

SECTOR COMMENT

Spanish and Italian SME ABS Transactions Vulnerable to Tight Credit Supply On High Refinancing Needs over the Next Five Years

Analyst Contacts:

MADRID +34.91.768.8200

Gaston Wieder +34.91.768.8247
Analyst
gaston.wieder@moodys.com

FRANKFURT +49.69.70730.700

Ludovic Thebault +49.69.70730.764
Analyst
ludovic.thebault@moodys.com

MILAN +39.02.9148.1100

Monica Curti +39.02.9148.1106
Vice President - Senior Analyst
monica.curti@moodys.com

MOODY'S CLIENT SERVICES:

New York: +1.212.553.1653
Tokyo: +81.3.5408.4100
London: +44.20.7772.5454
Hong Kong: +852.3551.3077
Sydney: +612.9270.8100
Singapore: +65.6398.8308

ADDITIONAL CONTACTS:

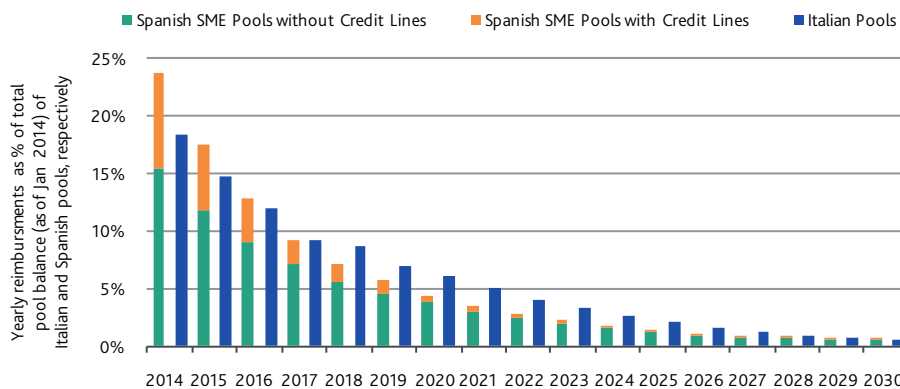
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High refinancing needs over the next five years will make Spanish and Italian SME securitised loan portfolios vulnerable to continuing tightness in credit supply. Spanish and Italian SMEs backing ABS transactions face substantial debt repayments during this period. Falling profit margins in these countries have increased firms' dependence on lending to meet debt repayments. The current context of tight credit availability in Italy and Spain underlines the refinancing risk of local SMEs. However, there are several initiatives in place or proposed both at the national and EU level aimed at addressing SMEs' difficulties in accessing credit, which if successful can help mitigate SMEs' refinancing risk.

Significant debt repayments confront SMEs in Spain and Italy. Spanish and Italian SMEs backing Moody's-rated transactions face substantial debt repayments over the next five years. Exhibit 1 shows that firms in Spanish SME portfolios face the repayment of 71% of their debt in 2014-18, while their Italian counterparts will have to pay 63% during the same period. The steeper repayment profile of Spanish SMEs reflects the exposure of recent transactions¹ to short-term lending, in particular to securitised credit lines.^{2, 3} While such short-term lending is not customarily included in Italian SME securitised portfolios, it is more common in Italy than in any other European countries, including Spain (see Exhibit 2). As such, Italian SME portfolios are also exposed to looming debt maturities.⁴ The Box "Scope of the Analysis of the Repayment Profiles" below provides detail on the analysis we performed.

EXHIBIT 1

Spanish and Italian SMEs Face Substantial Repayments on Securitised Debt



Source: Moody's calculations based on data provided by transaction management companies or trustees

¹ Five transactions issued since end-2010 were originated by Banco Santander.

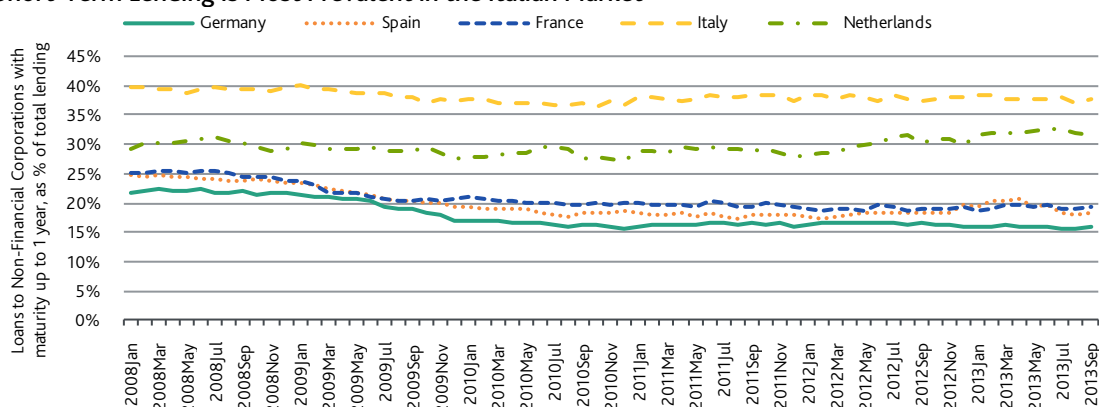
² Short-term unsecured credit lines with a bullet amortisation at maturity. Normally these credit lines can be renewed at maturity, subject to the bank's discretion.

³ Excluding deals with credit lines, Spanish SME portfolios face the repayment of 66% of their debt in 2014-18.

⁴ See [Italian and Spanish SME ABS Markets Share Many Similarities, but Show Some Key Differences](#), Credit Insight, July 2013

EXHIBIT 2

Short-Term Lending Is Most Prevalent in the Italian Market



Source: Moody's calculations based on ECB data

Scope of the Analysis of the Repayment Profiles

We estimated the refinancing needs of Spanish and Italian SMEs over the next years by examining their repayment schedule on bank loans and credit lines securitised in SME ABS transactions that we rate. This analysis is based on the pool amortisation profile data⁵ provided by the transaction management companies or trustees. We estimated the anticipated outstanding pool balance as of January 2014. As such, the remaining debt payments expected going forward are expressed as percentage of that outstanding balance.

As shown in Exhibit 3, our analysis covers 91 Spanish and Italian transactions that we rated between 2003 and 2013, with an aggregate pool volume of almost €130 billion as of their closing dates.

EXHIBIT 3

Characteristics of Sample of Deals Analysed

	Spain	Italy	Total
Total rated SME transactions outstanding			
Number of transactions	77	17	94
Closing dates ranging from...	Sep-03	Jul-08	
...to	May-13	Mar-13	
Original amount as of closing (€ billion)	96.7	32.6	129.3
Outstanding amount as of May 2013 (€ billion)	29.3	23.6	52.9
Sample analysed			
Number of transactions*	73	18	91
...out of which with credit lines	5	0	5
Outstanding amount est. as of January 2014 (€ billion)	23.4	22.3	45.7
...out of which without credit lines (€ billion)	17.3	0.0	17.3
...out of which with credit lines (€ billion)	6.1	0.0	6.1

* Four Spanish transactions repaid in the meantime, whereas we excluded one Italian transaction with mixed RMBS and SME pool and added back one transaction as reclassified after May 2013 (Atlante Finance) and Arcobaleno Finance S.r.l. Series 2011 (loans to pharmacists)

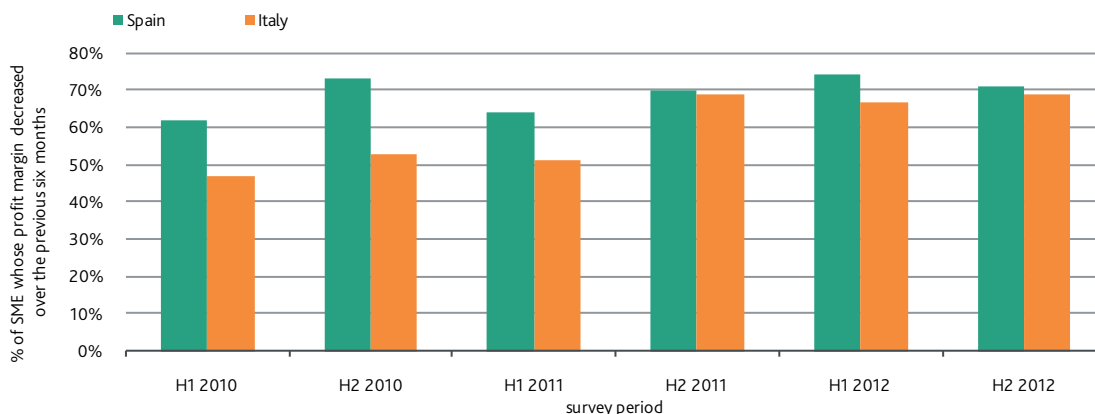
⁵ The pool amortisation profile data is based on certain assumptions:

- No prepayments or defaults, which if occurred would shorten the average life of the pools
- Credit lines have a bullet amortisation at maturity

Falling profitability increases Italian and Spanish SMEs' dependence on borrowing and thus their refinancing risk Exhibit 4 shows that profit margins are falling for a large share of Italian and Spanish SMEs, which means that they are less able to generate sufficient internal funds to meet their refinancing needs. Consequently, these SMEs rely more on external borrowing to meet their debt repayments and are thus exposed to refinancing risk.⁶

EXHIBIT 4

Profitability of Italian and Spanish SMEs Has Been Falling During the Recent Years

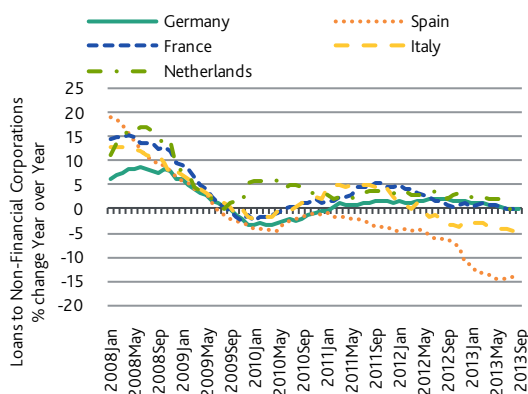


Source: ECB, Survey on the access to finance of SMEs in the euro area (SAFE)

Scarce and expensive credit in Italy and Spain underlines the refinancing risk of SMEs in these countries. Exhibit 5 shows that lending to non-financial corporations has drastically reduced over the past few years.⁷ This reduction is in large part due to a continuous tightening of credit standards (see Exhibit 6). In addition, Exhibit 7 shows that Spanish and Italian SMEs face high borrowing costs, which compounds the falling profitability they suffer from.

EXHIBIT 5

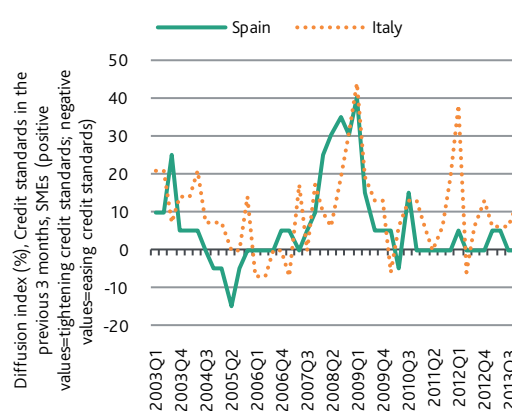
Lending to Non-Financial Corporations in Spain and Italy Has Been Weak in Recent Years



Source: ECB

EXHIBIT 6

Credit Standards for SME Lending Have Been Tightened in Italy and Spain⁸



Sources: ECB, Bank Lending Survey Statistics

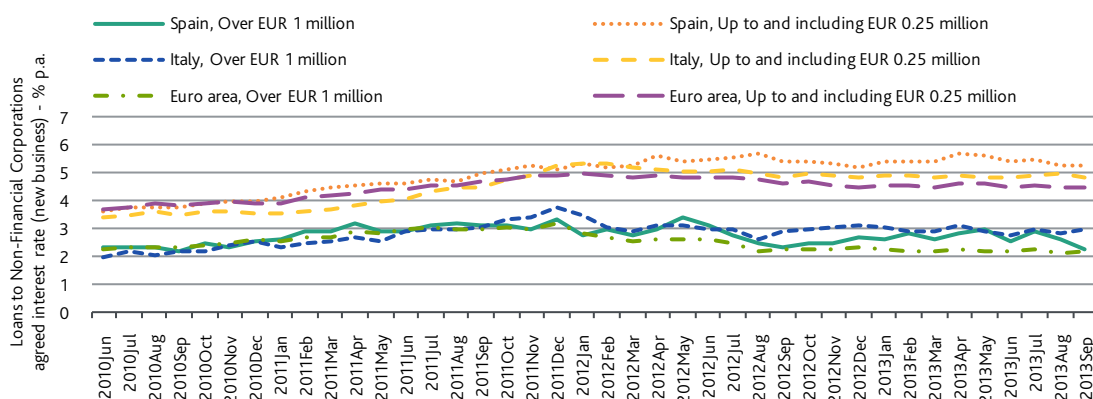
⁶ "...SMEs in Greece (31%), Italy (12%) and Portugal (19%) reported the strongest increase in their need for bank loans, which may reflect the need for financing working capital in an environment of weak profits and squeezed liquidity buffers. SMEs' financing needs resulting from the insufficient availability of internal funds were especially strong in Greece (23%), Spain (16%), Italy (18%) and Portugal (15%), reflecting the strongly deteriorated profit situation of SMEs in these countries." [Survey on the access to finance of Small and Medium sized Enterprises in the Euro Area \(October 2012 to March 2013\)](#), April 2013.

⁷ See [Spanish SMEs to Underperform Italian Counterparts Based on Fresh Problem Loan Data](#), Credit Insight, April 2013 and [2014-15 Refinancing Wall and Tight Lending Conditions Will Be Credit Negative for European SMEs](#), Credit Insight, May 2012

⁸ The diffusion index is the weighted difference between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased.

EXHIBIT 7

Interest Rates on New Lending to Spanish and Italian Firms Are Above the Euro Area Average, in Particular for Smaller Firms⁹



Source: ECB

A number of existing or planned multinational and national measures aim to ease SMEs' access to credit. There are a number of initiatives in place, both at local level and multinational level (see Exhibit 8) to foster SME lending, which shows a strong political commitment to resolving the credit crunch. In addition, the European Commission (EC) and the European Investment Bank (EIB) are currently exploring new joint initiatives to support SMEs.¹⁰ Italian and Spanish SMEs are set to benefit from these measures, given that the significant size of these countries within the European economy positions them for a significant allocation of funds.

EXHIBIT 8

Some Examples of Initiatives Directed at Supporting SME Lending

	European level	Italy	Spain
Direct lending initiatives	<ul style="list-style-type: none"> » EC: Compact for Growth and Jobs, including an increase of the EIB's paid-in capital by €10 billion to increase its lending capacity (June 2012).¹¹ » EIB: €9.4 billion for European SMEs and mid-caps (from €6.4 billion in 2012), corresponding to a lending target of €17 billion in 2013¹² 	<ul style="list-style-type: none"> » Cassa Depositi e Prestiti and the Italian Banking Association (ABI): €8 billion agreement to support expenses for investment and increase of working capital of SMEs¹³ » Up to €5 billion financing of new machinery for SMEs, with the help of Cassa Depositi e Prestiti, as part of Decreto del Fare 	<ul style="list-style-type: none"> » Ministry of Economy and Competitiveness, Spanish Banking Association (AEB) and Confederación Española de Cajas de Ahorro (CECA): agreement to increase credit to SMEs by €10 billion in 2013, compared to 2012, with special focus in working capital (short-term)¹⁴ » Increase of existing Instituto de Crédito Oficial (ICO) lending facilities to SMEs by up to €22 billion¹⁵

⁹ Smaller loan amounts can be taken as an indicator of lending to smaller companies.

¹⁰ See [The Commission and EIB working together to increase lending to the economy](#), June 2013

¹¹ See [European SME-Oriented Government Proposals Are Credit Positive for SME ABS](#), Credit Insight, June 2012 and [In the News](#), Credit Insight July 2012.

¹² See [EIB delivers on increased SME lending and approves support for youth employment](#), EIB, July 2013

¹³ See [Nuovo Plafond Pmi](#), Associazione Bancaria Italiana, May 2013

¹⁴ See [Firma del acuerdo de colaboración para la financiación de las pymes](#), Ministerio de Economía y Competitividad, June 2013

¹⁵ See [Recently Announced Package of Government Support Measures Is Credit Positive for Spanish SMEs](#), Credit Insight, March 2013

EXHIBIT 8

Some Examples of Initiatives Directed at Supporting SME Lending

	European level	Italy	Spain
Guarantee Schemes	<ul style="list-style-type: none"> » CIP¹⁶ securitisation window: SME guarantee facility managed on behalf of the EC by the European Investment Fund (EIF)¹⁷ » <i>Currently discussed options: Guarantee facility for new SME loans/leases,¹⁸ and joint instrument for securitisation of existing and new SME loans/leases¹⁹</i> 	<ul style="list-style-type: none"> » Enhancement of the guarantee fund for SMEs (Fondo Centrale di Garanzia) with the addition of €50 billion worth of financing²⁰ 	<ul style="list-style-type: none"> » Increased the 2013 FTPYME²¹ programme's budget by €3 billion²²

¹⁶ European Commission's Competitiveness and Innovation Programme

¹⁷ See [SME Guarantee Facility](#), EIF

¹⁸ Financial institutions would receive partial guarantees from the EIF on new SME lending. For more details, see [SME Loan Securitisation 2.0: Market Assessment and Policy Options](#), October 2013

¹⁹ The EIB Group and other investors would subscribe or guarantee notes issued from the securitisation of new and existing SME loans. For more details, see [SME Loan Securitisation 2.0: Market Assessment and Policy Options](#), October 2013

²⁰ See [New Decree Is Credit Positive for Italian SME and Lease Securitisations](#), Credit Insight, July 2013.

²¹ Fondos de Titulización de Activos para PYME (Pequeñas y Medianas Empresas). Through this programme, launched in 1999, the Spanish government guarantees senior tranches on new SME loan securitisation transactions.

²² See [Recently Announced Package of Government Support Measures Is Credit Positive for Spanish SMEs](#), Credit Insight, March 2013

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