

# Renewal of GACS scheme will further fuel NPL securitisation wave in Italy



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Ratings

On 31 August 2018 the European Commission<sup>1</sup> approved an extension of the Italian GACS guarantee<sup>2</sup> scheme for an additional six months, until March 2019. Formal renewal is awaiting publication of the ministerial decree in the Official Gazette, but given the Commission's approval, this should happen shortly.

Scope's expectation has long been that the GACS scheme would be extended to allow Italian banks to continue the deleveraging of NPLs. Given the imminent renewal, we reiterate our forecast of a total disposal of NPLs of EUR 100 billion, including GACS-eligible securitisations and portfolio sales.

Italian banks have made extensive use of GACS-eligible securitisations in 2018 to offload NPL exposures from their balance sheets<sup>3</sup>. To date, Scope has rated 10 GACS-eligible securitisations in 2018, through which the sellers have reduced their NPL exposures by some EUR 38.7 billion. Figure 1 contains information, and links to the rating reports, on these transactions together with those rated by Scope in 2017.

**Figure 1: GACS eligible NPL Securitisations rated by Scope**

Deal name/Link to Rating report	Issuance	Seller	Special Servicer	GBV (million)	Rating Class A	Rating Class B	Coupon A/B
<a href="#">Elrond NPL 2017 Srl</a>	Jul-17	Credito Valtellinese	Cerved	1,422	BBB-	B+	6mE+0.5%/6mE+6%
<a href="#">Bari NPL 2017 Srl</a>	Dec-17	Banca Popolare di Bari and Cassa di Risparmio di Orvieto	Prelios	345	BBB	B+	6mE+0.3%/6mE+6%
<b>GBV of GACS eligible securitisations rated by Scope 2017 (EUR million)</b>				<b>1,767</b>			
<a href="#">Siena NPL 2018 Srl</a>	May-18	Monte dei Paschi di Siena group	Juliet, Italfondario, Credito Fondiario, Prelios	24,070	BBB+	Not Rated	3mE+1.5%/3mE+8%
<a href="#">Aragorn NPL 2018 Srl</a>	Jun-18	Credito Valtellinese	Credito Fondiario, Cerved	1,671	BBB-	B	6mE+0.5%/6mE+7%
<a href="#">Red Sea SPV Srl</a>	Jun-18	Banco BPM	Prelios	5,097	BBB	Not Rated	6mE+0.6%/6mE+6%
<a href="#">4Mori Sardegna Srl</a>	Jun-18	Banco di Sardegna	Prelios	1,045	A-	BB-	6mE+0.9%/6mE+8%
<a href="#">2Worlds Srl</a>	Jun-18	Banco di Desio & Banca Popolare di Spoleto	Cerved	1,002	BBB	B	6mE+0.4%/6mE+8%
<a href="#">BCC NPLS 2018 srl</a>	Jul-18	21 co-operative banks co-ordinated by ICCREA Banca and two banks belonging to ICCREA Banca	Prelios	1,046	BBB-	B+	6mE+0.4%/6mE+6%
<a href="#">Juno 1 Srl</a>	Jul-18	Banca Nazionale del Lavoro	Prelios	957	BBB+	Not Rated	6mE+0.6%/6mE+8%
<a href="#">Maggese Srl</a>	Jul-18	Cassa di Risparmio di Asti & Biverbanca	Prelios	697	BBB	Not Rated	6mE+0.5%/6mE+6%
<a href="#">Maior SPV Srl</a>	Aug-18	UBI Banca group	Prelios	2,749	BBB	Not Rated	6mE+0.5%/6mE+6%
<a href="#">IBLA Srl</a>	Sep-18	Banca Popolare di Ragusa	Italfondario	349	BBB	B	6mE+0.6%/6mE+8%
<b>GBV of GACS eligible securitisations rated by Scope 2018 (EUR million)</b>				<b>38,683</b>			

<sup>1</sup> On 31 August 2018 the European Commission approved an extension of the GACS guarantee. The European Commission concluded that the GACS guarantee is not State aid, inter alia based on the fact that the Italian government gets a market-based remuneration when the senior notes are guaranteed  
<http://europa.eu/rapid/midday-express-31-08-2018.htm>

<sup>2</sup> Garanzia Cartolarizzazione Sofferenze (GACS). In return for a recurring fee, the Italian government will guarantee ongoing interest and principal payments at final legal maturity to noteholders of the most senior notes. For more details refer to the law decree of 14 February 2016  
<http://www.gazzettaufficiale.it/eli/id/2016/2/15/16G00025/sg> and later updates

<sup>3</sup> Please refer to Scope's recent report regarding Italian banks' asset quality  
<https://www.scooperatings.com/ScopeRatingsApi/api/downloadstudy?id=bbd6f2a0-8563-4575-bffa-386870403cea>

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Banks have also sold NPL portfolios directly to investors as another way of deleveraging. According to Scope data, portfolio sales during 2018 have amounted to around EUR 35 billion, roughly equal to GACS-eligible securitisations. For the remainder of the year, we expect around EUR 30 billion of NPLS to be sold either through portfolio sales or GACS securitisations

Scope expects the GACS guarantee to be extended as is, i.e. excluding unlikely-to-pay loans (UTPs) or leasing receivables, as the inclusion of such additional assets would alter the scope of the original decree too much for it to be extended by ministerial decree. Even if the scope is broadened, it is unlikely that there is enough time to structure a transaction mainly consisting of UTPs or leasing receivables before the March 2019 deadline.

The management of UTP receivables would also require a different servicing approach and it will take some time before the servicers active in the NPL market have acquired the necessary skills, people and developed the processes to manage UTP ABS transactions in an efficient way.

If the GACS scheme is not renewed Scope believes there will be a deceleration in NPL sales during the remainder of 2018 and the total volume would likely be limited in the range of EUR 80-90 billion.



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