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RMBS MAINTAINS ALLURE AMID UK ECONOMIC UNCERTAINTY

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While uncertainty continues to cloud the United Kingdom ("UK") economic outlook and the housing market ponders the potential impact of Brexit, investors still have appetite for UK Residential Mortgage Backed Securities ("RMBS") and the inherent characteristics which have seen such assets perform well in previous downturns.

Despite a degree of hesitancy in structured markets at the start of 2019, with the new Simple, Transparent and Standardised ("STS") Securitisation regime not initially fully embraced by issuers, alongside some trepidation ahead of the original 29 March Brexit deadline, new deal issuance stepped up in the second half of the year.

Peering past the political noise and volatility pervading financial markets in the UK is the conviction among seasoned observers of the historic strength and solidity of the collateral within UK RMBS as an attractive investment. Furthermore, as the year has progressed, some of the uncertainties around STS have now faded and with this greater comfort we have seen more RMBS transactions electing to qualify for the designation, despite the additional regulatory hurdles.

A recent report from Fitch Ratings highlighted the dominance of RMBS in the UK securitisation market. According to Natwest Markets data (4 October 2019), there have been 44 securitisations that have taken place in the UK in the year to date, representing £24.1 billion of issuance. Of that number £18.4 billion was RMBS, accounting for over 76 percent of total UK

issuance this year. Breaking down the numbers, prime RMBS made up just over half of total RMBS this year at £9.4 billion, with £3.7 billion of non-conforming, £3.6 billion buy-to-let and £1.7 billion non-standard.

Underlying Attraction

One of the main attractions of UK RMBS and what differentiates it from US RMBS in particular is that these transactions, used to fund sterling mortgages, are full recourse mortgages and have displayed a lower default rate compared to other markets. Analysis by [TwentyFour Asset Management](#) shows that the UK's worst default rate of recent times (in 2009 just after the financial crisis), was only 0.43%, while the United States default rate was still 2.23% in 2010. Also, compared with some other jurisdictions there is greater certainty around enforcement of security under the laws of Britain and Northern Ireland, notwithstanding that recent regulatory changes have put additional obligations on lenders to ensure that customers are treated fairly.

Interest rates remain low, with global growth concerns compounded by the uncertainty around Brexit and

increased barriers to trade. The [OECD](#) has said that it expects a disorderly Brexit would cut close to 3 percent off UK growth over the next three years, with a recession predicted in 2020. Notably within the alternative lending sector, we have seen a reduction in growth of peer to peer lending and lending standards being tightened generally as a result of the uncertain economic environment.

If the economy were to fall into a recession, there is always the possibility that the Bank of England may respond with another Term Funding Scheme ("TFS") or equivalent, providing risk free finance to market participants and restricting ABS and RMBS supply. Such a move, which is not currently anticipated by the industry, would clearly have a dampening effect on overall issuance – but the relative scarcity of supply may reward those issuers who do tap the market.

Despite the fragility of the housing market, the UK mortgage market has remained relatively robust. New loans are being made and non-banks have continued to use securitisation as an effective funding tool. The [Bank of England announced](#) that UK mortgage approvals hit a two year high in July and then rebounded strongly in September from an August lull, indicating the return of some stability since the result of the Brexit referendum in 2016 sparked the current political crisis.

As margins continue to be compressed in the competitive business of UK consumer lending, RMBS remains an important source of funding, particularly for non-banks. It's also true that banks will continue to tap the market intermittently to prove their diversification of funding sources.

Political uncertainty and sterling's volatility means that pricing can be tricky and the window of opportunity for getting a deal away can sometimes be quite narrow. A highly responsive and client-focused corporate services provider helps with speed to market. At Maples Group, we take pride in our high touch and client focused approach.

About the Authors

Sam Ellis

Sam serves as an independent director on a wide range of alternative investment funds including hedge funds, fund of funds, segregated portfolio companies, private equity vehicles and related structures. Sam joined the Maples Group in 2011 and carries over 15 years' experience in the legal and financial services industry. Prior to his transition to the firm's London office in 2014, Sam was a Senior Vice President in the fiduciary services team in the Cayman Islands office providing director and advisory committee services to a variety of complex alternative investment structures domiciled in the Cayman Islands. From 2003 to 2011 Sam was a Vice President at Macquarie Group in the London and Melbourne offices working on equity capital markets and merger and acquisition transactions across a variety of sectors and regions. Sam began his professional career in law with Freshfields Bruckhaus Deringer in Brussels, Belgium focusing on EU merger clearances and antitrust cases. Sam has a Bachelor of Commerce degree and a Bachelor Law degree (1st Class Honours) from the University of Melbourne. He is a chartered accountant and member of the Institute of Chartered Accountants in Australia and the Institute of Directors in the United Kingdom. Sam also holds the Accredited Director designation from the Institute of Chartered Secretaries and Administrators Canada and is fluent in German.

Jennifer Jones

Jennifer has over 20 years' structured finance, securitisation and capital markets experience. She has acted as corporate services provider and security trustee on these structures since 2007. Jennifer joined the Maples Group in 2017. Previously, Jennifer worked at Capita Asset Solutions as a Senior Client Manager. Prior to this, she worked at SFM Europe as a Senior Transaction Manager for just under five years and was responsible for negotiating and managing a wide range of structured finance transactions from incorporation through to the winding up of the SPV. Before joining SFM Europe, she worked in Allen & Overy LLP's

securitisation department for four years as a Transaction Executive. Jennifer also held capital markets roles at JP Morgan and Deutsche Bank. Jennifer has a wide range of experience, having worked with challenger banks, leading UK high street banks and building societies, private equity firms and global investment banks along with many small and mid-sized UK originators on a variety of structures ranging from warehouse structures, ABS, RMBS and CMBS, covered bond programmes and bespoke structures.

Charles Leahy

Charles has over 15 years' experience in capital markets and securitisation, having worked in capital markets, group treasury, trust and agency and corporate services. He previously worked at Law Debenture as a senior transaction manager, where he was responsible for negotiating new structured finance transactions and restructurings and acting as an independent company director on various SPVs. Prior to this, Charles spent six years working at The Bank of New York Mellon in London, as a Senior Relationship Manager in the Corporate Trust division,

where he was responsible for the largest structured finance relationship for the bank in Europe, amongst others. Charles' securitisation experience started at St. George Bank in Sydney in the capital markets and securitisation team, within group treasury. At the time, St. George was the largest Australian balance sheet ABS and RMBS Issuer (issuing 2-3 benchmark transactions per year) with tranches across GBP, EUR, USD and AUD. Charles has extensive experience working with major UK high street banks, global investment banks, private equity firms and hedge funds, as well as many small to mid-sized UK originators. Product experience includes ABS, MBS, warehouses, whole-of-business securitisations, LPNs, DPRs and Cat Bonds.