S&P Global
Ratings

# Research

# New Issue: Youni Italy 2024-1 S.r.l.

**Primary Credit Analyst:**
Giuseppina Martelli, Milan + 39 02 72 111 274; giuseppina.martelli@spglobal.com

**Secondary Contact:**
Fabio Alderotti, Madrid + 34 91 788 7214; fabio.alderotti@spglobal.com

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# New Issue: Youni Italy 2024-1 S.r.l.

## Ratings Detail

### Ratings

| Class | Rating* | Amount (mil. €) | Available credit enhancement (%)§ | Interest | Legal final maturity |
|---|---|---|---|---|---|
| A | AA (sf) | 184.874 | 23.25 | One-month EURIBOR plus 0.88% | April 25, 2034 |
| B-Dfrd | A (sf) | 21.077 | 14.5 | One-month EURIBOR plus 1.70% | April 25, 2034 |
| C-Dfrd | BBB (sf) | 14.453 | 8.5 | One-month EURIBOR plus 2.70% | April 25, 2034 |
| D-Dfrd | BB- (sf) | 8.431 | 5.0 | One-month EURIBOR plus 5.00% | April 25, 2034 |
| E-Dfrd | B- (sf) | 9.635 | 1.0 | One-month EURIBOR plus 7.00% | April 25, 2034 |
| F | NR | 2.409 | N/A | 0% | April 25, 2034 |
| R | NR | 0.1 | N/A | Variable return | April 25, 2034 |
| X | NR | 6.022 | N/A | One-month EURIBOR plus 6.50% | April 25, 2034 |

*Our rating on the class A notes addresses the timely payment of interest and ultimate payment of principal, while our ratings on the other classes address the ultimate payment of interest until they become the most senior class of notes, and timely payment of interest afterward. Payment of principal is no later than the legal final maturity date. §Available credit enhancement consists of subordination. EURIBOR--Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable.

### Supporting ratings

| Institution/role | Ratings | Replacement trigger | Collateral posting trigger |
|---|---|---|---|
| Citibank N.A., as parent of Citibank N.A. (London branch) | A+/Stable/A-1 | A- | N/A |
| Citibank Europe PLC | A+/Stable/A-1 | A- | A- |

N/A--Not applicable.

## Overview

S&P Global Ratings assigned its credit ratings to Youni Italy 2024-1 S.r.l.'s asset-backed floating-rate class A, B-Dfrd, C-Dfrd, D-Dfrd, and E-Dfrd notes. At closing, Youni Italy 2024-1 also issued unrated class F, X, and R notes.

This is Younited, Italian branch's (Younited) first public consumer loan transaction. The underlying collateral comprises Italian consumer loan receivables which Younited granted to its private customers. The loans do not feature balloon payments.

The transaction is static, and the notes amortize from the first payment date. The transaction has separate interest and principal waterfalls. The interest waterfall features a principal deficiency ledger (PDL) mechanism, by which the issuer can use excess spread to cure defaults.

The class A to F notes are backed by the collateral. The class X notes are excess spread notes. They are repaid through the interest waterfall as long as there is available excess spread.

The reserve provides liquidity support to all the rated notes. The issuer can use principal proceeds to cure interest shortfalls on the most senior class.

The rated notes amortize pro rata, unless a sequential amortization event occurs (see "Repayment of the notes and pro rata mechanism"). The transaction will then switch permanently to sequential amortization.

The assets pay a monthly fixed interest rate, and the rated notes pay one-month Euro Interbank Offered Rate (EURIBOR) plus a margin subject to a floor of zero. The rated notes benefit from an interest rate swap which, in our opinion, mitigates the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate liabilities.

Our rating on the class A notes addresses the timely payment of interest. Our ratings on the other tranches address the ultimate payment of interest until each class becomes the most senior outstanding, and timely payment of interest thereafter. For all the rated notes, our ratings address the ultimate payment of principal by legal final maturity.

The class E-Dfrd notes are not able to withstand our stresses at the 'B' rating level. We believe their repayment does not depend on favorable conditions, given that the issuer would be able to meet its obligations under these tranches in a steady state scenario. We therefore assigned our 'B- (sf)' rating to these notes in line with our criteria.

The class A notes have sufficient credit enhancement to withstand our stresses at the 'AA+' level; however our structured finance sovereign risk criteria constrain our rating on this class at 'AA (sf)', six notches above our long-term unsolicited sovereign credit rating on Italy (BBB).

Our counterparty risk criteria also cap our ratings in this transaction at 'AA' as the documented rating trigger on the bank account is set at 'A-'. Our operational risk criteria do not cap our ratings as we assessed both severity risk and portability risk as low.

## The Credit Story

### Strengths, concerns, and mitigating factors

| Strengths | Concerns and mitigating factors |
|---|---|
| A back-up subservicer, iQera Italia S.p.A. (iQera), was appointed at closing. In case of the subservicer's termination, the back-up servicer committed to replace it within 30 days of receiving the termination notice. This mitigates the risk of servicing disruption. | Younited only began originations in Italy in 2016 and, as a fully digital player, has a relatively new business model for the Italian consumer market. As a mitigating factor, we have used high-range multiples at rating levels above investment grade. |
| The portfolio is highly granular and well diversified across Italy. As of the pool cutoff date, the largest single obligor represented about 0.03%, and the top 20 obligors comprised 0.47% of the portfolio. | We do not rate the servicer, Younited, Italian branch. This might result in commingling risk if Younited defaults, because asset collections are channeled through Younited's accounts. We believe this risk is partly mitigated by the collections being moved to the issuer's account within two business days from receipt. As a further mitigating factor, we have assumed a certain portion of collections will be lost following the servicer's insolvency. |

| Strengths, concerns, and mitigating factors (cont.) | |
|---|---|
| **Strengths** | **Concerns and mitigating factors** |
| As of the cutoff date, the portfolio does not contain any overdue contracts. | The transaction allows pro rata redemption of all classes of rated notes unless a sequential payment trigger is hit. Pro rata redemption of the junior class of notes would reduce the available credit enhancement for the senior noteholders in absolute terms. The transaction features various performance triggers for PDL and cumulative gross ratios, mitigating the risk from pro rata amortization. Our cash flow model incorporates those triggers, testing the effect of a change in the type of amortization on the notes. In addition, we have run several scenarios to test the effect of a sequential payment trigger being hit at different stages of the transaction's life. |
| The structure benefits from an amortizing liquidity reserve, which was fully funded at closing. The reserve serves as liquidity support to mitigate any cash flow strains for the rated notes. | |

## Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For unsecured loans, we view the exposure to environmental credit factors as below average, social credit factors as above average, and governance credit factors as average (see "ESG Industry Report Card: Credit Card Asset-Backed Securities," published on March 31, 2021).

Given the unsecured nature of the receivables and the significant diversification by obligor and geography, we have not identified any environmental credit factors material to our analysis.

Italy has strong consumer protection laws, which could introduce legal and regulatory risks if the validity of the loan contracts or the servicer's collection practices were challenged. We believe these are mitigated by the credit and collection policies of Younited, the representations made that each loan complies with applicable laws upon origination, and the originator's legal and compliance departments which manage adherence to applicable laws and are in regular contact with regulators. As a result, we have not identified any social credit factors material to our analysis.

In our view, the transaction has lower exposure to governance credit factors than our sector benchmark given it does not feature a revolving period. This removes the risk of the originator loosening underwriting standards or potential adverse selection. In addition, the originator is an European Central Bank-regulated credit institution under the supervision of the French and Italian regulators, further reducing the exposure to governance credit factors.

## Asset Description

As of the cutoff date, the pool comprised 32,662 loans, with a total current principal balance of €240.88 million.

The entire portfolio comprises consumer loans. All the loans have a French amortization plan with no balloon payments. The borrowers are all private individuals.

The securitized pool complies with the eligibility criteria under the transaction documents. The following is a non-exhaustive list of these criteria:

- The loans are originated by Younited;
- The borrowers are domiciled in Italy;
- Each loans' outstanding balance is not higher than €56,000;
- The loans were granted as non-purpose loans;
- The loans have at least one installment paid;
- Loans are not delinquent or defaulted, and are not classified as unlikely to pay or "sofferenze" (defaulted) in accordance with Bank of Italy regulations;
- The borrowers were not employees or directors of the seller at the time of disbursement;
- The borrowers do not have a deposit and/or current account at Younited at the valuation date;
- The loans are not subject to payment suspension;
- The loans do not benefit from any public contributions or subsidies;
- The borrower was not unemployed at the time of signing the relevant loan agreement;
- The loans' original maturity does not exceed 84 months; and
- The loans pay a fixed interest rate and have an amortization plan with equal monthly instalments.

## Collateral key features

**Table 1**

**Collateral distribution of the pool**

| Pool characteristics | Youni Italy 2024-1 final portfolio | Youni Italy 2024-1 preliminary portfolio* |
|---|---|---|
| Originator | Younited S.A., Italian branch | Younited S.A., Italian branch |
| Country | Italy | Italy |
| Type of assets | Consumer loans | Consumer loans |
| Pool cut-off date | 12/04/2024 | 04/03/2024 |
| Closing date | 02/05/2024 | 02/05/2024 |
| Aggregate principal balance outstanding (€) | 240,878,804 | 270,495,995 |
| Weighted-average interest rate (%) | 8.92 | 8.97 |
| Weighted-average original term (months) | 71 | 71 |
| Weighted-average remaining term (months) | 62 | 63 |
| Weighted-average seasoning (months) | 10 | 9 |
| Largest borrower (%) | 0.03 | 0.02 |
| Top 15 borrower concentration (%) | 0.36 | 0.32 |
| Geographic concentration (%) | North (55.7), Center (23.1), South and Islands (21.2) | North (55.9), Center (23.1), South and Islands (21) |
| **Distribution by scoreband (%)§** | | |
| A1 | 21.8 | 21.3 |
| A2 | 42.7 | 42.4 |
| A3 | 13.5 | 13.6 |
| A4 | 11.5 | 11.8 |
| A5 | 5.6 | 5.7 |
| A6 | 4.9 | 5.2 |

**Table 1**

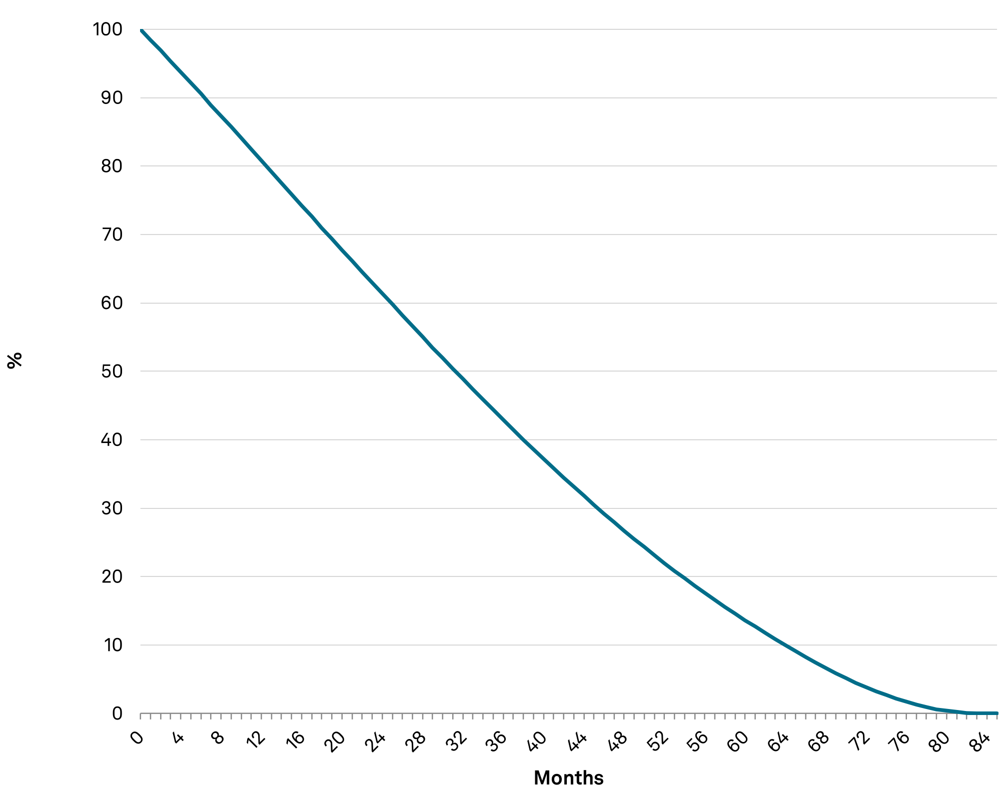
## Collateral distribution of the pool (cont.)

| Pool characteristics | Youni Italy 2024-1 final portfolio | Youni Italy 2024-1 preliminary portfolio* |
|---|---|---|
| **Distribution by employment type (%)** | | |
| Employees of the private sector | 62.1 | 62.5 |
| Civil servants | 12.7 | 12.6 |
| Self-employed | 13.9 | 13.7 |
| Pensioner | 11.3 | 11.2 |
| **Distribution by origination date (%)** | | |
| 2018 | 0.0 | 0.0 |
| 2019 | 0.2 | 0.2 |
| 2020 | 0.0 | 0.0 |
| 2021 | 2.1 | 2.1 |
| 2022 | 19.9 | 19.9 |
| 2023 | 63.0 | 63.2 |
| 2024 | 14.8 | 14.6 |

*Includes the 5% share to be retained by the originator. §A1 is the highest creditworthiness.

**Chart 1**

### Scheduled amortization of the initial securitized portfolio



## Originator/seller

The originator is the Italian branch of Younited S.A., a regulated French credit institution that offers consumer loans through an online platform. Younited was established in 2011 as one of the first French fintech lenders and quickly grew, opening branches in Italy, Spain, Portugal, and Germany.

Younited has a stable shareholding base, which comprises Eurazeo, Crédit Mutuel Arkea, Bpifrance, Adevinta, Goldman Sachs, La Mondiale, and Bridgepoint.

Younited funds its loan origination partly through private securitizations financed by third-party investors and partly through its balance sheet.

The Italian branch was established in 2016 and has granted more than 240,000 loans for a total amount of €1.3 billion. Origination volumes initially grew rapidly and spiked to about €100 million in Q2 2022, as more borrowers turned to online lending after the pandemic. Since the second half of 2022, the originator tightened its underwriting polices to address the risks from the increasing cost of living. As a result, volumes reduced to about €50 million-€60 million per quarter.

## Origination and underwriting

Younited's loan application process is fully online and paperless. The main acquisition channels are i) through the originator's website; ii) through third-party comparison websites; and iii) through the originator's database of existing and prospective clients.

Once the borrower submits the loan application, an automatic screening checks if it meets the originator's eligibility criteria. Among other criteria, the originator does not lend to unemployed people, students, and recently self-employed borrowers, i.e. with less than three years of job seniority. In addition, borrowers must be above 18 years old and have a bank account.

The originator has developed a proprietary scoring model based on internal and external data. The model was last updated in March 2023 and incorporated an additional social-demographic score from an external credit bureau. If the eligibility criteria are met, the model assigns a credit score to the loan application which is used both for acceptance or rejection of the loan and for dynamic pricing of the loan.

The scores go from A1, the highest credit quality, to A7, the lowest. This transaction does not include A7 loans.

Throughout the underwriting process, several anti-fraud checks are performed.

The final decision is processed manually by a granting analyst according to an approval authority limit table.

Considering potential risks from rising inflation, Younited has increased its required minimum budget and income thresholds.

## Servicing

Borrowers pay on the fourth day of each month through direct debit into Younited's accounts. Younited, in its role as subservicer, will manage the collection and recovery activities of the securitized loans in accordance with its collection policies.

The collection and recovery team manages any delinquent contracts and outsources some recovery activities to external partners. Within the first six months of the first missed instalment, Younited does not allow any forbearance measures. Initially, the recovery process is industrialized and relies on SMS, mails, outbound calls, and WhatsApp messages. The process incorporates more manual input as the number of arrears increases. After six unpaid instalments, Younited starts the litigation process.

We conducted a corporate overview of Younited's origination, underwriting, collections, and risk management practices in January 2024. We are satisfied that the underwriting and servicing standards are in line with those of other players in the Italian consumer loan market.

In our operational risk analysis, we look at the risk that cash flows may be disrupted following the servicer's operational failure. Our operational risk criteria do not constrain the maximum potential rating on the notes, given that we assessed this transaction's severity and portability risks as low.

The transaction's backup subservicer, iQera, was appointed at closing. iQera will have an activation period of 30 days from receipt of the subservicer termination notice. To further mitigate servicer disruption risk we have applied a stressed servicing fee in our cash flow analysis. Furthermore, the liquidity reserve provides additional liquidity, further mitigating servicer disruption risk.

## Credit Analysis

We analyzed the transaction's credit risk under various stress scenarios by applying our global consumer loan criteria.

We received quarterly static gross loss data and recovery data from Q3 2016 to Q3 2023 for the entire originator loan book, categorized from the A1 to A6 scores in the originator's scoring model. In addition, we received origination volumes, dynamic delinquency, and prepayment data up to November 2023.

The quality of data provided is in line with our quality, timeliness, and reliability standards.

### Macroeconomic and sector outlook

In our analysis, we considered the following economic data in determining our credit assumptions (see "Related Research").

We forecast positive GDP growth in Italy, of 0.6%, 1.2%, and 1.3% respectively in 2024, 2025, and 2026. At the same time, we predict the labor market will remain resilient, with the unemployment rate going below 8%, a record low level for Italy. We believe changes in GDP and unemployment largely determine portfolio default performance. Our credit assumptions reflect our current economic outlook for Italy.

**Table 2**

| Macroeconomic and sector outlook | Forecast | | | |
|---|---|---|---|---|
| | 2024f | 2025f | 2026f | 2027f |
| Real GDP (y/y growth, %) | 0.60 | 1.10 | 1.10 | 1.00 |
| Unemployment rate (annual average, %) | 7.50 | 7.60 | 7.50 | 7.40 |
| CPI (%) | 1.90 | 1.90 | 1.90 | 1.90 |
| Central Bank Policy Rates (refi rate, %) | 3.40 | 2.65 | 2.65 | 2.65 |

Sources: S&P Global Ratings Research. y/y--Year over year. CPI--Consumer price index. f--Forecast.

### Gross loss base case and stress multiples

We analyzed the performance data provided by the originator for its total loan book. The issuer provided seven years of historical data (static and dynamic), which is in line with the assets' maximum original term. The definition of default used to extract the gross loss data refers to loans with six or more consecutive instalments in arrears. This definition is consistent with the originator's collection policies and with the definition of default in the transaction documents.

The originator also provided gross loss data split by score band. However, in our analysis we focused mainly on the total book as some score bands had very limited volumes, resulting in less meaningful loss data.

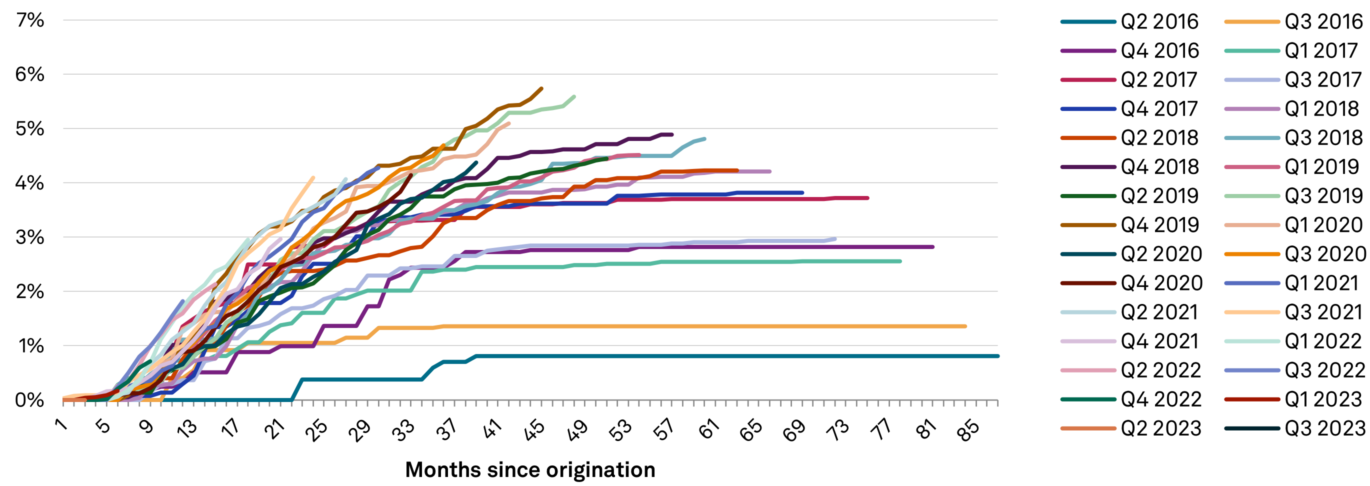
The data show that recent vintages, from the second half of 2021 to the end of 2022, tend to under-perform the older cohorts. In setting our gross loss base case we considered that those more recent vintages are not representative of a base case environment, considering borrowers suffered from a rapid increase in living costs. As the securitized portfolio mainly comprises loans originated in 2023 and early 2024, our assumption factors in the tightening of the originator's underwriting policies and a comparison with other Italian originators.

Our gross loss stress multiples at investment-grade rating levels are on the high end of the range we typically apply for European transactions. They factor in this being the first securitization from this originator that we have rated and a comparison with other more established players in the market. At lower rating levels, instead, our gross loss stress multiples are on the low end as we factored in our stable macroeconomic forecasts that cover the portfolio's weighted-average life.

Chart 2 shows quarterly static cumulative gross loss data from Q2 2016 to Q3 2023 by quarter of origination.

**Chart 2**

**Cumulative quarterly gross losses total portfolio**






## Recoveries and recovery timing

The loans do not benefit from any security on the underlying assets. This is reflected in our recovery rate base case assumptions.

Based on historical data and the peer comparison, we assumed a base case recovery rate of 20%. At the same time, we assumed that 30% of recoveries will come after six months from the default date, 20% after 12 months, and the rest after 24 months. Historically, the originator has not relied on the sale of defaulted loans, however it plans to do so in the future.

Considering that the Italian market for nonperforming loans is well-established with many active players, we do not believe a change in the recovery process could worsen recovery performance.

**Chart 3**

**Cumulative recoveries total pool**

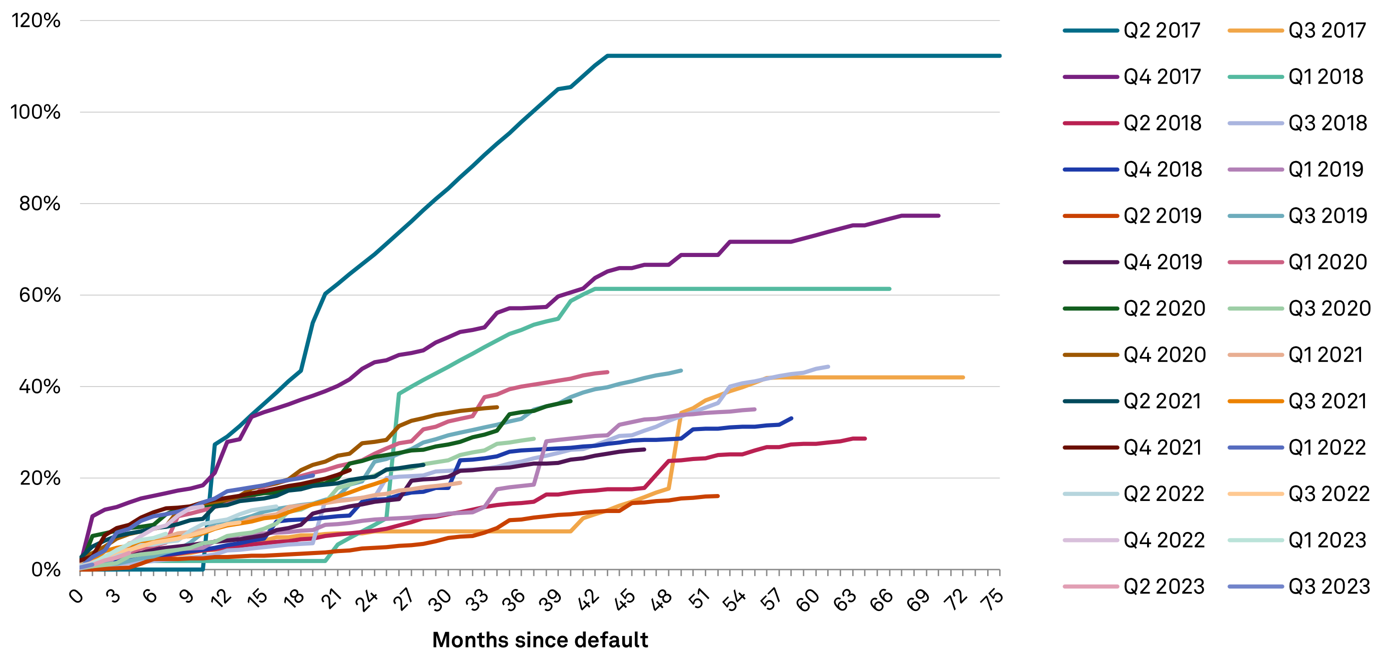





**Table 3**

**Credit assumptions summary--closing pool**

| Rating level | Cumulative gross loss base-case worst case portfolio (%) | Recovery rate base-case (%) | Stress multiple (x) | Stress cumulative gross losses (%) | Recovery rate haircuts (%) | Stressed recovery rate (%) | Stressed cumulative net losses (%) |
|---|---|---|---|---|---|---|---|
| AAA | 5.6 | 20.0 | 4.80 | 26.9 | 40 | 12.0 | 23.7 |
| AA | 5.6 | 20.0 | 3.80 | 21.3 | 30 | 14.0 | 18.3 |
| A | 5.6 | 20.0 | 2.80 | 15.7 | 20 | 15.0 | 13.3 |
| BBB | 5.6 | 20.0 | 1.80 | 10.1 | 15 | 16.0 | 8.5 |
| BB | 5.6 | 20.0 | 1.30 | 7.3 | 10 | 17.0 | 6.0 |
| B | 5.6 | 20.0 | 1.05 | 5.9 | 5 | 18.0 | 4.8 |

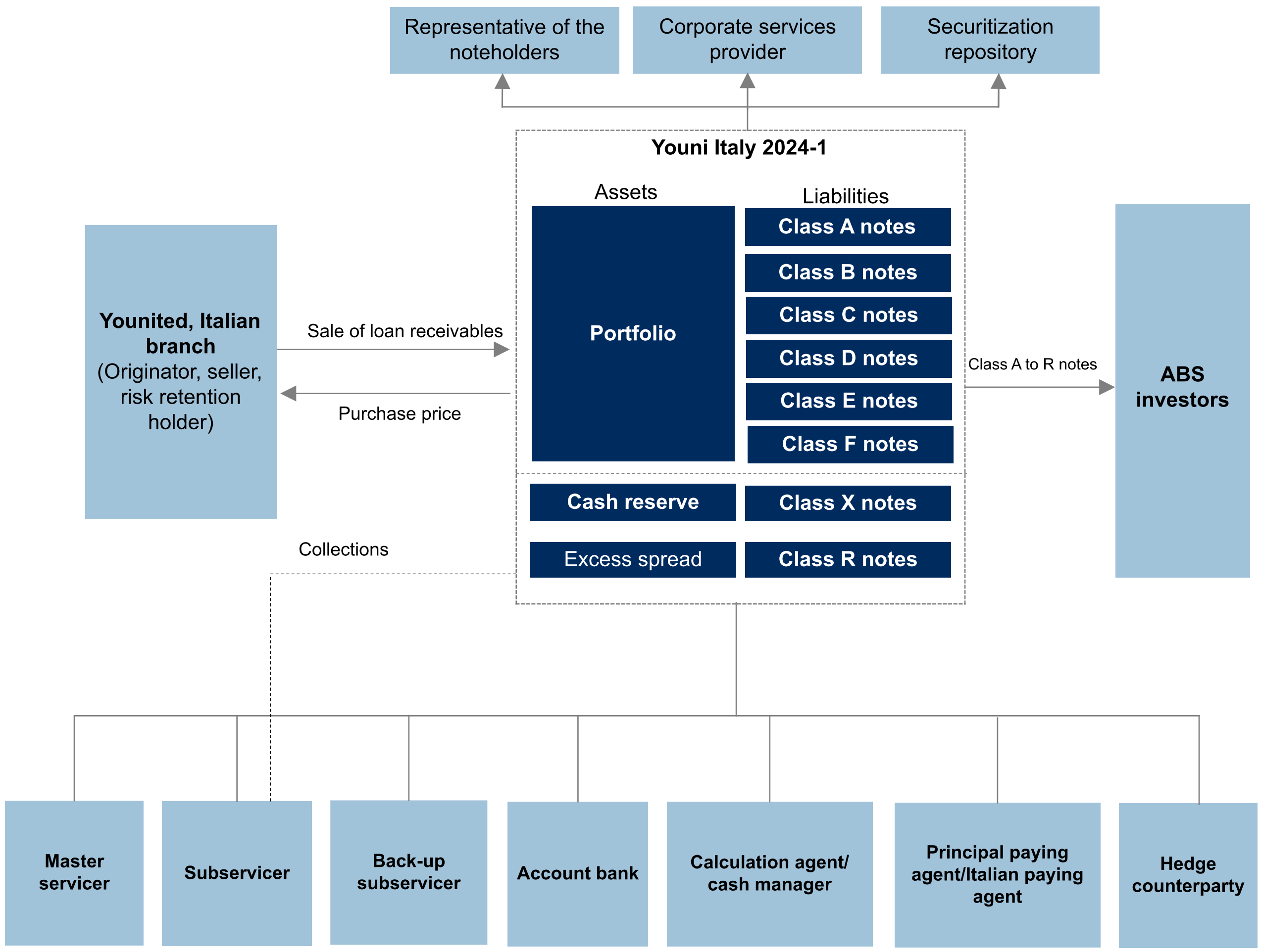
## Transaction Structure

At closing, Youni Italy 2024-1 purchased directly from Younited a portfolio of Italian consumer loan receivables. The issuer used the note issuance proceeds to finance these purchases (see chart 4).

The class A to E-Dfrd notes and the class X notes pay a floating rate of interest linked to one-month EURIBOR. To hedge the fixed-to-floating rate mismatch risk between the assets and the notes, Youni Italy 2024-1 entered an interest rate swap with Citibank Europe. We have considered this feature in our cash flow analysis.

**Chart 4**

**Transaction structure**






The issuer is an Italian special-purpose entity (SPE), which we consider to be bankruptcy remote under our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The transaction legal opinion at closing confirmed that the sale of the assets would survive the seller's insolvency.

## Cash Flow Mechanics

The notes pay interest and principal on the monthly interest payment dates (IPDs). The first IPD will be June 20, 2024. The class A to E-Dfrd notes and the class X notes pay interest at a floating rate plus a margin, provided that if the interest rate is less than zero, it will be deemed to be zero. The legal final maturity date will be April 25, 2034.

The transaction has separate interest and principal waterfalls.

### PDL mechanism and principal borrowing mechanism

The transaction features a gross loss PDL. The PDL is divided into six sub-ledgers--one for each class of notes from A to F. Periodic gross losses result in debits due to the PDL in reverse order, i.e., starting with the subordinated notes' sub-ledger upward.

The principal waterfall features a principal borrowing mechanism, by which the issuer can use available principal amounts to cure shortfalls of senior expenses and interest on the most senior class of notes.

Any principal borrowed to make up shortfalls in the interest waterfall also results in a debit to the PDL. Such debits may subsequently be cleared through the interest waterfall.

### Interest subordination trigger and interest deferral

The class B-Dfrd to E-Dfrd notes can have their interest paid junior in the waterfall if the below conditions are satisfied:

- The class is not the most-senior class; and
- The debit balance on each class PDL is higher than 25% of the respective tranche's principal amount outstanding.

The issuer may also defer interest on the class B-Dfrd to X notes when it does not have enough funds to make the payments. However, this is possible only when they are not the most senior class outstanding, otherwise the missed interest payment would trigger an event of default on the issuer.

### Repayment of the notes and pro rata mechanism

From closing, the issuer redeems the class A to E-Dfrd notes pro rata unless a sequential payment trigger is hit.

The transaction will switch to sequential payment if certain events occur, among which the following:

- The cumulative gross loss ratio exceeds 1% during the first six months, 1.75% from month seven to nine, 2.50% from month 10 to 12, 4.00% from month 13 to 18, 5.00% from month 19 to 24, 6.00% from month 25 to 30, 7% from month 31 to 48, and 7.5% thereafter;
- The PDL exceeds 0.5% of the portfolio's initial principal balance; or
- The aggregate outstanding portfolio balance falls below 10% of the original outstanding portfolio balance.

### Clean-up call

Younited can exercise a clean-up call as soon as the aggregate outstanding portfolio balance falls below 10% of the aggregate outstanding portfolio's balance at closing. If Younited exercises this option, the notes will fully redeem (including accrued interest).

### Interest priority of payment

On any monthly IPD, Youni Italy 2024-1 applies to the interest waterfall the sum of the following payments that it received on the preceding month:

- Interest collections;
- Recovery collections;
- Net swap receipts;
- Interest accrued on bank accounts and reserve account;
- Any amounts it has transferred from the principal waterfall via the principal borrowing mechanism; and
- Amounts on the liquidity reserve.

**Table 4**

| Simplified interest priority of payments | |
|---|---|
| 1 | Senior costs and expenses |
| 2 | Amounts due to the swap counterparty |
| 3 | Interest on the class A notes |
| 4 | Interest on the class B-Dfrd notes if it is the most senior class or B PDL <25% |
| 5 | Interest on the class C-Dfrd notes if it is the most senior class or C PDL <25% |
| 6 | Interest on the class D-Dfrd notes if it is the most senior class or D PDL <25% |
| 7 | Interest on the class E-Dfrd notes if it is the most senior class or E PDL <25% |
| 8 | Replenish the liquidity reserve to the required level |
| 9 | Clear PDL |
| 10 | Interest on the class B-Dfrd notes when subordinated |
| 11 | Interest on the class C-Dfrd notes when subordinated |
| 12 | Interest on the class D-Dfrd notes when subordinated |
| 13 | Interest on the class E-Dfrd notes when subordinated |
| 14 | Interest on the class X notes |
| 15 | Principal on the class X notes until repaid in full |
| 16 | Interest on the class F notes |
| 17 | Other junior payments |

PDL--Principal deficiency ledger.

## Principal priority of payment

On any monthly IPD, Youni Italy 2024-1 applies to the principal waterfall the sum of the following collections that it has received during the preceding month:

- Principal collections (including prepayments);
- Any amounts it has transferred from the interest waterfall via the PDL mechanism; and
- Proceeds from the sale of receivables (if any) and other principal amounts (if any) received by the originator.

**Table 5**

| Simplified principal priority of payments | |
|---|---|
| 1 | Principal borrowed to cure shortfalls of senior expenses and interest on the most senior class of notes |
| 2 | Class A notes redemption amount (sequential or pro rata) |
| 3 | Class B-Dfrd notes redemption amount (sequential or pro rata) |
| 4 | Class C-Dfrd notes redemption amount (sequential or pro rata) |

**Table 5**

| Simplified principal priority of payments (cont.) | |
|---|---|
| 5 | Class D-Dfrd notes redemption amount (sequential or pro rata) |
| 6 | Class E-Dfrd notes redemption amount (sequential or pro rata) |
| 7 | Class F notes principal until redeemed in full |
| 8 | After the class F notes' full redemption, any remaining principal available funds are applied as interest available funds. |

### Excess spread

Excess spread results from the difference between the interest income received from the assets and the interest paid to the noteholders, plus any senior fees and expenses. The excess spread is used to cure defaults after the replenishment of the reserve. At closing, we estimate the unstressed excess spread to be about 3.6%.

### Liquidity reserve

At closing, the issuer funded through part of the class X notes' issuance proceeds an amortizing liquidity reserve equal to 1.25% of the class A to E-Dfrd notes' closing balance. The liquidity reserve amortizes in line with 1.25% of the class A to E-Dfrd notes' outstanding amount, with a €500,000 floor. The amount of the reserve at closing would be sufficient to pay senior costs and interest on the rated notes for more than two payment dates.

The liquidity reserve serves as a liquidity buffer to cover any potential shortfalls in the payment of senior costs and expenses and interest on the class A to E-Dfrd notes, but it cannot be applied for the class B-Dfrd to E-Dfrd notes' interest if their respective interest subordination trigger is hit. Any reserve excess over the required amount forms part of the interest available funds.

### Interest rate hedging

At closing, the issuer and the swap counterparty entered into a fixed-to-floating interest swap agreement to hedge the risk between the fixed rate of interest paid by the assets and the floating rate of interest payable on the rated notes.

The swap notional is based on a pre-determined schedule. The swap counterparty pays to the SPE one-month EURIBOR, and the SPE pays to the swap counterparty a fixed rate.

## Mitigation Of Seller Risks

### Commingling risk

Commingling risk may arise if the subservicer becomes insolvent and if collections at that time in the servicer's collection accounts, plus collections received afterward until borrowers are notified to redirect their payments into the issuer account, become commingled with the insolvent servicer monies.

The subservicer sweeps collections to the issuer within two business days from receipt. Younited receives collections on the consumer loan receivables on the fourth day of each month through direct debit payments. To mitigate the commingling risk, we have assessed the likelihood of a loss of collections considering the sweeping frequency and the notification period. We have assumed one third of collections to be at risk of being lost in the event of the subservicer's insolvency.

### Setoff risk

The transaction is not exposed to setoff risk from employees because the transaction's documented eligibility criteria for the inclusion of receivables exclude loans that the originator granted to its employees.

The originator and seller is a deposit-taking institution; however, the eligibility criteria also exclude loans to borrowers that already have a deposit in place.

In case of prepayment, borrowers have the right to be reimbursed for the 'unused' portion of the costs borne to enter into the loan agreement. If Younited cannot make this reimbursement, the borrower might reduce the sum paid to the issuer by the amount of the 'unused' cost. We consider this setoff risk to be limited as multiple events must occur before the issuer incurs a loss and we believe the potential loss would not be significant. We understand the amount that borrowers can claim refers to a cost paid at closing which reduces over time as borrowers stay in the contract.

## Cash Flow Analysis

**Table 6**

| Cash flow assumptions | |
|---|---|
| Recession start | Month one and seven |
| Length of recession | Weighted-average life (34 months) |
| Cumulative gross loss curve | Evenly distributed and back-loaded over weighted-average life |
| Recovery lag | 30% after six months, 20% after 12 months, and the rest after 24 months |
| Delinquency | Two-thirds of credit losses recovered six months later |
| Stressed servicing fees (%) | 1.0 |
| Fixed fees (€) | 244,000 |
| Prepayments (high/low) (%) | 20.0/0.5 |
| Interest rate | Up, down, down-up, up-down§ |
| WAC (%)* | 8.92 |
| Commingling stress | One third of collections in month one |
| Setoff loss | None |

*Calculations are according to S&P Global Ratings' methodology. WAC--Weighted-average coupon before spread compression. §In line with "Methodology To Derive Stressed Interest Rates In Structured Finance," published on Oct. 18, 2019.

Under the above stress assumptions through a cash flow model, we tested the class A notes' ability to pay timely interest and ultimate principal. We also tested the class B-Dfrd to E-Dfrd notes' ability to pay ultimate interest until each class becomes the most senior and pay timely interest thereafter, and ultimate payment of principal.

The model incorporates the payment structure, including the notes' sequential/pro rata amortization feature and the liquidity reserve's amortizing nature.

To account for the notes' sequential/pro rata amortization feature, we have tested the cash flows assuming the recession starts later in the transaction's life. Considering the conditions that would switch the transaction to a sequential payment and the portfolio's short weighted-average life, we have considered the scenario when the recession starts in month seven to be the most appropriate to determine the ratings.

Based on the above assumptions, the high prepayment default scenarios were more stressful, mostly because they reduce the amount of available excess spread.

Our analysis indicates that the available credit enhancement is sufficient to withstand the credit and cash flow stresses that we apply at the assigned rating levels for the class B-Dfrd to D-Dfrd notes. The class A notes are able to pass our stresses at the 'AA+' rating level, however their rating is constrained at 'AA' by the application of our rating above the sovereign criteria (see "Sovereign Risk").

The class E-Dfrd notes face shortfalls at all rating levels in our standard cash flow analysis. We believe their repayment is not dependent on favorable economic conditions because when we reduce our high prepayment stress and remove our commingling stress, in line with a steady state scenario, the issuer would be able to meet its obligations. We therefore assigned a 'B- (sf)' rating to this tranche in line with our criteria.

## Sovereign Risk

Our long-term unsolicited sovereign credit rating on Italy is 'BBB'. Therefore, our structured finance sovereign risk criteria cap our ratings in this transaction (see "Incorporating Sovereign Risk In Rating Structured Finance Securities," published on Jan. 30, 2019). We have applied these criteria and determined this transaction's sensitivity to sovereign risk as low. Therefore, the highest rating that we can assign to the tranches in this transaction is six notches above the unsolicited sovereign rating, or 'AA'.

## Sensitivity Analysis

In our view, the ability of the borrower to repay consumer loans is highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. High interest rates have a lower impact on borrowers with fixed-rate loans in the near term, while in the longer term, interest rate increases will likely further stretch consumer finances even if loans are fixed.

We expect unemployment in Italy to remain stable at historical low levels, while we anticipate inflation decreasing to 1.9% in 2024, down from the peak of 8.7% in 2022.

Considering the macroeconomic environment in our forward-looking view of the Italian consumer loans market, we conducted additional sensitivity analysis to assess, all else being equal, the impact of an increased gross default base case up to 30% and a reduction to the recovery rate base case by a maximum of 30% on our ratings on the notes. We ran eight scenarios by either increasing the gross default base case and/or reducing the recovery rate base case, as shown in the chart below.

**Chart 5**

**Sensitivity analysis**

| Class | Base case | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|
| Default rate base-case increase (%) | 0 | 0 | 0 | 10 | 10 | 10 | 30 | 30 | 30 |
| Recovery rate base-case decrease (%) | 0 | 10 | 30 | 10 | 30 | 0 | 10 | 30 | 0 |
| Gross default rate (%) | 5.60 | 5.60 | 5.60 | 6.16 | 6.16 | 6.16 | 7.28 | 7.28 | 7.28 |
| Recovery rate (%) | 20 | 18 | 14 | 18 | 14 | 20 | 18 | 14 | 20 |

| Class of notes | Initial rating | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|
| A | AA | AA | AA | AA | AA | AA | A+ | A | A+ |
| B-Dfrd | A | A | A | A- | A- | A- | BBB+ | BBB | BBB+ |
| C-Dfrd | BBB | BBB | BBB | BBB- | BBB | BBB | BB+ | BB | BB+ |
| D-Dfrd | BB- | B+ | B | B | B | B | B- or below | B- or below | B- or below |
| E-Dfrd | B- | B- or below | B- or below | B- or below | B- or below | B- or below | B- or below | B- or below | B- or below |

No change

One-notch downgrade

Two-notch downgrade

Three-notch or more downgrade

Source: S&P Global Ratings.



The results of the above sensitivity analysis indicate no deterioration in five of the tests for the class A notes, and across all eight tests a deterioration for the class A, B-Dfrd, and C-Dfrd notes of a maximum three notches compared with the ratings assigned. This is driven by increasing the default base case by 168 basis points (bps) and decreasing the recovery rate base case by 600 bps in the most stressful scenario 7 (see Chart 5). The class D-Dfrd notes do not achieve a rating in any of the scenarios where the default base case increases by 168 bps. The class E-Dfrd notes continue to have shortfalls at the 'B' rating level in all scenarios.

## Monitoring And Surveillance

We will assess quarterly the underlying portfolio's performance, including defaults, delinquencies, and prepayments.

Additionally, we will also assess annually:

- The supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for each class of notes is sufficient to withstand losses that are commensurate with the ratings assigned.

# Appendix

### Transaction participants

| Transaction participants | |
|---|---|
| Issuer | Youni Italy 2024-1 S.r.l. |
| Originator, seller, and subservicer | Younited S.A., Italian Branch |
| Lead manager and arranger | Citigroup Global Markets Europe A.G. |
| Backup servicer | iQera Italia S.p.A. |
| Cash manager, account bank, calculation agent, custodian, and principal paying agent | Citibank N.A., London branch |
| Swap counterparty | Citibank Europe PLC |
| Italian paying agent | Citibank N.A., Milan branch |
| Master servicer, representative of noteholders, and corporate services provider | Zenith Global S.p.A. |

# Related Criteria

- Criteria | Structured Finance | ABS: Global Consumer ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

# Related Research

- EMEA Structured Finance Chart Book: March 2024, March 28, 2024
- Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom, March 26, 2024

- Italy 'BBB/A-2' Ratings Affirmed; Outlook Stable, Oct. 20, 2023
- ESG Industry Report Card: Credit Card Asset-Backed Securities, March 31, 2021
- How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process, Jan. 8, 2019
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016