SCI NPL Securitisation Awards 2022

sci

Leading Structured Finance Information

London, June 2022

SCI's inaugural NPL Securitisation Awards come at a time of significant regulatory change for the European non-performing loan market. The EBA published final draft risk retention regulatory technical standards in April, which are designed to provide clarity on securitisation risk retention requirements, including for NPL ABS. More recently in May, the authority launched a consultation on draft implementing technical standards in connection with NPL data templates, with the aim of increasing liquidity in the secondary market.

Such activity is occurring amid the implementation of the EU NPL Directive over a two-year transitional period. During this time, it is hoped that a number of wrinkles – including apparent contradictions around servicer competition and concerns that the introduction of mandatory data fields will deter sellers of NPLs – will be ironed out. While the NPL Directive is seen as a positive development in many ways, ambiguity remains over what constitutes a 'credit servicer' and a 'credit purchaser' under the rules.

Against this backdrop, Italy and Greece remain the bedrocks of the NPL securitisation market, supported by their government guarantee schemes. But activity in other jurisdictions continues to grow, with the debut UK reperforming loan ABS issued in April, for example.

The winners of this year's SCI's NPL Securitisation Awards reflect the contribution that Italian and Greek players have made to the market, but also the innovation seen in other areas. Indeed, the awards roll of honour on page 5 of this special edition suggests a market that continues to grow in confidence.

Our congratulations to the deserving winners of the awards, as well as to the NPL industry as a whole for its many achievements over the last year. The qualifying period for the awards was March 2021 to March 2022.

We would also like to wholeheartedly thank everyone who submitted a nomination for the awards. Additionally, our thanks and appreciation go to our awards advisory board – comprising Iain Balkwill of Reed Smith, Francesco Dissera of Alantra, Michael Huertas of PwC, Zach Lewy of Arrow Global and Gianluca Savelli of NPL Markets (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 market participants and our own independent reporting.

Looking to the next 12 months, it will be interesting to witness how the run-off of Covid-induced moratoriums – coupled with the expiration of the GACS and HAPS schemes – affect supply and demand across the NPL ABS sector. SCI will certainly continue to keep you abreast of these developments and more!

All the best for the year ahead,

Corinne Smith
Editor

Editor
Corinne Smith
cs@structuredcreditinvestor.com

Design and Production
Andy Peat
andy@andypeatdesign.co.uk

Contributors
Simon Boughey
sb@structuredcreditinvestor.com
Claudia Lewis
cl@structuredcreditinvestor.com
Vincent Nadeau
vn@structuredcreditinvestor.com
Stelios Papadopoulos
sp@structuredcreditinvestor.com
Mark Pelham
mp@structuredcreditinvestor.com
Angela Sharda
as@structuredcreditinvestor.com

Managing Director
John Owen Waller
jow@structuredcreditinvestor.com

New Subscriptions
Ana Movileanu
anam@structuredcreditinvestor.com

Head of Subscription Sales and Client Solutions
Tauseef Asri
ta@structuredcreditinvestor.com

Business Development Manager
David Zaher
dz@structuredcreditinvestor.com

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

CONTENTS

SCI NPL Securitisation Awards 2022 Roll of Honour

TRANSACTION OF THE YEAR
Winner: Project Galaxy
(Alantra, Alpha Bank, Davidson Kempner, Deutsche Bank)

INNOVATION OF THE YEAR
Winner: Retiro Mortgage Securities
(Morgan Stanley, Oaktree Capital Management)

ISSUER OF THE YEAR
Winner: Intesa Sanpaolo

INVESTOR OF THE YEAR
Winner: Cerberus Capital Management

SERVICER OF THE YEAR
Winner: Intrum

ADVISOR OF THE YEAR
Winner: Alantra

ARRANGER OF THE YEAR
Winner: Morgan Stanley

LAW FIRM OF THE YEAR
Winner: Orrick

SERVICE PROVIDER OF THE YEAR
Winner: Scope Ratings

CONTRIBUTION TO MARKET DEVELOPMENT
Winner: NPL Markets

TRANSACTION OF THE YEAR
WINNER: PROJECT GALAXY

Project Galaxy has won the Transaction of the Year category in SCI's NPL Securitisation Awards. The deal marks the second largest rated EMEA NPE securitisation, with €10.8bn in gross book value (GBV). Project Galaxy is also the first public securitisation in the Green Market from the deal's originator, Alpha Bank, as well as its first transaction enrolled in the Hellenic Asset Protection Scheme (HAPS).

Closing in 2Q21, Project Galaxy enabled Alpha Bank to significantly reduce its non-performing loan ratio down to 13% from 29%. The deal securitises both retail and wholesale exposures, with retail including predominately non-performing exposures collateralised by residential real estate, as well as consumer and small balance loans.

Under the transaction, Alpha Bank retained all of the €3.8bn in senior notes, as well as 5% of the €7bn mezzanine and junior notes. A further 51% of the mezzanine and junior notes are intended to be sold by an entity managed by Davidson Kempner, and 44% of the remaining notes distributed to shareholders.

Galaxy was supported by Alantra, serving as co-arranger and financial lead advisor to the deal. Alantra brought expertise to the structuring of the securitisation, advising on the structure and preparation of data tapes and marketing materials, the structuring and cashflow modelling of the transaction, as well as the coordination of third parties and sales processes.

"This transaction confirms Alantra's unique position as the leading advisor in supporting European issuers and investors in structured NPL trades, including securitisations. It is also a great testament of the benefit of having APS support schemes in place to deleverage European NPEs, and the continued interest of global investors for these exposures," states Francesco Dissera, md and head of Alantra's securitisation practice.

> "HAPS WAS A VERY IMPORTANT CATALYST FOR GREEK NPL SECURITISATIONS"

Alpha Bank opted to retain the senior notes by applying a significant risk transfer status for the deal, thereby providing an attractive risk-return investment. Alantra was able to bring extensive knowledge of SRT and ECB guidelines to the deal, allowing also for a speedier execution.

The highly complex transaction also proved transformative for Alpha Bank's balance sheet, enabling the bank to not only normalise the cost of risk but also establish an internal NPE management team of around 1,000 people to service the new portfolio. In turn, this also aided the speed of execution, as the servicer was already fully operational before the close of the transaction.

Project Galaxy benefited from the Greek government guarantee, HAPS. "HAPS was a very important catalyst for Greek NPL securitisations when introduced," explains Kostas Skliros, Alantra svp involved on Project Galaxy. "It created incentives for servicers to create business plans that they will be called to

Kostas Skliros, Alantra

execute, linked their fees to the performance of these business plans and established minimum collection thresholds that if breached, penalties would be applied in the form of a reduction of the serving fees or even the termination of the servicer by the guarantor."

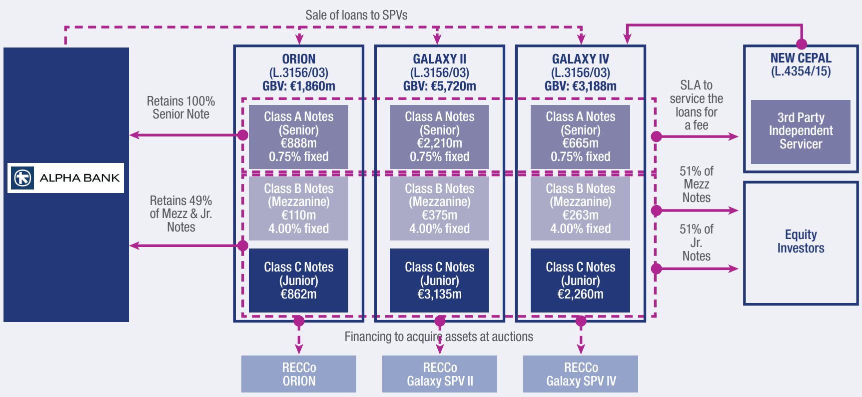
He continues: "HAPS also introduced the necessity of rated senior notes prior to the guarantee becoming available – therefore, an externally recognised agency can express an opinion on the risk of the senior notes. This process materially increased leverage at a reduced cost, due to the presence of government guarantees."

The transaction also occurred in conjunction with the sale of Cepal Holdings, of which a 20% stake in New CEPAL was retained by Alpha Bank, along with customary governance rights. Alpha Bank was also able to align interests with anchor investor, Davidson Kempner, which acquired 80% of Cepal Holdings.

"Alpha Bank ran a competitive process to find an experienced counterparty to service the loans and maximise proceeds by using the HAPS scheme. The fact that Alpha Bank managed to carve out its internal unit to service the new loans increased execution certainty and speed while minimising migration timing," states Skliros.

Following Galaxy, further Greek deleveraging activity through primarily HAPS NPL securitisations is anticipated through 2022 until the programme expires in October. As a result of NPL securitisations, the NPE stock in Greece has been reduced by approximately €51bn, as of year-end 2021.

Project Galaxy structure



Source: Alantra

INNOVATION OF THE YEAR
WINNER: RETIRO MORTGAGE SECURITIES

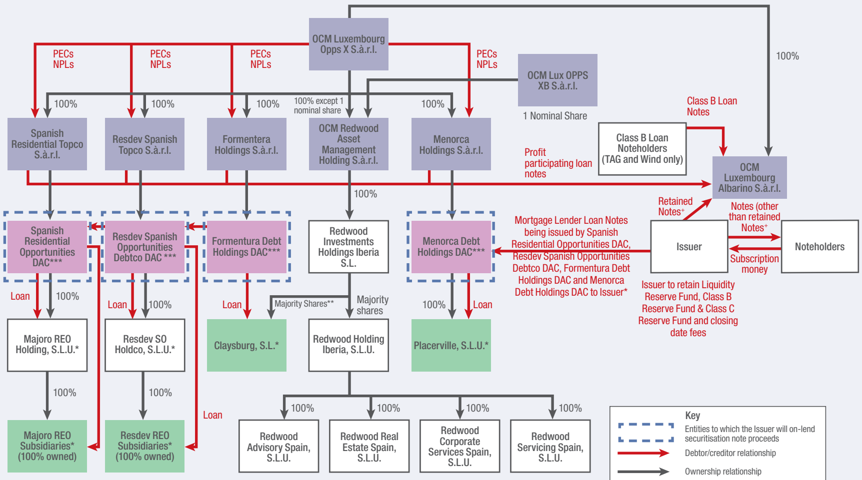
Innovation in securitisation doesn't always represent an overt major leap forward; much like the market itself, nuance is often the key. The seemingly simple advance of structuring a 144A deal and making it the first European non-performing loan securitisation readily accessible to US investors has won Innovation of the Year as hopefully the precursor to a vastly expanded market through a broader potential investor base.

The €470m Retiro Mortgage Securities deal – sponsored by Oaktree Capital Management and arranged by Morgan Stanley – features a vertical structure for the management of four sub-portfolios, with a mortgage lender, an SPV with credit rights over the loan collateral and a respective propco with security rights over the REO assets.

At closing, the NPL collateral calculated at 30 November 2020 had a total current balance of €678.4m and the REO assets were valued at €396.2m. The four sub-portfolios – Wind, Tag, Normandia and Tambo – were acquired between 2015 and 2017 by OCM Luxembourg OPPS X, which operates as sponsor and retention holder in the transaction.

The assets were originated by Banco Sabadell, Bankia, Caja De Ahorros De Valencia, Castellon Y Alicante (Bancaja), Caja De Ahorros Layetana, Caja De Ahorros La Rioja, Caixa D´Estalvis Laietana and Deutsche Bank. The portfolio is composed of senior secured loans (accounting for 94.5% of current balance), junior secured loans and REO assets. The portfolio is highly seasoned, with the weighted average time since default close to 11 years.

Overview of transaction



* Each Propco Guarantor guarantees the payment obligations of the relevant Mortgage under the Mortgage Lender Loan Notes.

** Subject to any Propco Share Issuance for a REO Contribution. Claysburg S.L. has issued class B shares to a Class B Share Trustee. For more information please see the section entitled *"The Mortgage Lenders and The Propcos"*.

*** Each mortgage Lender has issued class B shares which are held on trust by the relevant Class B Share Trustee. For more information please see the section entitled *"The Mortgage Lenders and The Propcos"*.

+Such Notes are issued under the Trust Deed.

Source: Prospectus

The underlying properties are mainly residential (77.8% of indexed property value) and concentrated in Valencia (27.1%), Catalonia (26.3%) and Andalucía (14.2%). The majority (66.9%) of borrowers are corporates or SMEs.

To ensure the flow of transaction-related funds between the various SPVs, a number of loan agreements were entered into by the issuer and the mortgage lenders, as well as the mortgage lenders and their respective propcos. Under these agreements, at the closing date, the issuer made advances to the mortgage lenders (using note proceeds) and the mortgage lenders used these funds to make advances to the respective propcos. Portfolio collections, as well as principal and interest payments under each mortgage lender/propco loan agreement are used to repay the principal and interest due on the issuer/mortgage lender loans.

Retiro Mortgage Securities was the first public Spanish NPL securitisation since Prosil Acquisition *(SCI 10 July 2019)*. The portfolio is serviced by Redwood MS (as master servicer), VicAsset Holdings (as master servicer and REO servicer), Redwood Real Estate Spain (as REO servicer) and RTA Management Gestion Integral de Activos (as loan servicer).■

Retiro pricing

Pricing date	Name	Class	Currency	Size (m)	Bmark	Coupon	Price	C/E (%)	WAL	Maturity	DBRS	Scope	S&P
18/03/2021	Retiro Mortgage Securities	A1 (pre-placed)	EUR	260.00	3m€	3m€+200	99.15	44.7	1.07	Jul-2075	A	BBB+	BBB-
		A2 (pre-placed)	EUR	77.00	3m€	3m€+200	95	28.3	1.94	Jul-2075	BBB	BBB-	
		B (pre-placed)	EUR	34.00	3m€	3m€+300	89.35	21.1	2.3	Jul-2075	BB	B-	
		C (pre-placed)	EUR	15.00	3m€	3m€+400	90.5	17.9	2.58	Jul-2075	BB(l)	CCC	
		D1 (retained)	EUR	10.00	3m€	3m€+500	100	15.7		Jul-2075			
		D2 (retained)	EUR	10.00	3m€	3m€+600	100	13.6		Jul-2075			
		D3 (retained)	EUR	10.00	3m€	3m€+700	100	11.5		Jul-2075			
		E (retained)	EUR	54.00	Variable					Jul-2075			
		Total	EUR	470.00									

Source: SCI Euro ABS/MBS Deal Tracker

ISSUER OF THE YEAR
WINNER: INTESA SANPAOLO

Intesa Sanpaolo has won the Issuer of the Year category in SCI's NPL Securitisation Awards. Intesa has confirmed its leadership in the non-performing loan space through pioneering execution and innovative solutions over the awards period.

De-risking was the first pillar of the Italian lender's business plan, through which the Group aimed to reduce the level of gross non-performing loans as a proportion of total loans and develop and implement specific credit strategies, capable of directing the development and composition of the loan portfolio towards a risk-return profile that is recognised as optimal over the medium to long term.

> "INTESA SANPAOLO RECORDED THE LOWEST NPL STOCK LEVELS SINCE 2007 AND EXCEEDED THE REDUCTION TARGET OF THE 2018-2021 BUSINESS PLAN IN 2020"

At the end of the financial year 2021, Intesa Sanpaolo recorded the lowest NPL stock levels since 2007 and exceeded the reduction target of the 2018-2021 business plan in 2020. Since 2016, it has totalled over 30 deals, achieving an NPL stock reduction of approximately €43bn and a gross NPL ratio of 3.2%.

Innovative solutions include the servicing bank for short-term and revolving exposures on unlikely-to-pay securitisations, but what stood out in 2021 was Project M2. The latter was a strategic initiative for 2021 and aimed at the disposal of a UTP portfolio consisting of ex-UBI, UBI Leasing and Intesa exposures.

The gross book value, as of 30 April 2020, was approximately €2bn pertaining to Intesa and €0.04bn to UBI Leasing. The portfolio consisted of around 7,500 debtors, mainly secured – 64% secured, 32% unsecured and 4% leasing – with an average vintage of around 3.7 years.

Approximately 35% of the portfolio, or €0.7bn in gross book value terms, was made up of Intesa positions and Intesa-UBI common positions. The latter was managed by Prelios, while the remaining portion was managed internally. The structure of the deal included the transfer of medium- to long-term, short-term withdrawn banking receivables and of leasing receivables to an SPV.

Another milestone for the bank was Project Skywalker. Following the execution of the recent business combination between Intesa Sanpaolo and UBI Banca in February 2021, Intesa sold a business unit to BPER comprising a portfolio of non-performing loans equal to €0.7bn, as of February 2021. In this context, Intesa and BPER developed a strategic initiative called 'Project Skywalker'.

The project allowed for the deconsolidation of a portfolio of bad loans through a multi-originator and multi-servicer securitisation backed by the GACS guarantee. The gross book value of the loan pool was approximately €3.1bn – €2.2bn pertaining to Intesa and €0.9bn to BPER – as of 31 May 2021. The portfolio consisted of around 9,700 debtors.

In terms of real estate value, assets linked to the loans in the portfolio represented: 44.5% residential properties, 23.9% industrial assets, 11.6% commercial assets and 7.3% hotels. The remaining 12.6% comprised a mix of office, land, ancillary units, agricultural and other assets. ■

INVESTOR OF THE YEAR

WINNER: CERBERUS CAPITAL MANAGEMENT

In recognition of its resources, relationships and scale, Cerberus Capital Management has won the Investor of the Year category in SCI's NPL Securitisation Awards. The firm has garnered significant industry acclaim for helping financial institutions address large non-performing loan portfolios as a long-term strategic partner.

One standout example during the awards period is the sale by Alpha Bank Group of a €2.4bn portfolio of Cypriot NPLs and real estate properties to a Cerberus affiliate in February 2022. Dubbed Project Sky, the transaction represents the largest NPL sale by a Greek bank outside of the HAPS government guarantee scheme. The sale enabled Alpha Bank – which was advised on the transaction by Alantra – to reduce its non-performing exposure ratio by approximately five percentage points to circa 13%.

Cerberus' global NPL platform has invested approximately US$21.3bn in equity in more than 246 NPL transactions with total transaction values of approximately US$72bn since 1998. The firm has NPL investment experience in 23 countries and its NPL portfolios comprise a diverse spectrum of loans, including SME and other corporate loans, real estate secured loans, loans secured by assets other than real estate, unsecured loans and consumer loans.

The Cerberus NPL platform consists of 50 experienced investment professionals with a track record spanning 25 years. This integrated team works across all stages of an investment's lifecycle, from sourcing and due diligence during the acquisition process, to monitoring of investments throughout the holding period and monetisation process.

Together with such investment expertise, what gives Cerberus an edge in the NPL market is significant infrastructure and servicing platforms with scale. The former enables the firm to source, screen, underwrite, finance, migrate, service and ultimately monetise thousands of borrowers, loans and assets across multiple geographies.

Meanwhile, Cerberus deems servicing oversight as essential to underwriting and managing NPL portfolios. Cerberus-owned proprietary service providers, along with third-party servicing partners in local jurisdictions, collectively employ over 1,500 full-time employees that service more than two million loans.

In particular, Cerberus European Servicing (CES) is the firm's in-house servicing platform, which provides what it describes as a "proprietary edge" in terms of investing in European loans and asset portfolios. With offices in London, Amsterdam, Dublin, Frankfurt, Lisbon and Madrid, the platform oversees third-party servicers and operating partners to support Cerberus' acquisitions and execute its underwritten business plans.

"By utilising both internal and external resources, Cerberus is able to establish robust loan servicing practices with local and regional expertise. We believe our commitment to best-in-class servicing has been a crucial component of our ability to be a trusted partner for Europe's leading financial institutions," the firm states.

Overall, the close integration of sourcing, underwriting, valuation and active asset management helps Cerberus execute large and complex purchases of NPLs and REO portfolios. Such an approach has resulted in repeat transactions with a number of large global financial institutions.■

"THE CERBERUS NPL PLATFORM CONSISTS OF 50 EXPERIENCED INVESTMENT PROFESSIONALS WITH A TRACK RECORD SPANNING 25 YEARS"

SERVICER OF THE YEAR
WINNER: INTRUM

> "IN GENERAL, WE SEE THAT AN INCREASING NUMBER OF CLIENTS RECOGNISE THE BENEFITS OF OUTSOURCING THE MANAGEMENT OF LATE PAYMENTS AND DEBT COLLECTION, SO THAT THEY CAN CONCENTRATE ON THEIR CORE BUSINESS"

Intrum boasts a presence in 24 European non-performing loan markets and a collection capacity in 160 partner countries, providing it with the broadest geographical reach in the credit management services industry. With revenues amounting to Skr17.8bn in 2021 and around 80,000 clients, the firm is SCI's Servicer of the Year in recognition of its market-leading business.

"Over the last year, our key priority has been to deliver on our transformation programme to become ONE Intrum and enable further organic growth globally. As a result, standout mergers and acquisitions have recently been less in focus for us on a pan-European level than in previous years. With that said, local portfolio acquisitions are a part of our ongoing business and 2021 was a year with high commercial activity," observes Alberto Marone, md of Intrum Italy.

In the first quarter of this year, Intrum saw a strong underlying growth trajectory across all segments of its business, with cash revenues up by 10% and cash EBITDA up by 12% versus 1Q21. During the period, the firm signed a transformational partnership with Sainsbury's Bank in the UK and completed sizeable new deals across multiple geographies, in addition to a large number of important renewals with existing clients.

"In general, we see that an increasing number of clients recognise the benefits of outsourcing the management of late payments and debt collection, so that they can concentrate on their core business. This also proves that our increased focus on customer care, compliance and ethical collection practices is appreciated," says Marone.

As a full service provider, Intrum offers a complete range of credit management services throughout the value chain, with a strong focus on late payments. At the initial stage of the chain, there are credit information and factoring activities, passing through the invoice and sales ledger phase (with activities including invoicing, white label reminder services and negotiations) to debt collection (including debt restructuring, differentiated collection, payment demands, negotiations, payment plans and follow-up) and finally legal processes and real estate management.

As such, Intrum's integrated business model interacts with clients to meet their needs at different times. Among the benefits it can offer clients are: acting as a solutions-oriented and flexible partner; the ability to act cross-border; the capacity to take on large strategic projects, including joint ventures; a track record in structuring complex deals and creating value; and financial strength to innovate and provide a better service.

Indeed, Marone believes that Intrum differentiates itself from other servicers in five important ways, the first of which is scale – which creates greater operational efficiencies. The second differentiating factor is diversification, given the firm's access to multiple asset classes and industry verticals across 24 markets.

The third is its capabilities, with a full service offering across debt servicing and investments. "There is a strong complementarity between Credit Management Services to service and collect debt, thereby receiving commissions, and Principal Investments acquiring debt and real estate-backed portfolios from clients," notes Marone.

The fourth differentiating factor is the firm's risk culture, with embedded operating principles and robust processes, including a strong focus on sustainable business practises and ethical treatment of all customers. The fifth

Alberto Marone, Intrum Italy

is its capital structure, which provides ample liquidity and a low cost of debt.

Looking ahead, Marone anticipates the current macroeconomic uncertainties - combined with rising interest rates and inflation - to lead to rising appetite for consumer credit, which in turn is likely to lead to increased pressures in the credit sector and demand for the firm's services later this year. "Generally, financial institutions and banks are becoming more and more focused on their core services – which is also driven by regulatory changes - and wish to transfer portions of their activities across the credit value chain to industrial players that can play innovative and complimentary roles, such as Intrum. Overall, the supply of NPL assets has been approaching pre-Covid levels and it is likely that additional supply will be generated by the current challenges," he concludes. ■

Leading the way.

intrum

ADVISOR OF THE YEAR
WINNER: ALANTRA

Alantra Credit and Portfolio Advisory (CPA) has won the Advisor of the Year category in SCI's NPL Securitisation Awards, after demonstrating significant innovation across the European non-performing loan landscape over the last year. Indeed, Alantra has successfully established itself as the leading advisory services group in the sector, with a roster of clients that includes many of the largest players in the space.

> "ALANTRA'S KEY DIFFERENTIATING FACTOR IS OUR ABILITY TO COVER ALL ASPECTS OF A SECURITISATION"

As an advisory group, Alantra CPA focuses on five key areas in its practice: credit portfolio transactions, securitisation and secured funding, real estate portfolio transactions, bank regulatory and M&A advisory, and credit strategic advisory. The firm has advised on more than 250 transactions since 2015, with €140bn of transactions completed solely over the last three years. It has specialist teams operating across eight countries, with its NPL advisory unit made up of more than 160 professionals.

The type of transactions covered by Alantra varies from publicly rated NPL transactions, which are common within Italy and Greece, to more bespoke deals – for example, in Cyprus, the UK, Ireland and Portugal. "What differentiates Alantra from other players is its capacity to underwrite portfolios and prepare detailed business plans, while understanding investors' needs. The reason for our success can be attributed to the experience of the KPMG portfolio solutions team, together with experienced ABS professionals, who have collaborated over the years within Alantra's platform," notes Francesco Dissera.

He says that growth has been witnessed over the last 12 months across two key streams: the first one being advising investors in structuring NPL ABS transactions with credible business plans. The second one is linked to transactions involving reperforming-type claims – from secured to unsecured – where the firm has been active within Ireland and the UK, in particular.

Alantra adds value to ABS transactions in several key areas. First is data understanding – some larger investment banks do not have the capabilities to support large databases and to properly comprehend the loan tapes.

The second key area is defining business plans. Alantra has a proprietary tool – called ACAP – which is able to simulate business plans across a number of jurisdictions based on different recovery strategies.

"Alantra's key differentiating factor is our ability to cover all aspects of a securitisation, from onboarding the portfolio, designing a business plan and interaction with rating agencies to connectivity with investors. Not all advisors are able to cover all these tasks," Dissera remarks.

Among the highlights of Alantra's extensive advisory involvement across the NPL securitisation market during the awards period is the Greek HAPS NPE transaction, Project Galaxy, on which it acted as co-arranger and lead financial advisor (see Transaction of the Year on page 6). The firm also worked with Alpha Bank as arranger and sell-side advisor for Project Cosmos, another SRT securitisation of an NPL portfolio comprised of both retail and corporate exposures under the Greek HAPS scheme.

Additionally, the firm was involved with a number of SRT transactions issued by Piraeus Bank. Notably, it served as sell-side advisor and co-arranger on Project Vega, a €4.9bn deal backed by primarily secured NPL portfolios under HAPS.

For Project Frontier, Alantra undertook the role of buy-side advisor, while supporting the National Bank of Greece in the acquisition of the mezzanine notes and the servicing contract for the Frontier securitisation.

Another landmark transaction Alantra was involved with was the first rated NPL cash

Francesco Dissera, Alantra

securitisation in Cyprus. The firm served as sell-side advisor, co-arranger and joint placement agent for the Project Hera transaction, which was backed by a €2.2bn residential NPE portfolio. The deal closed in December 2021, just three months after its initial rating feedback.

Meanwhile, the firm served as sole financial advisor to UniCredit for the Italian Project Olympia, a securitisation of a €2.2bn NPL portfolio, backed by the GACS guarantee. The deal completed in December 2021 after Alantra successfully advised its client on not only the deal's structure, but also enabled the coordination and remediation of the transaction dataset and support the GACS preparation for the transaction.

In terms of the outlook for the NPL securitisation market, sentiment appears to have cooled regarding growth. "A few things have changed over the last few months, from the inflationary environment to geopolitical instability, to changes across quantitative easing. We are now a bit more cautious on public NPL ABS, but have a greater focus on private NPL ABS, distributed bilaterally to selected investors," concludes Dissera.■

ARRANGER OF THE YEAR

WINNER: MORGAN STANLEY

A leading position in the public and private markets, combined with a strong link to innovation ensured Morgan Stanley is awarded SCI's European NPL Securitisation Arranger of the Year.

According to SCI data, there were 19 public securitisations involving non-performing or reperforming loans during the awards period of March 2021 to March 2022. Of those deals, Morgan Stanley was arranger on seven – including Innovation of the Year Retiro Mortgage Securities *(see page 7)* – with its closest rivals only reaching three deals apiece.

Meanwhile, the firm is also consistently highlighted by market participants for its private issuance activity. Of particular note is its success in arranging Project Frontier for National Bank of Greece (NBG), which was acclaimed for its hybrid HAPS (Hellenic Asset Protection Scheme)/private structure and involved the securitisation of a portfolio of non-performing exposures with a total gross book value of circa €6bn.

> "FRONTIER REPRESENTS A LANDMARK TRANSACTION AND A DECISIVE STEP FOR NBG TO SOON DELIVER A MID-SINGLE DIGIT NPE RATIO"

NBG said: "Frontier represents a landmark transaction and a decisive step for NBG to soon deliver a mid-single digit NPE ratio. Specifically, the transaction received two credit ratings; was not associated with a hive-down; and is serviced by a servicer [doValue Greece] not arising from a carve from the bank itself. Frontier also constitutes a unique transaction in Greece from a capital perspective adding circa 150bp to our capital ratios."

NBG retained 100% of the senior notes and 5% of the mezzanine and junior notes utilising the HAPS. At the same time, it sold 95% of the mezzanine and junior notes to a consortium consisting of affiliates of Bain Capital Credit, Fortress Investment Group and doValue Greece.■

Public NPL securitisations arranged by Morgan Stanley

Pricing date	Name	Size €m	Arranger	Originator	Deal type	Collateral	Market
08/03/2022	Clavel Residential	175.59	Morgan Stanley	BBVA	RMBS	Re-perf mtges, 92.02% restructured/ 7.19% 90+days past due	Spain
08/03/2022	Shamrock Residential 2022-1	571.60	Morgan Stanley	Danske, Stepstone, Ulster, AIB,EBS, Haven	Non-conforming RMBS	O-O/BTL primarily re-performing resi mortgages	Ireland
15/02/2022	Warrington Residential 2022-1	403.30	Morgan Stanley	Irish Nwide, Springboard, AIB, EBS, Haven	NPL RMBS	Mtge NPLs (19.4% BTL) - 21.99% IO/13.79% restructured	Ireland
06/12/2021	European Residential Loan Securitisation 2021-NPL1	624.80	Morgan Stanley	Banco de Sabadell	NPL RMBS	Resi mortgage NPLs and real estate owned assets	Spain
19/10/2021	Rathlin Residential 2021-1	643.00	Morgan Stanley	Ulster Bank Ireland	Non-conforming RMBS	Non- and re-perf loans on resi & some comm property	Ireland
11/05/2021	Primrose Residential 2021-1	869.42	Morgan Stanley	Permanent TSB, Irish Nationwide, Springboard	Non-conforming RMBS	Perf/RP O-O/BTL mtges from ERLS 2019-PL1 & GCS1	Ireland
18/03/2021	Retiro Mortgage Securities 1	470.00	Morgan Stanley	Various Spanish banks	NPL ABS	Secured mainly resi loans and REO assets for corporates	Spain

Source: SCI Euro ABS/MBS Deal Tracker

LAW FIRM OF THE YEAR
WINNER: ORRICK

Orrick, Herrington & Sutcliffe is recognised as Law Firm of the Year in SCI's NPL Securitisation Awards, having displayed market leadership in the securitisation of non-performing assets and the disposal of unlikely-to-pay portfolios across the main NPL jurisdictions of Greece and Italy.

Orrick's large finance and capital markets practice – which comprises eight partners and four counsels based across Rome and Milan – acts on behalf of arrangers, originators or subscribers in large NPL mandates. This combined experience, comprehensive approach and expertise to act for all entities within the NPL sector sets the practice apart.

Madeleine Horrocks, partner in Orrick's Milan office, notes: "A key part of why we are able to complete the matters we do is our ability to assist across the whole spectrum of the market. We equally understand the needs of the banks, servicers and investors, acting on all sides of transactions."

Over the past 12 months, a particular highlight for the firm has been its role in the GACS securitisation BCC NPLs 2021. Orrick assisted

Madeleine Horrocks, Orrick

> "A KEY PART OF WHY WE ARE ABLE TO COMPLETE THE MATTERS WE DO IS OUR ABILITY TO ASSIST ACROSS THE WHOLE SPECTRUM OF THE MARKET"

Iccrea Banca and JPMorgan, as co-arrangers and placement agents, in the static cash transaction secured by receivables originated by 77 banks (74 belonging to Gruppo Bancario Cooperativo Iccrea, alongside Banca Ifis, Cassa di Risparmio di Asti and Guber Banca), with assets valued at €1.3bn.

The transaction was arranged with the possibility of benefiting from a Real Estate Operating Company – under article 7.1 of Law 130/99 – subject to obtaining a GACS guarantee on the senior securities.

"This is a market where we have been particularly involved, both within and outside the GACS spectrum," notes Annalisa Dentoni-Litta, partner in Orrick's Rome office. "The BCC NPLs 2021 securitisation also included a leasing element, which added another layer of complexity."

The fully-integrated and international practice also acts on jurisdictions outside of Italy, notably Greece. On the Project Sunrise 1 transaction, for example, it advised the arrangers (UBS and Alantra) on the securitisation of a portfolio of non-performing loans originated by Piraeus Bank, structured

Annalisa Dentoni-Litta, Orrick

to allow the senior notes to benefit from the Greek HAPS guarantee. Regarding the firm's capacity for cross-border mandates, Dentoni-Litta notes: "We cover both Italian and Greek transactions from our Italian offices. This global vision of all transactions coming to market allows us to suggest innovative solutions to our clients."

She concludes: "Clients ultimately choose you for your expertise and ability to get the job done. What also differentiates us is our approach to research – embedded in our DNA – allowing us to suggest innovative solutions, in order to close transactions." ■

SERVICE PROVIDER OF THE YEAR
WINNER: SCOPE RATINGS

Scope Ratings has a strong footprint in the European non-performing loan ABS market, ranking as SCI's Service Provider of the Year in the space. The organisation has helped paved the way for the development of the sector, rating the first public NPL securitisation with an Italian government guarantee via the GACS scheme, and has successfully broadened its expertise across the asset class since then.

Scope has expanded its footprint to several countries as it delivers on its mission of offering an alternative and distinctively European perspective on credit risk as a leading European rating agency. NPL ABS is a core part of this mission.

In this area, the undoubted crowning achievement for Scope during the awards period has been rating the first public UK reperforming loan deal, in April 2022. Wolf Receivables Financing is a £315.4m gross-book-value (GBV) securitisation of UK reperforming unsecured consumer debt. With this transaction, the organisation now rates around 55 public primary or secondary NPL securitisations across Italy, Cyprus, Spain, Portugal, Ireland and the UK.

"The first transaction in every jurisdiction is always a challenge, as there are no reference points – and this transaction was the first-of-its-kind in the UK," observes David Bergman, md and head of structured finance at Scope. He explains that the organisation received payment history on an extensive sample of borrowers. Processing the data was not a challenge, however, as the team is well equipped to manage large amounts of data.

David Bergman, Scope

> "THE FIRST TRANSACTION IN EVERY JURISDICTION IS ALWAYS A CHALLENGE – AND THIS TRANSACTION WAS THE FIRST-OF-ITS-KIND IN THE UK"

Bergman adds: "We analysed historical data, paying particular attention to the borrower characteristics of the underlying sample to make sure observed borrower behaviour was representative for the portfolio being securitised."

On top of this notable achievement, Scope has delivered non-public credit assessments or ratings for an additional 30 primary or secondary securitisations or senior financings across the same markets, as well as several deals in France.

Non-public bilateral transactions generally feature more complex waterfalls with equity leakage features, which pay out significant amounts to junior noteholders, as long as certain performance ratios are met. This makes the cashflow modelling more complex. However, the main challenge in bilateral transactions relates to the amount of information that the servicer is willing to share, which is less critical in more mature markets but can be an important hurdle in markets with fewer comparable transactions.

Looking back over the last 12 months, Scope has continued to progress in its market coverage and has rated two new public transactions in Ireland, one in the UK as well as transactions in Italy, Portugal and Spain on a regular basis. "This has been achieved because we have demonstrated to the market our growing expertise in NPLs. We have developed a deep understanding of this complex asset class," observes Paula Lichtensztein, senior representative in structured finance at Scope.

She continues: "We have almost 100% coverage in Italy and have expanded to other markets. Our market penetration is growing, and we fully expect this to continue in the future."

Paula Lichtensztein, Scope

Scope attributes this to the fact that the team closely follows market trends and keeps up to date with developments in the sector. Analysts recently noted, for example, that there has been an increase in secondary portfolios being securitised, both publicly and privately.

Going forward, Scope will continue to assess different types of transactions in the primary and secondary market in the countries it covers. Bergman and the growing structured finance team are also hopeful that the organisation will assess a securitisation of NPLs in the traditionally low NPL jurisdictions in Northern Europe.

Bergman concludes: "We have worked with different market participants, both on primary and secondary deals. We have rated traditional transactions with the originator involved and we have also been approached by investors providing senior financing, interested in an independent risk assessment on their exposure."■

Scope Ratings

CREDIT ANALYSIS

STRUCTURED FINANCE

For a customised approach and a truly European perspective

approximately

€100 bn

of Structured Finance rated debt

FLEXIBILITY

No mechanistic caps or static assumptions in our methodologies

CUSTOMER-CENTRICITY

Benefit from our deep expertise in structured finance across multiple asset classes and regions.

TRANSPARENCY

We offer a transparent approach in our methodology, process and pricing.

How do we do it?

Our approach emphasises fundamental analysis of underlying assets and economic cycles. Our ratings are not constrained by mechanistic links to sovereign credit quality, and we take an innovative approach to counterparty risk analysis.

How is Scope's structured finance approach different?

Our analysis is opinion-driven. We do not believe in one-size-fits-all assumptions. We apply a bottom-up analytical approach; analysing the incentives, knowledge and profile of the transaction sponsor or originator, the securitised assets, the financial structure and the legal and counterparty risks embedded in the structure.

This approach allows greater rating differentiation between transactions, even transactions from the same originator and country.

Our long-term rating approach is driven by our European DNA, which lies at the core of our deep knowledge of local markets and European legal and regulatory frameworks. It also gives us unique insights into why past European structured finance transactions have strongly outperformed North American transactions from a credit perspective.

This approach is reflected in our emphasis on forward-looking assumptions to ensure rating stability throughout the rated instrument's life.

Scope's credit risk analysis of structured finance instruments has three pillars:

→ **COLLATERAL RISK ANALYSIS:** assessing the main characteristics of underlying collateral, default distribution, loss distribution as well as the timing and level of cash flows

→ **COUNTERPARTY RISK ANALYSIS:** identifying and assessing parties that can affect the transaction's performance

→ **STRUCTURE ANALYSIS:** looking at the transaction's structural features, such as the priority of payments, structural enhancements and legal risks

CONTRIBUTION TO MARKET DEVELOPMENT
WINNER: NPLMARKETS

Over 750 portfolios have now been onboarded to NPLMarkets' one-stop-shop reporting, trading and analysis platform. For its role in improving efficiency across the non-performing loan market, it is the winner of SCI's award for the best Contribution to Market Development.

These 753 portfolios represent some 700 different banks, investors and servicers and over 4.5 million individual loans across 25 different jurisdictions. The number of loans on the NPLM platform has increased by 120% and the number of users has leapt from under 200 since 1Q21.

The numbers have been augmented significantly over the last year in part due to the new regulatory requirements imposed by ESMA through the European Securitisation Regulation (Regulation (EU) 2017/2402), which established a general mandatory and reporting disclosure framework for structured finance transactions.

Among other requirements, ESMA mandated that disclosure reports for private securitised deals must be published on a suitable website that includes data quality checks, while public securitisations must submit detailed data to a repository. This requirement was considerably more onerous than what had gone before and its introduction, in September 2020, brought many new clients to the door of NPLM.

The web-based digital platform takes that considerable burden of time and cost away from those who make uses of its facilities. It also allows ESMA to collate more complete data in a timely manner.

But NPLM offers more than a regulatory reporting facility. Clients can also make use of the valuation and analytics, data preparation and the electronic marketplace for the buying and selling of non-performing assets. The erudition of the research provided by NPLM has also been praised by those in the market.

> "WE VERY OFTEN END UP WITH SEVERAL TRUSTED ADVISORS ONBOARDED BY BUYER AND SELLERS TO FACILITATE THE TRANSACTION"

"Everybody starts in one place and they tend to say, 'I don't need anything else.' Then when they see what else we have, like the marketplace or the analytics, then they'll say, 'I need that too,'" says Gianluca Savelli, co-founder and ceo of NPLM. As the portfolio is already on the platform, additional onboarding is straightforward and frictionless, he adds.

The analytics facility provides full valuation of entire loan portfolios, single structured finance transactions and also individual securitisation tranches easily and quickly. All services are available on a 24/7 basis, at the push of a button.

Clients choose whether they use the platform on a self-service or fully supported basis. Some start with self-service and then shift to fully supported membership and vice versa, says Savelli – although all tend to use the regulatory and business reporting function on a supported basis, given the mind-bending complexity of the obligations.

In a further manifestation of NPLM's flexibility, users can also bring an adviser with whom they have an existing relationship onto the platform. "For example, we usually start with only a seller and buyers and we very often end up with several trusted advisors onboarded by buyer and sellers to facilitate the transaction," explains Savelli.

The capacity to deal with performing assets has also been recently added to NPLM, although the bulk of loans and portfolios on the platform remain non-performing. For example,

Gianluca Savelli, NPLMarkets

about 90% of loans in the marketplace function and 80% of loans using the analytics and data preparation functions are non-performing.

However, the split is more balanced in reporting. About 60% of the assets making use of NPLM's business regulatory reporting capacity are non-performing.

In addition to the automated compliance with regulatory obligations, NPLM will generate investor reports and interactive portfolio summaries. It also provides business plan reporting – both the targeted business plan and the actual business goals attained – and securitisation transaction cashflow modelling.

NPLM is continuing to expand its reach. More asset classes – such as trade finance, specialised assets and project finance loans – are being added to the roster. More complex structures, like highly leveraged loans, are becoming possible, and the number of regulatory jurisdictions covered is being increased. ■

Recent SCI NPL ABS Coverage

Changing the paradigm

| 23 June

John Pellew, principal, distribution and securitisation at Arrow Global, argues that it is possible to de-risk NPLs and democratise fixed income through digital securitisation

In isolation and in the absence of mitigating factors, non-performing loan and distressed assets are inherently high-risk investments, but that's not the whole story.

While it's true that we are dealing with defaulted loans and distressed assets, these assets are not sold in isolation or single units, and they are not sold because they have no value. They are sold because the banks are forced to sell under the Basel-type regulatory obligations. We argue there is value there; it's just a question of how much value and how we can extract it.

Where there's muck, there's money

The NPL and distressed industry follows the old adage, "Where there's muck, there's money" – referring to all of the traditionally 'dirty' industries around the world, like domestic waste management and the burgeoning global recycling industry. I chuckle to myself sometimes when I describe Arrow as the waste recycler of the European financial services sector, but it's true. We do the same job as any scrap metal merchant or plastic recycler: we buy waste, we sort it, we process it, and we transform it into something of value again and sell it back into the markets.

So, how does it work?

NPL and other distressed assets cannot be viewed in the same way as performing assets, where it's easy to look at the repayment schedules of the loans and project out cashflows which inevitably already account for a level of delinquencies. NPLs, on the other hand, are themselves the delinquencies, so you need to look at value in a different way.

- It is a numbers game; in other words, large granular portfolios are much easier to predict than smaller lumpy portfolios.
- NPLs and distressed assets are traded at a deep discount to the face value, so buyers like Arrow are already de-risking their exposure on day one.
- Time is key. You can remediate NPL and distressed assets if you have enough time. You can collect out what you need to make the portfolio work, but the real risk is how long it takes.
- Collateral is king. Sometimes, but not always, there is some collateral of value that can be converted to cash to recoup some of the investment.

Once you break in a portfolio, you get a small but relatively consistent pool of reperforming loans, which become the foundation of a predictable cashflow. At Arrow, some of our 'mature' portfolios collect out at +/- 1% / pa. +/-1% accuracy.

In any other industry, this would be viewed as "very predictable" and therefore low risk. However, in the NPL space, it still seems to carry a negative perception.

Luckily for us, the maths involved does not lie and we find a dislocation between the real risk and the returns in this sector. This is good for Arrow and its investors, but a missed opportunity for the broader investment community.

So, how do we change the paradigm and change the world?

At Arrow, we've been securitising NPL portfolios for over 10 years, but historically we've suffered from the negative market and rating sentiment towards NPLs. This has forced deep haircuts to be applied to the ratings and heavy retention requirements, to the point where it's just not economical or capital efficient for us to securitise in the traditional way. We've been forced to look at the problem in a different way, in an effort to improve our capital efficiency and optimise returns to investors.

So, where do we start? Apart from educating the market in order to reduce the fear of non-performing and distressed asset classes, I think we need to start answering questions like:

- Does the application of new tech like blockchain and AI change what the products look like?
- Do new world securitisations even need to look like a securitisation and, if not, then what?
- Could we slice and dice cashflows in different ways and achieve better outcomes for both buyers and sellers?
- What is the role of data in this future state?
- Can we have trust and transparency by design, versus having to retrospectively prove what we have or have not done?
- What is the role of analytics in the future product and marketplace?
- Is there an opportunity to truly democratise fixed income by offering pre-baked analytics and tooling?
- There is also the question of data asymmetry; in other words, who should get to see what and when?

So, what does the future of NPL securitisation look like?

First, let's take a look at what we know so far. The regulatory landscape around blockchain, digital assets and AI is evolving quickly, giving rise to huge opportunities to create new products for new and existing markets.

It is now possible in many jurisdictions to build blockchain digital structures that behave and execute like ABS but are not an ABS and are therefore not regulated as such. This allows much greater flexibility to tailor solutions for specific buyers, whether it be to target the AML requirements of an insurance company or just the delivery of yield to an accredited investor.

We can now build much greater utility into the product itself. Logic would suggest that providing greater utility to investors should translate to better premiums for the issuers.

Where are the gaps?
Data is the number one challenge in the whole story – because, without data, you have nothing. A lot of the work we are doing at Arrow is around building better data services, whether that be at the collection point or in the storage systems or the tools used to analyse the data.

All these efforts are aimed at providing more accurate forecasts of cashflows. We are now focusing heavily on building more flexible and agile platforms using serverless technologies and building data services using graph data architectures instead of rigid SQL formats. The intention is to leverage machine learning and artificial intelligence to optimise our collections strategies and downstream product construction.

The last piece of the puzzle is smart people. You just can't innovate without smart people. So, we are always on the lookout for talent in these emerging technologies across blockchain and the data sciences.

What happens if the industry doesn't change?
I hope I'm wrong and the industry adapts and evolves. However, if the industry doesn't innovate in the collection and use of data, and we can't develop alternatives to traditional securitisation models that are capital and cost effective, then securitisation in the non-performing and distressed asset classes will become much slower. It will become more expensive and harder to justify, essentially preventing the 'clean-up' companies from doing their job.

The implication I would foresee is a significant increase in structural pressure on the whole financial ecosystem, forcing banks to tighten lending criteria to minimise default rates, thereby reducing their capacity to lend and keep the economies of the world moving forward. This would be a serious situation for the whole world economy, and it would require all of us to work to resolve it.

Doing the right things
| 9 June

Mark Davies, md, BCMGlobal Mortgage Services, answers SCI's questions

Q: How and when did BCMGlobal become involved in the securitisation market?
A: BCMGlobal services £3.2bn of securitised loans, totalling 23,000 borrowers, across circa 25 portfolios and 10 securitisation programmes. We act as a standby servicer for £7.1bn of securitised loans for 17 clients across 47 transactions. Our loan portfolios are domiciled and secured in the UK and Ireland.

The company has operated as a third-party loan servicer since the mid-1990s and as a servicer and standby servicer for securitisation and structured finance deals for some 25 years. The firm was originally owned by Guardian Royal Exchange, but it was sold to Crown Northcorp in 1999 and then to Forum Partners.

In 2014, it was acquired by Capita and renamed Capita Mortgage Servicing. In 2017, Link Group ASI purchased the business as part of its acquisition of Capita Asset Services and the firm was again renamed BCMGlobal in 2019.

We service the whole spectrum of mortgage loans and our clients are both originating lenders and closed-book investors.

Q: Can you explain what BCMGlobal's 'creator to trader' model is?
A: The creator to trader model supports new lenders or originators of new loans and mortgages as they launch to market, mature and extend their product base and expand their market reach. We then work with them to support their funding models as they grow, refinance, trade or securitise the loan portfolios. We can help new lenders with limited experience of servicing get to market at a speed they might not achieve independently.

The main driver behind establishing this model was a recognition of the need to support the growing number of new lenders entering the market, as well as funders/investors looking to finance new players/entrants and who seek participants with experience, pedigree and track record in the sector to minimise their risk and exposure and to support nascent businesses. This is bolstered by our deep experience of servicing and banking operations, capital markets reporting requirements and sector-wide stakeholder understanding – from legal contracts to portfolio due diligence and rating agency requirements.

Over the last five years, we have worked with and launched 10 new players to market, supporting their operating models, funder due diligence, rating agency and investor roadshows. Ultimately, we are seen by our clients' funders as a risk mitigant for operating, conduct and technology risk throughout the mortgage lifecycle.

Q: What does BCMGlobal's dynamic risk management service entail?
A: All clients have an individually tailored Client Servicing Manual, which defines servicing activities, delegated authorities and responsibilities that can be amended and updated, outside of the servicing contract as market conditions or loan performance and regulations change. Portfolio buy-to-let loans, for example, are given the same proactive management as commercial property loans and performance-managed via a 'watch list' operating model. This allows any issues to be documented, loans to be monitored and reported specifically to minimise decision-making delays and thereby optimise recoveries.

Q: What role does data play in the service you provide your clients?
A: Granular, loan-level data is provided to all clients for the purposes of: risk management; performance modelling, including loss-given default and probability of default; cashflow forecasting; due diligence; credit reference agency and regulatory reporting; central bank reporting; and ESMA file submissions. Analytic information – while always part of risk

modelling – will undoubtably continue to support collection and recovery strategies and to help identify and monitor hardship, vulnerability and forbearance for either servicing or regulatory purposes.

Q: How did BCMGlobal help clients manage Covid-related payment holidays/forbearance in their portfolios?
A: Responding to changing requirements and advice/guidance required multi-disciplined teams to collaborate to design, define and document new processes, letters and all agents' scripts. Change and IT teams were required to specify, develop, test and launch new software in a period of weeks when ordinarily the process would take months. Additionally, specific reports for internal performance and activity monitoring were implemented for clients and regulatory purposes.

Q: Which challenges has Libor transition posed to your clients and how have they been overcome?
A: Generally, delayed decisions and a lack of clarity in guidance and implementation by regulators resulted in undue time pressures and efforts to inform and communicate with borrowers. For structured transactions, the legal and approval processes required slowed the decision-making process and placed operational pressure with respect to communicating and implementing new, alternative reference rates. As such, focusing on treating customers fairly and giving due notice for regulated borrowers was critical.

Q: In which ways does BCMGlobal differentiate itself?
A: We represent and balance the regulatory brand of our clients with their regulatory responsibility to their borrowers. We are the custodian of the interests for all the stakeholders in the loans we service.

Indeed, balancing the client need with the borrower outcome is a critical skill and vital operational responsibility. For our clients, their borrowers and our staff, we aim to do the right things, the right way, for the right reasons.

Q: What is your outlook for the securitisation servicing sector?
A: Depending on global market dynamics, the potential for refinancing existing funding structures and warehouse lines will mean potential changes to servicing opportunities.

Current inflation and rising interest rates have not been experienced by a generation of originators, investment bankers and borrowers. Rising interest rates represent an opportunity for higher returns for investors, but are a threat to the financial performance of transactions. Against this backdrop, collections and arrears management skills could potentially come to the fore but in a regulatory climate not previously experienced.

It is possible that some of these headwinds may be offset by the wage increases of home-owners and the increased savings some may have amassed during the pandemic. While other investment returns are impacted by inflation and market tensions, property remains a solid investment class and UK house prices – despite the comments of many – have been remarkably resilient and appear to be robust.

Finally, the UK FCA's borrowers in financial difficulty (BiFD) project – combined with possible affordability issues – will undoubtably have implications for servicers and stakeholders alike, as processes, data collection and reporting will be required to change.

Corinne Smith

Opportunity knocks

| 8 June

The first publicly rated European unsecured reperforming loan ABS hit the market in April. With Covid-induced moratoriums limiting the supply of non-performing loans, further such transactions could emerge, as debt purchasers with excess liquidity seek to deploy capital.

Dubbed Wolf Receivables Financing, the transaction represents Lowell Financial's debut public securitisation and is also the first UK RPL ABS *(see SCI's Euro ABS/MBS Deal Tracker)*. Lowell intends to use the proceeds from the securitisation, alongside existing funding and sources of cashflow, to support its recent strategic acquisition of Hoist Finance UK.

Project Wolf comprises a highly granular underlying portfolio of more than 356,000 UK reperforming receivables, accounting for £315.4m in GBV and £180m in early repayment charges, acquired and serviced by Lowell. The receivables – which were acquired between 2017 and 2021 – are made up of various underlying product types, including catalogue credit (accounting for 33.2% of the portfolio), credit cards (31.4%), personal unsecured loans (14.2%) and telecommunications service agreements (13.6%). The remaining 7.3% comprises utility bills, store cards, overdrafts and mail orders, while a further 0.8% is categorised as 'other'.

The £100.6m senior notes were preplaced and the approximately £79.97m in junior notes were retained by the sponsor, although it does intend to re-offer 51% of the junior notes at a later date. The transaction saw significant interest from investors, which benefited from extensive comparable accounts data provided by Lowell. The firm has been operational in the UK for more than 15 years.

"The investors were quite comfortable with the business plan because they could see the historical performance was very reliable over different economic cycles. The performance was very consistent for these books," says Linh Tran, vp at Alantra, which acted as sole arranger on the deal.

The emergence of RPL ABS over the last five years comes as the debt purchasing industry enters the mainstream with the evolution of the European non-performing loan market. "It had never been presented before and for investors who were unfamiliar with the industry and didn't really realise the level of predictability around the cashflows that there are before this," adds Edwin Harrap, director at Alantra. "It's probably a testament too to the increasing level of sophistication in the debt purchase industry as it has matured, and competition has increased, which has led a keenness in the industry to innovate and discover new ways to monetise accounts."

Lowell also demonstrated a strong commitment to ESG to its counterparties, placing high value in its Trust Pilot Score, amid lingering concerns about greenwashing across the debt servicing industry. "With those that are less familiar with the industry, there can be a negative view around the debt purchase sector, and I think Lowell did a really good job at informing rating agencies and investors," notes Harrap.

"In this case, the credibility of the sponsor is very important too," explains Francesco Dissera, md and head of securitisation at Alantra. "Across Europe, there are very few sponsors like Lowell, who have the track record and the historical data to select the portfolio to present to the rating agencies. At the same time, you see a lot of NPL securitisations where a new servicer is appointed and while they may be able to reperform some of the NPL it's managing, they probably don't have the same experience, historical data or ability to provide sufficient information to rating agencies."

Regarding the absence of similar transactions in the market, he suggests that rating agencies historically have been sceptical about unsecured NPL transactions. "This is the first time they were officially presented in a transaction, and it took them some time to be comfortable. But because we have a very strong client with very strong data, and the ability to extract that data, I think they were able to."

Whether similar transactions come to the market in the future depends on whether other players can provide sufficient historical data and have a flexible system, according to Dissera. "We expect there to be the potential for maybe three or four similar opportunities across continental Europe, but we are not sure if these are going to be imminent."

Harrap believes there is appetite for such transactions. "We've had a few inbounds from people who think it is interesting. Probably one of the catalysts for this increase is due to Covid moratoriums leaving a limited supply of NPLs, meaning some of the debt purchasers have excess liquidity at the moment and I think as the opportunity increases to deploy capital, they'll start to use this."

He continues: "I think the core skillset of Lowell and debt purchasers in general is being able to take non-paying accounts and turn them into paying accounts – and then this transaction allows them to monetise early. The payment plans are quite long and are generally up to 10 years, which allows them to accelerate a significant part of the cashflows and release funds at an attractive cost of funding."

Harrap indicates that northern Europe is where collections are more focused on payment plans and, therefore, that is likely to be where the most suitable accounts are to be found. He concludes: "There would also need to be sufficient volumes, so it's the larger northern European economies – like the UK, Germany and the Nordics – that are the most likely jurisdictions for more similar transactions."

Claudia Lewis

Accelerating change

| 19 May

Regulatory change in the European non-performing loan securitisation market has picked up speed over the last month, with the publication of the EBA's final draft risk retention regulatory technical standards (RTS) *(SCI 13 April)* and the launch of an EBA consultation on draft implementing technical standards (ITS) in connection with NPL data templates *(SCI 17 May)*. However, a number of wrinkles have already been identified, which it is hoped will be ironed out over the NPL Directive's transitional period.

The revised NPL templates are expected to become mandatory for credit institutions during the course of 2023, for the provision of information to investors under the NPL Directive, which passed into law last December with a two-year transitional period *(SCI 9 December 2021)*. The objective is to increase efficiency in the NPL market by providing a common data standard across the EU, thereby enabling cross-country comparison and reducing information asymmetries between buyers and sellers of NPLs.

The templates will be used for loans that are originated after 1 July 2018 and that became non-performing after 28 December 2021. The data fields are classified as mandatory or non-mandatory and vary in their scope of application by nature of the borrower and nature of the loan. When information is unavailable for non-mandatory data fields, defined codes for no-data options shall be used.

However, there is concern that the introduction of mandatory data fields will create a barrier for sellers of NPLs. NPL Markets, for one, is calling for the EBA to clarify the consequence of a seller not being able to provide all mandatory fields.

"Investors may accept loans with incomplete data possibly at a lower price. Sometimes the cost of collecting all mandatory fields is not justified by the potential expected price increase. We deem it essential that mandatory fields do not create an insurmountable hurdle for sellers where some data is not available," the firm observes.

The consultation also proposes that where credit institutions split an NPL sale between a non-binding offer (NBO) phase and a binding offer phase, the information needed for the financial due diligence and valuation should be disclosed at the beginning of the second binding offer phase. NPL Markets notes that this is not in line with market practice, where investors receive a data tape after signing a non-disclosure agreement in the first NBO phase.

"Certain sensitive fields can be redacted from the initial NBO tape, where required. But organising an NBO without a detailed data tape will fail to provide a reliable criterion to select investors for the binding offer phase," the firm argues.

Meanwhile, the EBA's final draft risk retention RTS appear to run counter to the intent of the EU NPL Directive in that rather than encouraging new servicers into the market, it hinders their entrance by requiring that a servicer holding the retention in a securitisation must have a minimum amount of experience or, alternatively, appoint a back-up servicer that has sufficient experience. Specifically, the final draft RTS confirm that servicers may act as retainers, providing they comply with requirements as to 'expertise', including that: senior staff have adequate knowledge and skill in servicing non-performing exposures; the business

has serviced NPEs for at least five years; at least two senior staff have at least five years' experience in servicing NPEs; and the servicing function is supported by a back-up servicer.

Counter to this, the ability of servicers to passport under the NPL Directive could potentially increase competition among servicers. The Directive is designed to develop the NPL secondary market by introducing a common set of rules for the key parties – credit servicers and credit purchasers.

Such a contradiction is consistent with what is seen in the securitisation market generally, according to Iain Balkwill, partner at Reed Smith. "Regulators appear to have got themselves in a bit of a knot again. Historically, securitisation was stigmatised and then they realised it is a good tool for addressing NPLs," he observes.

He adds: "The risk retention RTS favour incumbent servicers. Ultimately, the objective should be to promote competition across the servicing sector to encourage more NPL sales activity."

The European NPL market is characterised by micro-cycles, with some new entrants staying the course and others exiting because they don't achieve the volumes or returns they anticipated. "The NPL market is specialised and there are significant barriers to entry for new participants. Third-party servicers are incentivised to build AUM and therefore may often generate aggressive business plans, absent true alignment of interests," observes Adam Croskery, head of debt financing and structuring at Arrow Global.

He continues: "While the Italian and Greek [state guarantee] models provide short-term liquidity, liquidity in the long term is dictated by the number of servicers operating in the market. To best serve the market, servicers need scale or a specific niche."

Balkwill believes that the NPL Directive is a positive development in many ways, in that it "creates four corners of the playing field" – albeit different European member states will adopt different approaches to implementing the measures. "This creates issues for jurisdictions that already have an NPL servicing law, like Greece. Will the government now amend that law to conform with the Directive or will two different regimes be operational? It adds further complexity in a market where NPLs need to be addressed on a timely basis," he notes.

Generally, ambiguity remains regarding what constitutes a 'credit servicer' and a 'credit purchaser'. There is ambiguity around what an NPL is too, given the mixed bag of assets they represent.

"NPLs are not just defaulted loans – they include loans that haven't paid for 90 days, failed financial covenants or haven't reported for a given period. There are consumer assets at one end of the NPL spectrum and commercial real estate at the other, as well as unlikely-to-pay assets and reperforming loans. Furthermore, sellers will sometimes include performing assets in a pool, depending on which portfolios or areas of business they're disposing of – although these can sometimes be hived off," Balkwill explains.

He continues: "Should investors look at assets across an underlying sponsor, by jurisdiction or by asset class? Or does it make more sense to have a blended approach? Ultimately, it's about achieving the best price for those assets."

Gianluca Savelli, co-founder and ceo of NPL Markets, notes that a strong bid remains for NPLs. "Investors remain keen to buy NPL assets, but the price differential between bids remains significant, sometimes also up to 20%-30%. IRR targets varies across investors and servicers, depending on access to liquidity and their target AUM."

He explains that there are always some participants that need to accelerate their ramp-up of assets and therefore can be more aggressive on price. Similarly, each participant has a sweet spot or preferred asset class, so are willing to be more aggressive in those segments.

"If a seller has a large mixed portfolio, they can attract interest from a range of different investors and split the portfolio accordingly," he notes.

Croskery says that the bid/ask gap between NPL buyers and sellers has narrowed. "To a certain extent, it depends on the jurisdiction and vendor. For example, the gap has almost closed in Greece and Italy, due to the socialisation of losses via the HAPS and GACS schemes."

Bank sellers are generally well-provisioned and will trade when the opportunity presents itself. But the situation is less clear-cut with asset managers, which often appear to be sitting on pre-Covid marks and are therefore less incentivised to trade.

"All financial assets involve assumptions, but with NPLs especially, the drivers of spread tightening are not always clear – it can relate to a genuine reduction in risk premiums, but can also result from overly optimistic business plans. The relevance of this dichotomy is that in the medium term, maladjusted business plans are quickly found out," Croskery notes.

The European NPL market has historically been concentrated around a few large investors, mainly because size matters in terms of sourcing opportunities and undertaking due diligence. However, Savelli suggests that platforms like NPL Markets can add value by enabling sellers to reach investors more efficiently.

"There is an interesting opportunity for medium-sized portfolios at the €200m-€700m GBV level, as the platform can facilitate price discovery and reduce pain points, since it automates execution across the entire transaction lifecycle. Investors can access information on the assets, jurisdiction and – in platforms like NPL Markets – run quick portfolio valuation and scenario analysis, which helps them to decide whether to invest time on a portfolio. At the same time, sellers need to overcome certain internal barriers, but relatively soon platforms can serve as an admin tool," he says.

Balkwill says that as a secondary market develops, the NPL space should open up to smaller investors, who'll be able to purchase interests in assets without having to buy an entire portfolio. But he suggests that, at present, best practices for conducting portfolio sales remain unclear.

"Typically, a seller wants the sale to happen as quickly and as painlessly as possible, and – other than well-founded sensitivity surrounding reputational risk for itself – is largely indifferent to what the buyer does. Hopefully, all these issues will be identified and fixed during the transitional period," Balkwill concludes.

Corinne Smith

Portfolio progress

The trend of banks rationalising their business models continues apace across Europe. **Corinne Smith** explores the role of securitisation in their portfolio optimisation efforts.

The need for banks to fundamentally rethink their business models emerged post-financial crisis and continues still across Europe. Beyond disposals of non-performing assets, this entails focusing on core strategies and markets, while reducing exposure to or exiting others. Securitisation plays a crucial role in helping banks achieve these goals – whether that be via significant risk transfer transactions, NPL ABS, portfolio acquisitions or new lending activity.

"Across Europe, banks are rationalising their businesses and refocusing on core competencies, which provides us with opportunities to acquire unloved portfolios," confirms Hubert Tissier de Mallerais, partner and senior portfolio manager at Chenavari Investment ▶

Hubert Tissier de Mallerais, Chenavari Investment Managers

Managers. "Such activity has remained a theme over the last 12 years, with the realisation that capital is a scarce resource and needs to be managed properly. In turn, this has given rise to portfolio optimisation; in other words, reallocating capital from non-core areas of the business to those that are deemed to be core areas."

Portfolio optimisation can be broken down into calculating the breakeven price of keeping certain assets on-balance sheet – taking into account the associated capital consumption and provisioning – versus selling out of those positions, according to Gianluca Savelli, co-founder and ceo of NPL Markets. "Selling a portfolio is only the final part of the process – the first steps are deciding the optimal portfolio composition, the correct parameters in which to reduce exposure to certain sectors and how to deploy the freed-up capital. Another question to answer is which expenses should be budgeted for in the sale process," he states.

Usually, this is a chief risk officer/board-level strategic decision, in terms of whether a bank wants to remain in certain asset classes and jurisdictions. Savelli claims that platforms like NPL Markets can aid in this analysis by defining a bank's current position, plus the risk factors it identifies as drivers of the decision. A user can decide which parameters – default rates, interest rates and so on – to stress and the platform will then calculate the optimal portfolio in terms of risk/reward and value at risk.

John Pellew, principal, distribution and securitisation at Arrow Global, notes that there are two sides to portfolio optimisation: portfolio construction – in other words, buying and servicing assets – and squeezing the most juice out of those assets. The foundation for both sides is data.

Generally, data is structured in a rigid, static XML framework, making it challenging to update the relationship between datasets. "Ideally, there should be a three-dimensional view of data, where the relational hierarchy is neural-linked and therefore more flexible," Pellew observes. "This provides opportunities to run more sophisticated algorithms and AI tools to create better insights into the performance of the assets and therefore the potential to extract greater value. Ultimately, this enables an organisation to optimise their portfolio management."

side. This is why we like the flexibility of not having to chase deals and being able to deploy capital selectively in different ways," explains Tissier de Mallerais.

The portfolio acquisition strategy has a different construct in terms of risk/reward and the relationship with the counterparty. With SRT, the investor is seeking the best possible alignment of interest with the issuer – the aim is to truly share the risk. With a portfolio acquisition, the bank wants to exit the position.

"The bank provides representations and warranties on the portfolio, but otherwise it's caveat emptor. Our approach is different as a result – we undertake the same due diligence, but there is limited reliance on the seller. It means that the deal can be riskier, so it is priced differently and hopefully offers greater upside

"THE SRT MARKET IS TYPICALLY EASIER TO ACCESS THAN THE PORTFOLIO ACQUISITION AND NEW LENDING SPACES"

According to Pellew, such an approach requires a team with four skill-sets: data scientists, data architects, data engineers (to create appropriate analytics and extract the data) and a business subject matter expert to interrogate and interpret the patterns within the data.

Chenavari's European loan portfolio private credit strategy invests in consumer, mortgage, SME and corporate assets across the SRT, portfolio acquisition and new lending segments. "The SRT market is typically easier to access than the portfolio acquisition and new lending spaces because the issuers are banks and buy-side participants can theoretically become involved in the flow. As such, there are periods when the SRT market becomes expensive, as well as periods of 'feast or famine' on the supply

potential via refinancing and eventually selling the assets," says Tissier de Mallerais.

He continues: "The carry component in a portfolio acquisition is less important than the upside from exiting the position in the whole loan or securitisation market. Overall, the return we're able to achieve in acquisitions and new lending is often higher than in SRT, which is a buy-and-hold carry investment."

Opportunities in the new lending space, meanwhile, are being driven by evolving consumer habits and the emergence of non-bank lenders and fintechs, whose need for funding has increased following the withdrawal of banks from the segment. "Non-bank lenders don't have the same access to capital as banks, so we can provide this capital. We seek

Gianluca Savelli, NPLMarkets

alignment with the lender, but they tend to be thinly capitalised, which needs to be taken into account," Tissier de Mallerais observes.

He adds: "The purpose of the deal is to help a business fund its assets and we view ourselves as a capital partner in this context – whether that is as a senior or a mezzanine lender, or via a forward flow or a warehouse agreement. The level of risk we assume and the requirements of the counterparty vary, but the challenge is to ensure the capital is deployed in the most attractive way."

The originators are usually backed by private equity or venture capital firms, which perceive Chenavari as a good partner. As Tissier de Mallerais explains: "We speak the same language, given that we are levered investors and understand the whole loan and securitisation markets, albeit with differing return targets. Sourcing opportunities in this space requires familiarity with the fintech ecosystem and being viewed as a good partner, in terms of financing the assets and taking them to the capital markets."

Barriers to entry across the new lending, portfolio acquisition, SRT and NPL ABS segments remain high. However, the latter has the potential to become more mainstream once there is greater availability of and trust in data.

"Once the data gap is bridged between buyer and seller, it follows that the bid/ask gap narrows and smaller investors can enter the market. Once the asset class becomes less specialised, liquidity increases and price discovery improves," Pellew argues.

He reports that over a 12-month period, Arrow Global's collection forecast accuracy levels are within plus or minus 1%. "With these kind of accuracy levels, the NPL market becomes less scary. NPLs are seen as a high-risk product because the assets are distressed; therefore, providing transparency around data and performance is key to the market perceiving the assets as a more manageable risk."

One way in which Arrow Global is seeking to optimise the capital efficiency of its asset base is to structure more bespoke products that provide a better outcome for both buyer and seller. The aim is to apply a big programme mentality – like that seen in the US mortgage market – to securitisation by using blockchain technology to slice assets into any number of permutations.

"ONCE THE DATA GAP IS BRIDGED BETWEEN BUYER AND SELLER, IT FOLLOWS THAT THE BID/ASK GAP NARROWS AND SMALLER INVESTORS CAN ENTER THE MARKET"

"Once assets are digitised, buyers can build investment products based on their own requirements, with post-trade transparency provided by appropriate data and analytics. We can demand a premium for this service, which helps Arrow optimise its value proposition," says Pellew.

He adds: "In this way, the market can move from a sell-side driven cycle, where the buyer chooses from the stock on a shelf, to a demand-driven model that is more bespoke and therefore of greater utility for the buyer and greater value for the seller. This, in turn, allows the seller to optimise the origination process – whereby assets are originated based on demand for the product."

John Pellew, Arrow Global

Looking ahead, there does not appear to be an end in sight for portfolio optimisation activity. "Banks are constantly having to reallocate capital. CRD 4 means that they are typically three times less levered than they were in 2004 and they're compensating for this by focusing on their competitive edge and cross-selling opportunities, as well as by reducing exposure to credit losses and reputation/regulatory risk," Tissier de Mallerais concludes.■

SCI's Premium Content offers regular in-depth analysis of trends and developments across the securitisation market, in addition to our usual news output. To upgrade your subscription to access all Premium Content for a year or for further information, email ta@structuredcreditinvestor.com.