New Issue Rating Report

FT RMBS SANTANDER 4

RMBS / Structured Finance

www.scoperatings.com

RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Series A	AA-$_{SF}$	2,360.0	80.0	25.0	3moEuribor + 60bp	15 September 2063
Series B	CC$_{SF}$	590.0	20.0	5.0	3moEuribor + 63bp	15 September 2063
Series C	C$_{SF}$	147.5	5.0	0.0	3moEuribor + 65bp + ExS	15 September 2063
Total notes (excluding Series C)		**2,950.0**				

The transaction closed on 3 July 2015. The ratings are based on the preliminary portfolio cuts dated 11 and 29 May 2015, provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity.

See Scope's website for the SF Rating Definitions.

Rated issuer

Purpose	Liquidity/funding
Issuer	Fondo de Titulización RMBS SANTANDER 4
Originator	Banco Santander S.A. (A+/S-1/Stable Outlook)
Asset class	RMBS
Assets	EUR 2,950m
Notes	EUR 3,097.5m
ISIN Series A	ES0305078000
ISIN Series B	ES0305078018
ISIN Series C	ES0305078026
Closing date	3 July 2015
Legal final maturity	15 September 2063
Payment frequency	Quarterly
Payment dates	15 Mar, 15 Jun, 15 Sep, 15 Dec

Transaction profile

FT RMBS SANTANDER 4 is a granular true sale securitisation of a EUR 2,950m portfolio of non-conforming first-lien mortgage-secured loans granted by Santander to Spanish individuals and resident foreigners to finance the purchase, construction or refurbishing of residential properties in Spain. The assets have been originated by Santander, Banesto (a banking franchise now fully integrated in Santander) and their respective brokers.

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Rating Rationale (Summary)

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.

Scope believes that the substantial credit enhancement provided by the structure is sufficient to protect the class-A notes against losses from a portfolio of mortgages we consider high-risk assets. In addition, the short-term outlook on the Spanish economy reflects positively on the transaction. The securitised mortgages can be labelled as 'non-conforming' because of insufficient collateralisation, high probability of default and/or aggressive terms and conditions, such as very long maturities. Nevertheless, we consider Santander's management of performance problems has historically been very proactive and prompt. This will limit the volatility of credit losses around our high expectation as the transaction slowly deleverages. The class-B and class-C notes lack adequate protection against these risks and we expect them 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: i) the pool has 4.9% of resident foreigners who are three times more likely to default on average than the average Spanish obligor, according to Santander; ii) the pool has 20.9% of so-called 'reconducted' mortgages originated to restructure other stressed, albeit performing, debts; iii) the pool has an additional 20.8% of weak mortgages that have been in arrears in the last 12 months; iv) the pool has 1.0% of mortgages originated via brokers who are known to underperform compared to branch-originated mortgages.

Scope has also accounted for the recovery risk resulting from high current loan-to-value (LTV) ratios—weighted average is 103%—and limited servicer flexibility. High LTV ratios result from the market-price correction of residential properties in Spain, even when the original LTVs were just below 80% on a weighted average basis. The collapse of the real-estate bubble in Spain followed the end of the aggressive credit-expansion period in 2007. A significant share (53%) of the portfolio was originated before 2008 and original LTV levels were sometimes based on inflated appraisal values. However, Santander has completed and provided a prudent revaluation of the properties underlying the mortgages, which results in the high LTVs used in our analysis.

Santander has limited servicer flexibility because of 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 the code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral, and we thus expect long recovery lags after default. Our analysis models a recovery lag of five years.

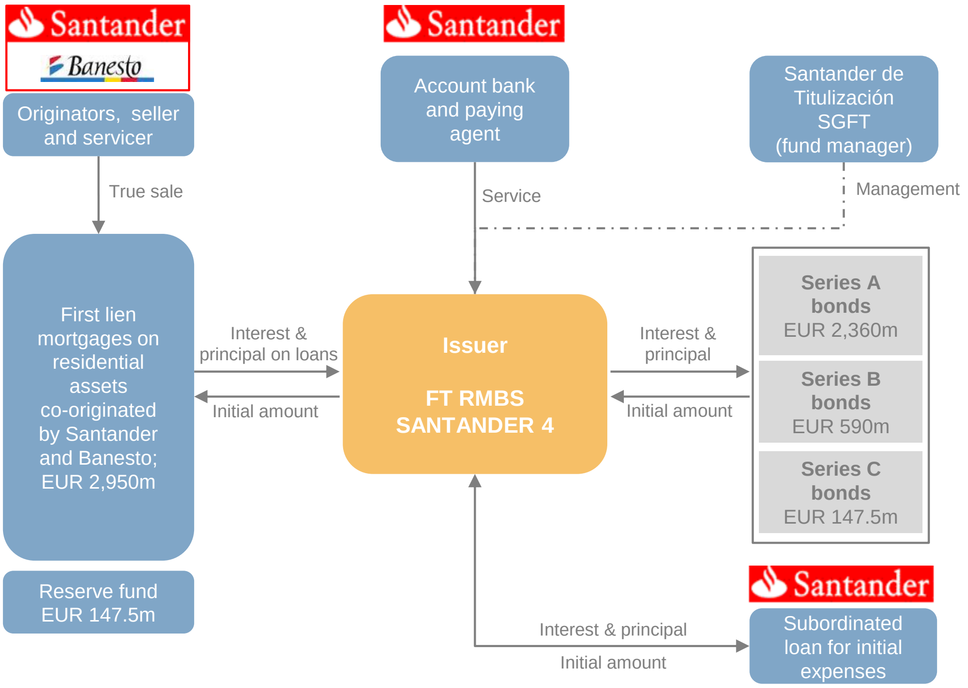
RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers
Significant credit enhancement. The loss-absorbing protection provided by the structure is enough to make the investor's expected loss in the class-A notes very remote. Credit enhancement levels for the senior notes in this transaction are, for example, 16pp or 181% higher than those in FTA SANTANDER HIPOTECARIO 3, an RMBS transaction originated by Santander in March 2007. **Improving Spanish economy.** Scope believes the Spanish economy is improving slowly, yet threatened by political uncertainty. The positive impact of this trend for class-B notes is less certain, due to the fragility of the recovery and still significant fundamental imbalances. **Stressed performance references.** Scope calibrated the portfolio-modelling 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 mean lifetime 90dpd (days past due) default rate of 44%, a coefficient of variation of 15.5%, a cure rate of 25% and a base-case recovery rate of 73.7%.	**Low asset quality.** Santander and Banesto originated 53% of the loans in the portfolio before 2008, during the housing boom in Spain when underwriting practices were more aggressive. Scope overweighted the historical performance of the 2007 vintage to build representative default rates for the analysis. 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 21% of restructured—or 'reconducted'—mortgages, expected mostly to default due to payment incidents in 85% of the exposure since restructuring, despite low interest rates. Scope's analysis assigned a 75% lifetime-default rate to this segment with a cure rate of 0%. Overall as much as 45% of the portfolio balance has had payment incidents over the last 24 months. Scope analysed obligor-specific internal probabilities of default (PD) provided by Santander to support the results of our vintage analysis of defaults, rather than rely on debt-to-income data, which is typically point-in-time, incomplete and highly unreliable.
Updated appraisals of collateral. Scope has calculated fundamental recovery rates of the underlying properties incorporating significantly corrected market values. The updated appraisal values of the finished properties that back the loans in this portfolio are now 1.2 years old on weighted average.	**Limited servicer flexibility.** By and large, we believe the terms of these mortgages have already been modified or restructured. Furthermore, Santander has adhered to the code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral. We have modelled a long recovery lag of five years in addition to the aforementioned high mean expected default rate.
Combined waterfall protects liquidity. The deal features a plain-vanilla, swapless, strictly-sequential, three-tranche structure with a combined priority of payments. The combined priority of payments supports timely class-A-interest payments, even if the thin cash reserve fund is depleted by the provisioning of assets which are 18 months in arrears or more.	**Broker channel.** A negligible share of the portfolio (1%) 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 41% and 21% respectively.
Limited counterparty risk. The notes bear significant counterparty risk exposure to Santander. This risk is mitigated by the credit quality of the bank, rated A+ with Stable Outlook by Scope, and a substitution trigger at loss of BBB.	**Long time to maturity.** The portfolio will amortise slowly, making the transaction more vulnerable to future economic downturns. The weighted-average current remaining time to maturity is 26 years.
Negligible interest risk. The lack of a swap does not represent a material risk because the transaction is naturally hedged. Most loans are referenced to 12-month Euribor (98.5%), highly correlated to the note's 3-month Euribor rate, and margin reset dates are uniformly distributed in the year.	**Low excess spread.** The portfolio has low weighted-average interest and margins, which result in increased loss severity for the class-B and class-C notes, with significant negative carry given the long recovery lag.

Positive rating-change drivers	Negative rating-change drivers
A **fast recovery of employment** in Spain would lower the base-case default rate used for the analysis. We do not expect this fast recovery of employment to occur, and rather expect a very slow recovery. This recovery will be at permanent risk of a new recession until deeper fundamental reforms are tackled in Spain addressing public spending and fiscal pressure, in general, and labour market, in particular.	**Further large home-price corrections** bringing Spanish property markets below our long-term sustainable trend would lower the base-case recovery rate used for the analysis. We do not expect large corrections beyond the current levels as the current recovery prospects have stopped the price correction trend.

TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



FT RMBS Santander 4 is the fourth transaction in a series of non-conforming RMBS securitisations originated by Santander since June 1014. It consists of the securitisation of a EUR 2.95bn mortgage portfolio selected out of a preliminary portfolio of 20,255 mortgages co-originated by Banco Santander and Banesto, and granted to 34,655 Spanish citizens and resident foreigners.

FINANCIAL STRUCTURE

The strong financial structure represents the most important credit positive for the transaction. The loss-absorbing protection available to the class-A notes is enough to make the expected loss of the senior investor very remote. Credit enhancement for the senior notes in this transaction (25%) is, for example, 16pp or 181% higher than in FTA SANTANDER HIPOTECARIO 3 (8.9%), an RMBS transaction originated by Santander in March 2007.

Capital structure

Three classes of sequentially subordinated notes were issued. The proceeds from class-A and class-B notes were used to purchase the initial portfolio of assets. The proceeds from class-C notes were used to fully fund a cash reserve fund (RF) on the closing date.

The notes pay quarterly interest referenced to 3-month Euribor plus a margin. The amortisation is strictly sequential, but under very benign scenarios class C could receive principal payments before class B. These payments would correspond to reductions in the required RF level.

The issuer's initial expenses are covered by the proceeds from a dedicated subordinated loan. This loan will be amortised out of excess spread in the early stages of the transaction.

Reserve fund (RF)

The structure features a fully funded cash reserve fund of EUR 147.5m or 5% of the initial portfolio balance. The RF is the primary source of credit enhancement for the class-B notes.

Related reports

Structured Finance Instruments Methodology Guidelines, dated July 2014.

Rating Methodology for Counterparty Risk in Structured Finance Transactions (Call for Comments), dated July 2015.

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The RF, combined with the provisioning mechanism, traps excess spread and enables the structure to accelerate amortisation of class-A notes whenever assets are classified as defaulted. We expect the RF will be fully depleted under our expected portfolio default-rate scenario.

The RF is a source of negative carry for the transaction as the cash is held in an account of the issuer that yields 3-month Euribor flat, while the WA coupon of the notes is always higher than this index. Negative carry further impacts class-B and C notes, even when credit losses from the assets are the main driver for the expected losses for these tranches.

We believe that scenarios where the RF amortises are very unlikely, despite being theoretically possible

We believe that scenarios where the RF amortises are very unlikely, despite being theoretically possible. The RF follows the standard mechanism of most Spanish securitisations where the required balance can be reduced to the maximum of 10% of current portfolio balance or 2.5% of the initial portfolio balance, subject to: i) non-defaulted assets more than 90dpd are less than 2.5% of the non-defaulted assets; ii) more than two years have elapsed since closing; and iii) the RF was fully funded at its required level on the previous payment date.

Amortisation and provisioning

The amount accrued for principal amortisation is the amount required to match the balance of the class-A and B notes to the balance of non-defaulted mortgages on every payment date.

Provisioning mechanism allows for accelerated amortisation of the most senior class

This mechanism constitutes a default provisioning mechanism. It allows for the accelerated amortisation of the most senior class, making use of RF money and excess spread. As long as cash remains in the RF the mechanism ensures outstanding notes will be collateralised by non-defaulted assets.

Mortgages are classified as defaulted in the structure when they are more than 18 months in arrears or when the servicer subjectively considers them to be unrecoverable. We believe that the long default definition used in this structure may be well suited to the current uncertain recovery context which results from limited servicer flexibility during foreclosure processes in Spain.

Priority of payments

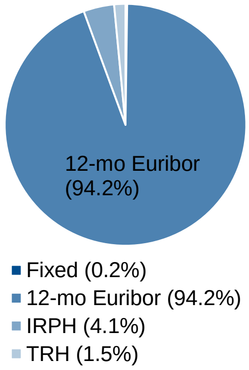
Combined priority of payments is the main protection against payment interruption

The structure features a combined priority of payments, which provides material protection against payment interruption even if the cash reserve is depleted. Principal collections from assets can be used to pay timely interest on the senior-class notes. Furthermore, only a few days' worth of collections suffice to pay senior-class interest and other more senior items, even if an unlikely servicer disruption event occurs. The combined priority of payments is also effective in allowing losses from negative carry or interest rate mismatches to be covered by credit enhancement. See Figure 2.

Scope's analysis takes into account the demotion trigger on class-B interest. The rating of class-B notes captures any loss from the time value of missed interest resulting from a postposition of class B interest payments. Missed interest payments do not accrue interest for any classes in this structure.

Unhedged interest rate risk—immaterial

Interest rates in the portfolio



Scope believes the materiality of unhedged interest-rate risk is negligible in view of: i) the insignificant share of pool that pays fixed rate interest—0.3%; ii) the current low interest rate environment; and iii) because floating-rate assets are referenced to indices highly correlated with the 3-month Euribor index of the notes. These indices embed material excess spread compared to the notes' index. Potential losses for negative carry are factored into the ratings and thus covered by available credit enhancement.

The transaction is exposed to interest-related risks because there is no hedging agreement in place, and the reset frequencies and dates of the assets create a rate mismatch between assets and liabilities in rising interest-rate scenarios.

Interest-related risks are covered by credit enhancement and the combined priority of payments. This makes it possible to use principal collections from the assets to pay interest on the most senior class of notes. The mechanism effectively transfers any losses from interest-rate mismatches to the equity and mezzanine part of the structure.

Figure 2. Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
Available funds Collections from assets; proceeds from treasury account, and RF.	**Available funds** All SPV moneys, including funds from liquidation of assets.
1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) **Class-A interest** 3) Class B interest, if not demoted 4) **Principal for class A**, and then class B 5) Class-B interest, if demoted when a) Class A still outstanding after payment date b) Total defaulted assets > 10% of portfolio balance at closing 6) RF to its required level 7) Class-C interest 8) Principal for class C (i.e. equivalent to reduction of required RF amount) 9) Subordinate loan interest 10) Principal for subordinate loan 11) Servicer fee for Santander 12) Excess spread for originator as variable class-C interest	1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) **Class-A interest** 3) **Principal for class A** pari-passu with liquidity facility balance 4) Class-B interest 5) Principal for class B 6) Class-C scheduled interest 7) Principal for class C 8) Subordinated items including servicer fee for Santander and excess spread for the originator

Bank account—commingling exposure to Santander

The account of the issuer represents a commingling exposure to Santander, the account bank

The issuer has a treasury account used to hold the RF, and principal and interest collections from the assets. The account represents a commingling exposure to Santander as the account bank—see Counterparty Risk on page 7. The account also represents a source of negative carry as its yield is lower than the WA coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

Clean-up call

Scope's analysis has not incorporated an option that allows the originator and seller to terminate the transaction before final legal maturity if the assets' balance is less than 10% of the original portfolio balance. This is because the exercise of the option is discretionary and would require the notes to be fully repaid.

LEGAL STRUCTURE

Legal framework

The transaction conforms to Spanish securitisation standards effective since 28 April 2015

This securitisation is governed by Spanish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Santander de Titulización S.G.F.T. S.A., the management company. The SPV is essentially governed by the terms in the documentation, as no government body has been defined at closing. Changes to the documentation require the unanimous agreement of all stakeholders to the transaction (i.e. noteholders and creditors).

This securitisation has been incorporated under a new, more flexible legal form called 'Fondo de Titulización' ('FT', securitisation fund). This choice of legal form is credit neutral. The FT legal form was introduced by the new Spanish law for the promotion of corporate financing (Ley 5/2015), effective since publication on 28 April 2015. Law 5/2015 reformed the Spanish securitisation framework and replaced 'Fondo de Titulización de Activos' ('FTA', asset securitisation funds) and 'Fondos de Titulización Hipotecaria' ('FTH', mortgage securitisation funds).

Asset replacement

Santander undertakes to replace or repurchase within 15 days any asset transferred to the portfolio found not to comply with the eligibility criteria in the documentation. No asset more than 30 days in arrears at the time of transaction closing can be transferred to the portfolio. The risk of weaker assets transferred to the final portfolio is covered by our mean default-rate assumption for the portfolio.

Permitted variations

The documentation allows for obligor-initiated modifications to the terms of the contracts in the portfolio, notably interest rate and maturity. In all case negotiations with obligors would follow the originator's standard procedures and approval processes.

Documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations

Documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations. Scope believes that these covenants limit any material migration of the portfolio beyond that related to asset performance. The outstanding amount of mortgages cannot be increased and interest margins cannot be reduced below 1%.

Use of legal opinions

Scope has reviewed the legal opinions produced for the Issuer by Cuatrecasas Gonçalves Pereira, S.L.P. and trusts the regulatory oversight of the Spanish securities market regulator (CNMV) to gain comfort on the legal structure of the issuer. The transaction conforms to securitisation standards in Spain effective since 28 April 2015 and supports the general, legal analytical assumptions of Scope. See Legal Risks in Structured Finance, Analytical Considerations, dated January 2015 and available at www.scoperatings.com.

ORIGINATOR AND SELLER

Santander's functions, systems, processes and staff meet the highest standards of European banking

Banco Santander is an experienced originator of residential mortgages, but the mortgage production securitised in this transaction is biased: Santander generally securitises all eligible assets in its loan book, with the exception of mortgage loans eligible to back cedulas hipotecarias (i.e. Spanish mortgage-covered bonds). The majority of mortgage loans originated by Santander in recent years conform to 'cedulas-eligible' standards, with the notable exception of some mortgages granted to finance the sale of real-estate assets in the balance sheet of the consolidated Santander group.

Santander is a sophisticated bank whose functions, systems, processes and staff meet the highest standards of European banking. The ability and stability of Santander as originator is illustrated by Santander's A+ rating from Scope.

Underwriting

Underwriting standards for the assets in this portfolio were sensible, but undermined by the pre-crisis environment

Scope believes the underwriting standards for the assets in this portfolio were sensible, but undermined by the pre-crisis and benign environment of Spanish economy during the boom years. For example, the weighted-average original LTV of the mortgages in the preliminary portfolio was 79%, just below the 80% eligibility threshold for 'cedulas' cover pools. Nevertheless, the adjustments to the Spanish property markets have resulted in a weighted-average current LTV of 103% under updated property values.

Santander has applied tighter underwriting standards to contracts that were originated since the crisis, except for the aforementioned mortgages to finance sales of properties owned by Santander group. The weight of 'conforming' recent mortgages in the portfolio is very small.

Servicing and recovery

Scope applied a low cure-rate assumption of 25% to the analysis of this transaction because: i) we believe obligors are weak and/or have already benefitted from originator support; and ii) Santander's pre-delinquency monitoring processes and early-delinquency management processes are highly efficient.

Santander has adhered to the code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral.

We have modelled a long recovery lag of five years in addition to a high mean expected default rate because we believe the terms of these mortgages have already, by and large, been modified or restructured.

Scope believes that Santander's interests are strongly aligned with the noteholders

Scope believes that Santander's interests are strongly aligned with the noteholders. As a provider of the 5% RF and holder of all the class-B and C notes since closing, Santander has a significant subordinate interest in the transaction. In addition, the Spanish securitisation framework does not allow securitised assets to be treated differently from non-securitised assets on the bank's balance sheet. Santander's servicing and recovery processes aim to maximise prospects of recovery in the shortest possible time.

COUNTERPARTY RISK

Santander performs all counterparty roles, and the transaction's exposure to Santander is captured in the ratings. Scope considers the exposure is not excessive (i.e. the crystallisation of counterparty risk would not prompt a downgrade of more than six notches, as defined in Scope's proposed Rating Methodology for Counterparty Risk in Structured Finance Transactions (Call for Comments), dated 16 July 2015 and available on www.scoperatings.com).

Operational risk from servicer

Scope does not consider the replacement of Santander as servicer of the portfolio. We believe a servicer replacement would be more disruptive than the probable continuation of Santander operating as a going concern during a hypothetical resolution process. This view is supported by Santander's relevance to the Spanish economy and the framework for orderly bank restructuring in Europe.

Comingling risk from exposure to the servicer is not material because of the short-term exposure and credit strength of the bank. Collections from assets are transferred to the issuer's account generally intraday, but in any case no later than 48 hours.

Commingling risk from account bank and paying agent

Scope believes credit risk arising from exposure to the account bank is adequately covered in the structure by risk-substitution covenants

Scope believes credit risk arising from exposure to the account bank is adequately covered in the structure by risk-substitution covenants. Santander would be replaced in the structure upon loss of a minimum Issuer Credit-Strength Rating (ICSR) of BBB, which is in line with Scope's proposed rating methodology for counterparty risk.

Set-off risk from originator

Scope believes set-off risk from the originator is immaterial

Scope does not believe set-off risk from the originator is material in the context of Spanish law and under terms of the documentation. The structure incorporates an undertaking by the seller to compensate the issuer for any set-off loss resulting from rights existing prior to the asset transfer. Furthermore, set-off rights would cease to exist after obligor notification following a servicer event or upon the insolvency of either obligor or seller.

Exposure to set-off from linked contracts is negligible and restricted to insurance contracts in the context of mortgage loans. This exposure is largely to the insurance business of Santander and limited to premia paid upfront and capitalised in the mortgage balance. This represents a negligible amount that is covered by available credit enhancement in the transaction.

ASSET ANALYSIS

Securitised assets

The portfolio comprises three types of mortgages: standard mortgages; restructured mortgages; and broker-originated mortgages

The portfolio comprises three types of mortgages: i) standard mortgages originated at the branches of Santander or Banesto; ii) restructured mortgages originated to consolidate other debts; and iii) broker-originated mortgages.

Figure 3. Product types in the portfolio

	Mortgages	Restructured mortgages	Broker mortgages
Description	Mortgages originated by Santander/Banesto to Spanish (75%) and non-Spanish (3%) residents.	Restructured mortgages to Spanish (19%) and non-Spanish (2%) residents.	Standard mortgages originated through the 'prescriber' channel—brokers (i.e. typically real estate developers and agents before the crisis).
Weight in portfolio	78.4%	20.6%	1.0%
Main risk	High LTV mortgages with a significant share of pre-crisis mortgages. Portfolio sample is not representative of the entire book.	Weaker obligors and high LTVs, vulnerable to shocks because of very reduced servicer flexibility.	Looser underwriting standards. Lower recovery, high and volatile defaults.
Notes	These are mortgages not eligible to serve as collateral for cedulas hipotecarias (Spanish covered bonds) or bonos hipotecarios (Spanish mortgage bonds) under Spanish law. They can be considered 'non-conforming' mortgages because of their LTV or long maturity. Pre-crisis origination standards were looser than those applied today by Santander. Available now for a securitisation because of collateral revaluation and/or terms modifications.	These are mortgages which have been granted to restructure and consolidate other debts not in arrears at the time of refinancing. These mortgages should be considered 'sub-prime' given the weakness of the underlying obligors, even when they were not delinquent on any obligation when the mortgages were granted.	These mortgages used to be granted by the bank, but to customers who have only little or no previous relationship with it and via brokers. These mortgages used to be linked to real-estate developments where Santander was the financing bank of the developer. These mortgages should be considered 'sub-prime' because there was typically an incentive to loosen the underwriting standards and diversify the exposure to a developer. Santander has shut down this origination channel because of bad performance.
Risk of foreigners	Diluted among national obligors and captured by vintage data.		(n/a)

Standard mortgages—pre-crisis exposures

'Standard mortgages' represent a sample of lower quality when compared to mortgages originated by Santander before 2008

The preliminary portfolio contains 78.4% of 'standard' mortgages considering the current balance. The mortgages in this segment were originated under the standard underwriting procedures of the originator mostly during the pre-crisis period. This alone could signal looser underwriting practices, which are also evident in higher original LTVs and tight margins. Yet additionally, this segment of the portfolio represents a biased sample of lower quality when compared to the average mortgage of this type originated by Santander before 2008.

These mortgages are available for securitisation now after two prudent actions of Santander as originator and servicer. Firstly, Santander has updated the appraisal values of the underlying residential properties of its mortgage book. Secondly, Santander has actively serviced its lending portfolio to minimise losses from credit. Consequently, a share of the 'standard' mortgages in this portfolio has had suffered from modifications to the original terms and conditions which resulted in the exclusion from other existing securitisations.

The better mortgages—lower LTV, shorter maturities—are kept by Santander to back Spanish covered bonds or remain part of asset portfolios of other RMBS securitisation funds.

The default data provided by Santander is not representative of the negatively selected mortgages in the transaction. Vintage data covers the period 2007–2014 whereas 47% of this segment was originated before 2007—origination periods which had a bad performance like the 2007 vintage. Scope estimated a mean lifetime-default rate of 21% by overweighting the 2007 vintage, and a default-rate coefficient of variation of 36%.

The history of delinquencies of the mortgages in this portfolio segment is another reason why we believe that vintage data performance is not directly applicable to this segment. See 'Previous delinquencies—indicator of credit weakness' on page 9.

We believe that the exposure to foreigners that are resident in Spain represents a risk which is covered by the performance references provided by Santander. This is because resident foreigners represent only 3.8% of the balance of this portfolio segment.

Restructured mortgages—debt consolidation risk

The portfolio contains mortgages originated to consolidate other debts of the obligor. The new, larger mortgage contract has terms and conditions better adapted to the payment capacity of the obligor. Santander names these debt-consolidation contracts 'reconducted' and does not grant them to obligors in arrears[1]. Restructured mortgages account for 21% of the preliminary portfolio.

Debt-consolidation products pose higher risks

Scope believes debt-consolidation products pose higher risks, despite corresponding to performing obligors. These restructured contracts have exhausted the flexibility of both the originator and obligor and are consequently vulnerable to external shocks—either systemic or idiosyncratic.

From vintage-data analysis, Scope estimated a mean lifetime-default rate of 75%. We have assessed that Santander's internal probabilities of default result in a comparable lifetime-default rate when compounded over the life of the transaction (78%). The possible volatility around an already high expected default rate is logically low. Scope derived a default-rate coefficient of variation of 7% from vintage analysis. See Appendix II. Vintage Data on page 19.

Broker mortgages—marginal exposure

Broker mortgages are weaker from a credit perspective

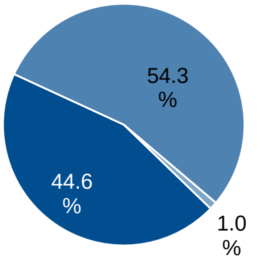
A mere 1% of the portfolio balance is comprised of mortgages originated by brokers. These mortgages are weaker because they were granted without a banking history of the obligor with the bank. The historical performance has been very poor and Santander decided to shut down the broker origination channel.

Portfolio characteristics

Final portfolio selection

Santander has provided the final portfolio selected out of the preliminary portfolio dated 29 July 2015. We based our rating analysis on the preliminary portfolio, which was audited. Nevertheless, Scope assessed that the characteristics of the final portfolio were substantially the same as those of the preliminary portfolio. The preliminary portfolio balances of EUR 3,042m on 11 May 2015, or EUR 3,011m on 29 May 2015, compares to the final portfolio balance of EUR 2,950m on 3 July 2015 (i.e. only 3% and 2% lower, respectively, without accounting for amortisation).

Origination channels



Previous delinquencies—indicator of credit weakness

The credit weakness of this portfolio is evident in the analysis of the previous delinquencies of the mortgages in the portfolio. This analysis also supports the assumption

[1] Santander calls contracts granted to refinance obligors in arrears 'restructured', with a different meaning to the one used by Scope in this report. Contracts refinancing debts in arrears are riskier than the 'reconducted' mortgages included in this securitisation.

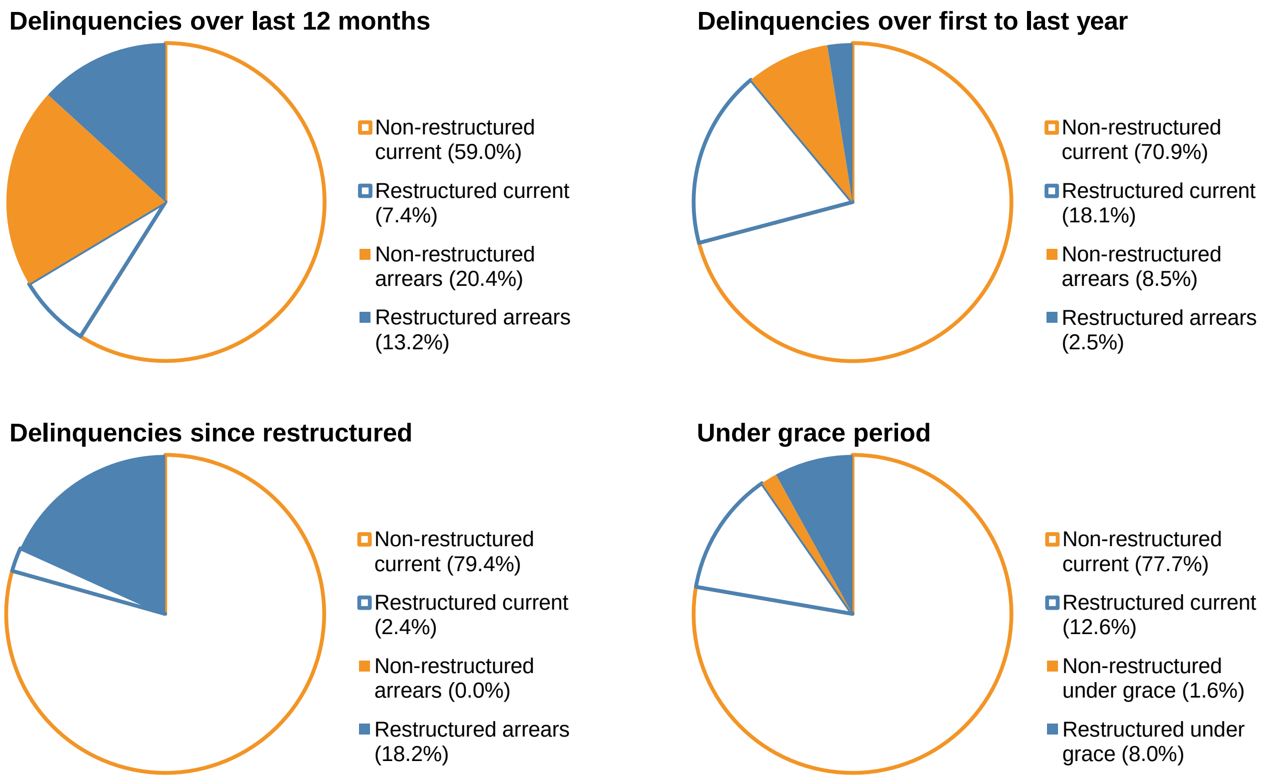
that there is a significant negative selection bias of this portfolio compared to the entire book of mortgages originated by Santander.

One fourth of the 'standard' mortgages portfolio segment was delinquent at some point in the last 12 months. The analysis of previous delinquency history of the mortgages in the preliminary portfolio is shown in Figure 4.

Indeed, we believe that 21% of the portfolio balance labelled as 'standard' mortgages will have a performance similar to that of restructured mortgages, and we have assigned the same lifetime-default rate we derived from vintage analysis of restructured mortgages. We believe that the remaining 58% can thus be safely assimilated to truly standard mortgages—even if with high LTVs resulting from collateral revaluation.

We do not apply additional stress on the restructured-loan segment because of its poor delinquency history, as we understand this is already covered by the very high lifetime-default rate derived from vintage data.

Figure 4. Portfolio loans arrears analysis



Slow portfolio amortisation of a granular portfolio

The long maturity of the mortgages in this portfolio explains the very long life of the class-A notes

The long maturity of the mortgages in this portfolio explains the very long life of the class-A notes. This extends the risk exposure to counterparties and possible macroeconomic deterioration. The class-A notes have an expected weighted-average life of 10.4 years under 0% CPR, and will take 20 years to be fully amortised under a 0% default assumption. The long maturities and standard, French amortisation schedules result in a portfolio WAL of 13.7 years and a weighted-average remaining term of 25.6 years, despite the long seasoning of the portfolio (seven years).

The tail of the life of the portfolio will be exposed primarily to 'standard' mortgages, since restructured and broker mortgages are expected to default prior to their maturity. Additionally, the class A will not be exposed to tail concentrations because all assets in the portfolio are amortising and the strictly sequential amortisation of the notes will build additional protection from subordination.

Figure 5. Portfolio amortisation under 0% CPR and 0% default rate

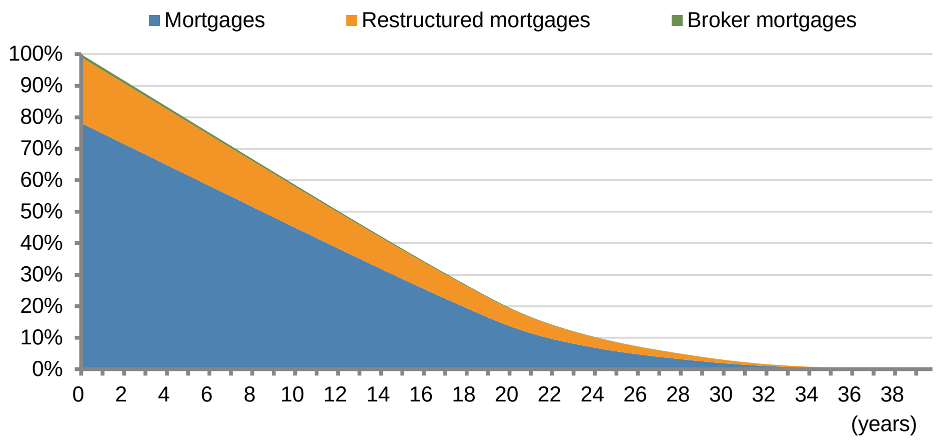


Figure 6. Portfolio seasoning profile and unemployment

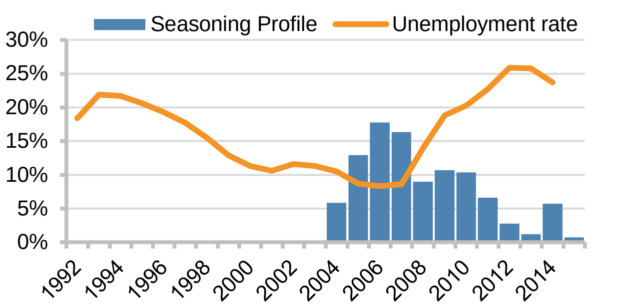


Figure 7. Portfolio maturity profile

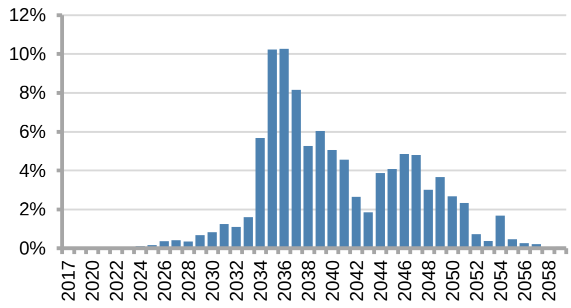


Figure 8. Original LTV distribution (original appraisals and initial loan balance)

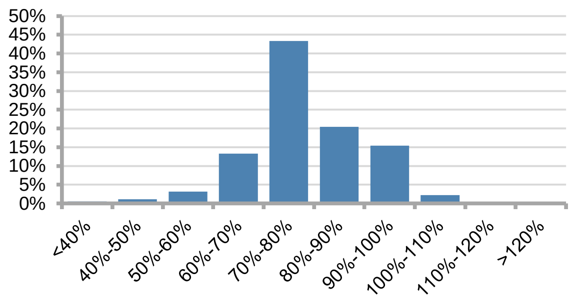
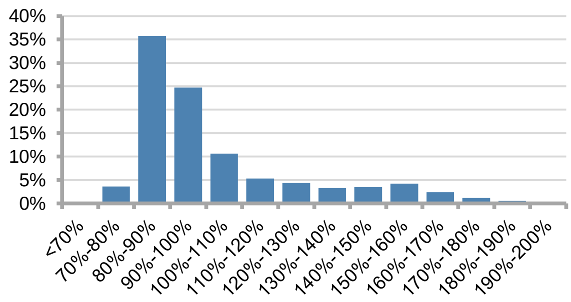


Figure 9. Current LTV distribution (updated appraisals and current loan balance)



The portfolio is granular and well diversified across Spanish regions

The portfolio is granular and well diversified across Spanish regions. Among the top regions, the higher exposure to economically weak Andalucia (20%, see Figure 11) again suggests the negative selection bias of the portfolio. We believe that the default-rate data provided by Santander, and the adjustments we have applied on the basis of the delinquency history of each loan in the portfolio, cover this exposure. Furthermore, we incorporate regional differences in the recovery rate analysis by applying loan-level-specific market-value decline assumptions.

Figure 10. Obligor types in portfolio

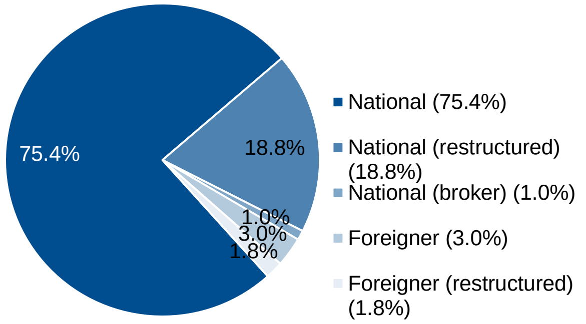
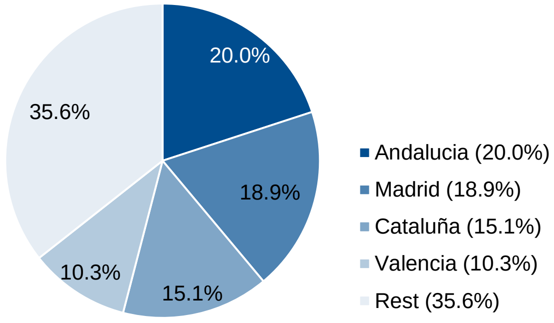


Figure 11. Portfolio regional distribution



Lifetime-default rate

The agency has modelled a portfolio mean lifetime-90dpd-default rate of 44% and a base-case default-rate coefficient of variation of 15.5%. These assumptions incorporate the adjustment for the weaker share of mortgages in the standard mortgages segment as shown in Figure 14.

Scope reassigned 21% of the portfolio balance that was originally in the 'standard' mortgages segment to the restructured mortgages segment, in order to capture the higher risk of negatively selected mortgages as justified by the analysis of previous delinquencies history. See Figure 12 and Figure 13.

Figure 12. Portfolio segments

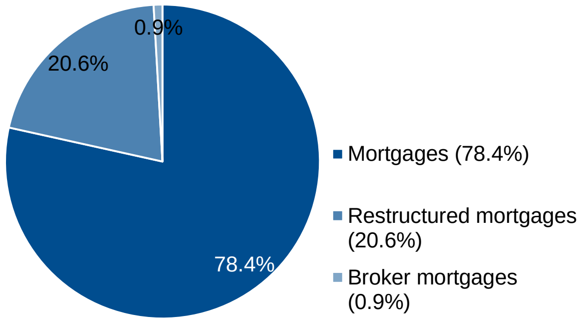
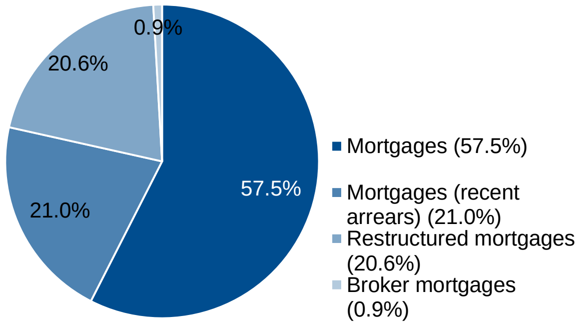


Figure 13. Portfolio segments as modelled by Scope



For the derivation of portfolio-default assumptions, Scope used 90dpd, static delinquency data provided by Santander and arranged in vintages for the period 2007–2014. This period is characterised by high stress for Spanish obligors (see 'Portfolio seasoning profile and unemployment' in Figure 6). The most relevant data used for the analysis is included in 'Appendix II. Vintage Data'.

Scope believes that the vintage data provided by Santander offers good information about asset correlation in a granular portfolio

Scope believes that the vintage data provided by Santander offers good information about asset correlation in a granular portfolio. The information reflects the deterioration of asset performance during the last credit crisis from the starting point of a benign period.

Figure 14. Default modelling assumptions for portfolio segments

	Standard mortgages	Standard mortgages (stressed)	Restructured mortgages	Broker mortgages
Segment weight	57.5%	21.0%	20.6%	0.9%
Scope's 90dpd mean DR	**21%**	**75%**	**75%**	**41%**
Implicit DR in Santander PDs	20%	20%	78%	28%
Scope's 90dpd CoV	**36%**	**7%**	**7%**	**41%**

We did not perform a long-term adjustment of portfolio default-rate assumptions for the analysis of the higher rating scenarios. We believe that the performance of this non-conforming mortgage portfolio over its long life will depend on its internal credit strength, rather than on its exposure to economic-cycle stresses.

Recovery rate (RR)

The calculation of loan-specific recovery rates from the updated appraisal values of the properties underlying the mortgages provides a strong anchor to our credit-loss estimates for this portfolio. The Spanish real-estate sector has suffered a significant correction since the collapse of the real-estate bubble after the financial crisis in 2007. Market prices have reduced significantly, but some regions still show a significant gap between our estimation of a long-term sustainable-value trend.

Scope has calculated loan-specific, fundamental recovery rates applying haircuts to the updated appraisal value of each property after indexation

Scope has calculated loan-specific, fundamental recovery rates applying haircuts to the updated appraisal value of each property after indexation. The haircuts reflect the market-value losses under stress scenarios, followed by a constant fire-sale discount of 30%. To these haircuts, we have also added foreclosure costs.

We believe that, at current appraisal values, a property can be sold under current market conditions if discounted by 30%. Consequently, our recovery analysis takes the current real-estate market conditions as the base case for the analysis of B_{SF} ratings, but we apply the full fire-sale discount.

We also believe that under highest rating stress—AAA_{SF}—, a property could be sold in the market at a price, which: i) totally eliminates any value difference compared to a long-term sustainable reference; ii) reflects an additional value loss of 10%; and iii) also reflects a fire-sale discount of 30%. The weighted-average effective LTV implicit in our analysis for the AAA-conditional recovery rate is 309%. This implies a total value haircut average of 64% after adjustments for indexation, market-value, fire-sale and foreclosure costs.

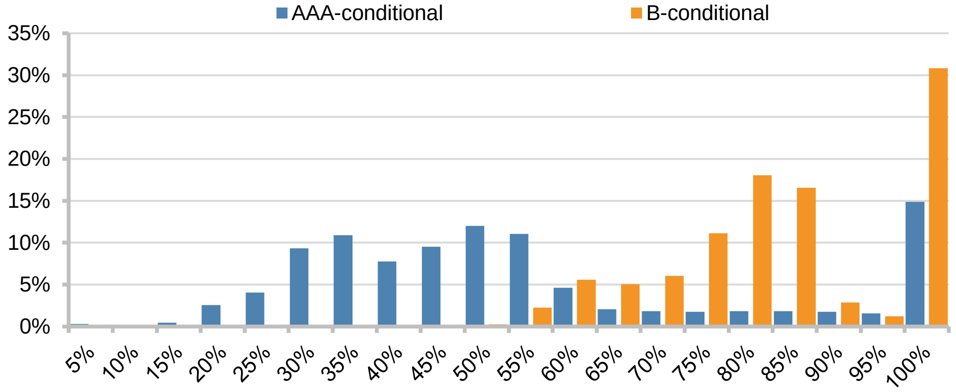
The agency calculated a base-case portfolio recovery rate of 73.7%. Figure 15 provides the indicative stress levels Scope has taken into account per rating category for rating this transaction. The use of rating-conditional recovery rates produces increased rating stability.

Figure 15. Rating conditional recovery rates

Rating conditional stress	Implicit total value haircut	Rating conditional recovery rate
AAA	63.8%	**41.6%**
AA	58.1%	**50.0%**
A	53.6%	**56.6%**
BBB	48.5%	**63.1%**
BB	44.0%	**68.4%**
B (base case)	38.6%	**73.7%**

Figure 16 shows the distribution of the loan-specific recovery rates calculated by Scope under AAA- and B-conditional stresses. We calculated the portfolio recovery rate as the default-weighted average of the loan-specific recovery rates considering the risk differentiation provided by the internal probabilities of default reported by Santander.

Figure 16. Frequency distributions of calculated recovery rates



We believe recovery processes will be slow

We believe recovery processes will be slow, mostly because of the difficulty in completing fast evictions. We considered a recovery lag of five years in our analysis, which we consider necessary to realise the value of the underlying real-estate collateral under stress scenarios and particularly under the current conditions of the Spanish property market. The long recovery lag creates additional liquidity stress for the transaction in our analysis. The recovery lag we derived from vintage data was just two years, over which the full realisation of recovery proceeds is not possible.

Cure rate (CR)

Scope arrived at a low cure rate of 25% from 90dpd recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into default as classified by the transaction documents. This compares to the cure rate of 50% for ‘conforming’ mortgages in the book of Santander, and incorporates the assumption that reconducted mortgages do not cure given their high vulnerability and limited servicer flexibility.

The low cure rate also results from: i) Santander’s highly proactive monitoring processes, resulting in most ‘curable’ delinquencies being fixed before they breach the 90dpd threshold; and ii) the weak credit quality of the obligors, who would be unlikely to recover once impaired. Santander did not provide 540dpd-default-rate vintage data to refer a true default rate to the 90dpd-base-case assumption for the portfolio.

This 25% cure rate assumption was considered constant in our analysis (i.e. not rating conditional like recovery rates), as a share of the portfolio is assumed to be delinquent as a function of the default rate scenario in Scope’s cash-flow modelling.

Constant prepayment rate (CPR)—making extreme assumptions

Scope tested the class-A notes against the most conservative 0% CPR assumption

Scope tested class-A notes against the most conservative 0% CPR assumption as class A benefits from prepayments. Scope used a CPR assumption of 5% to analyse the class-B and class-C notes.

This is justified as Santander did not provide product-specific prepayment information and Scope relied on references available from previous, similar RMBS transactions by Santander. These showed historical CPR values between 1% and 3% under the current environment.

MODELLING

Scope used a bespoke cash-flow model to analyse this transaction

Scope used a bespoke cash flow (CF) tool to analyse the transaction. Scope modelled the preliminary portfolio with three distinct, but perfectly correlated, portfolio segments: i) ‘conforming’ mortgages; ii) ‘non-conforming’ mortgages; and iii) broker-originated mortgages.

The CF tool was combined with the normal inverse Gaussian probability distribution to calculate the probability-weighted (i.e. expected) loss of each of the rated tranches under rating-level-conditional recovery-rate assumptions. The CF tool also produces the expected WAL for each of the rated tranches.

Scope has not adjusted the performance references for this transaction considering a long-term or economic-cycle view[2]. The default-rate references we have used for this portfolio are explained mostly by the weak credit strength of the obligors, and not just by the point in time in the economic cycle. Consequently, we do not believe that the performance of the underlying portfolio will follow the average of the market.

The AA-$_{SF}$ rating assigned to the class-A notes reflects the strong results of the cash flow analysis despite the severity of the base-case assumptions. The amortising nature of the transaction and the positive macroeconomic outlook provide further comfort as potential improvements in unemployment levels assist the deal’s performance.

[2] For more details on our long-term adjustments see Scope’s SME CLO Rating Methodology, dated May 2015 and available at www.scoperatings.com.

Figure 17. Modelling results and assumptions

	Ratings	Expected WAL	Mean DR (90dpd)	DR CoV (90dpd)	Cure Rate	Applicable RR	Recovery lag	CPR	Default timing
Series A	AA-$_{SF}$	10.4 years	44%	15.3%	25.0%	50.0%	5 years	0.0%	Front loaded
Series B	CC$_{SF}$	17.9 years[a]				73.7%		5.0%	
Series C	C$_{SF}$	10.0 years[a]				73.7%		5.0%	

[a] The class C notes have an expected WAL which is shorter than that of the class B because these notes will suffer greater expected losses (100% vs. 46% for class B).

Scope considered a front-loaded asset-default timing. Back-loaded default scenarios would not be as severe because of credit-enhancement buildup from the effect of portfolio amortisation and limited excess spread.

The cumulative default timing assumptions are shown on Figure 18. These assumptions imply the front-loading of delinquencies, which start on the first month of the life of the transaction. The chart shows defaults as classified according to the definitions in the documentation (i.e. 18 months past due for loans).

Figure 18. Default timing assumptions for the three portfolio segments

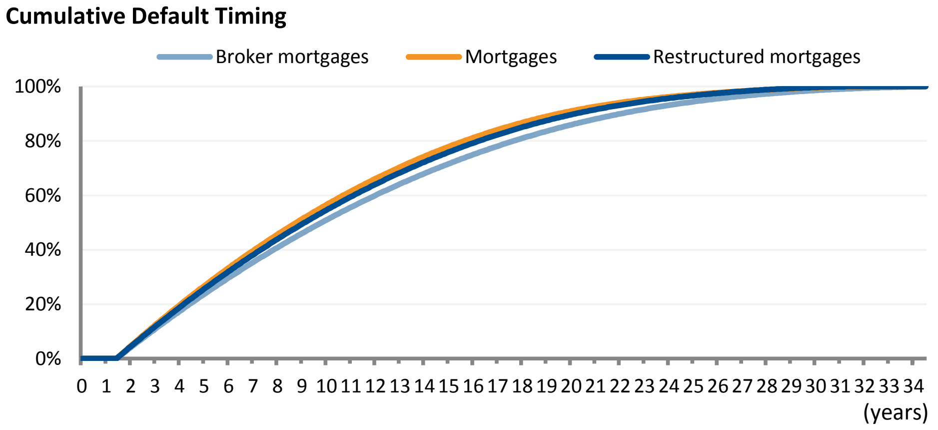
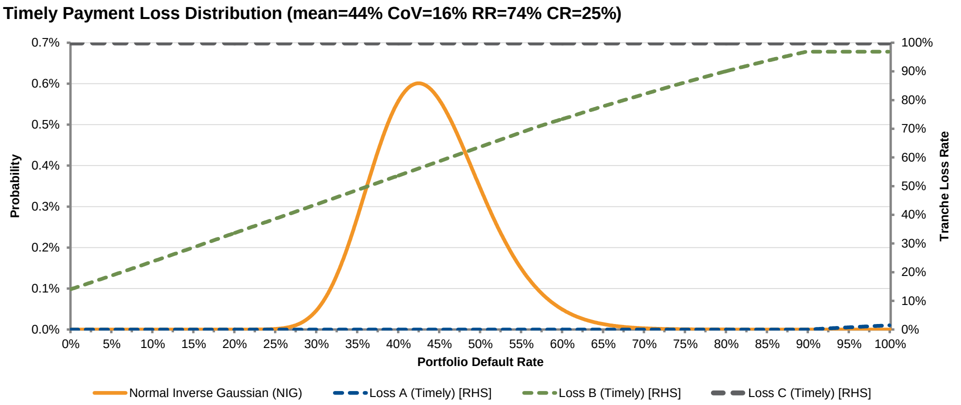


Figure 19 shows the losses of each of the tranches for all portfolio default rates under the base-case recovery-rate assumption of 74%. The class-B and C notes experience losses under portfolio default rates in our modelling because of the margin stress we have applied to cover for interest-rate risk in the absence of a swap agreement.

Figure 19. CF model results under base-case mean DR, CoV, RR and cure rate for 0% CPR



RATING STABILITY

Rating sensitivity

The strong protection mechanisms of the structure support the stability of the ratings

The strong protection mechanisms of the structure and the rating-level conditionality of recovery rates assumed by Scope support the stability of the ratings.

Scope has tested the resilience of the model results towards stresses of the base-case values of the main input parameters: mean default rate; default-rate coefficient of variation and recovery rate. Sensitivity stresses 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.

Model results indicate that the class A would continue to be investment grade, even under harsh sensitivity stresses

Model results indicate that the class A would continue to be investment grade, even under harsh sensitivity scenarios with a combined stress on the mean default rate and the recovery rate.

The class A would lose three and four notches if the mean default rate is increased by 25% and 50% respectively. And it would lose four and six notches if the base-case recovery rate is reduced by 25% and 50% respectively. The combined stress of a mean default increase of 25% and recovery-rate haircut of 25% would result in the loss of six notches.

The class A is very resilient to stresses of the default-rate coefficient of variation (CoV). Model results indicate the class would be investment grade even if the CoV is increased by 200%. The class would lose one and three notches if the CoV is increased 25% and 50% respectively.

Ratings of class B and C are so low that they are not sensitive stresses

Model results for the class-B and class-C ratings are insensitive to stresses. This is the expected result as these classes default in our model under base-case assumptions. The severity of the losses for the class-B notes would drive a C_{SF} rating if either the mean default rate or the base-case recovery assumptions are stressed. Class-B and C notes are insensitive to stresses of the coefficient of variation.

Figure 20. Model-result sensitivity to shifts in the portfolio mean lifetime-default rate

DR (sensitivity in notches)	Class A	Class B	Class C
Base-case DR + 25%	-3	-1	—
Base-case DR + 50%	-4	-1	—

Figure 21. Model-result sensitivity to shifts in the portfolio recovery rate

RR (sensitivity in notches)	Class A	Class B	Class C
Base-case RR - 25%	-4	-1	—
Base-case RR - 50%	-6	-1	—

Figure 22. Model-result sensitivity to shifts in the portfolio default-rate coefficient of variation

DR CoV (sensitivity in notches)	Class A	Class B	Class C
Base-case CoV + 25%	-1	—	—
Base-case CoV + 50%	-3	—	—

Figure 23. Model-result sensitivity to combined shift in the portfolio mean DR and recovery rate

Combined DR/RR (sensitivity in notches)	Class A	Class B	Class C
Base-case DR + 25%, Base-case RR - 25%	-6	-1	—

Break-even analysis

Under a zero RR assumption, the class A would not experience any loss under portfolio default rates of 22.6% or less

Break-even analysis also shows the robustness of the class-A rating. The break-even portfolio default rate for the class-A notes is 22.6% under a zero-RR assumption—a very harsh assumption for a mortgage portfolio—and 48% under Scope's recovery-rate assumption of 50% applicable to a AA_{SF} rating target.

We expect that the investor in class-B and C notes will lose money in all default rate scenarios under our base-case recovery-rate assumption.

SOVEREIGN RISK

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit the ratings on this transaction. The risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems, which are due to a hypothetical exit of Spain from the Eurozone, are not material for the rating of class A.

Scope gives limited credit to the positive economic outlook for the credit analysis of this transaction. We believe that the obligors in this portfolio are weak and very vulnerable to downturns.

Despite Spain's current GDP-growth trend, the credit performance of this transaction depends more on the effective solution of fundamental imbalances in a longer term. These imbalances are the high level of public and private debt, the still large budget deficit, the negative net-investment position and, above all, the very high unemployment.

Crystallisation of political risk would have material consequences for the default and recovery performance of this portfolio. Hypothetical populist policies seeking to protect distressed borrowers would increase the default rates and reduce the recovery rates of this portfolio. Scope has already factored this risk into the base-case for the analysis, which explains why we do not believe that higher loss scenarios are very likely.

MONITORING

Scope will monitor this transaction on the basis of performance reports produced by the management company and any other information received from the originator. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks this transaction is exposed to and the ongoing monitoring of the transaction.

APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction Scope applied its Structured Finance Instruments Methodology Guidelines, dated July 2014. Scope also applied the principles contained in the proposed methodology document Rating Methodology for Counterparty Risk in Structured Finance Transactions (Call for Comments), dated July 2015. Both files are available on www.scoperatings.com. 'Appendix III. Recovery analysis' and 'Appendix IV. Spanish market-value-decline analysis' provide additional methodological details on the analysis performed to calculate loan-level fundamental-recovery assumptions.

APPENDIX I. TRANSACTION COMPARISON

Figure 24. Comparison of recent Santander FT/FTA RMBS SANTANDER transactions

Key Features	RMBS 4	RMBS 3	RMBS 2	RMBS 1
Originator	**Santander and Banesto**	Santander and Banesto	Santander and Banesto	Santander and Banesto
Closing date	**Jul 2015**	Nov 2014	Jul 2014	Jun 2014
Senior tranche (EURm)	**2,360**	5,395	2,520	962
CE (% of portfolio)	**25%**	32.0%	31.0%	41.0%
Mezzanine tranche (EURm)	**590**	1,105	480	338
CE (% of portfolio)	**5%**	15.0%	15.0%	15.0%
Junior tranche (EURm)	**147.5**	975	450	195
CE (% of portfolio)	**0%**	0%	0%	0%
Reserve fund (EURm)	**147.5**	975	450	195
Portfolio size (EURm)	**2,950**	6,500	3,000	1,300
Current LTV under updated appraisals	**102.9%**	104%	n/a	n/a
Current LTV under original appraisals	**69.5%**	70%	68%	73%
Original LTV under original appraisals	**79.2%**	80%	79%	80%
WA time since updated appraisal (months)	**15.3**			
Top 1 region	**Andalucia (20%)**	Andalucia (24.4%)	Madrid (21.72%)	Andalucia (21.8%)
Top 2 region	**Madrid (18.9%)**	Madrid (19.8%)	Andalucia (17.28%)	Madrid (17.93%)
Top 3 region	**Catalonia (15.1%)**	**Catalonia** (11.8%)	**Catalonia** (16.82%)	**Catalonia** (16.94%)
Restructured loans (% of portfolio)	**20.7%**	19.5%	21.1%	7.2%
Broker-originated loans (% of portfolio)	**0.9%**	4.5%	2.3%	4.5%
Second homes (% of portfolio)	**2.0%**	1.6%	2.1%	7.2%
Non-Spanish borrowers (% of portfolio)	**4.9%**	5.1%	3.5%	6.0%
Number of loans*	**20,255**	45,318	20,881	n/a
Number of obligors*	**34,655**	45,166	20,550	9,367
Original amount (EURm)*	**3,465**	7,869	3,752	n/a
Outstanding amount (EURm)*	**3,011**	6,787	3,188	1,353
Average outstanding amount (EUR)	**148,658**	173,651	152,695	144,424
WA coupon	**1.6%**	1.7%	1.2%	2.0%
WA spread	**0.9%**	0.8%	0.6%	1.4%
Fixed rate (% of portfolio)	**0.2%**	0.3%	0.3%	0.0%
WA seasoning (years)	**7**	6.5	6.8	5.5
WA current remaining term (years)	**25.5**	25.2	24.3	25.5
WAL with no prepayments (years)	**13.7**	n/a	n/a	n/a
Oldest loan	**Jan 2004**	n/a	n/a	n/a
Youngest loan	**Jan 2015**	n/a	n/a	n/a
Earliest maturity	**Oct 2017**	n/a	n/a	n/a
Longest maturity	**Aug 2059**	n/a	n/a	n/a
Bullet (% of portfolio)	**0.0%**	n/a	n/a	n/a
First-ranking mortgage (% of portfolio)	**100.0%**	100.0%	100.0%	100.0%
Secured loans (% of portfolio)	**100.0%**	100.0%	100.0%	100.0%
Residential (% of portfolio)	**100.0%**	100.0%	100.0%	100.0%

APPENDIX II. VINTAGE DATA

The following figures show the granularity of the vintage data used to derive modelling assumptions and the historical performance of the most relevant segments present in the portfolio.

Coverage and granularity

90dpd delinquency data

Figure 25. Coverage and granularity of vintage data for 90dpd arrears

Non-Restructured	Broker Mortgages (0.9% of preliminary pool)	Mortgages (78.4% of preliminary pool)
Total volume (EURm)	159	7,250
Total count	1,099	46,390
Series	10	31
Series period (mo)	3	3
Period covered	2007 to 2010	2007 to 2014

Figure 26. Coverage and granularity of vintage data for 90dpd arrears (restructured)

Restructured (‘reconducted’)	Restructured Broker Mortgages (0.1% of preliminary pool)	Restructured Mortgages (20.6% of preliminary pool)
Total volume (EURm)	70	2,206
Total count	409	11,530
Series	11	32
Series period (mo)	3	3
Period covered	2007 to 2011	2007 to 2014

180dpd recovery data

Figure 27. Coverage and granularity of vintage data for 180dpd arrears recoveries

Non-Restructured	Broker Mortgages (0.9% of preliminary pool)	Mortgages (78.4% of preliminary pool)
Total volume (EURm)	37	349
Total count	223	1,942
Series	27	30
Series period (mo)	3	3
Period covered	2008 to 2014	2007 to 2014

Figure 28. Coverage and granularity of vintage data for 180dpd arrears recoveries (restructured)

Restructured (‘reconducted’)	Restructured Broker Mortgages (0.1% of preliminary pool)	Restructured Mortgages (20.6% of preliminary pool)
Total volume (EURm)	19	1,007
Total count	103	5,120
Series	24	29
Series period (mo)	3	3
Period covered	2008 to 2014	2007 to 2014

Relevant vintage data

90dpd delinquency data	180dpd recovery data

Figure 29. 90dpd delinquency data consolidated by year **Mortgages**

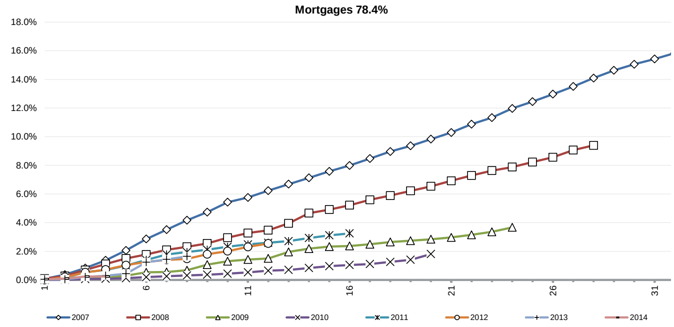


Figure 30. 180dpd recovery data consolidated by year **Mortgages**

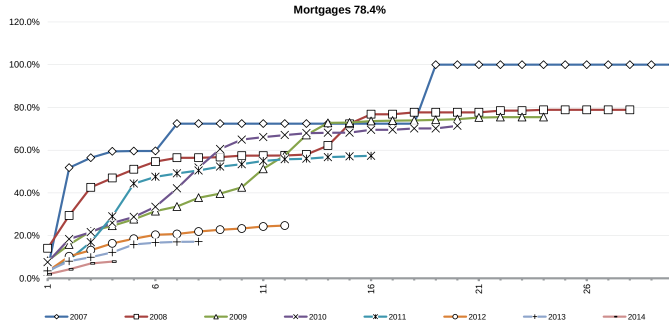


Figure 31. 90dpd delinquency data consolidated by year **Restructured Mortgages**

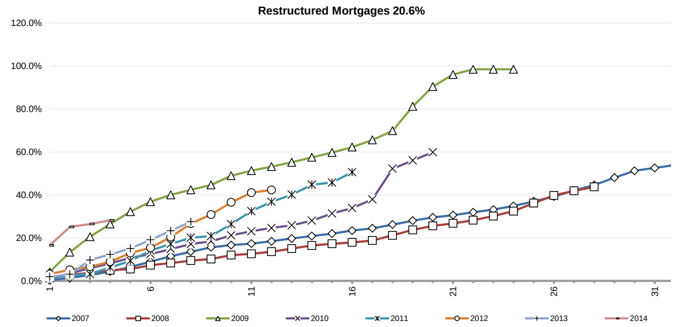


Figure 32. 180dpd recovery data consolidated by year **Restructured Mortgages**

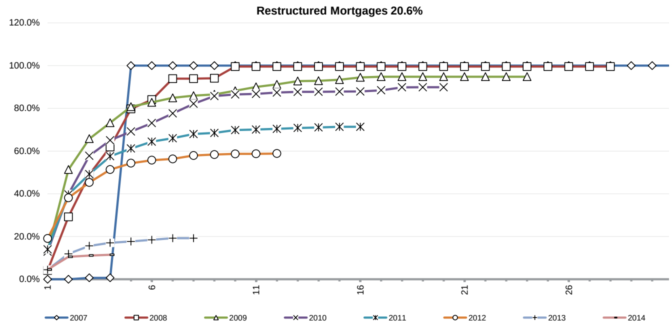


Figure 33. 90dpd delinquency data consolidated by year **Broker Mortgages**

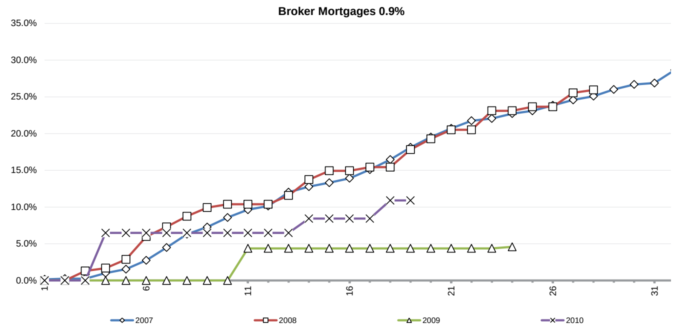
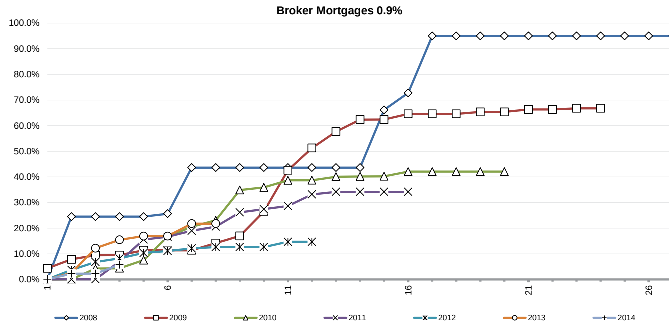


Figure 34. 180dpd recovery data consolidated by year **Broker Mortgages**



APPENDIX III. RECOVERY ANALYSIS

The agency calculates the recovery rates on secured exposures, such as mortgages, by analysing the value of the dedicated security

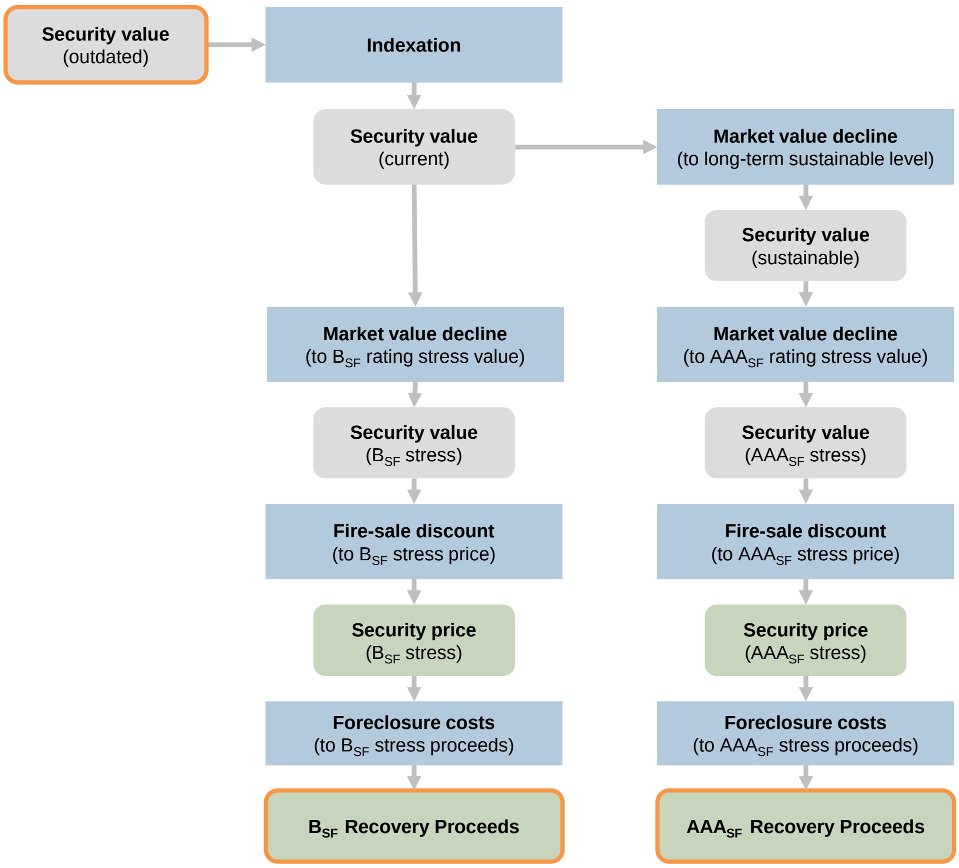
The agency calculates the recovery rates on secured exposures, such as mortgages, by analysing the value of the dedicated security. In this analysis, the security value is the stressed value of the underlying residential real-estate properties. The recovery analysis considers the distance to a long-run or sustainable price level of the underlying properties, as well as fire-sale discounts during a foreclosure process. Consequently, the market-value-decline assumptions we consider depend on the region where the collateral is located, as well as on market conditions.

Scope's framework for fundamental recovery analysis involves: i) estimating the current value of the property (typically by indexation); ii) estimating the distance from estimated price to long-term sustainable values; iii) haircutting the current value of the property by applying a rating-conditional market-value decline and a constant fire-sale discount; and iv) deducting foreclosure costs from the estimated, gross recovery proceeds. Steps 'ii)' and 'iii)' are embedded in the total market-value-decline assumptions as calculated in 'Appendix IV. Spanish market-value-decline analysis'.

The recovery rates considered in the analysis reflect the outstanding notional of the loan as of closing. These recovery rates are thus conservative because deleveraging reduces the loan-to-value ratio and increases the expected recovery rates as time passes.

Figure 35 shows the analytical framework applied to estimate the proceeds recovered from the enforcement of the security. The framework includes the adjustment of the security value to a long-term, sustainable value to estimate the recovery proceeds under the highest rating stress.

Figure 35. Diagram of fundamental recovery analysis for B_{SF}- and AAA_{SF}-conditional stress levels



AAA_{SF} market-value declines capture the distance to sustainable values and an additional stress of 10%. Whereas B_{SF} market-value declines take our forward-looking view on the current market conditions and values, and they still include the effect of a fire-sale discount. Scope creates rating-conditional recovery differentiation by tiering the market-value declines implicit for these two analysis: stressed long-term value analysis for AAA_{SF} and forward-looking/current-value analysis for B_{SF}.

Scope relied on fundamental recovery analysis because the security represents first-lien claims on the underlying real-estate properties. We believe that the security cannot be challenged from a legal standpoint, as follows from our analysis of the legal opinion.

APPENDIX IV. SPANISH MARKET-VALUE-DECLINE ANALYSIS

Scope analysed the current situation of the Spanish property market to derive market-value decline (MVD) assumptions specific to the different regions. This analysis is possible because the portfolio provides a good representation of the properties in a region: a distribution over cities and towns, which is similar to that over the entire regional market represented by the ministry data.

We have analysed home prices for the different Spanish regions for the period Jan 1987 to Dec 2014, as provided by the Spanish ministry of development; and a set of 1,965 valid observations of repossessions of residential properties provided by Santander covering the period from Feb 2005 to today.

Scope's AAA-MVDs seek to eliminate overpricing over a 'sustainable' long-term value of a property with an additional fire-sale discount

The MVDs calculated by Scope for AAA-conditional rating scenarios seek to eliminate any overpricing realised over our estimation of the 'sustainable' long-term value of a property[3] (including an extra 10% stress) with the additional application of a fire-sale discount of 30%. The MVD also considers the inflation rates when calculating the 'sustainable' values. The B-conditional MVDs reflect only the fire-sale discount of 30%.

Figure 36 shows the total MVD assumptions calculated by Scope for the different regions as a function of the rating-conditional stress. The MVDs reflect regional differences in relation to property-price growth rates and the regional market's ability to correct inflated prices. These total MVD values apply to indexed property values according to the indexation curves from the ministry of development. Hence our analysis also considers any price corrections to date.

We have also applied a floor of 50% to ensure a minimum level of stress, irrespective of the price correction in the region. This adds additional protection against market-value volatility in some regions for which prices are currently close to our estimated sustainable price level. For example, Figure 37 shows that the haircut from sustainable prices for Madrid is larger than for Andalucia because we believe the more dynamic market and stronger economy in Madrid supports sustainable prices which also grow faster than in Andalucia. But the higher level of sustainable prices in Madrid comes with the risk of unforeseen corrections which is covered by the floor assumption.

Figure 36. Total MVD assumptions and haircuts observed in Santander repossession data

	AAA	AA	A	BBB	BB	B	Observed[a]
Andalucia	70.0%	**60.0%**	52.5%	45.0%	37.5%	30.0%	54.7% ± 1.8%
Aragon	55.0%	**50.0%**	45.0%	40.0%	35.0%	30.0%	42.6% ± 4.7%
Asturias	52.5%	**50.0%**	45.0%	40.0%	35.0%	30.0%	50.3% ± 10.1%
Baleares	62.5%	**57.5%**	50.0%	42.5%	37.5%	30.0%	53.3% ± 3.7%
Canarias	57.5%	**52.5%**	47.5%	40.0%	35.0%	30.0%	54.4% ± 1.3%
Cantabria	62.5%	**57.5%**	50.0%	42.5%	37.5%	30.0%	41.6% ± 7.9%
Castilla La Mancha	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	48.2% ± 3.9%
Castilla Leon	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	44.1% ± 3.1%
Cataluna	52.5%	**47.5%**	42.5%	40.0%	35.0%	30.0%	57.4% ± 1.9%
Valencia	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	58.1% ± 1.7%
Extremadura	67.5%	**60.0%**	52.5%	45.0%	37.5%	30.0%	48.6% ± 9.3%
Galicia	57.5%	**52.5%**	47.5%	42.5%	35.0%	30.0%	45.9% ± 5.1%
La Rioja	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	47.3% ± 6.8%
Madrid	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	48.3% ± 2.2%
Murcia	65.0%	**57.5%**	50.0%	45.0%	37.5%	30.0%	55.6% ± 3.3%
Navarra	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	54.0% ± 8.3%
Pais Vasco	55.0%	**50.0%**	45.0%	40.0%	35.0%	30.0%	51.9% ± 3.2%
Ceuta	52.5%	**47.5%**	42.5%	40.0%	35.0%	30.0%	54.7% ± 1.8%
Melilla	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	42.6% ± 4.7%

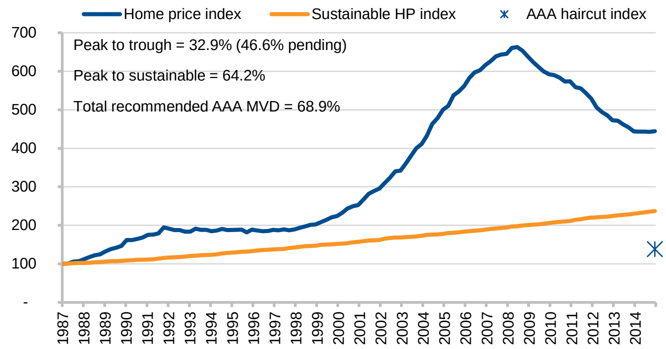
[a] The observed total MVD interval has a 90% confidence level, and we derived it from Santander's repossession data for the period February 2005 to today. Consequently, they reflect different degrees of price corrections in the market. The ranges displayed cannot be directly compared to the total MVD assumptions used by Scope for the analysis.

[3] We have derived the sustainable price levels by analysing market prices over a healthy period between 1987 and 1999.

Figure 37 shows the recommended total MVDs in the context of market prices for the four most relevant regions in the portfolio. The figures illustrate that the dynamism of Madrid has allowed it to almost close the value gap with respect to the sustainable price level (only 9% of the peak-to-sustainable correction is pending), as opposed to Andalucia which is far from converging to the sustainable levels (47% of the peak-to-sustainable correction is pending).

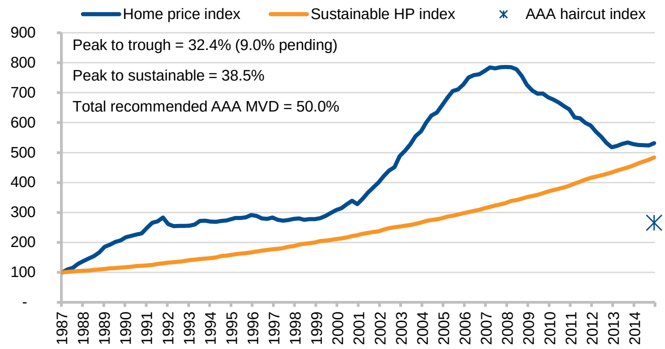
Figure 37. Total market-value-decline assumptions for the four most relevant regions in the portfolio.

House Prices 'Andalucia' (20.0% of total balance)



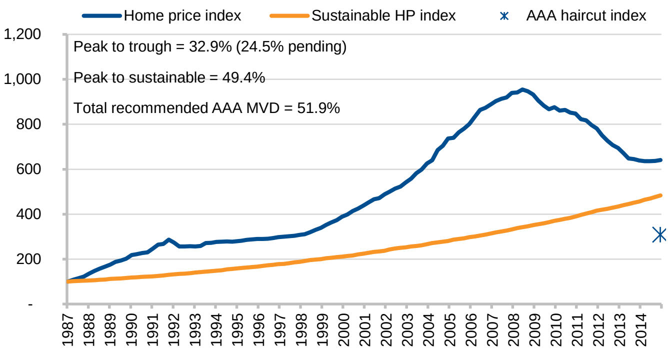
Source: Spanish Ministery of Development and Scope.

House Prices 'Madrid' (18.9% of total balance)



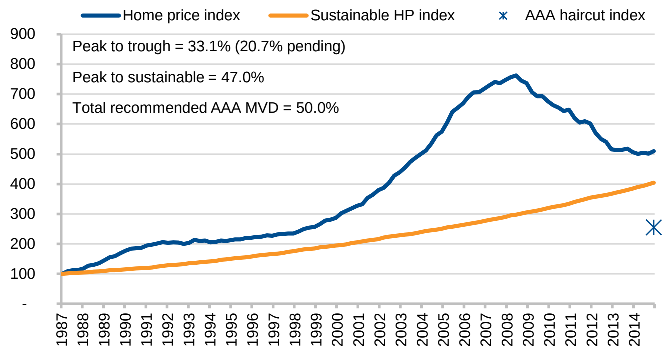
Source: Spanish Ministery of Development and Scope.

House Prices 'Cataluna' (15.1% of total balance)



Source: Spanish Ministery of Development and Scope.

House Prices 'Valencia' (10.4% of total balance)



Source: Spanish Ministery of Development and Scope.

APPENDIX V. REGULATORY AND LEGAL DISCLOSURES

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 Carlos Terre, Executive Director. Responsible for approving the rating: Guillaume Jolivet, Managing Director.

Rating history

The rating concerns newly-issued financial instruments, which were evaluated for the first time by Scope Ratings AG. Scope had already performed preliminary ratings for the same rated instruments 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
ES0305078000	24 June 2015	new	(P) $AA-_{SF}$
ES0305078018	24 June 2015	new	(P) CC_{SF}
ES0305078026	24 June 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.

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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; draft 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 Structured Finance Instruments Methodology Guidelines, dated July 2014. Scope also applied the principles contained in the proposed methodology document Rating Methodology for Counterparty Risk in Structured Finance Transactions (Call for Comments), dated July 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.

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