XX. Dec 2015 Rating news – RMBS
Scope assigns A+$_{SF}$ Rating to FT RMBS SANTANDER 5

FT RMBS SANTANDER 5 is a cash-flow securitisation of non-conforming mortgages originated by Banco Santander SA (A+/S-1/Stable Outlook) to finance residential properties in Spain. The transaction closed on 14 December 2015.

Scope Ratings has assigned definitive ratings to the notes issued by FT RMBS SANTANDER 5 as follows:

Serie A (ISIN: ES0305108005), EUR 1,013.6m: definitive rating A+$_{SF}$

Serie B (ISIN: ES0305108013), EUR 261.4m: definitive rating CC$_{SF}$

Serie C (ISIN: ES0305108021), EUR 63.7m: definitive rating C$_{SF}$

FT RMBS SANTANDER 5 is a granular true-sale securitisation of a EUR 1,275m portfolio of non-conforming, first-lien mortgage-secured loans granted by Banco Santander SA ('Santander') to Spanish individuals and resident foreigners. The securitisation is used to finance the purchase, construction or refurbishment of residential properties in Spain. The assets have been originated by Santander, its former subsidiaries Banesto, and Banif (a banking franchise now fully integrated in Santander) and their respective brokers. The transaction closed on 14 December 2015 with a legal final maturity on 17 October 2065.

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral in the context of the Spanish macroeconomic environment; the capability of Santander as the servicer; counterparty risk arising from exposure to Santander as the account bank and paying agent; and the management capability of Santander de Titulización SGFT SA.

RATING RATIONALE

Scope believes that the substantial credit enhancement provided by the structure is sufficient to protect the Serie A notes against losses from a portfolio of mortgages, which Scope considers to be high-risk assets. In addition, the short-term outlook on the Spanish economy reflects positively on the transaction. Scope considers the securitised mortgages 'non-conforming' because of insufficient collateralisation, a high probability of default, and/or aggressive terms and conditions such as very long maturities. Nevertheless, Santander's track record for very proactive and prompt management of performance problems will limit the volatility of credit losses.

The Serie B and C notes lack adequate protection against these risks and are expected to default.

Scope has accounted for the high default risk which results from the credit weakness of the obligors. The portfolio has a high expected lifetime default rate because the final pool has: i) 26.8% of 'reconducted' mortgages, originated to restructure other stressed, albeit performing, debts, ii) an additional 18.0% of weak, currently performing mortgages that have been in arrears in the last 12 months; however; iii) only 1.1% of mortgages are originated via brokers, which are known to underperform mortgages originated directly by the branches.

Scope has also accounted for the recovery risk resulting from high loan-to-value (LTV) ratios – weighted average is 102% – and limited servicer flexibility. High LTV ratios result from the market price correction of residential properties in Spain, even when the original LTVs were already at 94% on weighted average. The collapse of the real estate bubble in Spain followed the end of the aggressive credit-expansion period in 2007. A significant share (40%) of the portfolio was originated before 2008, and original LTV levels were sometimes aggressive and biased by inflated appraisal values. However, Santander has completed and provided a prudent revaluation of the properties underlying the mortgages, which results in the very high LTVs used in Scope's analysis.

Santander has limited servicer flexibility to use forbearance, given the already stretched terms and conditions of the mortgages (i.e. high LTVs, low interest rate margins, constant annuity amortisations, long times to maturity). Furthermore, Santander has adhered to Spain's code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral; Scope thus expects long recovery lags after a default. Scope's analysis models a recovery lag of five years.

KEY RATING DRIVERS

Stressed performance references (positive). Scope calibrated the portfolio default rate assumptions with vintage data from 2007 to 2014, a period of high stress for the Spanish economy with particularly high unemployment rates. Scope modelled a blended, mean lifetime 90 ‘days past due’ (dpd) default rate of 42%, a coefficient of variation of 28%, a blended cure rate of 24% and a base case recovery rate of 60.2%.

Improving Spanish economy (positive). Scope believes the Spanish economy is improving slowly, though threatened by political uncertainty. The positive impact of this trend for Serie B notes is less certain due to the fragility of the recovery as well as still-significant fundamental imbalances.

Limited counterparty risk (positive). The notes bear significant counterparty risk exposure to Santander. This risk is mitigated by the credit quality of Santander (Scope’s rating: A+/Stable Outlook), and a substitution trigger upon losing a BBB rating.

Updated appraisals of collateral (positive). Scope has calculated fundamental recovery rates, incorporating significantly corrected market values of the underlying properties. The updated appraisal values of the finished properties that back the loans in this portfolio are now 1.2 years on weighted average.

Low asset quality (negative). Santander, Banesto and Banif originated 40% of the loans in the portfolio before 2008, during the housing boom in Spain when underwriting practices were more aggressive. The portfolio comprises high LTV loans as a result of recent reappraisals, which Scope has taken into account in its recovery analysis. Scope has applied further value declines from indexation, stressed market value losses, and fire-sale discounts.

The portfolio contains 26.8% of restructured – or ‘reconducted’ – mortgages. Scope’s analysis assigned a 74% lifetime default rate to this segment with a cure rate of 0%. As much as 18.0% of the ‘standard’ mortgages had payment interruptions during the last 12 months, which prompted Scope to reclassify these mortgages as ‘reconducted’. Scope analysed obligor-specific internal probabilities of default provided by Santander to support the results of its vintage analysis of defaults, rather than rely on debt-to-income data, which is typically point-in-time, incomplete and highly unreliable.

Broker channel (negative). A negligible share of the portfolio (1.2%) has been originated through the prescriber channel, typically real estate agents or developers. These mortgages have higher lifetime default rates than conforming mortgages, with an expected default rate of 32% and 12.4% respectively.

Long time to maturity (negative). The portfolio will amortise slowly, making the transaction more vulnerable to future economic downturns. The weighted average remaining time to maturity is 25 years.

Low excess spread (negative). The portfolio has a low weighted average interest and margin, which results in a higher loss severity for the Serie B and C notes, with significant negative carry given the long recovery lag.

Negligible interest risk (positive). The transaction is naturally hedged; therefore, the lack of a swap does not pose a material risk. Only 0.3% of assets pay a fixed rate. Most loans are referenced to 12-month Euribor (93.3%) or similar floating-rate indices that are highly correlated to the notes’ 3-month Euribor rate. Margin reset dates are uniformly distributed in the year.

RATING STABILITY AND BREAK-EVEN ANALYSIS

Scope has tested the resilience of the rating against deviations of the main input parameters: the mean default rate, the default rate coefficient of variation and the recovery rate. These tests have the sole purpose of illustrating the sensitivity of the rating to input assumptions and should not be considered indicative of expected or likely scenarios.

For the Serie A rating, a 25% or 50% reduction of the base case default assumption would lower it by three notches; but an increase of the coefficient of variation lowers it only by one notch. The transaction is more sensitive to changes in Scope’s recovery assumptions, which, if increased by 25% or 50%, would negatively affect the Serie A rating by three and six notches respectively. The Serie A rating indicates an investment grade, even under a combined 25% stress to the base case default assumption and coefficient of variation.

The Serie B and C ratings are insensitive to stresses, which is consistent with Scope’s assumptions as these are close to default under base case assumptions.

The break-even analysis also shows the robustness of the Serie A rating. The break-even portfolio default rate for the Serie A notes is 23.3% under a zero-recovery rate assumption – a very harsh assumption for a mortgage portfolio – and 46.6% under Scope's blended recovery rate assumption of 44% applicable to a A+$_{SF}$ rating target.

NOTES

This is the fifth securitisation under the non-conforming RMBS series originated by Santander, and the second publicly rated by Scope. A detailed rating report is freely available on www.scoperatings.com.

Important information
Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility
The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Karlo Fuchs, Executive Director.
Responsible for approving the rating: Guillaume Jolivet, Managing Director.

Rating history
The rating concerns an issuer which was evaluated for the first time by Scope Ratings AG. Scope had already performed a preliminary rating for the same rated instrument in accordance with Regulation (EC) No 1060/2009 on rating agencies, as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013.

Instrument ISIN; Date; Rating action; Rating
ES0305108005; 9.12.2015; new; (P) A+$_{SF}$
ES0305108013; 9.12.2015; new; (P) CC$_{SF}$
ES0305108021; 9.12.2015; new; (P) C$_{SF}$

Information on interests and conflicts of interest
The rating was prepared independently by Scope Ratings but for a mandate of the issuer of the investment as represented by Santander de Titulización SGFT SA.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of information for the rating
Offering circular and preliminary contracts; operational review presentations; delinquency and recovery vintage data; loan-by-loan preliminary portfolio information; legal opinion; and final portfolio audit report.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication
Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was

subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for this rating General Structured Finance Rating Methodology, dated 28 August 2015. Scope also applied Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated 10 August 2015. Both files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed online on the central platform (CEREP) of the European Securities and Markets Authority (ESMA). A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.
Conditions of use / exclusion of liability

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Rating card
FT RMBS SANTANDER 5 Serie A
FT RMBS SANTANDER 5 Serie B
FT RMBS SANTANDER 5 Serie C