

Warrington Residential 2022-1 DAC

Non-performing loans ABS – Ireland



Ratings

Note class	Rating	Notional (EUR m)	Notional (% assets)	CE (% assets)	Index ¹	Margin (bps)	Add. note payment ² (bps)	Final maturity
A1	(P)A-SF	190.0	47.1%	52.9%	1mE	200	150	Dec 2056
A2	(P)BBB-SF	25.0	6.2%	46.7%	1mE	200	150	Dec 2056
B	(P)BB-SF	12.0	3.0%	43.7%	1mE	275	150	Dec 2056
C	(P)B-SF	10.0	2.5%	41.2%	1mE	400	150	Dec 2056
Z1	NR							
Z2	NR							
Rated notes		237.0						

1. 1mE refers to 1-month Euribor

2. Additional note payment start date, 24 February 2026; the ratings do not address the payment of the additional note payment.

Scope's quantitative analysis is based on the portfolio dated 30 November 2021 and subsequent updates provided by Morgan Stanley (the arranger). Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on particular payment date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

Transaction details

Purpose	Refinancing
Issuer	Warrington Residential 2022-1 DAC
Originators	Multiple Irish residential mortgage lenders
Servicer	Mars Capital Finance Ireland DAC (Mars Capital)
Seller	Mars Capital Management Ireland DAC
Account bank	Elavon Financial Services DAC (Elavon)
Interest rate cap provider	Morgan Stanley & Co. International plc (Morgan Stanley)
Closing date	[22 February 2022]
Payment frequency	Monthly (24 th of each month)

Warrington Residential 2022-1 DAC is a [EUR 403.3m] gross-book-value (GBV) securitisation of Irish non-performing residential mortgage loans. Unlike in other NPL transactions, a significant portion of the portfolio is paying interest and principal, which makes loan restructuring a more viable option than property foreclosure. The [1,629] first-lien mortgage loans finance properties across Ireland, with a focus on Ireland's two largest cities, Dublin and Cork, and their surrounding areas. The liability structure features strictly sequential, separate priorities of payment with dedicated liquidity reserves for each rated note class.

Rating rationale (summary)

The ratings reflect the transaction's legal and financial structure, the underlying collateral's quality, Mars Capital's experience and incentives as transaction servicer, and the transaction's exposure to key counterparties.

The ratings are primarily driven by the expected recovery amounts and timing of collections from the NPL portfolio and the collections from the re-performing assets. The expected collections and timing assumptions consider the portfolio's characteristics as well as our economic outlook for Ireland and assessment of the special servicer's capabilities. The ratings are supported by the overcollateralisation available to the notes, the liquidity protection, and the interest rate hedging agreement.

The transaction is exposed to the following key counterparties: Mars Capital as the servicer, Barclays as the collection account bank, Elavon as the transaction account bank, and paying agent, and Morgan Stanley as the interest rate cap provider. Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as replacement rating triggers as well as the limited time exposure. We have assessed the credit quality of the counterparties considering public information.

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Related Research

General Structured Finance

Rating Methodology,

December 2021

Methodology for Counterparty
Risk in Structured Finance, July
2021

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Rating drivers

Positive rating drivers	Negative rating drivers and mitigants
<p>Credit enhancement. Note classes A1 to C benefit from substantial credit enhancement provided by subordination, overcollateralisation and liquidity reserves.</p> <p>Frequent payers in the portfolio. A significant portion of borrowers in the portfolio (904 out of 1,629) are still making mortgage payments, either as originally agreed or on a restructured plan. The mortgages will likely be bought back at a minimum price of 80% as soon as they are re-performing. Until then, collections on these assets will support the transaction.</p> <p>Regional distribution. The underlying residential property pool is concentrated in Dublin and Cork, the two largest cities in Ireland, as well as in neighbouring suburbs. Residential property price improvements in Ireland have been more pronounced in urban than in rural areas.</p> <p>Regulatory work-out process. The regulation for special servicers in Ireland emphasises a work-out process that returns the borrower to a sustainable financing situation, rather than quickly foreclosing on the property. This approach is more likely to maximise collections from re-performing borrowers and lower accepted discounts in case of a property sale.</p>	<p>Volatile property market. Despite continuous improvements, Ireland's property market is among the most volatile and thus most risky in Europe. This is reflected in our property value assumptions and haircuts. Prices have returned to the highs seen before the 2007 Great Financial Crisis, reflecting high demand for residential properties in Ireland. However, demand may decline if the macroeconomic recovery stops.</p> <p>Liquidity and interest rate risk. Given the irregularity of cash inflows, the transaction relies on dedicated reserves to ensure the timely payment of interest and senior costs.</p> <p>Rising interest rate scenarios, which are getting more likely given the rising inflation in the Eurozone, are increasing liquidity needs. The same is true for the Covid-induced delays in legal processes.</p> <p>The interest rate risk is partly mitigated by the portion of borrowers making frequent payments, the interest cap agreement, the interest rate caps embedded in the notes coupons and the high percentage of contracts in late-stage legal proceedings.</p> <p>Indexation impact on property valuations. Current valuations reflect the significant increase in residential property price indices in Ireland. Since 2015 (the average year of valuation for the financed properties), property prices have increased by more than 39% in Dublin and 67% in all of Ireland excluding Dublin. The latest property valuations have been conducted as drive-by or full inspections, which partially mitigates the uncertainty on the current property valuations.</p>
Upside rating-change drivers	Downside rating-change drivers
<p>Higher than expected reperforming asset share may positively impact the ratings due to increased and earlier collections.</p> <p>An outperformance on recovery timing could occur if courts advance on proceeding backlogs faster than expected. The pandemic led to a slowdown in court activity.</p>	<p>Macroeconomic uncertainty in Ireland caused by Brexit and a global growth slowdown (e.g. Covid impacts) may weigh negatively on collateral performance due to the retrieval of foreign investment in Ireland, leading to a lasting deterioration in employment and a potential sovereign crisis.</p> <p>The portfolio contains EUR 24.0m of mortgages loans to obligors, where some of these obligor's mortgages have an unclear lien status. The servicer is aiming to resolve these cases and establish the first lien status. A failure for a significant portion may have an adverse impact on the assigned ratings. The questionable positions are excluded from seller/warranty provider representations and warranties.</p>

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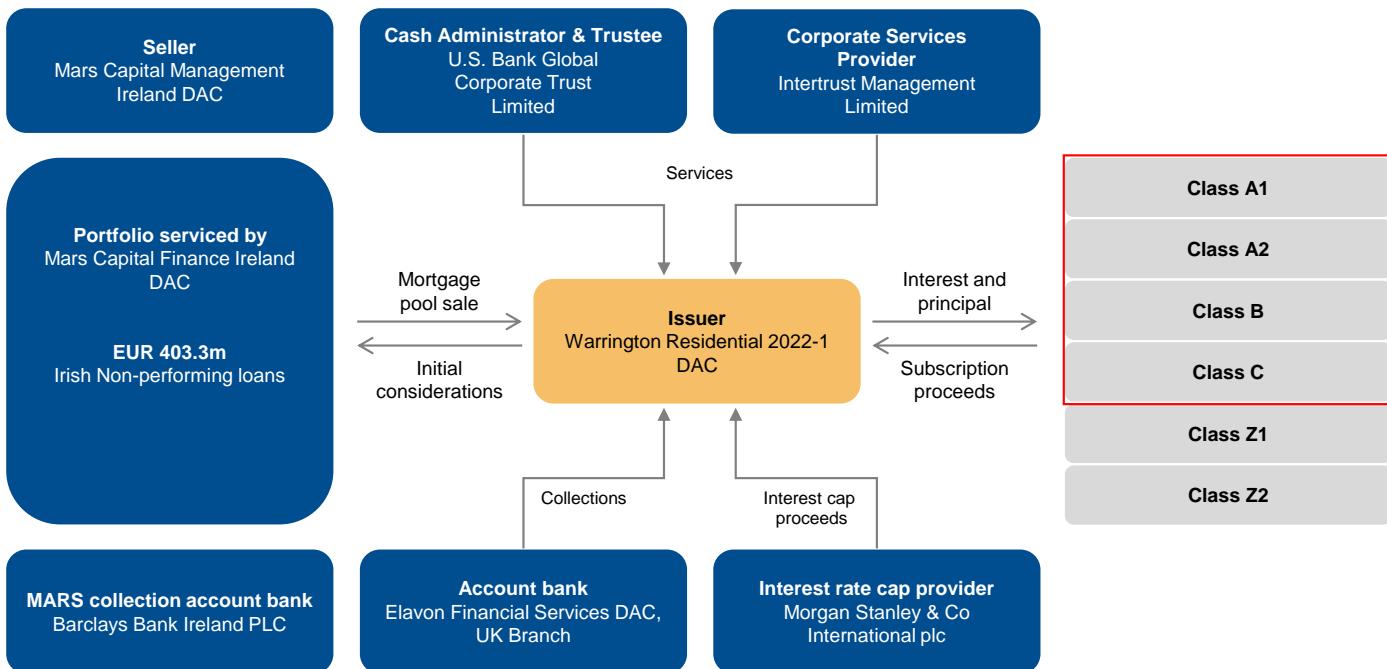
1. Transaction summary

Warrington Residential 2022-1 DAC is a [EUR 403.3m] GBV securitisation of Irish non-performing residential mortgage loans. The mortgages were originally granted by [five] Irish lenders. Mars Capital, a special loan servicer active in Ireland, will service the portfolio on behalf of the issuer. Mars Capital has been servicing 76% of the securitised portfolio since 2016.

The [1,629] mortgage loans finance properties across the country, with a focus on the Dublin and Cork areas. The collateral indexed value is [EUR 526.2m], down from the original value of [EUR 753.2m].

The servicer expects some of the mortgages to become re-performing, based on historical pay rates¹, updated valuations and borrower interaction, which may trigger a repurchase at a predetermined minimum price. We recommend giving partial credit to these repurchases, based on historical pay rates and credit metrics associated with the mortgages.

Barclays Bank Ireland plc will be the servicer collections account bank, Elavon is the transaction account bank, and Morgan Stanley is the interest cap provider. Mars Capital is the special servicer managing the portfolio asset restructuring and collateral foreclosures on behalf of the issuer.

Figure 1. Simplified transaction diagram

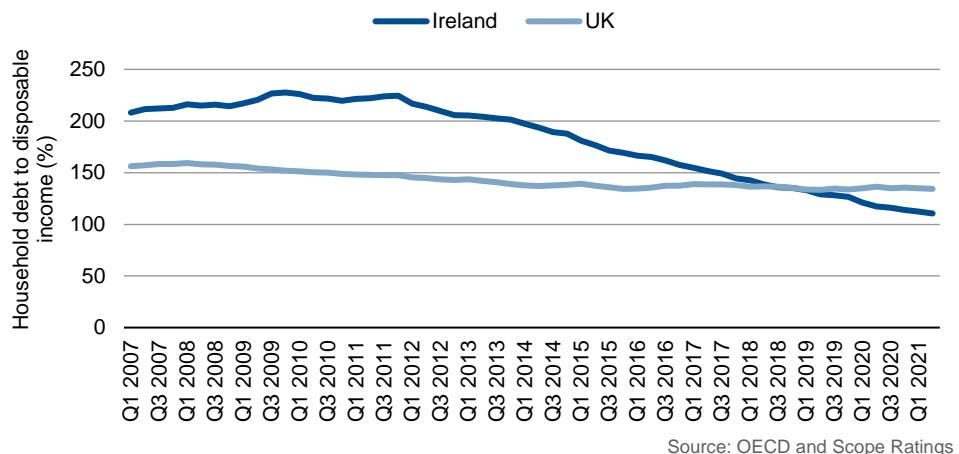
Source: Transaction documents and Scope Ratings

2. Macroeconomic environment

The economic environment in Ireland has stabilised after the high uncertainty caused by the Covid pandemic. Household indebtedness has reduced, mainly through increased income.

¹ Pay rates refer to the ratio of payments made over payments due.

Figure 2. Debt affordability in Ireland and the UK

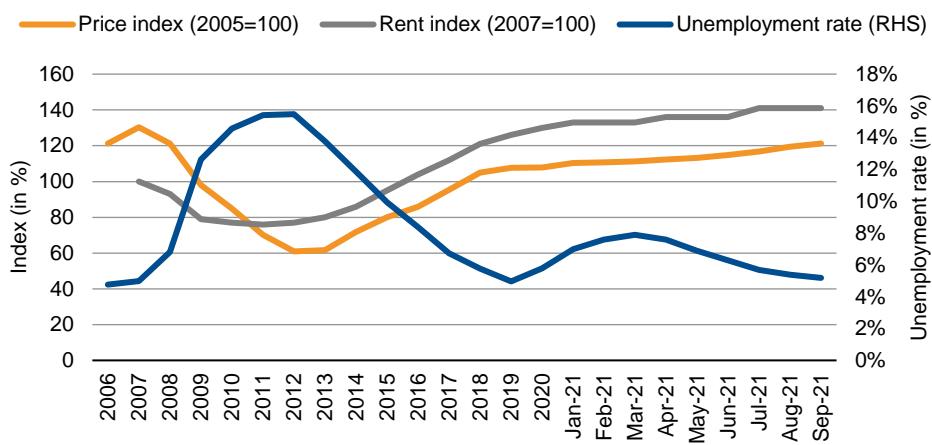


Source: OECD and Scope Ratings

Property prices increased significantly

A shortage of property supply, combined with increasing demand driven by cheap credit and better household-debt affordability, has caused property prices to rise significantly.

Figure 3. Property prices, residential rents and unemployment in Ireland



Source: CSO Ireland, Residential Tenancies Board Ireland and Scope Ratings

Interest rate shifts or new Covid lockdowns may reverse the positive trend

Changes in the interest rate environment or new, prolonged Covid lockdowns may reverse the positive trend in household-debt affordability, making restructurings more challenging and potentially stressing property prices.

3. Special servicer review – Mars Capital

We deem Mars Capital capable of servicing the portfolio of non-performing, re-performing and performing mortgage loans as it specialises in both standard and special servicing. Scope analysts met with the company on 17 November 2021 to clarify its portfolio management strategy in the context of the company's view on the Irish residential property market and the transaction's portfolio.

Founded in 2014, Mars Capital is a young servicer in the Irish market, but a member of the pan-European Arrow Global PLC Group, which combines special servicers in the European jurisdictions of Ireland and the UK, Portugal, Italy and the Netherlands. In Ireland, the company is the fourth largest special servicer with about EUR 2.1bn assets under management and 80 dedicated staff (as of 2021).

Mars Capital's portfolio management follows the guidelines of the Central Bank of Ireland, which foresees a significant initial effort to find a sustainable restructuring solution before a foreclosure process can start. Forbearance options (i.e. alternative repayment arrangements) are in accordance with the Mortgage Arrears Resolution Process under

NPL portfolio management complies with Central Bank of Ireland guidelines

Mars Capital pro-actively approaches the portfolio's borrowers

Mainly non-performing first-lien mortgage loans in Ireland

Some obligors make frequent payments

the Code of Conduct on Mortgage Arrears. Mars Capital also follows Central Bank guidance on assessing borrowers' payment abilities when considering alternative repayment arrangements.

Mars Capital pro-actively approaches the portfolio's borrowers to find a solution and would facilitate a voluntary property sale before going to court. With the Irish property prices recovering since 2013, restructuring has increasingly been the path taken as more borrowers have returned to positive equity in their financed properties. Moreover, Ireland's macroeconomic recovery has led to improved household incomes and credit affordability.

The servicer's incentive scheme involves a significant bonus if there is outperformance of the business plan and if mortgages are re-performing.

4. Portfolio characteristics

The portfolio comprises mainly non-performing first-lien mortgage loans in Ireland. Most were extended to finance the purchase of primary residences (80.6%) and a smaller share relates to buy-to-let properties (19.4%).

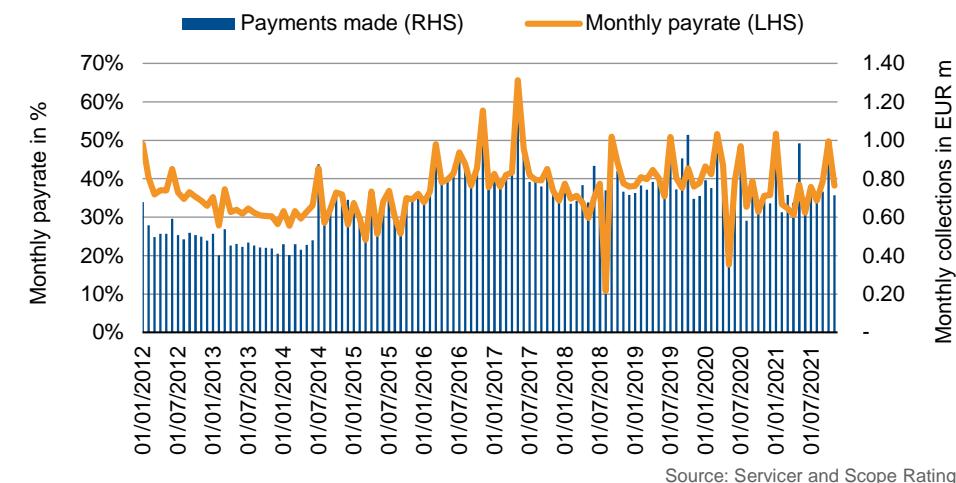
For 24.3% of the mortgages, there is already a court ruling (order for possession at 15.2%) or property possession (real estate-owned assets at 9.1%), which allows the special servicer to start selling the financed properties. Servicer data indicates it takes 11-16 months to sell the properties, with an average of 13 months, which aligns well with the expected liquidity coverage for the class A1 and A2 notes.

For 25.9% of the portfolio, no legal proceedings have been started, even though the loans are on average more than three months in arrears. For the borrowers of these loans, the servicer may currently rather pursue amicable solutions that could result in full re-performance or a voluntary sale. This approach is more likely to result in better recovery values and times to collection than a foreclosure pursued through the courts. Otherwise, the collection of foreclosure proceeds from this portfolio portion will likely take the full expected time of four to five years.

Our analysis reflects that some of the mortgages will re-perform² and be sold, given their obligors make frequent payments and are even catching up with arrears. In the last three months, 904 of the 1,629 mortgages in the portfolio have received payment. Since 2014, collections have averaged EUR 0.75m a month, equating to a monthly pay rate of 37.6%. The monthly collections will support the transaction's liquidity and amortisation.

² Re-performance relates to borrowers that have fallen behind on their credit but continue to pay, or just have restarted to pay. This can be for various reasons. Additionally, there may be restructurings that get borrowers to re-performance.

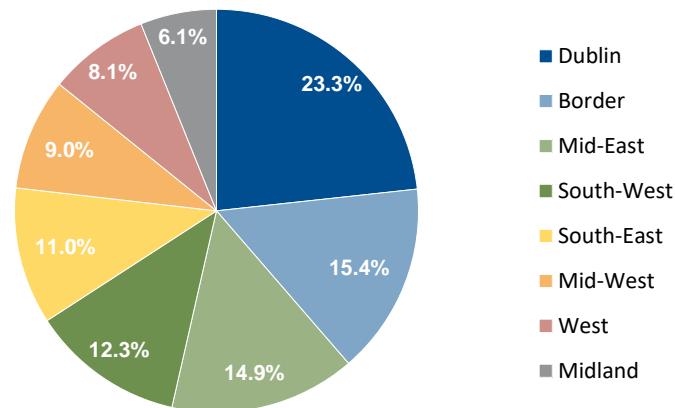
Figure 4. Monthly pay rate and portfolio collections

**Pre-financial crisis origination**

As the mortgage loans were on average originated shortly before the Great Financial Crisis (weighted-average seasoning of 15.2 years), the related properties experienced the full market value decline in Ireland between 2007 and 2013 (see Figure 3). Price drops, a likely lack of maintenance, and arrears capitalisation have resulted in indexed loan-to-value (LTV) currently reaching an average of 112.9%. About 46% of the mortgages are currently considered in positive equity, while the rest shows current indexed LTVs of up to 200%.

The mortgage portfolio shows some regional concentration in Dublin (23.3% of the current balance) and the surrounding area (Mid-East region 14.9%) and is otherwise well distributed across the country, replicating the population distribution in the country.

Figure 5. Regional distribution of the mortgage portfolio



Source: Transaction data tape and Scope Ratings

The regional distribution is not a negative factor

The regional concentration is not a negative factor as it reflects the economic concentration in the country. In addition, Ireland's property markets are highly cyclical, volatile and subject to macroeconomic conditions. During the 2007-13 period, property values in both Dublin and non-Dublin areas dropped significantly (residential price index peak-to-trough of 60% in Dublin and 57% in non-Dublin). We have assumed a uniform property value haircut across all regions, which reflects the vulnerability of the Irish property market.

Base case collections of EUR 261.7m expected

Our analysis assumes a slow start for portfolio collections

Base case assumptions represent a 20% discount to the business plan

5. Portfolio analysis

Under our NPL ABS Rating Methodology, we test the resilience of a rated instrument against deterministic, rating-conditional stresses. We apply higher stresses as the instrument ratings become higher.

We have determined expected base case collections of EUR 261.7m from re-performing assets and property sales, considering B rating-conditional collateral haircuts. Regarding foreclosure timing, we consider the indication provided by the servicer's business plan to be reasonable in light of work-out period assumptions for mortgages in Ireland that we have used recently. These assumptions are valid for the base case, to which we apply standard rating-conditional stresses.

We do not give credit to voluntary sales, which are generally faster and result in higher recovery rates. Moreover, we also disregard EUR 5.7m of unsecured exposures, which are currently in the portfolio, but do not form part of the exposures that the servicer will actively work-out.

5.1. Non-performing exposures

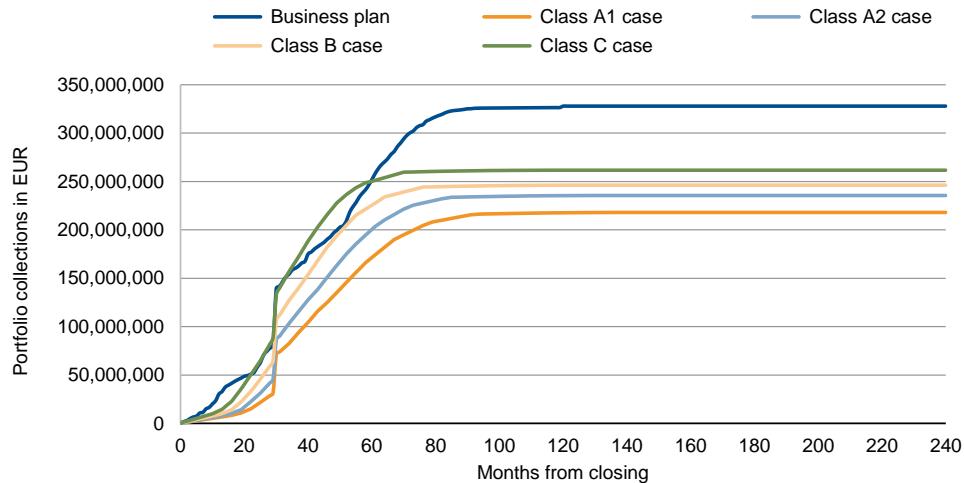
Our analysis assumes a slow start for portfolio collections from property foreclosure. This means we expect collections from the sale of real estate-owned assets to occur only from the 13th month of the transaction's life. There is no information about cash-in-court but the liquidity reserves and the collections on the frequent payers will help to support transaction liquidity.

Regarding foreclosure timing, we assume up to five years from the beginning until the property sale proceeds are collected, in line with the servicer's business case. We do not expect the servicer to put pressure to shorten the timing. Both the servicer's incentive scheme and the regulatory prescribed approach encourage a cooperative process, which is less likely to result in rapid foreclosures or deep sales discounts.

5.1.1. Portfolio collections and business plan review

Figure 6 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those in the servicer's business plan. These assumptions blend recoveries from property sales and proceeds from portfolio sales. The class C case assumptions represent a 20.2% discount to the business plan in total collections, while the 2.8 years of weighted average life is a bit shorter.

Figure 6. Rating-conditional portfolio collection proceeds vs gross business plan collections



Source: Scope Ratings

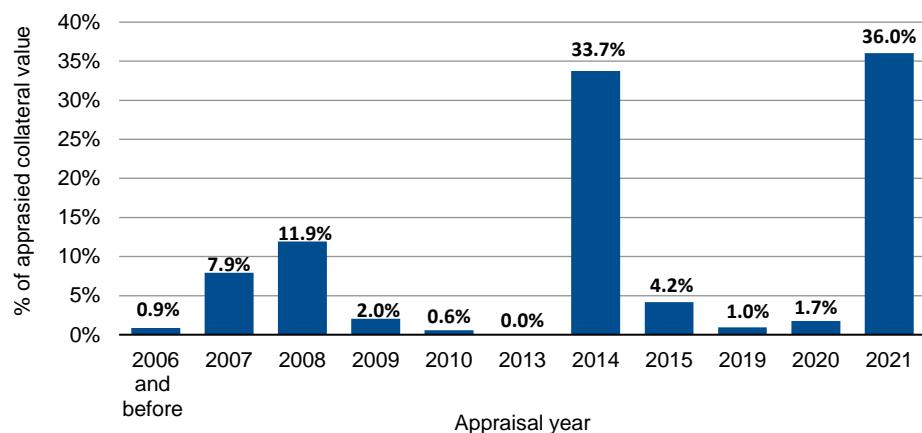
Valuations are on average drive-by or full-inspection appraisals from 2015

5.1.2. Appraisal analysis

The average valuation in this portfolio was conducted in 2015, with about 15% of all properties appraised before 2013. For 24% of the securitised portfolio, Mars Capital only took over management in 2021, meaning those valuations were last updated by the previous owner. Similarly, some valuations are yet to be updated for the sub-portfolio under Mars Capital's management since 2016, likely due to lack of borrower interaction, or acceptable borrower performance, despite being in arrears.

All valuation represent drive-by or full-inspection appraisals.

Figure 7. Collateral appraisal year distribution



Source: Transaction data tape and Scope Ratings

Property value haircuts and sensitivity analysis address valuation uncertainty

Uncertainties regarding collateral valuations are mitigated by the portfolio's granularity. Our modelling captures these uncertainties via i) property value haircuts; and ii) the results of the 10% recovery rate stress sensitivity.

5.1.3. Concentration risk

We addressed borrower concentration risk by applying an up to 13.3% rating-conditional recovery haircut to the 10 largest borrowers. The largest 10 and 100 borrowers account for 9.2% and 29.6% of the portfolio's exposure, respectively.

5.1.4. Residual claims after security enforcement

A secured creditor may initiate enforcement actions against a debtor despite the closure of an enforcement action concerning the mortgaged property. Secured creditors generally rank equally with unsecured creditors for amounts that have not been satisfied with the security's enforcement. The creditor's right to recover its claim, whether secured or unsecured, arises with an enforceable title (i.e. a judgment or an agreement signed before a public notary).

In the absence of conclusive market-wide historical data, we assumed a conservative 10% recovery rate for residual claims that would exist after the financed properties are sold. Recovery strategies are typically not highly focused on collecting these residual claims, as the relevant costs may be higher than the potential proceeds. On the other hand, residual claims can be enforced in a profitable way for some individual borrowers, as the elapsed time after a default may have a positive impact. An individual may, for example, find new sources of income over time and become solvent again.

5.1.5. Collateral haircuts

The application of total net haircuts and servicer fees results in the following rating conditional recovery rates for the non-performing assets in the portfolio for which we assume a property sale.

Target rating level	B	B+	BB-	BB	BB+	BBB-	BBB	BBB+	A-	A
Rating conditional NPL net recovery rate % of GBV	63.5%	61.9%	60.4%	59.1%	57.6%	56.1%	54.5%	52.8%	51.1%	49.4%

Collections from the foreclosed properties reflect our assumptions on standard sale costs, market value declines and quick-sale discounts in Ireland. For the latter, we also consider the servicer incentive scheme, which discourages selling assets at deep discounts.

Market-value-decline assumptions

Assumptions range from 6.2% under the B case to 30.6% under the A case

Our market-value-decline assumptions for Ireland consider the country's i) residential property price index; ii) inflation; and iii) evolution of household incomes. By rating, assumptions range from 6.2% under the B case to 30.6% under the A case.

Quick-sale discount

We have determined a BBB conditional quick-sale discount of 15%, which we apply to all property sales in a BBB scenario and is lower than quick-sale discounts used in other Irish transactions we have rated. For the B category, we reduced the quick-sale discount by 20%. For ratings up to A, we add up to 10% to the BBB discount, in line with our [NPL ABS Rating Methodology](#).

Servicer's property sale data shows discounts from 0% and 14% for updated valuations

The servicer presented property sale data with discounts on the last available valuations ranging from 0% and 14%, depending on the region, with an average of 5% across 990 property exit scenarios. However, this also includes voluntary sales, which generally show a lower discount.

The servicer's work-out strategy, historical data and incentive scheme support the quick-sale discount reduction.

Total net haircuts

On a rating-conditional basis, we have determined security value haircuts and assumed other property sale costs and taxes of 6% (see Figure 8).

Figure 8. Total net collateral haircut contributors

	B	BB	BBB	A
Market value decline	6.2%	14.3%	22.4%	30.6%
Quick-sale discount	12.0%	13.5%	15.0%	16.5%
Sale costs and taxes	6.0%	6.0%	6.0%	6.0%
Net security value haircut	22.4%	30.3%	38.0%	45.5%

Note: We determine net security value haircuts specific to each target rating. The table illustrates only some examples.

5.1.6. Mortgages with unclear lien status

The portfolio contains EUR 24.0m of mortgages loans to obligors, where some of these obligor's mortgages have an unclear lien status. The servicer is aiming to resolve these cases. The questionable positions are excluded from seller/warranty provider representations and warranties.

We have analysed the impact for the rated instruments in case of a resolution failure for all flagged exposures. Treating all these exposures as unsecured and assuming a 30% base case recovery rate applicable to unsecured exposures, we found only a limited change in our results.

5.1.7. Collection timing assumptions

Four to five years of total work-out process

We assume the full work-process, i.e. the time to possession plus the time to sell the property, to be 48 months for properties in large cities such as Dublin and Cork, and 58 months for those in rural areas.

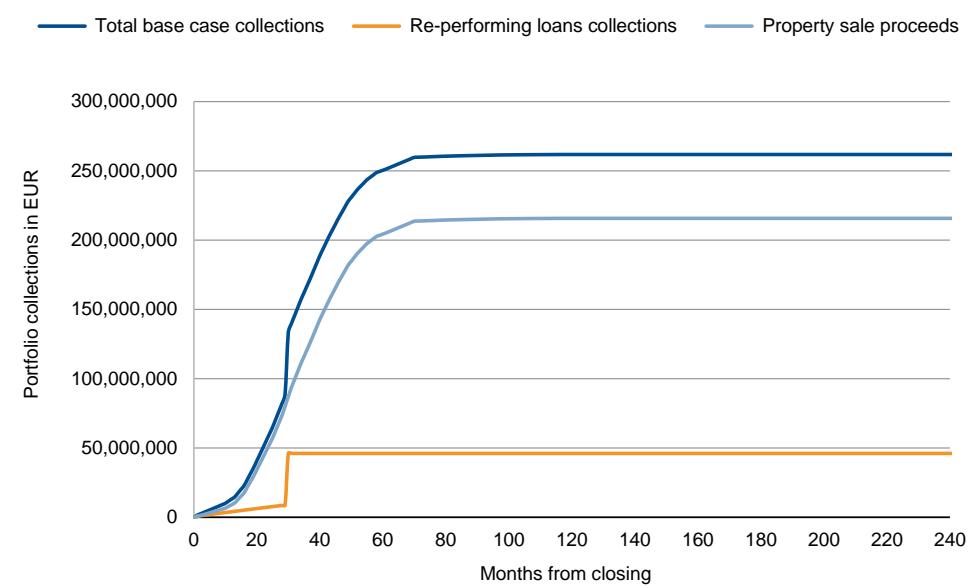
To derive the actual timing by mortgage, we account for the type of property, the location and the work-out status, as per our methodology.

Rating-conditional stresses also apply as per our methodology.

5.2. Re-performing mortgages

We expect EUR 55.2m of the mortgage balance to re-perform and be sold. These mortgages have had a positive monthly payment in the last three months and at least 80% of payments made on time over the last 12 months. Our modelling gives credit to liquidity expected from the mortgages and assumes in the base case that a sale is made 2.5 years after closing, in line with the servicer business plan.

Figure 9. Decomposition of total collections into property and portfolio sale proceeds



Source: Scope Ratings

Re-performing mortgages expected to be sold 80%

We apply stricter selection criteria. The portion of mortgages that we expect to re-perform is smaller than that expected by the servicer (EUR 87.4m). Our analysis considers that re-performing mortgages will be sold at the minimum contractual price of 80%. The lower share of identified re-performing mortgages compared to all paying obligors and servicer assumptions provides a buffer against the risk that some mortgages again underperform before the portfolio sale.

Until the 30th month of the transaction's life, we assume monthly collections from re-performing mortgages to accumulate to EUR 8.9m and sale proceeds to EUR 36.8m. We tested different sale timings as portfolio sales can happen at any point during the transaction's life, but found only limited sensitivity for our modelling results.

6. Key structural features

6.1. Capital structure

The proceeds from the rated notes and the unrated class Z1 and class Z2 notes will be used to purchase the initial portfolio of assets, fund the reserves and pay the initial costs, including the interest cap purchase costs.

Classes A1 to Z2 will amortise in full sequential order with respect to portfolio collections in the normal course of portfolio amortisation and the realisation of proceeds from foreclosure properties.

Proceeds from the sale of re-performing mortgages will be shared among the rated notes as shown in the following table.

Classes A1 to Z2 will amortise in full sequential order

Instrument name	Class A1	Class A2	Class B	Class C	Class Z1	Class Z2
Portfolio sale proceeds share	87.5%	5.0%	4.5%	3.0%	0.0%	0.0%

6.2. Liquidity reserves

Liquidity reserve is supportive of rated notes' interests

Each class of rated note has a dedicated reserve covering interest payments until proceeds from the securitised portfolio provide sufficient liquidity. The liquidity coverage adequately addresses the respective position of the tranches' interest payments in the priority of payments. Moreover, interest on the class B and C notes can be deferred until maturity. Non-required amounts can repay notes principal as part of available funds.

Classes A1 and A2 receive liquidity support from the EUR 8.60m class A reserve, which can pay senior costs and interest on these two note classes for just over 16 months. The reserve also considers senior costs at 0.5%, one-month Euribor at zero percent and no collections from the portfolio during that time. The reserve is amortising and will always represent 4% of the outstanding class A1 and class A2 notes balance.

The EUR 1.08m class B reserve can provide interest coverage for the class B notes for almost 40 months, which addresses the fully sequential priority of payments, under which class B interest payments from portfolio collections are subordinated to the full repayment of the class A1 and A2 notes.

Class C benefits from the EUR 1.40m class C reserve, which provides interest coverage for 42 months under current conditions. Portfolio collections are allocated to class C interest payments only once all more senior classes of notes are repaid in full.

6.3. Priority of payments

Strictly sequential integrated waterfall

The structure features an integrated priority of payments for interest and principal. Portfolio collections other than from portfolio sale proceeds will be used to cover the respective items in the priority of the payments in sequential order. The combined priority of payments together with the liquidity reserves is adequate to address the liquidity needs of the respective class of notes.

Figure 9: Simplified available funds and priority of payments

Available funds	
A	Transaction accounts interest proceeds and collections from authorised investments.
B	Portfolio collections (principal and interest from frequent payers plus foreclosure proceeds)
C	Class A liquidity reserve fund (for senior fees and class A interest shortfall)
D	Class B liquidity reserve fund (for class B interest shortfall)
E	Class C liquidity reserve fund (for class C interest shortfall)
F	Interest cap receipts due to an interest rate cap agreement
G	Non-required liquidity reserve amounts
H	Portfolio sale excess funds

Priority of payments	
1	Senior expenses and costs
2	Tax
3	Issuer profit amount
4	Class A1 and class A2 interest
5	Top-up of class A liquidity reserve to the required amount (required amount reduces to zero in post-enforcement waterfall)
6	Class A1 principal
7	Class A1 additional note payment (1.5% additional interest)
8	Class A2 principal
9	Class A2 additional note payment (1.5% additional interest)
10	Class B interest
11	Class B principal
12	Class B additional note payment (1.5% additional interest)
13	Class C interest
14	Class C principal
15	Class C additional note payment (1.5% additional interest)
16	Subordinated items

Principal collected will cover any unpaid senior expenses and interest on the most senior class before the first principal item in the priority of payments is distributed. Portfolio sale proceeds will be distributed outside the priority of payments (see 6.1) unless these represent excess cash, i.e. in case the class of notes to which the amounts are dedicated is repaid in full.

6.4. Servicer fees and foreclosure costs

The servicing fee structure is designed to mitigate potential conflicts of interest between the servicer and the noteholders, through performance-based servicing fees in addition to the portfolio administration and setup fees.

We do not model the performance fees except for the 2.5% property sale fee. Our rating cases reflect increasing levels of stress that cannot be associated with cures, business plan outperformance or significant arrears improvements in the underlying portfolio. Only the property sale fees would still apply and solely depend on the property sale price.

Our analysis reflects the following fees, which all rank senior to the payments on the notes:

Fee item	Implementation
Base servicing fee	Modelled at the contractual maximum of 0.5% of GBV
Legal title holder fee	0.05% of GBV
Real-estate owned asset sale fee	2.5% of net sale proceeds
Business plan implementation fee	0.08% of the rated notes' balance, reflecting the business plan expected case, while our analysis rather represents a scenario of underperformance compared to the business plan
Portfolio expenses	EUR 100,000 + 0.05% of GBV

In addition to the fees, we also consider the costs involved in the work-out process to be paid senior to the note payments:

Cost item	Implementation
Real-estate owned asset legal cost to gain possession	Up to EUR 7,500 per loan for which the foreclosure process is pursued, depending on current legal status
Real-estate owned asset sale costs	6.0% of rating-conditional property value

We consider the costs involved in the sale of portfolio assets through only assuming the minimum sale price of 80% of GBV in our analysis, which is a net price.

6.5. Interest rate risk

Significant interest rate risk exposure

The transaction is exposed to significant interest rate risk. The rated notes pay interest indexed to one-month Euribor. One-month Euribor plus the respective tranche margin has a floor at zero. Regular portfolio payments do not necessarily follow a certain reference rate.

At closing, an interest rate cap agreement with Morgan Stanley provides support, should the issuer's interest costs rise as a result of the one-month Euribor increasing above zero percent. The agreement covers the first four years of the transaction's life and references the class A and class B notes' outstanding principal balance. The cap instrument provides additional funds to the transaction as soon as the one-month Euribor reaches above the strike, which is set at zero (increase to 0.5% after 24 months).

The interest rate cap agreement expires 48 months after transaction closing. Then, a contractual cap for the notes coupon starts to apply. For the class C notes, the contractual cap applies from closing date.

Instrument name	Class A1	Class A2	Class B	Class C
Coupon cap level	4.50%	4.50%	5.25%	5.50%
Cap start date	February 2026	February 2026	February 2026	Closing date

The coupon cap will apply to the respective tranches' coupon, which is the sum of one-months Euribor plus the respective margin plus the additional note payment, as it applies 48 months after transaction closing.

Liquidity reserves can also support the transaction's liquidity, even at some elevated levels of one-month Euribor. For example, when the one-month Euribor is 1.5%, the senior reserve can cover senior costs and class A1 and A2 interest for almost 11 months, while the class B and class C reserves can cover the associated interest for 25 months and 30 months, respectively, with full tranche notional outstanding and irrespective of the interest rate cap in place.

6.6. Accounts

The high credit quality of Elavon and replacement triggers mitigate counterparty exposure

The issuer holds its transaction account with Elavon. The high credit quality of Elavon and replacement triggers mitigate counterparty exposure, in accordance with our counterparty risk methodology (see counterparty risk section for further details).

7. Cash flow analysis and rating stability

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis considers the capital structure, the coupon payable on the notes, the hedging structure, the servicing fees structure, and the transaction's senior fees and legal costs.

The respective ratings assigned to the notes reflect the instruments' expected losses over their weighted average life commensurate with Scope's idealised expected loss table.

7.1. Rating sensitivity

We tested the resilience of the rating against deviations in the main input parameters: the recovery rates and recovery timings on the worked-out share of the mortgage portfolio. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the results for rated notes change compared to the assigned credit rating in the event of i) a decrease in secured recovery rates by 10%; and ii) an increase in the recovery lag by one year:

- Class A1: i) three notches; ii) one notch
- Class A2: i) four notches; ii) one notch
- Class B: i) three notches; ii) one notch
- Class C: i) four notches; ii) zero notches

8. Sovereign risk

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown or legal insecurity are immaterial for the ratings, even in the context of an unlikely exit from the European Union.

Economic growth in Ireland rebounded quickly after the March 2021 lockdown and the outlook remains robust for 2022. Medium-term challenges stem from economic uncertainty due to Covid-19 and Brexit, as well as the country's high debt ratios.

9. Counterparty risk

The transaction's counterparty risk supports the instruments' ratings. We do not consider any counterparty exposure to be excessive. The limited exposures, the generally high credit quality of the counterparties and replacement mechanisms support the rated instruments.

9.1. Servicer disruption risk

No back-up servicer was appointed at closing, exposing the transaction to a servicer disruption event. This risk is mitigated through the availability of servicers with similar size and experience, which we expect can execute the regulated foreclosure process. Intertrust Management Ireland Limited as back-up administrator facilitator will help with the replacement and transition. We therefore expect a quick onboarding of a successor servicer.

Commingling risk from the exposure to the servicer is immaterial for the ratings, considering the limited time exposure and the set-up of the servicer collection accounts as trust accounts, which should benefit from separation rights in case of a servicer default. This risk is further mitigated through a replacement trigger on the servicer's account holding bank based on its public rating. Still, we have tested the structure for our standard commingling risk analysis and found the impact to be immaterial in the context of the assigned ratings.

9.2. Counterparty risk from account bank and paying agent

The class A1 notes have a medium expected weighted average life of 3.8 years. Given Elavon's high credit quality, we consider the risk of losses following a default of the entity sufficiently remote as to be immaterial for the rated notes. We assessed the credit quality of Elavon using public information as well as public ratings on U.S. Bancorp, Elavon's parent company. The transaction further benefits from a replacement trigger for Elavon as account bank based on its public rating.

Sovereign risk does not limit the transaction's ratings

No back-up servicer

Commingling risk is immaterial

9.3. Counterparty risk from interest cap provider

Morgan Stanley provides the interest rate cap, which protects the transaction from increases in the one-month Euribor. We consider the risk of losses following a default of Morgan Stanley sufficiently remote as to be immaterial for the rated notes. We assessed the credit quality of the bank using public information and the entity's public ratings. Further, the transaction benefits from a replacement trigger for Morgan Stanley as the derivative counterparty based on its public rating.

10. Legal structure

10.1. Legal framework

This securitisation is governed by both English and Irish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Intertrust Management Ireland Limited, the corporate service provider. The special purpose vehicle is essentially governed by the terms in the documentation.

10.2. Use of legal and tax opinions

We reviewed the draft legal and tax opinions produced by Arthur Cox LLP for the issuer. These provide comfort on the issuer's legal and tax-efficient structure and support our general legal analytical assumptions.

The draft legal opinion was explicitly positive regarding the right of separation for amounts on the collection accounts that are trust accounts in case of a servicer default.

The draft tax opinion considers the structure to be tax-efficient, i.e. no taxes apply, except for the minimum retained profit tax and VAT in the context of contracted services, which the issuer is unable to recover.

11. Monitoring

We will monitor this transaction based on performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

12. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology dated December 2021, Non-Performing Loan ABS Rating Methodology dated August 2021 and Methodology for Counterparty Risk in Structured Finance dated July 2021. All are available on our website, www.scoperatings.com. Morgan Stanley provided us with property disposal data and loan-by-loan historical payment records. The payment records are long, dating back to 2012 for 76% of the securitised portfolio and to 2014 for the remaining part, which, however, only includes the latter part of the most stressful period for residential properties and mortgages in Ireland. The disposal data relates to 76% of the securitised portfolio, i.e. the part that is serviced by Mars Capital since 2016, and covers the period from 2014.

Tax-efficient set-up; bankruptcy-remote special purpose vehicle

Scope analysts are available to discuss all the details surrounding the rating analysis

I. Summary of portfolio characteristics

Our analysis was based on the provisional portfolio as of 30 November 2021.

	Warrington Residential 2022-1
Expected closing date	22 February 2022
Current balance	EUR 403.3m
Credit balance covered by indexed property value	EUR 322.2m
Number of loans	1,629
Borrower number	1,450
Weighted average coupon	3.8%
ECB tracker (% of portfolio balance)	37.1%
Servicer variable rate (% of portfolio balance)	60.2%
Fixed (% of portfolio balance)	2.7%
At least three months in arrears (% of portfolio balance)	99.6%
Weighted average original loan-to-value	77.4%
Weighted average indexed LTV	112.9%
Real-estate-owned assets (% of portfolio balance)	9.1%
Interest-only and split mortgages (% of portfolio balance)	22.0%
Buy-to-let (% of portfolio balance)	19.4%
Dublin (% of portfolio balance)	23.3%
Restructured (% of portfolio balance)	13.8%
Weighted average seasoning (years)	15.2
Weighted average remaining term (years)	12.4
Payment rates (last six months)	38.2%



Warrington Residential 2022-1 DAC

Non-performing loans ABS – Ireland

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