

## **MARKET NOTICE - DETAILED ELIGIBILITY REQUIREMENTS FOR RESIDENTIAL MORTGAGE BACKED SECURITIES AND COVERED BONDS BACKED BY RESIDENTIAL MORTGAGES**

1. This Market Notice sets out the Bank's detailed eligibility requirements for Residential Mortgage Backed Securities (RMBS) and covered bonds backed by residential mortgages, and provides further details of the implementation timetable for these asset classes. These detailed criteria build on the high level proposals published by the Bank in its Market Notice<sup>1</sup> of 19 July 2010.

### **Implementation Timetable**

2. For all asset classes, the publication of all transaction documents will become an eligibility requirement from July 2011. For each asset class there will be a twelve month implementation period for all other requirements following publication of the detailed requirements for the respective asset class.

3. For RMBS and covered bonds backed by residential mortgages, for which the full set of detailed requirements are being published today, the implementation period for the remaining eligibility requirements will commence with this Market Notice and end on 30 November 2011.

4. Securities not meeting the new transparency requirements will continue to be accepted during the implementation period, without penalty. The Bank expects issuers who intend for their securities to be eligible for use as collateral with the Bank to use this period to put in place the systems and processes required to enable compliance with the criteria. The Bank encourages early compliance where possible to allow sufficient time to deal with any problems encountered in meeting the criteria.

5. Following the implementation period, there will be an additional twelve month transition period, during which securities not meeting the new requirements may remain eligible, though will be subject to increasing haircuts. Specifically, an additional 5 percentage point haircut will be applied at the beginning of this transitional period, and the haircut will increase by an additional 5 percentage points every month during the transition, as set out in Annex C. This haircut will be applied to any security within the relevant asset class until the Bank deems that the security meets all the transparency requirements.

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<sup>1</sup> Available at: <http://www.bankofengland.co.uk/markets/marketnotice100719.pdf>

6. Securities delivered as collateral in the Special Liquidity Scheme which do not meet the new requirements may remain eligible until the end of the Scheme and will not be subject to this additional haircut.

7. Any securities not meeting the criteria by the end of the transition period will be ineligible for use as collateral in any of the Bank's operations.

8. For RMBS and covered bonds, the transition period for both UK and non-UK transactions, will begin on 1 December 2011 and end on 30 November 2012.

9. The Bank will publish further Market Notices throughout the course of 2011 setting out the requirements for the other asset classes eligible in its operations. An equivalent transition period will apply to these asset classes.

### **Eligibility Requirements For RMBS and Covered Bonds Backed By Residential Mortgages**

10. In order to be eligible in the Bank's operations, the following requirements will apply to RMBS and covered bonds backed by residential mortgages:

#### Loan Level Information

11. Anonymised loan-level data must be made available to investors, potential investors and certain other market professionals acting on their behalf. Such data must be available in a recognisable spreadsheet format (e.g. .xls, .csv, .xlsx) via a subscription-only, secure online data site. It must be provided on at least a quarterly basis on, or within one month of, an interest payment date. The information on the assets must be no more than one month old at the time of publication. For large files, multiple spreadsheets may be provided.

12. The Bank will require loan-level data to be provided using the applicable template published on its website at <http://www.bankofengland.co.uk/markets/money/eligiblecollateral.htm>. This residential mortgage template has been designed to be, wherever possible, consistent with the loan-level requirements of other authorities, and reflects in particular those being developed by the ECB. The Bank has included guidance on the templates in order to assist issuers in providing this information.

13. In order for this requirement to be considered satisfied the mandatory fields indicated in each template should be completed on a 'comply or explain' basis. The Bank expects that all issuers should be able to complete the majority of these fields. Where issuers are not currently able to provide certain data fields this will not automatically render the transaction ineligible. The Bank

will look to assess the rationale for not providing the data using information in any supplementary material (e.g. an investor reporting glossary) before determining eligibility, and may choose to add additional haircuts to the transaction. In time, the Bank will expect all fields in the template to be populated. The Bank will reserve the right to request additional data in respect of any given transaction.

14. The definitions used for the loan-level data should, where possible, be consistent with those given in the template, or those considered to be standard market practice. Where issuers are not able to report using these published definitions, they will need to clearly state the definitions used for the purposes of their data set. Issuers should make clear in their loan-level data, or in the investor reporting glossary, which definitions they use. The Bank would encourage the use of standardised definitions, and expects the industry to move in this direction. The Bank would not expect there to be marked divergence from published definitions, and may apply higher haircuts to transactions where this is the case.

15. Loan-level reporting will include the requirement for credit bureau score data to be made available. The Bank will require that credit bureau scores be made available for each loan within a three month period of the transaction's origination and on a quarterly basis thereafter. The credit bureaux have agreed to provide information on the distribution of their scores to enable better comparison between providers. Loan level data made available will be anonymised – it should not directly or indirectly disclose the identities of individual borrowers. Investors accessing loan level data shall keep it confidential, use it only for the purposes of evaluating the security and its performance and shall not use it to seek to identify individual borrowers.

#### Transaction Documentation

16. The following requirements in relation to the publication of transaction documentation will apply to all transactions, irrespective of asset class, from 1 July 2011.

17. The prospectus, together with the closing transaction documents, including any public documents referenced in the prospectus or which govern the workings of the transaction (excluding legal opinions), will be required to be made available to investors, potential investors and certain other market professionals acting on their behalf. Where applicable these will include, but not be limited to: the asset sale agreement (and any relevant declaration of trust), servicing, back-up servicing, administration and cash management agreements, trust deed, security deed, agency agreement, account bank agreement, guaranteed investment contract, incorporated terms or master

trust framework or master definitions agreement, swap documentation, subordinated loan agreements, start-up loan agreements and liquidity facility agreements, as well as any other relevant underlying documentation. Included in this requirement will be documentation covering any related, including otherwise private or unlisted transactions where there are any interactions which could impact the cash flows on the transactions for which eligibility is being considered.

18. Where transaction documents contain commercial terms (e.g. the up-front costs associated with a swap), the Bank would not object to such terms being redacted for the purposes of publication, but only if these are previously non-public documents and refer to sunk costs which do not and could not impact the cash flows of the transaction.

19. To the extent private placement or unlisted notes have been issued from the same deal platform as notes for which eligibility is sought, the “final terms” document for these issues must be made freely available, unless the terms of such issuance are materially the same as those detailed in the base transaction documentation. Further, the Bank is prepared to allow the coupon (and related information) on these private placement or unlisted notes to be redacted for the purposes of publication where this information is required to remain confidential.

20. The documents should be made available via a website managed by or on behalf of the transaction originator or arranger.

### Transaction Summary

21. Transaction summaries will be required for any new issuance and should be made available to investors, potential investors and certain other market professionals acting on their behalf. This summary should list out all the key features of the transaction, including issues relating to deal structure, asset characteristics, cash flows, credit enhancement and liquidity support features, note holder voting rights, the relationship between note holders and other secured creditors in a transaction and the triggers in the transaction and the consequences of them being breached. Templates for these summaries can be found on the Bank’s website at <http://www.bankofengland.co.uk/markets/money/eligiblecollateral.htm>. These templates are not prescriptive and should be used as a guide by issuers/originators/arrangers to provide information relevant to a given transaction.

22. For master trusts and covered bonds, for which the documentation is typically required to be updated on a regular basis, transaction overviews will be required to be incorporated into the transaction documents by the end of the implementation period in order that all existing and new

transactions meet the eligibility criteria.

### Standardised Monthly Investor Reports

23. The Bank will require that investor reports, containing a standard set of minimum information be made freely available. These standardised monthly investor reports should be downloadable in a recognisable spreadsheet format (e.g. .xls, .xlsx, .csv) and must be provided within one month of the relevant reporting date. A full specification of the minimum information expected to be included in these reports is detailed in Annex A of this Market Notice.

24. For private placement or unlisted issuance, the Bank will require that line-by-line information on each such issuance be reported in the same manner as for public issuance, with the exception of the coupon. The weighted average of the coupon on all private placements or unlisted bonds can instead be reported, via providing a 50 basis point range within which the weighted average coupon resides, once private placement or unlisted issuance comprises more than 30% of the total issuance volume.

25. The Bank will also require that any market notices related to the transaction be published alongside the investor reports on the website.

### Cash Flow Models

26. A waterfall cash flow model will be required to be made available to investors, potential investors and certain other market professionals acting on their behalf, by or on behalf of the transaction originator, arranger or cash manager (the 'Information Provider'). The cash flow models must accurately represent how cash is applied through the 'waterfall' given the priority of payments. A full specification is included in Annex B of this notice.

27. Cash flow models may be provided in either a spreadsheet format or on a website maintained by or on behalf of the transaction originator or arranger; or in a proprietary format on the platform of a third party provider, but access must be free of charge to users. The calculations used by the cash flow model should be transparent to the user (either within the model or by the provision of 'plain English' payment rules) and the results of a cash flow run must be capable of being recorded and retained by the user.

28. At this time the Bank does not intend to apply this requirement to covered bonds given the greater simplicity of liability structures for these instruments.

## Access to Information

29. All of the information listed above must be made available via a secure website managed by or on behalf of the Information Provider.

30. Access to the anonymised loan level data shall be via an appropriately protected “data room”. To gain access to loan level data in the data room, investors (or other appropriate third parties) should be required to keep this information confidential, with the only permitted use being for the purpose of evaluating the asset backed security or covered bond for potential investment and for ongoing evaluation of the performance of the security.

31. While this will require users to register prior to access, the registration process should not result in a significant delay to access. Disclaimers, where used, should not seek to detract from the validity of the information nor disassociate the provider from them.

32. Other restrictions on access for legal / regulatory reasons are permissible but must be clearly justified. The Bank would expect an explanation of the reasons behind such restrictions. For the avoidance of doubt, the Bank would expect the following European Economic Area (EEA) domiciled users to have access to the information:

- a. Banks and other recognised financial institutions
- b. Any person or institution that has invested in asset backed securities and covered bonds
- c. Organisations or individuals compiling research to be distributed to financial institutions and other wholesale investors
- d. Market data or cash flow model providers to the investor community
- e. Governmental bodies, regulatory authorities and central banks
- f. Recognised rating agencies
- g. Any other party which would normally be considered to be a market professional and is a potential investor in asset backed securities and covered bonds
- h. Professional advisers representing any of the above.

## Non-UK Transactions

33. RMBS and covered bonds backed by collateral from non-UK jurisdictions will be required to comply with the Bank’s eligibility criteria.

34. The Bank will adopt a principles based approach to non-UK transactions, with exemptions granted only where criteria are not relevant. Any such requests for exemptions should be discussed with the Bank on an individual basis.

35. The Bank template for loan-level data on residential mortgages published today is applicable for all EEA transactions, subject to any additional legal/regulatory requirements on the disclosure of information in those jurisdictions. In the event the published template is not suitable for a given portfolio of assets, the Bank will require files containing loan level data to be compiled utilising the most applicable templates published by the relevant authorities for the given jurisdiction.

36. Transaction documents, standardised investor reports, cash flow models and transaction overviews for non-UK transactions should be based on the requirements outlined above, but should also feature information on structural, asset or legal nuances particular to the given jurisdiction.

37. The Bank will be willing to provide feedback to issuers contemplating adherence with the eligibility criteria, in an effort to address any queries regarding this policy.

38. The Bank reserves the right to require additional information for any reason, at any time.

Bank of England  
30 November 2010

## Annex A; Investor Reporting Requirements

### RMBS

In order for a transaction to be eligible for use as collateral at the Bank, the following will be required to be included in monthly investor reports (where applicable and available) for RMBS. In due course (where applicable), the Bank expects all the below data to be provided.

#### **1. Transaction Details**

- Reporting date
- Reporting period start
- Reporting period end
- Accrual period
- Next payment date
- Contact details – names, addresses, email addresses and telephone numbers in case of queries related to the report
- Web link(s) to applicable transaction information (glossary, transaction documents, loan-level data, cash flow models)

#### **2. Asset Details**

##### Portfolio characteristics

Summary information on the asset pool, including:

- Aggregate principal balance at the beginning and end of the period
- Aggregate number of mortgages
- Details of the number and balances of loans added to/removed from the pool and any repurchases or substitutions during the period
- Mortgage collections (scheduled and unscheduled principal, and interest) during the period
- Current weighted average seasoning, remaining term and yield (pre-swap)
- Details of any additional collateral
- Repossessions in the relevant reporting period and to-date, the current stock of repossessions



(both by number and balance) and recoveries from sales (balance)

- Current period and cumulative defaults and losses (following any sales or recoveries) (all by number and balance)

#### Performance Ratios

- Principal Payment Rate (PPR), the payment rate for total principal repayments, for the current month and as a 3-month average
- Constant Prepayment Rate (CPR), the principal payment rate for unscheduled repayments, for the current month and as a 3-month average
- Constant Default Rate (CDR) (for standalones) for the current month, a 3-month average and to date

#### Stratification Tables

Stratification tables showing a breakdown of the mortgage pool for certain key characteristics by number of mortgages, % of total number, current principal balance, and % of total balance. For all stratification tables with numerical values (e.g. loan-to-values (LTVs), seasoning) the maximum, minimum and weighted average values for the given variables should also be shown with the tables. Alternatively, these numbers could be included in the portfolio characteristics section above.

Given the Bank's requirement for detailed loan-level data to be made available on a quarterly basis, the Bank does not consider it necessary also to require a large number of mandatory stratification tables in the investor reports. The list of required stratification tables below therefore includes only a relatively small number of key stratification tables. However, the Bank would not expect issuers that already report additional stratification tables to stop reporting them, and issuers should continue to include all stratification tables that they consider appropriate or that may be required by other investors.

- Arrears (to include details on extent (i.e. balance and/or %) of capitalised arrears)
- Current (indexed) LTV (using latest valuation)
- Current principal balance
- Seasoning
- Mortgage maturity date or remaining term

### 3. Structure and Liabilities Details

- Details of all outstanding issuance, including: series name; issuer (for master trusts); issue date; full capital structure; ratings (original and current); currency; issue size; applicable exchange rates; outstanding amount; bond coupon; current rate; expected maturity date; legal final maturity date; bond structure (e.g. hard bullet/ soft bullet/ pass-through); identifier (e.g. ISIN); stock exchange listing; CRD II retained amount and method of retention (if applicable).
- The above information must also be reported for privately placed or unlisted bonds, with the exception of the coupon information, for which a weighted average of the coupon on all private placement or unlisted bonds can instead be reported as outlined in paragraph 24. Where such transactions pay interest on a different basis, different weighted averages should be reported, each covering all the privately-placed or unlisted bonds that pay interest on the same basis.
- For each class of notes, the credit enhancement and liquidity support derived from different supporting components (e.g. note subordination, over-collateralisation and reserve funds). List of all key parties and their current ratings (both short-term and long-term) together with any related trigger levels. Examples of counterparties to be included are: issuer, servicer, cash manager, account bank(s), guaranteed investment contract provider(s), liquidity facility provider(s), swap provider(s) and any related back-up/standby providers.
- Details of any swaps, including: counterparty and notional, applicable rates, payments made/received, any collateral postings. For private placements and unlisted bonds, bands within which the payments made/received sit can be provided in lieu of the actual payment legs.
- Details of scheduled and actual principal and interest distributions to each note and any current period and cumulative shortfalls.
- Details of all payments made according to any applicable “waterfalls” (referring to the prospectus for details if appropriate) and any excess spread.
- A breakdown of all the available funds for the transaction, and a list of all pertinent ledgers (e.g. principal deficiency ledgers, reserve funds), transaction accounts and liquidity facilities, showing their opening balances, any aggregated debits/credits for each period, targeted values and closing balances. For any accounts from which investments are made, the

average balance of investments in different asset classes, for example: cash, sovereigns, own name securities, RMBS, ABS, commercial paper.

- List of all material triggers/events referred to in the prospectus, such as counterparty-related triggers (which might be incorporated into the above list of key parties), performance triggers and issuer events of default etc, including a brief summary of the consequences if it is breached (referring to the prospectus for details if appropriate), and the current status of the trigger/event.
- Details of any tests, such as yield and pre-maturity tests, including details of calculations (if applicable).
- Transferor/Seller and Funding/Investor shares (master trusts only).

#### **4. Glossary**

A glossary of all definitions used in the report. Examples of terms for which definitions should be provided include, but are not restricted to:

- Arrears and how the number of months in arrears is calculated
- Default definitions (e.g. 90/180/360 days or when a borrower is classified as insolvent)
- Constant Prepayment Rate (CPR), Principal Payment Rate (PPR) and Constant Default Rate (CDR)
- LTVs – whether these include capitalised interest or fees. For indexed LTVs, the method used for indexing
- An explanation of the arrears capitalisation policy

## Covered Bonds

In order for a transaction to be eligible for use as collateral at the Bank, the following will be required to be included in monthly investor reports (where applicable and available) for covered bonds backed by residential mortgages. In due course (where applicable), the Bank expects all the below data to be provided.

### **1. Transaction Details**

- Reporting date
- Reporting period start
- Reporting period end
- Accrual period
- Next payment date
- Contact details – names, addresses, email addresses and telephone numbers in case of queries related to the report
- Web link(s) to applicable transaction information (glossary, transaction documents, loan-level data)

### **2. Asset Details**

#### Portfolio characteristics

Summary information on the asset pool, including:

- Aggregate principal balance at the beginning and end of the period
- Aggregate number of mortgages
- Details of the number and balances of loans added to/removed from the pool and any repurchases or substitutions during the period
- Mortgage collections (scheduled and unscheduled principal, and interest) during the period
- Current weighted average seasoning, remaining term and yield (pre-swap)
- Details of any additional collateral (e.g. substitution assets)
- Repossessions in the relevant reporting period and to-date, the current stock of repossessions

(both by number and balance) and recoveries from sales (balance)

- Current period and cumulative defaults and losses (following any sales or recoveries) (all by number and balance)

#### Performance Ratios

- Principal Payment Rate (PPR), the payment rate for total principal repayments, for the current month and as a 3-month average
- Constant Prepayment Rate (CPR), the principal payment rate for unscheduled repayments, for the current month and as a 3-month average
- Constant Default Rate (CDR) (for standalones) for the current month, a 3-month average and to date

#### Stratification Tables

Stratification tables showing a breakdown of the mortgage pool for certain key characteristics by number of mortgages, % of total number, current principal balance, and % of total balance. For all stratification tables with numerical values (e.g. loan-to-values (LTVs), seasoning) the maximum, minimum and weighted average values for the given variables should also be shown with the tables. Alternatively, these numbers could be included in the portfolio characteristics section above.

Given the Bank's requirement for detailed loan-level data to be made available on a quarterly basis, the Bank does not consider it necessary also to require a large number of mandatory stratification tables in the investor reports. The list of required stratification tables below therefore includes only a relatively small number of key stratification tables. However, the Bank would not expect Issuers that already report additional stratification tables stop reporting them, and Issuers should continue to include all stratification tables that they consider appropriate or that may be required by other investors.

- Arrears (to include details on extent (i.e. balance and/or %) of capitalised arrears)
- Current (indexed) LTV (using latest valuation)
- Current principal balance
- Seasoning
- Mortgage maturity date or remaining term

## The Asset Coverage Test

Detailed presentation of the results of the Asset Coverage Test (ACT), including:

- Results of each “line” of the ACT (e.g. A, B, C, X, Y etc), together with a description of each element of the calculation (referring to the prospectus for more details if appropriate). Where the figure is itself the result of a calculation (e.g. an “Adjusted balance”), details of that calculation should also be provided
- Where there are alternative calculations (for example,  $A = \text{the lower of } A(i) \text{ or } A(ii)$ ), give the results of each, as well as indicating which one has been used for the ACT
- Statement of the maximum asset percentage.

### **3. Structure and Liabilities Details**

- Details of all outstanding issuance, including: series name; issue date; ratings (original and current); currency; issue size; applicable exchange rates; outstanding amount; bond coupon; current rate; expected maturity date; extended due for payment date; legal final maturity date; bond structure (e.g. hard bullet/ soft bullet/ pass-through); identifier (e.g. ISIN); stock exchange listing; CRD II retained amount and method of retention (if applicable).
- The above information must also be reported for privately placed or unlisted bonds, with the exception of the coupon information, for which a weighted average of the coupon on all private placement or unlisted bonds can instead be reported as outlined in paragraph 24. Where such transactions pay interest on a different basis, different weighted averages should be reported, each covering all the privately-placed or unlisted bonds that pay interest on the same basis.
- The credit enhancement and liquidity support derived from different support components (e.g. covered bond guarantee, ACT, reserve funds, amounts standing to the credit of pre-maturity liquidity ledger). List of all key parties and their current ratings (both short-term and long-term) together with any related trigger levels. Examples of counterparties to be included are: issuer, servicer, cash manager, account bank(s), guaranteed investment contract provider(s), swap provider(s) and any related back-up/standby providers.
- Details of any swaps, including: counterparty and notional, applicable rates, payments

made/received, any collateral. For private placements and unlisted bonds, bands within which the payments made/received sit can be provided in lieu of the actual payment legs.

- Details of scheduled and actual principal and interest distributions to each note and any current period and cumulative shortfalls.
- Details of all payments made according to any applicable “waterfalls” (referring to the prospectus for details if appropriate).
- A breakdown of all the available funds for the transaction, and a list of all pertinent ledgers (e.g. principal deficiency ledgers, reserve funds), transaction accounts and liquidity facilities, showing their opening balances, any aggregated debits/credits for each period, targeted values and closing balances. For any accounts from which investments are made, the average balance of investments in different asset classes, for example: cash, sovereigns, own name securities, RMBS, ABS, commercial paper.
- List of all material triggers/events referred to in the prospectus, such as counterparty-related triggers (which might be incorporated into the above list of key parties), performance triggers and issuer/LLP events of default etc, including a brief summary of the consequences if it is breached (referring to the prospectus for details if appropriate), and the current status of the trigger/event.
- Details of any tests (for covered bonds in addition to the ACT), such as amortisation, yield and pre-maturity tests, including details of calculations (if applicable).

#### **4. Glossary**

A glossary of all definitions used in the report. Examples of terms for which definitions should be provided include, but are not restricted to:

- Arrears and how the number of months in arrears is calculated
- Default definitions (e.g. 90/180/360 days or when a borrower is classified as insolvent)
- Constant Prepayment Rate (CPR), Principal Payment Rate (PPR) and Constant Default Rate (CDR)
- LTVs – whether these include capitalised interest or fees. For indexed LTVs, the method used for indexing
- An explanation of the arrears capitalisation policy

- Definitions of terms used in the ACT if it is preferable to define some of these here rather than in the ACT section itself



## Annex B - Cash Flow Model Requirements

### i) Global Requirements for Cash Flow Models

- Cash Flow models may be provided in whichever format the Information Provider chooses (e.g. website, downloadable program or spreadsheet) however it should enable the user to input key collateral data as well as output results using a recognisable spreadsheet format (e.g. .csv, .xls or .xlsx).
- The model should incorporate data from a pre-configured table of inputs to drive a cash flow model, provided by the Information Provider, and output the resulting cash flows for the expected life of the relevant bond.
- Whilst inputs and outputs are bespoke to each transaction at a minimum the Bank would expect inputs to cover asset specific (e.g. principal and interest received, delinquencies and defaults), liability specific (e.g. note balances, trigger breaches) and sundry factors (e.g. interest and exchange rates). The output of the cash flow model should clearly show the activities (e.g. waterfall payments, account balances, note balances etc.) for the life of the transaction i.e. until assets have been exhausted under the assumptions being run. Below is a guide to sample specifications for RMBS transactions.
- The model should incorporate all features of the transaction which are not open to change or interpretation (e.g. note interest margins, waterfalls etc.).
- The model will be required to be updated should there be any changes to the structure which may impact the cash flows. For example, updates would not be required to reflect the amortisation of notes (note balances should be an input to the model) but will be required if there are changes which may impact the published model or to reflect changes to the transaction which may have occurred (e.g. the breach of a given trigger).
- The Bank would not object to legal liability disclaimers on the cash flow models however such disclaimers should be reasonable, for instance they should not look to disassociate the model from the Information Provider or the transaction.
- The Information Provider may accompany the model with guidance notes, including instructions, assumptions made and further information, however the notes should not be unreasonably long or excessively technical.
- Where the model may utilise a scripting code the Information Provider should make the code available, setting out in clear detail how the model operates i.e. which accounts funds

are assumed to come from, and how those funds are applied in the waterfall

- The Bank will perform qualitative reviews of the cash flow models provided for transactions and if the model is not considered to provide a reasonable basis on which to simulate the transaction, the deal could be considered ineligible.

All models will be expected to include the following example inputs and outputs where relevant to a given transaction. This list is not intended to be exhaustive and is expected to be used as a guide only.

### **Inputs**

**a) Static Variable Inputs** *(single input to reflect the starting position for the model)*

- Opening Balances; portfolio, outstanding notes, cash/account balances, ledgers (£)
- Starting GIC / cash balances – reserve fund, accumulation (£)

**b) Time Variable Inputs** *(the user must be able to supply a value for each period of the cash flow run)*

### **Economic Variables**

- Interest rate (e.g. 3M Libor rate) (% per period)
- Currency Exchange Rates (e.g. £/\$ or £/€ per period)

### **Cash Flows**

- Portfolio balances (£ per period)
- Principal & Revenue received (£ per period)
- Losses allocated (£ per period)
- Other income streams (e.g. recoveries, Guaranteed Investment Contract interest etc) in the event they are applied any differently in the waterfall. (£ per period)
- If applicable to the waterfall or structure, performance variables which may influence payment rules (e.g. CPR, arrear percentages)
- Special loss<sup>2</sup> – this could instead be connected to a stress event (£ per period)

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<sup>2</sup>This could be utilised to model a shortfall of the resources available to the transaction which becomes known on a specific date, and which is assumed to be applied in a specific way from that date or be used to reflect events not fully described in the documents and

### Stress Event Dates

- Originator Downgrade (e.g. AAA, A) or Default (Yes/No)
- Insolvency Event or Post Enforcement Waterfall Trigger breach (Yes/No)
- Transaction specific trigger event dates – where such triggers may not be driven by the liabilities model (e.g. delinquency trigger breach) (Yes/No)

### Counterparty

- Counterparty Downgrade (e.g. AAA, A) or Default (Yes/No) (e.g. swap counterparty default occurring in a given period)
- Stressed Service Provider Fees (e.g. servicer, account bank) (£ per month/year as applicable)

### Outputs

- Waterfall payments (£ per period)
- Note, account and ledger balances (£ per period)
- Swap payments (£ per period)

### Master Trust Specific Inputs

The following additional guidance specific to ‘Master Trust’ RMBS should also be considered.

- Funds available for substitution (£ per period)
- Mortgages available for substitution (£ per period)
- Minimum Seller Share (£/% per period)

## Annex C: Example Additional Haircuts Following Implementation Period

The following is an example of the increasing haircuts which will be applied to floating rate securities in the Discount Window Facility that do not meet the Bank's criteria following the end of the implementation period on 30 November 2011.

	RMBS, covered bonds backed by residential mortgages or social housing loans
Credit Rating	Aaa/AAA
Before 1 December 2011	17.0
1 December 2011 to 31 December 2011	22.0
1 January 2012 to 31 January 2012	27.0
1 February 2012 to 29 February 2012	32.0
1 March 2012 to 31 March 2012	37.0
1 April 2012 to 30 April 2012	42.0
1 May 2012 to 31 May 2012	47.0
1 June 2012 to 30 June 2012	52.0
1 July 2012 to 31 July 2012	57.0
1 August 2012 to 31 August 2012	62.0
1 September 2012 to 30 September 2012	67.0
1 October 2012 to 30 October 2012	72.0
1 November 2012 to 30 November 2012	77.0

### Additional notes

*An additional 6 percentage points is added to Haircuts to allow for currency volatility when securities are non-sterling.*

*Note on calculation: adjusted collateral value (post-haircut) = collateral value x (100 – haircut) %.*

*A haircut add-on of 2 percentage points is applied to yen-denominated securities to allow for higher volatility in the sterling/yen exchange rate.*

*A haircut add-on of 5 percentage points is applied to own-name eligible covered bonds, RMBS, CMBS, ABS and portfolios of corporate bonds where appropriate.*

*A haircut add-on of 5 percentage points is applied to eligible collateral for which no market price is observable.*

*The Bank may make further specific haircut add-ons for particular eligible collateral at any time, including on collateral delivered in outstanding transactions.*

*Haircut add-ons are kept under review. The Bank reserves the right to alter them, including on outstanding transactions.*