

FITCH ASSESSING 'TREMONTI' DECREE IMPACT ON ITALIAN RMBS AND OBG PROGRAMMES

Fitch Ratings-London/Milan-18 March 2009: Fitch Ratings says today that the recently approved Italian "Tremonti" Decree may impact Italian RMBS and Obbligazioni Bancarie Garantite (OBG) programmes in several ways, but that it is too early to assess how Italian mortgage originators and servicers will interpret the new legislation, or what rating impact there will be, if any.

The Decree enables Italian banks to receive government funds to help toward recapitalisation in exchange for a commitment to maintain support for mortgage borrowers. This support includes increased lending commitments and payment holidays for at least twelve months for qualifying distressed borrowers.

Fitch believes that the Decree has potentially negative ramifications for Italian RMBS transactions and OBG programmes and is currently seeking feedback from RMBS originators and OBG issuers and servicers to further clarify its analysis.

In Italian RMBS and OBG programmes, mortgage loans are typically classed as in default once a borrower is a specific number of instalments in arrears, usually determined as seven unpaid monthly instalments for loans paying on a monthly basis. Fitch expects that monthly payment holidays will still be treated as payments in arrears. If this is the case, the fact that a loan benefits from a payment holiday will have no impact on the delinquent or defaulted loan definition and the related excess spread provisioning mechanisms. Accordingly, Fitch would expect servicers of RMBS portfolios and cover pools to continue to follow this approach and disclose defaulted and delinquent loans in their portfolio servicer reports, but also to add detail on the share of defaulted and delinquent loans that are benefiting from payment holidays.

It remains to be seen how eligibility for the scheme will be defined and interpreted by lenders. It is still unclear if a borrower's eligibility will be linked to an assessment of whether the borrower is in temporary difficulty and capable of recovery. If the borrower is not capable of recovery, but is still eligible for the scheme, then there could be a widespread exercise of the payment holiday option. This could cause increases in loss severity if interest during the payment holiday period is capitalised, and could also lead to potential liquidity shortfalls for RMBS issuers and OBG guarantors.

Fitch will make enquiries of banks acting as RMBS and OBG servicers to better understand the operational implementation of the payment holiday, such as borrower eligibility criteria, duration, interest capitalisation, and of any structural mitigation to liquidity risk, such as implementation of a servicer advance mechanism.

Fitch will monitor the situation closely and take any rating action that is appropriate as the agency's understanding of the Decree and its impact on Italian RMBS and OBG programmes becomes clearer.

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