Maalot
S&P Global Ratings

Credito IPOs Inc. Israeli RMBS Assigned 'ilAAA(sf)' Preliminary Local Scale Rating

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Preliminary ratings					
Class	**Preliminary rating**	**Class size (%)**	**Credit enhancement (%)**	**Interest***	**Legal final maturity**
A	ilAAA (sf)	92.0	8.0	Prime rate plus a margin	September 2053
B	NR	8.0	0.0	Prime rate plus a margin	September 2053

*The prime rate is the Bank of Israel rate + 1.5%. NR--Not rated.

Overview

- We assigned our preliminary 'ilAAA (sf)' local scale credit rating to Credito IPOs Inc.'s senior notes.
- Credito IPOs Inc. is an RMBS transaction that securitizes an all-purpose mortgage portfolio of first-ranking loans granted to Israeli individuals secured by residential properties in Israel.
- This is the first RMBS transaction that we rate in Israel.
- The provisional mortgage portfolio is approximately Israeli shekel (ILS) 549 million as of April 10, 2024. Credito Ltd., a nonbank lender in the Israeli market, originated the loans.

July 7, 2024--S&P Global Ratings Maalot Ltd. assigned its preliminary 'ilAAA (sf)' local scale credit rating to Credito IPOs Inc.'s senior notes. At closing, Credito IPOs will also issue unrated class B notes (see list).

Transaction Summary

Credito IPOs is an RMBS transaction that securitizes an all-purpose mortgage portfolio of first-ranking loans granted to Israeli individuals secured by residential properties in Israel. The provisional mortgage portfolio is approximately Israeli shekel (ILS) 549 million as of April 10,

2024. Credito Ltd., a nonbank lender in the Israeli market, originated the loans. Credito started its lending business in 2015 and has been originating all-purpose mortgage loans since 2020.

The issuer will use the issuance proceeds to purchase the full beneficial interest in the mortgage loans from the seller at closing. It will grant security over all of its assets in the security trustee's favor.

We consider the collateral to be prime, based on the originator's lending criteria and their good performance, given that none of the loans are in arrears or defaulted. At the same time, we have considered the all-purpose nature of the portfolio in our analysis, which in our view introduces higher risk in the transaction. All-purpose loans refer to loans granted as debt consolidation, equity release, or investment solutions, among others, rather than for purchasing the borrower's main residence.

We expect to receive an updated audit report in line with what we typically observe in other RMBS transactions we rate.

Credit enhancement for the rated notes will comprise subordination, a reserve fund, and excess spread. The transaction will feature a combined waterfall, including various triggers that will protect the senior notes if breached.

Our counterparty, operational, or rating above the sovereign criteria do not constrain the national preliminary rating.

We expect the transaction documents to be in line with our legal criteria at closing.

Strengths	Concerns and mitigating factors
We consider the loans to be prime mortgages, based on their good performance and underwriting criteria. However, we also considered the all-purpose nature of the portfolio in our analysis.	In our analysis, we considered the current macroeconomic and political environment in Israel, particularly since the beginning of the conflict in October 2023. Since the conflict started, we have increased all base foreclosure frequency anchors at all rating levels below 'AAA'. As we believe that it will have an impact on the economy, we have also considered the current environment in our originator adjustment.
The portfolio consists of French-amortizing loans only, linked to the Israeli prime rate plus a margin. The Israeli prime rate equals the Bank of Israel rate plus 1.5%. The provisional pool is well-diversified geographically with 50% of the portfolio located in Tel Aviv. The portfolio's original loan-to-value (OLTV) ratios and current loan-to-value (CLTV) ratios are relatively low, at 50.8% and 44.9%, respectively. At origination, the OLTV ratio is capped at 60%, which is below the market limit of 75%. Similarly, the repayment-to-income ratio is also capped at 40%.	The originator is a nonbank lender recently established in the mortgage market. While Credito started its business in 2015, it did not originate all-purpose mortgage loans until 2020. Therefore, it has a short origination and performance track record. While it is focused on originating all-purpose loans, credit performance has been strong. Credito does not benefit from deposit funding and is currently funded by banks and other financial institutions. At the same time, Credito's competitive advantage is that it provides faster and tailor-made solutions to borrowers. We view its lending process and underwriting criteria as strong. We have considered the lack of track record when calibrating the originator adjustment.

Strengths	Concerns and mitigating factors
Both assets and liabilities are referenced to the prime rate plus a margin. Therefore, interest rate risk is mitigated and we have not considered basis risk in our analysis.	Of the provisional portfolio, nearly half is classified as debt consolidation or investment properties. We consider loans for this purpose, rather than to purchase a property, to introduce higher risk. Only 9% of the portfolio is flagged as purchase.
The transaction features a combined priority of payments. Therefore, principal collections can be used to cover interest shortfalls on the senior notes. Additionally, the amortizing reserve fund provides additional liquidity protection and will be fully funded at closing.	In our operational analysis, we have assessed the possibility of servicer replacement in the event of Credito's default. We have considered the depth of qualified servicer replacements in Israel to introduce a moderate risk. However, after considering Credito's stable operating condition and fair key performance attributes, our operational criteria do not cap the preliminary rating. We also believe that the active role of the regulator and the stressed servicing fee in our analysis also mitigate operational risk upon a servicer default.
To protect the senior notes, there are certain triggers in the structure that prevents interest being paid to the junior notes. Upon a breach of the trigger, all collections will be used to pay down senior items and principal on the senior notes.	The seller´s representations and warranties are comparable to the market standard in EMEA. However, we have considered the lack of repurchase commitment and defined remedy period in our analysis. Therefore, we consider them to be weaker than what we typically observe in other transactions, increasing our originator adjustment.
Due to the static nature of the portfolio and that the issuer will not grant other product types (i.e., the borrower should prepay in order to change the loan type), we believe that the risk of portfolio migration is mitigated.	The current audit report is weaker compared with other RMBS transactions we rate. While we have considered it in our analysis, we expect to receive an updated audit report comparable with what we typically observe in other RMBS transactions, before assigning final ratings.
Borrowers pay directly to the bank account in the name of the issuer. Therefore, there is no commingling risk in this transaction. At the same time, we believe that setoff risk is also mitigated given that (i) there are no loans granted to employees in the transaction, (ii) Credito is not a deposit-taking institution, and (iii) Credito is not an insurance provider.	Considering that Credito started its all-purpose mortgage loan business in 2020, there is limited historical data on the portfolio performance. At the same time, we likely expect to observe certain deterioration in performance due to the recent stressed periods related to the high interest rate environment and the conflict. We have also considered that we have not yet observed the portfolio's behavior during a stressed environment. However, the lack of arrears and tight underwriting partially mitigate this risk, in our view.
The transaction has exposure to Bank Hapoalim as bank account provider. We consider counterparty risk to be adequately mitigated in the documentation according to our counterparty criteria.	The reserve fund can be used to pay down the senior notes' principal on each payment date up to the amortization definition of the notes, in addition to senior fees and class A interest. The amortization definition is defined before each payment date based on expected collections. Therefore, using the reserve fund to pay principal can introduce liquidity risk in the transaction, preventing its use to pay senior items. We also believe that the combined waterfall mitigates liquidity risk if the reserve fund is used to pay down principal on the notes.

Strengths	Concerns and mitigating factors
	All the loans have less than four years of seasoning, which we factored in our analysis. The weighted-average seasoning is below two years.

Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. ESG factors have limited impact on the rating analysis.

Originator

Credito is a nonbank lender founded in 2013 by granting loans to fund members before it started to expand its business lines. It started to operate in the mortgage market by granting bridge loans (2017) and all-purpose mortgages in 2020. Since then, it also expanded the mortgage business to second lien loans (2021) and reverse mortgages in 2022. The transaction will only securitize all-purpose mortgages. The company granted over ILS12 billion in credit to more than 100,000 borrowers. Its mortgage portfolio represents ILS1.82 billion as of 2023, underwritten through its digital lending platform.

It has experienced management with members all having industry experience and about 50 staff members. Some of the main financial institutions operating in the Israeli market fund its all-purpose mortgage lending business together with other institutional investors. In addition to the traditional Israeli banking system, other nonbank lenders such as Direct Finance are considered competitors in the Israeli market.

Credito benefits from a fully online platform that considers borrowers' income stability, leverage, and financial conduct as well as characteristics such as repayment ratios or disposable incomes and the collateral's volatility and risk. Its fintech system analyzes all the data and provides a fast and tailored decision to the borrower. In addition to lower rates, quick and online execution is its competitive advantage against traditional financial institutions within a consultant-type borrower profile. It aims to combine the world of finance with technology. However, it does not benefit from deposit funding like banks and may still be relatively unknown to many brokers given its recent incorporation and market positioning.

While it has developed its own underwriting and management systems, as well as customer relationship management systems, it also relies on Matrix, Tafnit's loan operation system. It performs ongoing operations/collections via the Bank Clearing System and is also connected to other external services.

Table 1 - Credito: key originator considerations

Description	Consideration
Collateral type	Credito originates first lien all-purpose loans backed by residential properties in Israel. However, it is a nonbank lender and therefore less regulated than traditional banking institutions.
Lending policy versus peers and market standards	Lending policy follows market standards overall, being tighter in certain characteristics such as loan-to-value (LTV) and repayment ratios.

Description	Consideration
Track record and experience	The lender has a short track record and Credito IPOs is its first public term securitization.
Historical performance	The historical performance of the lender's mortgage book is strong to date.
Qualitative factors not captured above	Historical performance data is insufficient to comment on the lender's origination performance throughout a period of economic stress. We also considered the product's all-purpose nature to deviate from market standards. Rapid market growth of origination volumes until the third quarter of 2022. Limited origination since then.

We expect to receive an updated audit report in line with what we typically observe in other RMBS transactions we rate.

Servicing

Credito is also acting as servicer of the portfolio. While there is continuous in-house communication with the borrower during the entire process, loans are managed by an external attorney after the first month of arrears. Arrears management starts with multiple phone calls, while the legal process begins between one and three months from the date of the missed instalment. However, amicable resolution is preferred as 98% of recoveries take place within the first 90 days from the missed instalment. The foreclosure procedure begins after 90 days past due.

Considering the limited observed arrears to date and the externalization of the process, in-house staff servicing the loans at Credito is limited. A team of two employees handle the early stage of the recovery process: one is focused on the dialogue with the borrower and data collection while the other deals with the loan operationally.

Collateral

The pool as of April 2024 comprised 524 loans for a total of ILS549,006,785. The portfolio comprises first ranking, amortizing loans granted to Israeli individuals and backed by residential properties. There are no reverse mortgages and all the loans in the securitized pool are performing, with neither arrears nor restructured loans.

All loans pay the Bank of Israel prime rate plus a margin. Considering the all-purpose nature of the portfolio, only 9% of the portfolio has been granted for the purchase of the borrower's main residence. Loan terms range from 47 months to 381 months, with the average loan lasting 27 years and two years average seasoning. Finally, just under half of the properties (49%) are located in Tel Aviv, reflecting the concentration of the population in that area.

We analyzed Credito's portfolio based on our
"Global Methodology And Assumptions: Assessing Pools Of Residential Loans,"published on Jan. 25, 2019. We also used specific assumptions reflecting the Israel mortgage market (see below).

In assessing the credit quality of an Israeli residential mortgage pool, we analyze the portfolio benchmarked against a defined archetypal pool.

Our mortgage market assessment (MMA) in a given jurisdiction consists of an assessment on a six-point scale ranging from very low risk to extremely high risk. The MMA for Israel is intermediate risk according to the subfactors listed in table 2.

Table 2: Subfactors

Factors	Subfactors (description from global criteria)	Israel
Economic risk		
Economic resilience	Economic structure and stability, macroeconomic policy flexibility, and political risk.	Intermediate risk
Economic imbalances	Expansionary phase, private-sector credit growth, residential real estate prices, equity prices, and current-account balance and external debt position; or correction phase and expected impact on the banking sector.	Low Risk
Credit risk in the economy	Private-sector debt capacity and leverage, lending and underwriting standards, payment culture, and rule of law.	Intermediate risk
Industry risk		
Institutional framework	Banking regulation and supervision, regulatory track record, and governance and transparency.	Intermediate risk
Competitive dynamics	Risk appetite, industry stability, and market distortions.	Low Risk
Market sensitivity	Unemployment variability and welfare support levels.	Intermediate risk
Lender - recourse assessment	In practice or by law, lenders may predominantly only rely on the mortgaged property as collateral to repay the loan in the event a borrower defaults (we refer to this as limited recourse versus full recourse in other jurisdictions).	Full recourse
Mortgage market assessment	Six-point scale ranging from very low risk to extremely high risk.	Intermediate risk

By applying our residential loans criteria, we conclude that the MMA for Israel is intermediate risk. Given that the ‘AAA’ base foreclosure frequency for intermediate risk is typically 10% to 15%, we have assigned Israel a 'AAA' base foreclosure frequency of 15%. As described in the global RMBS criteria, the ranges of applicable potential foreclosure frequencies at the 'AAA' rating level are calibrated considering extreme historical stress scenarios as a reference point (see "Related Criteria"). We considered the U.S. Great Depression, as well as more recent stress scenarios such as those experienced in Greece and Argentina.

Based on the MMA assessment, we set the 'AAA' foreclosure frequency anchor for the archetypal pool for Israel and the current 'B' foreclosure frequency assumption according to table 3.

Table 3: Foreclosure frequency assumptions

Rating level*	Archetypal foreclosure frequency (%)§
AAA	15.00
AA	10.52
A	8.29
BBB	6.05
BB	3.81
B	3.25

*Assumptions for intermediate rating levels are interpolated. §Intermediate rating levels numbers are rounded to the nearest tenth of a percent.

Archetypal pool

The archetypal pool in each jurisdiction or market represents a somewhat idealized version of the average pools historically observed.

Table 4: Israel – archetypal pool

Characteristics by type	Archetypal features
Pool size	At least 250 loans at issuance
Originator	Originated with no adjustment factor related to the quality of lender's underwriting
Geographic distribution	Geographic diversification in line with Israel population distribution
Borrower type (commercial versus individual)	Private individuals purchasing a residential property
Commercial and mixed-use properties	Property is a residential property
Citizenship	Borrower is an Israeli citizen
Employment type	Not self-employed, unemployed, retired, or a pensioner
Performance status	Borrower is current
Affordability	Debt-to-income (DTI) ratio is 30%
Income verification	Lender has verified the borrower's income
Loan purpose	Loan is for purchase or refinancing for improved terms
Second home	Loan is for the purchase of a primary residence
Loan-to-value ratio	65%
Product type (fixed or floating)	No payment shock feature if a loan comprises fixed-rate, variable-rate, and non-Consumer Price Index (CPI) inflation linked.
First-time buyer	Borrower is a first-time buyer

Characteristics by type	Archetypal features
Occupancy (owner-occupied or buy to let)	Property is the borrower's primary residence
Seasoning	Loan is not more than five years seasoned
Credit history	No adverse credit history
Reperforming loan	Loan is not reperforming
Repayment method	Loan is repaying both interest and principal in equal monthly instalments.
Valuation method	Full valuation performed by an accredited appraiser
Valuation amount	No loan is granted for properties above ILS2.0 million

Specific adjustments for foreclosure frequency

Table 5 shows the foreclosure frequency adjustments for Israel.

Table 5: Foreclosure frequency adjustments

Factor	Adjustment to foreclosure frequency	Comment
LTV ratio	Up to 75% - Type 2 or curve	The LTV ratio is calculated in a three-stage process. Stage 1: The OLTV ratio is calculated using the original loan balance at the time of the latest advance and the property valuation at the time of that advance. Stage 2: The CLTV ratio is calculated using the loan balance as of the portfolio cutoff date and the current indexed property value. Stage 3: The LTV ratio is calculated with a weighting of 80% of the OLTV ratio and 20% of the CLTV ratio. The OLTV ratio and CLTV ratio are based on the full loan balances secured on the property, including loan parts outside the asset pool and prior- and subsequent-ranking balances, if any. The CLTV ratio calculation incorporates any applicable valuation haircuts. We may also consider the maximum drawable balance, further advance, and purchase price in our analysis.
Originator adjustment	0.7x-1.3x or higher.	Applied at the loan or pool level.
Loan affordability	25 - 0.8 30 - 1.0 >=45 - 1.8 Linearly interpolated debt-to-income (DTI) ratio and corresponding penalties: 25% - 0.8x; 30% - 1.0x; and >+45% - 1.8x.	DTI: 35% ratio typically warrants a neutral adjustment (1x).
Borrower occupancy status: investment property (buy to let)	1.3x–1.7x penalty for those individuals purchasing an investment property. This penalty could be calibrated based on the underwriting criteria.	Investment properties pose different default risks than owner-occupied properties. These risks include the borrower's reliance on the rental income to meet mortgage loan payments, ability to cover periods when the property is vacant, and experience in managing rental properties.
Commercial borrower	2x	The adjustments detailed are intended for use where less than or equal to 40% of the pool at issuance are granted to commercial borrowers. No adjustment for a private borrower purchasing a residential property.
Borrower occupancy status: second home	1.1x-1.3x	High end of range applicable if performance data is limited
Residency status	1.5x–2.5x	Loans to Israeli citizens backed by properties located in Israel are considered in the archetypical pool

Non-residential loan	1.5x for commercial and mixed-type property	Adjustments are applied to assets where we consider the primary use of the property to be nonresidential. Examples of nonresidential asset use include mixed-use properties and small-scale commercial properties. The adjustments detailed are intended for use where less than or equal to 40% of the pool at issuance are considered to be nonresidential use.
Payment shock	1.1x-1.2x adjustment for interest-only loans and loans with payment shock, to be removed in six months after the payment shock. 1.2x adjustment to loans linked to non-typical indexes or interest rates (i.e., not fixed, not prime index, and not incurring currency stress). 1.5x for loans indexed to the dollar rate.	Interest-only loans in Israel include a certain period (typically two years) of the interest payments, and the ultimate step-up to the repayment scheme that include interest payment and partial principal repayment on a monthly basis. Loans linked to dollar rate represent a small share of the market. We apply a 1.5x penalty due to a higher payment shock stemming from currency volatility. Loans partially linked to CPI inflation (a portion of the mortgage loan is linked to CPI inflation) may be exposed to payment shock in an inflationary environment as both principal and interest would be adjusted upward causing a potential payment shock. Given that typically only a portion of the loan would be linked to inflation, we are using the pool-level and loan-level adjustment to apply the penalty shock.
Geographic concentration	1.25x adjustment to the excess above the regional concentration threshold. If a pool has significant geographic concentration risk that we believe is not sufficiently captured, we may capture it using the originator adjustment.	The region concentration thresholds (% of pool balance): Tel Aviv (20%) Judea and Samaria (West Bank) (7%) Centre (not including Tel Aviv) (30%) Haifa (15%) Jerusalem (15%) North (20%) South (20%)
Self-employed borrower	1.25x–1.50x	There are local employment law considerations. According to Israeli law, certain requirements have to be met in order to be elegible for unemployment insurance: Israeli residents, above 18 years old, salaried employee with an employer who is obligated to pay insurance contributions. Lack of employment data will result into an adjustment at the upper end of the range proposed
Reperforming loans	A material share of reperforming loans will be addressed via loan-level or pool-level adjustment.	
Second lien loans	1.3x	

Loan purpose	1.2x for debt consolidation, and equity release loans/cash-out loans.	We apply a 1.2x adjustment to the base foreclosure frequency for cash-out loans. A cash-out loan is generally a loan for which the borrower is withdrawing equity for consumption, and it also includes equity release for home improvement because there is no way to monitor what the cash is used for. Therefore, in our view, a loan used to borrow against the equity in a property (cash-out loan) has a higher default risk than a home purchase or a fully re-underwritten refinancing. We apply no adjustment for pure remortgage with no additional borrowing. We consider that the lower seasoning benefit attached to these loans captures any additional risk. We do not apply the adjustment to debt consolidation and equity release/cash-out loans if the loan is also a junior lien.
Arrears	2.5x for loans currently 30-59 days delinquent; 5.0x for loans currently 60-89 days delinquent; 100% foreclosure frequency for loans currently 90 days or more delinquent.	As a proxy to the number of days in arrears, we calculate arrears as the outstanding arrears balance/current monthly installment.
Seasoning (adjustment factors for loan seasoning)	0.75x for seasoning >5 and 6 years, 0.65x for seasoning >7 years, 0.60x for seasoning >8 years, 0.55x for seasoning >9 years, and 0.50x for seasoning >10 years. Factor applies only to loans that are not in arrears.	

*The loan-level data is aggregated at a borrower level. In case of multiple properties securing a mortgage loan, the aggregation considers the characteristics of the largest security for the mortgage loan

Specific adjustments for loss severity

In our loss severity analysis, we apply a market-value decline (MVD) stress to the property valuations backing the mortgages and derive the MVD of the repossessed properties (repo MVD) after considering the effect of any over/undervaluation in the market and the forced-sale discount. The table below shows the loss severity adjustments for Israel.

Table 6: Israel-specific loss severity adjustment factors

Factor	**Adjustment to loss severity calculation**
Property indexation	Calculations based on OECD Organization for Economic Co-operation and Development, national House Price Index, GDP per capita, and payment to income.
Jumbo valuation threshold	By District:

Factor	Adjustment to loss severity calculation
	Israel excluding Tel Aviv - ILS4.5 million Tel Aviv: ILS6.3 million
Valuation haircut	10% if not a full valuation
Foreclosure costs	8% and ILS25,000
Foreclosure timeline/period	30 months
Commercial/mixed-use	1.15x adjustment to the MVD

MVD--Market-value decline

Specific adjustments for cash flow

Table 7: Israel cash flow adjustment factors

Factor	Adjustment
Prepayment scenarios	Pre- and post-recession: 24% (high) and 1% (low); during recession: 1%.
Interest rate	Proposal: 1.5x volatility (starting rate 4.5%)
Modeling of senior fees and expenses	1.5x the contractual fee (including VAT if applicable) and 60 basis points (bps).

Underwriting policies

In our view, the underwriting practices are in line with the market:

- Age limit: 21 to 70.
- Loan payments until age 85.
- Loans below ILS4.0 million.
- Payment to income not to exceed 40%.
- OLTV ratio not to exceed 60%.
- Borrower's leverage verification.
- Historical credit and financial conduct.
- Collateral assessment and appraisal.
- Stress test on income stability and sustainability.
- Wealth report on every borrower.

Table 8: Collateral key features

Feature	Credito's portfolio
Pool cutoff date	April 10, 2024
Total principal balance [ILS]	549,006,785
Pool factor (%)	100
Total number of properties	524
Total number of borrowers	524
Average loan size (ILS)	1,047,723
Weighted-average OLTV ratio (%)	50.82
Weighted-average ELTV ratio (%)	49.64
Weighted-average seasoning (months)	21.6
Self-employed borrowers (%)	43.78
Commercial borrowers (%)	0.00
Second-lien loans (%)	0.00
Reperforming loans (%)	0.00
Buy-to-let loans (%)	0.00
Loan purpose	
Purchase (%)	9.03
Remortgage (%)	7.62
Investment (%)	21.00
Debt consolidation (%)	62.35
Debt to income	
<20 (%)	0.00
20.0-25 (%)	53.39
25.0-30 (%)	17.49
30.0-35 (%)	29.12
>35 (%)	0.00
Interest rate product	
Floating life (%)	100.00
Fixed life (%)	0.00

Feature	Credito's portfolio
Fixed floating (%)	0.00
Fixed reset (%)	0.00
Arrears	
30-60 days	0.00
60–90 days	0.00
>90 days	0.00

OLTV--Original loan-to-value. ELTV--Effective loan-to-value

The assets are primarily concentrated in the Tel Aviv (49.02%) and the South (17.53%). The proportion of properties located in Tel Aviv exceed the 20% region threshold and hence we have given a 1.25x adjustment to these loans.

Table 9: Geographical concentration

Region	(% of the pool)
Center	13.41
Haifa	4.19
Jerusalem	9.01
North	6.84
South	17.53
Tel Aviv	49.02

We adjusted by 1.2x those cases where the borrower increased the loan’s size when remortgaging--whether to raise additional capital, for debt consolidation, or no data exists on the remortgage purpose. The additional leverage may increase default risk when compared with a refinance where no further funds are drawn.

The provisional pool is newly originated with minimal seasoning, and hence receives limited seasoning credit in our analysis. It comprises loans referenced to Israel's prime rate only. Therefore, there is no adjustments for payment shock.

The provisional portfolio has a weighted-average indexed CLTV ratio of 44.90% and a weighted-average OLTV ratio of 50.82%. The resulting weighted-average effective loan-to-value (ELTV) ratio is 49.6%. We consider borrowers with low CLTV ratios to be less likely to default on their obligations than borrowers with higher CLTV ratio loans. At the same time, loans with low CLTV ratios are likely to incur lower loss severities if the borrower defaults.

Historical performance

We received performance data since the fourth quarter of 2020, as Credito started lending from this date. Its origination performance has been strong with a minimum number of arrears over

time. However, we have also considered the limited historical data received in our analysis. The provisional portfolio contains no loans in arrears.

Credit Analysis And Assumptions

The weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) assumptions increase at each rating level because notes with a higher rating should be able to withstand a higher level of mortgage defaults and loss severity. Our credit analysis reflects the characteristics of the loans, properties, and associated borrowers.

Table 10: Portfolio WAFF and WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)	Base foreclosure frequency component for an archetypical Israeli mortgage loan pool (%)
ilAAA*	17.02	6.80	1.16	7.54

*The 'ilAAA' national rating level corresponds to our global scale ratings of 'A-' and higher. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity. Based on post-retirement income

Macroeconomic And Sector Outlook

Our long-term unsolicited sovereign credit rating on Israel is 'A+'. Israel faces material geopolitical and security risks following its direct exchange of fire with Iran in April 2024. We do not expect the ongoing conflict in Gaza and exchange of fire with Hezbollah to broaden into a wider regional war, but this remains a key downside risk to our forecasts. It remains difficult to reliably quantify the impact of a potentially broader regional conflict on Israel's economic, fiscal, and balance-of-payments performance, but we expect it could be pronounced.

Table 11: Israel statistics

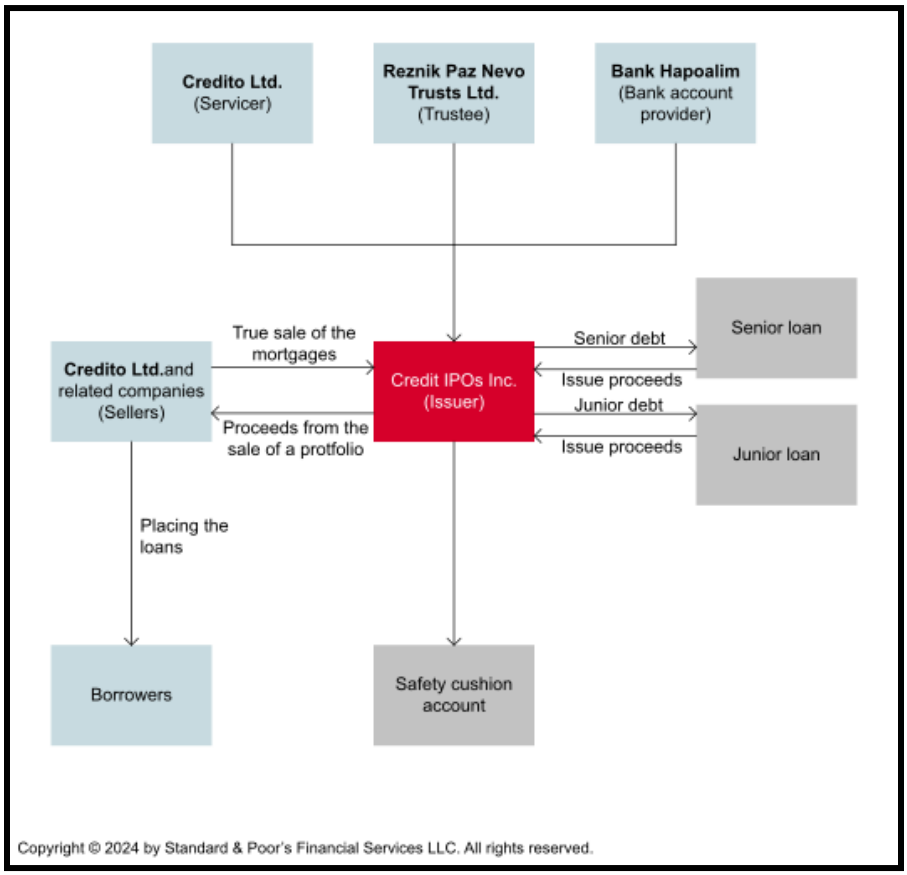
Statistic	2023	2024f	2025f	2026f
Real GDP, % change	2.0	0.5	5.0	3.5
CPI inflation (%)	4.2	2.3	2.0	2.0
Unemployment rate (%)	3.5	4.0	3.8	3.5

Sources: S&P Global Ratings Maalot Ltd. Y/Y--Year-on-year. CPI--Consumer Price Index. F--Forecast.

Transaction Structure

The issuer is an Israeli special-purpose entity (SPE). We expect the transaction documents to be in line with our legal criteria at closing.

Chart 1: Transaction Structure



The capital structure comprises a senior and a subordinated note. We have only rated the senior note. The senior note balance represents 92% of the total collateral. There will be no swap in place as both, assets and liabilities are linked to the Israeli prime rate. Both, assets and liabilities will pay monthly. A reserve fund will be in place and the transaction will benefit from positive excess spread at closing.

Liquidity reserve

The transaction will have a liquidity reserve fully funded at closing that will be available to cover shortfalls on the senior fees, senior interest and senior notes principal up to the amortization amount.

The initial funding will be equal to ILS120,000 plus 1.5% from the senior tranche balance and will amortize in line with the senior notes starting from the sixth payment date after closing. Excess amounts will be used to pay subordinated and shareholder notes interest after covering the items listed above. However, at final maturity the reserve fund can also be used to pay down senior notes.

Subordinated loan triggers

Upon a breach of any of the following triggers, no subordinated interest will be paid. Therefore, upon breach of the trigger, the senior notes will benefit from all available collections. The class B notes are not rated and non-payment of junior notes interest does not trigger an event of default. Interest payments for subordinated debt funds from loan intake conditions:

- The ratio between (i) the balance of senior note principal and accrued interest minus cash on any account, and (ii) the mortgages' principal and accrued interest balance minus unpaid principal and interest amounts of loans above 90 days past due, does not exceed 0.95.
- The ratio between the interest amounts received due to current payment and early repayments received and the senior tranche interest paid is not less than a ratio of 1.1.
- Operational reserve amount stands on the required amount (ILS120,000 plus 1.5% of senior tranche principal).

In addition, the trigger will also be breached should the senior notes be downgraded below 'ilBBB-' or there is an event of default.

Table 12: Payment priority

Item	Payment source 1: collections	Payment source 2: operational reserve
Current expenses of the company	Y	Y (conditions)
Interest payments for the senior debt	Y	Y (conditions)
Principal payments for the senior debt	Y	Y (conditions)
Deposit to the reserve account	Y (conditions)*	Y (conditions)
Interest payments for subordinated debt	Y (conditions)*	N
Additional payment to senior debt principal.	Y	N
Payment to subordinated debt principal	Y (only after the class A notes are redeemed)	

*Only paid with interest collections. No principal can be used to pay down junior interest or top up the reserve fund until the senior notes are redeemed.

While the transaction features a combined waterfall, principal collections cannot be used to top up the reserve fund nor to pay subordinated interest. However, principal collections will be used to pay down senior items in the waterfall together with interest collections. Topping up the reserve fund and subordinated interest will only be paid with interest collections, as long as the trigger has not been breached for the latter. Similarly, should excess spread be used to pay down senior principal, an equivalent amount of principal will be recorded as interest collections on the following payment date, which will be able to cover for reserve fund or subordinated interest after covering senior items.

Interest rate risk

All the provisional pool loans pay interest based on margin plus the Bank of Israel rate plus 1.5% in line with the notes. Therefore, interest rate risk is mitigated in this transaction.

Cash Flow Modeling And Analysis

We stressed the transaction’s cash flows to test the credit and liquidity support that the assets, tranches, and liquidity reserve provide. We applied these stresses to the cash flows at all relevant rating levels. In our stresses on the class A notes, all notes must pay full and timely interest and full principal by the legal final maturity.

Commingling risk

Borrowers are paying directly into the issuer's bank account and therefore we have not stressed commingling risk in our analysis.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. Our cash flow analysis reflects this risk by assuming the weighted-average yield on the portfolio drops by 0.18% at the ‘ilAAA’ level.

Fees

Contractually, the issuer must pay periodic fees to various parties providing services to the transaction such as servicers, trustees, and cash managers, among others. We accounted for these in our analysis.

In particular, we applied a stressed servicing fee of 0.79%, including VAT in order to account for servicer replacement and we also modelled annual fixed fees of ILS466,000 per year.

Finally, we model a one-off fee of ILS100,000 applied on the first payment date to cover costs related to a potential replacement of the bank account provider.

Setoff risk

The transaction has no loans granted to Credito's employees or deposit setoff exposure because the seller is not a deposit-taking institution.

Default and recovery timings

We used the WAFF and WALS derived in our credit analysis as inputs in our cash flow analysis (see table 13). At each rating level, the WAFF specifies the total balance of the mortgage loans we assume will default over the transaction’s life. Defaults are applied on the outstanding balance of the assets as of closing. We simulate defaults following two paths (i.e., one front-loaded and one back-loaded) over a six-year period. During the recessionary period within each scenario, we assume 25% of the expected WAFF is applied annually for three years.

Table 13: Default timings for front-loaded and back-loaded default curves

Year after closing	Front-loaded defaults (% of WAFF per year)	Back-loaded defaults (% of WAFF per year)
1	25.0	5.0
2	25.0	10.0
3	25.0	10.0
4	10.0	25.0

Year after closing	Front-loaded defaults (% of WAFF per year)	Back-loaded defaults (% of WAFF per year)
5	10.0	25.0
6	5.0	25.0
Total	100.0	100.0

We assume recoveries on the defaulted assets will be received 30 months after default for all properties. Foreclosure costs are estimated at 8.0% of the repossession value and ILS25,000. We also tested the structure's sensitivity to increased recovery timing assumptions of six months over our standard assumption.

Delinquencies

To simulate the effect of delinquencies on liquidity, we model a proportion of scheduled collections equal to one-third of the WAFF (in addition to assumed foreclosures reflected in the WAFF) to be delayed. We apply this in each of the first 18 months of the recession and assume a full recovery of these delinquencies will occur 36 months after they arise.

Prepayments

To assess the effect on excess spread and the absolute level of defaults, we model both high and low prepayment scenarios at all rating levels (see table 14).

Table 14: Prepayment assumptions

Timing	High	Low
Pre-recession	24.0	1.0
During recession	1.0	1.0
Post-recession	24.0	1.0

We also ran additional sensitivities featuring an extended recovery period, increased defaults or various prepayment scenarios.

Interest rates

We modeled two interest rate scenarios in our analysis: up and down.

Summary

Combined, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 15).

Table 15: RMBS stress scenarios

Total number of scenarios	Prepayment rate	Interest rate	Default timing
8	High and low	Up and down	Front-loaded and back-loaded

Forward-looking view

We consider the transaction's resilience in case of additional stresses to some key variables, in particular defaults and loss severity, to determine our forward-looking view.

In our view, the ability of the borrowers to repay their mortgage loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate, consumer price inflation, and interest rates. Given the loans in the transaction are linked to the prime rate, we believe the borrowers are better protected to service their loans in the event of short-term material interest rate increases. Our forecast for Israel's unemployment for 2024 and 2025 is 4.0% and 3.8%, respectively, slightly above 2023 at 3.5%. Israel's GDP is expected to increase by 0.5% in 2024 and by 5.0% in 2025.

Given our current macroeconomic forecast and our forward-looking view on the Israeli market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of different combinations of:

- An increase in WAFF (foreclosure frequency/defaults) by up to 30% at each rating level; and
- An increase in WALS (loss severity) by up to 30% at each rating level.

Table 15: Sensitivity stresses

	WALS		
WAFF	**0**	**1.1x**	**1.3x**
0	Base case	Scenario 3	Scenario 4
1.1x	Scenario 1	Scenario 5	Scenario 7
1.3x	Scenario 2	Scenario 6	Scenario 8

The results comply with our credit stability criteria (see table 17).

Table 17: Sensitivity scenarios

Class	Base case	1	2	3	4	5	6	7	8
A	ilAAA	ilAAA	ilAAA	ilAAA	ilAAA	ilAAA	ilAAA	ilAAA	ilAAA

Considering that according to the national scale mapping table, 'ilAAA' is equivalent to 'A-' and above, we believe that the preliminary rating supports the scenarios described above (see table 5 in "National And Regional Scale Credit Ratings Methodology," published on June 8, 2023).

Our analysis indicates that the available credit enhancement for the senior notes can withstand the associated level of macroeconomic stress commensurate with a 'ilAAA' rating level (corresponding to the global scale 'A-' rating).

Counterparty Risk

The issuer is exposed to Bank Hapoalim as the transaction account provider (see table 18). We believe that the documented replacement mechanisms for transaction account provider will adequately mitigate the transaction’s exposure to counterparty risk in line with our counterparty criteria at closing.

Table 18: Supporting ratings

Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Bank Hapoalim, as transaction account provider	A-/Negative/A-2 or 'ilAAA'	BBB-	90	A-

Counterparty risk constrains the maximum potential rating on the notes at 'A-' (global scale level corresponding to the national level of 'ilAAA')

Sovereign Risk

Our long-term unsolicited sovereign credit rating on Israel is ‘A+’. Therefore, our preliminary rating is not constrained by our structured finance ratings above the sovereign criteria (see "Related Criteria").

Surveillance

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that any material changes in the servicer’s operations are communicated and assessed.

Appendix

Transaction participants

Role	Participant
Originator	Credito Ltd.
Issuer	Credit IPOs Inc.
Trustee	Reznik Paz Nevo Trusts Ltd.
Seller	Credito Ltd. and related companies
Purchaser	Credit Issuance Ltd.
Servicer	Credito Ltd.
Security trustee	Credito Ltd.
Legal advisor	Herzog Fox & Neeman
The subordinate bond holder	Credito Ltd.

Related Criteria

- Methodology For Servicer Risk Assessment, May 28, 2009
- Principles Of Credit Ratings, February 16, 2011
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, October 9, 2014
- Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, January 25, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, January 30, 2019
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Methodology To Derive Stressed Interest Rates In Structured Finance, October 18, 2019
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, December 22, 2020
- Environmental, Social, And Governance Principles In Credit Ratings, October 10, 2021
- National And Regional Scale Credit Ratings Methodology, June 8, 2023
- S&P Global Ratings Definitions, June 9, 2023

Related Research

- Israel, May 13, 2024
- Various Rating Actions On Israeli Banks On Increased Geopolitical Risks; All Outlooks Negative, May 2, 2024
- Israel Long-Term Ratings Lowered To 'A+' From 'AA-' On Heightened Geopolitical Risks, Outlook Negative, April 19, 2024
- Banking Industry Country Risk Assessment: Israel, Jan. 31, 2024
- S&P Global Ratings Definitions, June 9, 2023
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors,, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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