

## ARC Ratings, S.A affirms the public, final 'A(sf)' rating accorded to the Variable Funding Notes issued by WOSL SPV 1 Limited, with stable outlook

London, 20 July 2020 - ARC Ratings has affirmed the final, long-term public rating of 'A(sf)' to the Variable Funding Notes issued by WOSL SPV 1 Limited, with stable outlook.

The rating addresses the timely payment of interest and ultimate repayment of principal.

<u>ISSUER</u>	<u>ORIGINATOR</u>	<u>CLASS / TRANCHE</u>	<u>TRANCHE AMOUNT</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
WOSL SPV 1 Limited	West One Secured Loans Limited	Variable Funding Notes	GBP 175m	RMBS	A(sf)	Stable	20 July 2021

### TRANSACTION OVERVIEW

The Variable Funding Notes (VFNs) issued by WOSL SPV 1 Limited (the "Issuer") provide financing for Eligible Mortgage Loans (primarily second charge mortgages) originated by West One Secured Loans Ltd ('WOSL', Primary Servicer' and 'Originator'. The Issuer currently has issued GBP 155.05m of VFNs as at 12 June 2020, with the Total Committed amount on the VFN being GBP 175m. Mezzanine notes were introduced into the capital structure in May 2019 and currently have an outstanding balance of GBP 14.5m, having increased by GBP 1.5m in May 2020. The transaction is currently within its Availability Period, thus allowing the re-investment of principal proceeds, and has a Final Maturity Date of 12 January 2054.

ARC's review of the second charge mortgage portfolio, as well as WOSL's responses to the outbreak of Covid-19 are included in the corresponding rating report, available at [www.arcratings.com](http://www.arcratings.com).

### RATING RATIONALE

Key Rating Drivers include:

- **Portfolio Composition and Borrower characteristics:** The second charge mortgage portfolio is comprised of predominantly owner-occupied mortgage loans (82.85%), with 53.63% of the Borrowers within the portfolio being employed. This brings ARC comfort in terms of the Borrowers' ability to meet their mortgage payment obligations as the buy- to-let (BTL) market (which comprises 17.15% of the portfolio) faces deep uncertainty due to the increasing financial pressures experienced by landlords following sustained tax and regulatory squeezes on the sector which has been exacerbated by the economic contraction caused by Covid-19.
- **Low Arrears and Defaults:** Over the last 12 months the arrears rate has remained low and is currently 0.36%, having decreased from a high point of 0.68% in February 2020. Furthermore, the default rate has remained similarly low with the current rate being 0.46% and WOSL's ability to effectively service the transaction is demonstrated by the fact the Loss Rate has remained at 0%.

- **Credit Enhancement:** The transaction benefits from an advance rate mechanism where the applicable advance rate is derived from the quality (type of loan) and performance of the underlying assets. As at the June 2020 Investor Report the transaction benefited from an advance rate for the VFN of 82.57%, thereby providing credit enhancement of 17.43%.
- **Model Results:** ARC’s model determined that at an ‘A(sf)’ rating level, the portfolio has a default frequency of 18.9% and a loss severity of 18.3%. ARC notes that due to the portfolio comprising of second charge mortgages the recovery rate is exceptionally low (<5%). Furthermore, ARC’s cashflow analysis determined that with ‘A(sf)’ rating stresses the transaction is able to meet the timely payment of interest and ultimate repayment of principal; this including varying default and recovery vectors as well as low, current and high prepayments.
- **COVID-19:** WOSL employed a defensive, ‘risk averse’ strategy by severely restricting credit due to the impact witnessed on the second charge mortgage loan market arising from the pandemic, more specifically they restricted all self-employed and BTL lending. In addition, they reduced the maximum permissible loan origination LTV to 65% and they doubled the size of their servicing team by re-deploying internal brokers to cope with the increased monitoring needs in terms of payment holiday applications. WOSL’s thus far effective management strategy throughout Covid-19 can be reflected in the 0% loss rate and low default rate (0.46% in June 2020 vs the Loan Pool Covenant of 7%) however, ARC notes that there could be a time lag before the effects of Covid-19 are realised as the government’s furlough scheme is, in ARC’s view, obscuring the true impact on the UK labour market.

**SENSITIVITY ANALYSIS**

ARC has run sensitivity tests to determine to what extent the performance of the portfolio would need to deteriorate in order for the rating to be downgraded. The table below shows the increase in the default frequency required, as determined by ARC’s models, which would trigger a rating downgrade.

	Increase in the Default Frequency*
1 Notch Downgrade	12.5%
2 Notch Downgrade	28.6%

\*e.g. ‘A-’ Default Frequency x 1.125

**RELATED CRITERIA AND RESEARCH**

ARC Ratings` Global Structured Finance Rating Criteria (September 2019)
ARC Ratings` Global Residential Mortgage Backed Securities (RMBS) Rating Criteria (May 2020)
Citibank N.A WOSL SPV 1 Limited Investor Report July 2019 to June 2020

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**THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT**

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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