Italian Banks Behind Growth of Asset-Backed Securities

But Italy's Social Security Administration is also rushing to close a deal worth L8tn by year-end

Against a market worth an estimated L200tn, Italian securitization deals have thus far totalled just under than L10tn. But now the size of the individual transactions is increasing sharply, with liquidity-hungry Italian banks proving the main source of business. However, it will be Italy's Social Security Administration ("INPS") to give the business a big boost. Roberto Isolani and Peter Shorthouse of Warburg Dillon Read have been putting in a lot of overtime in recent weeks as they shape a INPS deal that should end up in the region of L8tn.

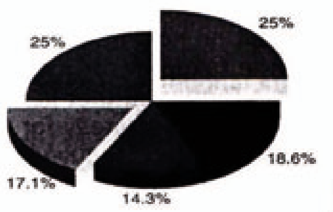
The transaction, which covers the securitization of INPS' receivables from both individuals and companies, has to close by year-end for tax purposes. Meanwhile, BCI is on its way to finalizing "Scala 1", the largest securitization originated by an Italian bank to date, whereas Banca di Roma just concluded a sale of receivables worth EUR 350mn. At EUR 4bn, the Scala I deal, which has been orchestrated by Citibank's **Alessandro Massarelli**, also stands out for its financial structure, which uses credit derivatives for the first time in the Italian market. BCI will transfer a EUR4bn portfolio of performing loans off of its books. Some 62% of those loans are with North American companies, while the remainder are with clients located in Western Europe.

The portfolio averages a Moody's rating of A3. A total of 93% of the portfolio is being sold to Citibank which enters a credit default swap with BCI. The remainder is being sold to Scala 1, which is issuing EUR 280mn of floating-rate notes, distributed over five tranches according to the ratings on the loans (see graph). The return is pegged to Euribor, and the spreads vary according to each rating class. The maturity of the note issue is ten years, but the average life is three years. The placement will be managed by BCI and Salomon Smith Barney. The financial structure has been fashioned from a previous deal originated by Citibank under the name of Citi Star. Citibank has marketed that structure in several countries including Italy. Among the banks approached by Massarelli, BCI showed the strongest interest, since it was already equipped with a certain knowledge of credit derivatives. BCI's work group on the deal has been headed by Francesco Caputo, one of the pioneers of securitization in Italy. The Milan-based bank has been actively studying this technique for two years. The jumbo size of the deal is due to the relative difficulty in applying credit-default swaps to small portfolios. "Credit-default swaps, require extensive risk-assessment procedure, hence considerable economies of scale can be obtained", says Massarelli.

Meanwhile Banca di Roma, under **Luca Peviani**'s direction, securitized a portfolio of EUR 350mn worth of Bonds issued by banks, prime corporates and supranationals, pooling them under a Lux law company called Caesar Finance. The deal was arranged by DLJ's **Jeremy Queenlan**. The Caesar Finance vehicle will place on the market a EUR 270mn sized senior tranche of bonds, rated Triple A by Moody's, due to return around 40 bp over Euribor. The EUR 80 mn worth of junior bonds will be underwritten by Banca di Roma. Although the weighted average rating of the portfolio is AA, over 50% of pooled bonds is unrated, with Mediobanca accounting for 19% of the total. That raised some perplexity among investors.

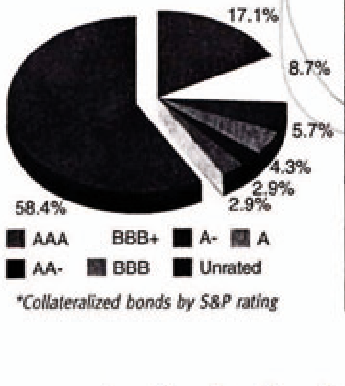
Roberto Isolani

RATING CAT. * FOR SCALA ...



*Moody's and S&P

... AND CAESAR FINANCE*



*Collateralized bonds by S&P rating