Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns definitive rating to the first Italian ABS Notes backed by non-performing leases originated by UniCredit Leasing S.p.A. and issued by Relais SPV S.r.l.

11 Dec 2020

Milan, December 11, 2020 -- Moody's Investors Service ("Moody's") has today assigned the following definitive rating to the Notes issued by Relais SPV S.r.l. (the "Issuer"):

....EUR 466M Class A Asset Backed Floating Rate Notes due July 2040, Assigned Baa2 (sf)

Moody's has not assigned any ratings to the EUR 91M Class B Asset Backed Floating Rate Notes due July 2040 and the EUR 10M Class J Asset Backed Fixed Rate and Variable Return Notes due July 2040, which are also issued at the closing of the transaction.

The transaction is a static cash securitisation of non-performing leases granted by UniCredit Leasing S.p.A. (owned by UniCredit S.p.A. Baa1/P-2). This is the third non-performing asset securitisation transaction from UniCredit group rated by Moody's after Fino 1 Securitisation S.r.l., closed in November 2017, and Prisma SPV S.r.l., closed in October 2019. This transaction represents the first Italian non-performing transaction backed by receivables resulting from leases expected to benefit from the public guarantee for non-performing securitizations (GACS).

The assets supporting the Notes are receivables mainly derived from real estate financial lease agreements with a gross claim amount of around EUR 1.58 billion as of March 31st, 2020 ("Cut Off date"). The gross collections from the Cut Off date to October 2020 amount to around EUR 32.56 million.

The portfolio will be serviced by Italfondiario S.p.A. and doValue S.p.A. in their roles as master and special servicer, respectively, both belonging to doValue banking group (unrated). The servicing activities performed by doValue S.p.A. are supervised by the monitoring agent, Banca Finanziaria Internazionale S.p.A (NR) which will also act as back-up servicer facilitator at closing. In case of a servicer agreement termination, Banca Finanziaria Internazionale S.p.A. will help to select a substitute servicer. If the servicer report is not available at any payment date, the continuity of payments to the Class A Notes should be ensured since the calculation agent would then prepare the payment report based on estimates.

RATINGS RATIONALE

Moody's rating reflects 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 then used in the cash flow model that is based on a Monte Carlo simulation.

In Moody's view, the credit positive features of this deal include, amongst others:

(i) portfolio composition: real estate assets repossessed by the bank represent 47% of total gross claim, out of which 43% are regularized and, hence, ready to be sold on the open market. Furthermore, as of September 2020, real estate properties in an amount equal to EUR 25.05M have already been preliminary sold with the related collections expected to provide significant liquidity support during the first year of the transaction;

(ii) initial property values: almost all property values (91% of the total real estate value) have been assessed by third party specialized companies and are not older than 2019. Full valuations represent 28% of the total real estate valuation amount, whereas desktop valuations account for 68% of the real estate valuation amount. The latter typically rely on detailed information available from previous full valuations;

(iii) properties located in the North of Italy represent 50% of secured gross claim GBV and, specifically, properties located in Lombardy, account for 19% of total gross claim. Lombardy has historically been the most liquid regional market for non-residential properties thus leading to a faster sale process than in other regions;

(iv) subordination trigger: interest on the Class B Notes is diverted to a more junior position in the waterfall if the net cumulative recoveries rate or the present net value of recoveries are lower than 90% of what is expected according to the special servicer's initial business plan; and

(v) alignment of interest: special servicing fees are linked to transaction performance thus aligning special servicer interest to that of Noteholders'.

However, the transaction has several credit negative features, amongst others:

(i) industrial and retail buildings represent 43% and 39% respectively of portfolio property market value. Historically industrial properties have taken longer to sell than offices but the trend in e-commerce and appetite for last mile logistics in Italy is reversing the trend. On the opposite, 25% of buildings are large retail properties, such as shopping malls. Retail properties have been particularly impacted by the coronavirus crisis and the social distancing measure put in place by the Italian government. For the future as well, the liquidity of some non-residential properties could become significantly low in a stressed economic environment;

(ii) assets equal to 36% of total gross claim still need to be repossessed by the seller, whereas assets equal to 27% of the total gross claim have been repossessed but need to complete the regularization process in order to be transferred to third parties. Cash flows from these assets will likely be generated only in some years' time from now;

(iii) the portfolio is seasoned with real estate leases terminated before 2010 representing 7% and those terminated before 2015 representing 53% of total gross claim;

(iv) residual claims existing upon sale of the leased asset represent 13.5% of total gross claims (i.e. EUR 213.5M), which means that the transaction benefit from an unsecured claim only;

(v) for the assets still to be repossessed, lessees in bankruptcy procedures represent 32% of the gross claim, the remaining being in judicial procedure (57%) or under no procedure or extra-judicial procedure. The repossession process usually takes slightly longer in case a lessee is in bankruptcy, but still significantly faster than the time to go to auction in the enforcement procedure for a loan collateralized by a real estate property;

(vi) out of the 1,874 properties in the portfolio, 7 and 17 properties are valued more than €10 million and €5 million, respectively, representing 7% and 13% of total market value. For large properties, liquidity could be significantly lower in a stressed economic environment;

(vii) once a property is repossessed, the issuer will incur property maintenance costs and, in case the asset is not regularized, will have to bear the costs of regularizing the asset before being able to sell the property to a third party;

(viii) most of the property value assessments were conducted before the coronavirus pandemic outbreak; the effect of the pandemic can result in lower future market values and longer time to sell the properties.

-Key transaction structure features:

Reserve fund: The transaction benefits from a cash reserve equal to 7.5% of the Class A Notes' balance (corresponding to EUR 34.95M at closing) that amortises in line with the Class A Notes and is funded by a limited recourse loan granted by UniCredit Bank AG. In the transaction waterfall the cash reserve is replenished immediately after the payment of interest on the Class A Notes and provides mainly liquidity support to the Class A Notes. The transaction also benefits from a SPV recovery reserve equal to EUR 10.0M at closing that amortises in line with the Class A Notes in accordance with a pre-defined schedule and is again funded at closing via the aforementioned limited recourse loan provided by UniCredit S.p.A.

Hedging: As portfolio collections are not directly linked to a floating interest rate index, a higher interest rate index payable on the Notes would not be offset with higher collections from the pool. The transaction benefits from an interest rate cap referencing six-month EURIBOR, with UniCredit Bank AG acting as cap counterparty. Under the cap, the SPV receives the difference, if positive, between six-month EURIBOR and the strike which is set to 0.50% on the first IPD and then increases to 1.7% in 2038. The notional amount of the interest rate cap at closing is equal to the initial aggregate balance of the Class A and Class B Notes and amortizes down in accordance with a pre-defined schedule.

LeaseCo: The assets and the asset management agreements have been transferred to an ancillary special purpose entity, Relais LeasCo S.r.l., whose sole corporate business is the acquisition, management, enhancement and sale of the properties for the benefit of the securitization transaction only. The financing of LeaseCo's operating costs will be mainly provided by a replenishable recovery reserve of EUR 5M, which will be initially funded out of the SPV recovery reserve. During the life of the transaction, the reserve will be replenished first with the collections generated by the assets and, if the funds are insufficient, by the SPV recovery reserve and, if this reserve is also depleted, by the cash reserve.

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.

-Counterparty risk analysis:

Italfondiario S.p.A. and doValue S.p.A. act as master servicer and special servicer, respectively, of the non-performing leases for the Issuer, while Banca Finanziaria Internazionale S.p.A. is the monitoring agent, the back-up servicer facilitator and calculation agent of the transaction. BNP Paribas Securities Services (Aa3/P-1), acting through its Milan Branch acts as agent bank and principal paying agent.

Collections are paid directly into the issuer collection account at UniCredit S.p.A. with a transfer requirement if the rating of the account bank falls below Baa3 or P-2.

- Principal Methodology:

The principal methodology used in this rating was "Non-Performing and Re-Performing Loan Securitizations Methodology" published in April 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1222103 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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

The notes' rating is sensitive to the performance of the underlying portfolio, which in turn depends on economic and credit conditions that may change. The evolution of the associated counterparties risk, the level of credit enhancement and the Italy's country risk could also impact the notes' rating.

The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. Our analysis has considered the effect on the performance of corporate assets from the current weak Italian economic activity and a gradual recovery for the coming months. Although an economic recovery is underway, it is tenuous and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around our forecasts is unusually high.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

The analysis relies on a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually 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. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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