Financial Stability Board (FSB) securitization review. In August, the FSB launched an invitation for feedback on the effects of the securitization regulatory reforms that have been implemented across the G20 countries since the 2008 global financial crisis. The exercise is intended to assess the extent to which these reforms have achieved their financial stability objectives, including the reduction of systemic and moral hazard risks. However, the study will also examine the reforms’ broader effects on the functioning and structure of securitization markets and the implications for financing to the real economy. The FSB will consider the feedback it receives and publish preliminary findings in early 2024, followed by a final evaluation report around mid-2024.

Issuance. Investor-placed securitization issuance volumes for July and August 2023 were €6.8 billion and €3.4 billion, respectively—a decline from the same months in 2022. Overall year-to-date issuance ($51 billion) was down 16% at end-August. However, other measures—such as growth by transaction or originator count—paint a more positive picture. The number of banks using securitization has grown by nearly a third. European benchmark covered bond issuance is still robust, reaching €140 billion year-to-date by the end of August 2023—a quarter higher than the same period in 2022. Benchmark issuance restarted in mid-August after the summer lull to reach almost €10 billion for the month, following €6 billion in July.

Rating actions. In July and August 2023, we raised 48 of our ratings on European securitization tranches, mostly in the CLO and RMBS sectors. There were 15 downgrades, mostly across three transactions in the U.K. CMBS and nonconforming RMBS sectors.
The differences in structures and portfolios between European and U.S. broadly syndicated loan (BSL) CLOs stem largely from the differences in their respective loan markets.

European BSL CLO notes offer more credit enhancement than their U.S. equivalents at each rating category. For example, median subordination for European 'AAA' tranches is 39% compared with 36% for U.S. CLOs.

In the U.S., underlying loan portfolios have greater obligor diversity, while European CLO portfolios have higher geographic diversity.

While some differences persist—such as European CLOs' adherence to risk retention rules—there is some convergence in structural features and documentation as both regions face similar challenges that CLOs continue to adapt to.

Interactive CLO comparison dashboard (click here)
More than 70% of the European commercial mortgage-backed securities (CMBS) transactions we reviewed experienced a rise in expenses over the last four years, often in the double- or triple-digit percentage range.

In a competitive environment, tenants shy away from properties with high operating expenses.

Borrowers also suffer from high operating expenses, which reduce net cash flow and limit their debt service coverage and their ability to refinance mortgages.

We expect that loan defaults in European CMBS will rise, albeit from a very low level, and we will continue reflecting our expectations of rising expenses in our reviews of CMBS loans on a loan-by-loan basis.

A change of control for the operating entity of a corporate securitization may affect the borrower’s creditworthiness and could affect our ratings in cases where current debt remains outstanding.

We explored three potential scenarios based on documented change of control provisions in existing EMEA corporate securitization transactions to assess the implications on our ratings analysis.

In our view, junior tranche ratings are more sensitive to a change of control, given the borrower’s creditworthiness has a greater influence on our credit analysis than for senior tranches, and considering the effect of extension risk.

Simplified corporate securitization structure

### Highlights—Scenario Analysis: European Credit Card ABS On Course For A Soft Landing

**Scenarios and simulated ratings impact, U.K. credit card ABS**

<table>
<thead>
<tr>
<th>Charge-off and payment rate base case (%)</th>
<th>Yield 10% reduction</th>
<th>Yield 20% reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>No change applied to base case charge-off or payment rate</td>
<td>Base case</td>
<td>Scenario 3</td>
</tr>
<tr>
<td>Charge-off rate plus 30% and a 10% decline in payment rate</td>
<td>Scenario 1</td>
<td>Scenario 5</td>
</tr>
<tr>
<td>Charge-off rate plus 50% and a 20% decline in payment rate</td>
<td>Scenario 2</td>
<td>Scenario 6</td>
</tr>
</tbody>
</table>

**Downgrade notches**
- No change
- One
- Two
- Three or more

<table>
<thead>
<tr>
<th>Trust</th>
<th>Class</th>
<th>Rating*</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oban Cards 2020-1</td>
<td>A</td>
<td>AAA</td>
<td>AA-</td>
<td>A</td>
<td>AA+</td>
<td>AA+</td>
<td>AA-</td>
<td>A</td>
<td>AA</td>
<td>A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Delaware Cards</td>
<td>A</td>
<td>AAA</td>
<td>AA</td>
<td>AA+</td>
<td>AAA</td>
<td>AA</td>
<td>AA</td>
<td>AA+</td>
<td>AA</td>
<td>AA+</td>
<td>AAA</td>
<td>AA+</td>
</tr>
<tr>
<td>Gracechurch</td>
<td>A</td>
<td>AAA</td>
<td>AA+</td>
<td>AA</td>
<td>AAA</td>
<td>AA+</td>
<td>AA+</td>
<td>AA</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA</td>
</tr>
<tr>
<td>Penarth Master Issuer PLC</td>
<td>B</td>
<td>AA-</td>
<td>A</td>
<td>BBB+</td>
<td>AA-</td>
<td>AA-</td>
<td>A</td>
<td>BBB+</td>
<td>A</td>
<td>BBB+</td>
<td>A</td>
<td>BBB+</td>
</tr>
<tr>
<td>Penarth Master Issuer PLC</td>
<td>C</td>
<td>A</td>
<td>BBB+</td>
<td>BBB+</td>
<td>A</td>
<td>A</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB+</td>
<td>BBB</td>
</tr>
</tbody>
</table>


- A double whammy of rising interest rates and inflation are placing increased pressure on household finances, which could affect collateral performance in U.K. and European credit card ABS transactions.
- Affordability stress for prime borrowers is likely to first appear through a reduction in payment rates if cardholders show a higher propensity to revolve balances.
- Notwithstanding challenging macroeconomic conditions, credit card performance to date has generally remained resilient, with payment rates, yield, and charge-offs broadly still stable, although delinquencies in some programs are normalizing toward pre-pandemic levels.
- Unemployment will be the key driver of any increase in charge-offs. We believe our current base-case assumptions account for the moderate increase in unemployment rates expected across most European countries and we recently affirmed our ratings on all the credit card ABS that we rate in Europe.
Reverse mortgage lending is growing in Europe as new lenders enter the market to support increasing borrower demand.

Historically, insurance companies have been the main reverse mortgages originators in the U.K., but across Europe some new originators, including banks and nonbanks, have entered the market.

House price appreciation over the last decade has built significant equity for borrowers to release. However, recent rate rises mean that loan origination remains challenging as the rising loan balance will more quickly equate to the property value.

There have been few reverse mortgage-backed securitizations. Previous transactions have performed well, but counterparty exposure tends to restrict ratings.

Portfolio sales are also limited as originators are comfortable with their balance sheet exposure including these loans.

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**Highlights—Growth Of Reverse Mortgages In Europe Has Yet To Spur Securitization**

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**Traditional and reverse mortgage loan examples**

**Traditional mortgage**

- Mortgage (debt) and initial deposit (equity)
- Periodic principal payments over the term (increases equity)
- 100% equity (full ownership)

**Reverse mortgage**

- 100% equity (full ownership)*
- Reverse mortgage loan – debt equals the lump sum received by borrower
- Monthly interest and fees roll up over time
- Maximum total debt due upon death or long term care (assuming a no negative equity guarantee in place and borrower(s) living until all equity is exhausted)***

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*Example only. Debt-to-equity ratios are specific to each loan. Source: S&P Global Ratings. For more details, see "Reverse Mortgages In Europe: Product Growth Has Yet To Spur Securitization," published July 26, 2023.
Contents

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1. Investor-placed securitization issuance

Securitization issuance continues to catch up with last year, at €51 billion so far

3. Cumulative investor-placed securitization issuance

4. CLO refinancing and reset issuance

1-3. Year-to-date (YTD) figures as of end-August each year. Excludes CLO refinancings and resets. Source: S&P Global Ratings. 4. Source: S&P Global Ratings, Pitchbook LCD.
Benchmark covered bond issuance has now reached almost €140 billion—higher than full-year volumes for most recent years.
Credit Performance—Long-Term Ratings Drift

Rating action count, 12-month rolling

- **Upgrade**
- **Downgrade***
- **Default**


12-month trailing average change in credit quality

As of end-June 2023. SC—Structured credit. Securities whose ratings migrated to ‘NR’ over the period are classified based on their rating prior to ‘NR’. Source: S&P Global Ratings.

Downgrades have remained infrequent, despite macroeconomic pressures.

On average, ratings have drifted higher overall and in each securitization sector over the past 12 months.
Credit Performance—Ratings Heatmap

Distribution of ratings and 12-month transitions

- BTL—Buy-to-let
- SC—Structured credit

Based on rating transitions over the previous 12 months as of end-August 2023. Excludes confidential ratings and covered bonds. Source: S&P Global Ratings.

S&P Global Ratings
12-month lending and deposit growth, eurozone real economy

Loans  Deposits  Difference (right scale)

Eurozone credit institutions’ use of central bank funding

Difference is loan book growth minus deposit growth. Real economy includes households and nonfinancial corporates.

Source: European Central Bank.

RMBS

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Investor-placed RMBS issuance

Cumulative investor-placed RMBS issuance

2023 YTD investor-placed RMBS issuance, by country

RMBS issuance mix, by originator type

Year-to-date (YTD) figures as of end-August each year. Source: S&P Global Ratings.

So far this year, a greater share of RMBS issuance has been bank-originated.
RMBS—Rating Actions And Performance Metrics

1. Monthly rating actions count, last 24 months

- Default
- Downgrade
- CreditWatch negative
- Upgrade

2. Cumulative rating actions count, last 12 months

<table>
<thead>
<tr>
<th>Prime</th>
<th>Nonconforming</th>
<th>BTL</th>
<th>Other RMBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade</td>
<td>124</td>
<td>141</td>
<td>78</td>
</tr>
<tr>
<td>CreditWatch neg.</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Downgrade</td>
<td>4</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Default</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

3. Prevalence of increasing/decreasing total arrears rate

<table>
<thead>
<tr>
<th>Country</th>
<th>Increasing</th>
<th>Stable</th>
<th>Decreasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K. nonconforming</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>U.K. buy-to-let</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>U.K. prime</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Spain</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Portugal</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Italy</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Ireland</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>France/Belgium</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

4. Latest annualized house price growth

Spain: 4%, Ireland: 2%, Italy: 0%, U.K.: 0%, Netherlands: 0%

3. Transaction arrears classified as increasing/decreasing if quarter-on-quarter change in total arrears rate is greater than/less than two percentage points. Source: S&P Global Ratings.
ABS—Issuance

Investor-placed ABS issuance

Cumulative investor-placed ABS issuance

2023 YTD investor-placed ABS issuance, by subsector

ABS issuance has risen strongly to €17 billion by end-August, up 32%.

ABS issuance mix, by tranche rating category count

Year-to-date (YTD) figures as of end-August each year. Source: S&P Global Ratings.
ABS—Rating Actions And Performance Metrics

1. Monthly rating actions count, last 24 months

2. Cumulative rating actions count, last 12 months

<table>
<thead>
<tr>
<th></th>
<th>Auto/ consumer</th>
<th>Credit cards</th>
<th>Corp. sec.</th>
<th>Other ABS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade</td>
<td>50</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>CreditWatch neg.</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Downgrade</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Default</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

3. Prevalence of increasing/decreasing 30+ day arrears rate

4. Used car price index

Structured Credit

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1. Investor-placed CLO new issuance

2. Investor-placed CLO refi/reset issuance

3. Cumulative investor-placed CLO new issuance

4. Monthly European leveraged finance origination volumes

There has still been no CLO refi/reset issuance in 2023, although market conditions make this increasingly likely.

CLO & Structured Credit—Rating Actions And Performance Metrics

1. Monthly rating actions count, last 24 months

2. Cumulative rating actions count, last 12 months

<table>
<thead>
<tr>
<th></th>
<th>CLO</th>
<th>SME</th>
<th>Repack</th>
<th>Other SC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade</td>
<td>60</td>
<td>19</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>CreditWatch neg.</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Downgrade</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Default</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

3. European CLO exposure to ‘CCC’ category corporate obligors

4. Speculative-grade corporate default rate


CLO upgrades have been picking up, as low refi/reset incentives mean more transactions are beginning to delever.
CMBS

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S&P Global
Ratings
CMBS—Issuance

Investor-placed CMBS issuance

Cumulative investor-placed CMBS issuance

2023 investor-placed CMBS issuance, by country

Primary spreads on European CMBS issuance

Year-to-date (YTD) figures as of end-August each year. Sterling spreads are over three-month LIBOR before 2020 and subsequently over Sterling Overnight Index Average (SONIA). Source: S&P Global Ratings.
1. Monthly rating actions count, last 24 months

2. Cumulative rating actions count, last 12 months

3. European CMBS loans in special servicing

Covered Bonds

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Benchmark covered bond issuance

Cumulative benchmark covered bond issuance

2023 YTD benchmark covered bond issuance, by country

Change in YTD issuance, 2023 vs. 2022, by country

Year-to-date (YTD) figures as of end-August each year. Source: S&P Global Ratings.
Covered Bonds—Rating Actions And Performance Metrics

1. Monthly rating actions count, last 24 months

2. Cumulative rating actions count, last 12 months

3. Average notches of uplift

4. Average overcollateralization multiple


4. Multiple of credit enhancement available over that required for the current rating. As of Q3 2023. Excludes programs with available overcollateralization exceeding 100%. Source: S&P Global Ratings.
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- European CMBS Break Under Rising Cost Burden, Aug. 29, 2023
- European RMBS Index Report Q2 2023, Aug. 22, 2023
- European Auto ABS Index Report Q2 2023, Aug. 22, 2023
- European And U.K. Credit Card ABS Index Report Q2 2023, Aug. 22, 2023
- Reverse Mortgages In Europe: Product Growth Has Yet To Spur Securitization, July 26, 2023
- European CMBS Monitor Q2 2023, July 21, 2023
- Scenario Analysis: European Credit Card ABS On Course For A Soft Landing Despite The Cost Of Living Crisis, July 20, 2023
- U.K. RMBS Reaching Call Dates Will See Rising Step-Up Margins, July 19, 2023
- Covered Bonds Outlook Midyear 2023: Rising Interest Rates Will Test Asset Performance, July 19, 2023
- European RMBS And ABS Monitor H1 2023, July 19, 2023
- European ABS And RMBS Counterparty Monitor Q2 2023, July 13, 2023
- Does The Spanish Judicial Strike Pose A Risk To Securitizations?, July 13, 2023
- How A Change Of Control Could Affect EMEA Corporate Securitizations, July 12, 2023
- Global Covered Bond Insights Q3 2023: Strong Issuance Is Here To Stay, June 29, 2023
- Credit FAQ: Does The Spanish Code Of Good Practices Increase Risk In Spanish RMBS?, June 29, 2023
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- Spanish Covered Bond Market Insights 2023, June 14, 2023
- European Structured Finance Weathers All The Storms, June 12, 2023
- CLO Pulse Q1 2023: Sector Averages Of Reinvesting European CLO Assets, June 12, 2023
- Scenario Analysis: How Much Shock Can European RMBS Take?, June 8, 2023
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- Scenario Analysis: European Office CMBS Withstands Vacancy Stress, May 23, 2023
- The European CLO Market: Is The Par Back?, May 22, 2023
- Covered Bonds Could Ease The Pain In European Commercial Real Estate, May 16, 2023
- Irish Court Ruling Leaves Third-Party Servicers Facing Uncertainty On Rate Setting, May 11, 2023
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- U.K. Residential Mortgage Servicing Flexibility Could Ease Arrears Pain, April 26, 2023
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- Norwegian And Finnish Covered Bond Market Insights 2023, April 18, 2023
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