

PCS

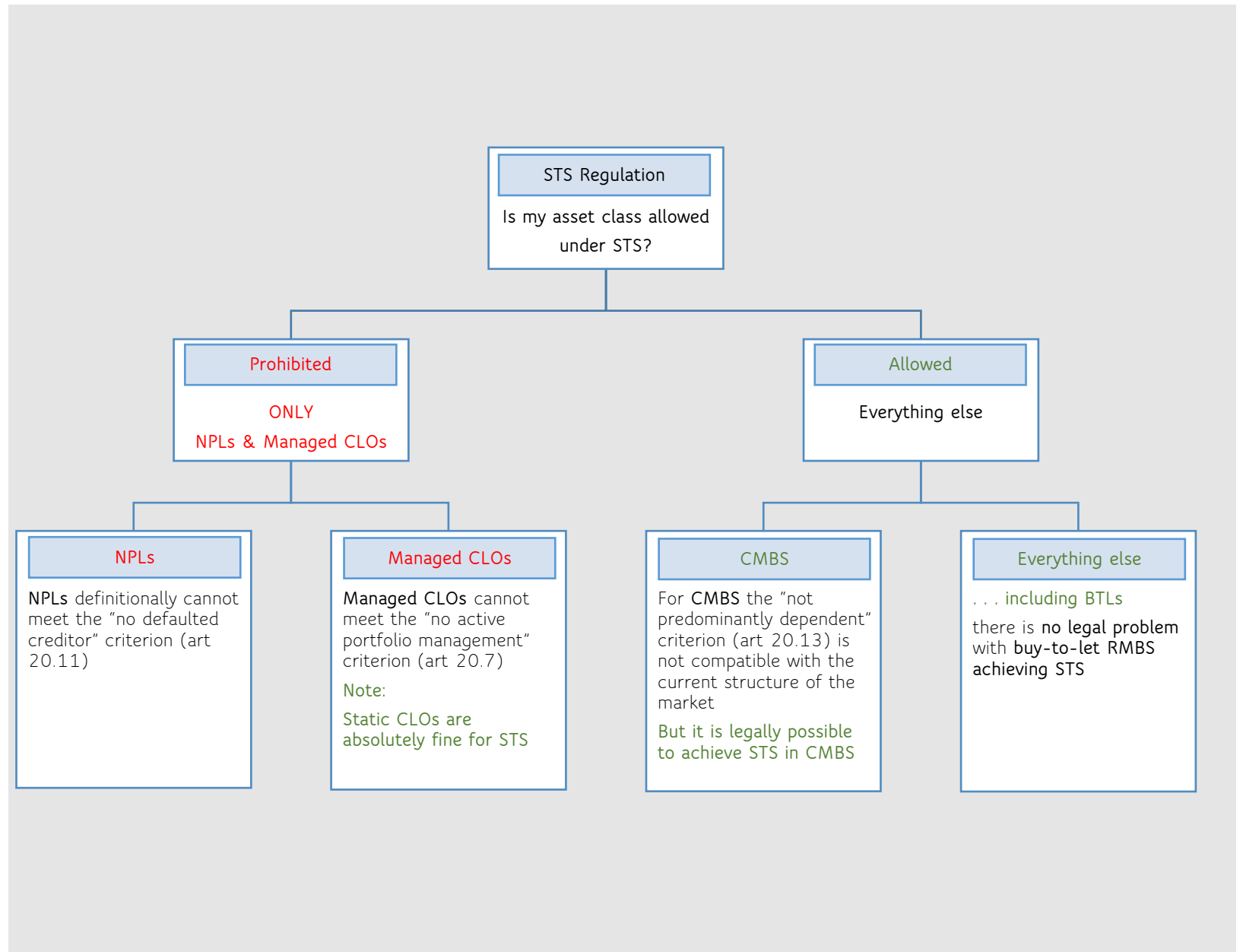
Setting the Standard for Securitisation

Buy-to-let & STS



STS & Buy to let

Is BTL prohibited
from STS?



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Why so few STS
BTLs?

To date, there have only been a handful of BTL STS transactions
Why?

LCR
BTL RMBS, even when STS, is explicitly excluded from eligibility for a bank's liquidity coverage ratio pool. This raised doubts over the extent of likely bank investor bid

Lack of pricing differential
for the first year to 18 months of STS, it was not clear whether there was a price differential between an STS and a non-STS issue, primarily because of a total lack of overlap between the two categories

But pricing differential is now apparent and the bank bid is not the only bid!

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Key pressure point
Homogeneity

Pools in STS securitisations must be “homogeneous”

Homogeneity” has a very specific definition for STS. It even has its own special Regulatory Technical Standard

“Homogeneity” requires:

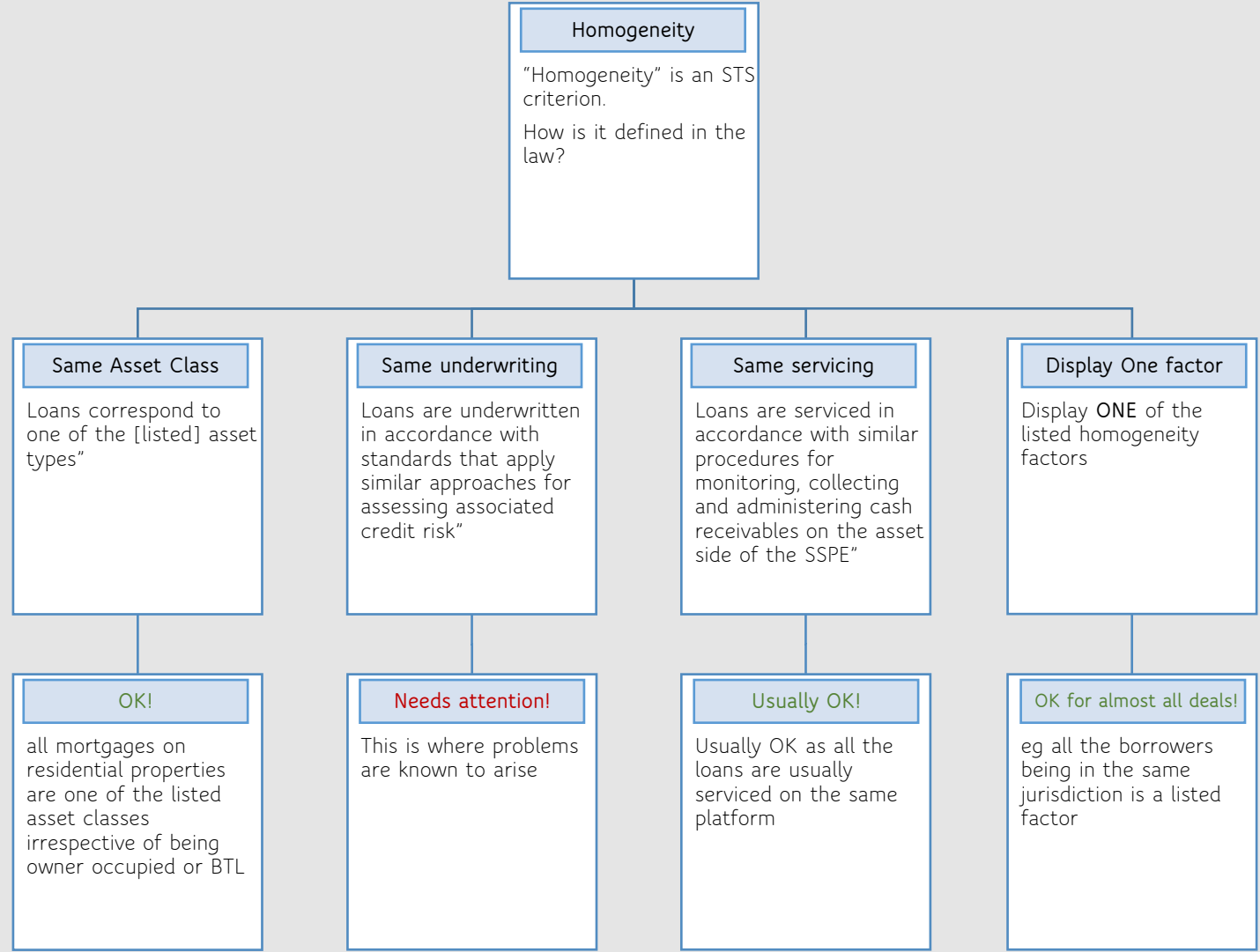
- *Same asset class* - “They correspond to one of the listed asset types”
- *Same underwriting* - “They are underwritten in accordance with standards that apply similar approaches for assessing associated credit risk”
- *Same servicing* - “they are serviced in accordance with similar procedures for monitoring, collecting and administering cash receivables on the asset side of the SSPE”
- Display *ONE* of the listed homogeneity factors

BTL RMBS *may* have homogeneity pressure points in two ways:

- Mixing in the pool buy-to-let and owner occupier mortgages
- Mixing in the pool buy-to-let loans to individuals and to semi-professional BTL corporations

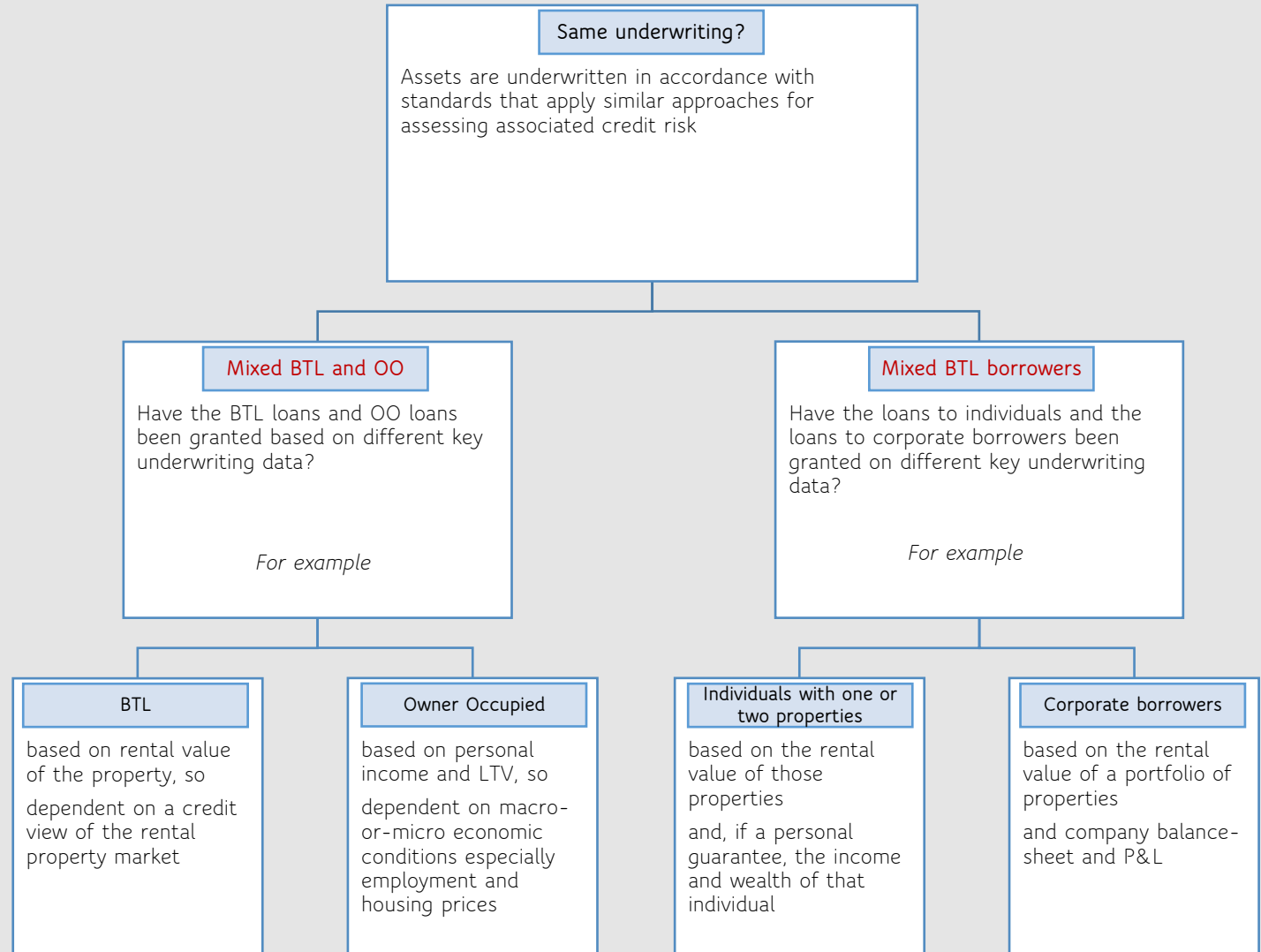
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Key pressure point
Homogeneity



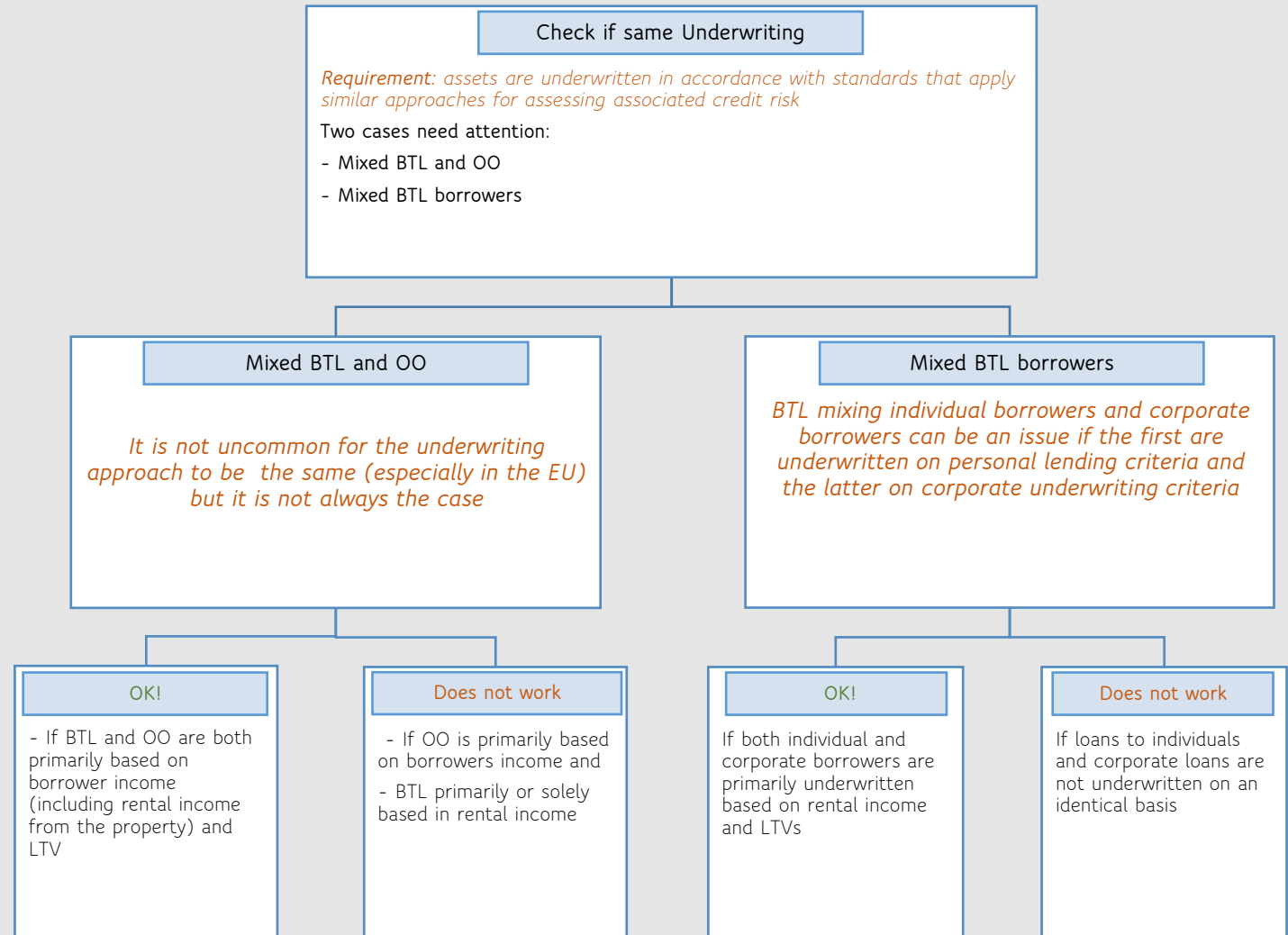
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Key pressure point-
underwriting



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Key pressure point-
underwriting



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Underwriting –
a guide to
approaching the
challenge

Same underwriting - “They are underwritten in accordance with standards that apply similar approaches for assessing associated credit risk”

- The rationale given by policy makers for the homogeneity criterion is that *investors should not have to bring two different conceptual tools and modelling approaches* to perform the credit analysis a single pool.
- Homogeneity is a *simplicity* criterion
- In BTL transactions that were successfully verified by PCS, a detailed examination of the underwriting criteria indicated that the approach to BTL and owner occupied properties was similar
- This though requires a very good knowledge both of the law, the RTS and the rationale behind the law and RTS and a careful examination of the actual underwriting criteria

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Homogeneity is
not the only
criterion

- All the other STS criteria must be met!
- Some things to pay attention to:
 - No credit impaired borrowers
 - Even if the property rental income is solid
 - What is a credit impaired borrower is very jurisdictionally dependent

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Challenges outside of STS

- LCR - BTL RMBS is not eligible for including in LCR pools even if STS
- CRR - Under the CRR, for a bank investor to obtain the lower capital requirement for an STS securitisation, there is a 2% granularity requirement
 - No single obligor is more than 2% of the pool at closing
 - Calculated by borrower and not on individual loans
 - *This can be an issue if one or more big BTL company or individuals has a number of loans over multiple properties*
 - Risk weighting even in borrower is a corporate maybe not be 100%

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Conclusions

STS BTL RMBS is legal
and entirely feasible

But some criteria need
some special attention

- Homogeneity
- Granularity
- Credit impaired
- First payment

But once homogeneity
is cleared STS for BTL
RMBS is a standard
process



Thank you for your attention

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