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New Issue: Alba 3 SPV S.r.l.

Up To €283 Million Asset-Backed Floating-Rate Notes

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Ratings Detail

Class	Rating*	Initial amount (mil. €)	Maximum amount at the end of the warehouse period† (mil. €)	Available credit support§ (%)	Interest (%)	Legal final maturity
A	AA+ (sf)	79.92	150.00	47.7	Three-month EURIBOR plus 230 bps	Sept. 20, 2035
B	NR	70.88	133.00	N/A	Variable	Sept. 20, 2035

*Standard & Poor's ratings address timely payment of interest and ultimate principal. §Includes the cash reserve. †During this period, the issuer can fund the purchase of further lease receivables through the issuance of additional notes up to a total maximum balance of €283 million; this phase lasts until July 2013. EURIBOR--Euro interbank offered rate. NR--Not rated. N/A--Not applicable. Bps--Basis points.

Transaction Participants	
Seller/originator	Alba Leasing SpA
Issuer	Alba 3 SPV S.r.l.
Back-up servicer	Selmabipiemme Leasing SpA
Servicer/cash manager	Alba Leasing SpA
Bank account provider	The Bank of New York Mellon (Luxembourg) S.A., Milan branch
English bank account provider	The Bank of New York Mellon, London branch
Paying agent	The Bank of New York Mellon (Luxembourg) S.A., Milan branch
Corporate servicer/representative of the noteholders/computation agent	Zenith Service SpA
Sole quotaholder	Stichting SFM Italy No.1
Initial senior notes subscriber/initial junior notes subscriber	Alba Leasing SpA

Supporting Ratings

Institution/role	Rating
The Bank of New York Mellon (Luxembourg) S.A., Milan branch, as bank account provider	AA-/Negative/A-1+
The Bank of New York Mellon, London branch, as English bank account provider	AA-/Negative/A-1+

Transaction Key Features*	
Closing date	Dec. 20, 2012
Collateral	A portfolio of lease receivables originated by Alba Leasing
Country of origination	Italy
Total outstanding principal balance (mil. €)	148.5
Substitution period (months)	Maximum 24
Geographic concentration	Northern Italy 63.8%, central Italy 19.4%, and southern Italy 16.8%
Average loan balance (€)	44,183
Largest obligor (%)	1.43
Major industry concentration by sector	Other sales and distribution services (10.46%); road transportation services (6.98%); hotels and public services (6.07%); Building and construction (5.14%)
Weighted-average seasoning (years)	0.7

Transaction Key Features* (cont.)	
Weighted-average remaining term (years)	6.3
Portfolio paying fixed-rate interest (%)	0.95
Portfolio paying floating-rate interest (%)	99.05
Weighted-average nominal interest rate for fixed-rate contracts(%)	6.27
Weighted-average margin for floating-rate contracts (%)	4.63
Cash reserve	Funded through part of the proceeds of the class B notes for an amount equal to 1.55% of the total portfolio.
Arrears of more than 30 days (%)	0

*Portfolio as of Dec. 1, 2012.

Transaction Summary

Standard & Poor's Ratings Services has assigned its 'AA+ (sf)' credit rating to Alba 3 SPV S.r.l.'s class A asset-backed floating-rate notes. At the same time, Alba 3 SPV issued unrated class B notes.

A portfolio of lease receivables, broken into three pools depending on the underlying assets, back the notes. The underlying assets are: vehicles (pool one), equipment (pool two), and real estate (pool three).

The originator is Alba Leasing SpA., the leasing company resulting from the spin-off of the Banca Italease SpA group. It commenced operations on Jan. 1, 2010, with a portfolio of €4.9 billion of performing leases originated by Banca Italease.

Notable Features

The transaction's main features are as follows:

- The transaction has an initial warehouse period, during which the issuer can fund the purchase of further lease receivables through the issuance of additional notes up to a total maximum balance of €283 million; this phase lasts until July 2013.
- At the end of the warehouse period, the transaction will enter a revolving period, during which the originator may sell further portfolios to the issuer. The revolving period will end on the earlier of either the date on which a purchase termination event occurs, or the payment date falling on June 20, 2014, or another date determined by the notes' subscriber (provided that it is no later than 24 months after closing).
- The transaction has one payment waterfall for principal and interest payments. During the amortization period, if the gross default ratio exceeds some trigger levels, the special-purpose entity (SPE) retains most of the excess spread until the senior classes of notes fully redeem.
- The issuer has not hedged the interest rate risk arising from the mismatch between the interest rate paid under the loans and the interest rate paid under the notes.
- The issuer used part of the proceeds of the class B notes to fund a debt service reserve at closing. The issuer can use the reserve to provide liquidity and credit support to the senior classes of notes.

Rating Rationale

Our rating reflects our assessment of the following factors:

Operational risk. Alba Leasing is a recently established company but, being the result of the spin-off of Banca Italease group, it benefits from significant expertise and knowledge of the Italian leasing market. Our rating on the class A notes reflects, among other factors, our assessment of the company's origination policies, as well as our evaluation of its ability to fulfill its role as servicer under the transaction documents. The transaction has a back-up servicer, which mitigates the risk posed by a servicer discontinuity. Our cash flow model incorporates a stressed servicing fee that we deem to be sufficient to provide an economic incentive for a new servicer to step in. Also, there are mechanisms in place to ensure that borrower payments are promptly diverted into a new account opened in the SPE's name with a suitably rated institution. Alternatively, if a servicer termination event occurs, these payments can be diverted into the transaction's collection account.

Credit risk. The collateral comprises a revolving pool of lease receivables concentrated in Northern Italy. We have analyzed credit risk on the basis of our "Criteria Update: Rating Leasing Securitizations In Italy," published on May 3, 2006. In particular, our projected weighted-average gross default assumption is 45.3% at a 'AA+' rating level, with a 10.1% base case assumption, and a weighted-average recovery rate of 14% at a 'AA+' rating level with a base case assumption of 24.7%. We based our assumptions on the originator's historical data, by considering Banca Italease group's previous transactions and by conducting a market comparison.

Cash flow risk. Our rating on the class A notes reflects our assessment of the credit and cash flow characteristics of the transaction. We tested the transaction cash flows in a model that simulated the rating stress scenarios. In our modeling approach, we ran several different scenarios at each rating level, combining different interest rate patterns with different prepayments rates. Our analysis indicates that the credit enhancement available to the rated notes is sufficient to withstand the credit and cash flow stresses that we apply at a 'AA+' rating level. We also ran two alternative stress scenarios, under which the class A notes maintained their 'AA+ (sf)' rating, in line with our rating stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Counterparty risk. Our rating on the class A notes also considers that the transaction adequately mitigates counterparty risk through the replacement mechanisms contained in the transaction documents. We analyzed this counterparty risk by applying our 2012 counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on Nov. 29, 2012, and "Credit FAQ: How Standard & Poor's Applies Its Criteria to Bank Branches In The EU and Eurozone," published on July 27, 2012).

Legal risk. This is the SPE's first issuance. The transaction documents permit further securitizations subject to rating agency confirmation. We consider the issuer to be a bankruptcy-remote entity, in compliance with our European legal criteria (see "European Legal Criteria For Structured Finance Transactions," published on Aug. 28, 2008).

Nonsovereign ratings criteria. The application of our European Economic and Monetary Union (EMU or eurozone) nonsovereign ratings criteria cap the maximum potential ratings in this transaction at 'AA+ (sf)', that is, six notches above our unsolicited long-term sovereign rating on the Republic of Italy (BBB+/Negative/A-2) (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011).

Our 'AA+ (sf)' rating on the class A notes reflects our assessment of the credit and cash flow characteristics of the underlying asset pool, as well as our analysis of the counterparty and operational risks in the transaction. Our analysis indicates that the level of credit enhancement available to the class A notes is sufficient to mitigate the credit and cash flow risks to a 'AA+ (sf)' rating level.

Strengths, Concerns, And Mitigating Factors

Strengths

- A fully sequential payment mechanism between the rated notes and the unrated notes results in increased credit enhancement for the rated notes as the pool amortizes.
- A non-amortizing cash reserve, which was fully funded at closing, provides both liquidity and credit support.
- The transaction retains excess spread until defaulted loans are covered.

Concerns and mitigating factors

- Alba is a relatively new originator and the historical data was not sufficient to derive credit assumptions. In order to determine our base case assumptions, we used a combined approach that looked at data provided by the originator relating to the performance of the loans purchased from Italease, the historical performance of previous Italease's transactions, and market comparison.
- The borrowers' payments are first credited to the servicer's accounts before being transferred to the issuer's account. This means that collections can be commingled with the servicer's funds. In order to mitigate commingling risk, we have stressed an amount equal to one month's collections as commingling loss.
- The issuer can purchase further lease receivables for a maximum period of 24 months after closing; this means that the portfolio composition during the life of the transaction may differ from the original composition at closing. As a mitigating factor, the transaction documents set certain performance triggers to stop further purchases and to prevent any significant deterioration in the portfolio's quality. We tested the transaction's cash flow by making assumptions for the worst portfolio composition under the transaction documents' eligibility criteria for subsequent portfolios.
- The title to the leased assets remains with the originator and has not been transferred to the issuer. In our cash flow stresses, we have only given credit to the recoveries for defaulted leases from lessees because, if the originator were to become insolvent, the issuer would not be able to recover any money from the sale of the leased assets.
- The servicer can renegotiate the maturity and the interest rate on the receivables. In addition, the seller can repurchase single loans during the life of the transaction. The maximum percentage of the portfolio that can be renegotiated is low—we therefore did not run any additional scenarios. We tested the transaction by assuming a spike in prepayments.
- The transaction is exposed to interest rate risk because there is no hedging agreement in place to cover the interest rate mismatch (between the interest rate paid under the loans and the rate paid under the notes). For floating-rate loans, we stressed the basis risk by applying a haircut of 67 basis points (bps) to the interest paid under the loans during the first 18 months of the recession period, and 14 bps for the rest of the life of the transaction. We tested the cash flow model of the fixed-rate loans assuming the interest rates rise higher than the interest rate paid by the loans.

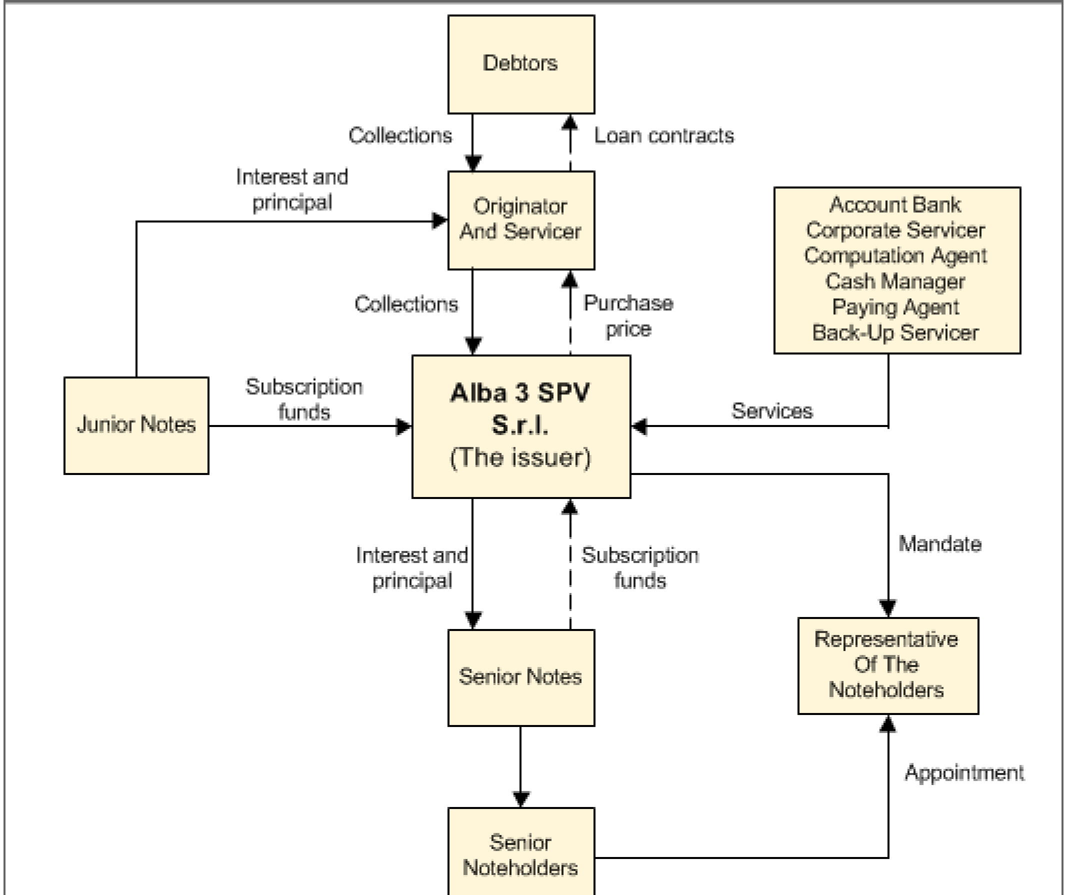
Transaction Structure

At closing, the subscribers of the class A and B notes paid an initial total amount of €150.8 million, which the issuer used to purchase the initial portfolio and fund a cash reserve of €2.3 million.

The notes were issued on a partly paid basis. During the warehouse period (which lasts until July 2013), the issuer can request the payment of further amounts up to an aggregate outstanding balance of the notes equal to €283 million under the transaction documents. The issuer uses these payments to purchase additional portfolios from the originator and to increase the balance of the debt service reserve.

Chart 1

Alba 3 SPV S.r.l.
Transaction structure



The issuer was incorporated as a limited liability company in Italy under Italian securitization law (Law 130) on Sept. 17, 2012. The issuer has no employees, and has not engaged in any business, other than the current securitization. Stichting SFM Italy No.1 wholly owns the issuer.

Originator/servicer description

Banca Popolare Emilia Romagna S.C. owns 36.43% of Alba Leasing, Banco Popolare Società Cooperativa S.c.r.l. owns 32.79%, Banca Popolare di Sondrio ScpA owns 20.95%, and Banca Popolare di Milano S.c.r.l. owns 9.83%. Alba Leasing's main origination channel comprises its shareholders' local branches, located across Italy. At the end of September 2012, it had a market share of 3.81%, ranking seventh among other Italian leasing companies. It focuses on the equipment sector, where its market share is 6.95%.

Priority of payments

The class A and B notes pay interest in arrears on a designated date each quarter.

During the warehouse period, on each monthly payment date, the issuer applies the monthly issuer available funds to purchase additional portfolios from the originator.

Monthly issuer available funds include:

- The proceeds from the subscription of further amounts under the notes;
- The principal deficiency amount accumulated on the principal accumulation account on the preceding quarterly payment date, minus any amount already used to purchase additional portfolios; and
- Principal collections.

On each quarterly payment date, the issuer applies all available funds to make payments according to the following simplified waterfall:

- Taxes and expenses due from the issuer, as well as remuneration, costs, and expenses payable to the representative of the noteholders;
- Remuneration, costs, expenses, and indemnities to various transaction parties, including remuneration to the servicer;
- The class A notes' interest;
- A top-up of the cash reserve up to the required amount;
- •During the warehouse and the revolving period, the issuer makes a payment toward the purchase price of additional portfolios up to the value of the principal deficiency amount;
- •During the amortization period, if the gross cumulative default ratio exceeds the corresponding trigger (see table 1), the issuer repays the class A notes' principal up to an amount that is equal to the issuer available funds, after the payments above have been made. If the gross cumulative default ratio is lower than the trigger, then the issuer repays the class A notes' principal up to the value of the principal deficiency amount; and
- Other junior items.

The issuer available funds include:

- Collections and recoveries received during the quarter;
- Any amounts the issuer receives from the originator;
- The interest accrued on the issuer accounts;
- The net proceeds from eligible investments;
- The amount in the principal accumulation account, which is not used to purchase additional portfolios;
- Proceeds from the sale of receivables, following an optional redemption; and
- The debt service reserve amount.

The principal deficiency amount records the balance of defaulted receivables as of the date of calculation. It is calculated as follows:

- During the warehouse period, it is calculated using the difference, if positive, between the lower of €283 million, the principal amount outstanding of the notes, and the outstanding amount of the performing portfolio plus the debt service reserve; or
- At the end of the warehouse period, it is calculated using the difference, if positive, between the principal amount

outstanding of the notes and the outstanding amount of the performing portfolio plus the debt service reserve.

Table one indicates the gross cumulative default ratio trigger amount for each quarter.

Table 1

Gross Cumulative Default Ratio Trigger

Quarterly payment date	Trigger (%)
First quarter	1.75
Second quarter	1.75
Third quarter	2.25
Fourth quarter	3.00
Fifth quarter	3.50
Sixth quarter	4.50
Seventh quarterly payment onward	5.00

Debt service reserve

A debt service reserve was funded at closing through part of the proceeds of the issuance of the class B notes, for an amount equal to €2.3 million, equal to 1.55% of the portfolio at closing. During the warehouse period, it is increased using further junior notes' proceeds to fund 1.55% of the outstanding portfolio balance at each valuation date.

The amount of the reserve can be increased in the waterfall by using excess spread up to an additional 0.35% of the portfolio's balance. If any increase is made, then the required replenishment amount at the next quarterly payment date includes the additional increase. This becomes the total required amount.

The reserve provides liquidity enhancement throughout the life of the transaction and credit enhancement only on the date on which the class A notes can be redeemed in full. The reserve does not amortize until the rated notes are redeemed in full.

Mandatory redemption of the notes

At the end of the revolving period, each class of notes is subject to mandatory redemption on each payment date, in accordance with the priority of payments.

Optional redemption

The notes are subject to optional redemption in full on any quarterly payment date falling 60 months after closing, subject to the issuer having the necessary funds to discharge all of its liabilities regarding the rated notes and any amount to be paid in priority to them.

Final redemption

The outstanding principal amounts for all the notes, unless previously fully redeemed, are to be fully repaid on the September 2035 payment date.

Principal redemption for taxation

The issuer may redeem the class A notes and all (or part) of the junior notes if there is a change in tax, which would require the issuer to deduct tax from any payment due on the notes, if it has enough funds to discharge all its obligations on the notes and amounts to be paid in priority (or pari passu) with the notes.

Security

Under Italian law, the issuer's interests in the receivables are segregated from all of the issuer's other and made available, both before and after a winding-up of the issuer, only to satisfy the issuer's obligations to the noteholders and certain other creditors involved in the securitization of the receivables.

Security for the notes is also created through an Italian deed of pledge and an English deed of charge. Under these deeds, the issuer pledges in favor of the noteholders all of the rights, claims, and amounts to which it is entitled under the transaction documents—one set of which is under Italian law, and the other under English law.

Interest rate risk

The transaction does not have an interest rate swap. The interest rate mismatch arises because:

- The notes pay the three-month Euro Interbank Offered Rate (EURIBOR) set two business days before the 20th day of March, June, September, and December; and
- The loans pay floating-rate interest indexed to one-month EURIBOR (1%), three-month EURIBOR (98%); and
- A small percentage of the loans in the pool pay a fixed rate of interest (1%).

We found that, if the index on which interest is earned on the assets is lower than the index on which interest for the notes is calculated, the transaction could be exposed to basis risk. If so, this could leave a shortfall in the amount available to the issuer to fulfill its obligations to the noteholders.

To assess the basis risk for each index, we calculated the difference between the rates by taking the highest indices payable to the noteholders and the lowest of the indices payable on the assets over a certain period, over approximately 12 years. For each index, we applied rating-specific percentiles to assess the historical differences observed and to derive the highest number in the distribution corresponding to that specific percentile.

In the first 18 months of the recession period, we assumed a reduction in the interest received on the assets equal to the value of the 90th percentile of the historical differences under a 'AA+' rating scenario. After the first 18 months of the recession period, the reduction applied corresponds to the value of the 30th percentile.

In addition, the transaction could suffer if the interest rate paid under the notes were to exceed the interest rate paid under the fixed-rate loans (1% in the initial portfolio, but it could increase up to 5% after the purchase of additional portfolios). The average interest rate paid by the fixed-rate loans is about 6.27%. We took this into account in our cash flow model, running different interest rate curves well above the interest rate paid under the loans.

Cash collection arrangements and transaction accounts

Of the reference pool, about 93.7% of the loans pay monthly installments, 6% pay quarterly, and the rest semi-annually. Borrowers pay into the servicer account. Collections are then transferred into the collection account in the name of the SPE within one day of receipt.

The servicer is not rated. If it becomes insolvent, amounts it holds could be frozen or lost, and would not be paid to the issuer. To account for this risk, we stressed one month's collection of interest and principal as a loss in our cash flow model.

The issuer has opened five other accounts with the bank account provider:

- The debt service reserve account: For the deposit of the reserve on the issue date, and on each payment date in accordance with the priority of payments.
- The payments account: Where amounts in the investment account are transferred to make payments under the priority of payments. During the warehouse period, the additional payments from the subscribers of the additional notes issued during this period are credited into the payments account.
- The principal accumulation account: Prior to the amortization period, the principal deficiency amount is credited into this account. During the warehouse period, the additional payments from the subscribers of the additional notes issued during this period are credited into this account from the payments account in order to pay the purchase price to the originator. This account will be closed at the end of the revolving period.
- The expenses account: The retention amount is credited into this account and replenished in accordance with the priority of payments.
- The quota capital account: For the deposit of the issuer's quota capital.

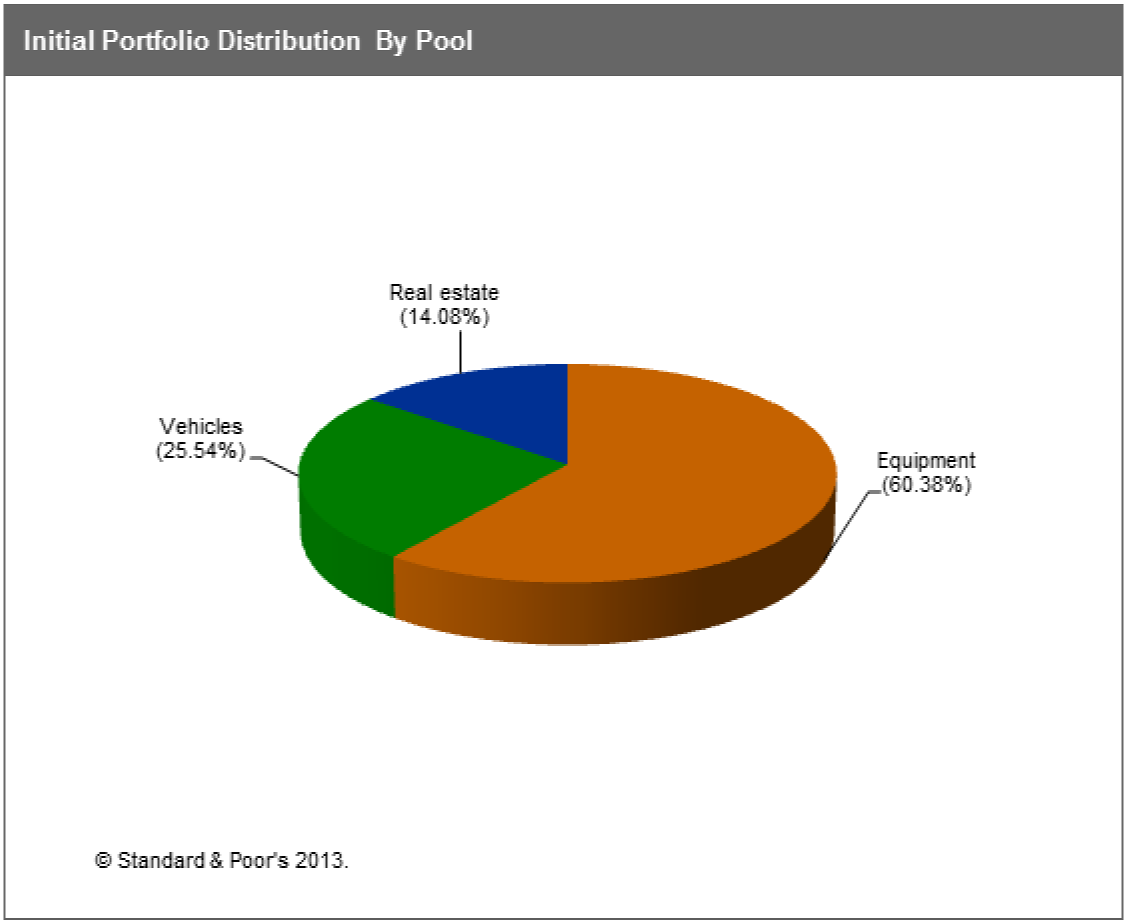
The issuer has also opened an investment account with the English bank account provider, The Bank of New York Mellon (London branch), where collections are transferred daily. Amounts credited to the other accounts are transferred into this account the business day following each payment date. Amounts held in the investment account are used to purchase eligible investments.

Under the transaction documents, the account bank and the English bank account provider are required at all times to be an eligible institution rated 'A' or 'A+' if the short-term rating is not 'A-1'. In our view, appropriate downgrade language is in place, in line with our 2012 counterparty criteria.

Collateral Description

The collateral pool backing the notes comprises 3,361 loan contracts. The largest single borrower concentration is 1.43%, and the top 10 borrowers comprise 10% of the pool. Chart 2 shows the initial portfolio distribution by pool.

Chart 2



The geographical distribution shows the pool is concentrated in Northern Italy (see chart 3).

Chart 3

Alba 3 SPV S.r.l. Geographic Distribution By Region

The transaction documents set out the eligibility criteria for receivables in the pool. Simplified, these state that:

- The leases were originated in line with the credit and collection policies;
- The receivables are not remotely originated contracts;
- The leasing agreement is dated on or after Jan. 1, 2010;
- The receivables are denominated in euros;
- The installments are repaid via direct debit or RIBA;
- The receivables pay fixed- or floating-rate interest;
- Floating-rate receivables are indexed to one-month EURIBOR or three-month EURIBOR;
- The contracts are governed by Italian law;
- The leases do not benefit from any form of subsidy or contribution from public administration entities, with few exceptions;
- Lessees are domiciled in Italy;
- Lessees are not currently employees or shareholders of the originator or the group, and are not public sector entities;

- Debtors are not insolvent or under administration, and do not have installments overdue to the seller by more than 30 days;
- At least one installment has been duly paid;
- Debtors have repaid all installments due so far and there are no installments overdue by more than 30 days;
- Contracts include an asset insurance, for which the lessor is the beneficiary;
- Leased assets are auto vehicles or commercial vehicles registered in Italy, equipment, or real estate assets located in Italy. Ships, aircrafts, and railways are excluded. All assets are finished and have been delivered to the lessee;
- Receivables arise out of leasing contracts where the debtor's obligation to meet payments due remain valid and in cases where the asset malfunctions, has defects that make it useless, or when it is not at the lessee's disposal for reasons not attributable to the originator ("net lease");
- The lessee has the option to purchase the asset at the end of the contract;
- Installments are determined by contract and include a part payment of principal and a part payment of interest;
- The maximum term is 144 months for vehicles, 144 for equipment, and 240 for real estate;
- The last installment does not fall after Jan. 1, 2032;
- The payment of installments is not suspended by virtue of agreements between the seller and the debtor according to the Italian Banking Association (ABI) payment suspension scheme;
- Receivables sold have been originated by Alba Leasing.

Revolving Period And Purchase Termination Events

The issuer may buy additional receivables until the earlier of the quarterly payment date falling on either June 20, 2014 (or another date—which Alba Leasing is entitled to determine at its absolute discretion, but which is no later than 24 months from the issue date), or the day a purchase termination or trigger event occurs.

The purchase of further receivables is subject to the following main conditions:

- The proportion of the pool comprising auto assets represents at least 14% of the total portfolio;
- The proportion of the pool comprising equipment assets does not exceed 75% of the total portfolio;
- The proportion of the pool comprising real estate assets does not exceed 20% of the total portfolio, and no single loan outstanding value exceeds €3 million;
- The largest obligor exposure does not exceed 1% of the total portfolio—excluding the largest three obligors (which, in any case, won't exceed 1.5%);
- The top five obligors' exposure does not exceed 6.5% of the total portfolio;
- The top 10 obligors' exposure does not exceed 9.5% of the total portfolio;
- The top 10 obligors' exposure to the real estate pool does not exceed 5% of the total portfolio;
- The transaction's concentration in the south of Italy does not exceed 20% of the total portfolio;
- The transaction's exposure to the building and construction sector does not exceed 28% of the total portfolio;
- The weighted-average interest rate on the fixed-rate lease contracts is at least 4.75%;
- The weighted-average spread on the floating-rate lease contracts is at least 3.75%;
- The weighted-average residual maturity is at least 5.5 years, with a maximum of 8.5 years;
- Fixed-rate receivables do not exceed 5% of the total portfolio;
- Floating-rate receivables indexed to one-month EURIBOR do not exceed 2.5% of the total portfolio;
- Floating-rate receivables indexed to three-month EURIBOR comprise at least 92.5% of the total portfolio; and
- Receivables classified with the product code FVM (photovoltaics) do not exceed 3%.

There are various purchase termination events that could stop the issuer from purchasing additional portfolios, if they occur, including the breach of the following performance triggers:

- The ratio of total defaulted amounts over the sum of the initial portfolio and the additional portfolios, each at the relevant valuation date, exceeds the limits set out in table 2.
- The ratio of delinquent loans over the performing portfolio exceeds 5% for two consecutive payment dates;
- The difference between the performing portfolio and the outstanding balance of the notes multiplied by 0.98 is negative for two consecutive monthly payment dates.

Table 2

Performance Triggers

Quarterly payment	Trigger (%)
1	1.75
2	1.75
3	2.25
4	3.00
5	3.50
6	4.50
7	5.00
8	5.00

Credit And Cash Flow Analysis

Default rates

We based our defaults analysis on the following:

- The historical static default data of the leases originated by Alba Leasing (the originator provided data for each quarter of origination from 2010, and each of the three different pools);
- The historical static default data of the total portfolio of leases owned by Alba Leasing, including those originated by Banca Italease (the originator provided data for each quarter of origination from 2006);
- The performance of previous Banca Italease's transactions; and
- Market comparison.

In line with our criteria for rating leasing securitizations in Italy, table 3 shows our gross default assumptions for each pool.

Table 3

Stressed Default Rates (%)

	Vehicles	Equipment	Real estate
AA+	40.5	45	49.5

We assume defaults occur over a recession period of between 26 and 36 months.

Recoveries

The title to the assets remains with the originator, so no credit can be given to recoveries from the sale of the assets.

We received historical recoveries data for defaulted amounts between 2005 and 2011, split among recoveries from the client and other recoveries, mainly from the sale of the assets, and based our analysis on the first set of data.

For our base case recovery assumptions, we applied haircuts at each rating level to derive the stressed recovery rates (see table 4).

Table 4

Stressed Recovery Rates (%)

	Vehicles	Equipment	Real estate
AA+	19.3	13.8	11

We assumed the SPE would receive 50% of the recoveries 18 months and 36 months from default.

Prepayment

For each loan, the borrower's monthly constant installment comprises an interest and principal component. For the unscheduled prepayments, we tested the cash flows under high and low constant payment rate (CPR) scenarios. We applied prepayment stresses from the beginning of the transaction in our cash flow analysis. We tested the cash flows both under a high 8% CPR assumption and a low CPR of 0.5%.

Delinquency rate

We applied delinquency rates equal to two-thirds of defaults applicable to the pools at each rating level in the cash flow model on the outstanding portfolio over a 36-month period, starting at the beginning of the transaction. We assumed full recoveries after a period of six months.

Portfolio yield and yield compression

To account for the possibility of the portfolio experiencing a reduction in yield, linked to the fact that higher-yielding loans may have a higher propensity to default, we applied yield compression stresses to the portfolio. We calculated these assuming that half of the loans prepaying would apply to highest-yielding loans.

Reinvestment rate stress

In our cash flow analysis, we also stressed the interest rate earned on the issuer transaction accounts at EURIBOR minus 200 bps at 'AA+'.

Servicing fee

In our cash flow analysis, we stressed a replacement servicing fee of 95 bps.

Commingling risk

We have stressed commingling risk in our cash flow analysis, assuming a loss equal to one month's collection of interest and principal (including a certain amount of assumed prepayments) in our cash flow model.

Cash flow scenarios

In our analysis, we assess whether the cash flows that the pool of assets generates are sufficient to ensure timely payment of interest and ultimate payment of principal by the legal final maturity date of the liabilities. We therefore stressed this series under the following cash flow scenarios at each rating level:

- Flat EURIBOR, low prepayment level, and evenly distributed defaults;

- Flat EURIBOR, high prepayment level, and evenly distributed defaults;
- Rising EURIBOR, low prepayment level, and evenly distributed defaults;
- Rising EURIBOR, high prepayment level, and evenly distributed defaults;
- Falling EURIBOR, low prepayment level, and evenly distributed defaults; and
- Falling EURIBOR, high prepayment level, and evenly distributed defaults.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European auto and consumer ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate, given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, combined with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall, as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall, as fewer refinancing options leave obligors unable to prepay finance agreements, and demand for replacement vehicles falls.

In our analysis, we have included two stress scenarios to demonstrate the transition of a rating on a class of notes (see table 5).

Table 5

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross loss rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

We intend our base-case assumptions for each transaction to be best estimates of future performance for the asset pool. Our approach in determining these base cases would take account of historically observed performance, and our estimate of potential changes in these variables during the life of the transaction. The sensitivity of rated notes in each transaction would differ depending on these factors, in addition to structural features of the transaction—including the transaction's dependency on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed stress scenario, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we applied occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the pool.

The second stage applies our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment.

In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes, given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, we intend the results of this modeling to simulate what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. Tables 6 and 7 show the implied base-case stresses and scenario stress results.

Table 6

Scenario Stresses

Rating variable (%)	Ratings assumptions	Scenario 1	Scenario 2
'AA+' Cumulative gross default rate			
Vehicles	40.5	33.8	39.0
Equipment	45.0	37.6	43.4
Real estate	49.5	41.3	47.7
'AA+' cumulative loss rate			
Vehicles	80.7	84.3	88.8
Equipment	86.2	96.9	90.6
Real estate	89.0	89.5	95.5
Constant prepayment rate during the first 12 months	0.5/8.0 depending on the scenario	1.6	1.3

Table 7

Scenario Stress Analysis: Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AA+	AA+
Scenario 2	A	AA+	AA+

In light of the methodology applied, in this transaction, the two alternative scenarios stresses would result in the transaction having to bear a lower amount of defaults and a lower amount of recoveries. Given this set of alternative stresses we applied under both scenario 1 and scenario 2, the class A notes would most likely retain their 'AA+' rating. We do not currently anticipate any interest or principal shortfalls. The stability of the ratings under each scenario is enhanced by a number of features of this transaction, including the sequential repayment mechanism, the excess spread trapping mechanism, and the nonamortizing reserve fund.

Monitoring And Surveillance

As part of our ongoing surveillance of this transaction, we regularly assess:

- The performance of the underlying pool, including defaults, delinquencies, and prepayments;
- The supporting ratings in the transaction; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com/1197.pdf.

Related Criteria And Research

Related Criteria

- Counterparty Risk Framework Methodology And Assumptions, Nov. 29, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
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Related Research

- Rating Assigned To Italian Lease Transaction Alba 3 SPV's Class A Notes, Dec. 20, 2012
- Credit FAQ: How Standard & Poor's Applies Its Criteria to Bank Branches In The EU and Eurozone, July 27, 2012
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