

## CHL/IL&P Deal Overview

### CHL Book

- £6.2 billion high quality buy-to-let mortgages on UK residential – 46,000 loans
- UK Resi – one of the strongest assets classes
- Discount discussed – 30% = £4.3b acquisition price
- Average length of loans - 15 years
- According to recent Blackrock led Irish Central Bank stress test max. loan losses - even on stressed scenario is 1.4% of book value (£86m)

### Book Returns

- Book is on floating tracker rates producing about 2.1% pa (1.6% margin + .5% base rate), or £130m pa
- On a £4.3b entry price - £130m is 3% pa (240 bps spread over base).
- Any increase in interest rates will have an exponential effect on £4.3b entry price, as rates will increase on the full £6.4B portfolio

### LTV

- Current market value of underlying portfolio is £7.3b
- Face value £6.2b is on an LTV of 85%
- At an entry price of £4.3b, LTV is at 59%
- **Book produces a floating 3% pa at an entry price of £4.3b off an LTV of 59%**

### OBJECTIVE

- Finance 100% of acquisition cost, entire cashflow to support debt service and loan servicing, but we own the residual £1.9b of discount – this is the main profit driver.
- Equity required may be to enhance credit where needed, and show substance when approaching funders.
- Equity will be between £200-£500m, not known at this stage
- Other profit driver is increase in interest rates, which will accrue on the £1.9n of discounted face value
- Estimated about 12 years until full run-off of entire portfolio is achieved - so that about £140m pa (before credit losses) of discount is created as profit to investors every year

### Financing – traditional routes

- Traditional investment bank financing is too expensive today - would be priced at least 500 bps pa
- Would make a deal with CHL possible only on levels of 60% of face value

- That is where most investors are and was confirmed by Loan Star as well as Citigroup and other major banks
- Effectively the investment bank role as 'middleman' does not work today
- Securitization market is not active as an exit route

### Financing – new strategy

*The following is based on discussions with Annap Ghai, head of securitised lending in Citigroup UK, and Natixis bank as well as our consultant Arun Mirchandani who was head of Commezbank Securitised lending from 2002-2008, and has been somewhat tested in the market.*

- From a conceptual point of view, there is direct demand from end users for prime debt which would pay a 200 bps spread.
- These end users are entities such as UK building societies, UK and European insurance companies who are writing comparable risk level debt at keener pricing
- What is needed is direct talks and presentations to these active institutions who have a natural need for this paper – this has to date not yet been done by other players in the UK
- In effect this is circumventing the traditional middle man role of the financing banks and going directly after the end user of these debt positions.
- In order to achieve this, a full new underwriting of each loan is required, important is to be able to convince the funders that this prime debt, not the sub-prime or Irish tainted product
- This gives us the ability to bid 70% for the CHL Portfolio
- **Citigroup feel there is a good chance of success working along this route and have agreed to work with us, approach and market the paper to a raft of institutions they think would be interested.**

### Next Steps

- Citigroup will approach ILP asking for exclusivity for 60 days, in order for us to do due diligence at CHL and re-underwrite at least 1,000 loans.
- Our strategy with IL&P is to convince them to let us do the above DD and to test our funding ideas, as if it works it will be highly beneficial to them
- No doubt Citigroup will play a major part in persuading ILP by explaining to them the validity of these ideas and the chances of actual success.
- If DD results are as presented, after 1,000 loans, we and Citigroup will be able to package the product and approach potential funders and get a good market read if the above is achievable

- If it is, further discussion how to work together with IL&P until full placing of \$4.3b can be achieved.

**What is needed now**

- We need representations of equity that would be interested if financing can be achieved as above.
- This will induce both Citigroup to spend time and effort on this as well as in discussions with IL&P in order to gain exclusivity.
- A £300-500k budget for initial due diligence.