

Marzio Finance S.r.l. – Series 8-2020

Italian Consumer CQS ABS



Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE ¹ (% assets)	Coupon	Final maturity
Class A	AAA _{SF}	298.3	89.5	10.7	0.50%	March 2045
Class J	NR	34.9 ²	10.5	0.0	Variable	March 2045
Rated notes		333.2				

Scope's analysis is based on the portfolio dated 29 February 2020 provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

Transaction details

Purpose	Liquidity/funding
Issuer	Marzio Finance S.r.l.
Originator/servicer	IBL – Istituto Bancario del Lavoro S.p.A. (IBL Banca or IBL)
Master servicer	IBL Servicing S.p.A. (IBL Servicing)
Back-up servicer	Zenith Service S.p.A. (Zenith)
Paying Agents	Citibank N.A., Milan Branch and London Branch
Closing date	16 March 2020
Payment frequency	Monthly, 28th day of each month

The transaction (Series 8-2020) is IBL Banca's eighth true-sale static securitisation of Italian payroll-deductible loans ('cessione del quinto dello stipendio' or CQS³), under the Marzio Finance S.r.l. programme. The notes are backed by a EUR 324.2m portfolio of CQS loans comprised of 'cessione del quinto' (82.3%) and 'delegazione di pagamento' (17.7%) loans extended to employees working for the public administration (20.4%), the central state administration (28.0%) and the private sector (18.0%) as well as pensioners (33.6%). The portfolio is highly granular and has a weighted average seasoning of 0.3 years. All the underlying loans are insured against life events, whilst 66.5% are insured against employment events. Regional concentration is as follows: north (30.4%), centre (31.3%) and south (38.4%).

Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral; iii) the insurance protection against life and employment events; iv) the ability of IBL Banca (rated BBB by Scope) as originator, servicer, calculation agent, and collection account bank; v) the ability of Zenith Service S.p.A. (Zenith) in its role as back-up servicer and back-up calculation agent; and vi) the counterparty exposure to Citibank N.A. as transaction bank and paying agent.

The rating is mainly driven by the securitised portfolio's characteristics and its expected performance, and by the pool of insurance companies covering life or employment events. The rating also incorporates our positive assessment of the servicer's abilities and incentives. We considered Italian sovereign risk by assessing the impact on the rating of a distress scenario affecting the government of Italy and the associated loss severity for the securitised assets.

¹ Including a EUR 2.2m liquidity reserve and a EUR 5.7m additional reserve.

² Class J funds a portion of the portfolio (EUR 27.0m) as of the closing date, but also the liquidity reserve and the additional reserve, which is included in this figure.

³ In Italy, CQS is used as an abbreviation for 'cessione del quinto dello stipendio'. In the context of this transaction, we use this term to refer to 'cessione del quinto' (CDQ) loans, extended to employees or pensioners, and to 'delegazione di pagamento' (DP) loans.

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Related Research

[Consumer and Auto ABS Rating Methodology](#)

[Methodology for Counterparty Risk in Structured Finance](#)

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Class A is supported by 10.7% of credit enhancement and benefits from the structural protection provided by sequential principal amortisation. A liquidity reserve and an additional reserve provide both liquidity and credit protection to the class A notes.

IBL Banca performs several key roles, including that of originator, servicer, calculation agent, and collection account bank. Operational risk is mitigated by the appointment of Zenith as back-up servicer and back-up calculation agent.

Rating drivers and mitigants

Positive rating drivers

Experienced originator. IBL Banca is one of the most experienced CQS loan originators in Italy, with a track record of above-average performance for its loan book.

Underlying asset type with low historical losses. CQS loans incur lower losses than standard unsecured consumer loans, primarily because the loans are fully insured, and instalments are withheld by the borrower's employer and paid directly to the lender.

Liquidity and credit protection. A fully funded liquidity reserve (EUR 2.2m at closing) will provide liquidity protection to the class A during the life of the transaction. An additional reserve (EUR 5.7m at closing) will provide liquidity support to the rated note and ongoing credit protection to the class A. Both reserves will be available to repay the class A note at maturity.

Static portfolio. The portfolio will start amortising immediately after closing, reducing the risk of performance volatility compared to revolving transactions.

Excess spread. We expect that a high level of excess spread will remain available (3.6%) after stressing the weighted average portfolio yield and deducting fees and interests on liabilities.

No interest rate risk. There is no interest rate mismatch since both the notes and the portfolio pay a fixed rate.

Upside rating-change drivers

Negative rating drivers and mitigants

Exposure to public entities. A large portion of the portfolio is exposed to public entities that pay salaries or pensions to borrowers (82.0%). These borrowers normally have lower default rates than those in the private sector. However, such a high concentration can increase vulnerability to a sovereign default. Our analysis has considered this by incorporating a sovereign stress event.

Insurance company concentration. The top two life insurance companies account for 46.8% of the total portfolio while the top two insurance companies covering employment events account for 29.1% of the non-retired pool. A failure in honouring their obligations would negatively impact the portfolio recovery rate. We have considered this risk in our analysis.

Commingling risk. Commingling risk is mitigated by: i) a daily sweep of collections to the issuer's account; and ii) instructions to borrowers to redirect payments to the issuer's account in the event of a servicer disruption. However, as most employers pay by bank transfer, the redirection of payments may take longer than for a standard unsecured loan portfolio.

Downside rating-change drivers

A significant deterioration in the credit profile of the insurance companies leading to lower rating-conditional recovery rate assumptions could negatively impact the rating.

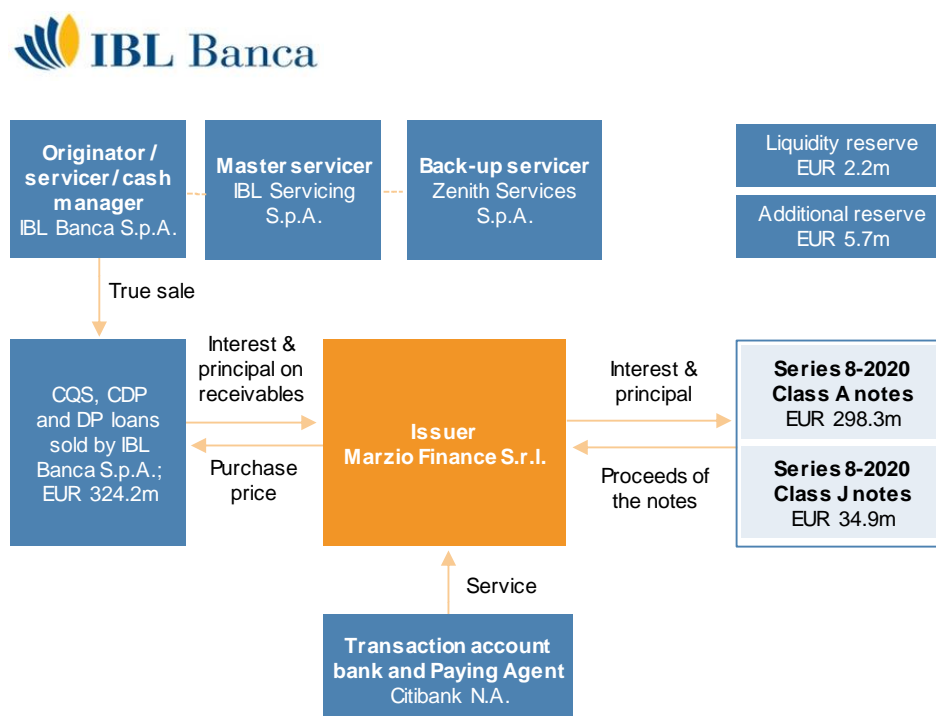
A decline in the pool's overall performance versus our expectations or a significant rating downgrade of Italy could also have a negative effect on the rating.

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1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

Marzio Finance S.r.l. has established a EUR 10bn securitisation programme of notes backed by CQS loans extended to borrowers in Italy and originated by IBL Banca. CQS loans are collateralised by the debtor's salary or pension and, in most cases, by any accrued severance amount (e.g. 'trattamento di fine rapporto' or TFR).

Under the programme, several series of notes may be issued. Each series is structured as an independent transaction, with no cross-collateralisation, for the purpose of financing the purchase of a static portfolio of receivables originated by IBL Banca. The capital structure, cash reserve level and notes' interest rates may differ among the different series.

The transaction (Series 8-2020) is the eighth true-sale securitisation under the programme. It is backed by a EUR 324.2m static portfolio of CQS loans.

2. Originator and seller

IBL Banca is the parent company of the IBL banking group, whose fully owned subsidiaries manage the services, real estate and the distribution of insurance for the entire group. IBL is a specialised lender that offers personal finance loans to individuals, particularly Italian CQS loans. As of November 2019, the group was a market leader in Italy for CQS, with a solid 14.0% market share and about 173,000 loans under management. IBL also offers savings and insurance products, and payment cards.

IBL's distribution model comprises 53 branches, plus further branches via distribution agreements with nine banking partners. The bank also has a broker network of 90 agents, promoters and intermediaries, as well as an online channel.

Series 8-2020 is IBL Banca's eighth issuance under the Marzio Finance programme

IBL Banca: market leader in Italy for CQS with a 14.0% market share

Historically, IBL has operated an originate-to-distribute model, largely due to limited financial resources. After obtaining a banking licence in 2004 and acquiring 30 Citifinancial branches, IBL started to raise funding through deposits. This gave the bank the financial ability to transition to a more balance sheet-intensive model, reaching an asset size of around EUR 6.02bn at end-2018.

2.1. Sanctioning and underwriting

The originator employs a credit scoring system, which uses both internal and external information. All credit approval and underwriting activities are handled in-house, despite around half of new loans being originated by the broker network.

The underwriting process is mainly focused on the employer of the borrower, given the nature of payroll-deductible loans. The loan applicant must also satisfy all quantitative and qualitative requirements. Among other things, the credit department ascertains whether the employer meets certain size, legal, capital and performance requirements, using internal databases and external credit bureaus as its main sources of information. The loan applicant's credit is assessed with the support of a specialised outsourcer, focusing on the risk of fraud, creditworthiness and on the existence of any outstanding default exposures.

Loans are ultimately disbursed upon the receipt of insurance coverage and acceptance of the payment delegation by the employer or pension provider.

2.2. Servicing and recovery

IBL Banca is servicer for the transaction, with IBL Servicing acting as master servicer. IBL's management of collections and non-performing loans is adequate in our view, involving a reasonably proactive and diligent approach.

The management of collections is fully based in Rome, with a dedicated team of 13 employees. Most of the collections are paid via bank transfer and portfolio performance is monitored daily to check for any delinquent payments.

When a loan becomes delinquent, the credit monitoring department contacts both the borrower and the employer within 90 days via phone and email to solicit the payments. If the contract is still delinquent after 90 days and an insurance claim has not been opened, it is sent to an external supplier for another 90 days. After 180 days, a written notice is sent to both the borrower and the employer. IBL then starts legal proceedings within 30 days unless the borrower or the employer has cured its position.

In the case of life and employment events, the credit monitoring department classifies the loans as 'subject to claim' as soon as it receives the death certificate (for life events) or verifies the nature of unemployment (for employment events). For the latter, IBL sends a request to the employer, asking them to cover the residual debt (partially or in full) with the borrower's accrued severance indemnity. The remaining claim is then settled by the insurance company upon receipt of the relevant documentation.

3. Asset analysis

The securitised portfolio is a granular pool of CQS loans granted to individuals in Italy who work in the public or private sector, or are pensioners. A sub-pool of the portfolio is comprised of 'delegazione di pagamento' (DP) loans, which are also payroll-deductible but have slightly different characteristics to 'cessione del quinto' (CDQ) loans, as explained below.

3.1. Payroll-deductible loans: CDQ and DP loans

Payroll-deductible loans offer additional protection and are distinguishable from standard consumer loans in two key respects: i) monthly instalments are paid directly to the lender

by the employer or pension provider after being deducted from the obligor’s monthly salary or pension; and ii) loans are insured for job-loss and life-event risks. CQS portfolios are exposed directly to employers, pension providers and insurance companies. We have considered these risks in our analysis.

3.1.1. CDQ loans

Loan instalments cannot exceed 20% of the borrower’s total net salary or pension and are deducted directly from the salary or pension by the employer or pension provider. For employees, the loans are also generally collateralised by a pledge on the debtor’s accrued TFR. CDQ loans typically have an original term of 10 years, pay a fixed rate and cannot be refinanced until two-fifths of the loan has been repaid.

3.1.2. DP loans

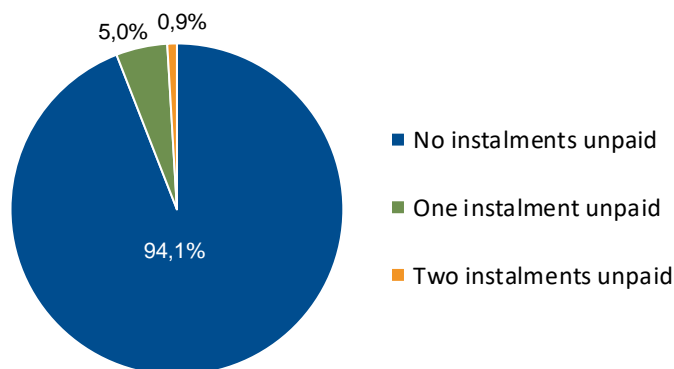
DP loans are typically granted to borrowers that already have an outstanding CDQ loan. The addition of a DP loan can mean a total monthly instalment of up to 50% of the borrower’s net income. DP loans are subordinated to CDQ loans, but this risk is partly mitigated by the originator’s familiarity with the existing borrower before a loan is authorised.

For more detail on CQS loans, download our [Consumer and Auto ABS Rating Methodology](#).

3.2. Securitised assets

The EUR 324.2m portfolio as of 29 February 2020 is comprised of CDQ (82.3%) and DP (17.7%) loans extended to employees working for the public administration (20.4%), the central state administration (28.0%) and the private sector (18.0%), or to pensioners (33.6%). Compared with IBL Banca’s total loan book, the portfolio benefits from positive selection, as eligibility criteria exclude, among other things, exposures that have more than two instalments due and unpaid.

Figure 2: Distribution by delinquency status in terms of unpaid instalments, % of the outstanding balance



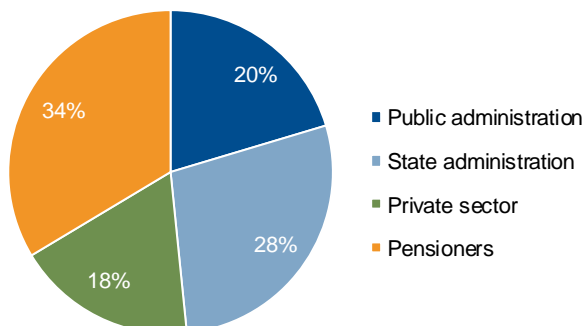
Source: IBL Banca, Scope

Low-seasoned portfolio

The current loan portfolio has 0.3 years of weighted average seasoning and a weighted average remaining term to maturity of 9.0 years. Loans transferred to the portfolio have at least one instalment paid and 99.5% of the portfolio was originated in 2019 or 2020 and around 75.5% of the loans will mature in 2029.

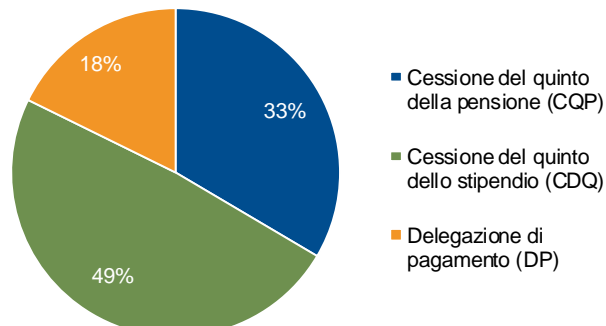
All loans in the pool are amortising and pay monthly instalments at a weighted average fixed interest rate of 5.9%. Eligibility criteria exclude loans that have an interest rate below 3.5%.

Figure 3: Distribution by employer type, % of outstanding balance



Source: IBL Banca, Scope

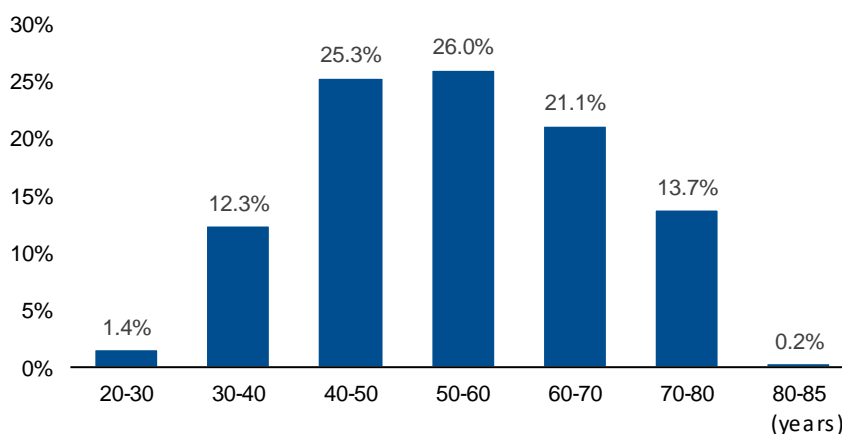
Figure 4: Distribution by loan type, % of outstanding balance



Source: IBL Banca, Scope

The pool is highly granular with the top one and top 10 borrowers accounting for 0.03% and 0.26%, respectively. Borrowers receiving state salaries or pensions comprise 82.0% of the initial portfolio. The two largest paying entities are the Istituto Nazionale della Previdenza Sociale (the national social welfare institution) and the Ragioneria Territoriale Stato (the ministry of finance), with exposures of 32.9% and 15.2%, respectively. Our analysis accounts for this link to the state and the associated risk by incorporating a sovereign stress event.

Figure 5: Distribution by borrower age, % of the outstanding balance



Source: IBL Banca, Scope

3.2.1. Insurance coverage

All underlying loans extended to public and private sector employees are insured against life events and against employment events. Almost all loans extended to pensioners are insured only against life events.⁴ Insurance coverage on the pool presents an inverse-Herfindahl score of 5.9. Aviva Life S.p.A. is the insurer with the largest exposure covering life events (25.7%), while Net Insurance S.p.A. is the insurer with the largest exposure covering employment events (15.3%). We analysed the effect of a deterioration in the insurance companies' credit quality and take comfort in the credit quality of the insurers.

Figure 6: Distribution of insurance companies covering life events, % of the outstanding balance

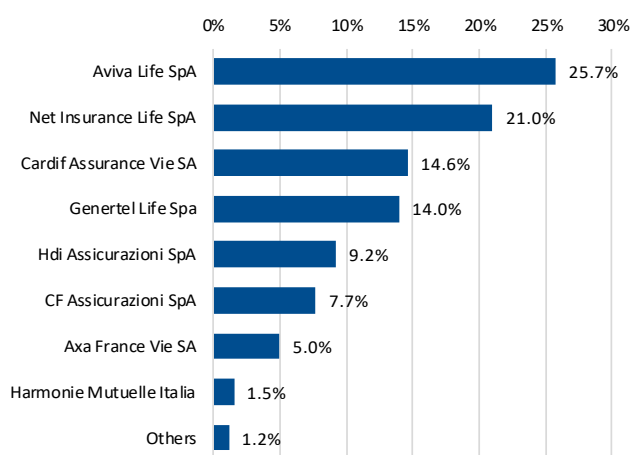
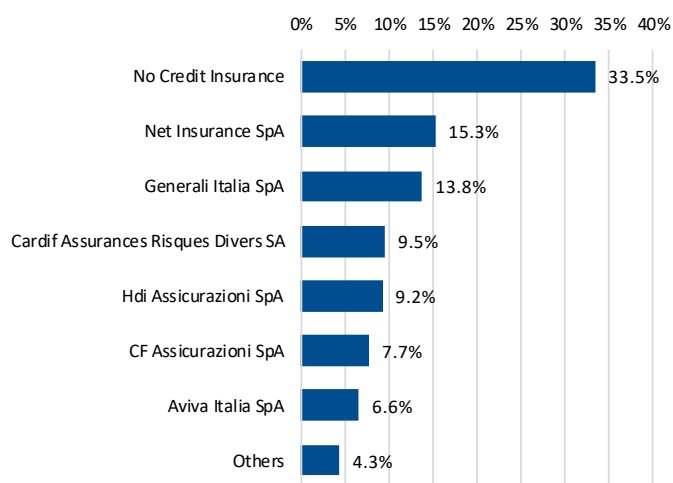


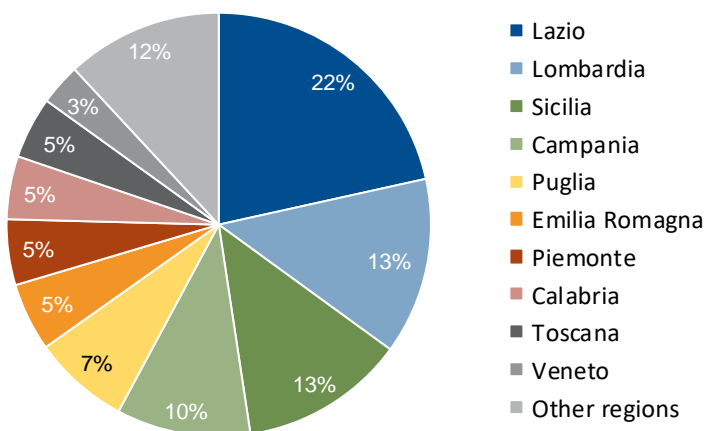
Figure 7: Distribution of insurance companies covering employment events, % of the outstanding balance



Source: IBL Banca, Scope

The portfolio is mainly concentrated in southern (38.4%) and central (31.3%) Italy, which is a common feature for Italian CQS portfolios. Borrowers in northern regions account for 30.4% of the outstanding portfolio.

Figure 8: Distribution by region, % of the outstanding balance



Source: IBL Banca, Scope

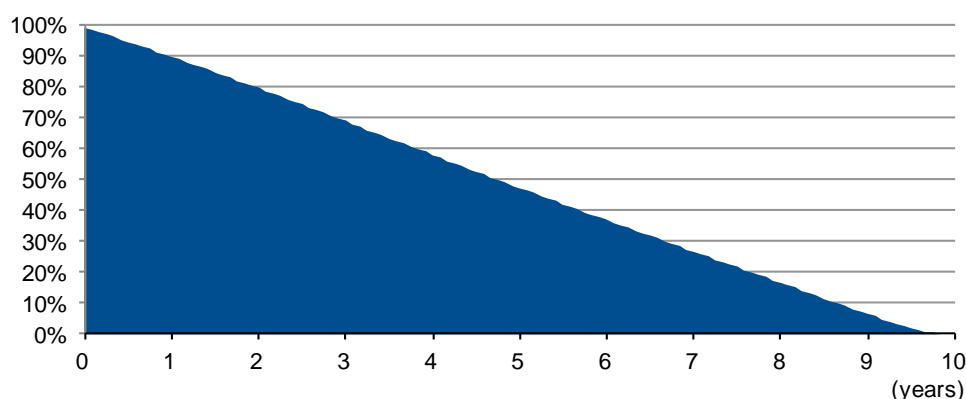
⁴ A 99.6% share of pensioners exposures is insured only against life events. A residual 0.4% (18 exposures) is insured also against job events.

Amortisation profile may be extended if payments are suspended

3.3. Amortisation profile

The projected amortisation profile reflects the amortisation scheme of the underlying assets. Figure 9 shows the amortisation of the pool considered in our analysis, assuming a 0% prepayment and default rate. However, the amortisation profile could be extended if payments are suspended due to salary or pension reductions, or due to temporary leave (e.g. maternity leave). Suspended payments will then be moved to the end of the original amortisation plan.

Figure 9: Projected portfolio amortisation profile



Source: IBL Banca, Scope

3.4. Portfolio assumptions

We derived default rate and recovery rate assumptions based on 2008-19 vintage data for IBL Banca's loan book, representative of the securitised portfolio and segmented by type of default (delinquency, life event and employment event) and employer type (public administration, state administrations, private sector and pensioners). These details are shown in Appendix II.

Historical data does not reflect sovereign crisis scenarios, which, while rare, could prove highly severe. We incorporated sovereign risk as explained below in section 7.

Figure 10: Portfolio assumptions

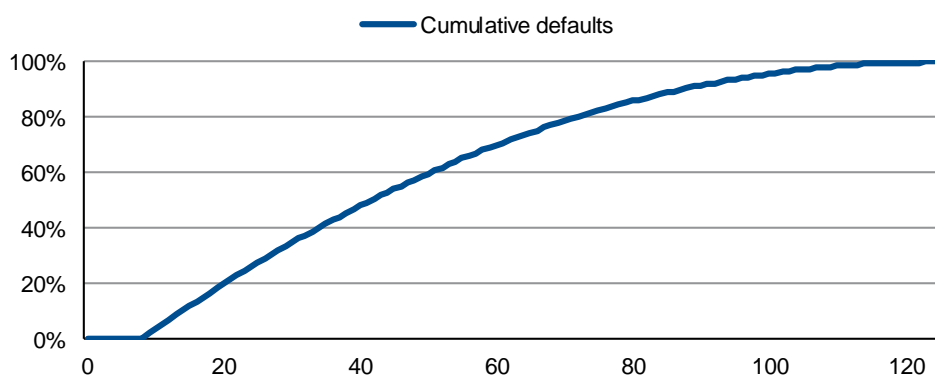
	Portfolio
Mean default rate	7.5%
Coefficient of variation	40.0%
Base case recovery rate	80.0%
AAA rating-conditional recovery rate	47.6%
Recovery timing	50% after one year, 20% after two years, 20% after three years and 10% after four years
Low constant prepayment rate	0.0%
High constant prepayment rate	5.0% for the first three years 25.0%, for the fourth year 10.0%, thereafter
Portfolio weighted-average yield	5.1%

3.4.1. Portfolio defaults

We assumed an inverse Gaussian default distribution, with a mean default rate of 7.5% and a coefficient of variation of 40%. In the transaction, a default occurs if either: i) a loan

is eight months delinquent; ii) a loan is declared defaulted by the servicer ('in sofferenza'); iii) a life event occurs; or iv) an employment event occurs. In our analysis, we assumed a front-loaded default term structure, with loans starting to default after 8 months. The cumulative default-timing assumptions are shown in Figure 11 and represent the assumed default timing for the pool. Mean default rate and default-timing assumptions also reflect the current seasoning and amortisation of the pool.

Figure 11: Cumulative default-timing assumption



Source: Scope

3.4.2. Loan recovery rate analysis

We calculated rating-conditional recovery rate assumptions by taking the weighted average of two levels of recovery rates: i) 80% recovery rate in a scenario where the insurance company does not default (RR1); and ii) 12.0% recovery rate in the event of insurance default (RR2), after applying a rating-conditional haircut of 40%. The weights applied to RR1 and RR2 reflect the default probability of the pool of insurance companies, assuming a 20% asset correlation between insurers. For the class A notes specifically, we have assumed that the pool of insurance companies will default with a probability of 47.7%.

Figure 12: Rating-conditional recovery rate assumptions

B	BB	BBB	A	AA	AAA
69.9%	67.1%	61.9%	57.3%	51.2%	47.6%

Source: Scope

Further details on how we calculate rating-conditional recovery rates in CQS transactions can be found in the [Consumer and Auto ABS Rating Methodology](#).

Recoveries stem from a combination of three sources: insurance pay-outs, the pledged TFR amount, and borrower collections. Figure 13 below shows the proportion of IBL Banca's historical recoveries on defaulted loans from these three sources. The 80% RR1 calculation is derived from vintage data, which incorporates all three recovery sources, while the 20% RR2 calculation represents expected recoveries in the absence of insurers and ultimately reflects the borrower's credit quality.

Figure 13: Sources of CQS recoveries (last five years, average)

Insurance	TFR	Borrower
67.0%	7.4%	25.6%

Source: IBL Banca, Scope

We give credit to recoveries from insurance pay-outs and other sources of recoveries

We expect a spike of the prepayment rate in the fourth year of the transaction

Transaction benefits from a 3.6% estimated excess spread

Additionally, the recovery vintage data shows that most recoveries are received in the first four years after default. Therefore, the portfolio recovery timing, derived from the corresponding recovery vintage data, was estimated as follows: 50% after one year, 20% after two years, 20% after three years and the remaining 10% after four years.

3.4.3. Constant prepayment rate (CPR)

We used two CPR scenarios to test the structure’s reliance on excess spread: a CPR assumption of 0%, and a CPR assumption of 5% for the first three years, 25% for the fourth year and 10% thereafter. These assumptions reflect the historical data, which show a spike on prepayment rates after 4 years from origination, as borrowers are allowed to refinance their loan once they have reimbursed at least 40% of the initial loan balance.

3.4.4. Excess spread

Excess spread will be available to cure undercollateralisation arising from portfolio defaults. Excess spread will also be trapped under certain trigger conditions (see Figure 16).

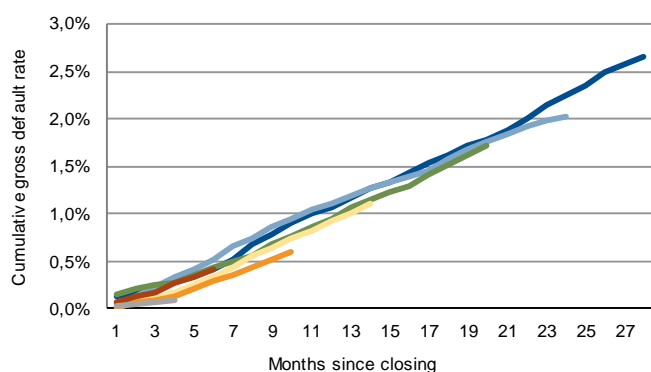
Available excess spread will depend on several factors, such as senior fees, the default rate, and the prepayment rate. In our analysis, we assumed a stressed portfolio weighted average yield of 5.1%, calculated assuming that 25% of the loans with the highest yield will either default or prepay first. This resulted in a portfolio yield compression of 0.8% on the 5.9% original weighted average interest rate of the receivables.

Excess spread is estimated at 3.6% after deducting liability costs and stressed annual fees of 1.0%.

3.4.5. Performance of the outstanding series

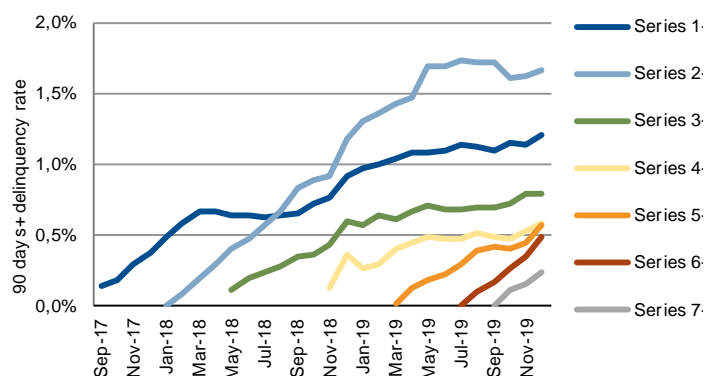
The performance of the outstanding series issued under the Marzio Finance programme are shown in Figure 14 and 15. The observed default and dynamic delinquency ratios may depend on several factors, such as the seasoning of the securitised pool and the exposure to the public and private segments. The performance of the outstanding series is in line with our expectations at closing.

Figure 14: Cumulative gross defaults, % of original balance



Source: Scope, servicer reports

Figure 15: 90 days+ delinquencies, % of current balance



Source: Scope, servicer reports

4. Financial structure

4.1. Capital structure

The proceeds from the issuance of the class A notes, together with part of the proceeds from the class J notes, were used to purchase the portfolio of receivables. Class J notes

Combined priority of payments is the main protection against payment interruption, along with the liquidity reserve

fund a portion of the assets as well as the liquidity reserve and the additional reserve. The structure is fully sequential.

4.2. Priority of payments

The structure features a single priority of payments under which principal collections from the assets can be used to cover any interest shortfall on the notes, mitigating the risk of a missed interest payment. Figure 16 below details the transaction's pre-enforcement priority of payments.

If, on any payment date, the cumulative portfolio net default ratio exceeds 3% of the initial outstanding balance, remaining cash will be trapped at item 7 in the simplified pre-enforcement priority of payments (see Figure 16 below). Those funds would then be available in the next payment period to cover any shortfall on items 1-6.

Figure 16: Simplified priority of payments and available funds

Pre-enforcement priority of payments	
Available funds Collections and recoveries from receivables, the management fee prepayment amount, the liquidity reserve and the additional reserve	
1)	Taxes and expenses (ordinary and extraordinary, including servicer fee, even if this has been replaced)
2)	Class A interest
3)	Replenish the liquidity reserve to the required balance
4)	Class A principal up to the target redemption amount
5)	Replenish the additional reserve to the required balance
6)	Adjustment of purchase price and indemnity due and payable to the originator
7)	Cash trapping (if the cash trapping condition is not satisfied)
8)	Remuneration on class J
9)	Class J principal (if class A is redeemed in full) up to the target redemption amount
10)	Additional remuneration on class J

Source: Transaction documents and Scope

Fully funded reserves provide 2.7% of credit enhancement

4.3. Liquidity reserve and additional reserve

The liquidity reserve and additional reserve were fully funded at closing with part of the proceeds from the issuance of the class J notes.

4.3.1. Liquidity reserve

At closing, the liquidity reserve was equal to 0.75% of the initial balance of the class A (EUR 2.2m).

During the life of the transaction, if class A is above 50% of the initial balance, the reserve will be equal to 0.75% of the class A initial balance, otherwise it will be the higher between 1.5% of the principal outstanding of the class A and 0.38% of the initial balance of the class A.

The liquidity reserve will provide liquidity protection to the class A notes during the life of the transaction and can be used to repay the notes' principal at maturity.

4.3.2. Additional reserve

At closing, the additional reserve is equal to 1.75% of the initial pool balance (EUR 5.7m).

During the life of the transaction, it will amortise up to the higher of 1.75% of the current pool balance or 0.88% of the initial pool balance. The additional reserve will provide liquidity and credit protection to the class A notes.

The aggregate amounts of the liquidity reserve and the additional reserve can cover costs and interest on the class A notes for around 20 monthly payment dates.

4.4. Management fee reserve

In the case of a loan prepayment, the borrower can set off management fees paid upfront but not yet due, resulting in a reduction of outstanding instalments. However, for most loans in the portfolio, management fees have not been paid upfront but on an ongoing basis with each instalment. Therefore, set-off risk is limited.

A dedicated reserve, the management fee reserve, was funded at closing, to cover this set-off risk. At each payment date, the target management fee reserve will be equal to 25% of the outstanding management fees exposure. The repayment to the originator of the amortised portion of the management fee reserve will be made at each payment date, outside the priority of payments.

In addition, if the reserve is not enough to cover the amounts which borrowers set off, the originator will cover the shortfall.

4.5. Amortisation and provisioning

The strict sequential amortisation effectively protects senior noteholders in times of stress. The cash-trapping mechanism accelerates class A amortisation during stressed periods.

The transaction structure benefits from an implicit principal-deficiency ledger mechanism, since the notes amortise up to a target redemption amount. The target redemption amount is defined, on each payment date, as the difference between the notes' outstanding amount and the outstanding performing collateral portfolio (reduced by the amounts of the liquidity and additional reserves). As a consequence, the excess spread will be used to cover defaults rather than being distributed as additional remuneration to junior noteholders.

We believe that the cash-trapping mechanism (item 7 in the simplified pre-enforcement waterfall above) provides limited support in high-default scenarios, as excess cash will already have been used up by higher-ranking items in the priority of payments.

5. Quantitative analysis

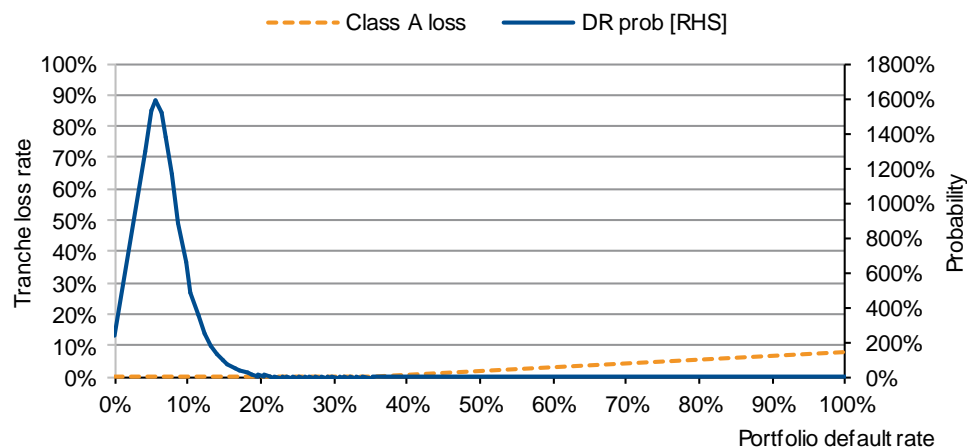
Our cash flow analysis considered the portfolio's characteristics and the transaction's main structural features. We applied our large homogenous portfolio approximation approach when analysing the granular collateral pool and projecting cash flows over its amortisation period. The cash flow analysis considers an inverse Gaussian default distribution to calculate the expected loss and the expected weighted average life of each rated tranche.

Figure 17 shows the losses of Class A notes at all portfolio default rates. The chart shows how credit enhancement, recovery proceeds, and excess spread protect the notes in the event of default. The results in Figure 17 consider a 0.76% reduction in the portfolio balance to account for commingling risk.

Limited exposure to
management fee set-off

We used a bespoke cash flow
analysis

Figure 17: Cash flow results for base case mean default rate, coefficient of variation and rating-conditional recovery rate



Source: Scope
Note: The probabilities displayed on the right-hand side axis must be considered in the context of the calculation of the probability density

6. Rating sensitivity

We tested the resilience of the rating against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the results for the rated instrument (class A notes, rated AAA_{SF}) change compared to the assigned rating when the portfolio's expected mean default rate is increased by 50% or the portfolio's expected recovery rate is reduced by 50%, respectively:

sensitivity to default rate, one notch; sensitivity to recovery rate, two notches.

7. Sovereign risk

Sovereign risk does not limit the transaction's ratings

CQS obligors are less likely to meet loan instalments if their salary or pensions are not paid. The obligor employer's credit quality is therefore a major source of credit risk. Around 82.0% of the portfolio relates to the public sector, exposing the transaction to sovereign risk as these borrowers' salaries or pensions may be affected should the sovereign default. A sovereign default could also trigger a significant restructuring of the public administration. Rather than mechanically limiting the maximum ratings on the notes, we assess the potential rating impact of a distressed scenario affecting the Italian government.

Given the relevance of the exposure to public employees and pensioners, Scope's analysis quantified the impact of Italian sovereign risk by assessing the likelihood and severity of a distress scenario (CQS stress scenario) affecting the government of Italy. A CQS stress scenario would entail a significant increase in portfolio defaults and delinquencies compared to the agency's base case assumption. This approach allows us to reflect the benefits of each transaction's liability structure and discriminate between them, rather than applying a mechanistic cap to the assigned ratings based on Italy's sovereign rating.

Our analysis assumed the likelihood of a CQS stress scenario event to be equivalent to an A risk, i.e. two notches higher than Scope's current rating on Italy. This scenario captures the potential effect on the transaction of a government default on its public debt.

The probability assigned to this scenario reflects our view that a sovereign default would not necessarily trigger the permanent suspension of payments to the entire population of civil servants or pensioners in Italy, or a general dismissal of civil servants, because the state needs to maintain a minimum level of key operations. For more insight into our fundamental analysis of the Italian economy, refer to our press release on the [Republic of Italy](#), dated 12 February 2020. For more insights on the impact of the coronavirus on Italian economy, refer to our press release on the [Republic of Italy](#) dated 2 March 2020.

We considered the following risks under the sovereign CQS stress:

- 1. Liquidity risk.** A suspension or reduction of salary and pension payments may create a spike in arrears and thus a liquidity shortfall for the transaction. However, additional losses are generally not incurred because the loan's maturity is extended in this instance – unpaid instalments become due and payable as of the original loan's maturity date until the debt is fully extinguished⁵. When analysing the transaction, we assumed that 50% of the public sector portfolio was fully suspended (i.e. no interest or principal was paid on these loans) for two years.
- 2. Credit risk.** A restructuring of the public administration may lead to job losses and, therefore, asset defaults for the securitisation. However, only some parts of the public administration may be affected, as vital functions such as tax collection and law enforcement would not be completely abolished. When analysing the transaction, we assumed that 25% of the public sector portfolio would default as a consequence of job losses.

8. Counterparty risk

The transaction is exposed to counterparty risk from: i) IBL Banca, as originator, servicer, collection account bank and calculation agent; ii) Zenith, as back-up servicer and back-up calculation agent; and iii) Citibank N.A., as transaction account bank and paying agent.

Counterparty risk for the transaction supports the highest ratings. We do not consider any of the counterparty exposures to be excessive, i.e. if counterparty risk crystallises, a downgrade is still limited to six notches.

8.1. Operational risk from servicer

Operational risk from the servicer is well mitigated in this transaction. Zenith, back-up servicer since closing, has undertaken to become operational within 30 days in the event of a termination event for IBL Banca.

8.2. Commingling risk from account bank

The issuer has a collection account held at IBL Banca that receives all asset proceeds as well as a payment account held by Citibank N.A., Milan Branch. Two business days before each monthly payment date, the amounts in the collection account are transferred to Citibank.

Commingling risk is mitigated by: i) daily sweeps to the issuer's collection account held with the servicer and monthly sweeps to the issuer's payment account held with Citibank N.A., Milan Branch; and ii) instructions to debtors to pay directly into the issuer's account at the transaction account bank upon a servicer disruption event. However, employers may not immediately implement the new payment instructions, and we have therefore assumed a loss of up to four months of collections. We sized a 0.76% loss based on the

Back-up servicer appointed since closing

Commingling risk exposure driven by employers' responsiveness to new payment instructions

⁵ If the maturity of the loans is extended beyond the final maturity of the notes, suspensions or reductions of salary and pension payments will effectively generate a loss for the transaction. The final legal maturity date is set 15 years after the loan with the longest maturity date in order to mitigate this risk.

Set-off risk from the originator is well mitigated

probability of a commingling event over the expected life of the transaction. However, the BBB rating on IBL implies that the servicer's insolvency is unlikely.

8.3. Set-off risk from originator

Set-off risk is well mitigated in this transaction. The originator is a deposit-taking financial institution, but it has represented that, as of closing, none of the borrowers has a deposit account with IBL Banca.

9. Legal structure

9.1. Legal framework

This securitisation is governed by Italian law and represents the true sale of assets to a bankruptcy-remote vehicle, which is essentially governed by the terms in the transaction documentation.

9.2. Clawback

The originator has provided: i) a 'good standing' certificate from the Chamber of Commerce; ii) a solvency certificate signed by a representative duly authorised; and iii) a certificate from the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the originator is not subject to any insolvency or similar proceedings.

This mitigates claw-back risk, as the issuer would be able to prove it was unaware of the originator's insolvency as of the transfer date.

Assignments of receivables made under the Italian Securitisation Law are subject to claw-back in the following events:

i) pursuant to article 67, paragraph 1, of the Italian Bankruptcy Law, if the bankruptcy declaration of the relevant originator is made within six months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price exceeds their value by more than 25% and the issuer cannot demonstrate it was unaware of the originator's insolvency, or

ii) pursuant to article 67, paragraph 2, of the Italian Bankruptcy Law, if the adjudication of bankruptcy of the relevant originator is made within three months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price does not exceed their value by more than 25% and the originator's insolvency receiver can demonstrate that the issuer was aware of the originator's insolvency.

Clawback risk related to repurchased receivables is mitigated by a maximum amount of 5% of the portfolio on a cumulative basis. Upon the repurchase of single loans, the originator is also required to provide a solvency certificate to the issuer. However, in our view an insolvency of IBL (rated BBB) is unlikely.

9.3. Use of legal opinion

We reviewed the legal opinions produced for the issuer. These provide comfort on the issuer's legal structure and supports our general legal analytical assumptions.

10. Monitoring

We will monitor this transaction on the basis of the performance reports from the servicer and the calculation agent, as well as other available information. The ratings will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

Clawback risk is mitigated

Scope analysts are available to discuss all the details surrounding the rating analysis



11. Applied methodology and data adequacy

For the analysis of this transaction we applied Scope's Consumer and Auto ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, all available on our website, www.scoperatings.com.

IBL Banca provided Scope with default and recovery data, segmented by quarterly vintage of origination, by type of default (delinquency, life event, employment event) and employer type (public administration, state administration, private sector and pensioners). The default rate data covers a period from 2008 to 2019 and is generally very granular. The recovery data also covers a period from 2008 to 2019, referring to all recoveries during that period. We also received data regarding the proportion of recoveries from different sources: insurance payments, recoveries from borrowers and recoveries from the pledged TFR.



Marzio Finance S.r.l. – Series 8-2020

Italian Consumer CQS ABS

I. Deal comparison

Transaction	Marzio Finance 8-2020	Marzio Finance 7-2019	Marzio Finance 6-2019	Marzio Finance 5-2019	Marzio Finance 4-2018	Marzio Finance 3-2018	Marzio Finance 2-2018	Marzio Finance 1-2017	Dyret	
Country	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	
Closing date (dd/mm/yyyy)	16/03/2020	09/10/2019	31/07/2019	05/04/2019	21/11/2018	28/05/2018	29/01/2018	28/09/2017	09/03/2018	
Originator	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	Dynamica Retail S.p.A.	
Servicer	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Servicing S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	Dynamica Retail S.p.A.	
Back-up servicer	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	
Back-up servicer facilitator	-	-	-	-	-	-	-	-	Zenith Service SpA	
Portfolio characteristics										
Number of loans	16,684	20,379	44,960	14,268	19,397	22,952	13,145	19,884	8,392	
Number of borrowers	16,168	19,789	42,492	13,842	18,687				8,392	
Original portfolio balance (€)	433,280,748	408,142,490	982,255,231	287,877,728	389,163,840	487,141,290	334,298,977	429,475,538	194,603,643	
Outstanding portfolio balance (€)	324,204,901	383,087,676	604,353,726	280,470,224	376,770,538	437,201,060	157,872,473	361,374,376	160,348,393	
Average original loan balance (€)	20,069	20,028	21,847	20,176	20,063	21,224	25,432	21,599	23,189	
Average outstanding loan balance (€)	19,432	18,798	13,442	19,657	19,424	19,048	12,010	18,174	19,107	
Length of contracts										
WA original term (years)	9.3	9.3	9.8	9.3	9.2	9.3	9.7	9.4	9.6	
WA seasoning (years)	0.3	0.5	3.8	0.2	0.3	1.0	4.4	1.6	1.8	
WA remaining term (years)	9.0	8.8	6.0	9.1	8.9	8.3	5.3	7.8	7.8	
Contract type										
CDQ - Cessione del quinto (%)	82.3	84.1%	83.8%	82.7%	82.3%	83.4%	77.7%	83.3%	81.4%	
DP - Delegazione di pagamento (%)	17.7	15.9%	16.2%	17.3%	17.7%	16.6%	22.3%	16.7%	18.6%	
Portfolio yield										
WA portfolio yield (%)	5.86	5.9%	5.8%	5.9%	6.2%	6.0%	6.4%	5.9%	4.0%	
Type of debtors										
Public sector employees (%)	20.4%	34.6%	39.2%	37.62%	36.6%	41.2%	39.1%	38.8%	54.8%	
State employees (%)	28.0%	11.5%	13.8%	12.00%	12.8%	13.5%	16.7%	15.3%	-	
Private sector employees (%)	18.0%	15.1%	4.6%	15.84%	13.7%	8.7%	2.8%	6.8%	9.9%	
Pensioners (%)	33.6%	38.8%	42.3%	34.54%	36.9%	36.6%	41.4%	39.1%	35.3%	
Borrower concentration										
Top 1 (%)	0.03%	0.03%	0.01%	0.04%	0.03%	0.02%	0.04%	0.03%	-	
Top 10 (%)	0.26%	0.24%	0.12%	0.35%	0.23%	0.19%	0.30%	0.21%	-	
Employer concentration										
Top 1 (%)	4.0%	1.9%	3.1%*	2.4%*	1.4%*	2.0%*	2.0%*	2.0%*	34.3%	
Top 10 (%)	12.0%	6.2%	8.8%*	6.7%*	4.7%*	10.9%*	7.2%*	6.5%*	54.7%	
Public sector exposure (%)	82.0%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%	90.1%	
Employer regional concentration										
North	30.4%	29.5%	28.4%	29.4%	30.2%	29.1%	27.9%	25.7%	16.4%	
Centre	31.3%	29.6%	32.1%	30.6%	28.4%	28.9%	31.3%	31.0%	21.8%	
South	38.4%	40.8%	39.5%	40.1%	41.4%	42.0%	40.8%	43.3%	61.8%	
Top region	Lazio - 21.5%	Lazio - 20.0%	Lazio - 21.0%	Lazio - 21.2%	Lazio - 18.9%	Lazio - 19.4%	Lazio - 21.5%	Lazio - 20.4%	Campania - 27.3%	
Insurance company exposure										
Top 1 life insurance	25.7%	29.9%	27.8%	28.5%	27.0%	24.8%	25.2%	21.8%	21.8%	
Top 2 life insurance	46.8%	46.2%	47.9%	46.7%	45.1%	43.6%	47.2%	43.1%	42.0%	
Top 3 life insurance	61.4%	61.3%	67.1%	61.6%	61.7%	58.9%	66.2%	59.4%	58.6%	
Top 1 unemployment insurance	15.3%	13.6%	19.1%	14.5%	16.5%	18.4%	25.2%	20.5%	21.8%	
Top 2 unemployment insurance	29.1%	25.9%	37.9%	28.7%	28.5%	33.6%	44.6%	36.8%	42.0%	
Top 3 unemployment insurance	38.6%	35.2%	49.4%	40.8%	39.9%	46.4%	54.0%	48.1%	58.6%	
Assumptions summary										
Default definition	8 months	8 months	1 month	8 months	8 months	8 months	8 months	8 months	9 months	
Mean default	7.5%	7.5%	5.5%	7.5%	7.5%	7.0%	5.0%	6.0%	10.5%	
Coefficient of variation	40.0%	40%	40%	40%	40%	40%	45%	45%	35.0%	
Recovery rate (insurance coverage)	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	
Recovery rate (no insurance coverage)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
AAA scenario recovery rate	47.6%	49.0%	56.7%	48.7%	52.8%	54.4%	30.2%	55.6%	42.9%	
Recovery timing	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	
Prepayment rate	5% from year 1 to year 3 25% in year 4 10% thereafter	5% from year 1 to year 3 25% in year 4 10% thereafter	25% in year 1 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	
Portfolio yield										
Insurers' inverse-Herfindahl metric	5.9	5.8	5.7	5.8	6.0	5.7	4.3	5.1	5.9	
Insurers' correlation	20%	20%	20%	20%	20%	20%	20%	20%	20.0%	
Public sector exposure (%)	82%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%	85.0%	
Private sector exposure (%)	18%	15.1%	4.6%	15.8%	13.7%	8.7%	2.8%	6.8%	15.0%	
Structural features										
Tranching										
Class A	AAA	AAA	AA+	AAA	AAA	AAA	AAA	AAA	NR	
CE Class A	10.7%	10.5%	8.0%	11.5%	21.0%	14.0%	18.0%	9.0%	20.5%	
Class B	N/A	N/A	N/A	N/A	A+	N/A	N/A	N/A	BBB+	
CE Class B	N/A	N/A	N/A	N/A	7.0%	N/A	N/A	N/A	10.3%	
Class C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	BB	
CE Class C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.7%	
Class J	NR	NR	NR	NR	NR	NR	NR	NR	NR	
CE Class J	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Cash reserve (% of rated notes)	2.7%	2.6%	2.6%	2.7%	2.6%	2.9%	3.3%	1.8%	2.0%	
Revolving period (years)	0	0	0	0	0	0	0	0	0.75	
Commingling risk (yes/no)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Commingling risk mitigants	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	Daily sweeps
Set-off risk (yes/no)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Set-off risk mitigants (e.g., prepayment reserve)	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve - 1.3% of balance of each loan	
Type of swap	N/A	N/A	N/A	N/A	Fixed-to-floating IRS	Fixed-to-floating IRS	N/A	N/A	N/A	
Swap co. rating trigger	N/A	N/A	N/A	N/A	A-	A-	N/A	N/A	N/A	

*INPS (Istituto Nazionale della Previdenza) and Italian Ministry of Finance are excluded from this figure.

II. Vintage data provided by originator

IBL Banca provided default and recovery performance data for the pool. We used this information in our analysis as a foundation for the calibration of point-in-time default rates, the coefficient of variation and base case recovery rates.

Vintage data is granular and representative of the portfolio.

Figure 18: Public administration – default and recovery data

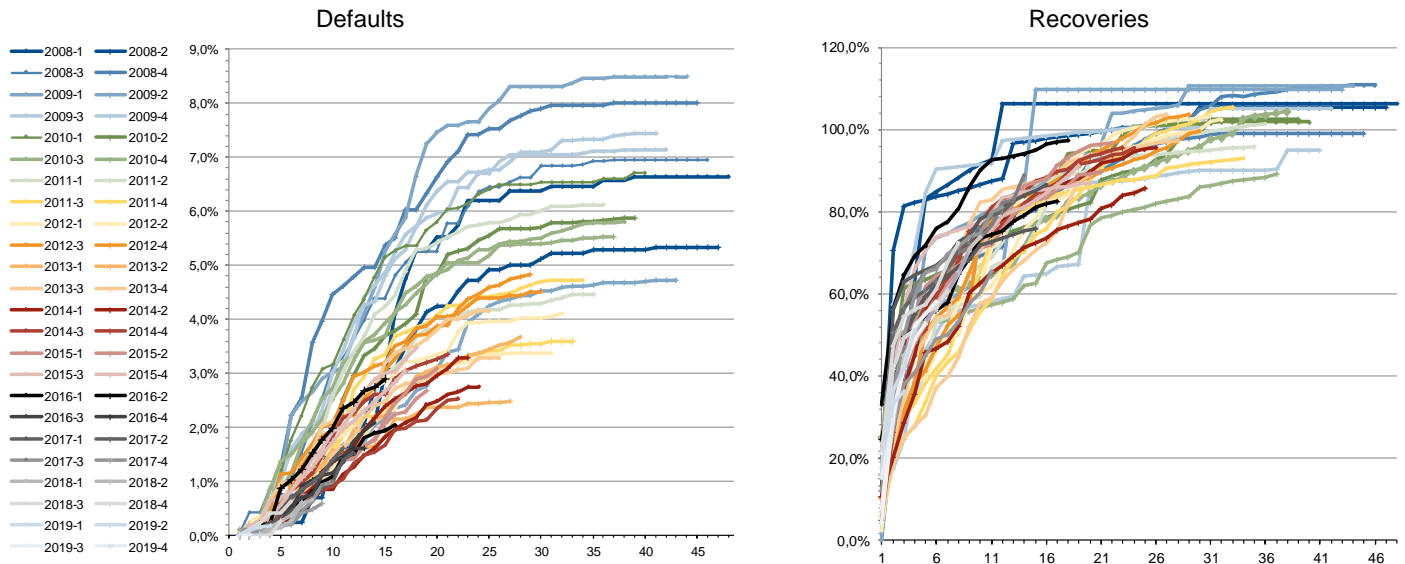


Figure 19: State administration – default and recovery data

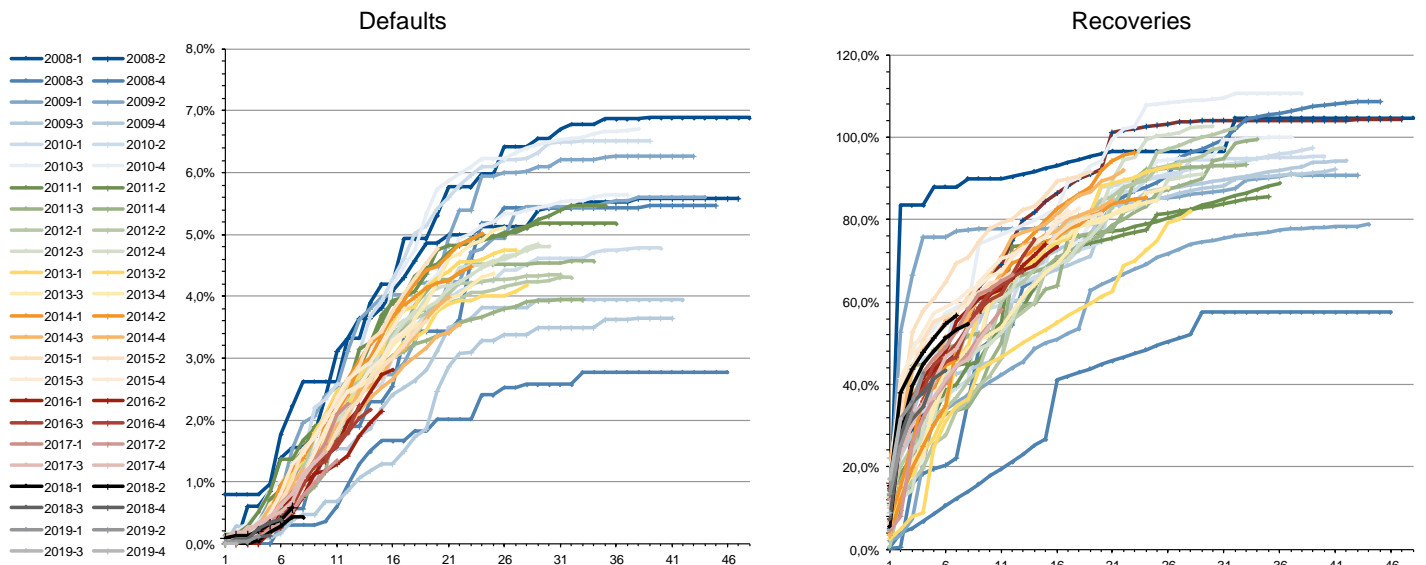


Figure 20: Private sector – default and recovery data

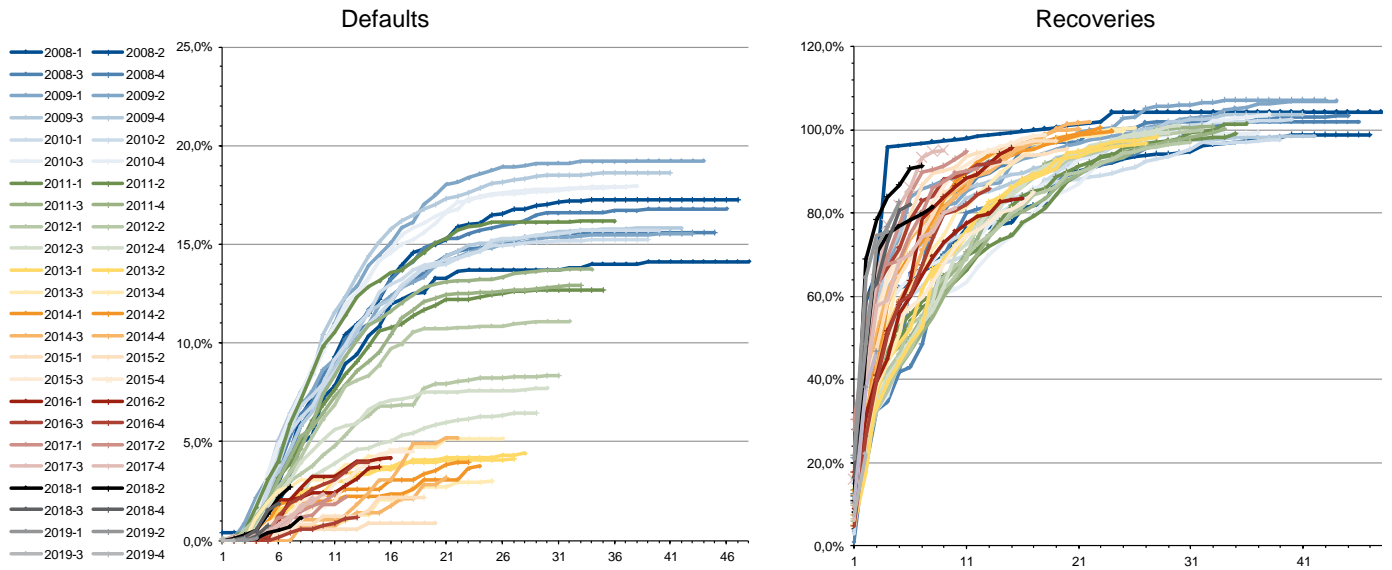
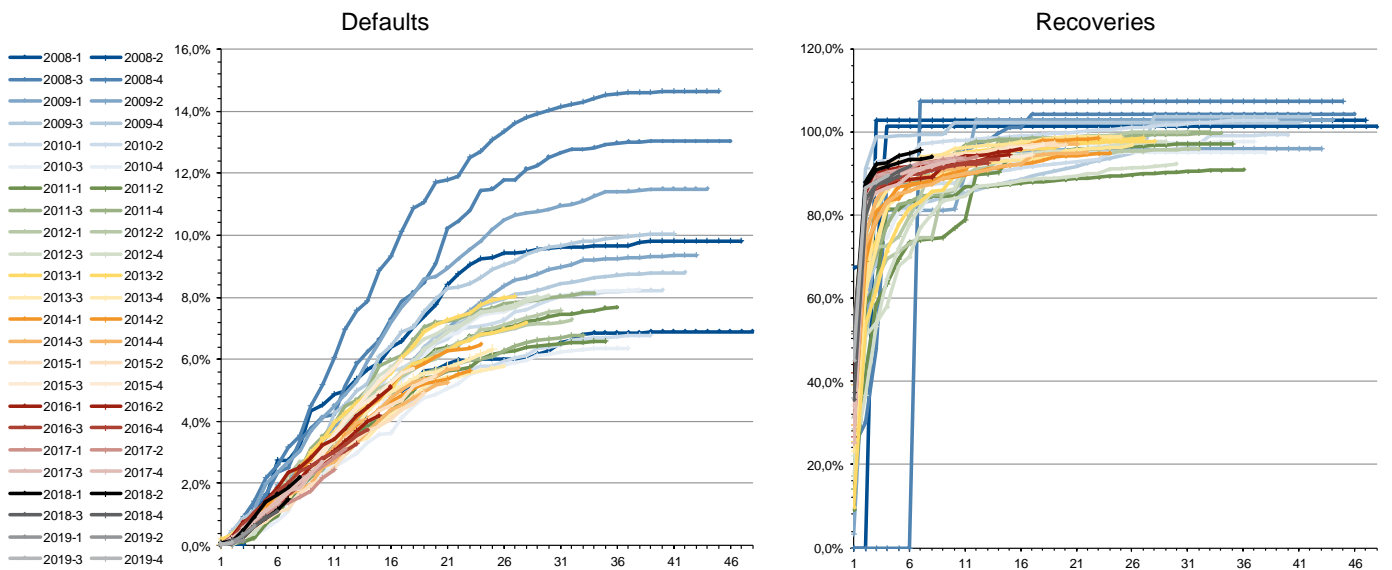


Figure 21: Pensioners – default and recovery data





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