Santander Consumer Bank AG
Mortgage Pfandbriefe
Update

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.
Cushion Against Issuer Downgrade

Bonds

Unstressed Amortisation Profiles
(As of June 2019)

Fitch Default Model Output (%)
Rating level
AAA
AA+
AA
AAA
AA+
AA
A+
A
A–
BBB+
BBB
BBB–
BB
BB

Rating Default Rate (RDR)
Rating Recovery Rate (RRR)
Rating Loss Rate (RLR)

Unstressed Amortisation Profiles
(As of June 2019)

Source: Fitch Ratings, SCB

Related Criteria
Covered Bonds Rating Criteria
(July 2019)
Structured Finance and Covered Bonds
Interest Rate Stress 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)
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.
The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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