

# Shamrock Residential 2022-1 DAC

## Reperforming RMBS – Ireland



Scope  
Ratings

### Ratings

Note class	Rating	Notional (EUR m)	Notional <sup>1</sup> (% assets)	CE <sup>2</sup> (% assets)	Index	Margin (bps)	Step-up margin (bps)	Final maturity
A	(P) AAA <sub>SF</sub>	443.5	74.1%	27.9%	1mE	85	150	Jan 2061
B	(P) AA+ <sub>SF</sub>	32.1	5.4%	22.5%	1mE	140	210	Jan 2061
C	(P) A+ <sub>SF</sub>	29.2	4.9%	17.6%	1mE	190	290	Jan 2061
D	(P) BBB+ <sub>SF</sub>	21.9	3.7%	14.0%	1mE	240	340	Jan 2061
E	(P) BB+ <sub>SF</sub>	21.9	3.7%	10.3%	1mE	450	550	Jan 2061
F	(P) B+ <sub>SF</sub>	8.7	1.5%	8.8%	1mE	550	650	Jan 2061
G	(P) B- <sub>SF</sub>	11.7	2.0%	6.9%	1mE	650	750	Jan 2061
RFN	NR	11.7	2.0%		Fixed	700		Jan 2061
Z	NR	14.6	2.4%		Fixed	1,000		Jan 2061
X	NR							Jan 2061
Rated notes		569.0						

1. Note that up to 2.5% of the notional will not be available for principal repayment but may be paid as coupon.

2. Includes liquidity reserve and non-liquidity reserve

3. Step-up date September 2024

Scope's quantitative analysis is based on the portfolio dated 31 October 2021 and the prospectus 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 a particular payment date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

### Transaction details

Purpose	Refinancing
Issuer	Shamrock Residential 2022-1 DAC
Originators	Ulster Bank Ireland Ltd, Ulster Bank Ltd, Ulster Bank Ireland DAC, Danske Bank A/S, First Active plc, First National Building Society, National Irish Building Ltd, AIB plc, AIB Mortgage Bank UC, AIB Finance Ltd, EBS DAC, Haven Mortgages Ltd, Stepstone Mortgage Funding Ltd
Servicers	Mars Capital Finance Ireland DAC (Mars Capital), Cabot Financial (Ireland) Ltd (Cabot Financial)
Account bank	Elavon Financial Services DAC
Interest rate cap provider	BNP Paribas S.A.
Closing date	[14 March 2022]
Payment frequency	Monthly (24 <sup>th</sup> of each month)

The transaction is a true-sale securitisation of a mixed static portfolio of delinquent (19%), current and historically restructured (61%), and current and never restructured loans (20%), mostly secured by first-lien residential properties located in Ireland. The purpose of the transaction is to refinance loan pools acquired by Coll Residential DAC. The liability structure features strictly sequential, separate priorities of payment. The EUR 598.6m provisional portfolio comprises 4,164 loans granted to 3,096 borrowers.

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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 rationale (summary)

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral; the experience and incentives of Mars Capital and Cabot Financial as the servicers in the transaction; and the exposure to the transaction's key counterparties.

The ratings are mainly supported by credit enhancement, moderate current loan-to-values, and non-amortising cash reserve funds. Class A, Class B, Class C, Class D, Class E, Class F, and Class G will amortise over an estimated weighted average life of 7.4, 15.7, 17.3, 18.3, 19.9, 21.0 and 19.4 years respectively, assuming no call and a zero constant prepayment rate (CPR).

The credit quality of the rated notes is mainly constrained by a relatively high expected lifetime portfolio default rate, Ireland's volatile property market, and limited excess spread.

The transaction is exposed to the following key counterparties: Mars Capital and Cabot Financial as the servicers, Barclays Bank Ireland plc and Allied Irish Banks plc as the servicer's account banks, Elavon as the transaction account bank and paying agent, and BNP Paribas 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 BNP Paribas and Elavon based on public information.

### Rating drivers

#### Positive rating drivers

**Credit enhancement.** The Class A to G notes benefit from sufficient credit enhancement provided by subordination, overcollateralisation and reserve funds.

**Moderate current loan-to-value ratio.** Moderate current loan-to-values incentivise borrowers' willingness to pay, mitigating (re)default risks. The portfolio's current loan-to-value is close to that of peer transactions issued in Ireland and reflects the property market recovery in Ireland with gradual deleveraging.

**Strong liquidity.** Liquidity shortfalls are very unlikely for the rated notes. Liquidity reserves cover senior costs and rated notes interest for more than 24 months. In addition, principal proceeds can be diverted to cover for interest shortfall risk, in accordance with the transaction's waterfalls (principal-to-interest via a revenue shortfall mechanism as well as yield supplement overcollateralisation – YSO). The revenue shortfall mechanism will only protect the most senior outstanding tranche.

#### Negative rating drivers

**High (re)default risk.** The portfolio consists mainly of reperforming loans following a past restructuring, and loans currently in arrears expected to be restructured soon. Our lifetime portfolio default rate distribution reflects the weak credit quality of the portfolio compared to performing portfolios. We used an inverse Gaussian portfolio default rate distribution with a mean of 21.5% and a coefficient of variation of 30%.

**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, fuelled by cheap credit. However, demand may decline if the macroeconomic recovery stops, or interest rates rise significantly.

**Limited excess spread.** The transaction's excess spread is low, which limits the effectiveness of principal deficiency ledgers (PDL) and makes the transaction rely more on reserve funds. We tested the rating impacts of different asset margin stress scenarios.

#### Upside rating-change drivers

**Better than expected asset performance** may positively impact the ratings. If restructurings prove to be sustainable solutions for the borrowers, default risk and recovery expectations may improve.

#### Downside rating-change drivers

**Macroeconomic uncertainty and risks of a global growth slowdown** may weigh negatively on the performance of the collateral pool, due to the retrieval of foreign investment in Ireland, leading to a long lasting deterioration in employment levels and a potential sovereign crisis.

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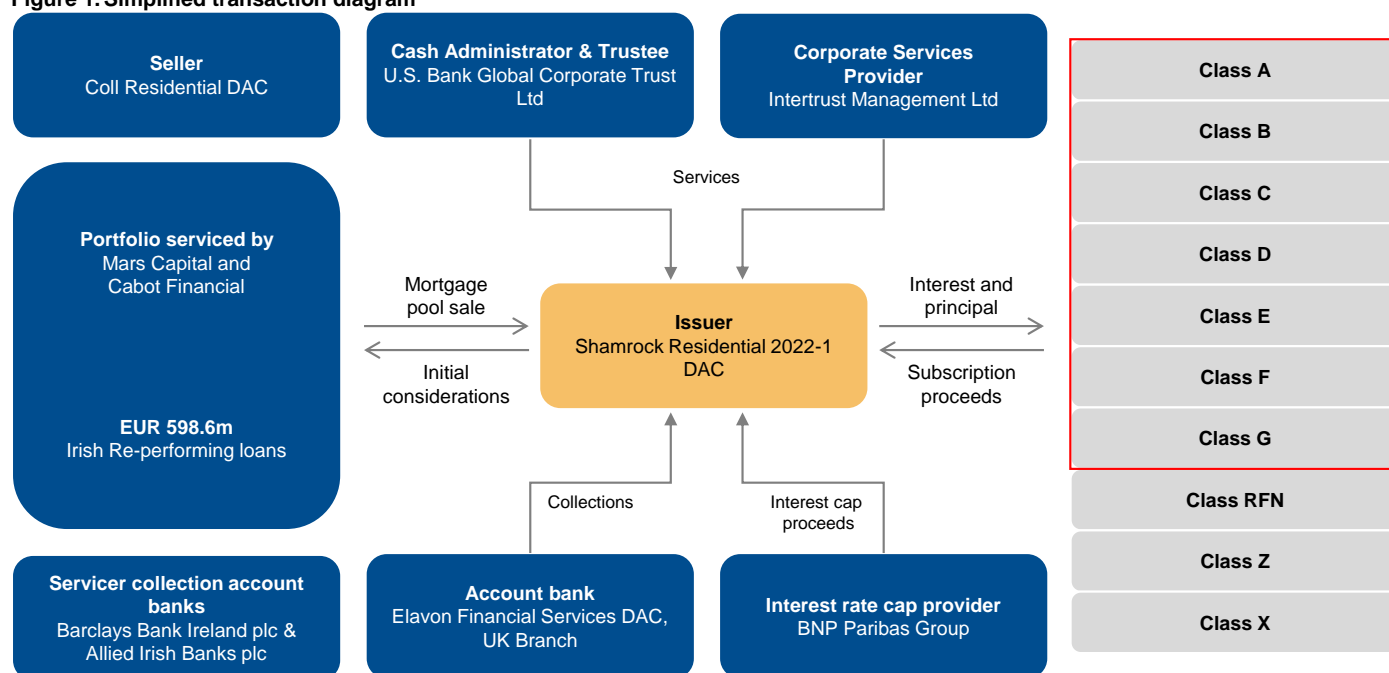
### 1. Transaction summary

Shamrock 2022-1 is a EUR 598.6m true-sale transaction to refinance portfolios acquired by Coll Residential (the seller), set up as per the transaction diagram in Figure 1.

The underlying pool consists of [4,164] mainly reperforming mortgage loans originated by different retail lenders predominantly in Ireland. The mortgage loans finance [3,351] properties with a current indexed collateral value of [EUR 1,137.3m]. Many of these loans (68%) have been restructured during their already quite long life (weighted average seasoning 14.8 years) or are expected to be restructured to make them performing on a sustainable basis, in line with regulatory requirements from the Central Bank of Ireland.

Barclays Bank Ireland plc and Allied Irish Banks plc will be the servicers' collections account banks, Elavon is the transaction account bank, and BNP Paribas S.A. is the interest cap provider. Mars Capital and Cabot Financial are the special servicers managing the loan portfolio, processing restructurings and potential collateral foreclosures on behalf of the issuer.

Figure 1. Simplified transaction diagram



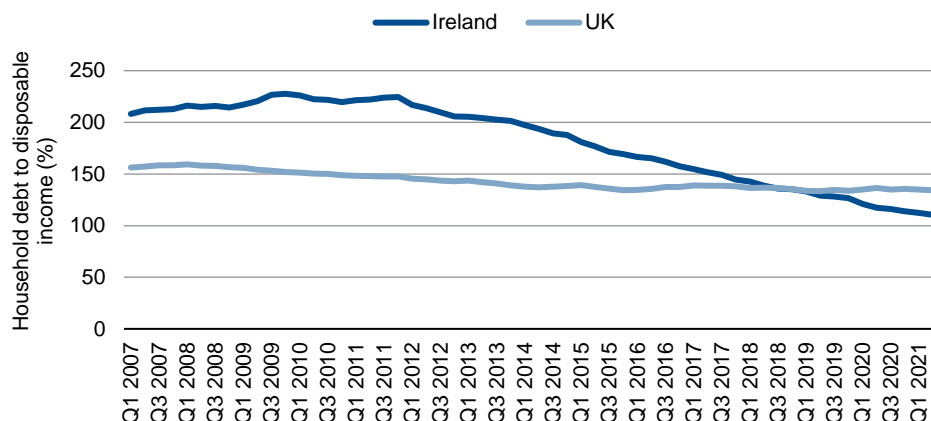
Source: Transaction documents and Scope

The economic environment in Ireland has stabilised

## 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.

Figure 2. Debt affordability in Ireland and the UK

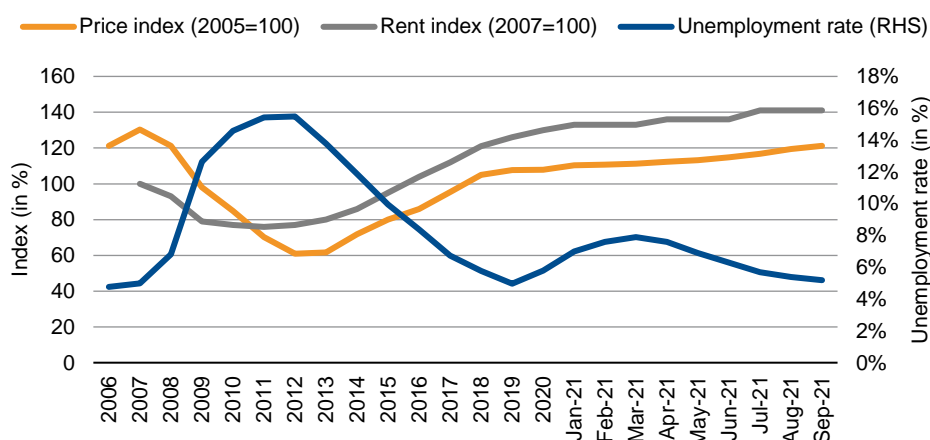


Source: OECD and Scope Ratings

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

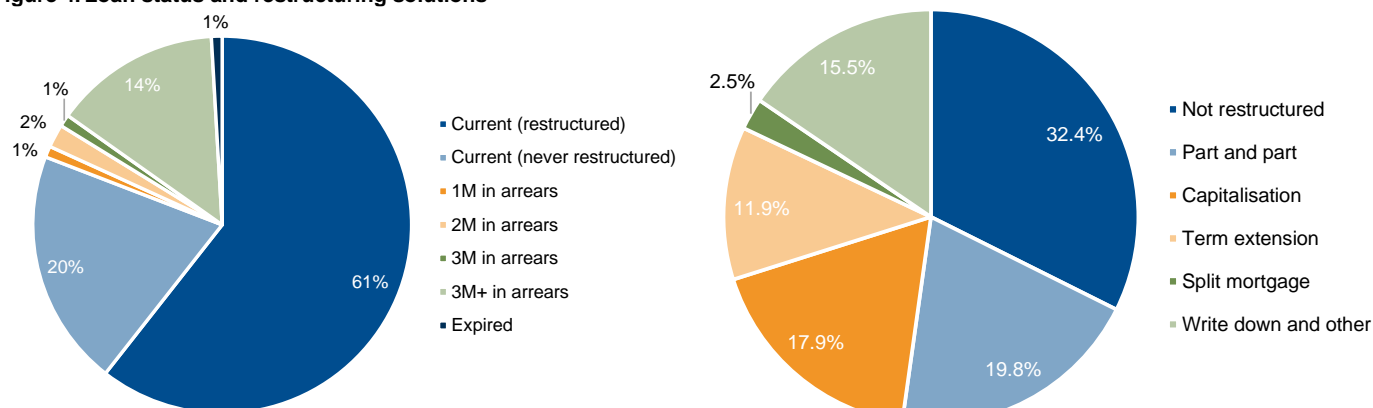
Changes in the interest rate environment or new, prolonged Covid lockdowns may reverse the positive trend in household-debt affordability, making restructurings more challenging and potentially stressing property prices.

## 3. Asset analysis

### 3.1. Portfolio

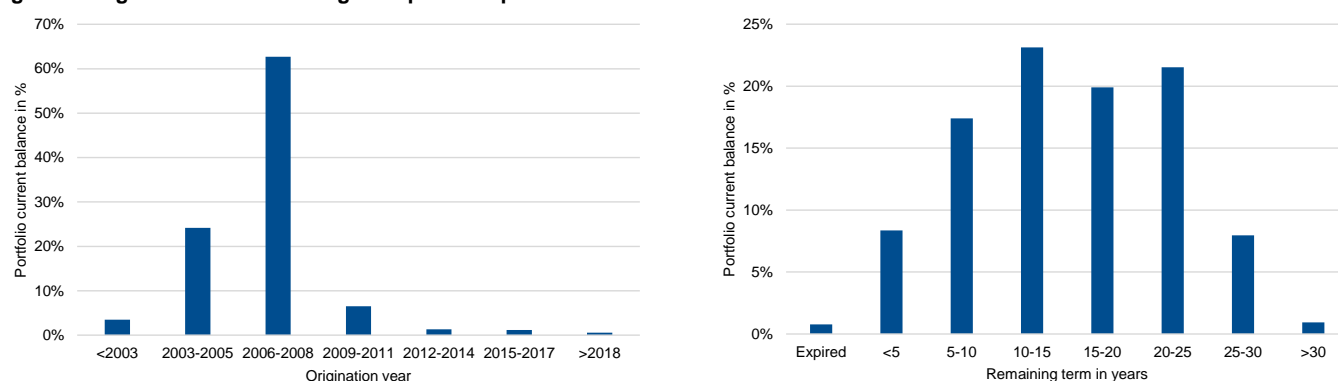
The transaction is a mix of reperforming and performing mortgage loans. We define performing mortgage loans as loans that have never been restructured nor in the observable history have been in 3M+ arrears. The definition of reperforming loans in this transaction is broader than usual, including those which have undergone restructuring measures or for which restructuring is currently being negotiated. The ongoing negotiations apply to either: i) loans which are currently three months or more in arrears (around 14% of the pool); or ii) loans which have reached their maturity date (1% – 'expired') – see Figure 4.

**Figure 4. Loan status and restructuring solutions**



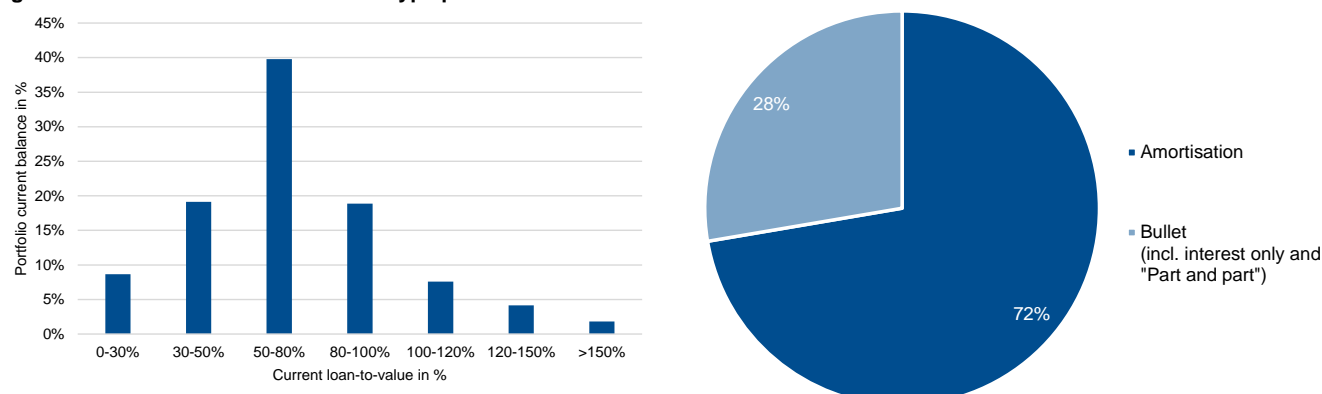
Loans are very seasoned (around 15 years) and over half of them were originated just before the financial crisis – see Figure 5. We assume that seasonality is only a positive factor for performing loans. When analysing reperforming loans, we focus on their historical payment records and give no benefit to seasonality.

**Figure 5. Origination and remaining term portfolio profile**



The loan-to-value is at a reasonable level (around 70%, based on the indexation of the latest available valuation) and most of the loans are amortising (outstanding portfolio balance represents 70% of the portfolio volume at its origination). This is supportive and will further improve the pool through continuous deleveraging – see Figure 6.

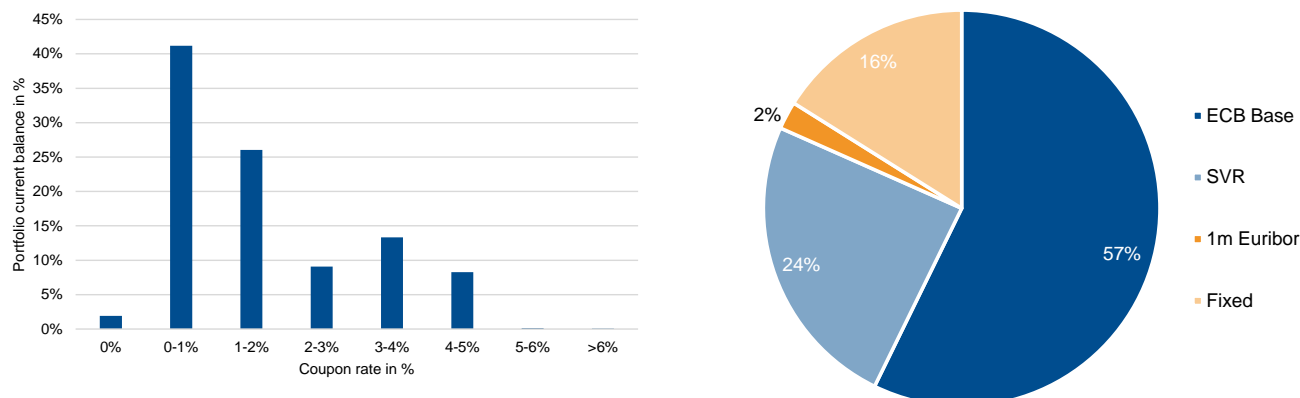
**Figure 6. Current LTV and amortisation type profile**



Source: Scope, data provided by Morgan Stanley

The current portfolio yield of 1.7% is relatively low, representing the high share of restructured assets in the portfolio. Fixed-rate loans represent 16% of the portfolio and floating-rate loans are mostly referred to the ECB base rate (57%) – see Figure 7.

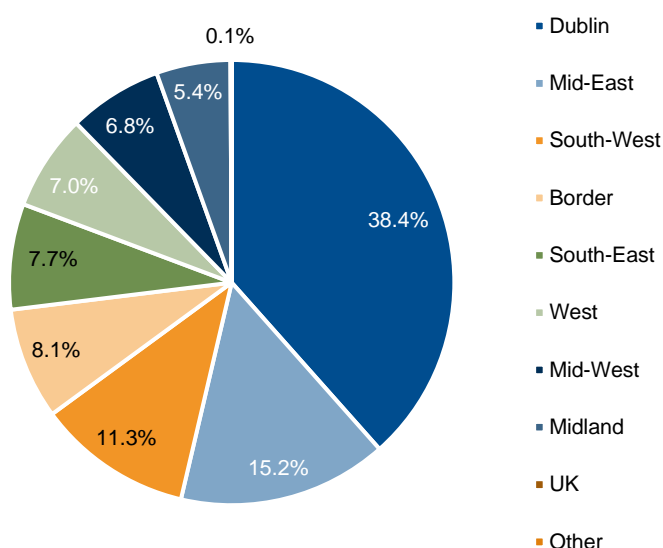
**Figure 7. Coupon rate profile and mortgage loan interest references**



### Properties concentrated in Dublin

The underlying mortgage properties are relatively concentrated in Dublin (see Figure 8). We do not consider this a negative factor as this is reflective of the economic activity concentration of the country (half of the transactions in 2019 were in Dublin; also similar to the predecessor transaction [Shamrock Residential 2021-1 DAC](#)). In addition, Ireland's property markets are highly cyclical and volatile, subject to macroeconomic conditions. During the economic downturn of 2007-2013, we observed the Dublin and non-Dublin area both suffered a significant drop (residential price index peak-to-trough 60% vs 57%). We have assumed a uniform property value haircut across all regions, which reflects the vulnerability of the Irish property market.

**Figure 8. Regional distribution of the mortgage portfolio<sup>1</sup>**



Source: Scope, data provided by Morgan Stanley

We expect the transaction to be strongly supported by the performing assets, which have significantly increased to a combined 84.5% portfolio share as of October 2021. We also

<sup>1</sup> If loans are secured by multiple properties, we use the location of the highest property value for this calculation.

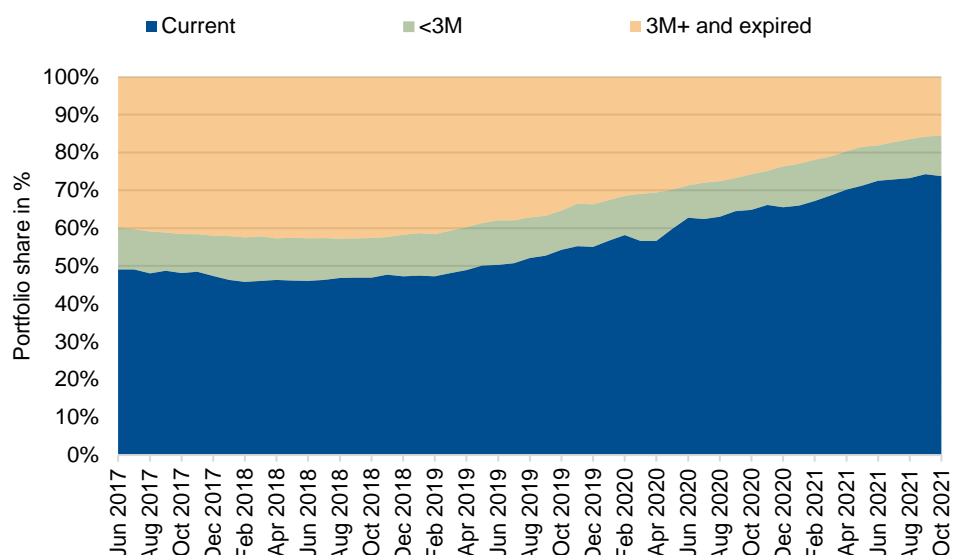
The portfolio shows a similar arrears improvement visible in most Irish mortgage portfolios

Loans more than three months weaken the portfolio quality

expect less volatility in the event of an extreme economic downturn compared to a pure restructured pool, due to the 60.2% share of loans that have never been restructured.

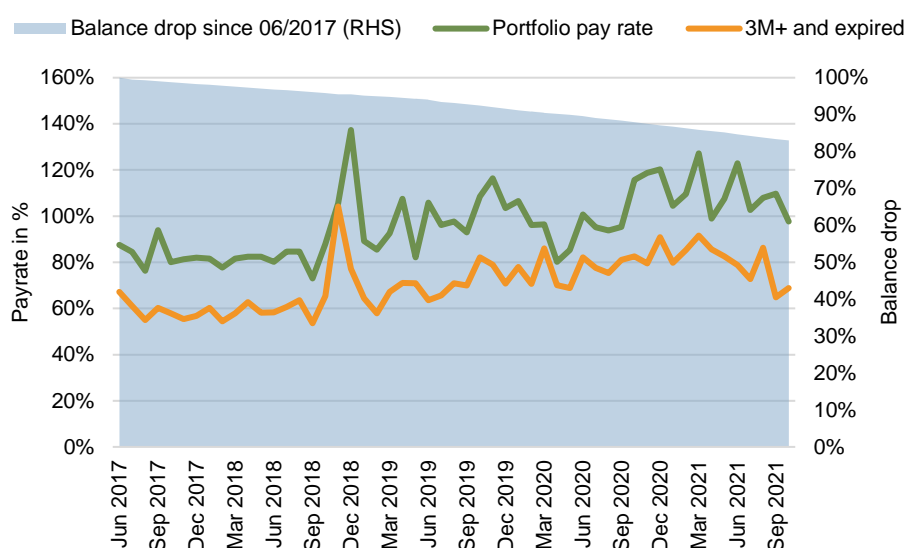
Historically, the portfolio actually contained similar levels of loans in 3M+ arrears (up to 40% as per Figure 9) compared to other public transactions, which showed about 40-75% at their peak. In addition, it has a relatively consistent and robust payment flow.

**Figure 9. Portfolio segmentation depending on loan status**



Still, the loans which are three months or more in arrears weaken the overall portfolio quality. These loans have a comparably low payment rate, which has declined further in recent months (see Figure 10). For these loans, we assume a low likelihood of reperformance even with active restructuring. We captured this low likelihood with a high mean default rate.

**Figure 10. Payrates\* and balance drop since 2017**



\*Payrate refers to periodic payment divided by its due amount

### 3.2. Mortgages with unclear lien status

The portfolio contains EUR 17.1m of mortgages loans to obligors, where some of these obligor's mortgages have an unclear lien status. The servicers are 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.

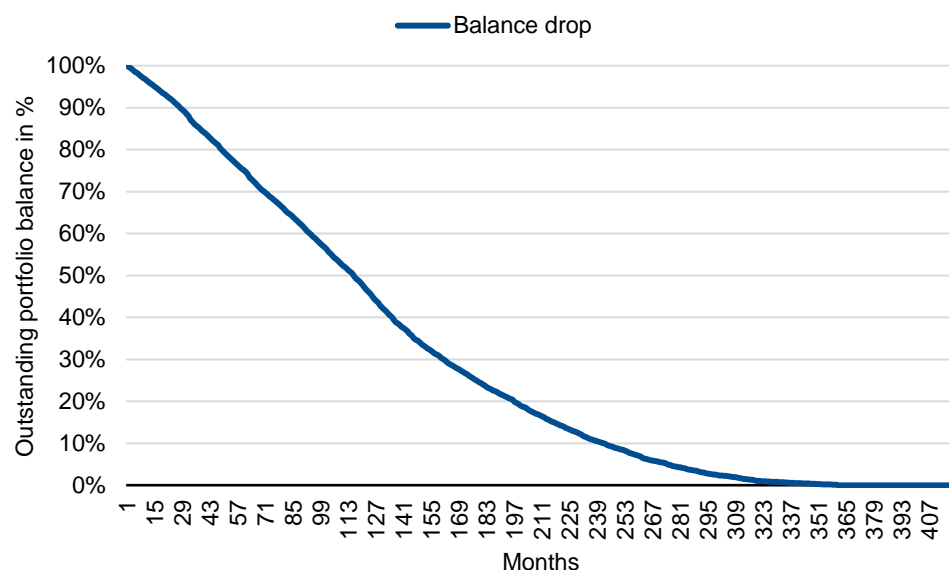
### 3.3. Amortisation profile

We developed our expectation of the amortisation profile by considering both the contractual amortisation of the portfolio and a term extension adjustment. The terms of expired loans are extended by 10 years after restructuring. Terms for delinquent loans (three months and more in arrears) are extended on average by seven years after restructuring. The adjustments resulted in a marginal increase of the weighted average remaining term of 16 months.

The amortisation profile in Figure 11 has a weighted average life of 10.4 years, reflecting the amortising nature of the portfolio loans and includes the expected extension of terms following restructuring.

Amortisation profile includes the extension of terms following restructuring

**Figure 11. Expected portfolio amortisation profile (0% prepayment, 0% defaults)**



### 3.4. Portfolio modelling assumptions

We derived an expected portfolio default rate assumption based on a transaction-specific regression analysis using our internal sources, complemented by public data on Ireland's prime mortgage performance. The regression independent variables reflect the key characteristics of the underlying assets. The use of Ireland's public prime mortgage performance is limited to performing loans in the pool.

Our recovery timing assumption includes a period of arrears management before the start of the foreclosure process. In Ireland, the required pre-foreclosure process is quite lengthy, required by law to be at least eight months from the date the arrears first arose.

**Figure 12. Portfolio modeling inputs**

	Portfolio
Mean default rate	21.5%
Coefficient of variation	30.0%
Base case recovery rate	81%
AAA rating-conditional recovery rate	54%
Recovery timing	3 years
Constant prepayment rate	0.0%

### 3.4.1. Default rate analysis of portfolio

We assumed 21.5% default rates for the portfolio, derived from the regression-implied default rates for reperforming loans and the benchmark method for performing loans.

We performed our regression analysis on a loan-by-loan basis, considering the borrower's ability and willingness to pay. More specifically, we examined each loan's accumulated payment rates, restructuring history, loan-to-value, and the length of time it was more than three months in arrears. The first two factors attempt to capture the borrower's repayment ability. The latter two are associated with the borrower's willingness to repay or the likelihood of a cure.

On top of the regression analysis, we considered Ireland's residential mortgage default performance<sup>2</sup> when assigning default rates for performing loans. We believe default risks for these loans are low as they are very seasoned and have a clean payment history.

### 3.4.2. Recovery rate

We assumed the property's disposal value to be the only source of cash flow upon loan defaults. Figure 13 shows our rating-conditional recovery rate assumptions following defaults.

We derived the recovery assumptions using our fundamental recovery framework, which applies line-by-line haircuts to indexed property appraisals. These haircuts mainly reflect market value losses under rating-specific stress scenarios, as well as a constant liquidation discount (i.e. a quick-sale discount).

We took a conservative view of the Irish property market, reflected in high market value losses and liquidation discounts compared to other European jurisdictions. This is mainly based on the country's small economy and very volatile property prices. Our AAA implicit total value haircut assumptions factors in a significant degree of stress that goes beyond our current expectations, including uncertainties due to the impact of Brexit and the consequences of the Covid-19 crisis.

In line with the predecessor transaction, we apply a quick-sale discount in case of a property sale of 25%. Indications in particular from Mars Capital show average discounts to last valuation value of 5%.

Finally, we assumed 6% of foreclosure costs on the gross disposable proceeds.

We performed our regression analysis on a loan-by-loan basis

Analysis incorporates rating-conditional recovery assumptions

<sup>2</sup> Transactions include Celtic Residential Irish Mortgage Securitisation No. 11 PLC, Celtic Residential Irish Mortgage Securitisation No. 12 Limited, Celtic Residential Irish Mortgage Securitisation No. 14 LTD, Phoenix Funding 2 DAC, Phoenix Funding 3 DAC, and Dunmore Securities No. 1 DAC.

**Figure 13. Rating-conditional recovery assumptions**

	B	BB	BBB	A	AA	AAA
Implicit total value haircut (incl. foreclosure costs)	42%	46%	49%	53%	57%	62%
Recovery rate	81%	77%	72%	66%	60%	54%

### 3.4.3. Constant prepayment rate (CPR)

We assumed a zero CPR. The portfolio's historical average CPR is low and, in addition, it is unlikely that restructured borrowers will be able to increase their repayment speeds because their current payment schedules are based on their incomes.

In the absence of pro-rata amortisation or significant excess spread, prepayments will reflect positively on the performance of the rated instruments.

## 4. Special servicer review

### 4.1. Introduction

Our assessment of the special servicers' capabilities addresses, among other aspects, its corporate structure, business processes and transaction-specific aspects, such as the forbearance procedure and asset disposal strategies. In our view, the special servicers' capabilities and processes used to manage the securitised portfolio are satisfactory.

To conduct this assessment, we relied on corporate presentations shared by the arranger. We also considered the performance to date of the securitised portfolio and the servicers' track-records.

### 4.2. Mars Capital

We deem Mars Capital capable of servicing the portfolio of re-performing and performing mortgage loans as well as for potential non-performing mortgages due to its experience 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.

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 servicing strategy for the portfolio follows the guidelines of the Central Bank of Ireland, i.e. in case of a borrower in difficulty, the company will undertake significant effort to find a sustainable restructuring solution before starting a foreclosure process. Forbearance options (i.e. alternative repayment arrangements) are in accordance with the Mortgage Arrears Resolution Process under 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 in case non-performing situation 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 certain bonus if they manage to improve and maintain the portfolio performance.

Conservative assumption of 0% CPR

We deem Mars Capital capable of servicing the portfolio

**We deem Cabot Financial capable of servicing the portfolio**

### 4.3. Cabot Financial

Similar to Mars Capital, we deem Cabot Financial capable of servicing the portfolio of re-performing and performing mortgage loans as well as for potential non-performing mortgages due to its experience in both standard and special credit servicing. Moreover, Cabot Financial is already in charge of the overall portfolio from which 48.3% of the mortgages for this transactions are selected. Scope analysts met with the company on 01 December 2021 to clarify its portfolio management strategy in the context of the company's view on the Irish residential property market.

Founded in 2007, Cabot Financial is an experienced servicer in the Irish market, and belongs to the global asset management group Encore capital group. In Europe, the group combines special servicers operating in Ireland and the UK, France, Iberia and Italy. In Ireland, the company is the third largest special servicer with about EUR 5.0bn assets under management across 90,000 clients and about 200 staff plus a dedicated legal team (as of 2021).

Cabot Financial's servicing strategy for the portfolio follows the guidelines of the Central Bank of Ireland, i.e. in case of a borrower in difficulty, the company will undertake significant effort to find a sustainable restructuring solution before starting a foreclosure process. Forbearance options (i.e. alternative repayment arrangements) are in accordance with the Mortgage Arrears Resolution Process under the Code of Conduct on Mortgage Arrears. Cabot Financial also follows Central Bank guidance on assessing borrowers' payment abilities when considering alternative repayment arrangements.

Cabot Financial pro-actively approaches the portfolio's borrowers to find a solution in case non-performing situation 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 certain bonus if they manage to improve and maintain the portfolio performance.

**The servicer's incentive scheme involves a certain bonus if they manage to improve**

## 5. Financial structure

### 5.1. Capital structure

The proceeds from the issuance of the rated notes and from the Class Z and Class X notes (unrated) will be used to purchase the initial portfolio of assets. Proceeds from Class RFN will form the reserve fund at closing.

Ratings for Class B to Class G do not reflect the interest payable amounts above the net weighted average coupon (net WAC). The periodic net WAC is calculated as the period asset coupon minus senior fees, and plus the YSO rate (0.25% per annum) if it occurs. The YSO will be explained in further detail in 5.3 Priority of payments.

### 5.2. Reserve fund

We expect the liquidity reserves to cover more than 24 months of senior expenses and rated interests initially.

The reserve fund is adequate to support the rated notes' respective ratings and does not amortise to protect the transaction during its lifetime. It is sized at closing and kept at 2% of the notes' closing balance (other than Class RFN and Class X). The reserve fund is divided into two parts: the liquidity reserve fund and the non-liquidity reserve fund.

The liquidity reserve fund covers senior expenses and Class A interests. The target size is equal to the higher of 2% of the Class A outstanding balance and 1% of the Class A

**Liquidity reserves cover more than 24 months of senior expenses and rated interests**

### Strictly sequential and separate waterfall

initial balance. Available interest proceeds, before distribution to Class B, will be used to top up the liquidity reserve. If the amount is not covered in full, principal proceeds will be used. The non-liquidity reserve fund, on the other hand, covers senior expenses and all rated notes' interest in sequential order. The target size is the reserve fund target amount minus the liquidity reserve fund target.

### 5.3. Priority of payments

The structure features a separate priority of payments for interest and principal. Principal collected will be used to cover any unpaid senior expenses and interest of the most senior class, before the distribution of the first item in the principal priority of payments.

The YSO feature constantly diverts principal to the interest waterfall at the expense of the junior tranches' principal. YSO aims to boost the interest proceeds during the life of the transaction. The monthly transfer amount is set at 2.5% of the outstanding asset balance and divided by 120. The amount of YSO transferred is, however, capped at the available principal funds at each period and the cumulated transferred amount is capped at EUR 15m (2.5% of the mortgage portfolio balance). It improves the transaction's liquidity but leaves the principal of junior notes less protected.

**Figure 14. Simplified available funds and pre-enforcement priority of payments**

Interest available funds	Principal available funds
Revenue receipts	Principal receipts
Interest earned from issuer account and eligible investments	PDL collections
Liquidity reserve fund (for senior fees and Class A interest shortfall)	Less:
Non-liquidity reserve fund	Revenue shortfall amount
Swap receipts due to interest rate cap agreements	Yield supplement overcollateralisation release
Indemnity payments	
Revenue shortfall amount allocated from available principal proceeds	
Yield supplement overcollateralisation release allocated from available principal proceeds	

Revenue priority of payments	Principal priority of payments
1 Senior expenses and costs	Top up liquidity reserve fund if it cannot be fully topped up from pre-enforcement revenue priority of payments
2 Tax	Class A principal
3 Issuer profit amount	Class B principal
4 Class A interest	Class C principal
5 Class A PDL	Class D principal
6 Top up liquidity reserve fund to the required amount	Class E principal
7 Class B interest	Class F principal
8 Class B PDL	Class G principal
9 Class C interest	Subordinated items
10 Class C PDL	
11 Class D interest	
12 Class D PDL	
13 Class E interest	
14 Class E PDL	
15 Class F interest	
16 Class F PDL	
17 Class G interest	
18 Class G PDL	
19 Top up non-liquidity reserve fund to the required amount	
20 Subordinated items	

PDL is based on loss-provisioning

### 5.4. Amortisation and provisioning

The amortisation of the rated notes is strictly sequential, which is beneficial for the senior notes. The PDLs shown in Figure 14 are based on a loss-provisioning mechanism, including future write-off provisions, and a delinquency based provisioning. The delinquency based provisioning captures underlying loans with arrears over 180 days and whose interest coverage ratio in the previous year was below 100%. 20% of their outstanding balance will be recorded in the PDL. The PDL mechanism allows for the accelerated amortisation of the most senior class, making use of excess spread.

Considering the portfolio as of October 2021, the initial PDL amount will be EUR 5.32m, EUR 1.96m due to the delinquency based provisioning and EUR 3.36m due to the provisions for future potential write-offs. Across the transaction's life, we modelled the PDL increasing per the amount of our assumed default amount at that period.

The PDL mechanism does not trap the excess spread in our base case scenario. This is mainly due to the low excess spread that can be trapped.

The future write-off provisioning amount is around 0.6% of the pool asset for split-mortgages. Indeed, certain split-mortgage agreements allow a proportion of principal to be written-off upon borrowers fully complying with their restructuring arrangement obligations typically through personal insolvency arrangements. We excluded this future potential write-off amount from available assets.

Significant interest rate mismatch well mitigated

### 5.5. Interest rate risk

The transaction is exposed to limited interest-related risks. About 98% of the mortgage loans are either fixed rate assets, or linked to reference rates other than the 1-month Euribor, while 100% of the liabilities are linked to 1-month Euribor. We expect the impact from this significant mismatch to be limited because: i) the WAC adjustment in fact lowers the Class B to Class G coupon upon a decrease in the portfolio asset yield; ii) 24% of the portfolio have a floor that is linked to the 1-month Euribor, i.e. the loans linked to the servicer variable rate (SVR), and iii) the basis mismatch between the ECB base rate, which applies to about 57% of the portfolio and Euribor is relatively mild according to historical data.

An interest rate cap agreement further limits interest rate risk. The agreement will cover the first 10 years of the transaction's life with about 35% of the floating-rate notes' balances covered at closing; the cap notional will decrease over time. The interest cap agreement prevents the negative impacts of significant interest increases, but is relatively ineffective in the context of current interest rate expectations.

### 5.6. Accounts

The issuer holds several interest and principal accounts with Elavon London Branch. 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).

## 6. Quantitative analysis

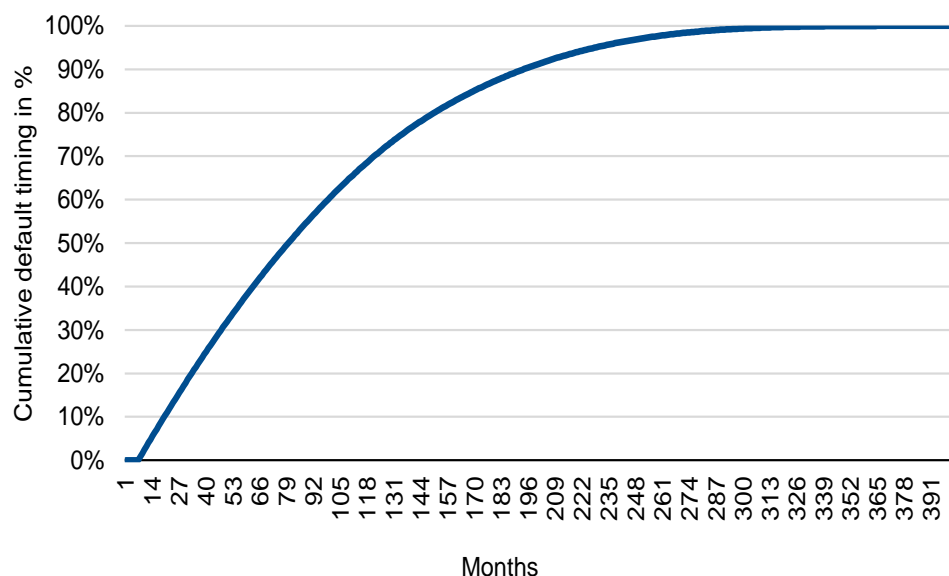
We used a cash flow tool to analyse the transaction and applied the loss distribution derived from our asset analysis when modelling the granular collateral pool. Key assumptions derived were then applied to the cash flow analysis of the transaction.

We calculated the expected loss of each tranche based on an inverse Gaussian default distribution for the assets, probability-weighting any loss. The cash flow tool also produced the expected weighted average life for the rated notes.

Default timing reflects the portfolio amortisation schedule and the asset credit quality

We derived the default timing term structure by leveraging the portfolio amortisation schedule and the asset credit quality. The cumulative default-timing assumptions are shown in Figure 15.

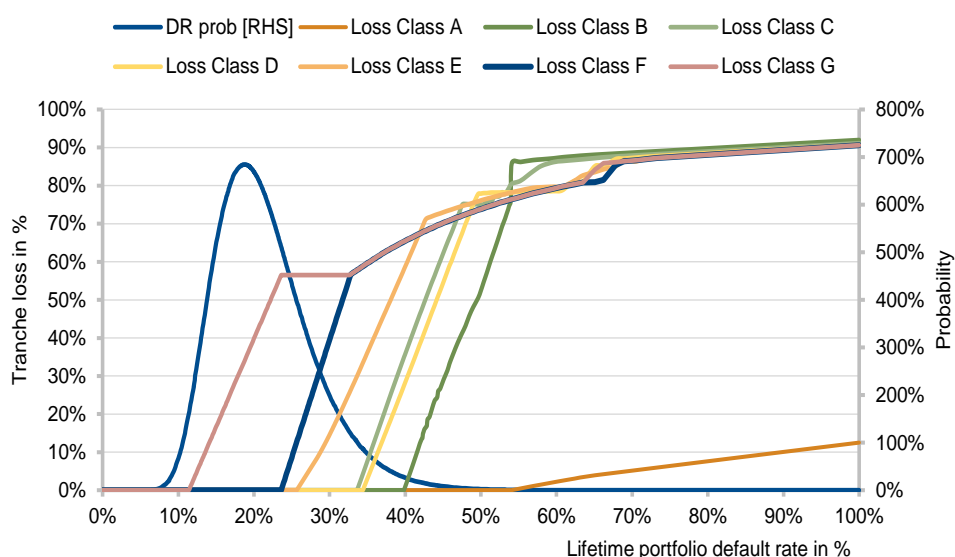
**Figure 15. Default-timing assumptions for the portfolio**



Credit enhancement, structural features and recovery proceeds protect the rated notes

Figure 16 shows the losses of the rated notes at all default rate scenarios. It shows how credit enhancement, structural features as well as recovery proceeds protect the rated notes.

**Figure 16. Cash flow model results for expected default rate and coefficient of variation; rating case recovery rate and zero constant prepayment rate**



Note: The probabilities displayed on the right-hand side axis must be seen in the context of the calculation of probability density

## 7. Rating stability

### 7.1. Rating sensitivity

We tested the resilience of the rating against deviations in the main input parameters: the portfolio's expected default rate and the portfolio's recovery rate. 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 ratings would change if the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

Class A: sensitivity to probability of default, 1 notch; sensitivity to recovery rates, 2 notches.

Class B: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 8 notches.

Class C: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 8 notches.

Class D: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 8 notches.

Class E: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 8 notches.

Class F: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 5 notches.

Class G: sensitivity to probability of default, 3 notches; sensitivity to recovery rates, 3 notches.

### 7.2. Break-even analysis

Our break-even default rate analysis shows the resilience of the ratings. Class A does not experience any loss at portfolio lifetime default rates of: i) 23.2% or lower, under a zero-recovery rate assumption; or ii) 54.1% or lower, under the portfolio's rating-conditional recovery rate assumption of 54%.

Class B would not experience any loss at portfolio lifetime default rates of: i) 17.7% or lower, under a zero-recovery rate assumption; or ii) 46.4% or lower, under the portfolio's rating-conditional recovery rate assumption of 60%.

Class C would not experience any loss at portfolio lifetime default rates of: i) 12.7% or lower, under a zero-recovery rate assumption; or ii) 33.6% or lower, under the portfolio's rating-conditional recovery rate assumption of 60%.

Class D would not experience any loss at portfolio lifetime default rates of: i) 9.1% or lower, under a zero-recovery rate assumption; or ii) 34.2% or lower, under the portfolio's rating-conditional recovery rate assumption of 72%.

Class E would not experience any loss at portfolio lifetime default rates of 25.7% or lower, under the portfolio's rating-conditional recovery rate assumption of 77%.

Class F would not experience any loss at portfolio lifetime default rates of 23.6% or lower, under the portfolio's rating-conditional recovery rate assumption of 81%.

Class G would not experience any loss at portfolio lifetime default rates of 11.4% or lower, under the portfolio's rating-conditional recovery rate assumption of 81%.

## 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 exit from the European Union.

**No losses for rated notes at break-even or lower portfolio default rates**

**Sovereign risk does not limit any of the ratings.**

**Sovereign risk does not limit the transaction's ratings**

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 highest ratings. We do not consider any of the counterparty exposures to be excessive.

### 9.1. Servicer disruption risk

There is no back-up servicer appointed at closing, thus the transaction remains exposed to a servicer disruption event. However, this risk is mitigated due to loans being standardised and our expectation of a quick transition to another servicer. Also the involvement of two servicers of similar size and setup partially mitigates the disruption risk.

Commingling risk from exposure to the servicers is immaterial for the ratings, considering the limited exposure and short holding periods. Risk is further mitigated through a replacement trigger for the servicers' accounts holding bank based on its public rating.

### 9.2. Counterparty risk from account bank and paying agent

The Class A notes have a medium expected weighted average life of 7.4 years. Still, given Elavon's high credit quality, we consider the risk of losses due to a default of the bank 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. Commingling risk is further mitigated through a replacement trigger for Elavon as account bank based on its public rating.

### 9.3. Set-off risk from originator

Set-off risk is not considered in this transaction as the sellers and current owners of the mortgage loans are not deposit-taking institutes.

### 9.4. Counterparty risk from interest rate cap provider

BNP Paribas 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 BNP Paribas 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 the bank as the derivative counterparty based on its public rating.

## 10. Legal structure

### 10.1. Legal framework

This securitisation is governed by Irish and English 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 opinions produced by Arthur Cox LLP and Clifford Chance LLP for the issuer. These provide comfort on the issuer's legal structure and support our general legal analytical assumptions.

The draft tax opinion produced for the issuer indicates that the transaction is structured in a tax-efficient way, i.e. no taxes apply, except for minimum retained profit tax and VAT in the context of contracted services, which remain an unrecoverable expense for the issuer.

**No back-up servicer**

**Account bank risk is immaterial**

**No set-off risk**

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



## Shamrock Residential 2022-1 DAC

### Reperforming RMBS – Ireland

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

#### 11. Monitoring

We will monitor this transaction on the basis of the 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, and our Methodology for Counterparty Risk in Structured Finance, dated July 2021, both available on our website [www.scoperatings.com](http://www.scoperatings.com). Morgan Stanley provided us with property disposal data and loan-by-loan historical payment records. Similar to the predecessor transaction, the payment records are rather short, only dating back to 2014 for 52% of the securitised portfolio and to 2017 for the remaining part, which does not include the most stressful period for Ireland. The disposal data relates to properties sold in a portfolio Mars Capital is currently servicing and covers the period from 2014.



## Shamrock Residential 2022-1 DAC

### Reperforming RMBS – Ireland

#### I. Summary of portfolio characteristics

Our analysis was based on the provisional portfolio as of 31 October 2021. For comparison purpose, please also find the stratifications of Shamrock Residential 2021-1.

	Shamrock Residential 2022-1	Shamrock Residential 2021-1
Closing date	[14 March 2022]	04 February 2021
<b>Current balance</b>	<b>EUR 598.6m</b>	<b>EUR 430.1m</b>
Number of loans	4,164	2,405
Borrower number	3,096	1,837
Weighted average coupon	1.71%	1.70%
ECB tracker %	57%	62%
Servicer variable rate %	24%	20%
Fixed %	16%	16%
Euribor-linked	11%	11%
3M+ arrears%	17%	15%
Weighted average original LTV	73%	73%
Weighted average current indexed LTV	70%	81%
Interest only and Part and part %	28%	23%
Buy-to-lets %	21%	36%
Dublin %	38%	36%
Ever restructured %	68%	48%
Weighted average seasoning (years)	14.8	13.2
Weighted average remaining term (years)	15.1	15.6
Payment rates (last 6 months)	108%	110%
Future write-off %	0.6%	1.1%
In Covid-19 holiday	0.0%	1.7%



## **Shamrock Residential 2022-1 DAC**

### **Reperforming RMBS – Ireland**

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