European Structured Finance Monitor® Daily

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05 June 2024

- **Global ABS gets underway, over 5,100 registered**
- **Increased diversity seen, but more needed**
- **CLOs surprise with issuance racing ahead**
- **Traders spot nuanced opportunities**

With over 5,100 registrations confirmed at the opening of Global ABS, and more to come with a few walk-ins expected, it was a busy start to Day One of the market gathering. There was a new name for the organiser (Invisso), and a new format but still plenty of panel discussions on various aspects of the structured finance market.

Market trends and challenges, regulation, green transition financing/ESG, RMBS, CLOs, auto/consumer ABS, NPLs, synthetics and areas of relative value were all up for discussion throughout the day. The upshot is that market participants are reasonably optimistic about the future. More than one reference to "I'm less bearish than I was a year ago" was made, but market participants were also keen to caveat that.

Rates not falling as much as previously anticipated (even though that has become a more accepted outlook), geopolitical tensions (potential conflict escalation and associated impact on energy prices and inflation as a result), elections for substantial populations across the world, a lack of clarity on the ESG approach and regulation were all areas that continued to demand attention.

Even so, volumes and deal numbers are up compared to 2023, boosted by a very busy May. And on the asset side, performance has generally been as expected.

The higher for longer narrative may impact the market not just in terms of actual rates, but also through a possible divergence between regions about when the first cut may come and how many will follow.

In both Europe and the US, expectations have been tempered for how much the central banks will cut rates not just in 2024, but also in 2025, raising questions about how much of a differential between the markets could be handled in terms of FX rates. And that could change the rate cut path going forward, one panellist said.

As noted below in CLOs, overall asset performance had been good when taking into account the move in rates. Some potential shocks were anticipated, such as in UK RMBS where some borrowers were still yet to roll off cheap deals onto higher rates but a resilient labour market offered some protection and tighter origination standards over the last ten years would also help asset performance.

In the non-conforming buckets, there was a risk of arrears accumulating, repossessions picking up and default levels rising. The floating rate nature of some non-conforming loans meant they were already feeling payment shock. Some borrowers have been able to refinance, but that left behind those unable to. Banks had offered forbearance measures, but this meant a delayed build-up in arrears, another panellist said.

Nonetheless, the refinancing of non-conforming and BTL portfolios had supported a rise in UK RMBS issuance. The non-bank lenders do not have access to cheap central bank funding (TFSME) which has led them to the RMBS market. And some have forward flow agreements in place too, an area in which prime lenders were also stepping in.

In the prime space, cheap money from the Bank of England and ECB has to be replaced but, for many issuers, covered bonds remain a choice instead of RMBS. There was a casual preference for one over the other in some countries, one said, but the regulatory impact (Basel 3) could influence decisions such as using RMBS for high LTV loans for capital relief while using covered bonds for the lower LTV loans.

The CMBS market was also highlighted as a concern, particularly the 2021 vintage, as loans were written in a low-rate environment and with low underwriting standards. Office properties stood out in this. And while issuance more recently has been dominated by last mile logistics assets, the panellist also highlighted this as an area to watch given the rapid rise in rents.

In the auto sector, used car valuations were under pressure. There had been an overvaluation of used cars during the periods of supply chain issues but the market was now going through a correction. And in the electric vehicle space there was a lack of a viable used car market.

Looking ahead to 2025, market participants called for a broader investor base, more certainty on ESG questions and the growth of new asset classes, such as CRE CLOs, solar panel financing and middle market CLOs such as in the US.

More diversity, but more needed

Market participants discussed an increase in the diversity of issuance in the European market more recently, but said that when put into a global context it highlighted the amount of catching that had to be done. Europe would like to be the US when it grows up, one panellist quipped.

There was a greater propensity for US investors to embrace new technologies, highlighting the fact that around 15% of the US market was described as “esoteric”, which in itself contained a substantial list of asset types. The number of deals were increasing, as was the volume, with issuance catching up with the pre-GFC levels without negatively impacting secondary spreads as demand remained strong.

But to counter the diversity argument, another said that Europe offered regional variety versus the greater list of esoteric asset classes boasted the US. But there were early signs of developing more esoteric deals, such as Europe’s first date centre ABS from Vantage.

One area of the European market yet to see issuance though was middle market (private credit) CLOs. There was appetite for the product, but the timing of the first issue remained a significant question. Panellists did not rule out a deal not coming this year though.

Private deals overall did offer issuers flexibility, but some market participants preferred the certainty of publicly rated transactions. Private credit did come to the rescue in concerns about the maturity wall, panellists said, although recent activity in the leveraged space has seen the loan market winning back share from previous private deals.

In a separate panel on the prospects of securitisation financing the green transition participants highlighted both the benefits and challenges for the securitisation market. The US market showed the potential, such as in solar financing, while the data and reporting requirements for securitisation could benefit transparency in other sectors.

Segregating asset risk from originator risk via ABS was also a positive. However, one panellist said that securitisation was probably best suited to the more mature asset classes, given the longer historical performance and cash flow data available.

CLOs surprise

The CLO sector has experienced a significant uptick in activity this year. Issuance crossed through the EUR20bn mark towards the end of May to rapidly close in on the EUR26bn that printed in the whole of 2023.

Whether this overtakes 2021 (close to EUR39bn) remains to be seen, but the market does at least have a chance to do so. Panellists said that a tightening of spreads, cash flowing from the amortisation or liquidation of some existing deals that underpinned demand, and an increase in loan supply all supported the acceleration in supply. One panellist described the rise in CLO issuance as not only contributing the most growth but also represented the biggest upside surprise.

Not all of the loan supply is new though, as a proliferation of repricings and amend & extends (A&E) has been more of a boon to volumes than substantial new M&A activity. That said, CLO managers can still use A&E supply to top up their portfolios.

And how the asset side of the market plays out for the rest of the year will be the determining factor in whether a new post-GFC issuance record is set. Some panellists said throughout the day that issuance has been front-loaded given the major elections planned over 2024, which also meant a condensed timeframe for transactions to be completed. Warehousing had been shortened, with even print and sprint approaches making an appearance too.

Spreads in the European market have tightened significantly since the end of 2023, but not to the same extent as the US where levels are nearing historical tights. For the European market, there remains some distance to travel still.

And even within the asset class there is a disparity between primary and secondary spreads. A potential 30-40bp pick-up was available on new issues versus secondary, but with a 6-8 week settlement period investors did open themselves up to some risk should the market move in the meantime, one panellist said.

Strong demand was reported in the secondary market, but a deeper dive revealed a segmentation across three groups of deals, one said. There were the older seasoned deals (such as from 2018) that were deleveraging, the deals from the record year for issuance of 2021, as well as other high-coupon issues. And there were opportunities within each. The panellist said the older deals had rating upgrade potential, while the newer issues had more attractive, higher coupons.

Sustained demand has allowed spreads to tighten but even so the yield is still enticing, said one, while the resilience of leveraged loans after two years of rising rates was also a positive aspect. The maturity wall in a high-rate environment has so far been dealt with without too many issues, another said.

Rating performance was good and the weighted average rating factor (a reflection of portfolio quality) had been relatively stable the past two years. It was also said during the day that it had been a surprise that so many corporates had been able to refinance in a high-rate environment.

Traders spot nuanced opportunities

On the ABS traders' roundtable, market participants also referred to Europe and the US being at different points in their interest rate path, and made note of the positive momentum in the CLO market too. For the ABS and RMBS sectors, it was more a story of underperformance versus IG credit.

But that in itself has a potential upside as it left some spread on the table and paved the way for more tightening. And this had attracted some investors to the secondary market that had typically waited for primary market issuance.

The targeting of more esoteric asset classes, such as US student loan paper in EUR, also opened up value opportunities for the trading desks.

Legacy UK non-conforming RMBS mezzanine paper offered value, one said, with upside linked to potential performance improvements. For instance, on some deals that had breached performing triggers and switched to sequential amortisation, there was an upside to them being called. And if delinquencies fell back below trigger levels, there was potential benefit from a reversion to pro-rata payment.

Panellists also discussed the return of third-party equity in CLOs. They also spoke of how the primary market looked cheap relative to secondary paper (as also noted above) and more interest and flows in Australian paper, where the cross-currency swap versus UK non-conforming paper offered value.

For potential downsides, they highlighted rates staying higher for longer which could put pressure on credit, and also single name/idiosyncratic risk such as the story surrounding Altice.

Geopolitical tensions and a busy September/October primary market could also inflict some volatility on the market.

Your feedback on this report and the structured finance service is always appreciated. Please contact sales@informagm.com or anil.mayre@informa.com

Selected Deals

Pipeline	Originator/Manager	Asset Class	STS	Size(m)	Status
ABS					
Auto ABS IT Stella 24	Stellantis Italia SpA	IT Auto ABS	Y	EUR	Marketing
Quarzo Srl 2024	Compass Banca	IT Cons ABS	Y	EUR	Marketing
Brignole CO 2024	Creditis Servizi Finanziari	IT Cons ABS	Y	EUR	Mandate

Pipeline

ABS

Quarzo Srl 2024

Announced: 31 May
Originator: Compass Banca SpA

Roadshow: From 3 June
Lead: Citi/CACIB/IMI/Medio/SG

Pricing: W/c 10 June

Class	Size(%)	Size(m)	M/D	CE(%)	WAL(y)	LFM	Coupon	Status
A	86	EUR700.9	Aa3/AA (high)	14	2.75	Jun-41	3mE	Offered
B	5	EUR40.8	Baa1/AA	9	2.75	Jun-41	3mE	Offered
C	3.5	EUR28.5	Baa3/A (high)	5.5	2.75	Jun-41	3mE	Offered
D	2.8	EUR22.8	Ba1/A	2.7	2.75	Jun-41	3mE	Offered
J	2.7	EUR22	NR/NR	0		Jun-41	10%	Retained
R		EUR0.1	NR/NR			Jun-41		Retained

Series sizes expressed as % of the total pool. ; The Series Notes are issued in denominations of Euro 100,000 and integral multiples of Euro 1,000 in excess thereof. CE Excluding Cash Reserve. WAL Estimated assuming 14% CPR, 10% Clean-up Call exercised, 0% defaults, 0% delinquencies. Split among Series A1 (marketed - 75.1%) and A2 (retained - 24.9%). Coupon Floored at 0.
-Pool characteristics (cut-off date 27/05/2024): Aggregated Outstanding Principal Balance: EUR814,991,669.57. Amortising loan: 100%. Personal Loans: 63.00%. New Vehicle: 15.00%. Used Vehicle: 15.00%. Purpose Loans: 7.00%. Average Outstanding Balance: EUR16,850.51. Number of Claims: 48,366. Geographical distribution: Southern Italy and Islands (52.0%), Central Italy (18.0%), Northern Italy (30.0%).WA Interest Rate: 11.23%. WA Remaining Term: 67.35 months. WA Seasoning: 9.71 months.
-Repayment: Pro rata (Series A to J) subject to sequential triggers based on cumulative gross defaults, Uncured PDL and 10% Clean-up Call. 6 months Revolving Period. Cash reserve: 1.30% of the aggregate Principal Amount Outstanding of the Rated Notes. First IPD: 16 September 2024. IPD Frequency: Quarterly. 10 % Clean-up Call. Format: Reg S Bearer. Risk Retention: Compass Banca S.p.A. will retain at least 5.0% of each Series. Docs: Preliminary Prospectus, Investor Presentation, Data Pack, Loan Tape. ISIN codes will follow shortly
-Third party verifying STS compliance: Prime Collateralised Securities (PCS) EU SAS - Preliminary STS Verification Checklist and CRR draft Assessment by PCS (https://pcsmarket.org/sts-verification-transactions/). ECB eligibility for Series A Notes will be applied for . BBG Ticker: QUARZ 2024-1. Intex Model ID: quarz24. Marketing material https://dealroadshow.com/e/Quarzo2024 . Clearing: Euronext Securities Milan. Transaction documentation and loan by loan data tape available on the European DataWarehouse. Rating agencies pre-sales reports will follow shortly after the announcement. B&D: Citi

Auto ABS Italian Stella Loans 2024

Announced: 24 May
Originator: Stellantis Financial Services Italia SpA("SFS Italia")
Roadshow: 29-31 May
Leads: Santander/BofAS/SG
Pricing: W/c 10 June

Class	D/F	Size(m)	Size	CE	WAL(y)	Exp	LFM	Coupon	Price	Status
A	AAA/AA	EUR	88.50%	12.60%	2.36	May-28	Dec-36	1mE	100%	Partially Offered
B	AA/AA-	EUR	6.50%	6.10%	2.36	May-28	Dec-36	1mE	100%	Offered
C	A/A	EUR	2.90%	3.20%	2.36	May-28	Dec-36	1mE	100%	Offered
D	A(low)/BBB	EUR	2.10%	1.10%	2.36	May-28	Dec-36	1mE	100%	Offered
E	BBB (high)/BB+	EUR	1.10%	0.00%	0.29	Nov-24	Dec-36	1mE	100%	Offered

Provisional sf ratings apply. As % of Initial Portfolio. Including General Reserve but excluding excess spread. Assumptions for weighted average life ("WAL") include: 10% clean up call exercised, no defaults and no delinquencies and 5.0% CPR (constant prepayment rate) p.a., 6 month replenishment period. All coupons are subject to a floor at 0%. EUR495m preplaced; remainder offered

-Key Portfolio Characteristics (Provisional Portfolio as of 13 May 2024):.Number of loan contracts: 92,900. Outstanding Current Principal Balance (EUR): 1,099,999,618. Average Outstanding Current Principal Balance (EUR): 11,841. Top 10 borrowers as % of the total portfolio: 0.14%. Weighted average effective interest rate (p.a.): 7.38%. Weighted average original term (in months): 51. Weighted average seasoning (in months): 11. Weighted average remaining term (in months): 39.

Investor Materials: Preliminary Prospectus. Investor Presentation. Data Package. ESG Presentation and Questionnaire. Preliminary Loan Level Data (available on the European DataWarehouse). Cash flow modelling: Intex AAISL241 and Bloomberg ISTEL 2024-1 Mtge <GO>.

-Format: Reg S Bearer. Listing: Luxembourg Stock Exchange. Clearing: Euroclear / Euronext Securities Milan (Monte Titoli). Denominations (for all Notes): EUR 100k + EUR 1k. Billing and Delivery: Santander. ISIN Class A: IT0005597452, ISIN Class B: IT0005597460, ISIN Class C: IT0005597478, ISIN Class D: IT0005597486, ISIN Class E: IT0005597494

-The transaction is structured in a manner to comply with the requirements for STS securitisation transactions and will be verified by Prime Collateralised Securities (EU) SAS (PCS). The preliminary STS verification report and the preliminary CRR assessment report will be available on the PCS website.

-Risk Retention: For the purposes of compliance with the requirements of Article 6(3)(c) of the Securitisation Regulation, the Seller will retain, in its capacity as originator within the meaning of the Securitisation Regulation, on an ongoing basis for the life of the transaction, such net economic interest through an interest in randomly selected exposures.

- Securitisation repository provider is European Data Warehouse (www.eurodw.eu)
- ECB eligibility for the Class A notes will be applied for.

Brignole CO 2024

Announced: 3 June
Originator: Creditis Servizi Finanziari
Roadshow: TBA
Lead: BofAS/Citi/SG
Pricing: TBA

-Creditis Servizi Finanziari has mandated BofA Securities, Citi and Societe Generale as Co-Arrangers and Joint Lead Managers for Brignole CO 2024 S.r.l., its upcoming Italian Consumer ABS transaction backed by a static portfolio of personal loans expected to refinance Brignole CO 2021 S.r.l. A multi-tranche transaction is expected to follow, subject to market conditions. The transaction is expected to comply with the requirements for simple, transparent and standardised securitisations (STS).