



The guarantee scheme to encourage Italian banks to deal with their NPLs

01 February 2016

With a view to encouraging Italian banks to dispose of their NPL portfolios and reducing the bid-offer spread, the Republic of Italy will guarantee, upon request by the relevant selling bank, the performance of the most senior tranche of the relevant portfolios.

Italian NPL portfolios are typically disposed of through the use of securitisation SPVs.

The guarantee scheme contemplates a mechanism whereby the Italian State issues a financial guarantee with respect to the payment of interest and repayment of principal on the senior tranche of the asset-backed securities issued by the relevant securitisation SPV.

The ability of the State to issue such guarantees will be subject to the following conditions:

- 1) the guarantee must be for the benefit of the senior tranche only. In particular, the securitisation structure must be such that neither the mezzanine nor the junior tranches can be repaid, in whole or in part, until the senior tranche has been repaid in full;
- 2) the selling bank shall pay a periodic guarantee fee to the Treasury calculated as a percentage of the outstanding balance of the senior tranche. Such fee (which shall be at market conditions) shall be calculated by reference to the CDS price of Italian issuers having a credit risk comparable to the senior tranche and must include yearly step-ups after the third year;
- 3) the senior tranche (without considering the benefit of the State guarantee) must be rated by at least one rating agency.

In light of the stringent conditions indicated above, it is unlikely that this guarantee scheme will be used as extensively as the Italian Government would desire.

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