

08 Apr 2020 | Affirmation

Fitch Affirms Santander Consumer Bank AG's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

Link to Fitch Ratings' Report(s): [Santander Consumer Bank AG, Mortgage Pfandbriefe - ESG Navigator](#)

Fitch Ratings-Frankfurt am Main-08 April 2020:

Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB; A-/Negativ/F2) mortgage Pfandbriefe at 'AAA'. The Outlook is Stable.

Santander Consumer Bank AG

---senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe; Long Term Rating; Affirmed; AAA; RO:Sta

KEY RATING DRIVERS

The mortgage covered bonds' 'AAA' rating is based on SCB's 'A-' Long-Term Issuer Default Rating (IDR) and the various uplifts above the IDR granted to the programme. It also considers the programme's overcollateralisation (OC) protection for covered bond holders.

The covered bonds are rated six notches above the bank's IDR. This is out of a maximum achievable uplift of eight notches, consisting of an IDR uplift of two notches, a payment continuity uplift (PCU) of four notches and a recovery uplift of two notches.

Fitch relies on the lowest reported OC over the last 12 months of 12.5%, which provides more protection than Fitch's 'AAA' breakeven OC of 8.5% (down from previously 9%).

The Stable Outlook on SCB's covered bonds reflects the two-notch buffer against a downgrade of the bank's IDR, which is on Negative Outlook.

The improved ALM loss remains the largest component of the Fitch 'AAA' breakeven OC, now at 5.7% (from 6.9% previously). This change reflects the improved asset-liability profile following additional covered bond issuance in February this year, which has reduced maturity mismatches in the programme. Although the new issuance had in part already been factored in our last analysis,

the actual size and terms have led to the reduction in the breakeven OC.

The low credit loss component of 2.9% reflects the high quality of SCB's cover assets with a high seasoning and low current weighted average loan-to-value (LTV) ratio of 45.4%, allowing for outstanding recoveries. This has increased from 2.2% previously, following the implementation of Fitch's European RMBS Rating Criteria and the new scaling method that we use for the minimum loss floor of rating levels below 'AAA'. The modelled credit results have remained below the minimum loss assumption applied by Fitch.

OC Protection

As the issuer's Short-Term IDR is 'F2', we rely in our analysis on the lowest available OC of the last 12 months.

Uplifts

The two-notch IDR uplift reflects that collateralised covered bonds in Germany are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution to be sufficiently low, and that a resolution of SCB, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool.

The four-notch PCU reflects the mandatory inclusion of liquid assets in the cover pool to match the maximum negative accumulated balance of cash flows for the next 180 days under the Pfandbrief law, which provides effective protection for interest and principal payments.

The two-notch recovery uplift of the programme reflects that the OC given credit to by Fitch offsets credit losses modelled in a 'AAA' stress scenario and that we did not identify any material risks to these recovery expectations.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The covered bond ratings are 'AAA', which is the highest level on Fitch's scale. The ratings cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

SCB's 'AAA' covered bonds' rating would be vulnerable to a downgrade if the bank's IDR is downgraded by three or more notches to 'BBB-' or below; or if the relied-upon OC provides less protection than Fitch's 'AAA' breakeven OC.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programme could only achieve a one-notch recovery uplift. As a result, the covered bond rating would likely be downgraded to 'AA-', one notch above SCB's IDR as adjusted by the IDR uplift.

Fitch expects coronavirus containment measures to negatively impact the performance of German residential mortgage loans. However, the covered bonds rating benefits from a cushion between the OC which Fitch relies upon in its analysis and Fitch's 'AAA' breakeven OC. In addition, the rating is protected by the two-notch buffer against a downgrade of SCB's IDR.

When Fitch performed a downside sensitivity scenario stress to the programme by increasing the cover pool's probability of default and by decreasing recovery expectations on the mortgage loans, as well as increasing the stressed cost to refinance the cover pool, the relied-upon OC still provided sufficient protection for the 'AAA' rating.

Nevertheless, the agency expects the OC cushion and the buffer against an issuer downgrade to decrease as a consequence of the pandemic.

Fitch's breakeven OC for the covered bonds' rating will be affected, among other factors, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore, the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

Best/Worst Case Rating Scenario

Ratings of financial institution issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The rating on the covered bonds is linked to SCB's IDR.

ESG Considerations

The highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on SCB's mortgage covered bonds, either due to their nature or to the way in which they are being managed by the programme. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Rating Criteria \(pub. 24 Jul 2019\) \(including rating assumption sensitivity\)](#)

[European RMBS Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)
[Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds \(Excel\) \(pub. 06 Dec 2019\)](#)
[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Jan 2020\)](#)
[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 29 Jan 2020\)](#)
[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 06 Feb 2020\)](#)
[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 06 Dec 2019\)](#)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Covered Bonds Cash Flow Model, v1.27.0 (1)

ResiGlobal Model: Europe, v1.6.2 (1)

Additional Disclosures

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