SCI Capital Relief Trades Awards 2021

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Leading Structured Finance Information

London, October 2021

The capital relief trades ccommunity has stepped up yet again this year to address the numerous challenges posed by the Covid-19 fallout – whether that was by providing investors with unprecedented access to portfolio data, supporting the recovery of emerging markets or through the host of other innovations recognised in SCI's Capital Relief Trades Awards. The CRT market has also continued to evolve, with significant risk transfer practitioners enthusiastically responding to both the new STS synthetics framework and the growing call for ESG investments. Meanwhile, in North America, not only has the market seen new asset classes emerge, but also the extension of synthetic securitisation to regional bank issuers.

The phenomenal response and high-quality pitches that the SCI editorial team received during the awards submissions period are certainly testament to an industry that continues to blaze a trail. The awards roll of honour on page 5 of this special edition additionally showcases the vibrancy of the market and underscores the belief in genuine risk-sharing evident across both issuer and investor constituents.

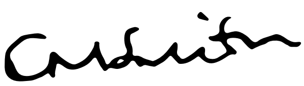
This year's awards were expanded to include a Rising Star category, with the aim of shining a spotlight on younger talent within the CRT community. The qualifying period for the awards was the 12 months to 30 September 2021.

Our congratulations to the deserving winners and honourable mentions of this year's awards, as well as to the CRT industry as a whole for its many achievements over the last 12 months.

We would like to wholeheartedly thank everyone who submitted a nomination for the awards. Our thanks and appreciation also go to our awards advisory board – comprising Mark Fontanilla of Mark Fontanilla & Co, Giuliano Giovannetti and Richard Sullivan of Granular Investments, and Syril Pathmanathan of D.E. Shaw (each of whom was recused from judging an award that they could be nominated for) – for its invaluable input. Final selections for the awards were made by the SCI editorial team, based on the pitches we received, colour from other market participants and our own independent reporting.

Looking to the next 12 months, it will be interesting to see the extent to which SRT is embraced by policymakers as a way of facilitating the post-coronavirus economic recovery. SCI will certainly continue to keep you abreast of these developments and more!

All the best for the year ahead,



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ISSN: 2043-7900

Printed in England by Print Spin Limited, Jarodale House, 7 Gregory Boulevard, Nottingham NG7 6LB
www.printspin.co.uk

SCI is published by Cold Fountains Media.

Subscription rates:
UK: £1550 + VAT for an annual subscription
ROW: $2480

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TRANSACTION OF THE YEAR
WINNER: SIENA 2021 – REGCAP-1

Banca Monte dei Paschi di Siena's Siena 2021 – RegCap-1 has won the Transaction of the Year category in SCI's Capital Relief Trades Awards. The synthetic securitisation is noteworthy for referencing a riskier asset class – a portfolio of mainly Italian Stage 2 loans – and for representing the bank's efforts to address Covid-19 related impacts within its book.

Structured with the support of Intesa Sanpaolo – through the IMI Corporate & Investment Banking Division – in the role of arranger and placement agent, the transaction references a circa €800m portfolio of corporate and SME loans. The deal is structured in a tranched cover format, whereby the junior and senior tranches are retained by the originator, while the mezzanine tranche is guaranteed by the investor (Christofferson, Robb & Company).

In the Covid-19 context, European banks have experienced a widespread increase in Stage 2 loans within their books – with an average of 9% of the loan book, as of 31 March 2021. This increase follows also a conservative accounting classification of the economic sectors most affected by the pandemic. In this context, the deal completed by Banca Monte dei Paschi and CRC assumes relevance also for potential future issuers.

According to Aleardo Adotti, head of finance, treasury and capital management at MPS, through the execution of a CRT focused on Stage 2 assets, the bank sought to protect a meaningful part of its credit risk in the asset class, as well as to help navigate the bank through its de-risking effort. Notably, the deal is part of the bank's 'Plan on CRT transactions', started in 2020, through which four transactions have so far been carried out.

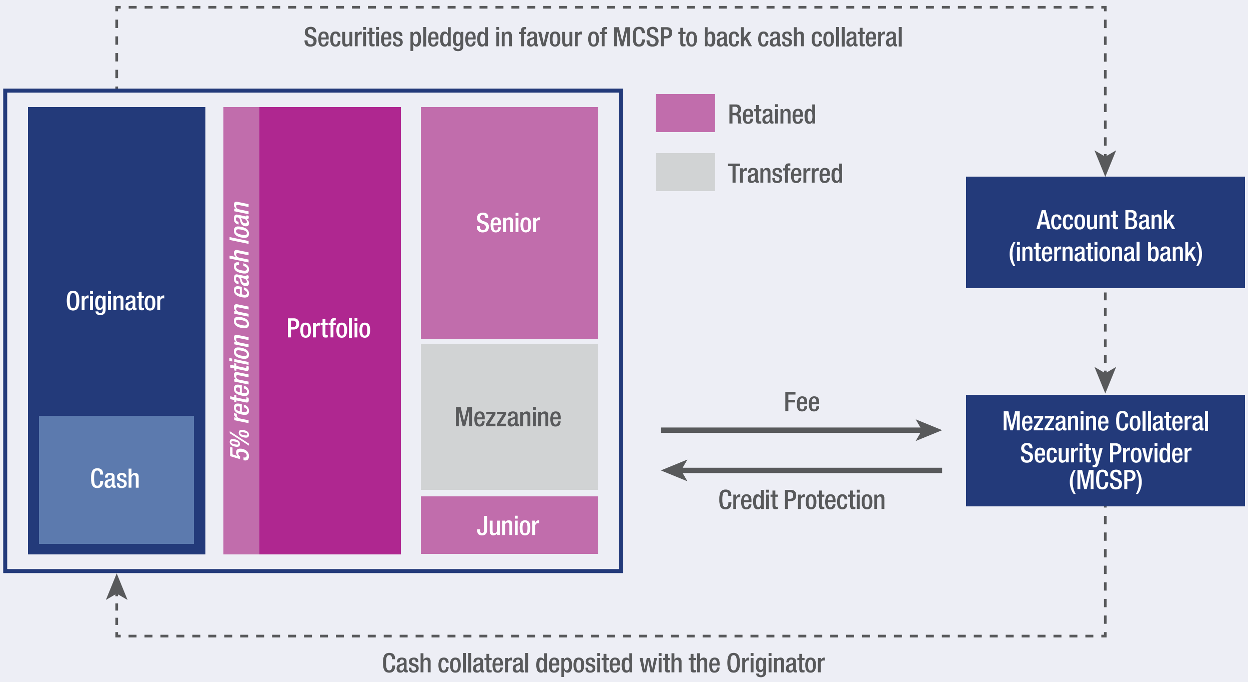
Adotti says there were a few hurdles that needed to be overcome in order to close the deal. "The greatest effort was put into first selecting a perimeter envisaging satisfying features for both the investor and the originator, and second carefully determining the capital structure. In particular, the first loss retained by the originator needed to be calibrated

Aleardo Adotti, Monte dei Paschi di Siena

correctly, in order to allow the bank to achieve adequate protection and a satisfactory capital release."

The criteria used for classifying the underlying assets as 'Stage 2' follow the IFRS 9 accounting standard definition, in that the creditworthiness of the assets has deteriorated to a significant extent since initial recognition – although they remain performing. Should any of the assets in the portfolio move to Stage 3, the transaction covers for losses arising from ▶

Transaction structure



Source: Monte dei Paschi di Siena

> "WHEN A LOAN IS CLASSIFIED AS A 'STAGE 3' ASSET...AN INITIAL LOSS EQUAL TO THE IFRS 9 PROVISIONING RECORDED ON A LOAN IS ENFORCED FROM THE CASH COLLATERAL"

the classification of a securitised exposure as 'defaulted'.

"This is in line with prudential regulation in terms of the events being 'past due', 'unlikely to pay' and 'bad loan'. When a loan is classified as a 'Stage 3' asset – once the retained junior tranche is fully exhausted – an initial loss equal to the IFRS 9 provisioning recorded on a loan is enforced from the cash collateral and adjusted from time to time until the final loss is determined," explains Adotti.

Meanwhile, the investor is able to monitor the deal thanks to quarterly performance reports prepared by the bank. In addition, a loss verification agent may act in order to verify that losses are determined in compliance with the accounting policies.

The transaction's WAL is about 4.7 years and it doesn't envisage a replenishment or substitution period. However, Riccardo Gallina, head of loan management & advisory at Intesa Sanpaolo – IMI CIB Division, notes: "In order to maintain the deal's efficiency in the case of high levels of prepayments, the transaction features a pro-rata amortisation of prepayments that exceed a pre-defined threshold." ■

HONOURABLE MENTION: **FONTWELL II SECURITIES 2020**

Fontwell II is a synthetic securitisation referencing a £1.83bn portfolio of UK agricultural mortgages secured on a first-charge basis over farmland and property originated by the Agricultural Mortgage Corporation plc (AMC), a subsidiary of Lloyds Bank plc. The non-replenishing transaction – structured by Lloyds Bank Corporate Markets as sole arranger and lead manager – provides credit protection for eight years and is motivated by regulatory capital relief at a beneficial cost of capital, as well as prudent risk management within the context of providing support to the UK agricultural industry in line with Lloyds Bank's Helping Britain Prosper ethos.

The portfolio comprises around 6,700 exposures to in excess of 4,000 borrowers operating across a range of farming sectors. The deal stands out due to the unique underlying asset class and the fact that it was executed amid challenging market circumstances for agriculture, given the uncertainty over Brexit, changes to the UK's agricultural subsidy regime and the ongoing impact of Covid-19. As such and to maximise efficiency, the time between pricing and settlement was extended from the usual five days to 10, allowing for signing prior to the end of the Brexit transition period in 2020 and settlement in 2021.

Fontwell II achieved first and second loss and mezzanine protection on a 33% larger pool than the first Fontwell trade in December 2016, at a lower blended coupon rate, catering to investor risk/return preferences.

In aggregate, circa £157m of notes were placed with a small syndicate of international investors. The original note issuance of £129m priced in December, with an additional £28m of notes issued in March 2021 as a result of investor reverse enquiries. The note upsize enabled the retained tranche to be reduced from 22% to 5%.

Fontwell II was rated by Fitch and KBRA, which were required to consider how their standard methodologies should apply, given the unusually low loss history in the AMC book and specialist nature of the security for valuation purposes.

NORTH AMERICAN TRANSACTION OF THE YEAR
WINNER: TCB CRT 2021-1

The arrival of the first US regional bank in the capital relief trades sector had been anticipated and talked of for many months, so when Texas Capital Bank – a Dallas-based US$40bn lender founded in 1998 – arrived in the market in March 2021 the interest it elicited can hardly be overstated.

Now, finally, with this deal the US CRT market had arrived. It was a landmark event, and one that made a compelling and ultimately unignorable case to be SCI's North American Transaction of the Year.

Texas Capital had been looking at ways to improve the capital efficiency of its mortgage warehouse lending book since about 2016, but all the options it explored had at least one critical flaw. But, in May 2020, it began to examine the capital relief trade mechanism and how it operated in Europe. Here, at last, was a structure that seemed to fit the bill from all possible perspectives.

It was in the course of these investigations that it was introduced to Citi, the bank which would go on to be its arranger, and Clifford Chance, which would be its legal counsel. Both of these firms had unrivalled technical experience of the CRT market.

Texas Capital now had powerful allies by its side, but there was much work to be done. Perhaps the most delicate part of the operation was to convince the regulators that they should grant the desired regulatory capital relief to the structure. The process was not made any easier by the fact that it had to deal with three different regulators – the OCC, the FDIC and the Federal Reserve.

> "WE INTENTIONALLY SOUGHT DIVERSIFICATION OF OUR INVESTORS...TO ACCOMMODATE POTENTIAL FUTURE EXPANSION"

"We have a very positive relationship with our regulators, and part of that is that we are transparent and proactive. So very early on we brought this project to their attention and kept them fully informed as we continued to improve our knowledge and preparation," explains Madison Simm, president of mortgage finance at Texas Capital.

The OCC led the negotiations and shared its findings with the Fed and the FDIC. The regulators were most keen to see that Texas Capital had built the infrastructure and had the operational procedures to support the transaction on a dynamic basis after it had been priced.

Moreover, they wanted to know that this trade was not a one-off and that the issuer would not face a capital cliff once this three-year trade matures. But, for Texas Capital, the trade priced in March is only the first of what will be an ongoing programme.

The US$275m credit-linked note, which paid Libor plus 450bp and referenced a US$2.2bn mortgage warehouse loan portfolio, was sold to two investors. One was a large Street fund and the other an insurance company. Both had experience of CRT investment, but only in bonds sold by the GSEs.

"We intentionally sought diversification of our investors, including having large-scale investors, to accommodate potential future expansion. This was achieved in our transaction. The buyers had technical knowledge of the resi market, but we educated them on how our warehouse programme operates," says Simm.

2Q21 represented the period in which the capital relief was realised and, given the enormous scale of residential mortgage lending in the first half of this year, the trade was immediately beneficial.

The US$275m first loss position carried a risk weighting of zero, while the remaining US$1.925bn of warehouse loans in the portfolio was risk weighted at 20%. Thus, the risk weighting on the entire pool of loans fell from 100% to 17.5%, reducing overall RWA by US$1.81bn.

This, in combination with two perpetual preferred offerings also sold in 1Q21, is estimated to have boosted the Tier One capital ratio by 73bp from 10.92% to 11.66% and the total risk-based capital ratio by 85bp from 12.76% to 13.61%.

"We were very happy with the result," confirms Simm.

Texas Capital is now closely monitoring interest rate projections and the impact upon mortgage lending. Next time it is in the market, it is likely to seek longer duration.■

HONOURABLE MENTION: **BOREAL 2021-1**

The C$1.2bn Boreal 2021-1 synthetic securitisation executed in June 2021 was the first deal from BMO's commercial real estate-focused Boreal platform. Strong investor demand meant the deal was upsized from an initial portfolio of C$700m.

It was a transaction of many firsts: the first Canadian commercial real estate synthetic transaction; the first Canadian dollar-denominated significant risk transfer deal; the first synthetic transaction to include construction loans; and the first externally rated transaction to include construction loans. In addition, it was the first hybrid transaction, with the unfunded guarantee from an insurer structured and executed by BMO.

While BMO is an old hand at significant risk transfer deals more broadly, Boreal 2021-1 was a first for its Canadian real estate finance group. Michael Beg, svp and head, real estate finance at BMO, comments: "This deal was something that was new for us, but we're very pleased that we were able to reference both income property finance and construction in pretty much the exact same proportions to what we are doing in the physical market, which allows us to maintain portfolio diversification."

He continues: "We now see synthetic securitisation as a tool in our tool kit on a go-forward basis. Future intentions are to use it when and as needed; when opportunity permits and the economics are favourable."

IMPACT DEAL OF THE YEAR
WINNER: MARCO POLO THREE

Crédit Agricole and the IFC's Marco Polo Three transaction has won the Impact Deal of the Year category in SCI's Capital Relief Trades Awards. The significant risk transfer trade stands out for its sustainable finance aspects and size, as well as its impact on securitisation as a tool to help banks in developing countries cope with the effects of the coronavirus pandemic.

Twice as large as the last Marco Polo deal from March 2018, the third issuance from the programme features a retained first loss tranche, pro-rata amortisation, a time call and a replenishment period that is equal to two years. The five-year deal provides a US$182m mezzanine guarantee on a US$4bn-equivalent reference portfolio comprising over 1,300 emerging market trade finance exposures. Pricing in April 2021, as the second Marco Polo trade was approaching full amortisation, the transaction came at a time when emerging market trade finance flows had been hit hard by the Covid-19 fallout.

"It is our largest synthetic securitisation to date and our third with IFC, demonstrating their confidence in CACIB's origination and risk discipline," notes Thierry Colin, md, private debt solutions at Crédit Agricole Corporate and Investment Bank.

> "THE FACT THAT WE CAN RELY ON OUR INTERNAL GUIDANCE AND CRITERIA ON A TRANSACTION OF THIS NATURE IS A STRONG RECOGNITION"

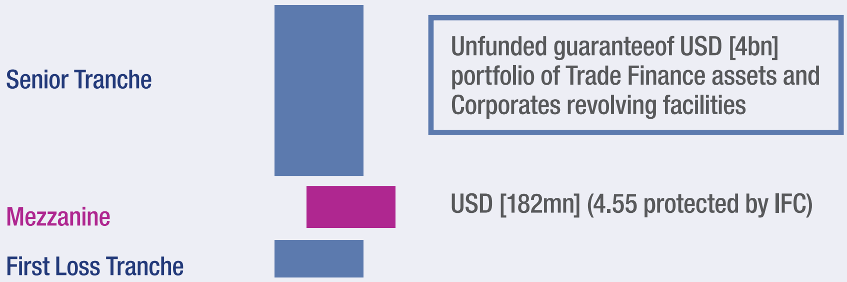
The transaction further innovates through its sustainability agenda and product, which includes a sustainability-linked financial guarantee. Crédit Agricole will redeploy the freed-up regulatory capital in US$600m over four years of new lending in several social and sustainability-linked sectors in emerging markets countries, including health, agriculture, telecommunications and local industries loans.

Thierry Colin, Crédit Agricole

Furthermore and unlike previous transactions from the programme, Marco Polo Three matches the IFC's sustainability finance criteria with that of Crédit Agricole's. According to Jean-Marc Pinaud, head of structuring at Crédit Agricole Corporate and Investment Bank, this novel aspect is particularly relevant.

"We had in-depth discussions and reflections with the IFC regarding sustainability and ESG aspects. The fact that we can rely on our internal guidance and criteria on a transaction of this nature is a strong recognition. It expands our partnership with the IFC and I think it also highlights our discipline as an originator." ■

Deal structure



Source: Credit Agricole

HONOURABLE MENTION: GARC ENERGY RENEWABLES-1

Intesa Sanpaolo's GARC Energy Renewables-1, which references a €1.3bn portfolio of green assets, is the first synthetic securitisation of its kind in Italy and broadens the bank's scope to renewable energy. The two-tranche synthetic securitisation transfers the long-term risk of a portfolio of 42 project finance loans for the construction of wind, (representing 50% of the pool), photovoltaic (40%) and biomass (10%) power plants.

The junior tranche of the trade was hedged via a pledge over cash collateral deposited with the originator. Investors will receive a fixed rate coupon paid on a quarterly basis.

The clean energy generated by the green plants included in the securitised portfolio is expected to equal about 7.2 GW, representing enough capacity to meet the annual needs of six million households and to reduce CO2 emissions by an amount equivalent to that produced by three million cars.

INNOVATION OF THE YEAR
WINNER: COLISÉE 2020

Societe Generale's Colisée 2020, a private club capital relief trade that provides protection on a portfolio of equipment lease exposures, is awarded SCI's Innovation of the Year. The deal – which closed during 4Q20, in the midst of a pressured economic backdrop – references a €1bn portfolio of equipment lease receivables distributed by Societe Generale's French retail network to over 3,000 corporates, consisting of French SMEs (accounting for 76% of the portfolio) and midcap clients (24%). Further, the transaction complied with Article 270 for STS securitisations, at a time when the STS framework was not yet legally enforced for synthetic securitisations.

The investors on the trade are ArrowMark Partners and Christofferson, Robb & Company (CRC). "We are pleased to support Societe Generale's application for the SCI 2021 CRT Award under the Innovation of the Year category," comments Kaelyn Abrell, partner and portfolio manager at ArrowMark Partners.

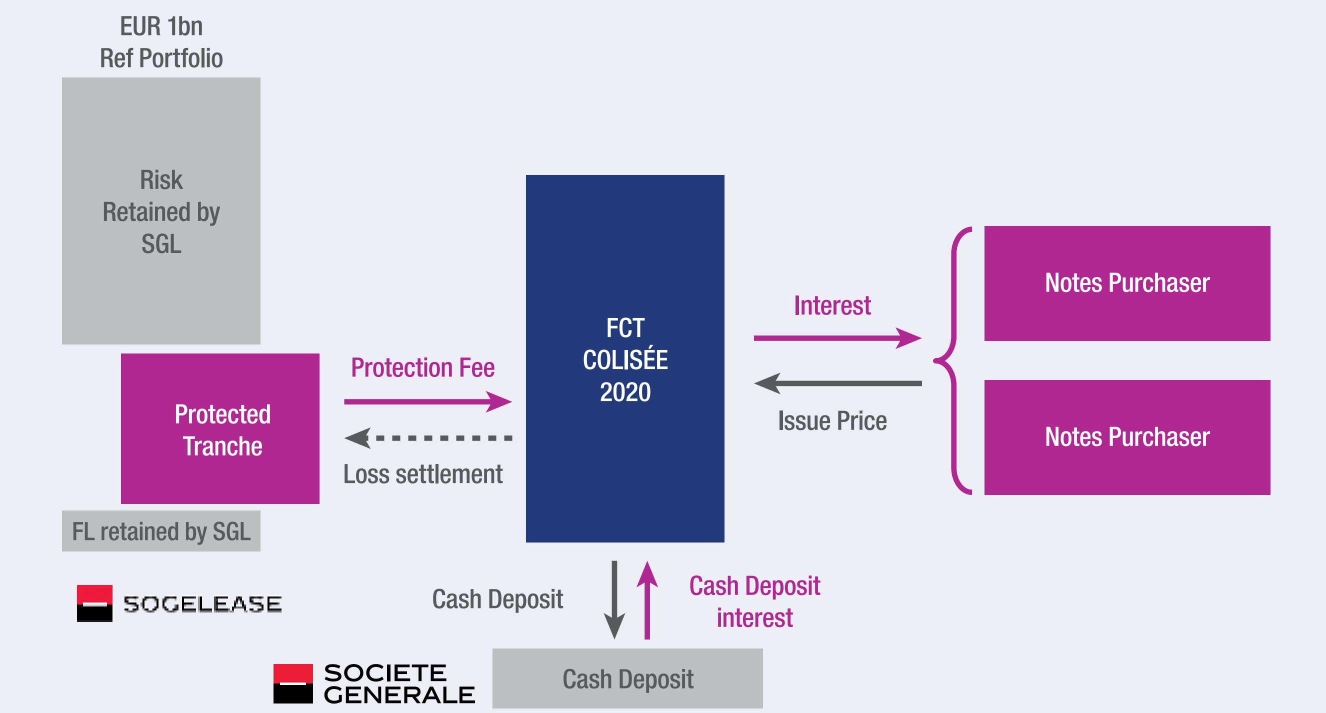
> "THE VERY HIGH QUALITY OF THE DIALOGUE WITH THE SG TEAM HELPED US TO GET COMFORTABLE WITH THE UNDERLYING CREDITS"

The credit protection is structured as a funded financial guarantee and covers a low mezzanine tranche of the portfolio, while Societe Generale retains unhedged a thin first loss tranche and the senior tranche. The transaction is particularly innovative, as leasing receivables remain an unusual asset class for significant risk transfer trades.

"Colisee 2020 was issued in a particularly challenging context referencing an asset ▶

Kaelyn Abrell, ArrowMark Partners

Transaction structure



Source: Societe Generale

Pascale Olivié, Societe Generale

> "LOOKING BACK AT 2020, THERE WERE NO CRT TRANSACTIONS SPECIFIC TO SMES. IN THAT SENSE, WE HAD TO BE EXTREMELY PRECISE IN OUR DUE-DILIGENCE AND RISK ANALYSIS"

type that had never before been synthetically securitised in France. The very high quality of the dialogue with the SG team helped us to get comfortable with the underlying credits. Moreover, SG were instrumental in the implementation of structural risk mitigants relating to the moratorium and performance of underlying corporates during the Covid crisis," says David Fitoussi, partner and head of origination at CRC.

Furthermore, the complex macroeconomic context imposed by the coronavirus pandemic, directly impacted the SME-dominant pool. Societe Generale focused thoroughly on the monitoring and servicing of the leases and assessment of the borrowers/lessees' creditworthiness.

Pascale Olivié, director, asset-backed products advisory at Societe Generale, explains: "Looking back at 2020, there were no CRT transactions specific to SMEs. In that sense, we had to be extremely precise in our due-diligence and risk analysis."

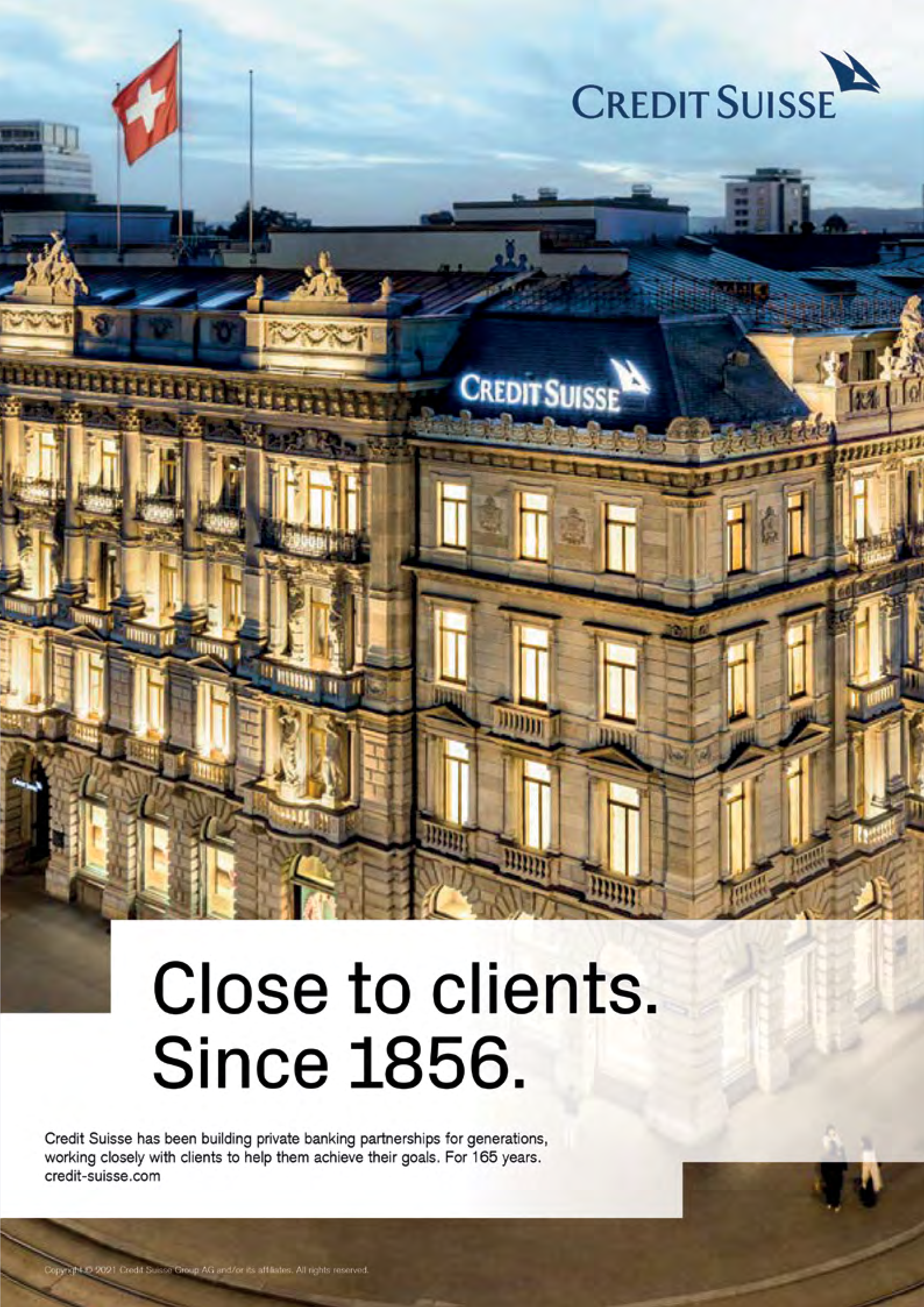
Following EBA guidance, French banks applied moratoria measures on their loans to SMEs and midcap clients to a large degree. However, this brought high opacity on the performance of SME/midcap portfolios and, in this case, half of the pool was under moratoria.

"Consequently, we had to be more transparent than usual, and did so through an extended due diligence, and resulting in a selected static portfolio with a strict sectorial approach," Olivié explains. "We adapted to the context and combined a certain risk pedagogy with extensive data. As such, closing a static synthetic securitisation within this remarkable context is a great achievement for Societe Generale."■

HONOURABLE MENTION: **SLG 1**

Credit Suisse closed in 2Q21 a bilateral significant risk transfer transaction dubbed SLG 1. The structure references a non-granular portfolio of European mid-market loans, predominantly sub-investment grade corporate loans, originated by Credit Suisse's Swiss Corporate Bank and provided primarily to DACH-domiciled companies.

The transaction comprises a mixed currency pool with a single equity tranche and an embedded FX mechanism to avoid currency mismatch. It further introduces variable CDS premium linked to the average spread of the reference portfolio. The forward-looking structure is designed to let the reference portfolio grow over three years to a target size of €1bn.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INVESTOR OF THE YEAR
WINNER: CHRISTOFFERSON, ROBB & COMPANY

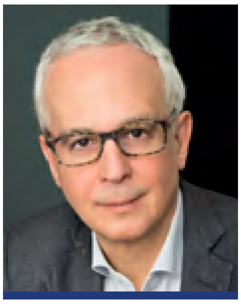
Ever-present in risk sharing transactions (RST) since its formation in 2002, the CRT awards year 2020-2021 was not an unusual one for Christofferson, Robb & Company (CRC) in many respects. However, the firm did break with usual practice in one way – it allowed more issuers than usual to make its role in their deals public and as a result give us the opportunity, at last, to award the firm investor of the year.

> "IT'S KIND OF THRILLING TO BE RECOGNISED BY SCI AS WE APPROACH OUR 20TH ANNIVERSARY"

"It's kind of thrilling to be recognised by SCI as we approach our 20th anniversary," says Richard Robb, the investment manager's ceo.

Indeed, while 2020 saw CRC invest an impressive €1.23bn across about a dozen RSTs, it was the fifth year in a row that it had made similarly high levels of investment in the sector. Consequently, the firm maintains the estimated 30% market share in bilateral synthetic RSTs it has held for a number of years.

Now with 60 staff focused on RSTs based in London and New York, as well as a new office in Tokyo, CRC continues to look at multiple regions and asset classes – typically where bank or corporate funding isn't readily available from international capital markets, for the right opportunities for its investors. To this end, CRC was instrumental in establishing the Greek RST market this year.



Richard Robb, Christofferson, Robb & Company

March 2021 saw the closing of Piraeus Bank's synthetic securitisation with CRC. The approximately €120m financial guarantee references a €1.4bn portfolio of Greek corporate and SME loans and is the Greek market's first capital relief trade.

The Greek lender purchased credit protection on a portfolio that corresponds to €800m of risk weighted assets. As a result of the transaction, the bank will release around €100m of regulatory capital.

The deal is expected to open up the market both for Greek and standardised banks which will utilise the technology for their capital management. Further, Piraeus and CRC have already completed a second transaction releasing another €1.2bn of RWAs.

Though always happy to publicly advocate for the risk sharing business more broadly and insistent on transparency with investors, issuers and regulators alike, CRC is often low key at the transaction level in terms of publicity. As such, the Piraeus deals are unusual but far from unique this year.

As noted above, a number of CRC's other investments have also reached the public domain. Notably, these include three of 2021's award winning deals.

First, is the transaction of the year: Banca Monte dei Paschi di Siena's ground-breaking Stage Two asset deal – Siena 2021 – Reg-Cap-1 *(see page 6)*. Second, is innovation of the year: FCT Colisée 2020, Société Générale's residual risk STS synthetic first *(see page 12)*. In addition, CRC was investor in honourable mention recipient for impact deal of the year: GARC Energy Renewables-1, Intesa Sanpaolo's first Italian pure renewables transaction *(see page 10)*.

So, while 2020-2021 may be just another year for CRC, it is a remarkable one by any standards and makes the firm our worthy winner this year.■

HONOURABLE MENTION: **SEER CAPITAL MANAGEMENT**

Seer Capital Management's well-established and highly experienced involvement in capital relief trades, combined with the flexibility inherent in a diverse structured credit-focused investment firm, enables it to take advantage of and support changes in the market. This year, with the increase in asset classes and structures, particularly in the US, Seer did just that and earns it the Honourable Mention for Investor of the Year.

As the US market moved incrementally into new transaction types beyond the GSE credit risk transfer space in 2020/2021, Seer was there and broadening its investment portfolio. At the same time, it maintained its reputation as a strong investor in Europe, willing to share risk in a growing array of asset classes and structures.

Seer is based in New York and has over US$1bn in assets under management, as of 30 September 2021. The firm has 29 employees and has been a registered investment advisor with the US SEC since 2009.

A number of Seer employees are former senior members of Deutsche Bank's securitised products group, where their involvement in synthetic securitisations goes back to the development of bank reg cap through the CRAFT and GATE CRT programmes. Overall, the firm's senior investment team has on average more than two decades of experience working in structured credit.

Seer prides itself on being a multi-asset structured credit manager, rather than a firm largely focused on CRTs referencing corporate credit alone. It argues that doing so increases its ability to be opportunistic and flexible with the timing of its investments.

CREDIT INSURER OF THE YEAR

WINNER: FIDELIS INSURANCE HOLDINGS

> "WE HAVE DEVELOPED A BESPOKE UP-FRONT ASSESSMENT PROCESS WHICH ALLOWS US TO QUICKLY DECIDE ON A SPECIFIC TRANSACTION"

Fidelis Insurance Holdings Ltd is a Bermuda-based global provider of specialty and bespoke insurance and reinsurance products, with underwriting entities in the UK, Ireland and Bermuda. For leading the insurance industry in participating in significant risk transfer transactions, the firm is SCI's Credit Insurer of the Year.

"We strive to lead by example as a trusted execution partner and to deliver innovative, ground-breaking transactions. We are extremely grateful to the sponsors, brokers, our trusted counsel Parya Badie and Robert Simmons at A&O and our other partners who helped make this happen," notes Mel Puskar, underwriter at Fidelis.

Insurers tend to be more comfortable with remote and longer-dated tranches of transactions, as well as risks emanating from diverse jurisdictions. More importantly, when the fundamentals are sound, the firm has appetite to move from SME and corporate debt into asset classes where its ability to assess risk and execute – such as mortgages, consumer credits, commercial real estate, and auto or term loans – is paramount.

Uniquely, Fidelis is not averse to first-loss and mezzanine risk. If a transaction makes sense holistically, and diversifies or balances its current risk exposure, the firm will participate in a meaningful way.

"The key for us as insurers is to be able to act quickly and minimise execution risk. The Fidelis team embraced lockdown as an opportunity to develop ways to reduce that risk," observes Puskar.

She adds: "We have developed a bespoke up-front assessment process which allows us to quickly decide on a specific transaction. That makes the process more efficient and effective for everyone."

With each transaction, Fidelis looks closely at the performance and behaviour of the underlying assets, then considers how they justify the structure. That gives the firm and its reinsurers comfort and allows it to be even more meaningful to banks by offering larger lines on a diverse set of portfolios.

Since Fidelis began to deploy this approach earlier this year, it has led three new SRT transactions and participated in many recent mortgage transactions. "We continue to believe that any potential opportunity is worth considering, and to further expand the diversity of credit type, product duration, and geography in our portfolio. For Fidelis, it is all about balance," Puskar says.

The firm's experienced underwriting team has operated through the economic cycle, having coalesced at Genworth Financial before moving to Fidelis. The team is supported by highly experienced legal, actuarial, reporting, claims, data and analytics, and reinsurance teams.

"We all believe the future of SRTs for the insurance industry is significant and are working diligently across multiple geographies and asset classes to help it grow. We are knowledgeable, efficient, and open-minded, and extremely proud to have earned SCI's recognition with this award," Puskar concludes. ■

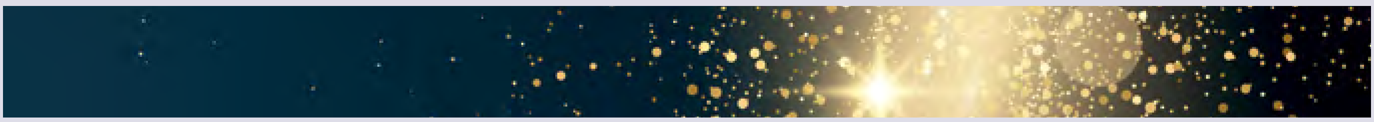
HONOURABLE MENTION: RENAISSANCE RE

RenaissanceRe is recognised as having one of the most capable teams in the significant risk transfer market and for executing a variety of different transactions. Indeed, over the last year, the firm has expanded its expertise and skill-set with the addition of two new hires. Similarly, it has increased its overall exposure limit from approximately US$500m to approximately US$650m deployed in SRT transactions.

RenaissanceRe's appetite for risk exists across the entirety of the capital stack, with the firm having deployed limits on equity, junior mezzanine and senior mezzanine tranches across a number of different jurisdictions and asset classes during the awards period. At the same time, it continues to work with its partners and regulatory bodies to bring new forms of capacity and transactions to the market.

The firm completed the second SRT deal through its syndicated entity, RenaissanceRe Syndicate 1458, earlier this year. It assumed the pivotal role as lead reinsurer on this placement and the team's experience allowed it to quickly navigate through negotiations, regulatory considerations and other potential implications, which saw the transaction completed efficiently.

Across the pond, RenaissanceRe is the market share leader in the US private mortgage insurance credit risk transfer reinsurance space, with a market share of approximately 25%. The firm is also a top three capacity provider for Fannie Mae and Freddie Mac CRT transactions, having deployed approximately US$1bn so far this year.



ISSUER OF THE YEAR
WINNER: BNP PARIBAS

BNP Paribas has won the Issuer of the Year category in SCI's 2021 Capital Relief Trades Awards, thanks to the volume of transactions it issued during the awards period, as well as for furthering deal innovation and expanding the market's investor base.

BNP Paribas has led the pack this year, with five transactions including completed and pending ones. The trades include: Noria 2021, a €900m full-stack cash STS ABS of French consumer loans; AutoNoria Spain 2021, a €1bn full-stack cash STS ABS of Spanish auto loans for Banco Cetelem; and AutoFlorence Two, an €800m full-stack cash STS ABS of Italian auto loans for Findomestic.

According to Bruno Bancal, md in the securitisation products group at BNP Paribas: "We are a diversified universal bank with a strong culture of risk management. As a result, there is a strong interest in risk transfer and capital management solutions within the various business lines of the Group."

Bruno Bancal, BNP Paribas

"WE KEEP A CONTINUOUS AND TRANSPARENT DIALOGUE WITH OUR SUPERVISOR AND REGULATOR, WHICH HELPS US NAVIGATE A REGULATORY ENVIRONMENT THAT HAS NOT YET FULLY STABILISED"

Indeed, to meet these needs, the bank relies on the securitisation products group – a fully integrated platform situated between banking and global markets. It brings together the expertise of portfolio management, structured credit and insurance solutions, and works very closely with the ABS syndicate and the global market sales team.

"Thanks to this organisation and our leading position on securitisation markets, we can screen all available possibilities for any specific need and select the best solution both in terms of risk transfer and costs for the bank," says Bancal.

He continues: "We also keep a continuous and transparent dialogue with our supervisor and regulator, which helps us navigate a regulatory environment that has not yet fully stabilised."

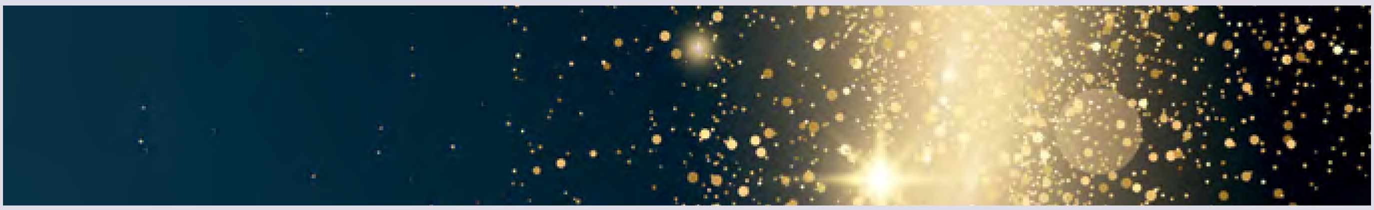
Over time, the French lender has developed a variety of solutions on an increasing number of asset classes – ranging from full-stack SRTs for auto and consumer loans, to funded and unfunded synthetic securitisations for corporates, SMEs and more esoteric assets such as CQS loans or capital call facilities.

Moreover, following the Resonance Five transaction in 2020, BNP Paribas has further leveraged its strong internal franchise on credit insurance hedges, to execute synthetic securitisations with several credit insurers and reinsurers.

The Wagner transaction was a notable example in this respect. Wagner A and B feature a combined €2.5bn portfolio of capital call facilities directed at five different insurance investors in the mezzanine and upper mezzanine tranches, as well as some funded investors on the lower mezzanine tranches. The synthetic securitisation was finalised in June 2021.■

HONOURABLE MENTION: **BARCLAYS**

Barclays has been one of the most active capital relief trade issuers of the last year, having closed 11 CRT transactions, representing approximately US$1.35bn of equity tranches and US$17.5bn of portfolio notional. Issuance was matched by innovation, as evidenced by the addition of commercial real estate loans into the Colonnade programme and the execution of two synthetic securitisations referencing a £4.1bn portfolio of social housing loans under the newly launched Churchill risk transfer programme for Barclays' ringfenced entity BUK. The transaction was also the bank's first ESG-related risk-sharing transaction.



NORTH AMERICAN ISSUER OF THE YEAR
WINNER: BMO CAPITAL MARKETS

BMO has for some time been one of the leading SRT issuers in the world and by far the most established in North America. This year the bank added further innovation to its offering with the establishment of two new platforms providing investors with access to additional asset classes, making it the clear winner of SCI's 2021 North American Issuer of the Year award.

BMO completed its first SRT in 2016 and remains the only Canadian bank to have issued SRT transactions. It has now completed 12 transactions, with a total protected notional of nearly US$16bn and notes placed with 19 investors totalling US$1.6bn.

This year, the bank added to its existing successful Muskoka and Algonquin platforms two new SRT issuance programmes – Boreal and Sauble. As a result, BMO's offering now includes loans from all of the bank's lending divisions across multiple asset classes, including large corporates, SMEs, commercial real estate and leveraged lending.

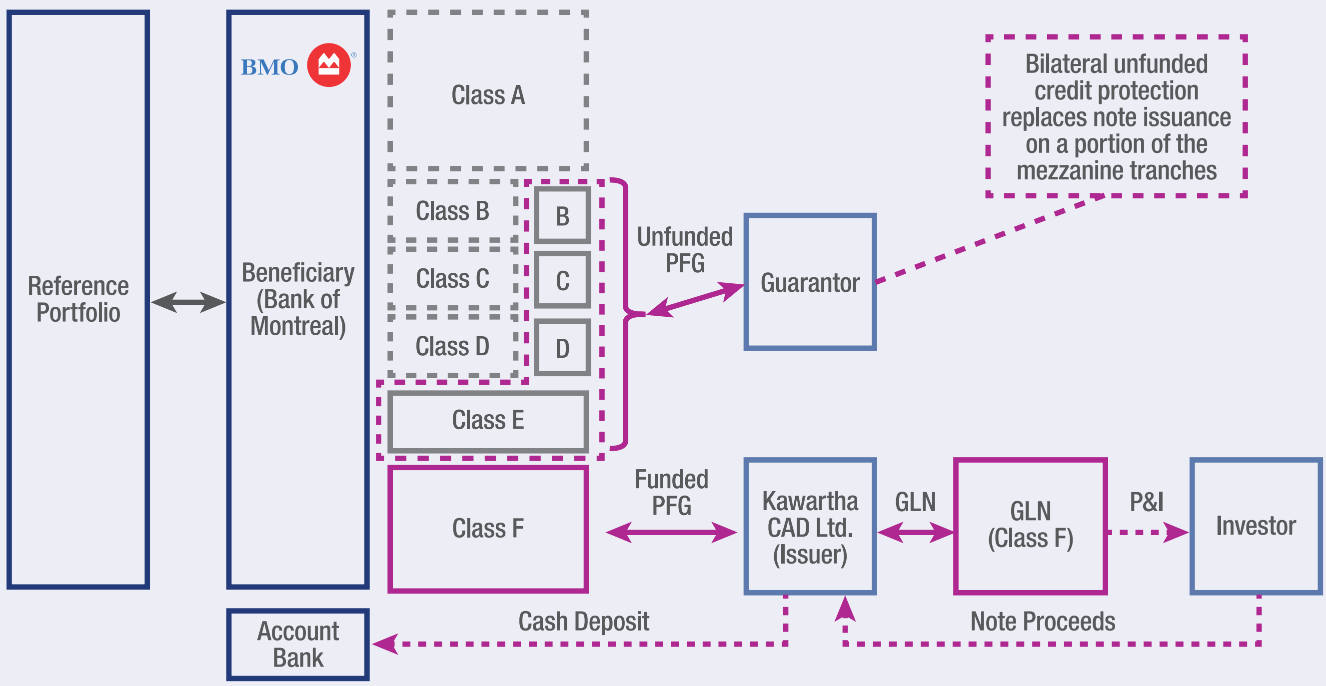
> "WE'VE LOOKED AT MARKET-BASED OPTIONS TO ACCELERATE THE GROWTH, WHILE REMAINING WITHIN OUR OVERALL BUSINESS MIX TARGET"

Boreal is backed by pools of Canadian commercial real estate loan exposures from BMO's Personal & Commercial Banking division. The programme's first deal, the C$1.2bn Boreal 2021-1, was launched in June 2021 and met with strong investor interest *(see page 9 for more).*

Sauble is backed by leveraged lending revolving credit facility exposures from BMO's Capital Markets division and structured as a flow arrangement focused on new originations. The US$700m inaugural Sauble transaction, completed in December 2020, was successfully upsized to US$1bn in June 2021, and BMO completed the US$500m Sauble II with another investor the same month.

Michael Beg, svp and head, real estate finance at BMO, whose group was the sponsor for Boreal 2021-1, recalls the motivation for the deal is a long-standing one. "Historically this business had always been funded internally. For some time though, we've looked at

The Boreal Platform



Source: BMO Capital Markets

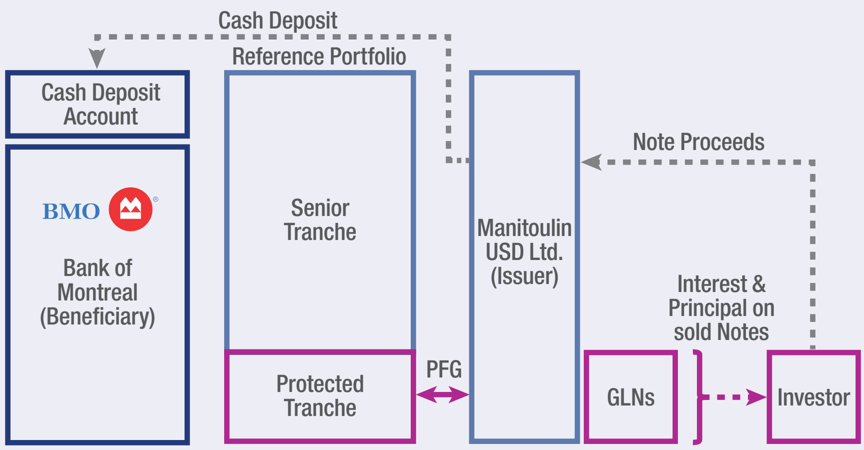
Michael Beg, BMO Capital Markets

market-based options to accelerate the growth, while remaining within our overall business mix target," he says. "That's why we've developed, with our Capital Markets colleagues, alternative risk sharing options, such as traditional CMBS, and now the Boreal platform. These options are good risk management tools that enhance the bank's overall return."

Beg continues: "Boreal allowed us to transfer existing exposure and it gave us the flexibility to re-lend out the capital. It allows us to be more consistent in terms of supporting growth in the real estate marketplace because there are potentially times when growth can outpace our risk appetite. This is another funding option for us and is a great differentiator in the marketplace."

Jean-Francois Leclerc, md and head, risk & capital solutions at BMO Capital Markets, adds: "The objective for Sauble on the leveraged lending portfolio is very similar. At the end of the day, everything we do as an issuer is centred on the client. Meaning that we want to support our clients, even if their need is perhaps greater than our risk appetite, and finding partners for sharing the risk on the origination is a way

The Sauble Platform



Source: BMO Capital Markets

of doing this. It enables us to provide a bigger offering to our client base while staying within our risk appetite."

Jean-Francois Leclerc, BMO Capital Markets

Leclerc suggests the proof of that concept has become even clearer this year. "Launching two new programmes where we've had three successful transactions is a good testament to the bank's risk management practices as it provides an external validation from investors. That stems from how we manage our business, how we originate loans and how we manage them once they are on the balance sheet," he says.

"I think it's helpful institutionally that we have this kind of secondary market validation for what we do," Beg concurs. "When you're funding only internally, your benchmark and your data points are similarly only internal."■

HONOURABLE MENTION: **FREDDIE MAC**

Irrespective of the macro and micro factors that impact the US credit risk transfer market, Freddie Mac seems to just keep on going. It is that consistency, combined with the GSE's drive to continue evolving CRT deals that ensures its honourable mention as North American Issuer of the Year.

Over the awards period 1 October 2020 to 30 September 2021, Freddie Mac issued 10 STACR and 12 ACIS deals. The GSE's CRT programme, including both STACR and ACIS, achieved record H1 issuance of US$9.9bn, protecting US$418.9bn of unpaid principal balance of mortgage loans.

July's STACR 2021-DNA5's B1 and B2 tranches were the largest yet seen and the former drew a record 39 investors; while its B3H coupon was SOFR plus 0%. September's STACR 2021-HQA3 took that a step further and removed the coupon from its B3H tranche completely and included a five-year call option.

Meanwhile, Freddie Mac has also embarked on its latest innovation – a tender offer programme to buy back STACR notes to reduce indebtedness, targeting eight deals issued between 2014 and 2017 which provided no capital relief or credit benefit to Freddie Mac. The original offer with a floor of US$650m in aggregate original principal amount saw final execution of more than US$1.6bn.

ARRANGER OF THE YEAR
WINNER: SANTANDER

Santander has won SCI's Arranger of the Year category after having showcased capabilities and achievements over the last 12 months that broke new ground in the capital relief trades market on several fronts. Indeed, the lender has closed transactions backed by new asset classes, with innovative features and while further developing the sector's investor base.

> "IN THE CASE OF BRERA, THE UNDERLYING ASSETS WERE SUBJECT TO THE STANDARDISED APPROACH AND REQUIRE MUCH THICKER TRANCHES"

Santander's crowning achievement this year by far was Project Boquerón. The ESG trade references a €1.6bn portfolio and builds on previous market experience.

Consequently, although the structural features are not unique to this transaction, their combination in one single ticket is highly unusual. Specifically, Boquerón champions ESG lending through three unique features, both at inception and during reinvestment.

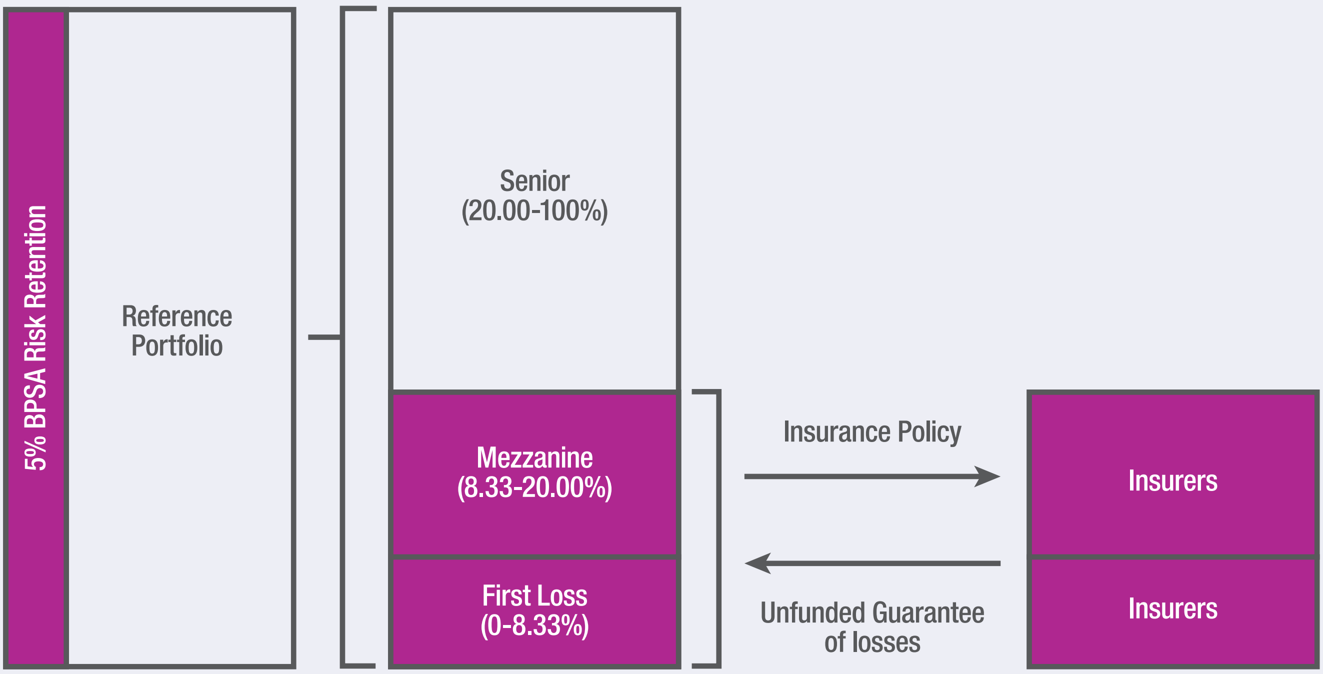
First, the portfolio is focused on ESG assets at issuance, including projects across 21 countries and more than 50% in renewable energy projects. Second, coupon incentives exist to replenish the portfolio with further ESG assets during the revolving period.

Finally, the trade includes coupon incentives for utilising the capital released to further grow Santander's lending to new ESG assets globally outside the transaction, using a novel approach of linking growth to megawatts funded through green projects, as opposed to simply focusing on RWA metrics. Megawatts is an objective standard that investors desired, since it can be audited and reviewed.

Another important transaction executed by Santander during the awards period was Project Brera. Brera is an unfunded synthetic securitisation backed by a €425m pool of dealer floorplan assets granted by PSA to auto dealers in Italy, with the first loss and mezzanine tranches covered by three reinsurers (one of which was advised by Granular Investments). Two of the final reinsurers were new to the SRT market.

Steve Gandy, md and head of private debt mobilisation, notes and structuring at ▶

Project Brera structure



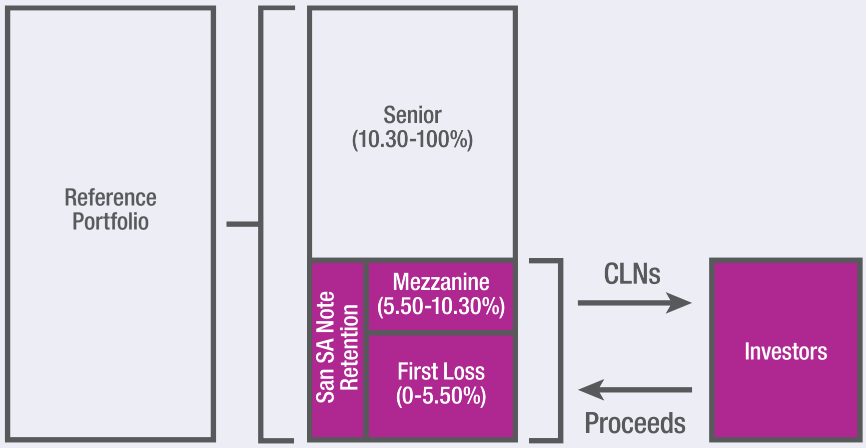
Source: Santander

Steve Gandy, Santander

Santander Corporate and Investment Banking, says: "In the case of Brera, the underlying assets were subject to the standardised approach and require much thicker tranches. Insurers can offer a lower cost of protection than funded investors, given their return requirements."

A challenge during structuring was the emergence of the global shortage in semiconductors, limiting the supply of new vehicles. In response, Project Brera included the novel feature of a 'ramp-up' period during the 18-month replenishment period, whereby the protection could increase pro-rata as the underlying portfolio recovered from global supply chain shortages. An additional mechanism for a potential future upsize was also retained, to provide issuer flexibility.

Project Boquerón structure



Source: Santander

"WE INVITE A NUMBER OF INVESTORS TO BID VIA A COMPETITIVE PROCESS, WHERE WE ALWAYS INVITE A CORE GROUP OF INVESTORS"

Yet from a structuring perspective, Santander proved its worth during the awards period with a diverse offering that includes traditional and synthetic securitisations, full deduction deals funded and unfunded, as well as full-stack, global and single-country portfolios.

More saliently though, Santander distinguished itself by successful efforts in growing the CRT market's investor base. In fact, the bank has managed to add over 70 unique investor allocations, of which half were in first loss or junior mezzanine positions.

Gandy concludes: "We invite a number of investors to bid via a competitive process, where we always invite a core group of investors and add new ones following a KYC due diligence analysis." ■

HONOURABLE MENTION: **CITI**

Citi has a long track record as an arranger in the significant risk transfer market and the bank has continued to innovate by further expanding existing jurisdictions.

In the US, the bank arranged the first capital relief trade issued by US regional bank Texas Capital Bank *(see page 9)*. The US$275m deal references a US$2.2bn portfolio of residential mortgages.

Across the pond, along with the EIF, Citi structured and arranged the first synthetic securitisation by a German Landesbank.

Every day, in cities around the world, people are doing amazing things. They're creating, innovating, adapting, building, imagining. What about a bank? Shouldn't we be equally ingenious? Strive to match our clients' vision, passion, innovation? At Citi, we believe that banking must solve problems, grow companies, build communities, change lives.

Citi Prime Finance delivers prime brokerage, securities lending and financing, agency securities lending and global capital introductions to help hedge funds manage risk, improve efficiency and achieve their long-term business objectives.

NORTH AMERICAN ARRANGER OF THE YEAR
WINNER: CITI

As long as there has been a capital relief trades market in the US, Citi has been there. But its presence in the market has more than a historic significance. In the tombstones for a high percentage of the deals for US issuers in 2020/2021 – from the ground-breaking Texas Capital Bank trade to bilateral transactions which never hit the headlines – the name of Citi can be found.

> "WE'VE BEEN DOING CRT DEALS FOR OUR OWN BALANCE SHEET SINCE 2007. I THINK THAT SAYS A LOT"

The bank first began issuing capital relief trades for its own account in 2007 and took the skills it had learned as an issuer to clients four years later, when it completed its first trade as a placement agent in 2011. Its debut as an arranger was in 2016.

So Citi has longevity and experience in this market that others perhaps lack, and it is also gaining market share. Observers say that from the perspective of an increase in the number of mandates won in the last year, Citi deserves to be called the 'most improved.'

"We've been doing CRT deals for our own balance sheet since 2007. I think that says a lot. We're always looking to open up new jurisdictions for other banks and have been an active arranger across US, Europe and Asia," says Alexis de Vrieze, director, bank solutions, EMEA at Citi.

Of course, the jurisdiction that everyone is talking about at the moment is the US market. After years of talk, the dam was finally breached in March 2020 when Texas Capital Bank became the first US regional to issue a capital relief trade, with Citi as its partner.

Citi sees as one of its major strengths its capacity to be the midwife for innovative, first-time deals. The big question now is whether that trade will be followed by others.

Mark Kruzel, director, bank solutions, Americas at Citi, believes so. "That transaction opened the door for us to build the US market to be the same size as Europe. We're going to see a tremendous growth in terms of opportunities, deals, issuers and it's going to make things even stronger on both sides of the pond," he says.

Citi's expertise and careful stewardship were keys to the success of the Texas deal. The bank had been looking to find a cost-effective way to gain capital relief on its mortgage warehouse loan portfolio, but it was Citi which shone a light into the darkness when it approached Texas Capital, say sources, in the spring of 2020.

The main difficulty for Citi was being able to satisfactorily detail the credit story behind the deal to potential investors. Warehouse loans are straightforward in theory, but operationally quite complex as the portfolio tends to be dynamic and fast-moving.

The bank is a strong credit, and yet this trade was to be unrated. Moreover, US investors are relative ingénues to the US market.

Yet Citi was able to satisfactorily clear these hurdles, and bring, it is believed, two investors into the trade. It also introduced the issuer to Clifford Chance, which also has plenty of experience in the CRT sector.

Mark Kruzel, Citi

The US market is still in its infancy, and much of the work to be done is in building an investor base. But Citi strongly believes this can and is being done.

In particular, there will be a market for unrated trades in the future, and this is where Citi's experience and market savvy comes to the fore. It takes a deep understanding of the sector and how these deals operate to sympathetically elucidate the mysteries of such transactions to wary and uncertain buyers.

"If we had restricted ourselves to only rated deals, a number of the transactions we've done would never have happened. There is now a large investor base in Europe and in the US for both equity and mezzanine risk," adds Kruzel.

Texas Capital Bank securitised warehouse loans, as did Western Bank Corporation at the end of June, but other asset classes have great potential in the CRT market, believes Citi. JPMorgan has issued trades which have securitised auto loans, mortgages and corporate loans, but other US banks have also executed less well-reported deals in emerging markets corporate loans, shipping and subscription finance.

As the granddaddy of the US CRT market, Citi is optimistic about the future. "Next year, we as a firm want to continue to see growth. We want to work with new clients and new asset classes. The stars are aligned for healthy growth," predicts Kruzel. ■

HONOURABLE MENTION: JPMORGAN

JPMorgan has been a prolific presence as an issuer of capital relief trades in the last 12 months with a hatful of deals securitising a variety of different asset classes. But it has started to operate as an arranger as well and was, for example, spotted as the shepherd of Western Bank Corporation's debut warehouse loan CRT at the end of June. JPMorgan has worked its way up the league tables and is now mounting a challenge to veteran Citi as the leading arranger of CRT trades for North American issuers.

LAW FIRM OF THE YEAR
WINNER: CLIFFORD CHANCE

In a year that was heavily affected by the global Covid-19 pandemic, and the extension of the STS regime to synthetic securitisation, Clifford Chance has stood out as the leading law firm on all aspects of credit risk transfer transactions.

"We've always felt we have the largest and most experienced practice in this market and it is nice to win an award like this that recognises that. We have been there through the financial crisis when this was an unfashionable market. And as the market has returned since 2012, we have always been at the forefront of new developments," Tim Cleary, partner at Clifford Chance, explains.

Clifford Chance's primary strategic goal is to remain the 'go to' firm for originator banks looking to execute risk transfer transactions, in all jurisdictions, whatever the transaction type or relevant regulatory framework.

Tim Cleary, Clifford Chance

> "WHEN THE NEW STS REGIME WAS BEING NEGOTIATED IN EUROPE, GIVEN OUR EXTENSIVE EXPERIENCE, WE WERE ASKED TO JOIN A LOT OF CALLS WITH THE VARIOUS PARTIES"

The firm has acted for many banks across both Europe and North America, and covering a wide range of asset classes. This includes both first-time originators looking to enter the market and established players looking to execute their next transaction.

In Europe, the firm was also intensively involved with market participants and industry bodies during the negotiations for the new STS rules for synthetic securitisation, and has since acted for all of the originators on STS synthetics that have closed to date. The firm invested heavily to ensure that it was able to advise clients on the new regulatory position as soon as the new regime came into effect.

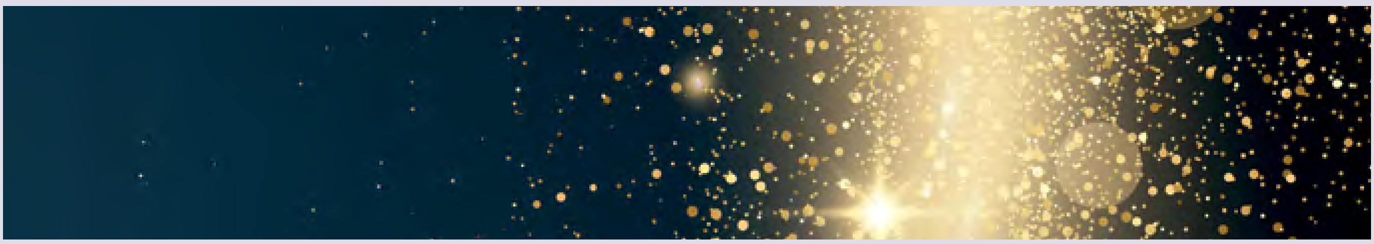
Cleary adds: "When the new STS regime was being negotiated in Europe, given our extensive experience, we were asked to join a lot of calls with the various parties involved in the negotiations, including the European Commission, the EBA and many of the national central banks and finance ministries. We have since executed six STS transactions, acting for the originator bank on all of those. It's been interesting to see the way in which structures need to change, and it's been an opportunity to do something new."

Another notable highlight for the firm over the last 12 months has been the work the firm has done in Europe. Alongside its continued dominance in its traditional key markets of the UK, Spain and Germany, it has also worked on a number of transactions in France and Italy. And during 2021, Clifford Chance acted for the originator on the first Greek synthetic securitisations to come to market.■

HONOURABLE MENTION: **LINKLATERS**

Linklaters is still the go-to law firm for investors in SRT transactions, with partners Matthew Monahan and Toby Gray and counsel Leanne Banfield advising many of the major sellers of protection. However, the firm has also established itself as an advisor to originators and arrangers, having drafted a number of significant transactions.

This year, Linklaters has worked on one of the first synthetic STS securitisations and has seen an increasing number of trades with an ESG angle. Notable transactions that Linklaters were involved in include advising a key investor in NatWest's Chowa transaction and drafting Credit Suisse's innovative Elvetia SLG transaction.



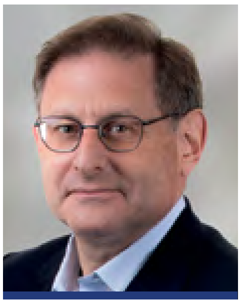
NORTH AMERICAN LAW FIRM OF THE YEAR
WINNER: CLIFFORD CHANCE

Clifford Chance has developed a strong reputation in the market, ranking as North America's top law firm of the year for the second year running. The firm has helped to navigate clients with deals of a complex nature.

> "TEXAS CAPITAL WAS AN INTERESTING DEAL TO WORK ON; THE DEAL SET A NEW GROUND – BOTH IN TAKING IN WHAT WAS NEEDED AND CHOOSING THE ASSET CLASS"

The last 12 months has seen the continued growth of transactions in the US, where the firm has continued to dominate the non-agency capital relief trades market. A particular highlight in this regard has been the Texas Capital US$275m credit-linked notes issuance, which was the first issuance of credit-linked notes by a US regional bank.

"Texas Capital was an interesting deal to work on; the deal set a new ground – both in taking in what was needed and choosing the asset class," says David Felsenthal, partner at Clifford Chance.



David Felsenthal, Clifford Chance

In the US, the biggest trend driving the market this year has been the increased activity of regional banks in this market. The firm has been involved in all of these transactions, starting with Texas Capital Bank issuing its first credit risk transfer deal in March this year. The next regional bank to jump into the market was Western Alliance just earlier this summer.

As a result, Clifford Chance has become the go-to firm for US regional banks looking to enter this market. The firm has also acted on behalf of large US commercial banks, including Goldman Sachs and Citi, as such banks continue to expand their use of CRT.

Felsenthal adds: "We have represented some of the largest banks for some time and the market has expanded over the last few years. We are constantly speaking to other banks who have an interest in using these credit risk tools and we have been actively involved in the future growth and direction. This is exciting – the area changes year to year, but the process can be opaque and hard to predict."

Outside the US, the London office of Clifford Chance has also continued to act on all the Canadian CRT transactions to come to market over the past year.

HONOURABLE MENTION: HUNTON ANDREWS KURTH

Hunton Andrews Kurth represents the dealers in all of Freddie Mac's STACR offerings and has provided advice in connection with the evolution of the programme to an actual loss payment structure, as well as the transition from direct debt to trust and REMIC issuances. Additionally, the firm represents the underwriters and initial purchasers in all of the Freddie Mac Seasoned Credit Risk Transfer Trust (SCRT) transactions, as well as the structuring agent and lead manager on Freddie Mac's Multifamily Structured Credit Risk (SCR) Debt Notes transactions.

Meanwhile, Hunton Andrews Kurth is tax structuring counsel for Fannie Mae's CAS programme for both single family and multifamily transactions. The firm's CRT experience also includes representing initial purchasers in structuring deals for private mortgage insurers that transfer the risk of loss under mortgage insurance policies, which – in turn – provides reinsurance credits under the GSE Private Mortgage Insurer Eligibility Requirements (PMIERs) capital requirements.

PERSONAL CONTRIBUTION TO THE INDUSTRY

WINNER: CHRISTIAN MOOR, team leader at the EBA

Asked about his proudest achievement, Christian Moor, team leader at the EBA, points to – perhaps unsurprisingly – the STS framework for synthetic securitisations.

"It was something that I thought about when I was on a holiday in April 2014 and it was clear to me that a more regulated and supervised product would improve funding to the real economy, especially to retail consumers and SMEs, and be overall good for society."

Yet Moor's relationship with synthetic securitisations and securitisations more broadly goes way back. Indeed, his major contribution can only be understood when traced back to the dark days that was the aftermath of the 2008 global financial crisis.

"It was decided in 2011 that the market wouldn't be killed off with new regulation. Yet there was a lack of regulation and the reality was that it was a multifaceted problem. It's about different types of RMBS; it's about synthetic securitisations, lack of default data and too much reliance on external ratings," he says.

He continues: "As such, the risk retention rules were introduced with only 5% retention levels and capital requirements were re-calibrated to more reasonable levels than initially proposed."

Additionally, the EBA had to distinguish between securitisation products and started to develop STS and STC labels. Nevertheless, it was clear to the supervisor from the beginning that securitisation was important as a financing tool for the real economy and the low default rates for European securitisations added further impetus to these efforts.

The statements above encapsulate Moor's distinctly consensual and balanced approach to financial regulation that earned him respect in both supervisory circles and across the securitisation industry. As he puts it: "At the end of the day, regulatory frameworks shouldn't be just prudential, but functional as well."

Nevertheless, the first steps in rehabilitating the market after the crisis focused on true sale securitisations. "Several EU countries – including France and Germany – believed that synthetic securitisations performed well, so there were discussions on a synthetic STC framework, but it was shelved in one of the Basel meetings back in 2014-2015."

> "EXCESS SPREAD IS CRUCIAL FOR THE EFFICIENCY OF MANY TRANSACTIONS, ESPECIALLY AUTO AND CONSUMER LOAN DEALS. THEY JUST CANNOT WORK WITHOUT IT"

However, the failure of the Basel meetings became the starting point for an effort that would eventually lead to STS synthetic securitisations in the EU. In December 2015, the EBA produced a report that introduced the notion of an STS for balance sheet synthetic securitisations within the confines of Article 270 of the CRR.

Under these restrictions, synthetic securitisations could be executed with supranational institutions such as the EIF or cash collateralised with private investors. The report eventually led to a mandate in the CRR for the EBA to develop an STS for balance sheet synthetic securitisations.

Moor notes: "The key points were the distinction between arbitrage and balance sheet synthetic securitisations and data transparency. Still, there was a fear among supervisors that banks could use this to overleverage. Yet banks use this for less than 5% of their loan books and this is something that can be monitored."

However, talks with supervisors centred around the inclusion of synthetic excess spread. The main worry was the amount of excess spread relative to the portfolio's expected losses; concerns that initially excluded synthetic excess spread from the discussion paper on STS synthetic securitisations.

Discussions with market participants reintroduced the feature in the final report but limited it to the expected loss of the portfolio. "Excess spread is crucial for the efficiency of many transactions, especially auto and consumer loan deals. They just cannot work without it. Again, regulation should not be just prudential, but also functional," concludes Moor.■

RISING STAR

WINNER: MEINDERT DE JONG, director at PGGM

In a mere seven years Meindert de Jong has gone from graduate recruit to a director and invaluable member of PGGM's credit & insurance linked investments team, which manages PFZW's dedicated Credit Risk Sharing (CRS) investments mandate. During that time, his deep involvement and knowledge of CRS transactions has grown his excellent reputation beyond the team and throughout PGGM, across its partner banks and, increasingly, throughout the wider market.

> "WORKING WITH SUCH A CLOSE AND SUPPORTIVE TEAM HAS HELPED ME TO DEVELOP"

As a son of a farmer and a nurse in the small town of Noordeloos in the Netherlands, working in finance – let alone CRS – wasn't an immediately obvious career path, but an interest in economics in high school started to lay the way. Next, in what becomes quickly clear in any conversation with de Jong or his colleagues, was a typical decision – he selected a double degree programme combining economics and law, on the basis that the addition of law "would make it a bit more challenging and broaden the potential to learn".

As his degree course went on, de Jong became increasingly interested in asset management and his three-month internship in the asset management department with pension fund services provider A&O Services put him firmly on the asset management track. Ultimately, he graduated for his double master's degrees in Law and Financial Economics (with honours) from Erasmus University in Rotterdam, considered one of the top universities in the Netherlands.

Towards the end of his university career, he began applying for specific open positions, one of which was for PGGM. "That was, of course, attractive as one of the largest fund managers in the Netherlands and the role was also a front office one, which is what I hoped for – and once I'd read up on CRS, it really piqued my interest," de Jong recalls. "A nice coincidence, though not a driver for my application, was that not only my mother but a number of other family members all work in the healthcare sector and are all participants in PFZW's pension fund."

The story of de Jong's job application process remains a regularly shared anecdote by PGGM's CRS team. He came in for a first-round interview with Mascha Canio, PGGM's head of credit & insurance linked investments, on a Thursday in October and Canio was so impressed by his interview that she immediately progressed him to do the rest of the process on the same day, something not done before or since. He received an offer and started at the PGGM office in Zeist exactly one week after first being interviewed – still a record.

"I had another interview the next day with another firm, but it didn't have the same spark and the appeal of working in an esoteric asset class made PGGM a very easy decision," de Jong says. "With the benefit of hindsight, it was unquestionably the right one, as the job has surpassed my expectations and working with such a close and supportive team has helped me to develop and broaden my experience extensively, which is key to my enjoyment of the role."

His colleagues report that thanks to his intelligence and broad academic background, he was able to pick up the many facets of SRT transactions quickly and remains a naturally modest and hardworking person. Since joining PGGM, de Jong has been engaged in more than 30 transactions in every continent in virtually all asset classes: from SMEs to large corporates and from trade finance to project finance.

He is able to rigorously asses quantitative data, perform qualitative due diligence and commercially negotiate transactions with risk-sharing counterparties. Apart from developing in-depth knowledge on SRT transactions, this has also enabled de Jong to gain exposure to the industry, and build valuable relationships.

De Jong has also added significant value by providing relevant insights on structural and regulatory matters, both internally and to counterparty banks. He has been a voting member of the team's investment committee for the past three years and is able to lead new origination from start to closing.

As well as his involvement in deal structuring, de Jong is captain of the team's centre of expertise in data and databases, spearheading efforts to improve the various tools the team uses – including its proprietary reporting tool SCORE, which he helped design and build. In addition, he is part of the team's centre of expertise in regulation, playing his part in industry discussions on topics such as significant risk transfer, disclosure templates and STS.

Finally, de Jong featured as a speaker at this year's Global ABS in a panel on securitisation as a tool for risk transfer. Such wider industry exposure underlines his increasing recognition as a true expert in the field.

Given de Jong's aforementioned desire to continue to develop, growing towards expert status could be a next challenge. He is confident the evolving CRS market will provide ample opportunity for that.

"We see the idea that when done properly, securitisation can really contribute to both a functioning financial system and the real economy is being embraced by more regulators – notably within the EU – around such things as the ESMA templates, STS for synthetics and so on," he says. "So we see CRS opening up still further and that will broaden the scope of what we look at – from different types of banks, to different types of portfolios and structures, to how to make it work in different regulatory settings – and that will keep me occupied for a long time to come." ■

SCI CRT News

Fannie is back

| 20 September

Fannie Mae is back in the market only five days after the Federal Housing Finance Authority (FHFA) released a proposal to significantly alter the capital treatment of CRT debt

The GSE has announced that it will recommence issuance of CAS bonds next month after an absence of 19 months.

CAS issuance will be accompanied by credit insurance risk transfer (CIRT) deals and multi family credit risk insurance (MCIRT) deals.

The first new CAS bond is likely to come to the market in October, and it might issuance another three at a rate of one per month before the end of the year, according to the GSE.

It does not foresee multi-family CAS issuance in the remainder of 2021.

This return to the market underscores the importance of the adjustments to the capital treatment of CRT introduced last week.

The absence of Fannie Mae has been a big talking point in the CRT sector over the last year and a half. It removed itself from the market in protest, it seems, at the Enterprise Regulatory Capital Framework (ERCF) unveiled by previous director of the FHFA Mark Calabria.

But Sandra Thompson is the new sheriff in town and the innovations introduced have succeeded in bringing Fannie back into the fold – as they were intended to do.

"The new capital rules have worked the oracle," says a market source.

Simon Boughey

Downward pricing

| 20 September

Deutsche Bank has returned to the synthetic securitisation market with this year's first capital relief trade from the CRAFT programme. Dubbed CRAFT 2021-1, the transaction is the most tightly priced CRAFT deal of the last six years *(see SCI's capital relief trades database)*.

The US$277.5m CLN printed at three-month Libor plus 8.5%. The pricing compares to plus 10.75% and plus 12.25% for the bank's two post-Covid CRAFT deals that were executed in June last year. Indeed, at that point, pricing had widened by 3% compared to pre-pandemic levels and the bank had altered the deals after the pandemic in terms of both industry and rating composition *(SCI 12 June 2020)*.

Deutsche Bank was one of the first lenders to execute synthetic securitisations in the aftermath of the coronavirus crisis. However, the focus of market practitioners back then turned to large corporates, which benefit from plenty of disclosure that enables investors to assess the default risk of the underlying assets. Additionally, SRT made sense for many banks, as corporate revolver drawdowns during the peak of the crisis boosted RWA consumption.

Consequently, large banks with established corporate programmes – such as Deutsche Bank's CRAFT – were able to tap the market. However, as the recovery continued over the last year, private investors have returned to other asset classes – including Southern European SMEs *(SCI 4 August)*.

Stelios Papadopoulos

CRT love

| 17 September

The Federal Housing Finance Agency (FHFA) hopes to both lure Fannie Mae back to the CRT market and increase access to affordable housing with its proposed amendments to the Enterprise Regulatory Capital Framework (ECRF) unveiled two days ago, suggest sources.

By replacing the fixed leverage buffer with a dynamic leverage buffer, it becomes more likely that risk-based capital will become the binding constraint upon the GSEs while the RWA floor on CRT exposures has been halved.

These are meaningful adjustments, and are likely to have resonated with Fannie Mae, which has been out of the CRT market since Q1 2020 in protest against last year's ERCF, which was ratified in November.

Fannie Mae and Freddie Mac declined to comment.

The amendments also represent a complete volte-face in the attitude of the FHFA towards CRT under the new acting director Sandra Thompson. It is only three months since the FHFA, then led by Mark Calabria, poured scorn on the value of the CRT mechanism.

"This is a 180 degree turn from the most recent discussion of CRT," says a market analyst.

In the fact sheet released this week, the FHFA says "There are many benefits to CRT, including reduced risk to taxpayers from a severe housing crisis, diversification of risk, and potentially lower cost of capital. CRT transactions transfer a meaningful amount of credit risk to private investors in severely stressful economic scenarios, which helps to protect taxpayers from potentially large credit-related losses."

The two chief levers which the FHFA hopes to increase the attractiveness of the CRT market. Firstly, it replaces the fixed prescribed leverage buffer amount (PBLA) equal to 1.5% of a GSE's total assets with a dynamic PBLA equal to 50% of a GSE's stability capital buffer.

The fixed PBLA of 1.5% is in addition to a leverage ratio of tier one capital to total assets of 2.5%, giving an overall leverage ratio of 4. In most circumstances, this has been the binding constraint upon the GSEs, and, according to the FHFA, "could lead to perverse outcomes at the Enterprises, including promoting risk-taking and creating disincentives for CRT and other forms of risk transfer."

Under the amended rule, FHFA calculates that Fannie Mae's PBLA would decrease from $62bn to $23bn and Freddie Mac's PBLA would

decrease from \$64bn to \$11bn. The total leverage capital ratio would be reduced from 4% to 3% at Fannie and from 4% to 2.9% at Freddie.

These are hefty diminishments and in the light of the reductions the FHFA anticipates that a risk-based capital requirement would become the binding constraint rather than the leverage ratio. Indeed, that is its declared aim.

And this is where the second lever begins to operate: the prudential floor of 10% on the risk weighting of any CRT exposure has been halved to 5%. This, according to the Enterprise Capital Tool provided by the FHFA, would increase the RWA relief provided by CAS and STACR by 34%-35% for high LTV loan pools and by 39%-40% for low LTV pools.

Once again, these are eye-catching numbers.

"The FHFA has targeted the parts of the ECRF that raised most questions with these amendments," says a well-placed source.

According to Morgan Stanley research, Fannie Mae has not transferred risk on a balance of over \$700bn of CAS deals since it exited the market. While the steep rise in house prices over the last 18 months has reduced the risk position to the US taxpayer in these deals, the lack of safeguards covering this debt must worry anyone who believes in the utility of the CRT market – as the new FHFA clearly does.

By increasing the capital relief on CRT exposure, the FHFA also, in effect, increases the capital window for the GSEs. They are more able to take on loans of questionable credit quality, and extending the reach of affordable housing to historically disadvantaged borrowers is one of the chief aims of the current administration.

Whether the amendments, if implemented, will work the oracle remains to be seen. But the weather vane seems to be pointing in the right direction.

"I think the probability that we get increased CRT issuance today is higher than it was on Tuesday when these proposals hit," says James Egan, structured finance strategist at Morgan Stanley.

The proposed changed are now open for comment until November.

Simon Boughey

Tight pricing

| 17 September

Santander has completed a €580.8m 14-year full-stack significant risk transfer transaction that references a portfolio of Spanish auto loans. Dubbed SC Spain Auto 2021, the transaction's first loss tranche achieved the tightest print at that level for a full-stack SRT following the onset of the coronavirus crisis, as pre-pandemic dynamics return to the ABS market *(SCI 15 September)*.

Rated by DBRS Morningstar and Moody's, the deal consists of €507.3m AA/Aa1 rated class A notes (which priced at three-month Euribor plus 70bp), €33.3m A/A2 rated class B notes (plus 70bp), €23m BBB/Baa3 class C notes (plus 115bp), €5.7m BBB/Ba1 rated class D notes (2.15%), €5.7m BB/Ba2 rated class E notes (2.71%) and €5.8m unrated class F notes (4.58%). Classes A through E amortise pro-rata, with triggers to sequential. The class F notes amortise according to their target amortisation amount, which is equal to the minimum of 10% of the initial balance of the notes and the available funds, following the priority of payments.

The transaction benefits from a 15-month revolving period, during which the class A to E notes will not amortise – unless certain conditions are reached – and the issuer will use the quarterly principal collections to purchase additional receivables that the originator may offer, subject to eligibility criteria.

The transaction benefits from a €5.8m cash reserve that provides credit support to the rated notes. At transaction closing, the cash reserve will be fully funded with proceeds from the subscription of the F notes.

The cash reserve is released with the amortisation of the notes based on some rules, with a floor at €1.4m. The cash reserve will be reduced to zero on the payment date when the rated notes can be fully redeemed.

Geographically, the portfolio is well diversified across Spain, with the highest concentration in Andalusia representing 24.5% of the provisional portfolio by loan balance, followed by Catalonia at 12% and Valencia at 10.6%. The pool has 18 months of seasoning and is very granular, comprising 54,458 loans made to 54,194 borrowers.

Stelios Papadopoulos

SRT debut

| 16 September

Nordea and the EIF have finalised a significant risk transfer transaction that references a €1.8bn portfolio of corporate and SME loans *(SCI 23 July)*. The deal will free up capital for green lending to Swedish and Finnish firms, rendering it the first such deal from a Nordic bank.

The transaction features tranches that amortise on a pro-rata basis but with triggers to sequential – as stipulated by EU rules – and a highly granular portfolio of drawn commitments that includes several thousand corporate and SME borrowers. Further features include a retained first loss tranche and synthetic excess spread that is equal to one-year expected losses. Moreover, this is Nordea's first post-Covid capital relief trade and its first STS synthetic securitisation.

According to Jonas Backlund, head of structuring at Nordea, the operation was not carried out for capital relief purposes but to expand its green footprint in the region. Indeed, using this technology for growing the balance sheet as opposed to just receiving a capital benefit has been gaining traction in the market, as evidenced in recent transactions by LBBW, Lloyds and BNP Paribas *(SCI 25 June)*.

The green loans will be offered to eligible SMEs and include reduced margins for eligible projects. The initiative is backed by the EU's Investment Plan for Europe. Nordea has committed to reach net-zero emissions by 2050 and reduce CO2 emissions from its lending portfolio by 40%-50% by 2030.

Last March, the lender signed an agreement with the EIF to support SMEs in Sweden, Finland and Denmark with attractive lending terms, to help companies facing temporary Covid-19 disruptions and/or to accelerate their growth.

This latest capital relief trade is Nordea's first for its own book, following the execution of its last deal in 2019 *(SCI 20 December 2019)*. The flexibility that EU regulators introduced on the eve of the coronavirus crisis in the form of reduced capital buffers, along with dividend restrictions, reduced the incentive to carry out such deals. However, the lifting of dividend restrictions raises issuance prospects for Nordea and the market overall *(SCI 4 August)*.

Nordea ceo Frank Vang-Jensen confirmed in the bank's latest half-year statements that it is ''ready to decide on a dividend payment of a maximum of €0.72 per share, to be distributed in October, after the current restrictions are repealed. Regarding share buy-backs, we intend to start the programme in the fourth quarter and have commenced the application process.''

The transaction will become effective in terms of credit protection, coupon payments and capital relief when Nordea has extended new loans at the magnitude that has been stipulated in the agreement. This is expected in 1Q22 when management buffers are expected to return to normal levels.

Hence, in this sense the guarantee's commitment to green lending is consistent with normalised management buffers. Management buffers are capital cushions held above the minimum regulatory requirements.

As of July 2021, Nordea's management buffers remain largely unchanged at €610m, with the lender aiming for 2022 targets of 150bp-200bp above regulatory CET1 requirements. The bank's CET1 ratio currently stands at 18%, which is 7.8 percentage points above the regulatory requirement.

Stelios Papadopoulos

Tender pick-up

| 14 September

Freddie Mac broke new ground with its tender offer last week, but there is some doubt about how many investors will be interested in surrendering their by now valuable paper, say market experts.

The average coupon of the eight tranches on offer is 3.85%, and the range is between 2.43% and 4.88%. This, in a low rate environment, is relatively attractive.

Moreover, the average credit enhancement (CE) is 3.76%, with a range of between 2.43% and 5.49%. This is generally three times greater than the CE with which these bonds began their life. For example, the STACR HQA1 2017 M2 tranche, which is at the top of the list of tranches Freddie want to buy back, currently has a 3.20% credit enhancement and this is well in excess of recently issued M1 tranches. Its next coupon will be 3.63%.

"These are very solid, seasoned pieces of paper. You'd only want to get rid of them if there was something else you really wanted to buy," says a source.

In total, Freddie Mac has targeted the 2017 HQA1 M2, the2017 HQA3 M3, the 2016 HQA3 M3, the 2016 HSQ4 M3, the 2014 HQ2 M3, the 2015 HQA2 M3, the 2015 HQA1 M3 and the 2017 DNA1 M2.

The original principal amount of the eight tranches up for tender was \$2.364bn, of which \$1.919bn, or 81%, is current principal outstanding.

This constitutes 4.2% of the unpaid principal balance of the CRTx Index – the total return index which tracks the aggregate performance of a basket of CRT bonds issued by Fannie Mae and Freddie Mac. It is the flagship index of Mark Fontanilla and Company, the Charlotte NC-based consultancy.

Nonetheless, it seems that Freddie has offered investors prices which look to be generally above current values.

"The tender price is very compelling," adds a source.

Whether this will be enough to tempt STACR investors out of the woodwork is unclear. It will depend whether bonds on offer can be replaced easily and perhaps more profitably with other securities. This is a decision which is determined by the current positioning of each CRT investor.

Moreover, most current STACR buyers are typically buy and hold investors and are generally interested in holding notes to maturity. Freddie Mac data reveals that the participation of asset managers in STACR deals has increased lately while that of hedge funds has diminished.

As of June 30, 60.03% of all STACR buyers were money managers, 29.23% were hedge funds, 4.82% were REITS, 2.61% were insurance funds, 2.26% were sovereign funds and 1.06% were bank or credit unions.

In the recently issued STACR 2021 DNA5, money managers constituted 68.78%, hedge funds 24.95%, insurance firms 3.76%, REITs 2.05%, bank or credit unions 0.46%.

So the extent of the pick-up remains to be seen.

Simon Boughey

Spanish SRT finalised

| 14 September

Santander has finalised a €177m cash collateralised significant risk transfer transaction that references a €2.528bn portfolio of Spanish corporate, SME and self-employed borrowers. Dubbed Magdalena Five, the deal is Santander's first Spanish synthetic STS transaction and the first post-Covid SRT from the programme sold to private investors *(SCI 12 July)*.

Magdalena Five pays three-month Euribor plus 8.50% and features a €22.75m retained junior tranche and a six-month revolving period, along with a three-year weighted average life for the sold tranche. Loans subject to payment holidays have been excluded from the portfolio.

Santander carried out a competitive book-building private placement process with more than 15 investors, before finally agreeing final terms with eight investors, including five new ones to the programme.

Several structural features were included in the transaction to optimise RWA reduction and lower the implied cost of capital of the trade. First, the STS designation lowers the risk weights for the retained senior tranche to 10%. Second, senior and protected tranches amortise pro-rata to optimise the cost of the transaction but with triggers to sequential amortisation.

The last deal from the Magdalena programme was carried out with the EIF last year *(SCI 29 September 2020)*.

Stelios Papadopoulos

Love me tender

| 10 September

The significance of Freddie Mac's STACR tender offer, announced earlier this week, should not be underestimated, say market insiders.

The tender shows, on the one hand, that the GSE is acutely conscious of the demands of greater capital efficiency, they say.

But it also demonstrates that it places continued faith in the CRT mechanism.

"By this tender offer, Freddie shows that there is stress on capital efficiency and it seems that the CRT market does still provide that capital efficiency," notes one.

Earlier this year, the Federal Home Finance Agency (FHFA), the regulator for Fannie Mae and Freddie Mac, released a report entitled Performance of the Enterprises' Single-Family CRT which was highly fault-finding of the performance and results of CRT since it was introduced.

The report was subjected to widespread criticism from those who remain assured of the value of STACR and CAS.

Since June, of course, there has been a change of leadership at the FHFA and is thought that the new management of the regulator will be much less inimical to the CRT market.

Freddie has targeted specific tranches – either the M2s or M3s – within eight offerings priced between 2014 and 2017.

Though seven of the eight tranches earmarked are drawn from HQA vintages, which have higher LTVs, the rapid rise in house prices over the last couple of years will have drastically improved the asset quality.

"Look at house price appreciation. They may have had high LTVs when originated but I bet they don't now," says another source.

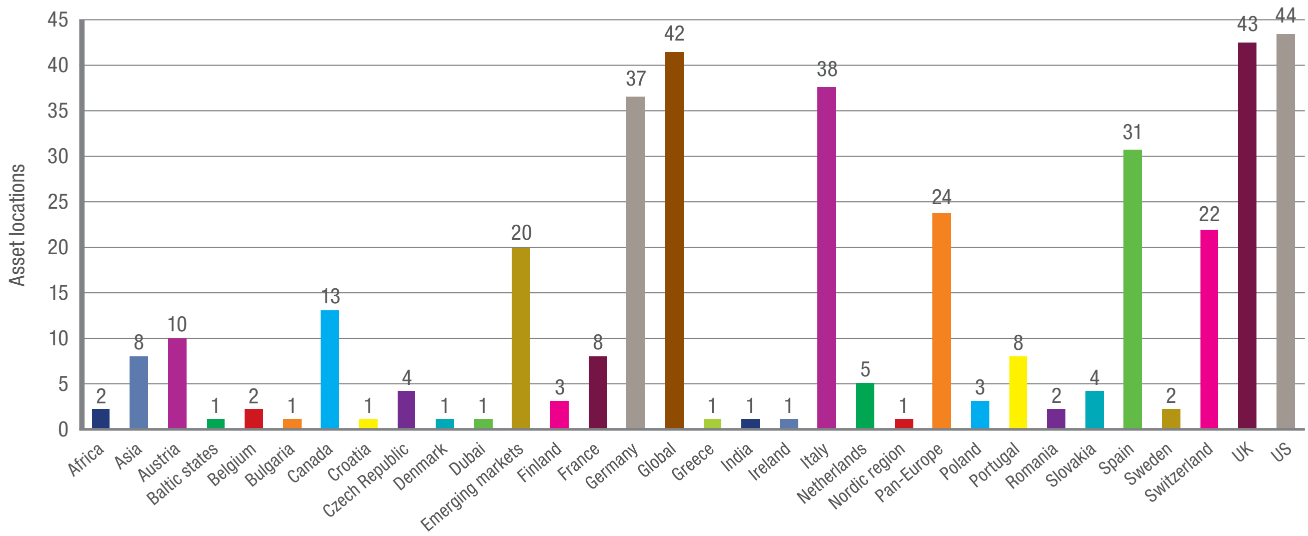
In its fact sheet provided with the tender offer announcement, Freddie Mac notes "None of the STACR notes in the tender offer provide any capital relief to Freddie Mac. Freddie Mac considered, among other things, the macroeconomic environment, overall CRT market condition and Freddie Mac risk management objectives."

Market sources think it likely that this will not be the first such tender offer, as the exigencies which determined this offer continue to persist – depending of course on the response to this first-time buyback.

Simon Boughey

CRT Data

Asset locations utilised in Capital Relief Trades to 30 June 2021



Source: SCI Capital Relief Trades Database

The puzzling case of the disappearance of Fannie Mae

Fannie Mae has not issued a CRT deal since 1Q20. **Simon Boughey** investigates the circumstances behind the GSE's disappearance from the market and what might make it come back.

Fannie Mae, one of the co-founders of the ground-breaking GSE credit risk transfer market, has not issued a CAS or CIRT transaction since 1Q20. There is no knowing when it might return to the market, but there is some reason to believe that Fannie's non-attendance will not continue for much longer, given the sea-change in policy under the Biden administration.

Fannie began issuing CAS bonds in 2013 and by the end of 1Q20 had sold a total of US$47bn, transferring risk on US$1.5trn of unpaid principal balance of mortgage loans. In 2018 and 2019 – the last two full years of issuance – it sold around US$7bn a year to investors.

The great majority of disinterested observers would agree that the CRT schemes unveiled by Freddie Mac and then Fannie Mae in 2013 have been a great success. The two GSEs created a whole new asset class that proved very popular with investors and one which successfully helped reposition Fannie and Freddie as careful, prudent organisations that would not again endanger the wallet of the taxpayer.

Although it declined to comment for this article, Fannie explained why it had stepped away from the market in its Q2 10-Q, released on 3 August 2020. "We did not enter into new credit risk transfer transactions in the second quarter of 2020, due to adverse market conditions resulting from the Covid-19 pandemic. Market conditions improved in the second half of 2020, but we have not entered into any new transactions as we evaluate their costs and benefits, including a reduction in the capital relief these transactions provide under FHFA's enterprise regulatory capital framework. We may engage in credit risk transfer transactions in the future, which could help us manage capital and manage within our risk appetite, particularly given the growth and turnover in our book in 2020," the GSE said.

Since then, it has offered no update or embellishment to this statement. As the market has now recovered substantially, it seems that the FHFA's enterprise regulatory capital rules – released at the end of May 2020 – are now entirely responsible for Fannie Mae's continued absence from the CRT market.

These rules are considerably less friendly to CRT mechanisms than the previous 2018 rules. The GSEs are required to use the more binding of either a risk-based capital formula or a leverage ratio, but the latter affords much less capital benefit than the former. Indeed, according to some calculations, there is zero capital benefit derived from CRT if a leverage ratio is applied.

The rules also applied the Simplified Supervisory Formula Approach (SSFA) for capital to be held against retained tranches under risk-based capital rules. Using this approach, CRT schemes cut required capital by only 40%, at the most, rather than 75% as under the 2018 rules. This brought the GSEs more into line with the capital treatment meted out to banks, which was one of the FHFA's objectives.

The adjustment also reflected the fact that the regulator did not regard CRT as anything like the equal of common equity in absorbing unexpected losses. And this, it might be argued, is fair enough as common equity can be used to plug any holes, while CRT can only ameliorate losses in a specific reference pool of assets.

And that, as far as Fannie Mae is concerned, is that. It hasn't been back to the CRT market in 18 months and there is no indication of it reappearing.

However, the overall market appears to be functioning just fine without one of its founders. While Fannie Mae has not been around, Freddie Mac has stepped up the pace of its STACR issuance.

In 2019, for example, there was US$7bn of issuance under the CAS programme and US$8bn under STACR for a combined total of US$15bn of CRT new debt. In 2020, while there was only US$2bn of issuance under the CAS programme, there was US$11bn under STACR for a combined US$13bn – only US$2bn less than in 2019.

At the end of July, Freddie issued its sixth STACR of 2021 – designated STACR 2021-DNA5 – and has now issued US$6.2bn under the programme this year. ■

To read the rest of this article, email ta@structuredcreditinvestor.com for further information. SCI's CRT Premium Content offers regular in-depth analysis of trends and developments across the CRT market, in addition to our usual news output.