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Time for securitization to step up

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The Global ABS Securitization Report 2023

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More investors required as European securitization looks to step up

End of cheap central bank funding provides huge opportunity for securitization but the challenge of expanding the buyer base looms large. By **George Smith**

There's an unfamiliar sentiment pervading the world of European securitization as it gathers for IMN's 27th Global ABS conference in Barcelona this year. A market that for years has felt rather downtrodden is allowing itself to feel a creeping sense of cautious optimism.

Yet this would not be simply a revival of the market of the early 2000s; the understanding of the purpose of securitization has moved on fundamentally since then. Rather, the industry appears to have carefully, cautiously, reinvented itself. And as lenders wean themselves off cheap central bank liquidity, securitization has a chance to show off its wares as an excellent financing instrument.

"There was a perception after the GFC that European regulators wanted to kill the securitization market," says Matthew Moniot, co-head of credit risking sharing at Man GPM. "I think that was wrong. From very early on, 2012 or 2013, the regulators were busy creating an architecture for a sustainable securitization market, which I think they have largely achieved."

If those in the risk transfer segment of the market tend to agree (see box), others have a rather dimmer view of regulatory measures.

"The single biggest problem is the regulation that has come in since the financial crisis," Matthew Jones, commercial head of structured finance EMEA for S&P, says. "If that regulation was moved to a fairer and more appropriate place, it is very easy to see how you could start to see significant volumes of ABS and RMBS across Europe."

"From very early on, 2012 or 2013, the regulators were busy creating an architecture for a sustainable securitization market, which I think they have largely achieved"

Matthew Moniot, Man GPM

There are plenty of green shoots that suggest reasons to believe the use of securitization as a funding tool is picking up. But the market is likely to encounter several potential obstacles in its bid to fully realise its promise.

Catering for variety

Since 2008, the once-big players in the market have largely scaled back how much they use securitization for funding. Yet this has created an opportunity for specialist lenders to use securitization to finance a new business model, and the industry in Europe is arguably as diverse today as it has ever been.

Consider Kensington Mortgages, which became a securitization issuer in 2015. The specialist UK mortgage lender supported itself primarily through the securitization market until Barclays bought it for £2.4bn in March this year.

"When we started, there was a question about whether securitization was even feasible as a robust funding model," Alex Maddox, capital markets director for Kensington, told *GlobalCapital* in March after Barclays acquired the company. "We proved that it was and showed we could maintain the levels through some pretty challenging conditions."

According to Bilal Husain, BNP Paribas's head of securitized product group and real assets syndicate, the expansion of specialist issuers has only been possible because bigger issuers have had less of a presence.

"The market has been so used to liquidity that when you only had UK prime issuers there was little room for [specialist lenders] to grow," Husain says. "When the central bank funding was announced it created the window where investors had to focus on what they could actually buy, rather than what they wished they could buy.

"When we started, there was a question about whether securitization was even feasible as a robust funding model"

Alex Maddox, Kensington

"The nature of the issuer base has changed quite a lot. For me, that is driven by the fact that the market is not completely obsessed with only buying the [likes of] Rabo, Santander or Lloyds. They've been forced by their absence to go and buy other names."

More investors wanted

However, those central bank schemes are, it seems, finally winding down, and those large banks will need to replace much of that funding. The securitization market would appear to be an obvious place to go.

There are plenty of reasons for optimism that that is happening. In May, there were four UK prime RMBS deals in two weeks, including — on May 17 — the return of Lloyds' Permanent shelf after more than three years away.

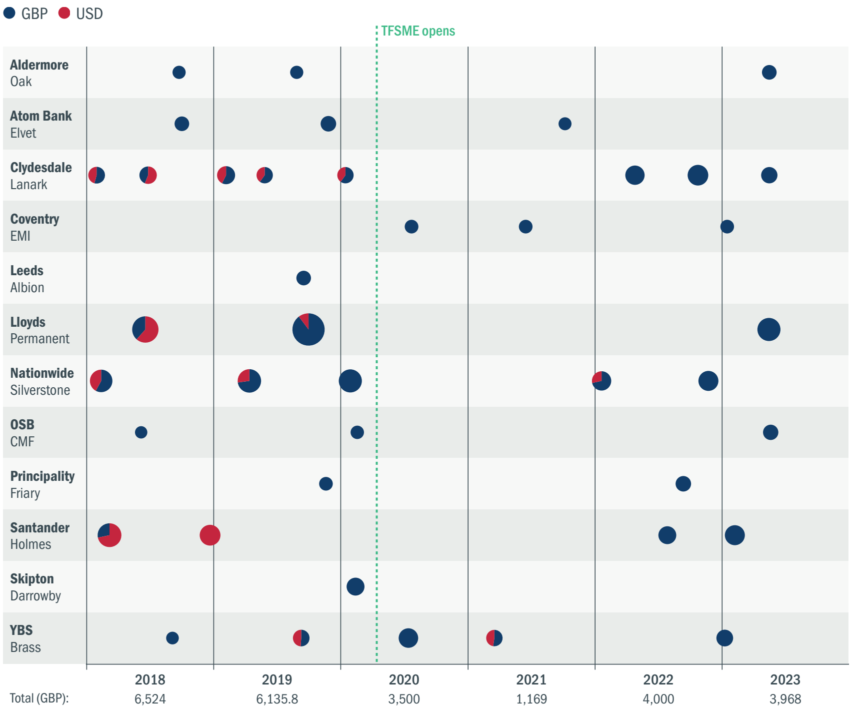
Yet if securitization is truly on the cusp of some kind of golden age, the two universes of issuers must be able to coexist: the market must again become a reliable source of funding for big lenders, while continuing to allow smaller issuers to thrive. Rising to this challenge will require achieving something that has been hereto

"The market has been so used to liquidity that when you only had UK prime issuers there was no little room for [specialist lenders] to grow"

Bilal Husain, BNP Paribas

Issuance Timeline

Timeline showing issuance from a selection of prime UK RMBS shelves (deal size in millions, data from Finsight)



The area of each circle is proportional to the deal amount expressed in GBP using the exchange rate £1 = $1.25.

elusive: significant growth in the investor base.

Owen Muller, director private client syndicate at NatWest, believes the increase in prime issuance could be the catalyst that is needed.

"An increase in prime issuance could actually be a really good thing," Muller says. "Maybe it brings in some investors who weren't prepared to play because there wasn't enough liquidity. Maybe over time they start investing in non-prime, as we've seen with some other accounts."

The return of the big prime issuers raises the question of whether those specialty finance companies could find themselves squeezed out by larger issuers. But Kensington's Maddox believes a more established market should be beneficial for all.

"More supply helps investors build dedicated funds and that momentum will be good for specialty finance companies," he says.

However, Husain believes that, although old investors could return, regulation will continue to be a barrier for new investors.

"One of the problems this market has is that investor appetite is not unlimited, unlike the US markets, which are quite deep," says the BNPP banker. "We might see a return of investors who have been staying away from European markets because they focus on big names. We might see the return of old investors, but new investors are driven by regulation."

"An increase in prime issuance could actually be a really good thing, Maybe it brings in some investors who weren't prepared to play because there wasn't enough liquidity"

Owen Muller, NatWest

One option that UK issuers have to uncover a new set of investors is the dollar market, where there is a vast ABS investor base but where there has been limited dollar activity from European issuers recently.

"There's definitely demand for [dollar UK RMBS]," says Rob Ford, partner and portfolio manager at TwentyFour Asset Management. "But obviously issuers have then got to put swaps inside the structures."

Given the rapid rise in interest rates over the past two years in both the US and the UK, the basis swap has been "very volatile", notes Ford, making the cost of those swaps "prohibitively expensive".

"[This] is probably why we've only seen a handful of deals," he says.

If interest rates stabilise, allowing cross-border activity to pick up, there should be benefits for all issuers.

"The big guys can borrow in Asia, borrow in Australia or borrow in the US or in euros," Husain says. "The smaller guys today can't, but they will eventually have access, the more [that] overseas markets are used by the larger firms again."

Eyes on the EU

UK prime RMBS should be the low-hanging fruit of any potential securitization issuance revival, because many banks are already issuers.

"The UK is a different story [to the rest of Europe]," says Gordon Kerr, head of European research at KBRA. "A lot of UK banks have set up master trust programmes and once they've been established it's hard to justify collapsing them and putting them into a covered bond programme."

However, expanding the hobbling euro RMBS market would represent a bigger prize. Over the past decade, around 2.5 times more European RMBS has been issued and retained each year than has been publicly placed, with lenders largely retaining deals so they can use them as collateral with a central bank.

While the UK accounts for around 75% of publicly placed volume, it only accounts for around 25% of retained volume. Coaxing more European issuers into the public market could therefore potentially be a major boon to overall volumes.

"It really doesn't take much," Ford says. "Even if it's only a 10% change, that's 10% of a number that is 2.5 times more than what is currently being distributed."

Ford believes that Spain, France, Portugal, Italy, Belgium and the Netherlands all have scope to increase the size of their RMBS markets. However, even once central bank funding has disappeared, these markets will still face stern competition from covered bonds, which usually offer a better deal to issuers than securitization.

Although, certain UK prime RMBS issuers — most notably Permanent — did manage to price deals slightly inside covered bonds in May, there remains doubt as to whether that can be sustained. Moreover, it could remain strictly a UK phenomenon.

"That pricing was just [driven by] pure demand from bank treasuries," says Jones at S&P. "Most bank treasuries that invest in covered bonds are in the EU, so there will be less demand for sterling paper [in covered bonds than RMBS]."

In other words, EU covered bonds will remain relatively tight versus UK covered bonds, and they will thus likely retain their competitive advantage versus RMBS.

"I asked two heads of funding at [major European banks] whether they'd be coming back to publicly distributed RMBS funding any time soon," says Ford. "They both said no, because central bank funding and covered bonds are both so much cheaper and simpler."

Market participants note that covered bonds also have a significant regulatory advantage. Insurance money, which should be a natural fit for RMBS and CMBS, is kept out of the market because of the high capital charges associated with holding securitization paper.

"Regulation is a major factor [in the size of the securitization market]," Kerr says. "In particular, Solvency II is an issue. Changing that should be the priority because it would bring a big investor pool back in. Insurance money could help take bank risk out of the banking system."

"There's definitely demand for [dollar UK RMBS]. But obviously issuers have then got to put swaps inside the structures. The cost [has been] prohibitively expensive."

Rob Ford, TwentyFour Asset Management

Muller at NatWest concurs that Solvency II is a hindrance.

"It still feels like there are pools of untapped capital that the market can't really access at the moment," Muller says. "Solvency II is probably the major cause of that." **GC**

Risk transfer deals blossom

AMID THE frustrations over apparently onerous regulation restricting the use of securitization as a funding market, synthetic securitization — a method of effectively selling only junior notes without transferring the underlying assets — appears to have had a better time over the last decade.

There was a more than fivefold growth in the number of significant risk transfer (SRT) transactions between 2010 and 2022, according to figures from Pemberton Asset Management.

Moreover, in contrast to the public securitization markets, market participants put this down to regulatory clarity and support.

"It took a while to get clear regulation and clear guidelines," Olivier Renault at Pemberton explains. "When the European Central Bank (ECB) took over the regulation of banks across the eurozone, it started to harmonise the rules. The French and Spanish regulators were not supportive, but BaFin [the German regulator] encouraged synthetic securitization. When it all fell under the ECB's umbrella, it became acceptable across Europe."

The key ambition of the regulation was to make sure transactions represented genuine risk transfer. The system in place today has been set up to give everyone confidence that this is the case.

"There's been a lot of work by the European Banking Authority to clarify what constitutes an acceptable transaction versus what is regulatory arbitrage," says Renault. "Transactions completed now are all real risk transfer transactions and signed off by the regulator — which is good for everyone."

Another factor driving the growth of the market is simply that banks need more capital.

"Banks need a lot more capital than they used to," Renault adds. "The cost of raising liquid capital has gone up and the cost of these transactions is comparatively much more attractive than raising equity."

"Transactions completed now are all real risk transfer transactions and signed off by the regulator – which is good for everyone"

Olivier Renault, Pemberton

Moniot at Man GPM notes that banks are trying to be more capital efficient, which should ensure the market can continue to grow.

"If we are proceeding towards a capital lighter banking system, which the CEO of almost every bank desires, the market has plenty of growth ahead," says Moniot.

The yields available in the SRT market mean the number of investors is also likely to keep growing.

"SRT has performed very well, in terms of limited losses, and a lot of these portfolios are very attractive in terms of yield," says Muller at NatWest. "One comparable [to SRT] is CLO equity, which during Covid dropped to maybe 10 or 20 cents on the dollar. The lowest we saw SRTs go was maybe 70."

The growth in the market has also created a virtuous cycle. When the market was small, investors could easily be put off by the limited number of banks involved. Now most investors can find deals they like.

Another advantage of SRT is that it is easier to set up such deals than it is for public ABS trades. As a result, there have been deals in many jurisdictions beyond those that have public securitization markets, including in eastern Europe.

"Synthetics can be used for more asset classes than true sale," says Pawel Turek, counsel at DLA Piper. "It can be applied in more scenarios. This has helped it become so popular."

Turek believes that more banks across the CEE region will be looking at synthetic deals.

"We've already seen synthetics in Romania, Bulgaria, Croatia, Czech Republic, Austria and Latvia," he says. "All banks have to meet their capital requirements, so they have to find some way out." **GC**

Newmarket

Most Innovative Deal of the Year: Banco Santander, Project Bocarte — **Newmarket Capital**

There was no shortage of innovation across the securitization market in 2022. But even among strong competition, Newmarket Capital and Banco Santander's Project Bocarte was a standout transaction. A cutting-edge structure, a focus on sustainability and a commitment to financing the energy transition made the bilateral trade a worthy winner of *GlobalCapital*'s Most Innovative Deal of the Year.

Newmarket has built a world class platform that provides truly innovative solutions for sustainable investment. The firm's partnership with Santander goes back several years. Their Project Boquerón transaction — a €1.6 billion credit risk transfer on a portfolio of renewable energy loans — was awarded *GlobalCapital*'s Private Securitization Deal of the Year award in 2021. Their latest winning collaboration, Project Bocarte, saw the two parties once again structure a credit risk transfer that pushed the boundaries of sustainable finance.

Bocarte provides first loss credit protection on a €1.6bn portfolio of Santander project finance loans — of which almost 50% is comprised of renewable energy assets across Spain, the UK and the US. The structure was guided by Santander's Sustainable Finance Classification System (SFCS), the firm's new global framework for classifying green, social and sustainability-linked products. For Newmarket, which has now catalysed over $3bn in positive impact lending through innovative and impactful structuring, SFCS represented a strategic opportunity to align its shared priorities.

"This was a really exciting deal because Santander had just come out with their SFCS which introduced social and green standards," says Molly Whitehouse, managing director and lead portfolio manager for Newmarket's credit risk sharing investments. "It was great for us to be able to use that classification system directly in our transaction."

Over the replenishment period, Bocarte offers Santander a coupon discount if it meets an ambitious threshold for proposing assets aligned with the new framework, such as renewable energy production. "That, in turn, aligns with our favourable view of the credit risk related to certain positive impact assets," says Whitehouse.

A second key structural component focused on Santander's overall lending — providing an incentive to increase Santander's financing for renewable energy over time. "Santander has been among the largest renewable energy lenders globally in recent years," says Whitehouse. "We are proud of our ongoing partnership with Santander and our shared commitment to accelerating investment in a greener economy through credit risk transfer."

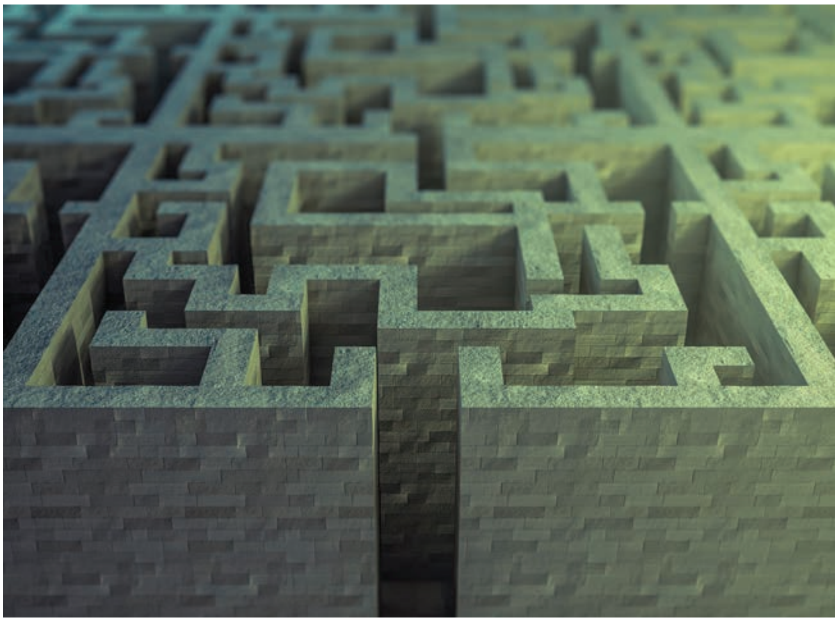
Bocarte's structure provides Santander with the opportunity to achieve a coupon step-down if it reaches an ambitious fixed growth rate in its green lending, measured in megawatts rather than currency. "We believe that setting an incentive around impact in terms of megawatts more directly promotes what we are actually seeking to achieve: an accelerated reduction in carbon emissions," says Whitehouse. "Furthermore, Bocarte not only promotes the 'greening' of the transaction itself, but also incentivizes Santander group-level lending that aligns with the bank's SFCS framework."

Bocarte also includes replenishment and a tap feature, providing flexibility to increase the size of the portfolio on a forward-flow basis. Bocarte is just the second project finance transaction in the market to comply with the EU's new synthetic simple, transparent and standardised (STS) regime. The STS label not only allows for a greater capital efficiency at a lower cost of capital for the bank, but also provides a less concentrated portfolio for investors.

When it comes to impact-oriented securitization, scaling up volume can be a key challenge. Newmarket's Project Bocarte is an important demonstration to the market that sizeable structured finance transactions can play a key role in "greening" the economy.

"Our hope is that Newmarket's investment history and the range of impact solutions we've created provide a path for others to follow, whether that's in terms of the redeployment of capital or specific structure incentives," says Whitehouse. "I would be delighted to see other firms incorporate these powerful features into their transactions." GC

RMBS issuers forge new paths to resilience in riskier environment



European issuers tell *GlobalCapital* that being proactive is key to keeping investors onside as they remain upbeat about the market's ability to provide attractive funding. By **Tom Lemmon**

After 2022 was marked by relentless bouts of volatility, issuers across the European securitization market were bracing for a similarly difficult 2023. But financing teams have largely been able to resist continued higher rates and slowing economies so far this year, with both consumers and originators showing plenty of resilience.

Indeed, thanks to issuers having greater prudence with their lending and being proactive in their investor relations, there are reasons for cautious optimism about the securitization market as a whole.

Expectations for securitization issuance volume in Europe were low at the start of the year, but activity has picked up gradually throughout the year, and has been sustained since a mini-interruption caused by the collapse of Silicon Valley Bank in the US in March.

Indeed, by deal count, May was the busiest month for the European market since the war in Ukraine began in February 2022, while well-known issuers are continuing to access the market, with the likes of Volkswagen, Tesco and Mercedes all having completed transactions.

In RMBS, the pick-up was particularly notable. Some 16 deals were priced in the asset class across April and May. Moreover, there's been a resurgence in prime UK RMBS, with deals from Lloyds and Virgin Money.

Prudent but positive

John Rowan, CFO at UK specialist mortgage lender Belmont Green, says investors are keen to understand how underwriting standards have been adapted, whether that be with refreshed modelling, ad hoc adjustments, or debt service coverage ratios.

As a result, originations are falling. Indeed, although mortgage approval rates in the UK rose from 44,100 in February to 52,000 in March, this is still well below the 65,600 from September 2022 — just before the crisis in the liability-driven investment(LDI) market.

Alex Maddox, capital markets and digital director at Kensington Mortgages, says both sides are being squeezed with higher interest rates.

"When assessing consumer affordability, you have to take into account the higher debt cost and the higher expenditure that we're all experiencing," he says. "Both sides of the consumer balance sheet are being squeezed, which is one of the reasons why average loan balances are coming down a bit."

Steve Harrison, director at Together Money, another UK specialist lender and frequent RMBS issuer, says that getting ahead of the game is key for non-banks — which is why lenders like Together have increased stress tests.

"There's no point making changes now, it's too late," he says. "The key to surviving tough times is often what you've done in the run-up to those periods."

Together, for example, has added additional stress tests for affordability and income assessments.

"But the ONS [UK Office for National Statistics] data is lagging," says Harrison. "By the time you get it, it's stale. Therefore, it's sensible and prudent to make additional adjustments in light of what we're seeing with inflation and the cost-of-living crisis."

The impact of the rising cost of living continues to be at the front of people's minds, but mortgage performance is mainly dictated by "life events" like unemployment, illness or family break-up, notes Rowan of Belmont Green.

"Generally, what you're currently seeing is people are taking into account the cost of living, the rising cost of interest rates, and adjusting

"There's no point making changes now, it's too late. The key to surviving tough times is often what you've done in the run-up to those periods"

Steve Harrison, Together

their lifestyle,” he says. “We’ve gone from a period where people were saving during lockdown to a more normal cycle, but they’re being prudent.”

Similarly, Harrison says there’s “nothing significant” coming through, in the consumer data that Together analyses, to suggest that payment shocks are causing performance deterioration. Of course, this doesn’t mean those stresses will not ultimately materialise. But unsecured credit can often be an early indicator.

“So far, customers have proved to be a lot more resilient than many were concerned they might be,” Harrison adds.

Proactive over risk

Risks still lurk. Miles Hunt, managing director at NatWest Markets, says it is a particularly difficult time for some originators, such as those in buy-to-let mortgages, because increased financing costs have made margins so thin.

“You’re originating risk that you are funding close to where you are originating it, or maybe even below where you are originating it,” says Hunt. “You can do that in the short to medium term, [but] you can’t do it in the long run. If you’re buy-to-let or near prime, your funding costs too much.”

Kensington’s Maddox, similarly, says that dealing with the “rapid rate movement” of the last year is a big challenge for issuers.

“If you have to put hedging swaps into these securitizations, you’ve got a timing mismatch between when the assets were created and when the swaps were created and that will have a material impact on excess spread,” he says.

As a result of the heightened macroeconomic risks since 2022, investors are keeping an even keener eye on their portfolios. Rowan says the key for Belmont Green in maintaining good relationships is being proactive.

“We offer update calls to investors proactively and get a very good reaction from that,” he says.

The hope, he says, is that — by maintaining greater interaction with investors between deals — when a new issue does land on an investor’s desk, the background checks on the issuer do not have to be so extensive.

“In a crowded market, if you don’t need to remind everyone who the issuer is, that’s helpful,” says Rowan.

Ability to adapt

Despite the tricky environment, new potential entrants to the securitization market continue to emerge. LiveMore Mortgages, a specialist lender for people over the age of 50, is one such example.

Leon Diamond, CEO and co-founder of LiveMore, says securitization is a “natural component” of a diversified funding structure, even as the team considers a first public European retirement interest only (RIO) RMBS.

“For the shorter duration products, we have our 2 year and 5 year fixed rate period loans,” Simon Webb, LiveMore’s managing director of capital markets, says. “This is standard collateral for an RMBS-type structure, the only difference being our customer base is slightly older, on average around 65 years of age.”

Indeed, Atul Bajpai, chairman at LiveMore, retains confidence in the European securitization market as, he says, it seems always able to “understand and accommodate” regulatory challenges. Moreover, liquidity appears to have increased significantly since the LDI crisis.

“We have a retirement interest only product that we think investors and rating agencies will be able to get their heads around,” he adds.

More to come

So far, at least, issuers largely retain a certain steely hardiness — having stood up well to the challenges of the past year. And there are further reasons for issuers to be hopeful about the future. The return of flagship prime RMBS programmes like Lloyds’ Permanent shelf, for example, could also be positive for the broader market, Rowan says.

“It’s good to have prime back, on the basis that the broader asset class therefore gathers more momentum,” he says.

Together’s Harrison hopes that investors who perhaps moved into the specialist lender market as a “substitute while prime issuance was limited”, could be tempted to stay even as bigger issuers return.

“We could see some of those investors who had moved into the

“We have a retirement interest only product that we think investors and rating agencies will be able to get their heads around”

Atul Bajpai, LiveMore

specialist lender RMBS space stick around for a yield pick-up now they have done their credit work and got comfortable with the sector,” Harrison adds.

Moreover, in January, *GlobalCapital* reported that the finance ministries in France and Germany had called on the EU Commission to make securitizations easier, calling the current regulations too “conservative”. Ever since, speculation has been rife about what lighter regulations may mean for the industry.

Matthew Jones, head of EMEA specialised finance at S&P Global, believes the message to the Commission was a response to the ending of cheap central bank funding schemes and the upcoming Basel proposals.

“My guess is they’ve realised that they can’t be weaned off ECB money through covered bonds alone, due mainly to regulatory capital constraints and encumbrance limits,” Jones says. “There’s likely to be a big increase in capital requirements as a result of the current Basel proposals for mortgages.

“Banks are going to need RMBS to manage regulatory capital.”

What Jones calls “fairer and more appropriate” regulations could provide a boost to regular issuers, deepening the investor base. Whichever way the regulation issue evolves, expect the recent generation of securitization issuers to continue to take the initiative when it comes to uncovering more investors. GC

“In a crowded market, if you don’t need to remind everyone who the issuer is, that’s helpful”

John Rowan, Belmont Green

GlobalCapital European Securitization Awards: the winners

The best banks, issuers and deals of 2022 were awarded at a gala industry dinner in London in May

The European securitization industry came together on May 4 in London's Mayfair to celebrate the market's successes over the last year. Despite a year of great challenge, the European securitization market continued to innovate and prosper.

Perhaps all the bumps along the way helped to explain the superb atmosphere and excellent attendance, with over 250 people present.

Most in attendance had to wait just a few months to celebrate their achievements from the prior year, but Rob Ford, partner at TwentyFour Asset Management and winner of the 2021 Outstanding Contribution to Securitization Award had to wait a little longer. Lockdowns from the Covid pandemic had robbed him of his moment on the stage in 2021, so this year was a chance to put that right.

Attendees were also entertained by the brilliant comedian, Naomi Cooper, who admitted she had no clue what securitization was.

The European Securitization Awards are the result of an extensive market research process. Back in November, *GlobalCapital* first called for nominations, asking the market to put forward those it deemed worthy of inclusion on the shortlist. The shortlist was then published in January and opened to a market vote to select the winners. More than 35,000 votes were cast, resulting in over 50 winning deals and institutions.

The five exceptions to the vote were three pitched categories: Overall Securitization Bank of the Year, Private Securitization Deal of the Year and the Overall Deal of the Year. These categories were chosen by our editorial team, and winners were picked based on pitches received from the nominees themselves.

Alongside them are the two individual awards, Outstanding Contribution and Lifetime Achievement, which recognise longstanding excellence and impact in the European securitization market.

Congratulations to all our winners and nominees, and huge thanks to all those who took the time to pitch and vote in the poll. The full list of winners and nominees is below. GC

Lifetime Achievement

Ian Bell - PCS

Outstanding Contribution to Securitization

Laura Coady - Jefferies

ABS Bank of the Year

BNP Paribas

Nominees: Bank of America, Barclays, Citi, Societe Generale

ABS Issuer of the Year

Banco Santander

Nominees: Auxmoney, NewDay, Oodle, VWFS

ABS Deal of the Year

NewDay Funding Master Issuer Series 2022-3 (Clifford Chance; JP Morgan; Lloyds Bank; Morgan Lewis; NewDay; Slaughter and May; Societe Generale; Standard Chartered)

Nominees: Autonoria Spain 2022, Dowson 2022-1, Fortuna Consumer Loans ABS 2022-1, SC Germany Compartment Consumer 2022-1

ABS Law Firm of the Year

Allen & Overy

Nominees: Chiomenti, Clifford Chance, Hogan Lovells, Latham & Watkins

Specialty Finance Bank of the Year

BNP Paribas

Nominees: CaixaBank, Citi, Mediobanca, NatWest

Secondary ABS/RMBS Trading House of the Year

Citi

Nominees: Bank of America, Barclays, BNP Paribas, Morgan Stanley

RMBS Bank of the Year

Bank of America

Nominees: Barclays, BNP Paribas, Citi, Santander

RMBS Issuer of the Year

Pepper

Nominees: Bank of Ireland, Nationwide Building Society, Obvion, Together

PITCHED AWARDS

Overall Bank of the Year

Barclays

Overall Deal of the Year

Stratton Hawksmoor 2022-1

(Allen & Overy; Bank of America; Davidson Kempner; Hogan Lovells)

Private Securitization of the Year

Enpal German solar loan ABS

(Citi; Enpal; Hogan Lovells; M&G Investments)

RMBS Deal of the Year

Stratton Hawksmoor 2022-1 (Allen & Overy; Bank of America; Davidson Kempner; Hogan Lovells)

Nominees: Boursorama Master Home Loans France 2022-1, FCT Crédit Agricole Habitat 2022-1, Ripon Mortgages PLC (2022 Refi), Silverstone Master Issuer 2022-2,

RMBS Law Firm of the Year

Allen & Overy

Nominees: Ashurst, Clifford Chance, Hogan Lovells, Latham & Watkins, Linklaters

CLO Bank of the Year

Jefferies

Nominees: Bank of America, Barclays, BNP Paribas, Citi

Secondary CLO Trading House of the Year

Morgan Stanley

Nominees: Bank of America, BNP Paribas, Citi, Deutsche Bank

CLO Manager of the Year

CVC Capital Partners

Nominees: Apollo, Blackstone, Carlyle, Tikehau Capital

CLO Deal of the Year

CVC Cordatus 26 (Barclays; CVC Capital Partners; Societe Generale)

Nominees: Carlyle Euro CLO 2022-3, Edmondstown Park CLO, Harvest CLO XXIX, Henley CLO IX

CLO Equity Investor of the Year

Blackstone

Nominees: Elliott Investment Management, Fair Oaks Capital, Napier Park Global Capital, Varadero Capital

CLO Senior Investor of the Year

AXA Investment Managers

Nominees: BlackRock, BNP Paribas Asset Management, JP Morgan, Standard Chartered

CLO Mezz Investor of the Year

Apollo

Nominees: AXA Investment Managers, Fair Oaks Capital, Napier Park Global Capital, TwentyFour Asset Management

CLO Law Firm of the Year

Cadwalader Wickersham & Taft

Nominees: Allen & Overy, Clifford Chance, Latham & Watkins, Paul Hastings

CLO Rating Agency of the Year

Moody's

Nominees: Fitch, KBRA, S&P Global

CRE & CMBS Bank of the Year

Barclays

Nominees: Bank of America, Goldman Sachs

NPL Bank of the Year

Intesa Sanpaolo – IMI CIB Division

Nominees: BNP Paribas, Goldman Sachs, JP Morgan, Morgan Stanley

NPL Law Firm of the Year

Chiomenti

Nominees: Allen & Overy, Arthur Cox, Clifford Chance, Latham & Watkins

NPL Servicer of the Year

Pepper

Nominees: DoValue, Mars Capital, Phoenix Asset Management, Prelios

NPL Investor of the Year

PIMCO

Nominees: Bain Capital, Carval, Cerberus, CRC

SRT Bank of the Year

Santander

Nominees: BMO Capital Markets, BNP Paribas, Caixabank, Crédit Agricole

SRT Investor of the Year

Chorus Capital

Nominees: AXA Investment Managers, CRC, M&G Investments, PGGM

Debut Issuer of the Year

BayernLB

Nominees: Acer Tree, Athora, Boursorama, mBank

Portfolio Buyer of the Year

PIMCO

Nominees: Apollo, Bain Capital, Carval, M&G Investments

Securitization Equity Investor of the Year

M&G Investments

Nominees: AXA Investment Managers, Carval, CRC, PIMCO

Securitization Senior investor of the Year

European Investment Bank

Nominees: AXA Investment Managers, BNP Paribas Asset Management, PIMCO, TwentyFour Asset Management

Securitization Mezz investor of the Year

Apollo

Nominees: Carval, M&G Investments, TwentyFour Asset Management

Securitization Research House of the Year

JP Morgan

Nominees: Bank of America, Barclays, Morgan Stanley, S&P Global

Securitization Rating Agency of the Year

S&P Global

Nominees: DBRS Morningstar, Fitch, KBRA, Moody's

Securitization Advisory Firm of the Year

Deloitte

Nominees: EY, KPMG, Mazars, PwC

Data Provider of the Year

European DataWarehouse

Nominees: Bloomberg, EuroABS, IHS Markit, Intex Solutions

SPV Administrator of the Year

CSC Capital Markets

Nominees: TMF Group, Vistra Capital Markets, Walkers Professional Services

Securitized Derivatives House of the Year

NatWest

Nominees: Barclays, BNP Paribas, Citi, Lloyds Bank, Natixis

Securitization Trustee of the Year

Citi

Nominees: Bank of New York Mellon, CSC Capital Markets, HSBC, Intertrust Group, U.S. Bank

Overall Servicer of the Year

Bank of New York Mellon

Nominees: Computershare, European DataWarehouse, Intertrust Group, Pepper

Most Innovative Deal of the Year

Banco Santander Project Bocarte (Banco Santander; Newmarket Capital)

Nominees: Boursorama Master Home Loans France 2022-1, Project Triton (Piraeus Bank), Lanebrook Mortgage Transaction 2022-1, SC Germany Compartment Consumer 2022-1

Private Bank of the Year

BNP Paribas

Nominees: Bank of America, Barclays, Citi, Credit Suisse, Santander

ESG Bank of the Year

Barclays

Nominees: BNP Paribas, HSBC, Societe Generale

ESG Issuer of the Year

Obvion

ESG Deal of the Year

Green STORM 2022-1 (Clifford Chance; Obvion; Rabobank; Societe Generale)

Nominees: 22 Bishopsgate, Fortuna Consumer Loans ABS 2022-1, Grosvenor Place CLO 2022-1, Perfecta Energía Solar ABS

ESG Investor of the Year

Amundi

Nominees: Aegon, AXA Investment Managers, BNP Paribas Asset Management, M&G Investments

ESG Law Firm of the Year

Clifford Chance

Nominees: Allen & Overy, Ashurst, Hogan Lovells, Latham & Watkins, White & Case

ESG Research Firm of the Year

Sustainalytics

Nominees: Bank of America, Barclays, Citi, Clifford Chance, Moody's Analytics

Jefferies

CLO Bank of the Year — **Jefferies**

Jefferies' second year as a force in Europe's primary CLO market saw the firm secure a second consecutive win for excellence in the asset class. Strong relationships on the buy and sell side, combined with an unparalleled ability to time the market, helped the firm dominate the league tables and earn a well deserved win as CLO Bank of the Year.

If 2021 was the year Jefferies proved it had built a world-class team, 2022 allowed the bank to show just how well it could perform in a far more challenging market. Rising inflation was already a problem when Russia's war in Ukraine created an even more volatile backdrop. In the wake of the invasion, only Jefferies was able to accelerate its CLO issuance, pulling far ahead of its peers despite the market challenges.

"Looking back, one of our strengths was to be proactive in tapping the market," says Hugh Upcott Gill, primary CLO co-head. "Many of these deals printed with very strong execution at a difficult time and I think clients were very happy with the outcome."

Managers had become used to the relative calmness of 2021, but turbulence saw them turn to their arranging banks for guidance. The diverse range of managers that Jefferies worked with last year included household names like Carlisle, ICG and CBC, as well as newer managers less well-known in Europe.

"When the market is volatile like it was last year our job is to present structural solutions to our managers on how they can execute deals," says Laura Coady, head of securitized markets group for EMEA and co-global head of CLOs. "We were able to move very quickly to identify windows and read the market."

All this translated into an impressive market share of just over 25% of total CLO deal volumes in Europe — almost doubling the bank's share from 2021 and putting it far ahead of the closest competitor. In the refi/reset segment, where supply faded as spreads widened, Jefferies worked on more deals than the second and third place arrangers combined.

Guiding new issuers to market in a turbulent backdrop became a far more critical part of CLO supply in 2022. Jefferies finished the year top of the new issuance league table with almost 25% of total volumes — more than twice the share of the bank in second place.

The firm's relationship with investors was key to navigating the market, and its consistent deal flow helped maintain a regular dialogue around deal and non-deal issues. "We benefit because having a good volume of deals allows us to stay close to the market and be constantly aware of what investors are thinking and how they are responding," says Upcott Gill. "The insight into what the buy side is doing on a daily basis is very valuable for talking issuers through their strategy."

Jefferies consistently pinpointed windows of liquidity where managers could execute successful transactions. These were often followed by a sell-off that presented clients with a buying opportunity on the loan side. "It was really about trying to pick the right time and making sure we were in front of managers continuously presenting them with opportunities," says Coady. "Jefferies works with a great bench of managers who were very receptive to moving forward."

Some of the most disruptive events in 2022 helped the bank highlight the strength of CLOs as an investment tool. A UK pension fund crisis focused on liability-driven investment saw CLOs emerge as among the best quality and most liquid assets on funds' balance sheets. "We've worked to engage with new investors and demonstrate just how durable this product is," says Coady. "That's definitely helped us expand the buyer base."

Jefferies also stood out for its impressive secondary trading and distribution, which complements its growing European leveraged finance operations. Towards the end of 2022, the bank hired Steven Tubb as head of European secondary CLO and ABS trading. The appointment of an industry veteran with a stellar reputation provided yet another signal to the market of Jefferies' commitment to CLOs and the wider securitization space.

"Clients were very impressed with the hire, which was a big statement from Jefferies that shows how the firm is expanding and growing across the whole of the securitization business," says Upcott Gill. GC

European Securitization Overall Bank of the Year — Barclays

This award recognises the UK bank for providing a complete service built on collaboration. Barclays' success is about more than deal volume and big transactions

Barclays' European securitization team's pitch stood out, in a very strong field, to everyone on the *GlobalCapital* editorial team for the bank's breadth of services, commitment to ESG, and continued innovation as uncertainty reigned throughout the capital markets in 2022.

It was clear from the start of 2022 that the year would challenge the European securitization market more than a bumper 2021 that had been fuelled by cheap central bank funding schemes. But if the shift away from years of low interest rates and low inflation was already inevitable, the shock was intensified by Russia's invasion of Ukraine in February.

Amid all this, Barclays was able to carry out over £4bn of new lending within its securitized products business, execute some of the largest deals in the primary European securitization markets and facilitate innovative solutions for clients — just when they needed it most.

The "full front-to-back solution", as Matt Weir, managing director and head of European securitized products calls it, allowed Barclays to provide a range of options for its clients. Moreover, the securitized products business is not siloed, and the culture is one of collaboration.

Michael Nartey, head of European securitized products solutions, agrees.

"We've never tried to be all things to all people all of the time, but the things that we want to do, we do well," he says.

Barclays said in December 2022 that it would facilitate $1tr of sustainable and transition financing by the end of 2030 across the entire bank, and the securitization team's dedication to ESG is clear.

Public ESG transactions have been hard to come by in European securitization, but the tide is turning, driven by activity in the private markets. Indeed, in July 2022 Spanish solar firm Perfecta Energia worked with Barclays to close the first European solar ABS warehouse. The bank also provided $150m of a $300m commitment to support finance Swedish electric freight company Einride's first major debt raise, the largest financing for electric heavy-duty vehicles to date.

However, Barclays' work with UK energy regulator Ofgem was perhaps the jewel in the crown. Weir calls it one of his "favourite trades ever".

As the UK was hit hard by the sharp rise in energy prices, it led to 29 energy providers going bust in 2022. Many of the largest providers had already signed up to be Suppliers of Last Resort (SoLRs), taking on customers whose energy provider had been unable to serve them. However, payments for providing energy to those new customers, known as Last Resort Supply Payment (LRSP) claims, were made over 12 months.

With energy providers already stretched, Barclays worked with Ofgem to provide an £810m solution through a receivables financing structure that the SoLRs can use as their LRSP claims come through. Receiving the payments up front helped create additional liquidity in the UK energy sector as it came under severe stress.

"It's hard to quantify the deal's impact precisely, but it's approximately £1 per household that is not on UK consumers' energy bills this year," says Gordon Beck, Barclays' head of corporate and sustainable securitization. "It was one of the most complex transactions that anyone who worked on it will be involved in in their careers."

Meanwhile, Barclays' success in the public markets was led by Ed Ballin, head of ABS syndicate. In 2022, Barclays registered its biggest year leading ABS primary issuance since 2008, heading up the RMBS league tables with around 17% of market share and taking 12% of CLO new issues too.

Ballin says that being part of the largest deals, like the £6.4bn refinancing of the 2017 Ripon Mortgages UK RMBS, was "a product of a lot of the financing and lending we do behind the scenes". GC

Securitization Deal of the Year — Stratton Hawksmoor 2022-1, BofA

Bumper £2.1bn deal priced in August while many others struggled to issue

Stratton Hawksmoor 2022-1, a Davidson Kempner transaction led by Bank of America, has clinched *GlobalCapital*'s European Securitization Deal of the Year award. The deal impressed because it achieved a tight pricing with a vast legacy collateral pool at what appeared to be a difficult time for the market.

Issuer Davidson Kempner worked with law firm Allen & Overy and Bank of America to refinance four legacy deals in a £2.1bn UK RMBS trade that was priced on August 4.

Late spring and early summer 2022 was a turbulent period for the European securitization market. In the run-up to Stratton Hawksmoor 2022-1 many issuers were struggling to build order books and the economics of refinancings were particularly difficult.

However, Tristan Cheesman, head of EMEA/APAC structured finance syndicate for Bank of America, says that the bank had spotted a window of opportunity in August. He believes that Bank of America's decisive action to close the deal at that time reflected one of the main themes of the year: providing issuers with execution certainty in spite of broader market volatility.

"We were very cognisant of taking advantage of the window that presented itself and this one happened to be in August," Cheesman adds. "It's important that deals were getting done in June [and] July so we could have discussions with investors about relative value."

The scale of the deal made it particularly tricky. When it was issued, Stratton Hawksmoor 2022-1 was the largest European securitization deal of the year so far. It took collateral from four legacy deals, including two deals priced before 2008.

Calling the deals, Hawksmoor Mortgages 2019-1, Stratton Mortgage Funding 2019-1, Clavis Securities Series 2006-1 and Series 2007-1, was important for Davidson Kempner.

This is why, according to Bank of America managing director, Prashant Sood, his team was chosen to run this deal. Bank of America had a "track record" with this issuer, Sood says. The bank had impressed with the breadth of its platform, along with its distribution capabilities on large strategic transactions.

Crucially, Bank of America was able to confirm a large order that was committed early in the marketing process, reducing execution risk and giving the issuer the certainty it craved.

This also enabled Bank of America to focus on placing the more junior tranches. Ultimately, seven tranches were sold to investors — and at good prices for the issuer.

"Placing the triple-As all the way down to the single-Bs at the pricing levels achieved was significant given the market backdrop at the time," Cheesman says.

Gregory Petrie, Bank of America's head of EMEA origination, praises the whole Bank of America team for their work on the deal.

"Success was due to global partnership within Bank of America's mortgage team — across banking, analytics, sales and trading," says Petrie. GC

Private Securitization of the Year — Citi, Enpal and M&G

Warehouse for solar loans marks a new frontier for European ABS and could lead to the continent's first public solar ABS

Enpal (issuer), Citi (senior debt provider) and M&G (mezzanine debt provider) win *GlobalCapital*'s Private Securitization of the Year award for leading the way on ESG and closing a warehouse facility that suggests a public solar ABS in Europe could be tantalisingly close.

Creating a new asset class in securitization can be a challenging endeavour. There can often be a lack of data to fall back on, an imperfect understanding of how the collateral will be paid back by consumers over time, or regulations that don't quite fit.

As German renewable energy company Enpal looked to finance its proposed residential solar loan product, those familiar challenges were more than just bumps in the road.

"It was a product that they hadn't originated at all," says Sebastian Walf, managing director and head of asset backed securities at Citi. "We had no historical data at all. No data on defaults or on prepayments. We had to look at proxy data from Enpal's lease portfolio, which was thankfully a very similar client base. And we looked at German credit scores to get comfortable."

Eventually, Citi was able to finance a €356m warehouse facility for Enpal's solar loan product, alongside investors M&G who took on a €56m mezzanine debt facility.

Meanwhile, Enpal had to receive regulatory approval to offer a solar loan product which sits somewhere between a mortgage and an unsecured consumer loan. Previously, residential solar buyers in Germany had essentially been forced to either find financing themselves, or use their own cash.

The solar loan is a 20-25 year product, but the debt is relatively small compared to a mortgage. As such, the main risk for investors in a securitization was prepayment, Walf said. A problem made more difficult without historical data to rely on.

Responsibility to get it right

However, solar ABS is nothing new in the US, where Citi is one of the leading underwriters. Bela Schramm, senior investment manager at Enpal, says that the bank's experience in the US was a key selling point when choosing to work with them.

As the Enpal team works on building the warehouse and looks towards a public securitization, there is also a mixture of excitement and trepidation, says Schramm.

"It's really crazy, but it speaks to what Enpal is," he says. "The people that set up this business had no solar installation experience initially, but we're the biggest installation firm in Germany now.

"But it is daunting. We discuss it a lot internally: that we have a responsibility to get this right or we're hurting the asset class, which hurts the whole industry and — ultimately — hurts our ability to fight climate change."

GlobalCapital's Private Securitization of the Year award attracts all kinds of weird and wonderful deal pitches every year, and 2022 was no different. Some transactions are brilliant for their highly complex structures and innovative ideas to solve a particular problem. But Enpal's solar loan warehouse is special for its scalability and repeatability. It is a transaction that offers much promise, not just for Enpal, but for European securitization and European renewable energy firms.

GlobalCapital thus awards Private Securitization of the Year to Citi, M&G and Enpal. The race for the first public solar ABS begins now. **GC**

Outstanding Contribution Award — Laura Coady

Award celebrates Coady's consistent excellence in European CLO banking since 2013

Laura Coady, head of European securitized markets at Jefferies, is no stranger to *GlobalCapital*'s awards. Indeed, when combining her time at Citi as head of European CLO primary with her current job at Jefferies, Coady's teams have won five out of seven CLO Arranger of the Year awards since 2016.

Her ability to excel in difficult markets led to her being one of the most respected and admired CLO bankers in Europe. Her teams are renowned for being the last to price a deal when markets turn choppy and the first to bring deals when they calm down again.

With Covid-induced lockdowns approaching in March 2020, Coady's team at Citi managed to price Credit Suisse Asset Management's €402m CLO, Maddison Park XV, just 12 days before the UK government ordered a national lockdown and as similar restrictions were imposed the world over. It was as soon as late April of that year when her team led the European market recovery with three deals priced by May 5.

But Coady has proved for 10 years that her teams are about performing whatever happens. Indeed, since she took over management of Citi's European CLO primary business in 2013, Coady has dominated the CLO market league tables. Citi were first in every year on deal count from 2013-2019, sharing top spot only once in 2014.

She moved to Jefferies in 2020 to build its European CLO business and the firm shot up to second in the rankings with €13.17bn of issuance the following year. That figure was just €340m shy of leaders Barclays, despite the firm having no legacy warehouses built up from 2020 from which to get deals out of the door.

Jefferies firmly planted itself at the top of the league tables last year with over 25% market share, more than double its nearest competitor.

While her achievements in driving the growth of the CLO market in Europe are not in doubt, Coady has also been key in driving greater diversity and ESG standards in the industry, pushing for CLOs to take up the sustainable finance disclosure regulation and increasing transparency within the sector.

She is admired for her relentless work ethic, passion for doing what is best for her clients, and leadership of her team.

GlobalCapital congratulates Laura Coady as the winner of its 2023 Outstanding Contribution Award. GC

Lifetime Achievement in Securitization Award — Ian Bell

Bell, a true market veteran, has played a pivotal role in the survival and development of the European securitization market

Ian Bell's career in the securitization industry spans five decades, across a variety of roles in law, ratings and verification, and he has contributed hugely to the development and survival of the European securitization market.

Bell began his career at law firm Clifford Chance in 1987, where he was made partner in 1996. He worked on a wide range of securitization transactions until 1999, when he moved over to rating agency S&P, first as European general counsel and eventually as head of European structured finance in 2005.

Then, the aftermath of the 2008 global financial crisis required collaboration in the industry. It was to be a test that would bring Bell's deep understanding of securitizations and complex regulations to the fore. This time, it was not just a question of impressive individual professional achievements, but the betterment of the entire market was at stake.

As EU regulators sought to ensure that nothing like 2008 could ever happen again, through much more stringent regulations across the entire capital markets, securitization was to be regulated particularly harshly — so much so that the market risked becoming unviable.

Aware that radical changes were on the way and that something needed to happen, various stakeholders from all corners of the European securitization industry came together to found Prime Collateralised Securities (PCS), where Bell took the helm as CEO.

The aim was to create an independent, but publicly available, label for high-quality securitization to make a gold standard for safe and sound securitizations and prove that the asset class could play a positive role in financial markets and the wider economy.

PCS's mission was to strengthen the securitization market as a sustainable investment and funding tool for both investors and originators, promote growth in the real economy, and improve market resilience by supporting standards of quality, transparency and simplicity.

These founding principles were subsequently recognised by EU regulators to essentially form the basis for what is now known as simple, transparent, and standardised (STS) securitizations — with PCS acting as an EU-authorised third-party verification agent of STS transactions.

Bell's unique career armed him with vast experience and knowledge of securitization, but — crucially — also allowed him to be viewed as an independent party. He built strong relationships with lawmakers, regulators and other stakeholders without being seen as a lobbyist acting only in the interest of market participants.

Those who have worked alongside him recall the countless occasions on which he was able to be the diplomat who bridged the gap between regulators and market participants.

It has been generally recognised by friend and foe that Ian Bell has played a pivotal role in the survival of the European securitization market after the global financial crisis and, notably, in the creation of a viable STS regulation. Despite the many continuing issues, that the securitization industry is still functioning in Europe in 2023 is down — in large part — to the efforts of Bell.

GlobalCapital is proud to announce Ian Bell as the winner of its 2023 Lifetime Achievement Award. GC

AFME gathers senior market participants in London to discuss the big issues facing the industry

After a four-year hiatus, the AFME Roundtable is back. While some familiar faces remain, much has changed. Less than nine months after the 2019 Global ABS conference, Covid-19 swept across the world and ushered in a period of volatility and uncertainty that continues today and worsened when Russia invaded Ukraine in February 2022. Annual inflation across the EU reached the highest level on record in 2022, accompanied by rapidly rising interest rates, which have not yet stopped climbing.

In European securitization, market dynamics shifted too, with a greater variety of assets and issuers, while a larger emphasis is on sustainability and climate change with each passing year. In addition, there are questions around how banks will manage without cheap central bank funding schemes.

Meanwhile, as much as bankers, investors and policymakers alike would have hoped the Securitization Regulation debate would be over, some things never change. In fact, there is more to discuss, with synthetic and green securitizations having been added to the regulatory to-do list.

In late May in London, *GlobalCapital* and AFME were joined by market participants from major banks, law firms and asset managers to discuss market developments in innovation, ESG, regulation, RMBS and the EU's high-level forum recommendations. GC

Participants:

Shaun Baddeley, AFME

John Millward, HSBC

Rob Ford, TwentyFour Asset Management

David Saunders, Santander

Salim Nathoo, Allen & Overy

Shamil Shah, Deutsche Bank

Alex Linden, BNP Paribas

Nathalie Esnault, Crédit Agricole,

Kevin Ingram, Clifford Chance

Maria Pefkidou, AFME

Tom Lemmon, *GlobalCapital* (moderator)

Innovation and ESG spark optimism and frustration

In **part one** of the AFME Roundtable series, attendees discuss the development of ESG in securitization, innovation more broadly and the challenges these sectors must overcome

With the EU Green Bond Standards (GBS) practically complete and securitization's participation within them confirmed, roundtable attendees at the Clifford Chance offices in London were cautiously optimistic.

Nathalie Esnault, managing director at Crédit Agricole, says it was "a big achievement" to have securitization included within the schema in the first place, something which the AFME team were pivotal in securing.

"When the discussion on EU GBS started, I remember there was debate around it and whether securitization should have a separate framework," Esnault says. "It's so important we're included because most issuers want to have something simple and flexible that can be used across unsecured bonds, secured bonds, and securitization."

EU regulators and policymakers had debated whether it was appropriate to include securitization because of the different ways issuers and originators are distinguished compared to other bond markets. Due to this legal complexity, the prospect of a separate EU GBS for securitization was discussed, and ultimately defeated, because it would put "considerable growth constraints" on the market, the EU draft legal text said.

The EU GBS also clarifies how a "use of proceeds" approach to green securitization is feasible. John Millward, managing director at HSBC, says it is good to see the market provided with certainty moving forward.

"It's been quite helpful for the market just to have that real clarity from the get-go to know exactly what they're dealing with," he adds.

However, there remains frustration that the synthetic securitization market, which has grown rapidly in the last decade, has been left outside of EU GBS scope.

David Saunders, executive director in Santander's securitized products group, says that allowing the synthetic market to fall outside the standards will have unintended consequences for regulators.

"It's so important we're included because most issuers want to have something simple and flexible that can be used across unsecured bonds, secured bonds, and securitization"

Nathalie Esnault, Crédit Agricole

"Because of what's happening with synthetics, banks have already started finding ways of self-labelling," he says.

Saunders says European banks are working with investors to ensure they can call a synthetic "green" and this will just continue. However, this is only further serving to build a lack of standardisation and potentially fuelling greenwashing fears.

"The regulators are creating that separation in the market themselves completely unnecessarily," Saunders adds. "There will be concerns about greenwashing and the like, but that's been imposed on synthetics for no really good reason."

According to AFME's managing director for securitization, Shaun Baddeley, synthetic securitization is just another example of securitization regulation in Europe too often being "self-limiting".

"Take SRT [significant risk transfer], it demonstrates that insurers clearly have a strong appetite for securitization as a product. There is huge interest from that community, but they just cannot invest on a funded basis because it doesn't work from a regulatory capital standpoint," Baddeley says.

Missed opportunities bring change

In part due to regulatory policy and also because of years of cheap central bank funding schemes, securitization has often been overlooked when it comes to tackling the major issues that European economies face. Indeed, Baddeley says, in Europe the need to finance early stage businesses and the capex to finance the green transition creates "huge" requirements that are not yet being met.

"Securitization is a great tool to do that," he says. "It's really important that it realises its full potential. To date, it has been somewhat missed out on."

However, it has also forced the European securitization market to adapt, as Alex Linden, managing director, credit portfolio management at BNP Paribas, says.

"Over the last five or six years, there's been a shift in the type of issuers in the market," he says. "We've moved away from the established banks to smaller companies that operate lending platforms, typically sponsored by a big private equity house."

"There will be concerns about greenwashing and the like, but that's been imposed on synthetics for no really good reason."

David Saunders, Santander

These firms operate across the consumer lending spectrum, from mortgages and leasing to credit cards and residential solar, and their business plan demands that securitization is used as a funding tool.

"Securitization is really core to their funding mix", Linden says. "They usually start privately, with banks providing warehouses to then turn into a regular flow of public issuance."

"We've spoken about the market not growing, not recovering, but if you look at the mix of issuers, there's been a change and now most of the issuance is by non-banks," Linden adds.

He sees this as a positive development in the market, and one that could drive further innovation.

Salim Nathoo, partner at Allen & Overy, agrees.

"Product innovation is not in the banks anymore," he says. "As Alexander [Linden] says, private equity and fintechs are coming in and doing it."

Kevin Ingram, partner at Clifford Chance, says this shift is a consequence of banks being pushed away from certain customer bases with new arrivals taking up that space and "disrupting".

"They are creating different types of assets, which if they are then going to finance, often need securitization funders to innovate to help as well," he says.

Meanwhile, Shamil Shah, managing director at Deutsche Bank, says this is an area where securitization can provide a unique advantage to issuers.

"For these players to get cheaper funding, going into the market and issuing corporate debt is likely to be difficult," he says. "It is very much about financing their business, rather than using securitization as a risk transfer tool."

"Securitization is a tool that is used by a lot of these platform lenders as new kinds of businesses come through, not just in Europe, but across the world. That's important, both as a technology and as a way of providing finance."

Buyers wanted

As market dynamics shift, be it with a greater focus on ESG or with innovative issuers and asset classes, Rob Ford, portfolio manager at TwentyFour Asset Management, says there is an elephant in the room.

"Clearly, you can create as many of these bonds as you like, but if you haven't got any investors to buy them, it becomes a difficult sale," he says.

Ford explains that for investors to enter the European securitization market, they face some "relatively hefty" due diligence requirements in the EU Securitization Regulation.

"It would not surprise me if a number of investors are finding it quite difficult to get over some of those hurdles in the early stages," Ford adds.

Investors often have quite restrictive investment frameworks that may stipulate buying prime RMBS, or simple, transparent and standardised (STS) only transactions, or a certain rating grade within an asset class, for example.

"You might not be able to get these new deals up to triple-A in the early stages, like we saw with some of the SME-type securitizations. That means they suddenly won't fit half the mandates that I've got to manage," Ford adds.

Millward agrees and says it's difficult looking across at the US esoteric ABS market, which has a far deeper investor base, making new asset classes much easier to get off the ground. Nevertheless, he feels the market reception for esoteric deals and new asset classes is "better than it's ever been".

Solvency II regulations, which affect insurance companies, have played a major role in insurers largely leaving the European securitization market. Linden says their absence in Europe is a "key differentiating factor" versus the US.

Shah says that securitization is a "powerful tool" which should be used much more effectively in Europe.

To some degree, the industry's history is still relevant, but regulation remains the largest constraint. GC

Glacial pace of regulatory change continues to bite

Part two of the AFME roundtable series focuses on the regulatory future of European securitization, with hope that a rare Brexit dividend could be found if UK regulators are proactive

Grappling with EU regulation on securitization has become a well-worn topic since the global financial crisis in 2008. However, the roundtable attendees feel that the speed of progress is particularly harmful and could be inadvertently shutting down certain sectors within European securitization.

Shaun Baddeley, AFME's managing director for securitization, says there is a "perfect storm" emerging in Europe with unprecedented financing of capex transitioning to a green economy, as well as financing post-Covid growth and the digital economy, at a time when banks' capital will become increasingly scarce.

"If you consider that around 75% of the funding within the US is from the capital markets, in Europe that's 25%," he says. "We don't have GSAs [government sponsored agencies] in Europe so we can't rely on a structural capital recycling mechanism like that. There are limited resources that banks have to expand balance sheets. SRT [significant risk transfer] is a helpful tool in doing that."

Yet SRT's very existence is in question due to the impact of the impending implementation of Output Floors which, Baddeley hopes, will be partially resolved through political consensus in relation to adjustments to securitization capital formulations.

For David Saunders, Santander CIB's securitized products group executive director, time is of the essence. When problems around third-country equivalence rules began to cause concern last year, Saunders says the instinct of investors is to wait and see until further clarity is provided by policymakers and regulators.

Saunders says he wishes EU regulators had the option to be more proactive, particularly as ambiguities in legal texts are an "inevitability".

"We constantly find ourselves explaining there is a market, people actually do this stuff. I have a sense that the regulators don't really understand the market"

Salim Nathoo, Allen & Overy

"They [ambiguities] happen and given they're an inevitable fact of reality in this system," Saunders adds. "It would be better to have a more effective way of dealing with interpretation."

Alex Linden, managing director at BNP Paribas, agrees that progress is often "very slow", and says that changes which take 18 months or more are damaging.

"It's a long time for the market because we are left in the uncertainty," he says.

For Salim Nathoo, partner at Allen & Overy, it's a reflection of the difference between understanding financial products and understanding markets.

"We constantly find ourselves explaining there is a market, people actually do this stuff," he says. "I have a sense that the regulators don't really understand the market."

Low expectations on Article 5

The most obvious present example is with EU Securitization Regulation article 5.1.e, which requires disclosure for issuance by issuers domiciled outside of the EU (known as third country) to provide the same information that would be required by issuers from the EU.

In December 2022, AFME wrote to the European Supervisory Authorities, along with a host of other trade bodies around the world, explaining that the disclosures being demanded from third country reporting entities were already creating a "reluctance" to engage with the regulation because of the costs involved to align systems to generate reporting that was already scheduled to change again. It therefore asked ESAs to give direction to NCAs to act with proportionality until such time that new templates are implemented.

As a result, EU institutional investors are potentially excluded from investing in "most" third-country securitizations. The EU Commission said in its report on the EU Securitization Regulation that the competitive disadvantage imposed should be addressed with a private securitization template that would be used for all deals whether inside or out of the EU.

AFME has asked for "temporary forbearance" until the templates are implemented, but expectations are low.

Rob Ford, TwentyFour Asset Management's portfolio manager, says these issues are what end up stifling innovation.

"Investors who want to set up investment funds that are buying third-country securitizations are now in a position where if they can't rely on being able to get full compliance, then realistically, they're locked out from investing in those

"If you consider that around 75% of the funding within the US is from the capital markets, in Europe that's 25%"

Shaun Baddeley, AFME

markets," Ford says.

"If I wanted to set up a global CLO fund, I can't," he adds. "And, if you manage a global CLO fund from the EU today, theoretically, you might have to stop managing it tomorrow."

Brexit dividend?

Within the capital markets, securitization regulation has perhaps been seen as one of the few areas where some sort of Brexit dividend could emerge. At the same time, the potential for extra hurdles caused by divergence still exists but, as Nathoo says, it feels more unlikely.

"I doubt we'll move too far away from what the EU is doing in the UK in pure principles terms because that will disconnect the markets and is not helpful to anyone," he says.

Instead, the biggest immediate changes could be more in tone. Nathoo says when dealing with UK regulators, the difference with the EU is stark.

"We had a conversation with the PRA [Prudential Regulatory Authority] and FCA [Financial Conduct Authority], they came back and said 'yep, looks alright to us'," Nathoo says. "We talk to the ECB [European Central Bank] and they said they can't answer the question."

"You've got someone who's listening in the UK now, whereas in Europe, they're bound by primary legislation."

Saunders agrees, with the change of tone on the UK side evidenced by mentions in the government's upcoming financial reforms, known as the Edinburgh Reforms, and the Financial Services and Markets Bill.

For Kevin Ingram, partner at Clifford Chance, this is where the dividend lies.

"If you're looking at a Brexit dividend, then the ability to deal quickly with changes coming from innovation, in terms of how regulation is applied, may become easier to do in the UK"

Kevin Ingram, Clifford Chance

Alex Linden, managing director at BNP Paribas agrees that progress is often "very slow", and says that changes which take 18 months or more are damaging. "It's a long time for the market because we are left in the uncertainty"

"If you're looking at a Brexit dividend, then the ability to deal quickly with changes coming from innovation, in terms of how regulation is applied, may become easier to do in the UK," he says.

Beneficial interpretations and changes to regulation emanating from the UK could also influence policy in the EU, Ingram adds.

"I doubt it would be acknowledged publicly, but EU regulators and policymakers may find it helpful in developing European regulations if the UK implements something new which is perceived as successful and appropriate as it can be used as evidence for adopting a similar approach in the EU," the Clifford Chance lawyer says.

Culture shock

While the communication style, tone and indeed culture of the UK government and regulators is somewhat different to the EU's, it is more like a chasm between the bloc and the US.

As Ford says, the US has "a totally different investment philosophy as a society", that sometimes feels as though legislation is designed so that no participant ever loses.

"In the US, it's get involved, go and buy something, and some people will lose some money on these products," Ford adds. "But as the recovery from the global financial crisis proved, it took virtually no time to get going again after the whole thing blew up."

John Millward, managing director at HSBC, says that Ford's argument speaks to the dual utility of securitization, as both a funding tool and a risk management tool.

"When problems arise, the usage of securitization and how it is deployed in the US means they can dispose of asset pools or risk manage those positions in a way that is a lot more nimble and pragmatic than is possible in Europe."

Much to do on HLF

Meanwhile, Baddeley says that work derived from the EU's High-Level Forum (HLF) on the Capital Markets Union, which most notably introduced the simple, transparent and standardised (STS) securitization quality hallmark, is only partly working.

"Whilst we see that STS adoption rates are high and that those transactions which can be STS are STS," Baddeley says. "The overall market is just not growing in the way that it needs to."

What's needed to improve on the aims from the HLF first introduced three years ago revolve around familiar topics like building the investor base, helping banks with capital requirements and getting insurers back into the market, Baddeley says.

"It's about creating demand from the investor base, but it's also around certainty of execution."

"Over the next five years, with a new EU political administration in place, it is vital that the institutional knowledge and understanding of this administration developed over the last few years is carried over and built upon — we may then see rational and effective change legislated," Baddeley adds.

Often there is a sense amongst securitization market participants that the industry is legislated and regulated as an afterthought. However, Millward says thinking of and treating securitization differently to other capital markets is not necessary or sensible.

"It's a debt instrument like any other type of debt instrument," he says. "Clearly, it's important to have a securitization regime that controls the product because of its specifics, but I think sometimes it can go a little bit too far and this can be harmful to market stability and liquidity as much as support it."

There is a sense also that regulators are to some degree stuck. As Ingram says, the EU Commission "wants this file shut", but there is also an implicit understanding that the regulations are no longer set around the reality of the present-day market.

"It was created around 2010 and the regulation was designed to work based on what was learned from the crisis," Saunders adds.

"The European securitization market existed only in a small number of countries then. We're in a vastly different place. It's completely different," he says.

As has become a common theme in the securitization regulatory landscape, there are glimmers of progress, but time is of the essence. GC

End of QE brings opportunities in RMBS

Part three of AFME roundtable: Recent RMBS issuance gives hope of possibilities that the whole market could take advantage of

A hectic few weeks in UK RMBS, headlined by the return of Lloyd's Permanent shelf, mean spirits are high as the summer draws near. Roundtable attendees questioned whether it was the beginning of a paradigm shift for European securitization or just an extreme example of issuers clamouring for the same execution windows.

Indeed, May 2023 is already set to be the busiest month this decade for RMBS issuance, despite rising rates, ongoing inflation and the regional banking crisis in the US, the securitization market appears to be getting down to business.

However, Rob Ford, portfolio manager at TwentyFour Asset Management, while optimistic, says he is cautious of jumping the gun.

"I don't think there's going to be a tidal wave of issuance," he says. "But I do think that the trend is that we're going to see more issuance coming out from the banking sector."

"What I'd really hope to see in the longer term is RMBS deals coming from Europe not just the UK," Ford adds.

"What I'd really hope to see in the longer term is RMBS deals coming from Europe not just the UK"

Rob Ford, TwentyFour Asset Management

"There has to be a hope that European schemes like TLTRO [Targeted Longer-Term Refinancing Operations] and so on, alongside potentially stiffer ECB criteria on repo funding, mean issuers will start to return to the market. It's going to be a slow burn but, for me, that's the light at the end of the tunnel."

The end of cheap central bank funding — such as the UK's Term Funding Scheme (TFS) with additional incentives for SMEs programme and EU schemes like the ABS Purchase Programme — means the large, established banks need to find alternative funding routes. The hope is that securitization could be used, at the very least for diversification purposes.

John Millward, managing director at HSBC, says it's "inevitable" that RMBS issuance will increase but it will be a gradual process where a once or twice a year issuer starts to explore coming to the market three or four times each year.

"The previous time we saw this was at the end of 2019 when the previous TFS was coming to an end and TLTRO was also rolling off. We started to see a big rise in interest and investor focus on the product," Millward adds.

For the time being, however, covered bonds remain a much more efficient funding source for European banks with RMBS maintained to ensure diversification, says Nathalie Esnault, managing director at Crédit Agricole.

Indeed, Shamil Shah, managing director at Deutsche Bank, says the structure of a covered bond is often easier to deal with, the bullet structure and general claim against the issuing bank meaning there is no cashflow analysis of the underlying collateral or prepayment speed analysis necessary.

However, hopes for the securitization market were bolstered following its resilience during the pensions liability-driven investment (LDI) crisis in late 2022.

"The LDI sell-off last year added a huge amount of confidence to the investor base," Ford says.

Shamil Shah, managing director at Deutsche Bank said the structure of a covered bond is often easier to deal with, the bullet structure and general claim against the issuing bank meaning there is no cashflow analysis of the underlying collateral or prepayment speed analysis necessary.

"In UK RMBS, we absolutely proved that we could absorb and trade that amount of paper within a small amount of time," he adds.

Meanwhile, the fixed rate covered bond market struggled in the LDI crisis, with wild swings in Gilts more damaging when compared to floating rate RMBS, for example.

Ultimately, Ford believes the whole securitization market will take confidence for the years ahead.

"It was a traumatic experience, but the market did it," Ford says. "The market is now deeper and better and considers itself to be more liquid than it did before." GC

US ABS braces for economic downturn but investors spy value

Consumers face pressures but tighter lending standards and strong track records are reassuring investors in ABS sectors offering apparently compelling returns. By **Ayse Kelce**

Amid broad expectations that the US economy will enter recession at some point this year, not to mention a rise in loan delinquencies, certain important ABS sectors — such as auto or unsecured consumer — could expect to be in the firing line.

Annualised net losses in KBRA's non-prime auto ABS index climbed from 5.2% in March 2022 to 7% by March 2023. In a marketplace consumer loan index from the rating agency that features borrowers with FICO scores between 660 and 710, annualised net losses were up from 7.48% in March 2022 to 15.38% a year later.

Yet US ABS issuance volumes have steadily picked up throughout 2023. May was not just the busiest month of the year so far for the asset class as a whole, but the busiest month ever for auto ABS in the US, according to data from Finsight, with $15.7bn raised across 21 deals. The previous record was $15.6bn from 14 deals in September 2021 — just before interest rate fears triggered a long-lasting slump in broader fixed-income markets.

A bad vintage

One reason for the new issue market's resilience is that the trouble is mostly restricted to deals from the pandemic-era vintage.

Several ABS issuers had loosened lending standards in the wake of the Covid-19 pandemic amid low interest rates and high consumer savings, and delinquencies and losses in several sectors reached historic lows.

The personal savings rate declined steeply from its March 2021 high of 26.3%, going as low as 2.7% in June 2022 as consumers stopped receiving stimulus cheques and faced inflationary pressures. And the decline in consumer health has put these apparently hairier transactions under pressure.

"The delinquencies and losses primarily have to do with an expansion of the credit box that happened in late 2021 through 2022," says Rich Barnett, capital markets partner at investment firm Castlelake. "The servicers can do their best, but we believe there's just a whole vintage of bad loans that were made.

"We see that flowing through the system, and believe some people, particularly at the bottom of the capital stack, are going to take losses."

In subprime auto loan ABS, one of the sectors where the credit box had loosened the most, several bonds from the 2021 and 2022 vintages have endured downgrades. In March, for example, S&P downgraded four subprime auto ABS notes. Certain notes from issuers like American Credit Acceptance and United Auto Credit transactions are also on negative credit watch. And in April, KBRA put 11 notes across three US Auto Funding transactions and seven American Car Center auto lease ABS bonds on downgrade watch.

Some negative rating actions were the direct result of issuer-specific problems, such as American Car Center filing for bankruptcy, but the troubles largely come down to the loans that were made when lending standards were looser.

"Issuers have been increasing their yield supplement overcollateralization or the discount rate. That's basically used to generate additional interest, and that helps with increasing excess spread"

Ann Tran, MUFG

Improvements working

The weakening of collateral performance across the board is undeniable.

"We're seeing weaker credit performance for most of the sectors including autos, student loans and consumer loans," says Theresa O'Neill, ABS strategist at Bank of America, adding that the bank expects performance in these sectors to continue to deteriorate this year.

However, investors remain largely constructive on the opportunities available in the sector.

"We think there are a lot of signs that compelling risk-adjusted returns can be had in the space right now," says Barnett.

To begin with, issuers are implementing additional structural protections to reassure investors. By late 2022, many lenders had started to tighten their credit boxes, according to Amy Sze, managing director of ABS research at JP Morgan.

"Also, rating agencies, with the downgrades, are revisiting their loss expectations," she says. "Recession risk is put in as well."

Market participants expect the tightening of lending standards to help the late 2022 and 2023 vintages to perform better compared to deals from 2021 and early 2022.

Barnett says that for some of the originators that Castlelake tracks, the performance of deals priced after the credit box tightening is in line with or even better than 2019 vintages.

"We believe that tells us that the changes that the originators have made to the credit boxes are working," he says. "If you look at first pay defaults, the vintages that we're seeing from earlier this year are on par or better than 2019 for a number of originators — although not everyone — and that's a pretty good sign."

Rating agencies are also increasing their loss assumptions for transactions, which leads to deal structures emerging with more protection requirements.

"This has resulted in higher credit enhancement requirements, which we think would be sufficient to offset the higher losses," says Ann Tran, managing director and head of flow ABS at MUFG.

However, amid higher rates and uncertain times in markets, funding costs are increasing — making it difficult for some issuers to meet the additional credit enhancement requirements.

Prime auto loan ABS is feeling the effects of higher benchmark rates and

"Yes, the labour market is strong, and consumers feel comfortable, but folks haven't forgotten about the recession"

Amy Sze, JP Morgan

cost of funds, as APRs charged to borrowers are not increasing as quickly as the rising cost of funds, according to Tran.

"There's been pressure on excess spread," says Tran. "As a result, for a lot of these prime auto loan transactions, issuers have been increasing their yield supplement overcollateralisation or the discount rate. That's basically used to generate additional interest, and that helps with increasing excess spread."

Subprime auto is also feeling pressure on excess spread. Implementing rapid increases in APR could be more of a challenge for subprime auto lenders because a lot of originators are potentially already charging the highest rates they can, according to Tran.

Unemployment test yet to come

Even though issuers are cutting off lower-tier borrowers to offset some of the credit risk, there are still upcoming macro stresses that could change the dynamics, according to Jason Callan, senior portfolio manager at Columbia Threadneedle.

The improvement of credit standards could help structures hold up and loan pools to perform if there's a so-called "soft landing" for the US economy. "But to the extent that we have to start to see a little bit more deterioration in the employment backdrop, I think it's still a bit more concerning now," says Callan.

The US unemployment rate has been holding steady so far, still at historically low levels at 3.4% in April, but economists mostly expect a rise in unemployment by the second half of the year.

Deal vintages originated in the last few months should still perform better, but O'Neill at Bank of America says her "biggest concern is that the unemployment rates are going to increase".

Although downgrades have been largely focused on subprime autos, market participants note that this asset class has a history of performing relatively well even during an economic downturn. Consumer and marketplace lending, where credit quality is being impacted by the same factors, does not have a track record to lean on.

Moreover, although those who take out marketplace loans in underlying ABS pools tend to be higher up the credit spectrum than subprime auto borrowers, the fact that consumer loans are unsecured and have limited history as an asset class raises the question of whether these structures can handle recessionary pressures.

"For subprime auto, you can look at financial crisis data and say well, at the very worst, this issuer's performance gets to a certain percentage loss," Sze says. "On the unsecured side, [the issuers] haven't been around that long, so there's some uncertainty there, even though the borrower might be prime, [as to] just how bad performance can get."

The question mark is over whether consumers will prioritise unsecured debt when economic pressures increase.

"Generally, if we're looking over a period of time where we expect the economy to slow and unemployment to rise, you start thinking about payment priorities, and would put auto loans above consumer loans," O'Neill says.

Lucrative lower tranches

Across autos and consumer ABS, the wider spreads on lower tranches suggest there is still some aversion to too much risk.

"Yes, the labour market is strong, and consumers feel comfortable, but folks haven't forgotten about the recession," says Sze. "That's where the tiering comes in. That's why we have a very steep credit curve at triple-B and even steeper in non-investment grade rated tranches."

Callan says that his firm's participation in consumer-facing ABS has been in more senior paper.

"We're not yet willing to move back down the capital structure, even though spreads are reasonably wide, and yields are reasonably attractive," he says.

Although January and February brought significant spread tightening after a torrid 2022, the banking sector turmoil in the US brought volatility back. Higher-quality paper is being favoured, generally.

"The yield curve is massively inverted, and as a result we have seen much more tightening at the short end of the curve and more stickiness at the longer end of the curve," Tran says. "The inflationary pressures and recessionary pressures all go into these wider levels."

For some, these wider spreads mean the asset represents an even more compelling opportunity.

"I think there was that scare with a bunch of deals that got put on watch and were downgraded, but that fear is seemingly dissipated," says John Kerschner, head of US securitized products at Janus Henderson. "If you look at history, usually subprime auto exists between 200bp and 500bp at the double-B [rating level]."

These tranches went as wide as 850bp before tightening back to the 650bp-700bp range today.

"That still looks awfully cheap versus historical levels, even if you think we're going into some kind of slowdown," says Kerschner.

Indeed, spreads are far wider than they were before the pandemic, even though delinquencies and losses — despite the recent uptick — remain at comparable levels to 2019.

"You're basically getting double-digit yields on something that is proven to be pretty resilient, even in a downturn," says Kerschner. "I think that looks pretty attractive for people."

Barnett at Castlelake notes that borrowers' credit metrics look better than they did before previous downturns.

"The borrowers' credit metrics look compelling, specifically for subprime borrowers," he says. "We think the subprime consumer is entering whatever the next phase of the economy is — potentially a recession — in a much stronger position than they did pre-Covid and pre-GFC." GC

"We think the subprime consumer is entering whatever the next phase of the economy is — potentially a recession — in a much stronger position than they did pre-Covid and pre-GFC."

Rich Barnett, Castlelake

US CMBS caught in eye of office storm but quality should survive

A secular change in working habits is wreaking havoc in the office sector, and there may be more pain to come. But it's too early to call time on office CMBS. By **Kunyi Yang**

Issuance volume in US CMBS has been dismal so far in 2023, with the $14.1bn priced in the first three months of the year the lowest of any quarter since the second quarter of 2012, according to data from Finsight.

Yet the first six months of 2023 have been nothing if not eventful, with defaults from giants of the asset class — such as Blackstone and Brookfield — increasing the scrutiny on the quality of commercial estate.

Some in the market say "office" has become a dirty word. With portfolio managers unwilling to have to justify themselves to their end investors, many accounts have been doing want they can to rid themselves of any office exposure.

"The 800 pound gorilla is obviously what happens to the office market and all of the non-class A buildings that have been financed via CMBS conduit and SASB [single asset, single borrower] transactions," says Jason Brooks, global securitized product analyst at Janus Henderson, an asset management group. "Right now, spreads are too wide relative to where borrower loan demand is to justify significant loan creation via the securitization channel."

There is therefore huge pressure on coming maturities. Some $7.8bn of CMBS office loans will mature in 2023, according to Moody's, and about 84% of them are likely to have challenges refinancing.

"Where borrowers have the optionality to extend their loans, they will exercise those options," says Brooks. "In instances where they have well-performing assets in good locations, they will look to refinance, even at a higher interest rate."

Bifurcation based on quality

The fundamental risk facing the office sector is the secular change towards hybrid work, which has drastically reduced demand for office space. But investors are realising that not all office CMBS is built the same.

As overall demand for offices weakens, there will be a clear bifurcation between newly furnished offices and older buildings, says Brooks, and many cities will find themselves with an old downtown area that can attract neither enough tenants nor investment.

"Many downtowns are full of 30 to 50 year old office buildings that need massive capital investment to bring them to a level that would attract tenants, and unfortunately the rents that would be achieved in many cases simply won't justify the investment," says Brooks.

Parking lots and cubicles in the suburban office park are becoming emptier, too, as the model of companies having one centrally located downtown office and then suburban satellites appears to be dying out.

"I think we end up more with a hub-and-home model, where the central office where everyone can congregate and collaborate makes sense, but the spokes are not leased suburban office spaces," says Brooks. "They are simply people working from home."

Some have shown concern about the implications of a downward spiral from the office sector to the rest of the economy. In this theory, old, obsolete buildings are not recapitalised and city governments create no incentives for redevelopment. Asset values would decline and property owners would default, leaving lenders with assets that have very little residual value — and taking losses on their loans.

Reality would be more nuanced.

"It can go that way [in a downward spiral]; I see signs that cities like San Francisco could potentially be on that path," says Lea Overby, head of CMBS and ABS research at Barclays. "But I don't think that phenomenon is going to be particularly widespread."

Many tricky outcomes could be avoided if existing lenders are willing to work with property owners and borrowers to modify or extend loans in exchange for further investment by the owners, or if there are municipal incentives that create a win-win for the areas these properties sit in as well as for the new capital required.

Overby says her "base case" is for a period of extremely weak demand for offices for the next five years.

"Slowly but surely, we [would] figure out how to backfill the existing supply," she says. "Some of that backfill can be done through demolition, repurposing, [or] multi-conversion. Some of that will also come from just growth in the overall economy."

Entry point

With hopes of a more stable interest rate environment in the second half of the year, and an expectation that the US recession could be mild, office demand could eventually increase. In this case, some have expectations that CMBS will not be dealing with much trouble beyond a simple rise in office delinquencies.

This creates an interesting entry point for investors, especially those with distressed mandates, says Edward Shugrue of RiverPark Floating Rate CMBS Fund, a mutual fund focused on floating rate CMBS. Where there are large-scale office defaults, the widening spreads in office loans mean investors can take good quality bonds at historically cheap prices.

From around 340bp over US Treasuries in January 2022, the average spread on BBB-rated CMBS stood at 925bp as of May 18. This is the highest level since the global financial crisis, with the exception of the brief market dislocation that occurred with the onset of Covid-19 in March 2020.

"People are wondering if the office is going away, [but] it is not going away, so it's a good opportunity to find good quality assets at an attractive price," says Shugrue, "There are also plenty of reasons why landlords want to defend their properties.

"If you're concerned about losing a tenant, you might be willing to go back and make a deal at a very favourable rent to retain them, because it's so costly to get a new tenant."

More pain ahead

Still, elevated interest rates will continue to weigh on asset quality and market conditions. Continued high interest rates will not only lead to possible defaults and higher than usual transfers to special servicing in floating rate notes, but could also lead to potential changes of ownership if borrowers cannot raise sufficient equity, says Shugrue.

"High rates will still be a huge impact on the marketplace," he says. "It's going to serve to slow down origination, and we're going to see some cracks in the credit market after having good credit for a long time."

The more defaults that occur, the more downgrades are likely to follow. These will ultimately reduce the buyer pool and add to secondary supply if ratings requirements force some investors to sell.

"If we end up seeing a good number of downgrades, we'll also see a pretty significant amount of spread dislocation, as we'll have more forced sellers," says Barclays' Overby.

She believes the CMBS market has held up surprisingly well amid the challenges this year, and part of that is because downgrades have been limited, meaning there hasn't been too much forced selling. That could yet change.

"Given the scale of the downgrades, we're somewhat concerned about how that might end up looking for this year as well," says Overby.

"If we end up seeing a good number of downgrades, we'll also see a pretty significant amount of spread dislocation, as we'll have more forced sellers"

Lea Overby, Barclays

Glimmers of issuance hope

Of course, CMBS buyers have plenty of options beyond office. Industrial real estate and multifamily, for example, have seen strong growth in demand over the past decade, and there are still significant secular tailwinds within those two sectors that are attracting investors in times of stress.

"In industrial real estate, for example, the rise of e-commerce and subsequent need for logistics real estate to accommodate it is not going away any time soon," says Brooks at Janus Henderson.

Fundamentals also look strong for multifamily, because the US continues to suffer from a structural lack of housing supply.

And while market participants expect CMBS issuance to remain light for the remainder of 2023, with some predicting an 80% year-on-year drop, it's not all bad news. Lighter supply might result in spread tightening in the second half of the year, says Shugrue.

"Although people who need financing will have to accept the new interest rate environment, nobody wants to be locked into a high rate for 10 years"

Edward Dittmer, DBRS

"High interest rates will continue to [cause] lacklustre supply," he says. "But investors are still waiting to put their money to work, [and] this will inevitably create tighter [spreads]."

Still, CMBS may be over the worst of the primary market slowdown. As borrowers gradually come to grips with the new reality of rates and cost of funds, issuance will pick up later this year, believes Brooks, although it will still be a lot lower year-over-year.

The deals that do come to the market are often looking different to those of the past few years, when most issuers preferred 10 year loans — or even longer.

"Although people who need financing will have to accept the new interest rate environment, nobody wants to be locked into a high rate for 10 years," says Edward Dittmer, head of North American CMBS at DBRS. "While a lot of borrowers understand that rates will stay high, they still believe that there's potential for rates to come down sometime during that term, so we are already seeing a wave of five year deals, and it will continue."

In the first quarter of 2023, two out of the four conduit CMBS deals that were priced were backed entirely by loans with five year terms. In February, a consortium of banks led by Deutsche Bank and Citigroup launched the FIVE 2023-V1 conduit deal backed entirely by five year loans, for instance.

Moreover, the recent US banking sector turmoil may in the long run drive more lenders to the CMBS market.

"There are certainly borrowers that have not considered CMBS in the past and will go into the CMBS market now, because commercial banks, especially the small regional banks and community banks, are now less able to lend given the stress on the market," says Dittmer. GC

GlobalCapital US Securitization Awards: the winners

The best banks, issuers, deals, investors and service providers of 2022 received their awards at a gala industry dinner in New York in early June

GlobalCapital's US Securitization Awards returned to their more typical summer slot this year, with the industry coming together in New York to celebrate the winners.

Our awards are the result of an extensive market research process that began back in January with a call for nominations. We asked the market to put forward those it deemed worthy of inclusion on the shortlist, published the shortlist in March, and then opened the vote to the market to select the winners. More than 15,000 votes were cast.

There were also five pitched awards, for Overall Securitization Bank of the Year, Esoteric ABS Bank of the Year, CLO Arranging Bank of the Year, Innovative Securitization Deal of the Year and — for the first time — ESG Securitization Deal of the Year. These categories were chosen by our editorial team and winners were selected based on pitches received from the nominees themselves.

Congratulations to all our winners and nominees, and huge thanks to all those who took the time to pitch and vote in the poll — the fantastic event would not have been possible without you. The full list of winners and nominees is below. GC

ABS Bank of the Year

JP Morgan

Nominees: Bank of America, Barclays, Citi, Atlas SP Partners, Goldman Sachs,

ABS Trading Desk of the Year

Atlas SP Partners

Nominees: Bank of America, Citi, Goldman Sachs, JP Morgan, Wells Fargo

ABS Issuer of the Year

Winners: Freedom Financial

Nominees: Affirm, Freddie Mac, Mosaic, Pagaya

ABS Deal of the Year:

North Mill Equipment Financing 2022-A (North Mill Equipment Finance; Truist)

Nominees: BREN 2022-1 (Luminace ABS Issuer LLC), Concord Music ABS, Osprey Securitization I, LLC Solar Asset-Backed Notes, Series 2022-1, Tricolor Auto Securitization Trust 2022-1 Asset-Backed Notes

ABS Law Firm of the Year

Mayer Brown

Nominees: Clifford Chance, Katten Muchin Rosenman, Morgan Lewis, Sidley Austin

Esoteric ABS Law Firm of the Year

Kramer Levin Naftalis & Frankel

Nominees: Chapman and Cutler, Latham & Watkins, Mayer Brown, Sidley Austin

RMBS Bank of the Year

Nomura

Nominees: Bank of America, Barclays, Citi, JP Morgan

RMBS Trading Desk of the Year

JP Morgan

Nominees: Bank of America, Barclays, Citi, Atlas SP Partners, Wells Fargo

RMBS Issuer of the Year

Fannie Mae

Nominees: Bayview Asset Management, Freddie Mac, Freedom Financial, JP Morgan

RMBS Deal of the Year

ARMI 2022-1 (Amherst; Nomura)

Nominees: J.P. Morgan Mortgage Trust 2022-DSC1, FREED 2022-HE1, BVINV 2022-6, Western Mortgage Reference Notes, Series 2022-CL4 (WAL 2022-CL4)

RMBS Law Firm of the Year

Morgan Lewis

Nominees: Clifford Chance, Dentons, Hunton Andrews Kurth, Sidley Austin

CLO Trading Desk of the Year

Morgan Stanley

Nominees: Bank of America, Citi, Jefferies, JP Morgan

Broadly Syndicated CLO Manager of the Year

Blackstone

Nominees: BlackRock, CSAM, CVC Capital Partners, PGIM

Middle Market CLO Manager of the Year

Golub Capital

Nominees: AllianceBernstein, BlackRock, First Eagle, Fortress

PITCHED AWARDS

Overall Securitization Bank of the Year

Citi

Esoteric ABS Bank of the Year

Atlas SP Partners

CLO Arranging Bank of the Year

Morgan Stanley

Innovative Securitization Deal of the Year

ARMI 2022-1

(Amherst; Nomura)

ESG Securitization Deal of the Year

Osprey Securitization I, LLC Solar Asset-Backed Notes

(Atlas SP Partners; DSD Renewables)

Broadly Syndicated CLO Deal of the Year

Wehle Park CLO (Barclays; Blackstone)

Nominees: Madison Park Funding LXII, Barings Loan Partners CLO 3, Symphony CLO 34-PS, ZAIS CLO 18, GoldenTree Loan Management US CLO 7

Middle Market CLO Deal of the Year

BCRED MML CLO 2022-1 (Blackstone; Societe Generale; Wilmington Trust)

Nominees: BlackRock Maroon Bells CLO XI, Cerberus Loan Funding XXXVIII, LJV I MM CLO, Fortress Credit Opportunities XIX CLO

CLO Law Firm of the Year

Dechert

Nominees: Cadwalader, Clifford Chance, Milbank, Paul Hastings

CLO Trustee of the Year

U.S. Bank

Nominees: Bank of New York Mellon, Citi, Computershare, Wilmington Trust

CMBS/CRE CLO Bank of the Year

Wells Fargo

Nominees: Bank of America, Barclays, BMO Capital Markets, Citi, JP Morgan

CMBS/CRE CLO Trading Desk of the Year

Citi

Nominees: Bank of America, Barclays, JP Morgan, Morgan Stanley, Wells Fargo

CMBS/CRE CLO Issuer of the Year

Freddie Mac

Nominees: Bank of America, Citi, Fannie Mae, Wells Fargo

CMBS/CRE CLO Deal of the Year

Freddie Mac Multifamily K-SG3 (Cadwalader, Citi, Dechert; Freddie Mac; Morgan Stanley; Wells Fargo)

Nominees: BX Commercial Mortgage Trust 2022-AHP, KREF 2022-FL3, BANK 2022-BNK40, VMC Finance 2022-FL5

CMBS/CRE CLO Law Firm of the Year

Dechert

Nominees: Cadwalader, Clifford Chance, Orrick, Sidley Austin

Insurance Investor of the Year

Apollo

Nominees: Aegon, AIG, MetLife, NY Life, PGIM

Asset Management Investor of the Year

Blackstone

Nominees: Apollo, Barings, BlackRock, PIMCO

Securitization Research Team of the Year

Nomura

Nominees: Bank of America, Citi, JP Morgan, KBRA, Moody's Investor Services

Securitization Data Provider of the Year

Intex Solutions

Nominees: Bloomberg Data Management Services, Solve Advisors, Finsight Group, Moody's Analytics, Clarity Data Intelligence

Securitization Trading Data Provider of the Year

Finsight Group

Nominees: Bloomberg, Intex Solutions, Solve Advisors, Trepp

Securitization Trustee of the Year

U.S. Bank

Nominees: Bank of New York Mellon, US Trust, Computershare, Wilmington Trust

Securitization Rating Agency of the Year

KBRA

Nominees: DBRS Morningstar, Fitch, Moody's, S&P Global

Securitization Accounting Firm of the Year

Deloitte

Nominees: Grant Thornton, KPMG, PwC

ESG Securitization Bank of the Year

Bank of America

Nominees: Atlas SP Partners, Goldman Sachs, JP Morgan, Wells Fargo

ESG Issuer of the Year

Nuveen Green Capital

Nominees: Fannie Mae, Freddie Mac, GoodLeap, Mosaic

CLO Trustee of the Year; Securitization Trustee of the Year — **U.S. Bank**

Over the course of more than a century, U.S. Bank has built an exceptional corporate trust business. The firm's strategic acquisitions and dedicated investment in people and technology have made it the partner of choice across the securitization market. Standing head and shoulders above its competitors, the bank was a clear winner in both CLO Trustee of the Year and Securitization Trustee of the Year categories.

The firm has grown steadily over the years, fuelled in part by a series of well-judged purchases. The most recent was in 2021, when U.S. Bank acquired MUFG Union Bank, which included its corporate trust and custody business. Although this had only a modest impact on the bank's thriving securitization product offerings, it was yet another demonstration of the commitment U.S. Bank has to growing its corporate trust franchise.

The trustee business is a scale business. *GlobalCapital* has recognised U.S. Bank for its work in the securitization sector, but the firm's activities span a wide range of asset classes. The bank provides a world-class package of corporate trust services across products ranging from mortgage and asset-backed securities and CLOs to municipal and corporate debt, as well as ancillary services such as escrow and institutional trust.

"Unlike other providers, our platform can support the various services that fall under the global corporate trustee umbrella," says Jeff Kerr, executive vice president, co-head of global corporate trust and custody. "We can leverage the various operational aspects of our business to support clients across various products."

One thing the bank prides itself on is dedication to customer experience — creating a service model focused on building and deepening relationships with its clients. "Just as deal structures can vary, so can the way that clients prefer to interact with their trustee," says Kerr. "Our competitive advantage is that we work to serve our clients in the way that is best for them."

The bank's commitment to client experience and investment in technology mean its customers have access to cutting-edge data tools. One example is Pivot, an interface that provides data and reporting for customers. U.S. Bank has also used its insight and expertise to tailor these tools to specific needs. Pivot Portfolio Optimization allows its buyside customers to construct and design CLO portfolios that meet their specific credit investment criteria.

Joe Nardi, senior vice president, co-head of global corporate trust and custody, notes that as the market leader, U.S. Bank has access to a vast amount of data on underlying loans. "In the broadly syndicated loan space we touch 99% of the loans, so we're allowing our buyside clients to tap into that huge pool of valuable data," he says. "The bank always takes opportunities to develop new products that really add value for our clients. We have multiple initiatives for different markets where we're making investments to advance our technology."

At the same time, the bank is undertaking a significant upgrade of its settlement and cash movement system. State-of-the-art infrastructure will continue to ensure the bank remains at the forefront of emerging technologies. But the firm also recognises that investment in personnel is even more important. "We recognise that we have an extraordinary team with a vast amount of experience who are the backbone of corporate trust," says Kerr. "They're responsible for the leadership position that we're in and for the bright future that lies ahead."

U.S. Bank has remained at the top of market league tables year after year. The firm has been the number one ranked trustee for ABS and MBS since 2015, and number one for CLOs since 2013. Competition in the trustee space is likely to increase, but so far in 2023 U.S. Bank has only expanded its leadership position. The firm's ABS/MBS team increased their market share to 39% in the first quarter of 2023. The CLO team pushed its market share to over 50% in the same period.

"Corporate trust is a core business for U.S. Bank. We're working on integrating more of our corporate trust products into our corporate and commercial banking relationships," says Kerr. "We'll continue to expand our ability to be a full service provider to our corporate, commercial and government clients." GC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