



# Risks to Watch in European Structured Finance

At our *Risks to Watch in European Structured Finance* series which took place in London, Frankfurt and Paris, senior analysts from Fitch discussed the risks affecting this sector and the key credit drivers across all asset classes. In case you were unable to attend, we have selected highlights from the event and sector to share with you. For more information on Structured Finance visit [fitchratings.com](https://www.fitchratings.com).

## UK commercial real estate – What are property companies doing with their money?

John Hatton, Managing Director, Corporates, Fitch Ratings discussed what property companies are doing with their money at the Risks to watch in European Structured Finance event in London.

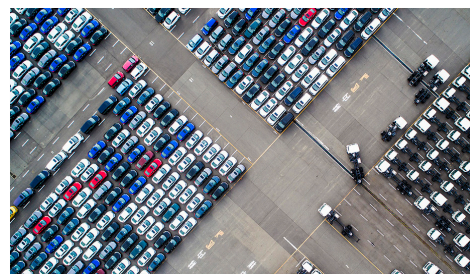


## Low Rates Encourage Riskier Form of UK Commercial Property Finance

Engineering high ground rent ratios on commercial property significantly increases credit risk of leasehold collateral. With low interest rates, leverage is more likely to be constrained by loan-to-value limits than debt service coverage. To bypass this constraint additional funding can be raised by carving sizeable ground rent strips out of higher-yielding properties for sale to third parties. This supplementary source of financing is disguised by traditional metrics of commercial property leverage.

## European Auto ABS Index Stable; Decline in UK Used Car Prices Continues

European Auto ABS Annualised Loss Index improved 7bp in 3Q19, while its Delinquency Indices were stable. This follows a period of gradual performance deterioration. Overall, Fitch considers performance in European auto ABS to be in line with its expectations to date. Losses remain small in absolute terms, supported by declining unemployment across the EU.



## Transaction Features Can Impact Risk Profile of European CLOs

Different features in European CLOs can have an impact on the risk profile of a transaction across the capital structure. From a credit perspective, structural features remain broadly constant across European CLOs but documentation continues to evolve as the European CLO market continues to grow with record issuance and additional managers entering the market.





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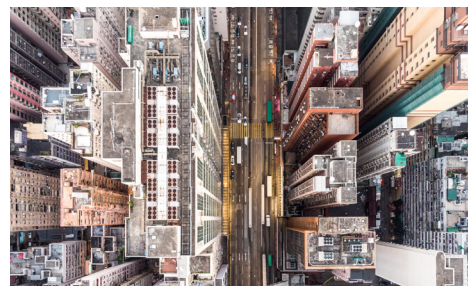


## Covenants, weakening underwriting standards

Edward Eyerman, Head of European Leveraged Finance, Fitch Ratings, discusses the role of Covenants at the Risks to watch in European Structured Finance event in London.

## Uneven IBOR Progress Leaves Key Uncertainties for Structured Finance

Industry initiatives and adaptations in market practices continue in anticipation of the discontinuation of IBOR indices. But progress is uneven across jurisdictions and asset classes. For structured finance (SF), like other markets, key uncertainties relating to legacy contracts and transition in consumer products remain.



## Rental decline in the UK retail sector

Euan Gatfield, Head of EMEA CMBS, Fitch Ratings discusses the changes in the last 12 months in retail at the Risks to watch in European Structured Finance event in London.

## Sustainability of UK house prices

Grant England, Co-Head of EMEA RMBS, Fitch Ratings, discusses the sustainability of UK house prices at the Risks to watch in European Structured Finance event in London.



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