MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to Italian ABS Notes backed by NPLs issued by Prisma SPV S.r.l.

18 Oct 2019

EUR 1,290 billion Notes rated, relating to a portfolio of Italian NPL residential mortgage loans

NOTE: On October 22, 2019, the press release was corrected as follows: In the headline and first sentence of the Press Release, the issuer name was changed to Prisma SPV S.r.l; the last sentence of the second paragraph was changed to "The assets supporting the Notes are residential mortgage loans with a gross claim amount of around EUR 6 billion as of the cut-off date, October 1st, 2019;" and in the third paragraph of the RATINGS RATIONALE section, the first and second key drivers were changed to "(i) loans representing around 66% of the gross claim amount are secured loans, all backed by residential properties or annexes and secured by first ranking lien; (ii) in terms of gross claim amount, 100% of the pool are individual debtor and almost all processes are foreclosure, which usually take significantly less time to go through the legal system than bankruptcy." Revised release follows.

Milan, October 18, 2019 -- Moody's Investors Service ("Moody's") has assigned definitive ratings to Notes issued by Prisma SPV S.r.l.:

....EUR 1,210,000,000 Class A Asset Backed Floating Rate Notes due November 2039, Assigned Baa1 (sf)

....EUR 80,000,000 Class B Asset Backed Floating Rate due November 2039, Assigned B3 (sf)

Moody's has not assigned a rating to the EUR 30,000,000 Class J Asset Backed Variable Return Notes due November 2039, which are also issued at the closing of the transaction.

This transaction is backed by non-performing loans ("NPLs") owned by UniCredit S.p.A. (Baa1/P-2) (the "Originator"). This is the second NPL transaction from UniCredit S.p.A.rated by Moody's after Fino 1 Securitisation S.r.l. closed in November 2017. The assets supporting the Notes are residential mortgage loans with a gross claim amount of around EUR 6 billion as of the cut-off date, October 1st, 2019.

The portfolio will be serviced by doValue S.p.A. ("doValue"; NR). The servicing activities performed by doValue are monitored by the monitoring agent, Securitisation Services S.p.A. ("Securitisation Service"; NR) which will also act as back-up servicer facilitator at closing: in case the servicer agreement is terminated, Securitisation Service will help selecting a substitute servicer. If the servicer report is not available at any payment date, the continuity of payments for the Class A Notes should be achieved since the calculation agent would prepare the payment report based on estimates.

RATINGS RATIONALE

Moody's ratings reflect an analysis of the characteristics of the underlying pool of defaulted loans, sector-wide and originator-specific performance data, protection provided by credit enhancement, the roles of external counterparties, and the structural integrity of the transaction.

In order to estimate the cash flows generated by the pool, Moody's used a model that, for each loan, generates an estimate of: (i) the timing of collections; and (ii) the collected amounts, which are used in the cash flow model that is based on a Monte Carlo simulation.

The key drivers for the estimates of the collections and their timing are: (i)loans representing around 66% of the gross claim amount are secured loans, all backed by residential properties or annexes and secured by first ranking lien;(ii) in terms of gross claim amount, 100% of the pool are individual debtor and almost all processes are foreclosure, which usually take significantly less time to go through the legal system than bankruptcy; (iii) the historical data received from the Originator and Special Servicer, which shows the historical recovery rates and timing of the collections for secured and unsecured loans; and (iv) benchmarking with comparable Italian NPLs transactions.

Hedging: As the collections from the pool are not directly connected to a floating interest rate, a higher index payable on the Notes would not be offset with higher collections from the pool. The transaction benefits from an interest rate cap with underlying six-month EURIBOR, with UniCredit Bank AG acting as cap counterparty. On the cap, the SPV receives the difference, if positive, between six-month EURIBOR and strike which go from 0.20% from the first IPD to 1.25% in 2034. The notional amounts of the interest rate cap is equal at closing to the initial balance of the Class A and Class B Notes and amortizes down with a pre-defined schedule.

Transaction structure: The transaction benefits from an amortising cash reserve equal at closing to EUR 49 million and amortizing to the higher of 4.0% of the Class A Notes balance and EUR 10 million, which has been funded through a limited recourse loan provided at closing by Unicredit AG. The cash reserve is replenished after the interest payments on the Class A Notes and covers Class A Notes' interest and more senior items. At the initial strike price of the cap, the cash reserve would be sufficient to cover around 12 months of interest on the Class A Notes and more senior items.

Moody's used its NPL cash-flow model as part of its quantitative analysis of the transaction. Moody's NPL model enables users to model various features of a European NPL ABS transaction - recovery rates under different scenarios, yield as well as the specific priority of payments and reserve funds on the liability side of the ABS structure.

METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Securitizations Backed by Non-Performing and Re-Performing Loans" published in February 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The definitive ratings address the expected loss posed to investors by the legal final maturity of the Notes. Other non-credit risks have not been addressed, but may have significant effect on yield to investors.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may cause an upgrade of the ratings of the Notes include significantly better than expected performance of the pool together with an increase in credit enhancement of Notes.

Factors that would lead to a downgrade of the ratings include: (i) increased counterparty risk leading to potential operational risk of (a) servicing or cash management interruptions; and (b) the risk of increased swap linkage due to a downgrade of a currency swap counterparty ratings; and (ii) economic conditions being worse than forecast resulting in higher arrears and losses.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows.

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