

FITCH AFFIRMS JERROLD HOLDINGS AT 'BB-'; STABLE OUTLOOK

Fitch Ratings-London-16 March 2016: Fitch Ratings has affirmed UK-based financial institution Jerrold Holdings Limited's (JH) Long-term Issuer Default Rating (IDR) at 'BB-' and its Short-term IDR at 'B'. The Outlook on the Long-term IDR is Stable. Fitch has also affirmed the rating of the senior unsecured notes issued by Jerrold FinCo plc and guaranteed by JH at 'BB-'.

KEY RATING DRIVERS

IDR AND SENIOR DEBT

The ratings reflect the wholesale profile of the group's funding, its concentration of activities within specialised property lending and its associated higher arrears relative to mainstream lenders. The ratings also reflect JH's recent strong profitability, supported by a positive operating environment and stable risk control framework.

Profitability is underpinned by JH's franchise and pricing power in particular niche markets such as second-charge residential mortgages and bridging loans. Risk is well-remunerated, with wide margins and high fees notwithstanding present low base rates. Revenue growth is reliant on lending volumes.

JH's funding availability has been enhanced in 2015 and 2016 with the agreement of increased securitisation facilities to complement existing sources of finance. This has allowed JH to continue to extend and diversify its maturity profile, reducing refinancing risk, though funding remains concentrated on the wholesale markets. Due to its funding profile, JH's asset encumbrance is also high.

Asset growth since 2014 has been rapid, as the group has deployed its increased funding capacity to meet strong demand for new lending. However, capitalisation has remained adequate for the rating, supported by strong internal capital generation as the group has continued not to pay dividends. Despite moderately increasing, debt/equity remained comfortable at 2.4x at 31 December 2015, compared with 2.2x at 30 June 2015.

Higher arrears relative to mainstream lenders are a feature of JH's business model, particularly in relation to pre-2011 lending, but risk is monitored and managed carefully on an individual loan basis, with strong collection and recovery policies in place. Non-performing arrears (arrears over three months where receipts in the last three months are less than 90% of contractual instalments) represented 4.3% of receivables at end-1H16 and have been on a consistently declining trend since their peak in 2012.

The weighted average indexed LTV of the group's total loan portfolio at 31 December 2015 was 54.1%, providing strong buffers against asset quality deterioration.

JH has continued to raise corporate governance standards and improve compliance and risk controls with a number of recent senior management hires, necessarily at a time when fast growth could put pressure on its operational and risk management functions.

The rating of the Jerrold FinCo bond is equalised with JH's ratings, as the bond is guaranteed by the operating entities of the group and reflects our expectation of average recovery rates.

RATING SENSITIVITIES

IDR AND SENIOR DEBT

JH's ratings could be downgraded in the event of a prolonged inability to access wholesale funding markets, a notable rise in gearing or a material deterioration in asset quality metrics. A downgrade could also follow further rapid loan growth, if this leads to a weakening of the company's risk profile or a significant rise in conduct and compliance costs.

The higher-risk sectors in which JH lends limit rating upside but positive rating action could arise from further diversification of the group's funding structure, if accompanied by ongoing healthy profitability and asset quality metrics. A material increase in available liquidity could also be rating-positive.

The rating of the senior unsecured notes is primarily sensitive to movements in JH's Long-term IDR, but could also be impacted by changes to the institution's capital structure or asset encumbrance levels.

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Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351

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