

# Credit Portfolio Advisory

## Challenges and opportunities for credit investors & financiers through volatile markets



APRIL 2020

As the disruption brought on by the outbreak of COVID-19 continues to spread through the credit markets, Alantra's Credit Portfolio Advisory (CPA) team considers how specific asset and real estate classes across the UK and Europe will both challenge and provide opportunities to credit investors and financiers.

In a fast moving environment with evolving government and central bank responses alongside the constantly changing views of the structural impact of the crisis, Alantra's CPA team specifically discusses how the challenges of tightening public and private funding and how stresses on asset quality will affect the credit and real estate landscape.

### Stresses impacting current investments (Back Books)



- Collections on performing and non-performing portfolios are seeing a marked reduction due to regulatory moratoriums, borrower situations and a slowing of the real estate market
- A range of regulatory and government measures on moratoriums and enforcement pauses in the short-term are shifting collections in business plans. Extended timelines have so far differed across asset classes and geographies but are expected to range between 3 months and 9 months
- Broadly, long term impairment will be driven by unemployment, increased defaults, lower real estate values and less liquidity, within certain sectors – such as retail – already stretched prior to COVID-19. Additionally, structural changes towards digital living are expected to specifically impair credit exposures in retail, hospitality, leisure/tourism/travel, residential and office real estate

### Stresses impacting financing



- Private financiers of static pools are reviewing stressed Business Plan ("BP") scenarios for debt servicing and long term impairment of asset values. This stress translates to the repo market and syndication markets which support financiers
- Uncertainty is driving new private financing to much lower advance rates, widening spreads and more conservative amortisation profiles.
- Similarly, ongoing reviews of lender warehouses require assessment by geography and asset class, with financiers balancing temporary cashflow disruption with long term impairment
- Public credit markets are highly dependent on monetary stimulus with primary market dislocation and steep discounts in the secondary markets giving financiers concern

### Navigating central bank & regulatory response



- Governments and regulators have taken a range of measures across Europe and the UK to delay credit repayment obligations (moratoriums, forbearance) and paused enforcement (possessions, evictions). CPA are actively following these on a jurisdictional level and their time shift impacts on business plan cashflows
- Significant monetary stimulus has been implemented by central banks to support lending, including direct lending to corporates, providing liquidity and loan guarantees to lenders and through acquisition of debt instruments
- A range of fiscal stimulus policy decisions have been enacted impacting different sections of the corporate, SME and retail borrower landscape. CPA have considered how this may impact opportunities across sectors

### Opportunities



- Market volatility and a flight of capital from public credit markets to risk free assets has prompted credit investors to broadly focus on liquid public, over illiquid private, opportunities in the short-term
- The breadth of stress across asset classes will impact the whole credit landscape including banks, NBFI lenders, RMBS/CMBS/ABS note holders, and portfolio investments
- Credit funds are expected to focus on opportunities spanning five key themes:
  - Funding liquidity requirements
  - New capital & synthetic relief requirements
  - M&A within the non-bank lender ("NBL"), debt purchaser ("DP") and loan servicing industries
  - Loan acquisitions including single names
  - Securitisation portfolio-note pricing mismatches

# Fiscal, monetary and regulatory policy to the CV19 shock is key to pricing

**D** Fiscal direct – direct payments to indiv./comp.

**I** Fiscal indirect – shift cashflow timings (e.g. taxes)






**C** Fiscal credit – government loans/guarantees



























































**M** Monetary – increase money/credit in economy

**R** Regulatory – legal/prudential changes

Credit Asset Class	Macro Impact	Announced policies		
		Europe	European Member States	UK
Consumer & Auto	<p><b>Short-mid term:</b> Severe negative income impact and increased unemployment will lead to impairment. Demand for credit expected to increase (e.g. credit cards drawn to limits) while borrower credit scores decreasing. Banks expected to limit origination.</p>	<p><b>M</b> €750bn ECB asset purchasing programme, supporting ABS market</p>	<p><b>D</b> Income guarantees / wage top ups, limiting defaults <b>R</b> Selective short-term forbearance measures</p>	<p><b>D</b> Income protection for employees and self-employed, limiting defaults <b>R</b> Bank-specific forbearance measures</p>
Residential	<p><b>Short-mid term:</b> Severe negative income impact with moratoriums followed by mid term impairment from increasing unemployment and a possible fall in property prices <b>Long term:</b> Highly dependent on macro recovery and measures country by country.</p>	<p><b>M</b> €750bn ECB asset purchasing programme, supporting RMBS market</p>	<p><b>D</b> Income guarantees / wage top ups, limiting defaults <b>R</b> Mortgage payments suspended / rescheduled instalment payments <b>R</b> Moratorium on enforcement and possession proceedings</p>	<p><b>D</b> Income protection for employees and self-employed, limiting defaults <b>R</b> 3 month mortgage holidays (OOH and BTL) <b>R</b> No tenant evictions or possession proceedings</p>
CRE	<p><b>Short-mid term:</b> Cashflow delays from moratoriums and yields widening due to macro situation. Retail, hospitality and leisure under specific stress. Price discovery limited as rental yields are volatile and property sales have dried up. <b>Long term</b> potential structural changes to workplace and retail may lead to higher vacancy rates.</p>	<p><b>M</b> €750bn ECB asset purchasing programme, supporting CMBS market</p>	<p><b>R</b> Moratorium on evictions</p>	<p><b>R</b> Moratorium on evictions</p>
SME	<p><b>Short-mid term:</b> working capital stress and lack of available liquidity. Sector specific defaults where falling outside of direct government intervention. <b>Long term sectoral stresses</b> due to both structural changes and recessionary pressure.</p>	<p><b>C</b> €40bn of financing from EIB for bridging loans, credit holidays and liquidity measures</p>	<p><b>C</b> Government loans and government guaranteed loans <b>I</b> Deferred tax payments <b>D</b> Direct payments / grants <b>R</b> Loan payments suspended <b>R</b> Moratorium on court proceedings</p>	<p><b>C</b> Government loans available to SMEs <b>D</b> Grants for small businesses <b>I</b> Tax payment deferrals <b>M</b> BoE term funding scheme to banks to support SME lending</p>
Corporates	<p><b>Short-mid term:</b> working capital stresses. Public liquidity sources expensive &amp; limited with private markets coming to the fore. IG corporates in stressed sectors will likely require a range of direct government debt and equity interventions. <b>Long term</b> sectoral stresses due to structural changes and recessionary pressure.</p>	<p><b>D</b> €39bn made available to support key sectors liquidity and hardest hit EU countries <b>C</b> TLTRO III bank finance conditions eased <b>M</b> European banks access €130bn of capital and dollar swap lines from Fed</p>	<p><b>C</b> Access to government credit <b>C</b> Sector specific support from governments (e.g. airlines) <b>D</b> Nationalisation of distressed flagship corporates (e.g. Alitalia)</p>	<p><b>M</b> BoE acquiring commercial paper of IG businesses <b>M</b> Term funding from BoE available to banks for exchange of less liquid collateral <b>M</b> QE increases £200bn and interest rates cut</p>

# Opportunities for private capital across the credit landscape







-  Funding liquidity requirements
-  Loan acquisitions (incl. single name)
-  New capital & synthetic relief trades
-  Securitisation opportunities
-  Platform M&A

		Opportunities by asset owner			
		Bank Lenders	Non Bank & Direct Lenders	ABS, RMBS, CMBS, CLO	Current Loan & Real Estate Investments
Credit Exposure Type		<b>Impacting all asset classes</b>			
		  <ul style="list-style-type: none"> <li>Additional Tier 1 &amp; 2 capital raising</li> <li>Capital relief trades on portfolios</li> </ul>	     <ul style="list-style-type: none"> <li>Platform consolidation</li> <li>Private liquidity for new lending replacing public and private markets</li> <li>Debt restructuring on current investments</li> </ul>	  <ul style="list-style-type: none"> <li>Volatility in secondary markets from asset impairment, note downgrades and macro demand can give rise to opportunities with careful underwriting</li> </ul>	   <ul style="list-style-type: none"> <li>Business Plan impairment impacting funding and potential need for restructuring</li> </ul>
		 <ul style="list-style-type: none"> <li>Portfolio sales for jurisdictions without Bank to DP repeat sale relationships</li> </ul>	   <ul style="list-style-type: none"> <li>New capital and liquidity for stressed back books</li> </ul>	  <ul style="list-style-type: none"> <li>Auto ABS following generational de-prioritisation</li> <li>Credit card ABS</li> </ul>	    <ul style="list-style-type: none"> <li>DP corporate funding, alongside impaired BPs could create need for capital &amp; funding</li> <li>DP M&amp;A opportunity from new flow</li> </ul>
		 <ul style="list-style-type: none"> <li>Engaging medium term impacted borrowers in NPE classification</li> </ul>	   <ul style="list-style-type: none"> <li>Portfolio sales from current investments</li> <li>Repo/Forward flow financing</li> </ul>	  <ul style="list-style-type: none"> <li>Non conformant, RPL and NPL structures drawing from reserves</li> </ul>	   <ul style="list-style-type: none"> <li>Portfolio sales for liquidity</li> </ul>
		  <ul style="list-style-type: none"> <li>Single credit &amp; portfolio sales – sectoral specific (retail, hospitality and leisure)</li> </ul>	    <ul style="list-style-type: none"> <li>Single credit &amp; portfolio sales</li> <li>Rescue lending for development finance</li> </ul>	  <ul style="list-style-type: none"> <li>Consideration of debt QE eligibility and asset sectoral sensitivities</li> </ul>	   <ul style="list-style-type: none"> <li>Single credit &amp; sub portfolio sales</li> </ul>
		  <ul style="list-style-type: none"> <li>Single credits &amp; small portfolio sales (retail, hospitality and leisure)</li> </ul>	   <ul style="list-style-type: none"> <li>Investor as lender – new direct lending to SMEs</li> <li>M&amp;A, capital or funding for lenders e.g. bridge</li> </ul>	 <ul style="list-style-type: none"> <li>SME ABS and potential new origination to match policy incentives</li> </ul>	   <ul style="list-style-type: none"> <li>Sub portfolio sales on sector basis</li> </ul>
   <ul style="list-style-type: none"> <li>Single credits &amp; small portfolio sales (retail, hospitality and leisure)</li> </ul>	 <ul style="list-style-type: none"> <li>Investor as lender - new direct lending to corporates – rescue &amp; working capital &amp; loan-to-own financing</li> </ul>	 <ul style="list-style-type: none"> <li>Underwriting of CLOs with corporate level views</li> <li>ABS collateralised financing</li> </ul>	  <ul style="list-style-type: none"> <li>Direct corporate loans impairment requiring new capital &amp; liquidity</li> </ul>		

# Alantra CPA can help with current investments and opportunities...

## Key themes likely to prevail

## How Alantra can help

 <p>Current investment analysis</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Cashflows are time shifted across all asset classes and performances (PL/NPL/RE) with a range of regulatory and government moratoriums challenging the flexibility of funding structures</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>Underlying assets are experiencing a range of stresses impairing NPL, PL and RE business plans – “quick wins” to achieve BPs may be required</li> </ul>	<ul style="list-style-type: none"> <li>Asset cashflow modelling</li> <li>Independent, expert support for financier negotiations</li> <li>Sell side advisor</li> </ul>
 <p>Funding liquidity requirements</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Investment financing stressed when navigating temporary and long term business plan impairment</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>Backstopping and replacing financing for lenders where bank and securitisation financing has been curtailed</li> <li>Direct lending to corporate, SME, CRE and FinTechs in specific sectors, ABS backed lending for working capital and rescue financing</li> <li>Liquidity for static pool investments</li> </ul>	<ul style="list-style-type: none"> <li>Lead senior funder negotiations</li> <li>Evaluating all funding arrangement options</li> <li>Senior &amp; Mezz opportunities</li> </ul>
 <p>New capital &amp; synthetic relief trades</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Private capital (equity or preferred) injections may be necessary for a number of lenders to manage rising impairment levels</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>In the mid term, asset deterioration is expected to be recognised through increased capital requirements. We expect AT1 and AT2 capital raises to increase capital while first loss &amp; capital relief trades will be sought to relieve RWA pressures</li> </ul>	<ul style="list-style-type: none"> <li>Capital relief trades (sell side &amp; buy side)</li> <li>Raising capital for lenders</li> </ul>
 <p>Platform M&amp;A</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Lenders with flexible but robust funding and private capital backing will see opportunities to acquire inorganically</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>Significant long-term servicing opportunity with an increase in market share for third party servicers (vs. in-house servicers) and new CRE loan impairment likely to provide new revenue streams through special servicing</li> </ul>	<ul style="list-style-type: none"> <li>Sell-side advisor</li> <li>Buy-side due diligence analysis and pricing</li> <li>Acquisition target identification &amp; support</li> </ul>
 <p>Loan &amp; real estate acquisitions including single names</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Portfolio sales offer liquidity for single credits or sub portfolios of loans which are structurally impacted (e.g. securitisations or senior lenders), are capital intensive or no longer attract economic funding</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>Single credits and portfolios in specific sectors for CRE, Corporate and SME by non bank lenders and banks are expected mid to late crisis.</li> <li>Rebalancing of supply of NPLs will likely lead to favourable pricing</li> <li>Debt purchasers are going through a volatile crisis as reflected in listed equity prices and, where liquidity is dependent on the public market</li> </ul>	<ul style="list-style-type: none"> <li>Sell-side advisor for portfolios and single names</li> <li>Buy-side advisor</li> </ul>
 <p>Securitisation opportunities</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>Volatility across CLO, CMBS, RMBS and ABS markets are providing investors with short term liquid opportunities with a low operating cost and ease of exit however careful underwriting is key in these cases</li> </ul> <p><b>Opps</b></p> <ul style="list-style-type: none"> <li>With time as asset impairment begins to draw from external or internal reserves we expect further opportunities on a portfolio basis</li> </ul>	<ul style="list-style-type: none"> <li>Asset cashflow stress modelling</li> <li>Portfolio analytics for financing support</li> <li>Structuring advisory</li> </ul>

# Helping investors & financiers throughout the investment lifecycle...

## Investor Services – Sale of Portfolios and Platforms



### Project Sunbury

Portfolio sale of residential mortgage loans

**Confidential**

Lead sell-side advisor to a UK institution on the sale of a performing and non-performing owner-occupier & BTL mortgage portfolio to a US hedge fund

£330 million  
2020



### Project Kite

Sale of servicing platform

**Confidential**

Lead sell-side advisor to a leading credit fund on the sale of an Italian servicing platform to a French servicer and debt purchaser

Confidential  
2019



### Project Deauville

Portfolio sale of residential mortgage loans

**Confidential**

Lead sell-side advisor to a leading credit fund on the sale of a securitised performing residential portfolio to a global investment bank

€337 million  
2019



### Project Buick

Portfolio sale of secured loans and real estate

PIMCO



Alantra advised PIMCO on the sale of a €180 million secured portfolio to LCM

€180 million  
2019

## Investor Services Buy-side



### Project Hera

Buy-side for mixed NPL portfolio

**Confidential**

Buy-side advisor to a global private equity firm on the acquisition of a non-performing mixed portfolio

€3.0 billion  
2020

## Investor Services Financing



### Project Landmark

Senior facility for a bridging & development lender



Lead financial advisor to PropFin, a provider of residential development and bridging loans on the execution of a senior financing facility

£100 million  
2019



### Project Sertorios

Buy-side for a Real Estate portfolio

**Confidential**

Buy-side advisor to a leading private equity fund on the acquisition of an REO portfolio

€500 million  
2019



### Project Union

Sales of interest in a specialist development lender



Lead financial advisor to Pollen Street Capital on the sale of its debt and equity interests in the Irish development finance and bridge finance lending platform Castlehaven Finance, to Avenue Capital

£250 million  
2019

# Alantra CPA

Alantra CPA is the leading credit advisory team in Europe



Loan Solutions	Funding	Banking M&A	Real Estate & Technology	Pricing & Analytics (P&A)
<ul style="list-style-type: none"> <li>We have unrivalled experience in advising on loan portfolio transactions globally advising on the sell- and buy-side</li> <li>As the leading credit portfolio advisor in Europe, we provide clients with unique investor access, tailored deal structures and a in-depth knowledge of all credit asset classes</li> </ul>	<ul style="list-style-type: none"> <li>Our funding advisory team works to structure efficient solutions tailored to our clients' individual funding and capital needs</li> <li>The team has deep knowledge of the structured credit, Asset Backed Securities (ABS) markets and debt capital markets</li> </ul>	<ul style="list-style-type: none"> <li>We intimately understand the UK and European banking landscape and have led a number of high-profile banking M&amp;A transactions</li> <li>The team provides a unique perspective to M&amp;A strategies covering clients in the bank, non-bank and asset originator space</li> </ul>	<ul style="list-style-type: none"> <li>We specialise in the sale and acquisition of distressed real estate portfolios across Europe</li> <li>CPA acquired urbanData Analytics ("uDA") in 2019, a machine learning-driven PropTech company</li> <li>uDA specialises in providing efficient and automated data-driven real estate value estimates</li> </ul>	<ul style="list-style-type: none"> <li>Our unique P&amp;A team underpins all of our advisory capabilities across Europe</li> <li>P&amp;A has deep expertise in portfolio valuations, data set analysis, cash flow analysis, business plan builds and ABS structuring</li> <li>We provide 'real-time' market pricing on credit assets</li> </ul>

## Alantra's Credit Portfolio Advisory Country Leads



**Joel Grau**  
Managing Partner  
Madrid  
T: +34 (0) 917 458 492  
E: joel.grau@alantra.com



**Andrew Jenke**  
Managing Partner  
London  
T: +44 (0) 7901 512 747  
E: andrew.jenke@alantra.com



**Nick Colman**  
Managing Partner  
London  
T: +44 (0) 7768 567 843  
E: nicholas.colman@alantra.com



**Vasilis Kosmas**  
Partner & Head of Greece  
Athens  
T: +44 (0) 7342 070 108  
E: vasilis.kosmas@alantra.com



**Javier Cabrera Blanco**  
Partner & Co-Head of Spain  
Madrid  
T: +34 (0) 917 458 402  
E: javier.cabrera@alantra.com



**Felix Rivera Fernandez**  
Partner & Co-Head of Spain  
Madrid  
T: +34 (0) 917 458 532  
E: felix.rivera@alantra.com



**Arun Sharma**  
Co-Head of UK  
London  
T: 07827 663 243  
E: arun.sharma@alantra.com



**James Fadel**  
Co-Head of UK  
London  
T: 07890 616 654  
E: james.fadel@alantra.com



**Fabrizio Sicilia**  
Global Head of P&A  
London  
T: 07795 052 037  
E: fabrizio.sicilia@alantra.com



**Renato Limuti**  
Head of Italy  
Milan  
T: +39 349 1087 836  
E: renato.limuti@alantra.com



**Geraldo Rinaldi**  
Head of Brazil  
Sao Paolo  
T: +55 (0) 11 99753 2327  
E: geraldo.rinaldi@alantra.com



**Robin Michaels**  
Head of Regulatory  
London  
T: +44 (0) 7799 284 890  
E: robin.michaels@alantra.com



**Michael O'Sullivan**  
Head of Ireland  
Dublin  
T: +44 (0) 7788 335 630  
E: michael.osullivan@alantra.com



**Siwei Guo**  
Head of China  
Shanghai  
T: +44 (0) 7584 144 418  
E: siwei.guo@alantra.com



**Carlo Savani**  
Co-Head of International  
Madrid  
T: +44 (0) 7557 817 033  
E: carlo.savani@alantra.com



**Anete Daukste**  
Co-Head of International  
London  
T: +44 (0) 7909 993 530  
E: anete.daukste@alantra.com



**Edwin Harrap**  
Director  
London  
T: +44 (0) 7393 606599  
E: edwin.harrap@alantra.com



**Chris Aspden**  
Senior Vice President  
London  
T: +44 (0) 7584 115448  
E: christopher.aspden@alantra.com

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# ALANTRA

POSSIBILITY IS IN THE ASCENT

Austria & CEE  
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Greece  
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Mexico  
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Portugal

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Switzerland  
United Kingdom  
United States

Alantra is a global investment banking, credit portfolio advisory and alternative asset management firm focusing on the mid-market with offices across Europe, the US, Latin America and Asia.