European Structured Finance Monitor® Daily

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- **AFME announces 5-point plan to revive EU securitisation**
- **Regulation continues to hinder sector although support growing**
- **Panellists say market in better shape than expected, but areas to watch**

Day two of the Global ABS Conference coincided with the Association for Financial Markets in Europe (AFME) announcing its 5-point action plan to revive EU securitisation.

The "EU Securitisation back on track" paper proposes a series of measures which AFME says, when combined, should boost supply and demand for the product. AFME says the reforms maintain the existing safeguards embedded within the regulation to prevent a repeat of the high leverage products originated in the US in the run up to the GFC.

The measures include (i) increasing risk sensitivity within the bank prudential framework, (ii) reviving demand from the insurance sector by adjusting Solvency II calibrations, (iii) adjusting the treatment of securitisation within the Liquidity Coverage Ratio, (iv) introducing proportionality for investors conducting regulatory due diligence and, (v) fine-tuning regulatory reporting requirements and simplifying STS criteria for both traditional and synthetic securitisations.

AFME says these policy recommendations should be adopted early in the next European mandate to deliver on the European Council's ambition. And securitisation's utility as a tool by both the public and private sector should drive growth and competitiveness in the EU, across eight areas.

These are (i) enhancing competitiveness for the EU, (ii) building an alternative source of funding to fuel growth, (iii) a provision of long-term credit to underserved wholesale and consumer market segments, (iv) a developing contribution to financing the transition, (v) an alternative asset class that can meet the needs of EU based savers and investors across the risk spectrum, (vi) facilitating non-performing exposure portfolio sales to non-bank investors specialising in distressed debt assets; (vii) supporting a much needed shift from a European economy relying primarily on bank financing to one that is more able to mobilise the full potential of capital markets, and (viii) efficiently releasing capital and transferring risk through Significant Risk Transfer outside the banking sector enabling banks to lend more to the real economy.

The criticism that has been levelled at the rules introduced after the GFC is that they were backward-looking for a forward-looking regulation. Calibrations were, for instance, based on the experience of the US subprime problems.

But there is now growing evidence of securitisation being cast in a more favourable light. It has, for example, a pivotal role to play in the Capital Markets Union through the transmission of financing. Around three quarters of the European economy is financed by banks and the rest by credit markets, whereas in the US it is the reverse, AFME commented at the opening session.

The full report is available here.

And these were not the only comments made during the day in relation to the way in which the market has been viewed more positively. On the sustainability panel it was said that there was strong stakeholder momentum, and that it was one of the pillars of development for the European capital markets.

Securitisation can free up capital for more lending (multiplier effect). And this also means more Green lending, although a clearer definition was needed in the EU taxonomy for securitisation to maximise its potential in facilitating the Green transition.

Achieving the Green goal was paramount, one said, but that meant not just securitising Green assets but also making sure the capital freed up was diverted into new Green projects.

But for securitisation to succeed overall the regulatory aspect had to be addressed, panellists said later in the day. Regulation, or overregulation, is a topic discussed repeatedly over the years at Global ABS and as such it was understandable to feel a sense of déjà vu, one said, but what was different was the setting in which the argument was being deployed.

The Noyer report published in April firmly placed securitisation in the CMU, while the CMU was part of the survival strategy for the European economy, he said. CMU was a way of channelling savings into European commerce, but a regulation that worked for the product was needed.

The Basel developments were also discussed, with market participants critical of how changes would impact capital calculations depending on which models were used (standardised approach, internal ratings-based vs external ratings based for example). This is due to the 'p' factor penalty applied to securitisations and the associated output floor. For internal ratings-based banks, if the required capital is less than 72.5% of that required under the standardised approach then that 72.5% level would apply (the output floor).

Market in better shape than expected, but areas to watch

After the rise in interest rates an associated increase in arrears and a deterioration in performance had been anticipated, but the market is in better shape than expected, panellists said. Any stresses so far seemed to be constrained to commercial real estate and some legacy deals backed by loans that were on variable rates. And additional evidence of strength in the market came from issuance in May which recorded a monthly post-GFC high and saw spreads grind tighter.

There was enough investor cash to support new issuance, with the market helped by its floating rate nature. Rate cuts were expected, but the higher for longer narrative has become more embedded, panellists said.

On the asset side, an uptick in arrears on newer loans has been limited but for collateral such as mortgages, it does take longer to filter through. With reference to the UK market, one said the more stringent lending criteria introduced (stress testing at higher rates) had helped. And the borrower support measures introduced during Covid had become part and parcel of lender strategies. For more seasoned portfolios though, there were still risks as evidenced by some downgrades of junior UK RMBS tranches.

Auto ABS performance was described as strong. Some arrears had begun to filter through but it was manageable, while there was some tiering between originators and for some transactions the issuers were quite close to hitting performance triggers.

On a relative value basis, the panel pointed out CLOs as good value (the product has been discussed several times this conference), and the spread between secondary and primary market spreads got yet another mention.

On the commercial/CMBS side, the product as a whole is the one area in which market participants were not so positive. It did depend on the subsector of the asset, such as office, retail or logistics. Higher costs, lower property values and tighter lending criteria have all been troublesome for the market but there is divergence within sector.

Market participants do expect more deals to come in 2024 (following the first issue of the year – a logistics deal in early May, as well other more esoteric exposure such as the first data centre ABS) but there are still refinancing problems to be tackled where there is no clear-cut solution to be applied across all transactions in this position. Some may be granted loan extensions, but others may require more discussion.

Those two deals that did price, both from the UK, found good demand. And the strong investor bid across the structured finance market as a whole has surfaced in many discussions. Mezzanine and junior bonds in particular have seen huge subscription levels, topping 10x at some stages, but at the top end of the capital stack transactions may require a little more work to get done.

This is particularly the case when large size is being offered. One panellist said that partial pre/private placement of a Triple A was needed when a substantial volume was being sold (for example, over 600m).

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

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

-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).