S&P Global
Ratings

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New Issue: Santander Consumo 3, Fondo de Titulizacion

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New Issue: Santander Consumo 3, Fondo de Titulizacion

Ratings Detail

Ratings Assigned					
Class	**Rating***	**Amount (mil. €)**	**Available credit enhancement (%)§**	**Interest rate**	**Legal final maturity**
A	AA- (sf)	1,705.0	16.3	3ME + 40bps	Dec. 18, 2031
B	A- (sf)	122.0	10.2	3ME + 100bps	Dec. 18, 2031
C	BBB (sf)	81.0	6.1	3ME + 200bps	Dec. 18, 2031
D	NR	41.0	N/A	3ME + 300bps	Dec. 18, 2031
E	NR	51.0	N/A	3ME + 400bps	Dec. 18, 2031
F	NR	30.0	N/A	5.0%	Dec. 18, 2031

*Our ratings address timely interest and principal. §Based on current figures. The available credit enhancement at closing included the fully funded €30 million reserve fund. 3ME--Three-month EURIBOR. EURIBOR--Euro Interbank Offered Rate. Bps--Basis points. NR--Not rated. N/A--Not applicable.

Transaction Summary

S&P Global Ratings has assigned credit ratings to Santander Consumo 3, Fondo de Titulizacion's class A, B, and C notes. At closing, Santander Consumo 3 also issued unrated class D, E, and F notes.

At closing, Santander Consumo 3 sold the class A to E notes to the noteholders and used the proceeds to buy consumer loans from Banco Santander S.A., the originator, and used the class F notes' proceeds to fund the reserve fund required amount. The securitized portfolio comprises performing unsecured loans, or up to 30 days in arrears during the revolving period, granted to individuals resident in Spain.

There is a revolving period, which ends on March 18, 2021 (inclusive). During this time, all principal proceeds are used to buy new assets for the pool. The revolving period will terminate earlier if certain circumstances occur (see "Revolving period and early amortization").

As in other Spanish transactions, there is an option in the transaction documents for Banco Santander to set up a contingent commingling reserve if the short-term rating on Banco Santander, as servicer, falls below 'BBB'.

The Credit Story

Strengths	Concerns and mitigating factors
• Banco Santander is one of the leading lenders in the Spanish loan market and is an experienced servicer	• There is a revolving period of 12 months, which can alter the credit quality and characteristics of the

of several residential mortgage-backed securities (RMBS) and asset-backed securities (ABS).

- The pool is diversified and granular with 226,148 loans. Concentration of the top one and top 10 borrower are 0.009% and 0.069%, respectively. Additionally, there is limited geographic concentration risk.
- The majority of the assets pay a monthly fixed interest rate, and the rated notes pay three-month Euro interbank offered rate (EURIBOR) plus a class-specific margin. To mitigate fixed to floating interest rate risk, the rated notes benefit from an interest rate swap.
- The reserve is fully funded at closing by the issuance of class F notes.
- There transaction benefits from excess spread

portfolio. The eligibility criteria ensure that the characteristics of the portfolio remain within established parameters during the revolving period. The individual loan and portfolio-wide eligibility criteria are quite protective, in our view, and aim to prevent pool quality from deteriorating during the revolving period.

- The cash reserve is amortizing, resulting in a potential reduction of credit enhancement when the structure may need it. For example, if the pool experiences high prepayments, there may be a risk of adverse selection, so that loans of a lesser credit quality make up more of the pool than at closing. The cash reserve does not amortize during the revolving period and it has a floor of 0.5% of the initial balance of class A to E notes.
- The servicer holds up to two days of collections before transferring them to Santander Consumo 3's cash flow account, which exposes the transaction to commingling risk if the originator becomes insolvent. Under the transaction documents, there is an obligation to set up a contingent commingling reserve if the rating on Banco Santander, as servicer, is lowered below 'BBB'.
- If a revolving period early termination event has not occurred, the transaction will start amortizing pro rata. Therefore, collections will be used to pay down the junior notes and the transaction will not build up credit enhancement. Upon the occurrence of a subordination event, the transaction will switch to sequential amortization.

Asset Description

As of March 31, 2020, the pool comprised unsecured loans granted to individuals resident in Spain to finance consumer purposes. Loans for which the purpose is the acquisition of a vehicle, either new or used, only represent 12.3%. The pool comprises 226,148 loans totaling €2.0 billion. All loans in the pool are fully amortizing, monthly-installment loans.

Table 1

Key Collateral Characteristics*	
Aggregate receivables (bil. €)	2.0
Average principal balance (€)	9,309
Spanish resident (%)	100
Unspecified consumer loans and vehicle acquisition	87.7% and 12.3%
Weighted-average seasoning (months)	19.9
Interest rate (%)	8.07
Top three regional concentration (by balance)	Madrid (19.9%), Andalucia (16.9%), and Catalonia (11.0%)

*Data is based on the pool as of March 31, 2020. The pool received amounts to €2,105,263,100.

Chart 1

Geographic Distribution

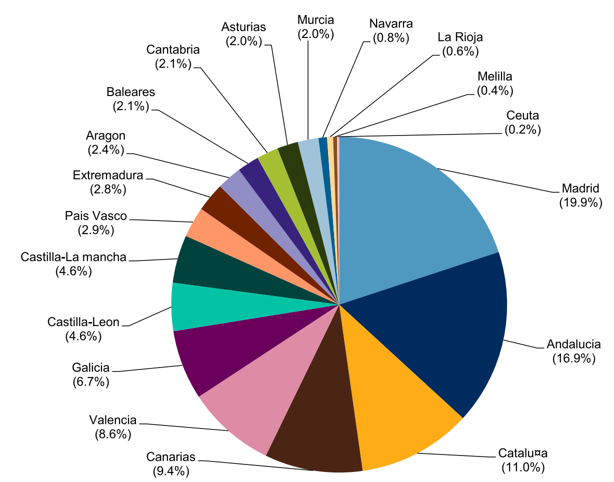


Chart 2

Seasoning Distribution

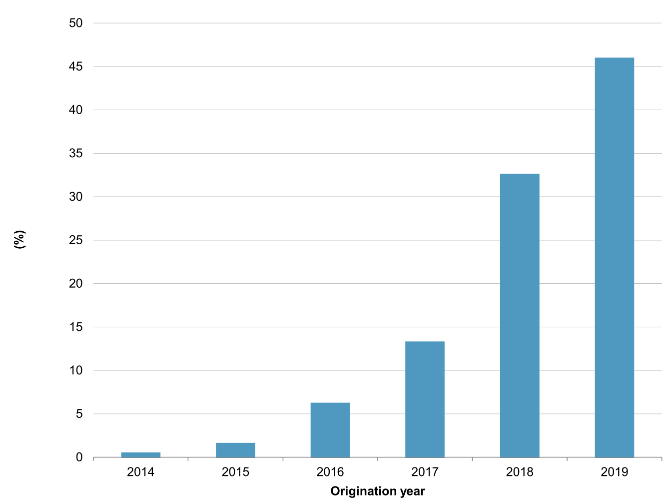


Chart 3

Loan Balance Distribution

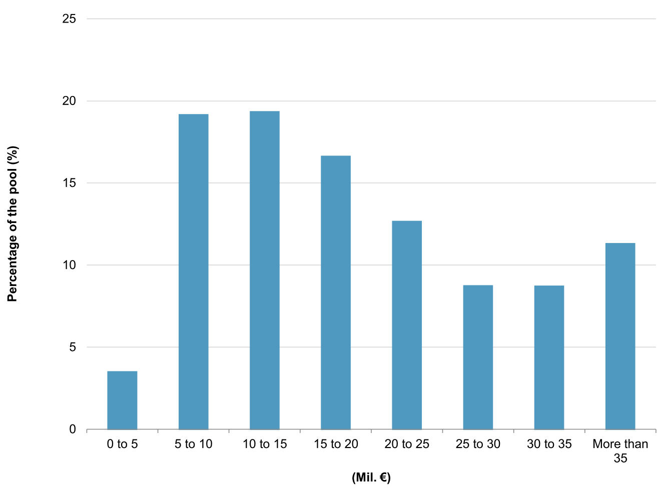
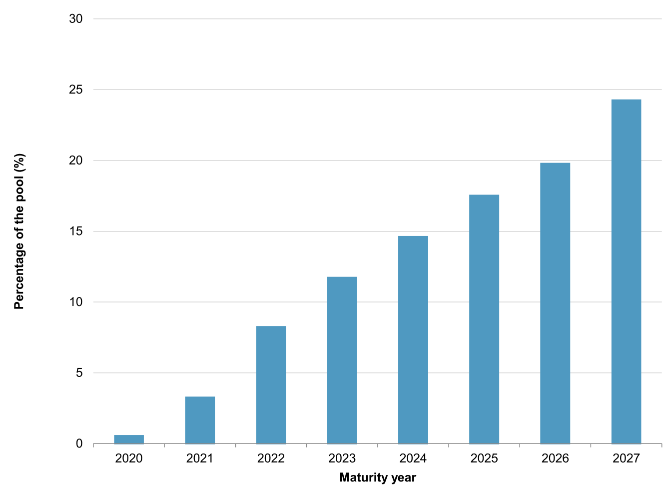


Chart 4

Maturity Distribution



Eligibility criteria

The transaction documents set out certain eligibility criteria. Additionally, during the revolving period, the issuer can purchase additional underlying loans that are subject to individual and pool eligibility criteria tests. The main eligibility criteria are highlighted below.

Eligibility Criteria

- The borrower must be a natural person and a Spanish resident.
- There are no employees from Banco Santander.
- The loan must be euro-denominated and governed by the Spanish law.
- The whole principal of the loans must have been drawn.
- The outstanding balance of the loans must be above €60,000, must not exceed 5% of the outstanding balance of the receivables, and no outstanding balance should exceed €100,000.
- A minimum of one installment must have been paid, and there must be no pending arrears (for more than 30 days).
- The weighted-average interest must not be lower than 7%.
- The weighted-average remaining term of the receivables must not exceed 84 months and must not be greater than nine years for a single loan.
- The outstanding balance of each obligor in the pool must not comprise more than 0.05% of the pool.
- The concentration in a single autonomous region must not exceed 26% of the pool, while the aggregate of the top three autonomous regions must fall below 65%.

Originator And Servicer

Banco Santander is a leading Spanish bank. It is a well-established originator with a good track record in the Spanish securitization market. In addition to originating the loans, Banco Santander services them.

Our operational risk criteria focus on key transaction parties and the potential effect of a disruption in the transaction parties' services on the issuer's cash flows, as well as the ease with which the transaction party could be replaced if needed (see "Related Criteria"). There is no back-up servicer in place.

In January 2020, we reviewed the origination and underwriting policies of Banco Santander, as well as its servicing and risk management procedures. Banco Santander services other ABS transactions rated by S&P Global Ratings, and it is an experienced servicer in the Spanish market. In our view, Banco Santander's origination process and servicing procedures are in line with market standard. The portfolio comprises prime consumer unsecured loans. As a result, we assess the severity risk following a potential disruption to the servicer as low. We also classify the portability risk as low because we believe the depth of qualified replacement servicers, the servicer's IT system, the fee incentive for a replacement servicer, the management company's ability to substitute the servicer, as well as the issuer's right to terminate the servicer, are in line with market standards.

In addition, they have also introduced downgrade language to replace the paying agent if its rating falls below 'BBB'. Given that this role is performed by the same entity as the servicer, this will mitigate the risk of an operational disruption.

Since we deem both severity and portability risks associated with a disruption to the servicer as low, our operational risk criteria do not constrain our rating on the class A notes.

Credit Analysis

Our analysis includes an assessment of the credit risk inherent in the transaction under various stress scenarios. We conducted our credit analysis for this transaction by applying our European consumer finance criteria (see "Related Criteria"). We have based our base cases on the historical data, our analysis of the underlying and servicing standards of the originator, and our economic outlook for Spain. In order to reflect the recent environment in the Spanish economy, we have increased our stresses at lower rating levels as we believe that they could be more affected.

We have received historical performance data for these variables from first-quarter 2012 to third-quarter 2019. The quality and timeliness of the data provided is in line with our standards.

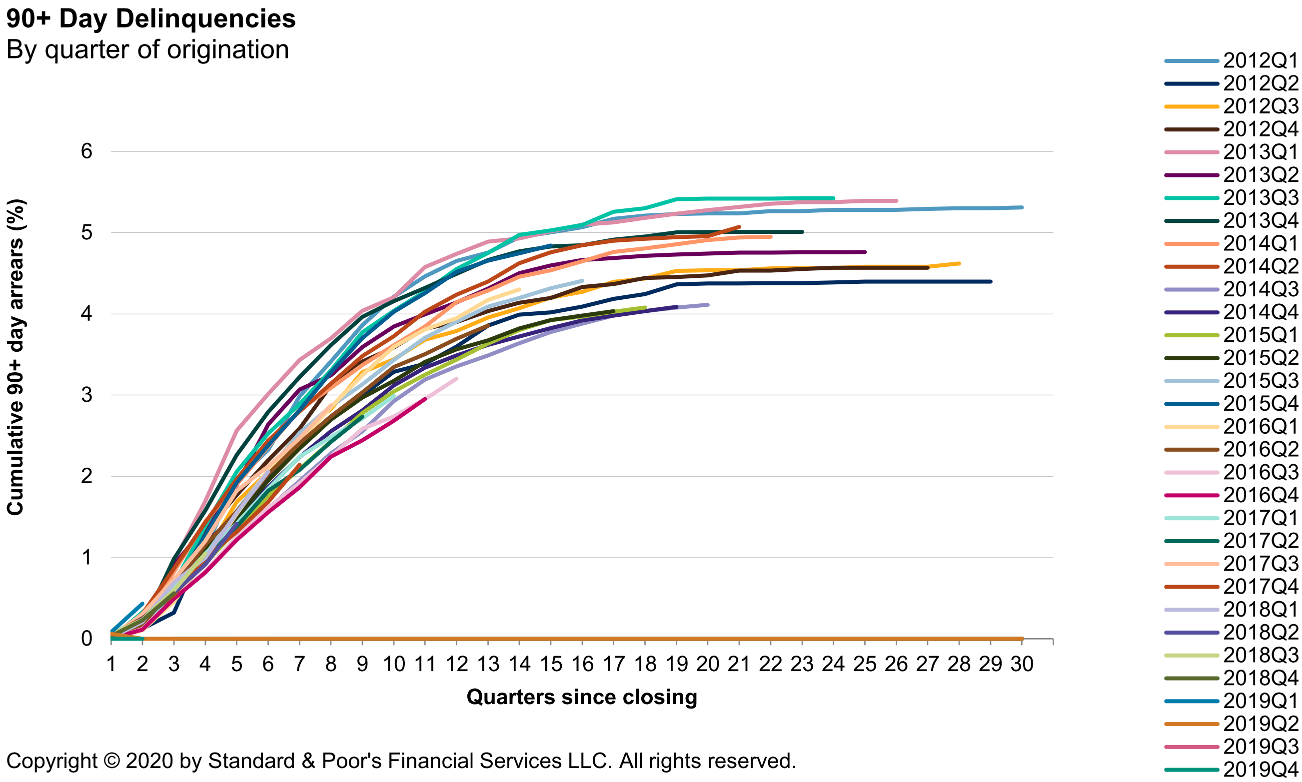
Macroeconomic and sector outlook

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Default assumption

The originator has provided quarterly gross loss data of 90+ days in arrears from its comparable book of loans. In the transaction, a loss is recognized when an agreement defaults if it is more than 90 days in arrears. Therefore, our definition of default in the data received matches the definition of default in the transaction documents. We expect a base-case default rate of 5.1% in the securitized pool given the revolving nature of the transaction.

Chart 5



Recoveries

We calculated recoveries using the originators' historical recovery data provided to us from its comparable book of loans. Chart 6 shows the historical levels of recoveries from the defaults (described as 90 day arrears) by quarter since origination. Based on historical information, we have set our base-case recovery assumptions at 15%. In this assumption, we have also taken into account the risk of loans introduced during the revolving period at the longest maturity term, as per the eligibility criteria, receiving recoveries after the final legal maturity of the transaction.

Chart 6

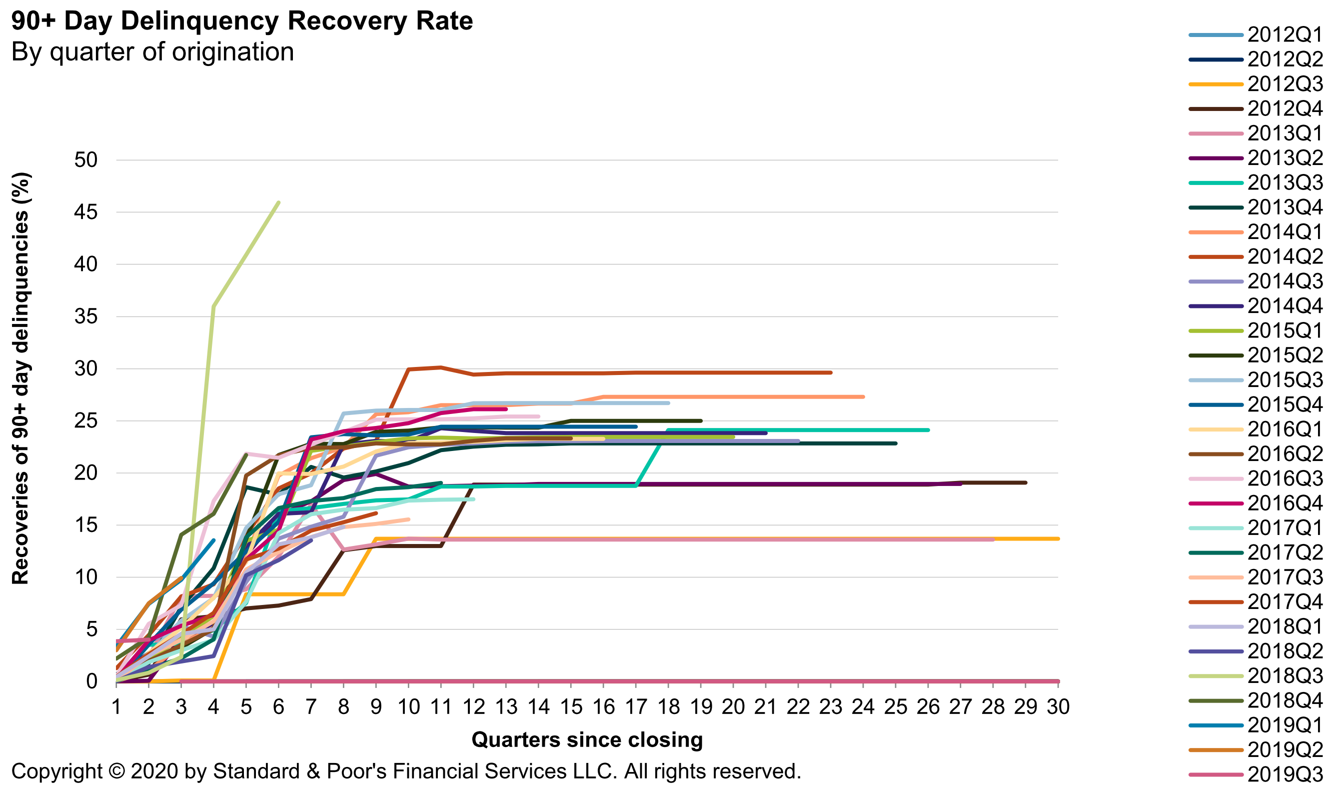


Table 2 shows our base cases and stressed assumptions for the respective rating scenarios.

Table 2

Credit Risk Stress Assumptions

	Gross loss (%)	Recoveries (%)
Base case	5.10	15.00
'AA-' stress assumption	17.20	9.25
'A-' stress assumption	12.33	10.00

Transaction Structure

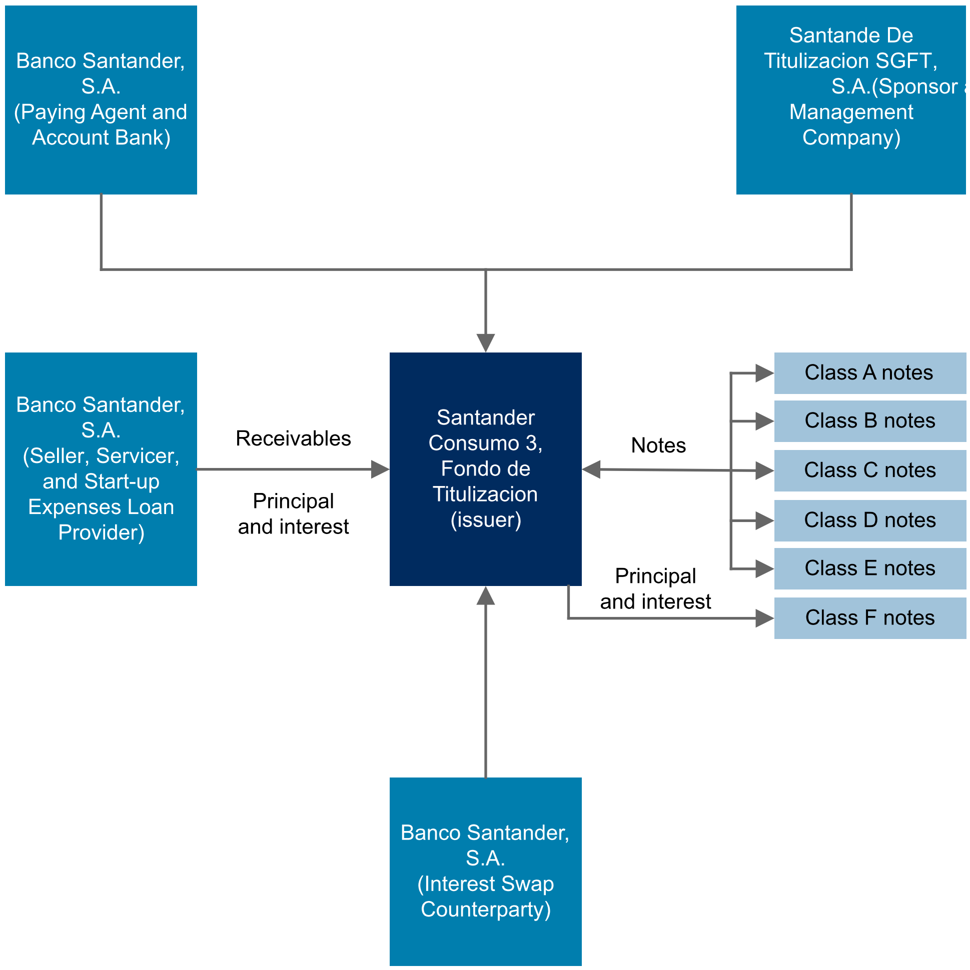
The issuer is a Fondo de Titulizacion, a special-purpose entitiy dedicated to securitization, established under Spanish law. We consider it a bankruptcy-remote entity, in line with our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017).

A legal opinion provided assurance that the sale of the receivables would survive the seller's insolvency. We have also reviewed tax opinions, which set out the issuer's tax liabilities under the current tax legislation. We believe that the issuer's cash flows are sufficient to meet all the identified tax liabilities.

Chart 7

Santander Consumo 3, Fondo de Titulizacion

Transaction structure



Cash Flow Mechanics

All borrowers pay monthly into the collection account held at the servicer. All collected amounts belonging to the issuer are transferred within two days into a cash flow account held at Banco Santander in the issuer's name. There is also a principal account held at Banco Santander in the issuer's name, which retains the principal redemption amounts that will be deposited on the relevant payment date from the cash flow account. The return on this account and the downgrade language in the transaction documents are the same as for the cash flow account.

On each quarterly interest payment date (IPD), the issuer pays in arrears the interest and principal due to the noteholders. For these payments, the issuer has as available funds the proceeds of the interest and principal from the consumer loans, interest earned on the issuer accounts, the reserve fund, and any other amounts belonging to the issuer.

In this structure, all interest and principal received can be mixed to pay principal and interest due under the notes (see "Priority Of Payments").

Available funds

On each quarterly payment date, the available funds will be applied according to the applicable priority of payments. The issuer's available funds include the interest and principal proceeds, the reserve fund, swap payments, and any other proceeds received in connection with the loans.

Revolving period and early amortization

The revolving period begins on the first payment date and ends on March. 18, 2021, inclusive. During this time, Santander Consumo 3 uses all principal proceeds to purchase new assets for the pool. The revolving period terminates early if:

- The default ratio (the outstanding balance of receivables divided by the sum of initial receivables and additional receivables added during the revolving period) exceeds 0.35% on June 18, 2020; 0.80% on Sept. 18, 2020; 1.05% on Dec. 18, 2020; and March 18, 2021;
- The reserve fund is not funded up to the required level;
- The outstanding balance of the non-defaulted receivables shall have been less than 90.00% of the principal amount outstanding of the notes;
- Tax regulations are amended in a way that the sale of new receivables proves to be an excessive cost to the seller;
- An insolvency event occurs for the seller;
- The seller ceases to perform or is replaced as servicer;
- The audit reports on the seller's annual accounts show qualifications, which in the opinion of the CNMV (Comisión Nacional del Mercado de Valores), could affect the sale of new receivables;
- The credit granting policy is materially modified;
- The swap counterparty breaches the rating triggers and none of the remedies are put in place within the required period;
- If a subordination event occurs (see "Subordination events"); or
- The principal amount outstanding of the class A to E notes is higher than the sum of the outstanding balance of the receivables on the determination date, the acquisition amount of the additional receivables on that payment date, and the remaining principal account balance after payment of the additional receivables.

If any of these events occur, the revolving period terminates, and the issuer would use all the principal collections to redeem the notes sequentially.

Amortization of the notes

The notes start to amortize after the revolving period ends. During the revolving period, Santander Consumo 3 uses the amortization amount to purchase additional assets at par. Any funds that Santander Consumo 3 doesn't use to buy new receivables during the revolving period remain in the principal account, up to a maximum of 5% of the principal amount oustanding of the notes. Above this limit, the funds will be used to amortize the notes pro rata.

During the revolving period, the redemption amount is defined as the minimum of, (i) the positive difference between the principal outstanding of the notes minus the reserve fund minus the outstanding balance of the receivables, and (ii) available funds after covering class F interest under the priority of payments.

Unless redeemed earlier, Santander Consumo 3 will redeem the notes at their legal final maturity in December 2031, which is after the maturity of the longest-term loan in the pool.

The notes amortize on a pro rata basis and, following a subordination event, the amortization of the notes will switch to sequential according to the priority of payments.

On any payment date after the revolving period, the amount of principal due under the notes (the target amortization amount) is calculated as the minimum of, (i) the difference the principal amount outstanding of the notes minus the reserve fund, and minus the aggregate of the outstanding balance of the non-defaulted receivables, and (ii) the available funds, following the payment of class F interest as per the priority of payments.

Subordination events

If any of these subordination events occur, the transaction will stop paying pro rata and the notes will be paid sequentially in accordance with the pre-enforcement priority of payments:

- On any determination date, the default ratio exceeds 0.35% June 18, 2020; 0.80% on Sept. 18, 2020; 1.05% on Dec. 18, 2020; 1.30% on March 18, 2021; 1.60% on June 18, 2021; 1.95% on Sept. 18, 2021; 2.30% on Dec. 18, 2021; 2.65% on March 18, 2022; 2.90% on June 18, 2022; 3.15% on Sept. 18, 2022; 3.40% on Dec. 18, 2022; and 3.60% on or after March 18 2023;
- The outstanding balance of the receivable on loans granted to the same borrower is equal to or greater than 0.1% of the outstanding balance;
- The seller defaults on any of its obligations under the transaction documents (unless such defaults are remedied within the earlier of 30 business days or the following purchase date);
- An event of replacement of the servicer;
- If the swap counterparty breaches the rating triggers and none of the remedies provided is implemented;
- The exercise of the seller's call options due to regulatory or tax changes; or
- If the outstanding balance of the receivables falls below 10% of the closing balance.

Priority of payments

On each quarterly IPD, the issuer pays in arrears the interest due to the noteholders. Santander Consumo 3 can mix all interest and principal it receives to pay principal and interest due under the notes in a particular order.

Pre-enforcement amortization priority of payments

Table 3

Priority Of Payments	
1	Payment of taxes;
2	Payment of the ordinary expenses and extraordinary expenses of the fund and other fees, including the servicer fee if there is a replacement of the servicer;

Table 3

Priority Of Payments (cont.)	
3	Payment of the net amount of the swap agreement
4	The class A notes' interest;
5	The class B notes' interest, if not deferred;
6	The class C notes' interest, if not deferred;
7	The class D notes' interest, if not deferred;
8	The class E notes' interest, if not deferred;
9	Reserve fund replenishment;
10	The class F notes' interest, if not deferred;
11	Amortization amount of the notes (after the revolving period);
12	The class B notes' interest, if deferred;
13	The class C notes' interest, if deferred;
14	The class D notes' interest, if deferred;
15	The class E notes' interest; if deferred;
16	The class F notes' interest; if deferred;
17	Payment of the net amount of the swap agreement (if the swap counterparty is the only defaulting or affected party);
18	Payment of interest accrued and payable by virtue of the start-up expenses loan agreement;
19	Payment of principal accrued and payable by virtue of the start-up expenses loan agreement.
20	Payment of the servicer's fee assuming there is no replacement of servicer; and
21	Any financial intermediation margin to the seller.

At the time of a breach of an interest deferral trigger, principal on the relevant class will still rank junior to interest on the same class.

Interest deferral

Upon the occurrence of any interest deferral trigger (and while it has not been cured), the interest due and not paid on a class of notes will be deferred in the pre-enforcement priority of payments to a lower ranked position. At any time, interest on a deferred class of notes will rank senior to principal on that class of notes.

In addition, upon the occurrence of any interest deferral trigger, the affected class of notes will not benefit from the liquidity support provided by the reserve fund

The interest deferral triggers for the class B, C, D, E, and F notes are based on the default ratios at 17.50%, 9.90%, 7.00%, 6.30%, and 5.05%, respectively.

Cash reserve

The structure benefits from a cash reserve fund, which was fully funded at closing by the proceeds of the class F notes. The reserve fund is fixed during the revolving period. Santander Consumo 3 uses the fund on each payment date to pay the different items in the priority of payments described above.

The reserve fund required on each IPD is the higher of (i) 0.50% of the outstanding principal balance of the class A, B C, D, and E notes on the disbursement date, or (ii) the lower of 1.50% of the outstanding principal balance of the class A, B C, D, and E notes, and the initial reserve fund.

After the revolving period and on each subsequent IPD, the cash reserve account will not amortize if:

- The reserve fund has not been funded to a value equal to the required level on the preceding payment date; or
- A subordination event occurs.

Mitigation Of Seller Risks

Commingling risk

The transaction documents require that if we lower our rating on Banco Santander, as servicer, below 'BBB', the commingling reserve will be funded within a maximum period of 14 days. Banco Santander will deposit to an issuer bank account opened in the issuer's name an amount equal to 1.15x the principal amount of the receivables collected in the preceding month.

In our view, commingling risk is fully mitigated given the commingling reserve in the transaction, which ensures timely payment on the rated notes.

Setoff risk

In our view, setoff risk is mitigated by the eligibility criteria not permitting receivables subject to setoff forming part of the securitized portfolio. Additionally, the eligibility criteria will also ensure that are no employees from Banco Santander in the pool

Cash Flow Analysis

In our cash flow modeling, we did not consider the revolving period, and so we analyzed the transaction's cash flows only during the amortization stage.

We ran different prepayment speeds (0.5% and 30.0% constant prepayment rate) and an equally distributed default curve after a six-month delay period and a back-loaded curve over the weighted-average life of the pool (36 months).

From both scenarios, we have taken the six-month delay and equally distributed default curve as our base case as we consider that the transaction is most exposed if there is a recession in a benign environment. In this scenario, the pro rata trigger is hit later, increasing the amount of excess spread used to pay down the junior notes. Therefore, no credit enhancement is built up for the senior notes when the recession starts.

We consider there to be an elevated risk of a reduction in the collections in the next few months, as a large number of borrowers might become delinquent or the servicer might start offering payment holidays. We believe that the reserve fund and the combined waterfall partially mitigate this risk. Additionally, we also believe that an increase in defaults at the initial stage in the life of the transaction would lead to an earlier breach of the triggers compared with our main scenario. This would lead to the sequential payment of the notes and would provide support to the rated notes.

Interest rate paths (up to 12.00% and down to 0.00%) did not affect our modeling results as the majority of the assets bear a fixed rate and there is an interest rate swap in place. We also modeled delayed recovery timing and stressed servicing fees.

The majority of the receivables are fixed rate, while the class A to E notes are floating rate€. To hedge interest rate risk, the issuer entered into an interest rate swap at closing, where the notional amount is equal to the outstanding balance of the class A to E notes. Under the swap agreement, the issuer will pay the counterparty 0.07% of the outstanding balance of the class A to E notes. In exchange, the swap counterparty will pay to the issuer a floating interest rate based on three-month EURIBOR floored at 0% (i.e., the same index that the notes pay).

For this transaction we assume that the issuer will regain 30% of the recovery proceeds from each defaulted loan after 12 months and the residual 70% after 24 months.

Considering the revolving period, our starting assumption for the pool yield is 7.00%, which is due to the replenishment criterion. In addition, we apply spread compression in our cash flow model to reflect the impact of prepayments.

Counterparty Risk

The issuer is exposed to Banco Santander as the transaction's account provider. The documented replacement mechanisms for the account providers adequately mitigate the transaction's exposure to counterparty risk in line with our criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

The swap contains several combinations of replacement triggers and collateral posting frameworks, each of which is consistent with our counterparty criteria to support a 'AA' rating. At closing, we have determined that the collateral framework is adequate, which will require the counterparty to post collateral if the resolution counterparty rating (RCR) is lowered below 'BBB+'. Additionally, at the same trigger the counterparty will need to be replaced. If the swap counterparty defaults, termination payments will become subordinated to payments to noteholders, and the issuer has the right to terminate the swap if the swap counterparty fails to replace itself within the remedy period.

Table 4

Supporting Ratings

Institution/role	Current rating	Replacement trigger	Collateral posting trigger	Maximum supported rating
Banco Santander, S.A. as transaction account provider	A/Stable/A-1	A	N/A	AAA
Banco Santander, S.A. as swap counterparty	A/Stable/A-1	BBB+	BBB+	AA

N/A--Not applicable.

Sovereign Risk

Under our structured finance sovereign risk criteria, the maximum differential between the rating on the security and the rating on the sovereign depends on the asset sensitivity to country risk and the sovereign rating (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019). We view the asset sensitivity to the country risk as low, and our long-term unsolicited credit rating on Spain is 'A'.

Considering this transaction's structural features, the class A notes' risk profile, and our cash flow analysis results, which are commensurate with a 'AA-' rating, the class A notes are able to achieve up to six notches above the sovereign rating. Consequently, our sovereign risk criteria do not cap our rating on the class A notes. However, the ratings on the rest of the notes are capped at the current rating on the sovereign.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 5).

Table 5

Scenario Stresses		
Rating variable	**Scenario 1 (relative stress to base case)**	**Scenario 2 (relative stress to base case)**
Gross default rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(30.0)

It is worth noting that our base-case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and we apply gross losses based on our expectation of a cumulative default curve for the portfolio.

In the second stage, we apply our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecast principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash-flow modeling. The implied base-case stresses and scenario stress results are shown in tables 6 and 7.

Table 6

Scenario Stresses (Class A, 'AA' Rating Level)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Default rate (%)	5.1	6.6	7.7
Recovery rate (%)	15.0	10.5	7.5
Constant prepayment rate (%)	30.0	24.0	20.0

Table 7

Scenario Stress Analysis—Rating Transition Results At Closing

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AA- (sf)	AA
Scenario 2	A	AA- (sf)	AA-
Scenario 1	B	A- (sf)	A
Scenario 2	B	A- (sf)	A
Scenario 1	C	BBB (sf)	BBB
Scenario 2	C	BBB (sf)	BBB-

A number of this transaction's features--including the initial subordination levels, reserve fund mechanism, and particularly excess spread--enhance the stability of the ratings under each scenario.

Appendix

Transaction Participants	
Issuer	Santander Consumo 3, Fondo de Titulizacion
Management company	Santander de Titulización, S.G.F.T., S.A.
Originator	Banco Santander S.A.
Servicer	Banco Santander S.A.
Collection account providers	Banco Santander S.A.
Issuer bank account provider	Banco Santander S.A.
Paying agent	Banco Santander S.A.
Auditor	Pricewaterhousecoopers Auditores, S.L.
Arrangers	Banco Santander S.A.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
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- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
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Related Research

- Spain, March 20, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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