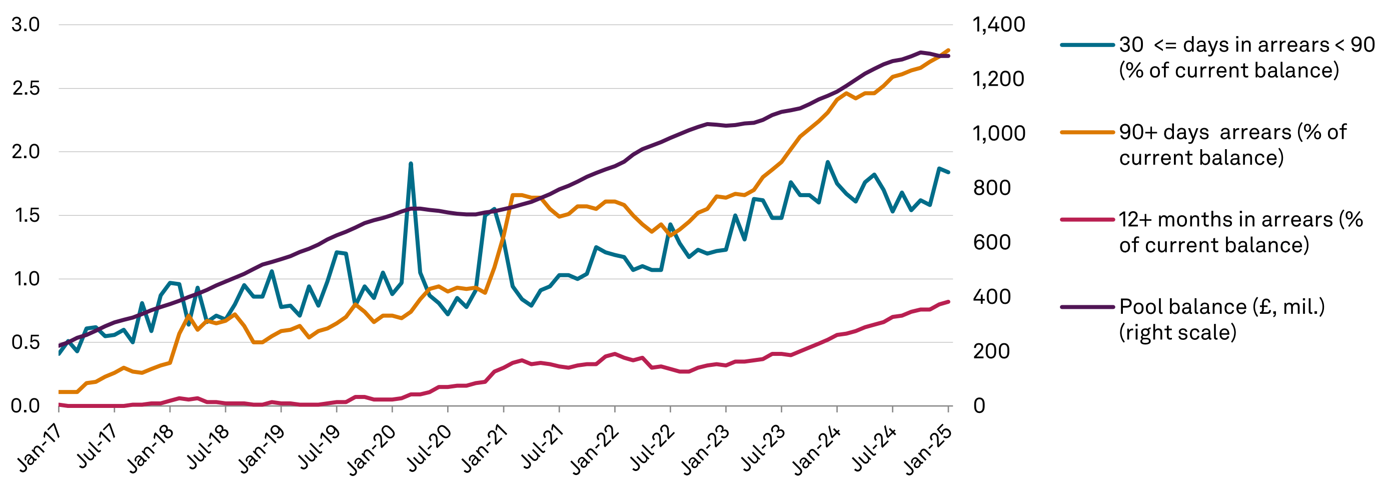
Pepper (UK) Ltd. will service the loans in the pool. It has our ABOVE AVERAGE ranking as a primary and special servicer of residential mortgages in the U.K. (see "Servicer Evaluation: Pepper (UK) Ltd.," published on July 23, 2024).

As part of our analysis for this transaction, we reviewed Pepper (UK)'s servicing and default management processes and believe it is capable of performing its functions as part of the transaction. We do not cap the maximum achievable rating on the transaction under our operational risk framework (see "Related Criteria").

Historical performance

Chart 1

Historical delinquency performance of the pool



Collateral Characteristics And Peer Comparisons

We received loan-level data as of March 31, 2025.

We received a 99/1 pool audit report and did not apply any adjustment to our weighted-average foreclosure frequency

(WAFF), given the report had few errors.

As of the March 31, 2025, pool cutoff date, the pool of £288,974,604 (including accrued interest) comprised 6,396 second-lien loans secured on owner-occupied properties in the U.K. 94% of the loans were originated in 2024 or 2025.

Table 4

Collateral characteristics and prior transactions*

	Castell 2025-1 PLC	Castell 2023-2 PLC	Castell 2023-1 PLC	Castell 2022-1 PLC	Castell 2021-1 PLC	Castell 2020-1 PLC
Jurisdiction	U.K.	U.K.	U.K.	U.K.	U.K.	U.K.
Originator(s)	UK Mortgage Lending Ltd.	UK Mortgage Lending Ltd.	UK Mortgage Lending Ltd.	UK Mortgage Lending Ltd.	UK Mortgage Lending Ltd.	UK Mortgage Lending Ltd.
Collateral characteristics						
Pool cutoff date	March 2025	October 2023	March 2023	May 2022	September 2021	August 2020
Principal outstanding of the pool (mil. £)	289.0	300.0	395.3	301.0	308.9	273.4
Number of loans	6,396	7,412	8,976	7,268	6,976	6,745
Average loan balance (£)	45,181	40,475	44,036	41,421	44,280	40,535
WA indexed current LTV ratio (%)	63.2	59.9	64.0	62.4	67.1	64.2
WA original LTV ratio (%)	63.5	64.0	64.8	64.9	65.2	65.0
WA seasoning (months)	10	23	17	22	5	21
At least one CCJ (%)	3.6	2.5	3.6	4.3	2.8	2.4
Loan purpose--debt consolidation (%)	75.5	77.8	76.6	74.7	73.4	77.7
Interest only or part-and-part (%)	0.5	0.3	0.6	0.6	0.6	0.8
Jumbo valuations (%)	11.3	10.5	7.8	7.7	10.2	10.7
Over/under valuation (%)	18.5	29.8	29.2	30.1	36.1	39.4
Full valuation (%)	30.0	31.7	27.9	28.3	31.0	32.3
Current arrears greater than or equal to one month (%)	1.2	2.1	2.0	2.0	0.3	0.9
Geographic concentration (by balance)						
First	South East (16.0%)	South East (19.6%)	South East (17.9%)	South East (19.8%)	South East (17.1%)	South East (20.1%)
Second	East Anglia (12.7%)	East Anglia (14.0%)	East Anglia (14.1%)	East Anglia (16.0%)	Greater London (14.9%)	Greater London (17.5%)
Third	North West (11.7%)	Greater London (13.0%)	Greater London (12.7%)	Greater London (14.0%)	East Anglia (14.2%)	East Anglia (14.6%)
Credit assumptions						
Portfolio WAFF (%)						
AAA	25.35	24.12	26.75	26.34	26.34	27.38
AA	17.10	16.72	18.59	18.21	18.21	18.69
A	12.95	12.89	14.38	14.01	14.01	14.20
BBB	8.80	9.23	10.35	10.00	10.00	9.92
BB	4.65	5.36	6.10	5.77	5.77	5.42
B	3.61	4.49	5.14	4.82	4.82	4.41

Table 4

Collateral characteristics and prior transactions* (cont.)						
Portfolio WALS (%)						
AAA	82.60	85.73	88.89	86.16	86.16	90.03
AA	77.48	79.73	84.03	80.26	80.26	85.85
A	66.58	66.32	72.99	66.71	66.71	74.66
BBB	58.37	55.93	63.89	56.09	56.09	64.50
BB	51.38	47.11	55.94	46.84	46.84	55.38
B	44.06	38.70	47.35	37.67	37.67	46.08
Credit coverage (%)						
AAA	20.94	20.68	23.78	22.69	22.69	24.65
AA	13.25	13.33	15.62	14.62	14.62	16.04
A	8.62	8.55	10.49	9.35	9.35	10.60
BBB	5.14	5.16	6.61	5.61	5.61	6.40
BB	2.39	2.52	3.41	2.70	2.70	3.00
B	1.59	1.74	2.44	1.81	1.81	2.03

*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 pool to derive the WAFF and the weighted-average loss severity (WALS) at each rating level (see table 5). 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 5

Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	25.35	82.60	20.94
AA	17.10	77.48	13.25
A	12.95	66.58	8.62
BBB	8.80	58.37	5.14
BB	4.65	51.38	2.39
B	3.61	44.06	1.59

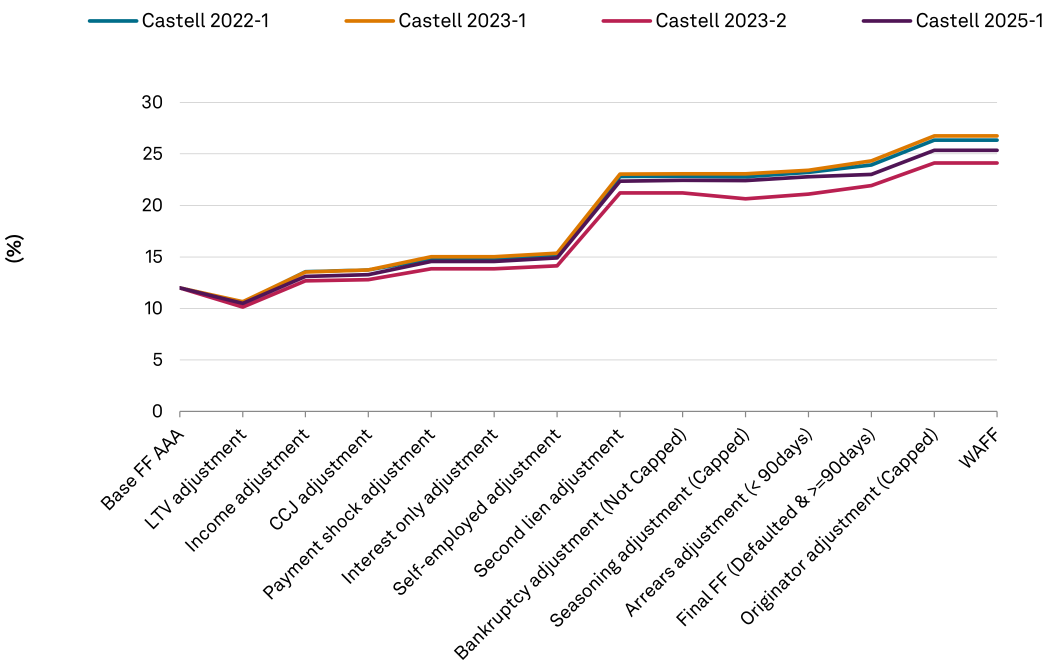
WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Foreclosure frequency

Our current 'B' foreclosure frequency assumption for the U.K. archetypal pool is 1.50% and our base 'AAA' foreclosure frequency assumption is 12.0% (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement," published on April 5, 2024). Chart 2 and table 6 summarize how the base 'AAA' foreclosure frequency has been adjusted to account for the characteristics of the securitized portfolio.

Chart 2

'AAA' cumulative WAFF distribution



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

Table 6

WAFF adjustments

Factor	Description	Adjustment	Cumulative WAFF (%)
Base WAFF	Archetypical pool.	N/A	12.00
LTV ratio	The adjusted original LTV ratio and current LTV ratio were used to calculate the WAFF for the pool.	0.87x	10.49
Income	52.7% of the pool attracted our highest income adjustment.	1.22x	13.10
Buy-to-let	There are no BTL properties in the pool.	1.00x	13.10
Self-certified	None of the loans in the pool are marked as self-certified loans.	1.00x	13.10
CCJ	3.6% of the pool receive a CCJ adjustment.	1.02x	13.29
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 given the reversionary rates are not significantly higher than the fixed rates.	1.09x	14.56
Interest-only	Only 0.5% of the pool are interest-only loans.	1.00x	14.57
Geographic concentration	There are no geographic concentration concerns in this portfolio.	1.00x	14.57
Self-employed	We applied our adjustment for self-employed borrowers to 14.4% of the pool.	1.02x	14.91
Second-lien	The entire portfolio comprises second-lien loans.	1.50x	22.36

Table 6

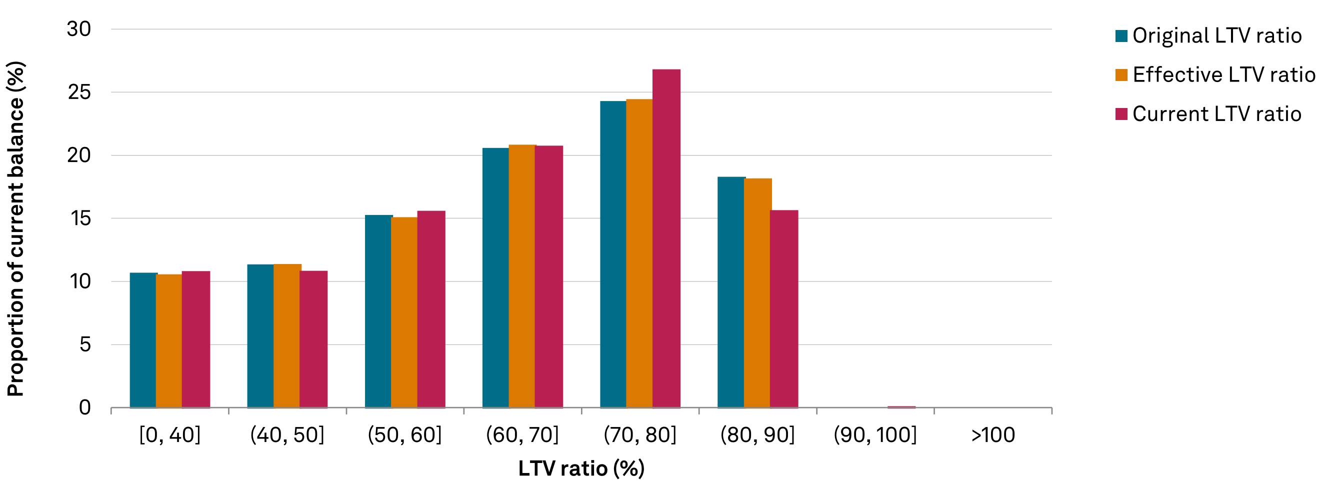
WAFF adjustments (cont.)

Factor	Description	Adjustment	Cumulative WAFF (%)
Loan purpose	While 75.5% of the pool comprises loans taken for debt consolidation purposes, as we have already applied the second-lien adjustment, no further adjustment is made for this purpose.	1.00x	22.36
First-time buyer	There are no first-time buyers.	1.00x	22.36
Bankruptcy (not capped)	0.2% present in the pool.	1.003x	22.43
Seasoning (capped)	The average seasoning is 10 months.	1.00x	22.41
Arrears (<90 days)	The pool comprises 0.9% loans of greater than or equal to one month in arrears, but less than three months in arrears.	1.02x	22.77
Final foreclosure frequency (defaulted and >=90 days)	0.3% of the pool have arrears in the 90+ day bucket. 100% foreclosure frequency to all loans defaulted or in arrears for three months or greater.	1.01x	23.05
Originator adjustment	We have applied a pool-level adjustment that considers a nonbank lender lending in the second-lien market.	1.10x	25.35
'AAA' WAFF	Actual collateral pool.	N/A	25.35

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

Chart 3

Original, effective, and current LTV ratio distribution



LTV--Loan-to-value.

Table 7

Loans by fixed-rate reversion year

Year	As a proportion of all fixed-rate loans by current balance (%)
2025	0.9
2026	10.9
2027	6.9
2028	7.0
2029	70.4

Table 7

Loans by fixed-rate reversion year (cont.)

Year	As a proportion of all fixed-rate loans by current balance (%)
2030	3.9

Table 8

Geographic distribution

Region	Percentage of the pool (%)
East Anglia	12.7
East Midlands	8.3
Greater London	11.0
North	3.7
North West	11.7
Northern Ireland	0.0
Scotland	6.7
South East	16.0
South West	8.7
Wales	5.0
West Midlands	9.4
Yorks And Humber	6.8

The assets backing the notes are second-lien mortgage loans. Most of the pool is prime, with 87.1% originated under UK Mortgage Lending's prime product range.

The portfolio has a weighted-average current LTV ratio of 63.2%, based on the S&P Global Ratings rating methodology, and a weighted-average original LTV ratio of 63.5%.

Despite the pool having a lower-than-typical average LTV ratio, 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 first lien's balance 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 addition, a high proportion of fixed-rate loans and discount loans have a reversionary date in the next five years, with 69.9% of the loans reverting in 2029. Therefore, the prepayment rates might increase significantly, causing a reduction in excess spread. We have assessed this in our cash flow analysis.

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 9 provides details used in the derivation of the stressed repossession MVD (RMVD).

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Table 9

Repossession market value decline (RMVD) adjustments

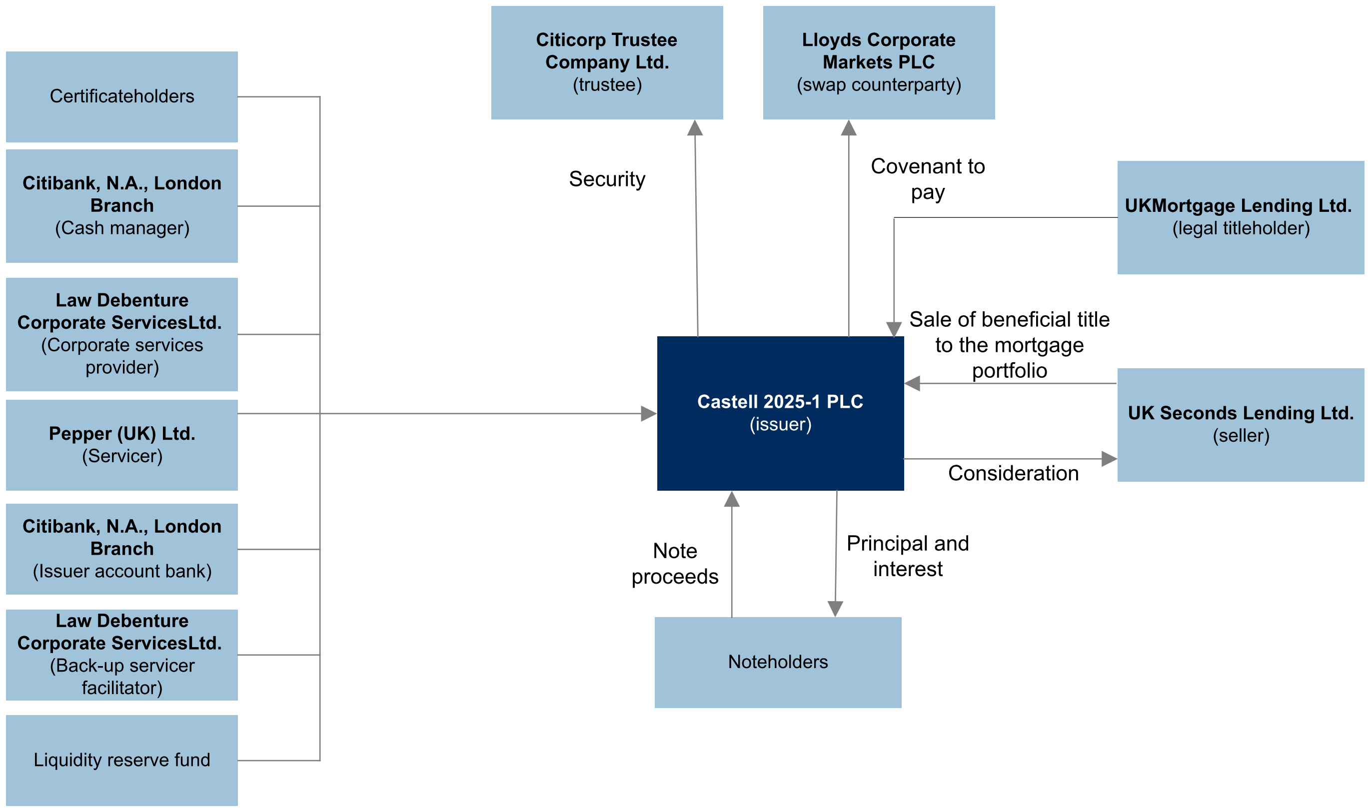
Rating category	Base fixed MVD (%)	Over/undervaluation (%)*	Forced sale discount (%)	Jumbo valuations adjustment (x)	RMVD (%)§
AAA	40.0	9.2	10.0	1.0	54.9
AA	36.0	17.9	11.0	1.0	50.7
A	28.0	16.7	12.0	1.0	43.1
BBB	23.0	5.5	13.0	1.0	38.4
BB	19.0	4.6	14.0	1.0	34.9
B	15.0	3.7	15.0	1.0	31.5

*Over/undervaluation (%) = percentage of over/undervaluation x over/undervaluation. §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.

Transaction Structure

Chart 4

Transaction structure



The issuer is an English special-purpose entity (SPE), which we consider to be bankruptcy remote. We consider the legal structure and transaction documents to be in line with our legal criteria.

Payment Structure And Cash Flow Mechanics

Collections

Borrowers pay into collection accounts held with National Westminster Bank PLC 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, the liquidity reserve fund, and, if necessary, principal reallocated to cover any senior fees or interest shortfalls on the class

A notes.

Further, principal borrowing can be used to pay interest on the class B-Dfrd to G notes when they become the most senior class outstanding, or if the respective class's principal deficiency ledger (PDL) does not exceed 10% of its outstanding balance.

Available principal funds

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

Liquidity reserve excess amounts above the required amount will be released to principal funds.

Pre-enforcement priority of payments

There are separate waterfalls for interest (revenue) and principal collections. On each monthly payment date, the issuer will apply the available revenue and principal funds in the priority shown in table 10.

Table 10

Priority of payments

Revenue priority of payments	Principal priority of payments
Senior expenses	Credit to the liquidity reserve fund before the liquidity reserve initial funding date
Issuer profit	On the first IPD only, credit to the pre-funding redemptions receipts ledger, in an amount not exceeding £5 million
Senior swap payments	Subject to the PDL condition, principal additional amounts to cover further revenue shortfalls
Class A interest	Class A principal in full
Class A PDL	Class B-Dfrd principal in full
Class B-Dfrd interest	Class C-Dfrd principal in full
Credit the liquidity reserve fund after the liquidity reserve initial funding date	Class D-Dfrd principal in full
Class B-Dfrd PDL	Class E-Dfrd principal in full
Class C-Dfrd interest	Class F-Dfrd principal in full
Class C-Dfrd PDL	Class G principal in full
Class D-Dfrd interest	Class H principal in full
Class D-Dfrd PDL	Any excess amounts to be applied as available revenue receipts
Class E-Dfrd interest	
Class E-Dfrd PDL	
Class F-Dfrd interest	
Class F-Dfrd PDL	
Class G interest	
Class G PDL	
Class X1-Dfrd interest	
Class X1-Dfrd principal	
Class X2-Dfrd interest	
Class X2-Dfrd principal	

Table 10

Priority of payments (cont.)

Revenue priority of payments	Principal priority of payments
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	
Remaining funds to be retained in bank account if no monthly investor report available	
Subordinated swap payments	
Class H interest	
Class H PDL	
Excess servicing fee	
Deferred consideration to the seller	

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

Table 11

Payment structure details

Note terms	
Payment frequency	Monthly
First interest payment date	June 27, 2025
Interest rate	Compounded daily SONIA plus a margin
Optional call	If the collateralized notes' outstanding principal falls to 10% or less of the closing amount, the issuer may redeem the notes in full.
Step-up date	January 2029
Legal final maturity date	January 2062
Liquidity reserve	
Initial amount	1.0% of the class A and B-Dfrd notes' balance, funded through principal proceeds from closing onwards.
Required amount	1.0% of the class A and B-Dfrd notes' balance on each IPD funded through available revenue receipts, after the initial funding from principal proceeds.
Amortizing	Yes
Amortizing conditions	Amortizes down the principal waterfall
Available for	Payment of senior fees and expenses and issuer profit, class A interest, and class B-Dfrd interest.
Additional details	The excess will be released to the principal waterfall.
Principal deficiency ledgers	
Number of ledgers	Eight - one for each class of the mortgage-backed 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.

PDL--Principal deficiency ledger.

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 of notes outstanding, timely interest must be paid and all previously deferred interest is due immediately. Deferred interest will also accrue interest at the same rate as that of the note.

However, the class X1-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 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 B–Dfrd to X1-Dfrd notes when they become the most senior class of notes outstanding.

Prefunding

The issuer will be able to purchase loans from the closing date until the second IPD. There is the risk that the addition of these loans could adversely affect the pool's credit quality, however portfolio limitations mitigate this risk. The loans will be purchased using the prefunding principal reserve, which will be sized at 15% of the collateralized notes. Additionally, up to £5 million of principal loan repayments received prior to the first IPD may be reinvested in new loans up to the second IPD.

A prefunding revenue reserve was established and sized to cover payments on the class X1 and X2 notes associated with the prefunding and negative carry risk resulting from the prefunding mechanism.

Note proceeds from any prefunding unused amount will be used to partially redeem the asset-backed notes pro rata on the second IPD. Unused principal collections will be applied in repayment of the class A notes.

Our credit analysis considers the potential portfolio migration subject to these limits. We also consider the potential margin compression in our cash flow analysis.

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 most senior notes outstanding or a failure to pay principal when due. However, deferring interest on the class B-Dfrd to X1-Dfrd notes, even when they are the most senior notes outstanding, will not constitute an event of default under the transaction documents prior to the legal final maturity date.

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 notes, 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 F-Dfrd notes is commensurate with a higher rating than that currently assigned.

However, the rating on these notes also reflect the results of sensitivities related to higher levels of defaults.

The rating on the class X1-Dfrd notes reflects the results of the higher prepayment sensitivity given the notes reliance on excess spread. These notes are paid interest and principal from the revenue waterfall.

Interest rate risk and hedging

Interest will be paid monthly, beginning in June 2025.

Most of the pool (93.7%) will bear a fixed interest rate, which will switch to a floating interest rate at a later stage. Given the rated notes receive a floating coupon based on compounded daily SONIA, the transaction is exposed to interest rate risk. To address this risk, the issuer entered into a fixed-floating rate swap agreement at closing (see "Counterparty Risk" below), the terms of which will be the following:

- The issuer will pay a fixed rate;
- The issuer will receive compounded daily SONIA; and
- The notional will be fixed based on a predefined scheduled which we have modeled in our cash flows.

When the fixed-rate loans switch to floating, the transaction will be exposed to the lender base rate, which is a standard variable rate and closely reflects the Bank of England base rate. We have therefore considered basis risk between the compounded daily SONIA index paid on the notes and the indices applied on the loans.

Table 12

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 0.67% at the 'AAA' rating level, 0.49% at the 'AA' rating level, 0.39% at the 'A' rating level, 0.28% at the 'BBB' rating level, 0.17% at the 'BB' rating level, and 0.14% at the 'B' rating level.
Fees modelled	
Servicing fee	0.40%, which reflects the intense servicing requirement associated with second-lien loans. This stressed fee considers the costs of attracting a replacement servicer. This fee increases by 0.02% every year to reflect expected inflation.
Fixed fees	£150,000 stressed fixed fees per year (including certain fees paid by the originator outside the priority of payments)
Bank account replacement costs	£100,000 one-off fee.
Commingling risk	
Details	Liquidity stress applied equal to one month of collections, which is returned after four periods.
Setoff risk	
Details	The transaction has no employee loans or deposit setoff exposure.
Product switches	
Details	Product switches are permitted under this transaction subject to certain conditions. Some key conditions include: (i) The mortgage loan is not in arrears; (ii) The loan cannot cause the projected fixed-rate mortgage principal balance to exceed the interest rate swap(s)' aggregate notional amount for that or any subsequent interest payment date; (iii) Immediately following the applicable product switch, the product switch loan's margin over compounded daily SONIA is not less than 3.0% (variable loans); (iv) The aggregate current balance of the product switch loans in the pool does not exceed 15% of the pool as of closing; (v) Product switches are not permitted after the step-up date; (vi) The loan margin must be at least 3.2% above the swap rate (fixed loans).Product switches that do not meet these conditions and others in the transaction documents will trigger a repurchase obligation on the seller. We have performed additional sensitivities that capture the risk of margin deterioration, and the ratings are robust to the results of these sensitivities.

Table 13

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 modelled. 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 14). We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period (see table 14). During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

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 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 14). A high proportion of fixed-rate loans will revert in 2029, which could increase prepayments and reduce the asset yield. As a result we have tested additional sensitivities with higher prepayments, to which the assigned ratings remain robust.

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 14

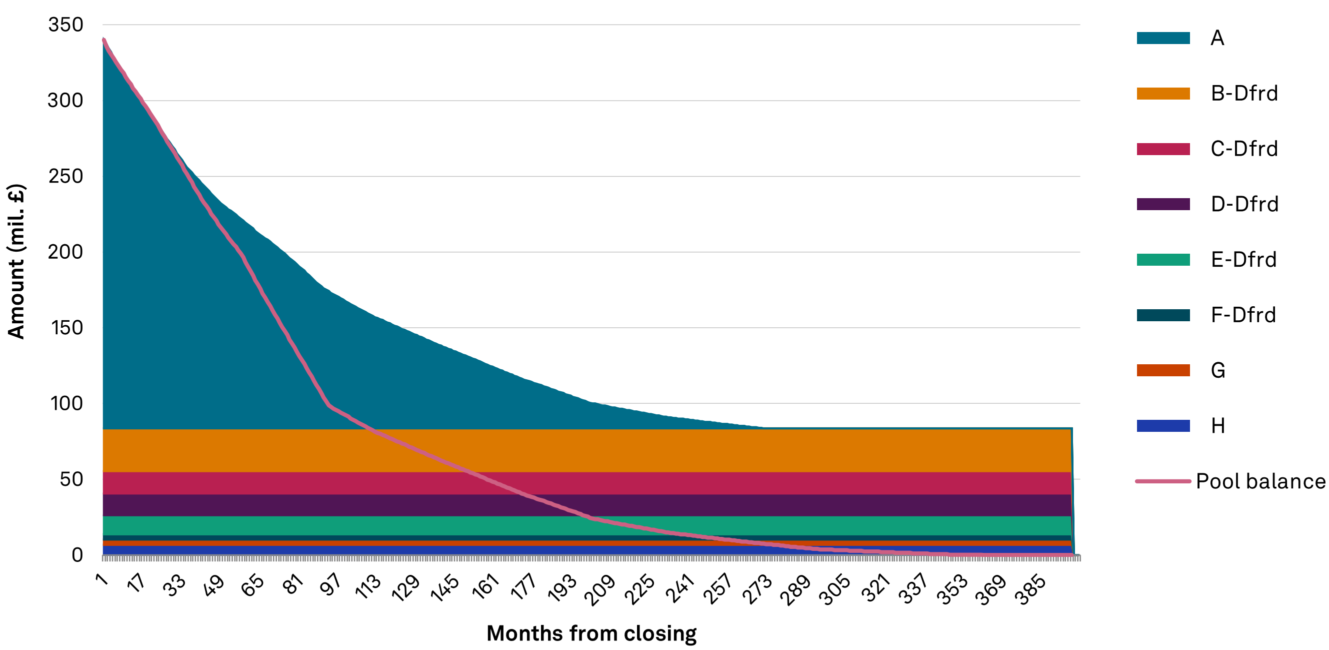
RMBS stress scenarios

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 5. The driving cash flow run for 'AAA' is low prepayments, rising interest rates, and back-loaded defaults.

Chart 5

'AAA' note amortization profile



Excess spread

Excess spread is created through the difference between the asset's yield and the issuer's expenses. Table 15 outlines the initial excess spread estimate. The pool yield includes the adjusted interest rates effective March 2025.

Table 15

Initial excess spread (estimate)

	Pool (%)
Pool yield	8.74

Table 15

Initial excess spread (estimate) (cont.)

	Pool (%)
Stressed senior fees	0.44*
Weighted-average fixed swap payment	4.04§
Weighted-average swap receipt	4.41
Available for note coupons	8.67
Excess spread remaining after coupon payments	
A	4.54
B-Dfrd	4.06
C-Dfrd	3.80
D-Dfrd	3.52
E-Dfrd	3.23
F-Dfrd	3.14

*0.40% senior stressed servicing fee plus £150,000 stressed annual fees. §Based on fixed rate loans comprising 98%. Daily Compounded SONIA of 4.50% assumed.

Counterparty Risk

The issuer is exposed to Citibank N.A., London Branch as the transaction account provider and the swap collateral account provider, National Westminster Bank PLC as the collection account provider, and Lloyds Bank Corporate Markets PLC as swap counterparty (see table 16). The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk, in line with our counterparty criteria.

Table 16

Supporting ratings

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
National Westminster Bank PLC as the collection account bank	A+/Stable/A-1 (ICR)	BBB	30 calendar days	AAA
Citibank N.A., London Branch as the transaction account provider*	A+/Stable/A-1(ICR)	A	30 calendar days	AAA
Lloyds Bank Corporate Markets PLC as the swap provider	A+/--/A-1 (RCR)	A-	10 business days to postcollateral and 90 calendardays to find a replacement	AAA

*Rating derived from the rating on the parent entity. ICR--Issuer credit rating. RCR--Resolution counterparty rating.

Commingling risk

Borrowers pay into collection accounts held with National Westminster Bank 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.

Hedging Features

Table 17

Details of the hedging features	
Type of hedging instrument	Fixed-to-floating interest rate swap
Collateral posting triggers	In line with counterparty criteria
Replacement triggers	In line with counterparty criteria
Issuer pays	Fixed rate of 4.12%
Issuer receives	SONIA in line with the index on the notes.
Notes	Fixed amortization schedule, assuming embedded prepayment and default assumptions on the fixed-rate loans.
Modelled in our cash flow analysis	Yes

SONIA--Sterling Overnight Index Average.

Sovereign Risk

Table 18

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 consider the transaction's resilience in case of additional stresses to some key variables, in particular defaults and loss severity, to determine our forward-looking view.

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 19.

Table 19

Sensitivity analysis

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

		Sensitivity							
Class of notes	Initial rating	1	2	3	4	5	6	7	8
A	AAA	AA+	AA	AAA	AA+	AA+	AA	AA	AA
B-Dfrd	AA	AA-	A+	AA	AA-	AA-	A+	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	B+	B+	B+	B	B+	B
X1-Dfrd	B	B	B	B	B	B	B	B	B

No change
One-notch downgrade
Two-notch downgrade
Three-notch or more downgrade

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.
Source: S&P Global Ratings.

The results of the above sensitivity show there to be one- and two-notch downgrades on the class A and B-Dfrd notes in the 1.1x WAFF scenarios, with lower classes of notes unaffected. The A, B-Dfrd, C-Dfrd, D-Dfrd, and F-Dfrd are affected by the 1.3x WAFF stress, the class A and B-Dfrd notes more so. The rating deterioration 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 a liquidity fund 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.

Upside scenario

We could raise the ratings on the class B-Dfrd, C-Dfrd, D-Dfrd, E-Dfrd, F-Dfrd, and X1-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 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. In addition, UK Mortgage Lending 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.

Appendix 1

Table 20

Transaction participants

Role	Participant
Originator	UK Mortgage Lending Ltd.
Seller	UK Seconds Lending Ltd.
Servicer	Pepper (UK) Ltd.
Legal title holder	UK Mortgage Lending Ltd.
Back-up servicer facilitator	Law Debenture Intermediary Corporation PLC
Trustee	Citicorp Trustee Company Ltd.
Principal paying agent	Citibank, N.A., London Branch
Corporate services provider	Law Debenture Intermediary Corporation PLC
Arrangers	Citigroup Global Markets Ltd. and Banco Santander, S.A.
Joint lead managers	Citigroup Global Markets Ltd., Banco Santander, S.A., Barclays Bank PLC, and BNP Paribas
Issuer	Castell 2025-1 PLC
Parent	Castell 2025-1 Holdings Ltd.
Share trustee	Law Debenture Intermediary Corporation 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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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
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Related Research

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- Credit Conditions Europe Q2 2025: Europe Plots A New Course, March 26, 2025
- U.K. Economic Outlook Q2 2025: Recovery In Consumption Slows As Inflationary Pressure Returns, March 25, 2025
- European RMBS Index Report Q4 2024, Feb. 20, 2025
- European Housing Markets: Better Housing Affordability Supports Recovery, Jan. 27, 2025
- European Structured Finance Outlook 2025: Up In The Air, Dec. 11, 2024
- Sector And Industry Variables Updated For European RMBS Criteria, July 26, 2024
- Servicer Evaluation: Pepper (UK) Ltd., July 23, 2024
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