Santander Consumer Bank AG

Mortgage Pfandbriefe

Update

Rating/Outlook

Mortgage Pfandbriefe	AAA/Stable

Rating Rationale

IDR/Outlook	A-/Stable
IDR uplift	2 Notches
Payment continuity uplift	4 Notches
Tested Rating on PD basis	AA
Recovery given default uplift	2 Notches
Covered bond rating	AAA
OC Fitch considers in analysis (%)	38
'AAA' breakeven OC (%)	9

Key Data

	Jun 19
Asset type	Mortgage
Cover assets (EURm)	727
Pfandbriefe (EURm)	500
Nominal OC (%)	45.3

Source: Fitch Ratings

Related Research

Fitch Affirms Santander Consumer Bank AG's Mortgage Pfandbriefe at 'AAA'; Outlook Stable (July 2019)

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (November 2018)

Covered Bonds Surveillance Snapshot (July 2019)

Fitch Ratings Minimum Loss Assumptions Frequently Drive Cover Pool Loss Rates (September 2019)

Fitch Ratings 2019 Outlook: Global Covered Bonds (November 2018)

Global Housing and Mortgage Outlook – 2019 (January 2019)

European City Housing Outlook 2019 (June 2019)

Analysts

Thomas Kaber
+49 69 768 076 172
thomas.kaber@fitchratings.com

Sebastian Seitz, CFA, CAIA
+49 69 768 076 267
sebastian.seitz@fitchratings.com

Key Rating Drivers

Two-notch Downgrade Buffer: Santander Consumer Bank AG's (SCB AG) mortgage Pfandbrief rating is based on the Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of two notches, a payment continuity uplift of four notches and a two-notch recovery uplift. The over-collateralisation (OC) Fitch relies on is 38% and reflects the lowest OC level of the last 12 months, which is above the 'AAA' breakeven OC of 9%. The Stable Outlook on the rating reflects the two-notch buffer against an IDR downgrade.

More Balanced Liability Profile Anticipated: In accordance with the issuer's funding plans, we expect additional covered bonds issuance in the next 12 months to lead to a more balanced liability profile. This will substantially lower asset-liability mismatches in the programme with the maturity profile of covered bonds resembling that of loans more closely.

Main Breakeven OC Component: Asset-liability management (ALM) loss remains the main component of the Fitch 'AAA' breakeven OC and has come down to 6.9% from 17.1% previously. This change reflects the anticipated more balanced funding profile through further covered bond issuance later this year.

Minimum Loss Assumption Applied: The credit loss component remains low at only 2.2% (from 2.7%), reflecting the high quality of SCB AG's cover assets with high seasoning and a low current weighted average LTV ratio of 42.2%, allowing for outstanding recoveries.

However, the credit-loss reduction is a result of the implementation of Fitch's *European RMBS Rating Criteria*, which replaced the Germany *Residential Mortgage Rating Criteria Addendum* of the *EMEA RMBS Rating Criteria*. The modelled credit results have remained below the minimum loss assumption applied by Fitch.

Programme Highlights

Granular Residential Mortgage Portfolio: At end-June 2019, the cover pool comprised 11,527 German residential mortgage loans with an average loan size of EUR60,900. The share of owner-occupied properties and of single-family homes is above the average for Fitch-rated programmes in Germany, at 89% and 75% respectively. The portfolio, combined with a weighted average current LTV of 42.2%, allows for very high recoveries.

Regionally Diversified Portfolio: The cover pool benefits from outstanding regional diversity with property distribution largely proportionate to population. This would provide resilience to local adverse developments, if they were to occur.

High Asset Replenishment: The cover pool has grown by about 64% from a year ago. Nominal OC at end-June 2019 was about 45%. New loans are a mix of loans newly originated by SCB and seasoned loans initially originated from SEB Bank that SCB acquired in 2012.

Low Market Risks: The programme has no foreign-exchange exposure, with assets and liabilities exclusively denominated in euros. The outstanding fixed-rate covered bond is also secured by fixed-rate assets.

Criteria Variation: See page three for an explanation of the criteria variation applied in the analysis for SCB AG's mortgage covered bonds.

Cover Pool Characteristics: June 2019

Residential cover pool	
Size (EURm)	702
Number of borrowers	7,763
Number of loans	11,527
Weighted-average seasoning (years)	6.4
Weighted-average LTV (%)	42.2
Average loan balance (EUR 000)	60.9
Interest (%)	
Fixed rate	100
Amortising loans	97
Interest only loans	3
Weighted-average interest rate	2.3
Property type (%)	
Single family homes	75
Flats	22
Multi-family homes	3
Geographic distribution (%)	
Baden-Wuerttemberg	9.6
Bavaria	4.8
Berlin	4.2
Brandenburg	4.5
Bremen	1.1
Hamburg	2.8
Hessen	10.9
Mecklenburg-Western Pomerania	2.8
Lower Saxony	11.6
North Rhine-Westphalia	32.8
Rhineland-Palatinate	3.5
Saarland	0.3
Saxony-Anhalt	1.6
Saxony	3.6
Schleswig-Holstein	4.6
Thuringia	1.3

Source: Fitch Ratings, SCB

Related Criteria

Covered Bonds Rating Criteria (July 2019)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (June 2019)

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (March 2019)

Bank Rating Criteria (October 2018)

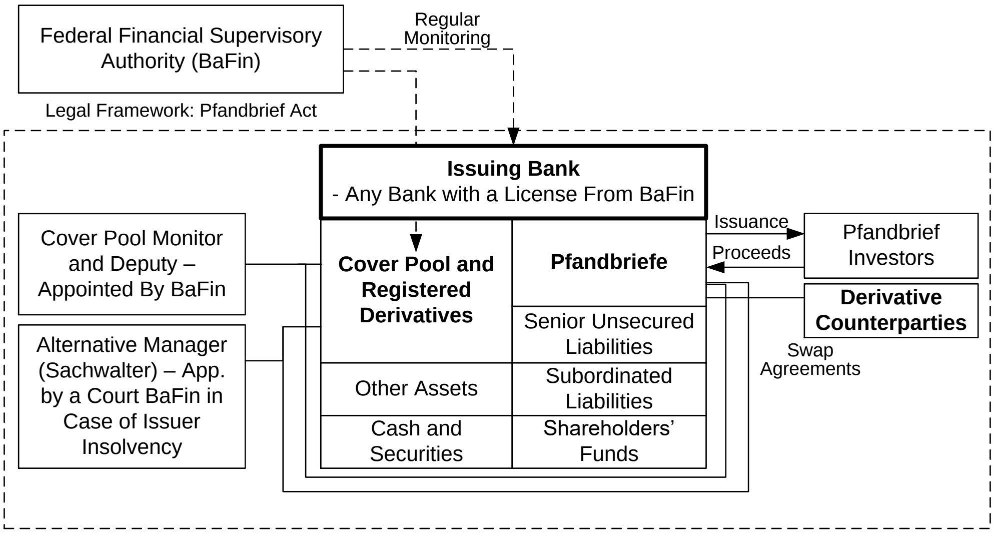
Structured Finance and Covered Bonds Counterparty Rating Criteria (April 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (April 2019)

European RMBS Rating Criteria (August 2019)

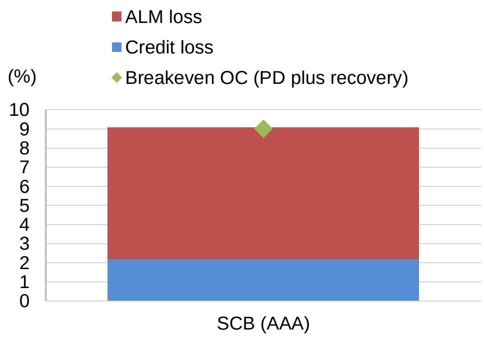
Structured Finance and Covered Bonds Country Risk Rating Criteria (October 2018)

Diagram of a Pfandbrief Issuance



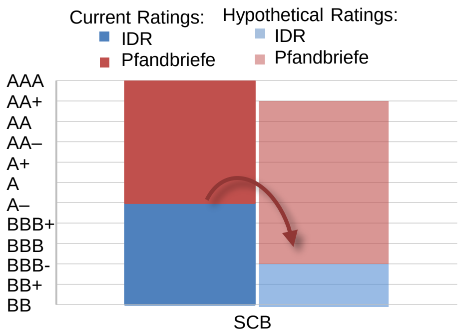
Source: Fitch Ratings

Breakeven OC Components



Source: Fitch Ratings

Cushion Against Issuer Downgrade



Source: Fitch Ratings

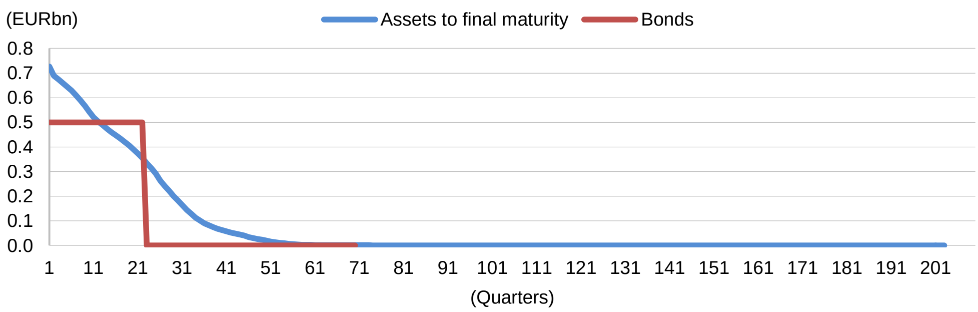
Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating Default Rate (RDR)	12.9	11.2	10.3
Rating Recovery Rate (RRR)	69.1	75.9	79.3
Rating Loss Rate (RLR)	4.0	2.7	2.1

Source: Fitch Ratings

Unstressed Amortisation Profiles

(As of June 2019)



Source: Fitch Ratings, SCB

Criteria Variations

Instead of assuming no further issuance, Fitch modelled the programme's cash flows to take into account the issuer's issuance plans over the next 12 months. This constitutes a variation to the agency's Covered Bonds Rating Criteria. The variation has no rating impact on the covered bonds.

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