Wolf Receivables Financing 3 Plc

Re-performing Debts ABS – UK

Note class	Rating	Notional (GBP m)	Notional (% assets[1])	Advance rate	Coupon[2]	Final maturity
Class A	$A+_{SF}$	119.2	48.5	48.5	Sonia one-month + 3.95%	Nov 2038
Class B	NR	126.6	51.5	n/a	3% fixed base rate + 4% additional rate	Nov 2038

1. 180-month portfolio collections as expected in servicer business plan
2. Sonia one-month refers to the one-month compounded daily Sonia rate. The coupon is floored at 0%. The Class A notes margin will step-up to 4.95% from fifth anniversary of the closing date.

Scope's quantitative analysis is based on the portfolio dated 31 August 2023 provided by the seller and its agents. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised (excluding the step-up component of the margin) by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Financing
Issuer	Wolf Receivables Financing 3 Plc
Originators	Unsecured consumer debt lenders and credit providers in the UK
Servicer	Lowell Financial Ltd (Lowell Financial)
Replacement servicer facilitator	CSC Capital Markets UK Limited (CSC Capital Markets)
Seller	Lowell Portfolio I Ltd (Lowell Portfolio)
Issuer account bank	Citibank, N.A., London Branch (Citibank)
Collection account bank	National Westminster Bank (NatWest)
Interest rate cap provider	Goldman Sachs International (Goldman Sachs)
Closing date	20 December 2023
Payment frequency	Monthly (20th of each month)

Wolf Receivables Financing 3 Plc is a GBP 630m gross-book-value (GBV) securitisation of UK re-performing unsecured consumer debt accounts. These re-performing unsecured consumer debt accounts had made payments in at least four of the last six months immediately before the provisional portfolio's cut-off date 31 August 2023, as per the transaction eligibility criteria. The unsecured receivables comprising the portfolio were purchased by the Hoist UK Group (Hoist) from certain third-party sellers, and the legal and beneficial title to the receivables was assigned to the seller following Lowell's acquisition of Hoist, UK. The notes will be backed by a very granular portfolio of 234,622 accounts mostly containing re-performing unsecured receivables under payment plans. The liability structure features a strictly sequential and combined repayment waterfall. The rated Class A notes (the senior notes) will benefit from a reserve account that covers senior expenses and senior interest shortfalls. Interest payments on the Class B notes (the junior notes) will cease in the event of collateral collection underperformance (subordination event), effectively accelerating the repayment of senior notes. To mitigate the transaction's interest rate risk (non-interest-bearing assets against floating-rate senior notes liabilities), the structure includes a six-year interest rate cap agreement which notional mirrors the senior notes' expected outstanding principal amount.

Analysts

Martin Hartmann
+49 30 27891-304
m.hartmann@scoperatings.com

Mirac Ugur
+44 203 9368 164
mirac.ugur@scoperatings.com

Olivier Toutain
+33 182 8823 56
o.toutain@scoperatings.com

Investor Outreach

Michael John MacKenzie
+44 203 71449-81
m.mackenzie@scopegroup.com

Related Researches

General Structured Finance Rating Methodology, January 2023

Non-Performing Loan ABS Rating Methodology, August 2023

Methodology for Counterparty Risk in Structured Finance, July 2023

Rating rationale (summary)

The rating reflects: i) the transaction's legal and financial structure; ii) the quality of underlying collateral; iii) Lowell Financial's experience and incentives as transaction servicer; and iv) the transaction's exposure to key counterparties.

The rating is primarily driven by the expected recovery amounts and timing of collections from the UK re-performing unsecured consumer portfolio. The expected collections and timing assumptions consider the portfolio's characteristics as well as our economic outlook for the UK and our assessment of the servicer's capabilities. The rating is supported by the overcollateralisation available to the senior notes, the protection provided by the reserve account, and the interest-rate hedging agreement.

The transaction is exposed to the following key counterparties: Lowell Financial Ltd as servicer; Citibank, N.A., London Branch as issuer account bank, principal paying agent and cash manager; Goldman Sachs International as interest rate cap provider and National Westminster Bank as the collection account bank. Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as the replacement rating triggers, and the limited time exposure. We have assessed the credit quality of the counterparties based on public information and Scope's ratings.

Rating drivers

Positive rating drivers

- **Highly granular portfolio**. The portfolio is exposed to a very large number of debt accounts, making the asset pool among the most granular in the securitisation market. This feature protects the portfolio's performance against idiosyncratic borrower credit risk and ensures stable cash flows.
- **Simple structure.** The transaction is static, and the notes will amortise fully sequentially. Issuer available fund leakage is limited to a base interest rate of 3% on the junior notes and is subject to a collection performance trigger.
- **Liquidity protection.** A cash reserve mitigates liquidity risk in the event of a servicer disruption. Further mitigation comes from a combined waterfall, under which all pool collections can be used to repay the rated notes' outstanding balances as well as senior expenses and interest.

Negative rating drivers and mitigants

- **Large balances.** Most of the portfolio is exposed to accounts with large balances. Larger balances show lower recoveries as the affordability of underlying borrowers does not increase linearly with the increase in balance and the risk of a redefault is higher due to the longer horizon of the debt outstanding. Lowell's ability to keep customers engaged over long periods (due to its understanding of customers' circumstances and its arrangement of affordable monthly amounts) mitigates this risk.
- **Macroeconomic risk.** Inflation in the UK is still elevated despite having fallen from record levels in October 2022. The drivers of inflationary pressures have shifted towards rising prices for food, non-energy goods and services, with a potential negative impact on affordability for the pool's customers. Efforts by the Bank of England to contain this may be complicated by geopolitical tensions in Eastern Europe and the Middle East. However, past successive interest rate rises are starting to work their way through the economy, and wage increases have partially offset inflationary pressures. The fast-amortising pool is expected to mitigate this risk.
- **Interest rate mismatch.** The Class A notes pay a floating interest rate while the pool assets do not earn any interest, creating a mismatch of interest flows. A six-year interest rate cap agreement mitigates this risk.

Upside rating-change drivers

- **Higher pool collections than expected by the servicer**. Should the pool perform as defined in the servicer business plan or even better in the first 12 months, fast deleveraging of the Class A notes will protect them against future possible macroeconomic inflation shocks and the notes could be upgraded.

Downside rating-change drivers

- **Reduction in borrower's available income.** A failure by the Bank of England to reduce high inflation, an increase in energy costs and other key commodity prices, or austerity measures triggering a serious economic recession in the UK and a rise in unemployment could all impact the notes rating negatively.

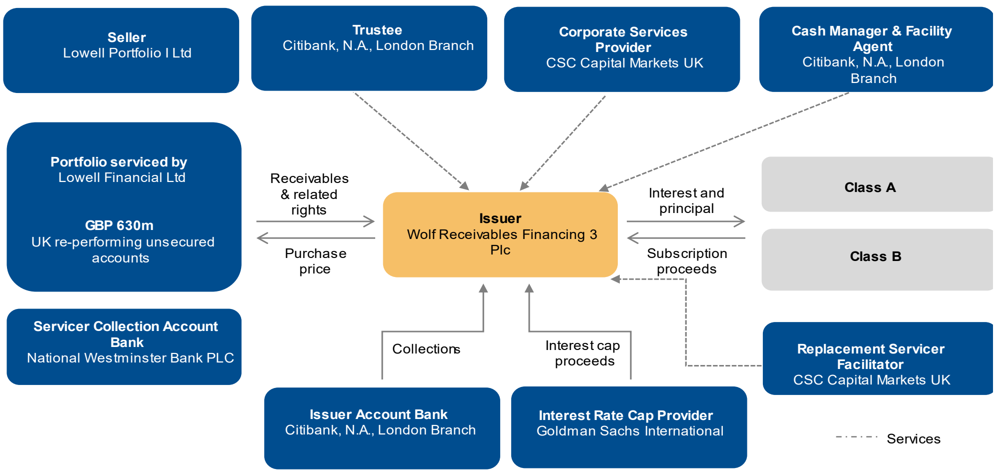
1. Transaction summary

Wolf Receivables Financing 3 Plc is a GBP 630m GBV securitisation of UK re-performing unsecured debt accounts. The unsecured receivables were purchased by the Hoist UK Group from certain third-party sellers, and the legal and beneficial title to the receivables was assigned to the seller following Lowell's acquisition of Hoist.

The portfolio relates to 234,622 accounts, and most of the assets are serviced internally by Lowell and under payment plans set up by Lowell.

NatWest will be the servicer collection account bank. Citibank will be the issuer account bank. Goldman Sachs will provide the interest rate cap. CSC Capital Markets will be appointed at closing as the replacement servicer facilitator and assist the issuer with replacing Lowell Financial as initial servicer upon a servicer termination event, at the discretion of the security agent.

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope Ratings

Table of Content

2. Macroeconomic environment

Inflationary pressures and rising interest rates weigh on borrower's ability to pay

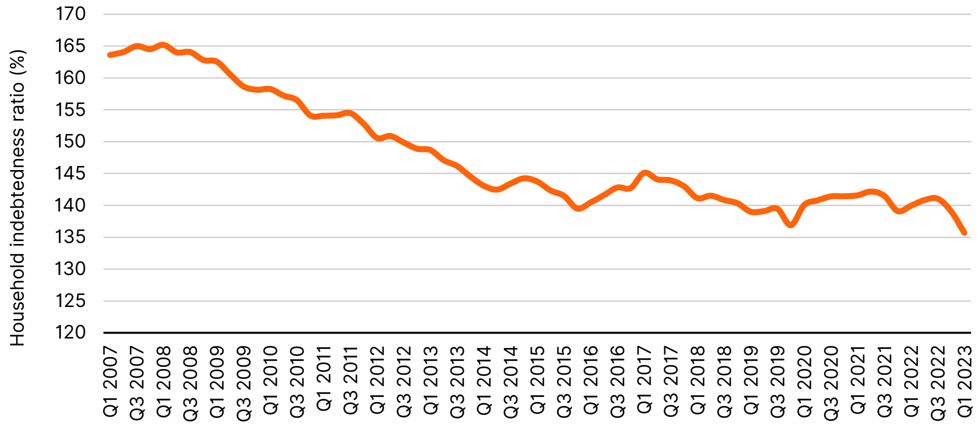
UK inflation has risen rapidly and significantly since 2021, with the consumer price index including owner occupiers' housing costs (CPIH) peaking at 9.6% in the 12 months to October 2022. This was the highest increase on record in the National Statistics series, which began in January 1989. Inflation has dropped since then to 6.3% in September 2023 and is expected to fall further over the coming months.

The Bank of England has sharply tightened monetary policy, increasing its base rate to contain inflation. This reached 5.25% in August 2023, up from 0.1% less than two years earlier in December 2021. Higher interest rates are leading to higher payments on existing debt, weighing on disposable income and the affordability of payment plans. This is partially offset by rising wages due to tight labour markets, with average wage increases exceeding inflation since June 2023, leading to a gradual stabilisation in real earnings. Annual growth for regular pay (excluding bonuses) was 7.3% in October 2023 compared with the same month last year, down slightly from the all-time high in June of 8%. In real terms, regular pay rose by 1.4% and total pay by 1.3% in October 2023.

As UK inflation remains well above the Bank of England's 2% target, interest rates are likely to stay at around 5% in 2024. The central bank has demonstrated its determination to return inflation to

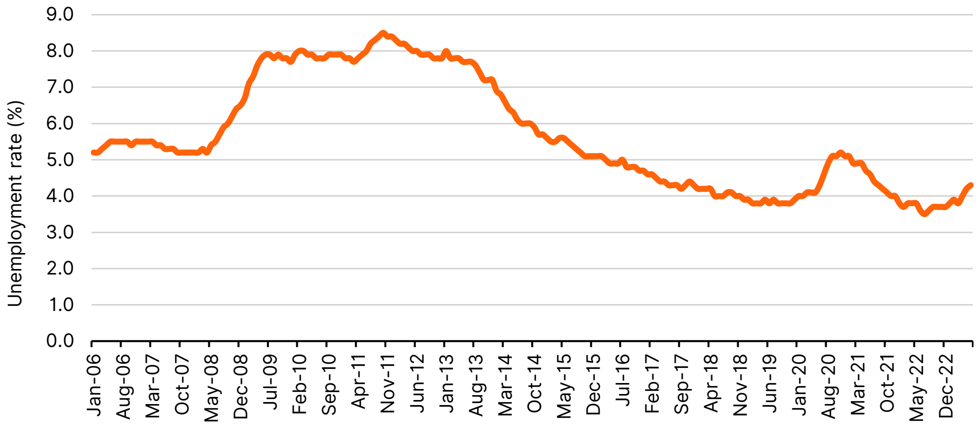
2% in the medium term, although geopolitical tensions in Eastern Europe and the Middle East could result in renewed inflationary pressures in case of higher prices for energy and key commodities.

Figure 2: Household indebtedness in the UK



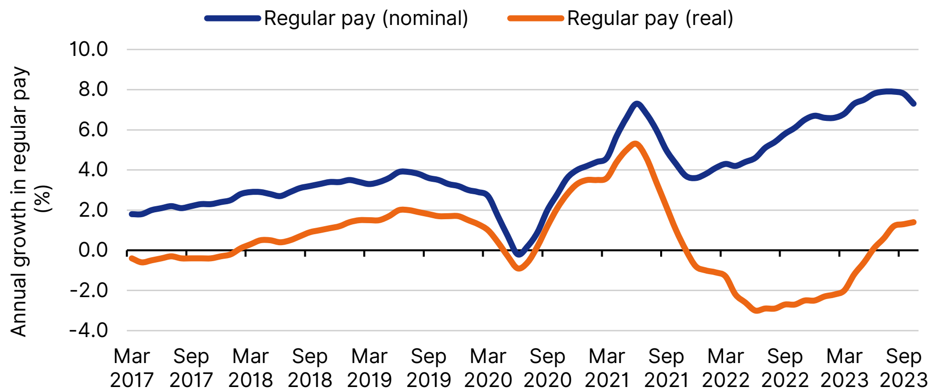
Source: OECD and Scope Ratings

Figure 3: Unemployment rate in the UK



Source: OECD and Scope Ratings

Figure 4: Annual growth in regular pay in the UK



3. Lowell Group overview

We deem Lowell Financial to have significant experience servicing transaction assets in the UK. We consider the servicer to have the knowledge, skills, systems and resources to perform the key role of servicing the debt accounts backing the rated notes. Further comfort is provided by Lowell's considerable experience spanning more than 19 years in purchasing and servicing mostly non-performing unsecured assets and the regulation of its activities by the UK's Financial Conduct Authority.

Lowell Group is one of Europe's largest providers of credit management services in terms of revenues and assets under management. It is also Europe's third largest debt services business. The group provides a range of credit management services in three regions: i) the UK; ii) the main German-speaking countries (Germany, Austria and Switzerland); and iii) the Nordics (Sweden, Norway, Denmark and Finland). Lowell is majority-owned by international private equity fund Permira V Funds. Lowell was established in 2004. In 2015, it was merged with GFKL and rebranded as Lowell. It acquired Lindorff's Nordic business in 2018 and Hoist's UK business in 2022.

Lowell Group's main activities are acquiring and collecting mostly unsecured non-performing debt accounts (debt purchases) and providing third-party collection services, such as early-stage collections, business process outsourcing, contingent collections, trace services and litigation.

The group has a strong customer focus that emphasises fair treatment of customers as well as risk management. Lowell's business also benefits from its broad geographic reach and balanced revenue mix. Lowell's development of one of the most extensive consumer databases in the UK creates a competitive advantage with regard to predictive capabilities, helping it develop effective servicing strategies.

3.1. Servicing strategies and processes

A significant number of the accounts in the eligible pool to be securitised are on payment plans.

A payment plan is set in Lowell's system for an agreed date, amount and frequency. Although borrowers have a wide range of payment options, direct debit is the most common, representing nearly 80% of all payments in the last three years.

Lowell recognises that a customer may require support above its standard strategy at any time. Customised strategies can therefore be negotiated to adapt to each customer's specific financial situation.

Lowell has aligned its systems and processes with its customer needs to enable front-line agents to create bespoke strategies for customers requiring additional specialist support, whether temporary or permanent.

All front-line staff are trained to identify triggers that indicate the need for additional support. Lowell then discusses additional options with the customer before both agree on a strategy.

4. Portfolio characteristics

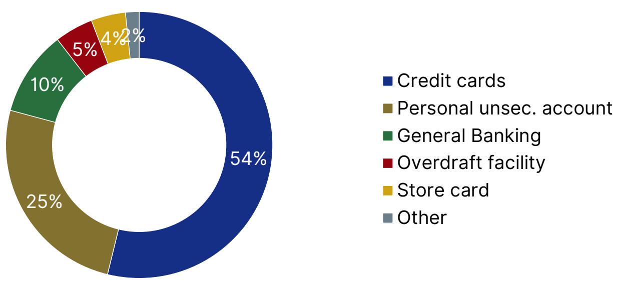
Very granular pool protects transaction from borrower credit risk, ensures stable collections

The portfolio is very granular with 234,622 accounts that are spread across the following parts of the UK: England has 89.6% of the total pool principal balance, Scotland has 3.1%, Wales has 5.9%, Northern Ireland has 0.9%, and the remainder of 0.6% is not recorded. The pool relates to unsecured consumer debt, such as credit cards (53.8%), personal unsecured accounts (25.4%), general banking (10.3%), overdraft facilities (4.7%), store cards (4.2%) and other (1.7%). Portfolio debt has an average balance of GBP 2,685.

A large portion of the portfolio (74.9%) is serviced by Lowell, with the remainder serviced by external debt management companies and debt collection agencies. The weighted average age of debtors in the pool is 55 years.

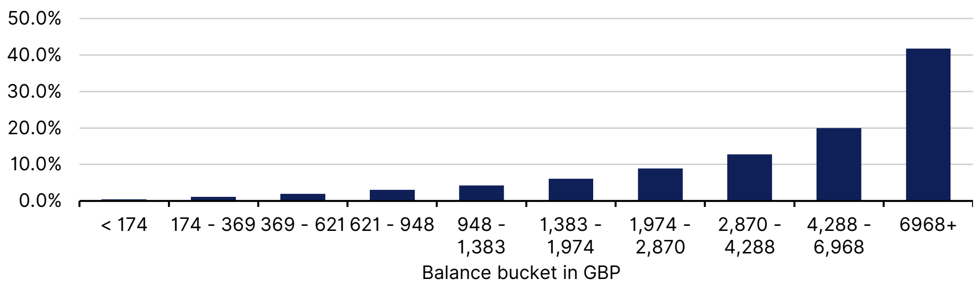
The positions in the pool have relatively old origination dates, with around half of the portfolio originated prior to 2015. Neither the seller nor Hoist UK Group originated the receivables in the portfolio. The Hoist UK Group conducted limited due diligence on the receivables in the portfolio for its own account at the time it acquired the receivables from the relevant third-party sellers.

Figure 5: Portfolio distribution by unsecured product



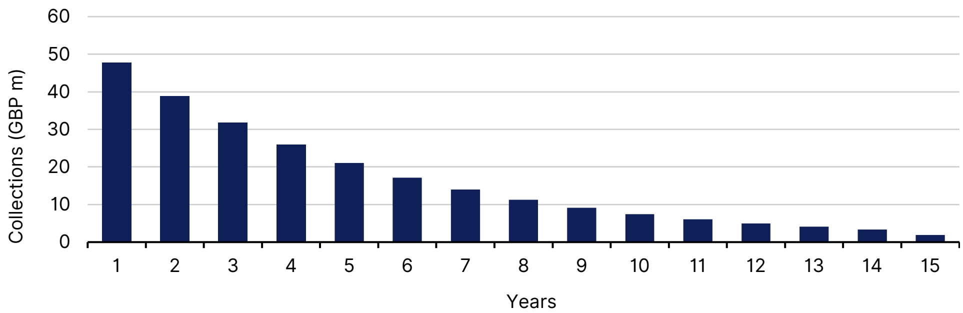
Source: Transaction data tape and Scope Ratings

Figure 6: Pool distribution by balance buckets



Source: Transaction data tape and Scope Ratings

Figure 7: Pool of expected collections as per servicer's business plan



Source: Servicer business plan

5. Portfolio analysis

Under our NPL ABS Rating Methodology, we test the resilience of a rated instrument to deterministic, rating-conditional stresses. We apply higher stresses as the instrument rating becomes higher.

We have determined expected base-case collections of GBP 241.1m[1] from the paying accounts over the next 15 years, considering rating-conditional collateral haircuts.

Base case collections of GBP 241.1m expected over 15 years

5.1. Pool selection

Typical unsecured NPL pools are split into: i) non/low-payers and payers; and ii) re-performers. The latter generally constitutes a minority ranging from a few percentage points to a third of the pools, while concentrating most of the recovery.

Eligibility criteria ensure the pool concentrates most of the recoveries

To identify and select re-performers, Lowell has defined eligibility criteria based on the accounts' performance over the past six months. Eligible accounts in the pool had made payments in at least four of the last six months before the cut-off date.

The pool mostly comprises accounts with relatively large balances. Around 83% of the outstanding balance is comprised of accounts with balances higher than GBP 2,000. Lower balances generally drive higher performance due to their affordability. Larger balances show lower recoveries as the affordability of underlying borrowers does not increase linearly with the increase in balance and the risk of a redefault is higher due to the longer horizon of the debt outstanding. However, regarding larger balances, we derive comfort from Lowell's ability to keep customers engaged over long periods due to its understanding of customers' circumstances and its arrangement of affordable monthly amounts.

5.2. Pool's historical performance

We reviewed recovery data dating back to 2015 in the context of this rating analysis, arranged by predefined buckets, payment frequency and payment type. This section presents our findings for eligible accounts that have met the transaction's eligibility criteria at some point since 2015. Our analysis was supplemented by available performance data for Wolf Receivables Financing I PLC. In particular the observed performance of larger buckets, which are most prominent in the current portfolio, was used to validate our approach when sizing our haircuts.

5.2.1. Recovery vintage analysis

When analysing the historical data, we did not observe major differences in ultimate recovery when comparing 4, 5 and 6 in 6 payers, i.e. accounts in the pool that had made payments in at least four of the last six months before the cut-off date. Major differences in historical recovery performance were observed when analysing recoveries for different balance buckets. Recoveries decrease with increasing bucket size, and the volatility between vintages increases with bucket size. We therefore derived our recovery assumptions per balance bucket as shown in Figure 6: Pool distribution by balance buckets.

We noticed muted volatility overall between the vintages from 2015 onwards. This is explained by the construction of the curves, which are based on the eligibility criteria, i.e. the same account can be present in several consecutive vintages as long as it is performing according to the eligibility criteria.

Muted volatility in historical data due to construction of vintage curves

For each of the ten buckets, we extrapolated the historical vintages to a 180-month horizon and used the average extrapolated curve as our base-case recovery curve. We then applied the single recovery curves to the static portfolio per bucket to derive the portfolio base-case recovery curve.

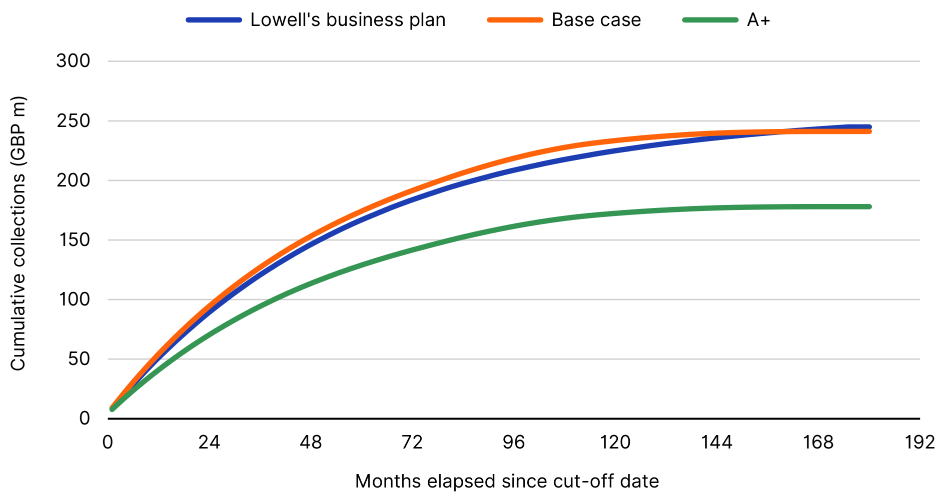
[1] This includes the actual November 2023 collections of GBP 4.4m

We applied rating-conditional recovery rates (i.e. assumed expected recoveries decrease as the instrument's target rating increases). The corresponding haircut for the senior notes is 27.6%.

5.3. Cash flow projections

We expect GBP 241.1m of collections over the 180 months following the cut-off date in our base case. This falls to GBP 178m in the A+ rating scenario, equivalent to discounts of 2% and 27.6% respectively on figures in the servicer business plan.

Figure 8: Cumulative collections versus servicer business plan



Source: Servicer Business Plan and Scope Ratings

6. Key structural features

6.1. Capital structure

At the closing date, the issuer will use the proceeds from the Class A and Class B notes (the senior and junior notes, respectively) to pay the portfolio purchase price to the seller (Lowell Portfolio). Upon payment of the purchase price, the issuer will own the portfolio of unsecured consumer debt obligations and related ancillary rights, with a GBV of GBP 630m. Part of the junior notes' closing proceeds will be used to fund the transaction's cash reserve fund, the initial setup expenses, and the costs incurred by the issuer for the interest rate cap agreement.

Senior notes benefit from overcollateralisation & liquidity from issuer cash reserve

The senior notes' credit support comes from the overcollateralisation associated with pool collections expected over the life of the transaction. The senior notes also benefit from a liquidity cash reserve, fully funded at the closing date and available to cover issuer senior expenses and senior note interest shortfalls.

Senior noteholders will receive a floating-rate coupon every month linked to the one-month compounded daily Sonia. Junior noteholders will be paid a monthly base fixed-rate coupon, unless there is a subordination event associated with pool cash collection performance, which would trigger a redirection of proceeds to accelerate senior note repayment. Once senior notes are fully repaid, junior noteholders will get an additional fixed-rate coupon of 4% on top of the base fixed-rate coupon.

Leakage limited to junior notes base interest

The notes will amortise fully sequentially, meaning that under the combined waterfall certain junior items are paid only when senior notes are fully repaid. This protects senior noteholders as it prevents leakage of monies to junior noteholders or to the seller until the rated senior notes are fully redeemed.

6.2. Reserve account

Reserve account supportive of rated notes' interest and issuer senior expenses

The transaction benefits from an issuer cash reserve funded at closing with part of the proceeds from the junior notes. At closing date, this reserve will be equal to 4% of the senior notes' initial balance. After closing, it will amortise in line with the senior notes' amortisation (4% of the senior notes' outstanding balance).

In a scenario of servicer disruption, we have identified liquidity coverage of around five months of senior expenses and senior notes interest. Our calculations consider the senior reserve fund required amount and assume senior notes coupon costs relating to the current one-year Sonia swap rate and the annual expenses of GBP 150,000.

We believe that the significant number of accounts in the portfolio combined with the low implied credit risk of the Lowell Group mitigates liquidity risk adequately. Servicer disruption risk is further mitigated by the replacement servicer facilitator appointed at the closing date, which would help the issuer replace Lowell as servicer within 60 calendar days following a servicer termination event, at the discretion of the security agent.

6.3. Subordination event

Subordination event feature increases protection for senior noteholders

Should the cumulative realised collections be less than 90% of the cumulative expected collections as per the initial servicer business plan, a subordination event will occur, deferring the junior notes base interest to the benefit of the senior notes. A subordination event is a curable event and offers additional protection to senior noteholders should the collections deviate from the servicer forecast as of the cut-off date (31 October 2023).

6.4. Priority of payments

Strictly sequential combined waterfall

The structure features a combined priority of payments. Portfolio collections, the cash reserve and any interest earned on the issuer account bank will cover the respective items in sequential order.

The combined priority of payments, together with the reserve account and the appointment of the replacement servicer facilitator at closing, is adequate to address the liquidity needs of the rated senior notes.

Figure 9: Simplified available funds and pre- and post-enforcement priority of payments

	Available funds
A	Amounts standing to the credit of the issuer accounts at the end of the previous collection period
C	Portfolio collections
D	Balance on issuer reserve account
E	Issuer transaction account, earned interest
F	Interest cap receipts due to interest rate cap agreement
G	Any seller-repurchased assets or indemnity amounts paid to the issuer due to a breach of the affected receivable eligibility criteria
	Pre-enforcement priority of payments
1	Tax
2	Senior expenses
3	Senior servicing fee
4	Class A notes interest
5	Top-up of reserve account to required amount
6	If no subordination event, Class B base interest
7	Class A notes’ principal, until 1 GBP is left. Provided that the step-up margin on the Class A notes (and any deferred interest and any additional interest thereon) is paid in full, repayment in full.
8	Class A notes step-up margin (starting from the fifth anniversary of the closing date)
9	If subordination event, Class B base interest
10	Class B additional interest
11	Junior servicing fee
12	Class B notes’ principal
	Post-enforcement priority of payments
1	Tax
2	Senior expenses
3	Senior servicing fee
4	Class A notes interest
6	Class A notes‘ principal, until 1 GBP is left. Provided that the step-up margin on the Class A notes (and any deferred interest and any additional interest thereon) is paid in full, repayment in full.
7	Class A notes step-up margin (starting from the fifth anniversary of the closing date)
8	Class B base interest
9	Class B additional interest
10	Junior servicing fee
11	Class B notes’ principal

In both waterfalls, senior notes must be repaid until 1 GBP is left before the issuer's available funds can be used to pay the senior note step-up margin.[2] Subsequently senior notes principal is paid in full before repayment of junior notes or any items below the senior notes' step-up margin in the priority of payments. This feature benefits senior noteholders as it prevents pool collections from being used to repay junior noteholders or the seller. Further protection for senior noteholders comes from the transaction subordination event, which will redirect junior notes base interest to the repayment of senior notes in case portfolio collections performance deteriorates.

6.5. Servicer fees and structure costs

Servicing fee structure mitigates potential conflicts of interest

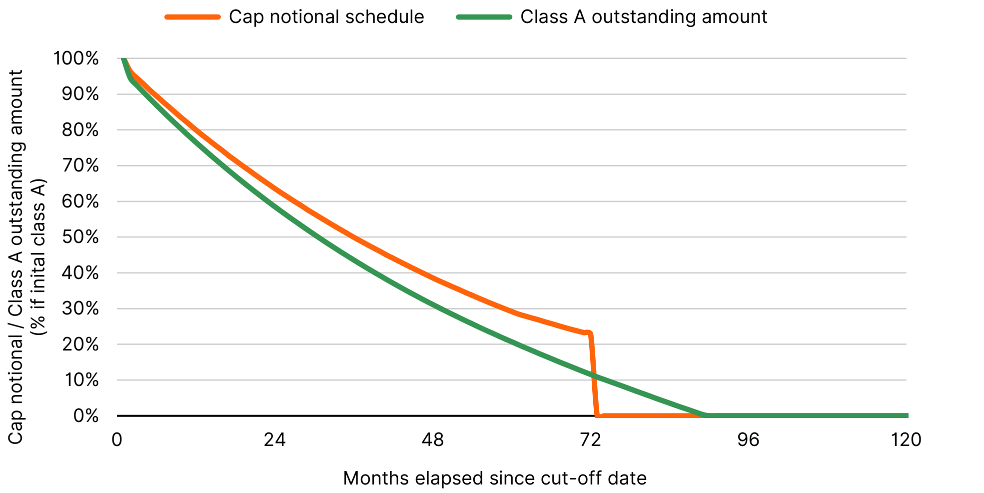
The senior servicing fee and junior servicing fees are 5.0% of collections, respectively. Servicer fees include servicing costs, enhancing the transparency and simplicity of the fee structure. Other senior costs are around GBP 150,000 a year.

6.6. Interest rate risk

Interest rate risk mostly mitigated by interest rate cap agreement

The transaction is exposed to interest rate risk because the assets bear no interest while the senior notes pay a floating rate to noteholders. The risk of increased interest rates is mitigated by a six-year interest rate cap agreement. The issuer will enter into the hedging agreement with Goldman Sachs. The interest rate cap agreement entails compensation for the issuer whenever the one-month compounded daily SONIA[3] exceeds the 5.5% strike rate. The notional of the interest rate cap hedging agreement will be based on the senior notes' expected notional balances.

Figure 10: Swap notional schedule compared to class A amortisation under A+ rating scenario



Source: Transaction documents and Scope Ratings

Interest rate risk on the senior notes is further mitigated by the issuer's cash reserve fund, which can also be used to cover any interest shortfall on the senior notes.

6.7. Accounts

Citibank's high credit quality and replacement trigger mitigate counterparty exposure

The issuer holds its transaction account with Citibank. The high credit quality of Citibank and the replacement trigger within 30 calendar days upon loss of the minimum required rating are effective

---

[2] The potential failure to pay that 1 GBP will in our opinion not constitute a default as per the default definition outlined in section 3.4.1. of our Credit Rating Definitions . This is because the amount of the shortfall will be negligible versus all other typical payments of the senior note, including the coupon payments. in addition, the intention of this mechanic is only to solve operational issues regarding the payment of the senior step-up margin and not due to credit reasons.

[3] With five-day lookback

at mitigating this counterparty exposure, in accordance with our Counterparty Risk Methodology (see the counterparty risk section for further details).

7. Cash flow analysis and rating stability

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis considers the capital structure, the coupon payable on the notes, the interest hedging structure, the servicing fee structure, and the transaction's senior costs.

The respective rating assigned to the notes reflects the instrument's expected losses over the weighted average life of the notes commensurate with our idealised expected loss table.

7.1. Rating sensitivity

We tested the resilience of the rating to the following deviations in the main portfolio input parameters: the recovery rate and the recovery timing of the portfolio. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The results for the rated Class A notes change by the following number of notches compared to the assigned credit rating in the following scenarios: i) a decrease in recovery rates by 10%: down two notches; and ii) an extension of the portfolio's weighted average life by one year: down two notches.

8. Sovereign risk

Sovereign risk does not limit the transaction's rating

Sovereign risk does not limit the senior notes' rating. The risks of an institutional framework meltdown or legal insecurity are immaterial for the rating.

For more insight into our fundamental analysis of the UK economy, see our press release dated 3 November 2023 ('Scope affirms United Kingdom's credit ratings at AA with a Stable Outlook').

9. Counterparty risk

The transaction's counterparty risk supports the rated instrument's rating. We do not consider any counterparty exposure to be excessive. The limited exposures, the generally high credit quality of the counterparties, and the downgrade and replacement mechanism support the rated instrument. The counterparty roles of the issuer account bank (Citibank) and the interest rate cap provider (Goldman Sachs) are material. However, the transaction's downgrade and replacement language – within 30 calendar days upon a counterparty's loss of a minimum BBB rating by Scope – is effective at mitigating counterparty risk, with the remaining risk being immaterial.

9.1. Servicer disruption risk

Replacement servicer facilitator appointed at closing date

Servicer disruption risk in the event of Lowell's insolvency is mostly mitigated by the issuer's cash reserve. We estimate that the reserve account can cover around five months of issuer senior expenses and senior notes interest. This risk is further mitigated by the appointment of a replacement servicer facilitator at closing date. In case of a servicer termination event, the replacement servicer facilitator can help the issuer find a replacement servicer within 60 calendar days at the security agent's discretion.

The transaction's main servicer termination events include: i) a failure to pay by the servicer when not cured within seven business days; ii) a material breach of obligations by the servicer when not cured within 60 calendar days; iii) the servicer ceasing or threatening to cease its activities; and

iv) when servicer obligations pursuant to the transaction documents cease to be legal, valid, binding and enforceable.

9.2. Commingling risk

We consider commingling risk to be material and have sized it

Portfolio debtors paying via direct debit or card will directly pay into a collections account with NatWest which is on a declaration of trust for the issuer's benefit (collections trust account). Other debtors collections paid directly to the seller will promptly be transferred to the same account. Collections from debtors paying to a debt collection agent or a debt management company will be received on Lowell's main collections account (also with NatWest) before transferred to the collections trust account. All collections standing to the credit of the collections trust account will be swept into the issuer account held with Citibank every week.

In the event of Lowell's insolvency, all debtors and debt management companies will be notified to redirect their payments to the issuer account. This, once effected, effectively eliminates cash-commingling risk.

While Lowell is solvent, cash-commingling risk is material as some debtors and debt management companies first pay to the seller or into Lowell's main collections account rather than directly into the collections trust account. The weekly collection cash sweeps from the collections trust account to the issuer account add to this risk. However, partial mitigation of this risk comes from the prompt sweeps from the seller's or Lowell's main collection account to the collection trust account. Note that the servicer collection trust account should benefit from the separation of rights in case of a servicer default.

We determined potential cash-commingling risk in the event of Lowell's insolvency by sizing 60 bps of portfolio losses over the portfolio's life. This calculation considered factors that include the weekly sweeping frequency from the collection trust account to the issuer account, the estimated time needed to redirect borrower payments, and the public rating of Lowell's parent entity (Garfunkelux Holdco 2 S.A.).

9.3. Counterparty risk from account bank

Our base case incorporates an expected weighted average life of 3 years for the senior notes. This short timeframe reduces counterparty risk regarding issuer account bank Citibank. Given Citibank's high credit quality, the risk of losses following a default of the entity is sufficiently remote and therefore immaterial for the rated notes. We have assessed the credit quality of Citibank using public information as well as public ratings. The risk regarding this counterparty is also mitigated via a replacement trigger within 30 calendar days upon loss of its minimum required rating.

9.4. Counterparty risk from the interest rate cap provider

Goldman Sachs provides the interest rate cap that protects the transaction from increases in one-month compounded daily Sonia. The risk of losses in the event of a default of this counterparty is sufficiently remote and therefore immaterial for the rated senior notes. We have assessed the credit quality of Goldman Sachs using public information and public ratings. A replacement trigger within 30 calendar days upon loss of a minimum required rating for Goldman Sachs also mitigates this risk.

10. Legal structure

10.1. Legal framework

This securitisation is governed by English law and represents a sale by way of equitable assignment (or in the case of the Scottish receivables, by way of a declaration of trust pursuant to the Scottish declaration of trust) of the assets to a bankruptcy-remote vehicle, represented by

CSC Capital Markets Limited, the corporate service provider. The special purpose vehicle is essentially governed by the terms in the documentation.

10.2. Use of legal and tax opinions

Tax-efficient setup, and issuer is considered to be a bankruptcy-remote special purpose vehicle

We reviewed the English legal and tax opinions and Scottish legal opinion produced by reputable law firms with significant experience in international securitisation. These provide comfort on the issuer's legal and tax-efficient structure and support our general legal analytical assumptions.

The English and Scottish legal opinion confirmed the right of separation in case of a servicer default for amounts held in Lowell's collection trust account. The legal opinion also confirmed that in the event of Lowell's insolvency, its creditors and its insolvency administrator would be prevented from contesting the validity of the equitable assignment of the receivables and the trust under the seller collection account declaration of trust.

The issuer is a public limited company incorporated and based in England, established as a securitisation company subject to the securitisation law. The issuer has the authority to enter into transaction documents, exercise and perform its obligations, and issue notes. The issuer's obligations under an English court would be recognised as legal, valid and binding in accordance with the transaction documents. These documents are governed by English law and would be recognised by the courts in England, where the issuer is located.

The issuer is owned by its parent (Metis Bidco Limited), which we understand to be for tax reasons associated with servicing VAT cost optimisation. All the issuer's assets (receivables, seller cash collections and issuer transaction account) are subject to the security granted and/or the trust created under the security documents for the security agent and ultimate benefit for the noteholders. Hence, we understand that the validity or priority of the security interest should not be affected by the insolvency of the issuer's parent. This risk is further mitigated by the parent's share pledge in favour of the security agent and for the ultimate benefit of noteholders.

Based on transaction documentation as well as representations and warranties made by the notes issuer, this entity's features are consistent with those of a bankruptcy-remote entity, such as contractual restrictions related to limited recourse, non-petition and debt limitations.

The tax opinion considers the structure to be tax-efficient, i.e. no taxes apply except for the minimum retained profit tax and VAT in the context of the issuer's contracted services.

11. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports from the management company as well as other available information. The rating will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

12. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology dated January 2023, Non-Performing Loan ABS Rating Methodology dated August 2023 and Methodology for Counterparty Risk in Structured Finance dated July 2023. All are available on our website, www.scoperatings.com. Lowell has provided us with data showing eight years (from Q1 2015 to Q4 2022) of historical recovery performance and static data tape information as of the portfolio dated 30 October 2023. The historical data covers at least one period of significant economic stress related to the Covid pandemic that started in March 2020. We have reviewed and analysed the findings related to an agreed-upon procedures report on the provisional portfolio with pool cut 31 August 2023 performed by a reputable audit firm. On Scope´s view the small random sample of only 59 accounts out of around 235,000 accounts, seems to be too small and therefore we have considered its relevance to be weak.

I. Summary of portfolio characteristics

Our analysis was based on the portfolio as of 31 August 2023.

	Wolf Receivables Financing 3 Plc
Current pool balance	**GBP 630m**
Number of debt accounts	234,622
Average balance	GBP 2,685
Weighted average age of borrower**	55 years
Share of pool serviced by Lowell (excluding accounts managed by debt management companies and debt collection agencies)*	74.9%
Share of pool externally serviced by other debt management companies*	25.1%
Share of accounts regulated by UK Consumer Credit Association*	83.9%
GBP-denominated account*	100.0%
Pool distribution by top three product types*	Credit cards (53.8%), personal unsecured accounts (25.4%), general banking (10.3%), overdraft facilities (4.7%), store cards (4.2%) and other (1.7%)
Pool distribution by country*	England (89.6%), Wales (5.9%), Scotland (3.1%) and Northern Ireland (0.9%)

*by total current pool principal balance
**weighted by current pool principal balance

Related Research

General Structured Finance Rating Methodology, January 2023
Non-Performing Loan ABS Rating Methodology, August 2023
Methodology for Counterparty Risk in Structured Finance, July 2023

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
www.scoperatings.com

Phone: +44 20 7824 5180
info@scoperatings.com

Bloomberg: RESP SCOP
Scope contacts

Disclaimer