

Ratings Affirmed In U.K. RMBS Transaction First Flexible (No. 7) Following Review

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OVERVIEW

- We have reviewed First Flexible (No. 7)'s performance using the most recent collateral pool composition and investor report, and conducted a credit and cash flow analysis of the transaction.
- Following our review, we have affirmed our ratings on all classes of notes in this transaction.
- First Flexible (No. 7) is a U.K. RMBS transaction that securitizes residential and commercial mortgages that Mortgages Trust originated.

LONDON (S&P Global Ratings) July 28, 2017--S&P Global Ratings today affirmed its credit ratings on First Flexible (No. 7) PLC's class A, B, and C notes (see list below).

Today's affirmations follow our credit and cash flow surveillance analysis under our European residential loans criteria and our criteria for assigning 'CCC' category ratings (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016, and "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012).

Collateral performance has improved since our previous review, with the level of arrears greater than three months declining to 2.09% from 3.16% (see "All

Ratings Affirmed In U.K. RMBS Transaction First Flexible (No. 7) Following Review," published on July 31 2014). Total delinquencies have also declined over the same period to 3.93% from 6.78%. Although this is a noticeable improvement for the transaction, it still underperforms our U.K. residential mortgage-backed securities (RMBS) prime index (see "U.K. RMBS Index Report Q1 2017," published on June 1, 2017).

Despite the improved asset performance, the volume of interest-only loans that have matured and not paid down their principal balance has increased to approximately 13%, compared with 9% at our previous review. In our analysis, we apply a 100% foreclosure frequency to these matured loans.

Since our previous review, we have observed an increase in the weighted-average foreclosure frequency (WAFF) in all rating scenarios apart from the 'BBB', 'BB', and 'B' rating stress levels. In addition, we have observed an increase in the weighted-average loss severity (WALS) in all rating scenarios.

Rating level	WAFF (%)	WALS (%)	Loss coverage (%)
AAA	25.81	9.64	2.49
AA	22.64	5.76	1.30
A	20.50	2.54	0.52
BBB	18.85	2.00	0.38
BB	17.11	2.00	0.34
B	16.46	2.00	0.33

The increase in the WAFF for rating scenarios at and below 'BBB' is due to the increase in the volume of matured loans. At rating levels above 'BBB', the impact of the matured loans is offset by the improved asset performance and increased seasoning. The increase in the WALS is due to the increased repossession market value declines in all rating scenarios and the need to ensure that the loss coverage floor is met.

Even though the matured loans have materially deteriorated, the transaction's performance parameters have generally improved since our previous review. As a result, the available credit enhancement for the class A notes has increased to a level commensurate with the currently assigned rating. In addition, the pool has paid down to a 6% pool factor (the outstanding collateral balance as a proportion of the original collateral balance). Due to the low pool factor and the nonamortizing reserve fund being fully funded, the class A notes will now build up credit enhancement at a faster rate. We have therefore affirmed our 'AAA (sf)' rating on the class A notes.

In our analysis, the class B and C notes are unable to withstand the stresses that we apply at the 'B' rating level. Our outlook for the U.K. residential mortgage market remains benign with historically low unemployment (currently 4.5%), low mortgage interest rates, and falling or stable delinquencies across the sector. Taking these factors into account, along with improving collateral

performance and increasing credit enhancement, we have affirmed our 'B- (sf)' ratings on the class B and C notes. We do not believe these notes are reliant upon favorable business, financial, or economic conditions to redeem.

First Flexible (No. 7) is a U.K. RMBS transaction that securitizes residential and commercial mortgages that Mortgages Trust originated.

RELATED CRITERIA

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Dec. 23, 2016
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 7, 2017
- U.K. RMBS Index Report Q1 2017, June 1, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- All Ratings Affirmed In U.K. RMBS Transaction First Flexible (No. 7) Following Review, July 31, 2014

RATINGS LIST

Class	Rating
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Ratings Affirmed In U.K. RMBS Transaction First Flexible (No. 7) Following Review

To

From

Ratings Affirmed

First Flexible (No. 7) PLC

£268.6 Million Mortgage-Backed Floating-Rate Notes

A AAA (sf)

B B- (sf)

C B- (sf)

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