

Santander Consumer Bank AG (/gws/en/esp/issr/88386330)



Fitch Rates Santander Consumer Bank's Inaugural Mortgage Pfandbriefe 'AAA'; Outlook Stable

Fitch Ratings-Frankfurt/London-27 June 2017: Fitch Ratings has assigned Santander Consumer Bank AG's (SCB AG; A-/Stable/F2) inaugural mortgage Pfandbriefe a long-term rating of 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

The rating is based on SCB AG's Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of two notches, a payment continuity uplift (PCU) of four notches and 'AAA' breakeven over-collateralisation (OC) of 26.0%, which is the minimum SCB AG intends to maintain.

The high breakeven OC relative to peers is driven by a cash flow valuation component of 14.9% and an asset disposal loss of 8.4%. These two components reflect the maturity mismatches of this newly set up programme. Residential mortgage loans with a low seasoning and remaining terms of up to 40 years are tested to repay bond issuance with a significantly shorter stressed weighted average life (WAL). Both aspects are likely to vanish over time when the asset-liability profile becomes more balanced.

A low credit loss component of 2.7% reflects the high quality of SCB AG's cover assets. As of May 2017 the provisional EUR33 million cover pool entirely consisted of German residential housing loans. Limited expected defaults together with the low loan-to-value (LTV) limit anchored in the German Pfandbrief Act, the programmes credit loss becomes a secondary rating driver.

In its cash flow analysis, Fitch models a liability profile also incorporating several upcoming euro-denominated issuance in the next years as communicated by SCB AG. On the asset side we expect replenishment with newly originated loans with a profile similar to the current cover pool.

The cash flow valuation component expresses the difference in the net present value (NPV) of both the assets and liabilities. Fitch tests different points at which recourse against the cover pool is enforced up to the first large principal redemption. In the tested high interest rate scenario the combination of a late issuer default and low prepayments leads to a high discount of the fixed-rate cover assets. This effect is less pronounced for the stressed shorter liability profile.

The asset disposal loss component of 8.4% underlines the significant costs of forced asset sales to bridge liquidity shortfalls. It again reflects the particularities of a newly set up covered bond programme, partly driven by the stressed shorter WAL of the modelled covered bonds, and partly by the cover pool's insufficient accumulation of cash through amortisation in a low prepayment scenario.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: SCB AG's IDR is downgraded to 'BBB-' or lower; (ii) the combined number of notches represented by the IDR uplift and the PCU is reduced from six to three or lower; or (iii) the OC that Fitch considers in its analysis drops below its 'AAA' breakeven level of 26.0%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a NPV 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 AG's IDR as adjusted by the IDR uplift.

The Fitch breakeven OC for the covered bond rating will be affected by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. This would also be the case if the issuer deviates from the issuance plan as communicated to Fitch. Therefore, the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

Contact:

Primary Analyst
Mathias Pleissner
Director
+49 69 768076 133
Fitch Deutschland GmbH
Neue Mainzer Str. 46-50
60311 Frankfurt/Main

Secondary Analyst
Rebecca Holter
Senior Director
+49 69 768076 261

Committee Chairperson
Eberhard Hackel
Senior Director
+49 69 768076 117

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Covered Bonds Rating Criteria (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888874>)
EMEA RMBS Rating Criteria (pub. 29 Nov 2016) (<https://www.fitchratings.com/site/re/891276>)
Fitch's Cover Assets Refinancing Spread Level (RSL) Assumptions - Excel file (pub. 20 Jan 2017) (<https://www.fitchratings.com/site/re/893377>)
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894478>)
Germany Residential Mortgage Rating Criteria Addendum (pub. 17 May 2017) (<https://www.fitchratings.com/site/re/898262>)
Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

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