Press Release

Insight beyond the rating.

Date of Release: October 28, 2014

DBRS Assigns Final Ratings to Charles Street Conduit Asset Backed Securitisation 1 Limited

DBRS Ratings Limited ("DBRS") has today assigned final ratings of 'AA(sf)' to the £435 million secured credit facility provided through the purchase of Senior Variable Funding Notes ('Senior VFNs') issued by Charles Street Conduit Asset Backed Securitisation 1 Limited ('CABS') or ('the Issuer'). The notes were initially issued on 12 November 2007 and the current outstanding amount drawn under the credit facility is £435 million (current outstanding Senior VFN amount).

The Senior and Subordinated VFNs are collateralised by residential, bridge and commercial mortgage loans originated by six wholly owned subsidiaries of Jerrold Holdings Limited ('Jerrold'). Jerrold is a specialist lender offering first and second charge mortgage loans secured by mostly residential, and semi-commercial properties. Mortgage loans are typically offered to borrowers who would otherwise be unable to obtain credit from a mainstream mortgage lender either on account of their adverse credit history or as a consequence of the nature of the mortgage product which suits the specific requirement of the borrower, such as bridge loans, commercial purpose loans and second charge loans.

Credit enhancement is provided in the form of Subordinated VFNs plus the amount in the co-mingling reserve account. The subordination level is dynamic, calculated on a quarterly basis with a floor equal to 22%. The co-mingling reserve will always be 1.50% of the Senior VFNs (2.20% as of June 2014). The subordination to the Senior VFNs as of June 2014 was 25.93%.

The transaction is akin to a warehouse credit facility, which is a form of commercial lending that facilitates the funding of mortgage loans. Typically a lender is not in a position to fund a vast amount of loans without using up their required capital quickly. The borrower repays the loan after a sale of mortgage loans via a securitisation or on the whole loan market. The mortgages funded are used as collateral to secure the credit facility.

The committed amount available to CABS aggregates to £435 million and is provided by two special purpose entities and a bank, which are also the noteholders of the Senior VFNs. While the facility is completely drawn-down upto the maximum committed amount, the commitment period expires after the date of 31 January 2017, or following the occurrence of a sale demand event or an event of default or an early amortisation event. CABS purchases the mortgage loans originated by Jerrold's subsidiaries, thus providing the originators with funding to make new originations.

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The rating on the Senior VFNs is based upon the review by DBRS of the following analytical considerations:

- **Credit Quality of the Mortgage Portfolio:** The mortgage loans sold to the issuer are subject to eligibility criteria and portfolio covenants which mitigate the risk of credit deterioration of the mortgage portfolio. The aggregate balance of mortgage portfolio as of September 2014 is £575 million and consists of commercial mortgage loans (41.70%). The total proportion of BTL in the mortgage portfolio is 26.0% and is a subset of the commercial mortgage loans in the mortgage portfolio. Approximately 17.9% of the mortgage portfolio consists of bridge loans with maturities up to 24 months. In addition, 57% of the loans in the mortgage portfolio are second charge and approximately 40.0% are interest-only loans. 14.2% of the mortgage portfolio is secured by properties which are commercial or of mixed usage type.

  The borrower profile of the mortgage portfolio consists of self-employed borrowers 47.7%, borrowers who have self-certified their income 25.9% and borrowers who have prior adverse credit histories at the time of origination of the loan 11.6%. The borrowers pay relatively high interest rates compared to prime UK borrowers and those who form part of rated UK non-conforming RMBS portfolios. The weighted average coupon on the mortgage portfolio is 12.4%. The majority of borrowers who approach Jerrold are typically unable to secure a loan from a UK mainstream lender, either on account of their adverse credit history or as a consequence of the nature of the mortgage product which suits the specific requirement of the borrower, such as bridge loans, commercial purpose loans and second charge loans. In the former instance, DBRS expects these borrowers, paying relatively high interest rates with Jerrold, to refinance with a high-street UK lender at a lower interest rate once they have repaired their credit history. The expectation is supported by the relatively high prepayment rates (above 20% p.a. for most vintages) observed for loans originated by Jerrold. While this phenomenon of prepayments to lower the cost of borrowing may result in lower default rates, the credit risk of the mortgage loans is largely mitigated by lending at relatively low loan-to-value ratios in comparison to the first charge UK mortgage market. The weighted average current-loan-to-value (‘WACLTV’) for the mortgage portfolio as of September 2014 is 52.7%.

  To assess the change in portfolio characteristics and impact on defaults during the revolving period, DBRS stressed the current mortgage portfolio in accordance with the portfolio covenants applicable for purchase of new loans during the revolving period. The revolving period ends on 31 January 2017.

- **Historical Performance:** DBRS was provided with historical performance data of approximately 42,000 loans originated by Jerrold. The data covered the performance of mortgage loans currently with the issuer, mortgage loans repurchased from the issuer and eligible mortgage loans which can be purchased at a date in the future during the revolving period. The performance history enabled analysis of the performance by origination vintage and mortgage product. The historical performance data was also used in the calculation of the estimated two year probability of default ('PD') and the estimation of lifetime defaults for the mortgage portfolio.

- **The transaction's cash flow structure and form and sufficiency of available credit enhancement:** The interest rate payable on the Senior VFNs is 1 month GBPLibor plus a margin of 3.50%. However, for 29.89% of the committed amount, where the notes are subscribed to by a conduit purchaser, the index rate is not 1 month GBPLibor. The index rate in this case varies independent of 1 month GBPLibor but with a cap of 1 month GBPLibor plus 1.00%. DBRS has stressed the interest payable on such portion of the Senior VFNs as stated above.

  The subordination provided by the Subordinate VFNs can vary based on the lower of the advanced rate per an advance rate model or an advance rate table based on WACLTV of the mortgage portfolio. DBRS does not give any credit to the advance rate model in the cash flows' analysis for the transaction. The minimum subordination for the Senior VFNs is 22% (corresponding to WACLTV of 62% in the advance rate table). For the cash flows analysis, DBRS has stressed the mortgage portfolio based on the variance of WACLTV and tested 14 different scenarios of subordination per the advance rate table. It should be noted that as per the advance rate table the maximum subordination available will be 28.5%, corresponding to a WACLTV of 75%.

- **The ability of the transaction to withstand stressed cash flow assumptions and repay the Senior VFNs according to the terms of the transaction documents:** For each of the 14 scenarios mentioned above, DBRS utilised front and back loaded default timing curves, rising and declining interest rates and low, mid and high prepayment scenarios. DBRS cash flow analysis tested for the repayment of timely interest and ultimate principal on the Senior VFNs.

  The transaction includes a co-mingling reserve equal to 1.5% of the Senior VFNs (1.17% of the collateral balance) and is available to provide liquidity to the Senior VFNs in the form of payments of interest/commitment fees. This co-mingling reserve has been built-up to the required level using principal receipts from the mortgage portfolio. The reserve is amortising and the amounts released will form part of available funds to pay the liabilities under the revenue waterfall. The co-mingling reserve account is maintained with Lloyds Bank Plc (AA(low)/Stable Trend/R-1(Middle)/Stable Trend).

- **The legal structure**: The transaction structure and presence of legal opinions addressing the assignment of the assets to the issuer and the consistency with the DBRS Legal Criteria for European Structured Finance Transactions has been assessed.

The collections accounts and the accounts in the name of the issuer are maintained with National Westminster Bank Plc ('Natwest') (Privately Rated by DBRS). The long-term private rating of Natwest is below the expected long-term rating level of 'A' therefore exposing the issuer to relatively higher level of counterparty risk than envisaged in DBRS legal criteria. The replacement of Natwest as the account bank will occur in the event the rating of the bank falls below 'A(low)'. Immediately upon the downgrade of Natwest below 'A(low)', the funds in the issuer accounts will be transferred on a daily basis to the co-mingling reserve account with Lloyds Bank Plc, until the issuer accounts are opened with an appropriately rated bank. DBRS has sized for the potential amount of funds which may be lost to the issuer in the accounts with Natwest following an event of insolvency.

The transaction includes several Sale Demand Events or conditions, a breach of which results in the sale of the mortgage portfolio. The sale of the portfolio is conditional on the recovery proceeds from the sale being enough to pay the entire outstanding of the Senior VFNs along with accrued interest. The Sale Demand Events are linked to the performance and financial risk or insolvency of Jerrold and to the breach of any representations and warranties on the loans in the mortgage portfolio including breach of any of the portfolio covenants. Furthermore, a Sale Demand Event is also linked to a breach of the expected credit enhancement for the Senior VFNs, failure to replace the account bank upon downgrade and failure to find a replacement servicer or standby servicer.

Notes:
All figures are in GBP unless otherwise noted.

The principal methodology applicable is:
Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda

Other methodologies and criteria referenced in this transaction are listed at the end of this press release.

This can be found on www.dbrs.com at:
http://www.dbrs.com/about/methodologies

The sources of information used for this rating include: a loan-by-loan data tape of the mortgage loans portfolio currently owned by the issuer; recovery data, historical performance data of loans currently with the issuer, those repurchased by Jerrold till date from the issuer, and loans which are eligible to be sold to the issuer during the revolving period; transaction report for CABS as of June 2014. Historical performance of non-conforming seasoned UK mortgage portfolios rated by DBRS.

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DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

This rating concerns the existing financial instrument. This is the first DBRS rating on this financial instrument.

Information regarding DBRS ratings, including definitions, policies and methodologies are available on www.dbrs.com.

To assess the impact of the changing the transaction parameters on the rating, DBRS considered the following stress scenarios, as compared to the parameters used to determine the rating (the "Base Case"):

- Probability of Default Rates (PD) Used: Base Case PD of 49.27% (corresponding to the 'AA' rating stress level, a 25% and 50% increase on the base case PD.
- Loss Given Default (LGD) Used: Base case LGD of 61.64% (corresponding to 'AA' rating stress level, a 25% and 50% increase on the base case LGD.

DBRS concludes that a hypothetical increase of the base case PD by 25% or a hypothetical increase of the LGD by 25%, ceteris paribus, would each lead to a downgrade of the transaction to 'A(low) (sf)' and 'A (sf)' respectively. A scenario combining both an increase in the PD and LGD by 25% would lead to a downgrade of the Senior VFNs to 'BBB (sf)'. Please see the following table for other stressed scenarios.

Increase in LGD %	Increase in Default Rate %		
	0	25	50
0	AA	A (low)	BBB
25	A	BBB	BB (high)
50	BBB	BB (high)	BB

For further information on DBRS historic default rates published by the European Securities and Markets Administration ("ESMA") in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

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The rating methodologies and criteria used in the analysis of this transaction can be found at:
http://www.dbrs.com/about/methodologies

The methodologies applicable are:

Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda
Legal Criteria for European Structured Finance Transactions
Operational Risk Assessment for European Structured Finance Servicers
Unified Interest Rate Model for European Securitisations

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