

Research

New Issue: Pepper Iberia Consumer 2024 FT

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Related Research

New Issue: Pepper Iberia Consumer 2024 FT

Ratings Detail

Ratings							
Class	Rating*	Class size (mil. €)	Available credit enhancement (%)§	Interest	Call option date	Legal final maturity	
A	AAA (sf)	204.00	21.60	1ME + 0.90%	March 2028	April 2037	
B-Dfrd	AA (sf)	16.70	15.18	1ME + 1.30%	March 2028	April 2037	
C-Dfrd	A (sf)	13.00	10.18	1ME + 1.65%	March 2028	April 2037	
D-Dfrd	BBB (sf)	16.60	3.80	1ME + 2.50%	March 2028	April 2037	
J†	NR	15.30	N/A	7%	March 2028	April 2037	

Note: *Our ratings address timely payment of interest and ultimate payment of principal on the class A notes and ultimate payment of interest and principal on the class B-Dfrd, C-Dfrd, and D-Dfrd notes until they become the most senior tranche. §Available credit enhancement consists of subordination based on collateral balance. A cash reserve is available to cover senior expenses and interest payments on the most senior class of notes. Any release of the cash reserve as it amortizes can be used to cure any debit amounts in the principal deficiency ledgers. †The reserve is funded through part of the proceeds of the class J notes. The class J notes are partially backed by approximately 3.8% of the closing portfolio. 1ME--One-month Euro Interbank Offered Rate. Dfrd--Deferrable. NR--Not rated. N/A--Not applicable.

Supporting ratings			
Institution/role	Ratings	Replacement trigger	Collateral posting trigger
Banco Santander S.A. as accounts bank	A+/Stable/A-1	A	N/A
CaixaBank S.A. as direct debit collection account provider	A-/Positive/A-2	BBB	N/A
Bankinter S.A. as direct debit collection account provider	A-/Stable/A-2	BBB	N/A
Banco Santander S.A. as direct debit collection account provider	A+/Stable/A-1	BBB	N/A
Banco Santander S.A. as special collection account provider (credit card payments)	A+/Stable/A-1	BBB	N/A
Banco Santander S.A. as swap counterparty	RCR: AA--/A-1+	Dynamic trigger based on the rating of the most senior tranche	Dynamic trigger based on the rating of the most senior tranche

N/A--Not applicable. RCR--Resolution counterparty rating.

Overview

- S&P Global Ratings assigned its credit ratings to Pepper Iberia Consumer 2024, Fondo de Titulacion's (Pepper Iberia) asset-backed floating-rate class A, B-Dfrd, C-Dfrd, and D-Dfrd notes. At closing, Pepper Iberia also issued unrated class J notes.
- The class J notes are partially backed by assets (approximately 3.80% of the closing pool) and the tranche's proceeds fund (i) part of the purchase of the initial portfolio; (ii) the reserve; and (iii) issuer costs and expenses.
- This is Pepper Spain's third ABS transaction of Spanish assets.
- The underlying collateral comprises consumer loan receivables that are either point-of-sale (POS) or personal instalment facilities (PIL) granted to obligors in Spain. All the loans reference a fixed interest rate.

- The transaction has a 24-month revolving period, subject to early amortization upon the occurrence of certain events, including performance-based tests. The transaction also features a pre-funding reserve, which the issuer funds using a portion of the notes' proceeds. The issuer will use these funds to purchase additional assets during the revolving period once all principal funds have been used.
- A combination of excess spread and subordination provides credit enhancement.
- The notes pay one-month Euro Interbank Offered Rate (EURIBOR) plus a margin, the combination being subject to a floor of zero.
- The transaction benefits from an interest rate swap on one-month EURIBOR, with a rate based on a predefined schedule. This schedule incorporates a 16% constant payment rate assumption that may not perfectly hedge the transaction in a low prepayment scenario.
- The transaction also features a clean-up call option, whereby on any interest payment date when the rated notes' outstanding principal balance is less than 20% of the initial rated notes' balance, the seller may repurchase all receivables, provided the issuer has sufficient funds to meet all the outstanding obligations.
- Our ratings address the timely payment of interest and ultimate payment of principal on the class A notes and the ultimate payment of interest and principal on the class B-Dfrd, C-Dfrd, and D-Dfrd notes. Once the notes become the most senior outstanding, interest payments are due immediately. Any deferred interest will not accrue interest.
- Our structured finance sovereign risk criteria and counterparty criteria do not constrain the ratings in this transaction. The final documentation and the presented remedy provisions adequately mitigate counterparty risk in line with our counterparty criteria.

The Credit Story

Strengths, concerns, and mitigating factors

Strengths	Concerns and mitigating factors
Pepper Finance Corporation S.L.U. and Pepper Assets Services S.L.U. (together Pepper Spain), the originator and servicer of the loans, respectively, has been operating in the Spanish consumer space for more than a decade. As part of our operational risk analysis, we are satisfied with their ability to service the current portfolio as well as originate new loans during the revolving period.	The portfolio is revolving, and the pool's characteristics could change over time. However, the addition of new loans is subject to certain limits, and our base-case assumptions consider potential changes in the pool composition. Performance triggers are also in place to end the revolving period if asset performance were to significantly deteriorate.
As of the final cut-off date and in line with eligibility conditions, the portfolio did not contain any delinquent or defaulted contracts.	Service-related loans for which treatments (typically dental or beauty) have not yet been completed create setoff risk to the transaction. The maximum percentage of loan balances linked to non-completed treatments, together with their seasoning, is limited in the eligibility criteria and portfolio concentration limits defined in the documentation. Considering these limitations, we have sized a set-off exposure of 1.2% to cover this potential risk.
The allowed maximum exposure to the top merchant is 20% of the aggregate principal balance, reducing concentration risk. Additionally, the top service-related merchant is capped at 3.5% compared to 7.0% in the previous transaction. Finally, additional limitations have been included. Service merchants that individually represent more than 2% and 1% of the portfolio cannot represent on an aggregated basis more than 10% and 15% respectively.	PIL product borrowers pay an interest rate between 18%-26%. Under Spanish law, high interest rates could be seen as usurious and reduce the spread available in the transaction. Even if this risk cannot be excluded, data provided by Pepper Spain since the law was introduced shows a negligible incidence of complaints.

Strengths, concerns, and mitigating factors (cont.)

Strengths	Concerns and mitigating factors
The assets' weighted-average remaining term is limited to 60 months (PIL loans) or 30 months (POS loans). We associate receivables with a shorter life with lower default probability.	An interest rate swap agreement mitigates the interest rate risk between the fixed-rate assets and the floating rate of interest payable on the notes. Nevertheless, such a hedge has limitations. The swap notional assumes a 16.0% prepayment rate and the clean-up call being exercised by the transferor, which may leave a portion of the exposure unhedged, mainly in low prepayment scenarios. Our cash flow analysis incorporates the predefined swap notional.
	The transaction incorporates a pre-funding reserve funded at closing using part of the note proceeds. The issuer will only be entitled to use these funds to purchase additional receivables during the revolving period after using principal funds. This pre-funding reserve causes a mismatch between receivables and liabilities at closing that may last until the end of the revolving period if there are not enough receivables available for the issuer to purchase. The transaction features early amortization triggers if certain performance triggers are breached (e.g. failure to fund the cash reserve or the receivable balance falling below a certain level). Our rating analysis incorporates the effects of the pre-funding reserve fund.
	The transaction is exposed to service-related loans, which may involve higher operational risk if some of these merchants default, leaving customers with uncompleted treatments. We believe Pepper Spain's active role may be more difficult to replace upon a servicer termination event. This is mainly driven by the high incentive it has to secure an agreement if any of the service providers become insolvent, as Pepper Spain advances the full amount of the treatment on day one and ranks as creditor if any of these service providers become insolvent. Our operational risk assessment reflects the presence of a back-up servicer at closing, which partially mitigates this risk.
	The transaction is exposed to commingling risk if the originator becomes insolvent. A pledge over the seller collection accounts for the issuer's benefit mitigates this risk. The legal opinion provides comfort that this pledge creates a valid security interest over monies deposited in the collection account. However, like in the previous transaction the opinion does not confirm that the security will be immediately enforceable if the servicer becomes subject to insolvency proceedings, and identifies a risk that the ability to enforce the security and access the monies in the account could be subject to a moratorium period of up to one year from the declaration of insolvency. We have incorporated this risk in our cash-flow model by assuming the transaction goes through a temporary liquidity stress.

Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For the consumer ABS sector, we view the exposure to environmental credit factors as below average, social credit factors as above average, and governance credit factors as average (see "ESG Industry Report Card: Credit Card Asset-Backed Securities," published on March 31, 2021).

We believe the transaction has above average exposure to social credit factors due to the risk posed by relatively high interest rates charged to borrowers, mostly in PIL products, which have an average interest rate of 20%. This is because the Spanish Supreme Court ruled that interest rates materially above the market average rate are usurious according to the Spanish Usury Law of 1908. Contracts affected by rulings are being declared invalid, resulting in the customer only being obliged to repay the drawn principal amount. In this transaction, robust eligibility criteria restrict the originator's ability to sell assets to the issuer that are affected by litigation. Additionally, while the seller is still in business, there is a repurchase obligation of all receivables that don't comply with the legal provisions related to usurious rates if the reduced interest could affect the minimum weighted-average yield during the revolving period. Finally, we received data on the frequency of complaints related to high interest rates and these remain negligible,

even if the law was implemented years ago.

In our view, the exposure to governance credit factors is higher than the sector benchmark given that this transaction securitizes a revolving pool with reinvestment and prefunding features, resulting in the risk of loosening underwriting standards or potential adverse selection. However, Pepper Spain has strong internal control frameworks with significant relevant experience at key stages of the process. We have also adjusted our credit assumptions to account for the risk of pool migration considering the concentration limits.

Originator And Servicer

Pepper Finance Corporation S.L.U. and Pepper Assets Services S.L.U. (together Pepper Spain), the originator and servicer of the loans, respectively, are active participants in the unsecured consumer loan market in Spain.

Pepper Spain's core business is lending and servicing activity, and its lending focuses on two products: POS loans and PIL products. The POS network covers over 11,400 retailers across furniture, electronics, dental services, and optical products.

We conducted an overview of Pepper Spain's origination, underwriting, collections, and risk management practices. We consider these to be in line with general market practice.

We believe Pepper Spain's active role may be more difficult to replace upon a servicer termination event. This is partly because Pepper Spain has a high incentive to secure an agreement if any of the service providers become insolvent, as it would advance the full amount of the treatment on day one and would rank as creditor if any of these service providers become insolvent. In our view, the sensitivity of service-related loans' performance to a disruption of the service provider is high. We have therefore classified the severity risk as moderate.

This risk is partially mitigated by the warm back-up servicer in place, Pepper Spanish Servicing, S.L.U. Although both entities share a similar name, Pepper Finance Corporation S.L.U. and Pepper Spanish Servicing, S.L.U. (the back-up servicer) are two unrelated entities, owned by uncorrelated owners, with independent staff and premises. After reviewing this under our operational risk analysis, we have not applied a cap to our ratings in this transaction.

Asset Description

The underlying collateral comprises consumer loan receivables that are either a POS or a PIL loan granted to obligors in Spain. All loans feature a fixed interest rate, with an amortizing profile and no balloon or direct residual value exposure.

POS loans are originated mainly by merchants associated with Pepper Spain, where the customer purchases either a product (electronics, furniture, etc.) or a service (mainly dental or beauty-related). The majority of these loans are originated with a merchant discount instead of bearing interest, meaning that Pepper Spain buys them below their face value (what they define as "synthetic balance"). From a cash-flow/accounting perspective, there is no difference from a standard interest-paying loan. Compared to PIL loans, POS loans are shorter-lived and have a much lower average

balance (see table 1).

PILs are standard consumer loans, which Pepper Spain tends to cross-sell to existing POS customers. These loans carry a higher interest rate compared to POS loans.

The purchase price of the receivables is the synthetic principal balance for discount loans and the principal balance for the rest of the loans.

We have received a 99/1 audit report for this transaction. We did not apply any adjustments to our analysis given there were no major errors in the report and the report assured us that data was sufficiently robust.

Table 1

Product comparison		
	Point-of-sale loan (POS)	Personal loan (PIL)
Weighted-average yield (%)	10.02	19.5
Interest rate type	Merchant discount (85.9%); fixed rate (14.1%)	Fixed rate (100%)
Average current balance (€)	694	4,986
Average monthly instalment (€)	111.0	160.3
Weighted-average original term (months)	26.5	64.0
Most frequent employment type	Employed--private sector (60.1%)	Employed--private Sector (49.1%)

Table 2

Collateral key features*			
	Pepper Iberia Consumer 2024 Fondo de Titulizacion	Pepper Iberia Unsecured 2022 DAC	Pepper Iberia Unsecured 2019 DAC
Pool cut-off date	Aug. 31, 2024	Feb. 28, 2022	Sept. 6, 2019
Principal outstanding of the pool (mil. €)	247.337	190.318	210.439
Average loan current balance (€)	1,133	1,019	1,037
Weighted-average seasoning (months)	7.3	6.9	10.8
Weighted-average remaining term (months)	36.3	31.6	31.3
Weighted-average yield (POS; %)	10.2	6.6	6.9
Weighted-average yield (PIL; %)	19.5	19.4	21.9
Top one merchant concentration (%)	2.47	6.4	17.7
Top five merchant concentration (POS; %)	20.2	20.5	37.9
Loan type (% of pool balance)			
POS	55.0	61.1	60.0
PIL	45.0	38.9	40.0
Financed product (% of POS balance)			
Dental treatment	25.7	23.5	21.8
Beauty treatment	10.1	4.9	2.3
Direct sale	21.5	25.6	46.0
Electronics	10.5	10.4	11.2

Table 2

Collateral key features* (cont.)			
	Pepper Iberia Consumer 2024 Fondo de Titulizacion	Pepper Iberia Unsecured 2022 DAC	Pepper Iberia Unsecured 2019 DAC
Optical	20.9	22.4	10.0
Furniture	10.3	12.3	8.5
Other	0.9	0.9	0.2

*Calculations are according to our methodology and based on the outstanding discounted principal balance (synthetic balance).
POS--Point-of-sale loans. PIL--Personal loans.

Eligibility criteria and portfolio concentration limits

The transaction documents set out certain eligibility criteria and portfolio concentration limits, some of which are highlighted below.

Table 3

Eligibility criteria and portfolio concentration limits	
1	The purchased eligible loan is granted to individuals resident in Spain.
2	The agreement is governed by Spanish law and is in line with consumer credit legislation and all other applicable legal/regulatory provisions.
3	At least one instalment has already been paid.
4	The purchased eligible loan is not granted to any employees of the originator.
5	The purchased eligible loan is not classified as defaulted or delinquent.
6	Pepper Spain has full legal title to the receivable prior to the transfer.
7	The outstanding principal balance of the eligible loan is not greater than €10,000 for POS loans and €12,000 for PILs.
8	The POS loans for which the loan is service-related (beauty or dental treatment) and relates to a non-completed treatment must be a minimum of three months seasoned from the date of signing of the loan agreement.
9	Loans granted to finance a service-related non-completed treatment is 20% of the aggregated PIL and POS portfolios. Also, the maximum percentage of these loans that also have less than 12 months of seasoning is 15%.
10	The maximum exposure to personal loans is 45%.
11	The maximum weighted-average remaining terms for POS loans is 30 months and 60 months for PIL.
12	The weighted-average minimum yield for POS loans is 8% and 18% for PIL.
13	The weighted-average minimum yield for POS loans less the weighted average of the fixed rate under the interest rate swap agreement is 4% and 13% for PIL.
14	Loans granted to the top one retailer cannot represent more than 10% of the aggregated PIL and POS loan portfolios and the top one service-related merchant cannot represent more than 3.5%.
15	In this transaction new eligibility criteria have been included. Service merchants that individually represent more than 2% and 1% of the portfolio cannot represent on an aggregated basis more than 10% and 15% respectively.

POS--Point-of-sale. PIL--Personal loans.

Credit Analysis

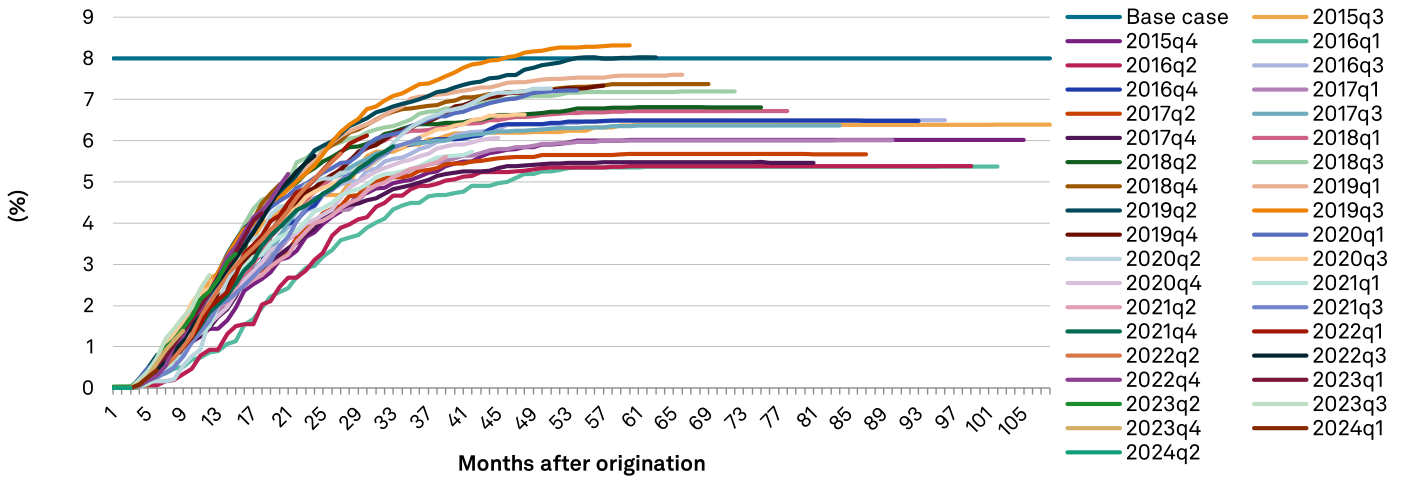
Gross loss base case

We received static gross loss data from June 2015 to June 2024, as well as dynamic delinquencies for both POS and PIL loans. The data provided is in line with our standards in relation to quality, timeliness, and reliability.

In the data provided, a loan is considered defaulted if it is more than 120 days overdue or if the servicer deems it to classified as such. Considering the uniqueness of each sub-product, we have assigned a different base case for each.

Chart 1

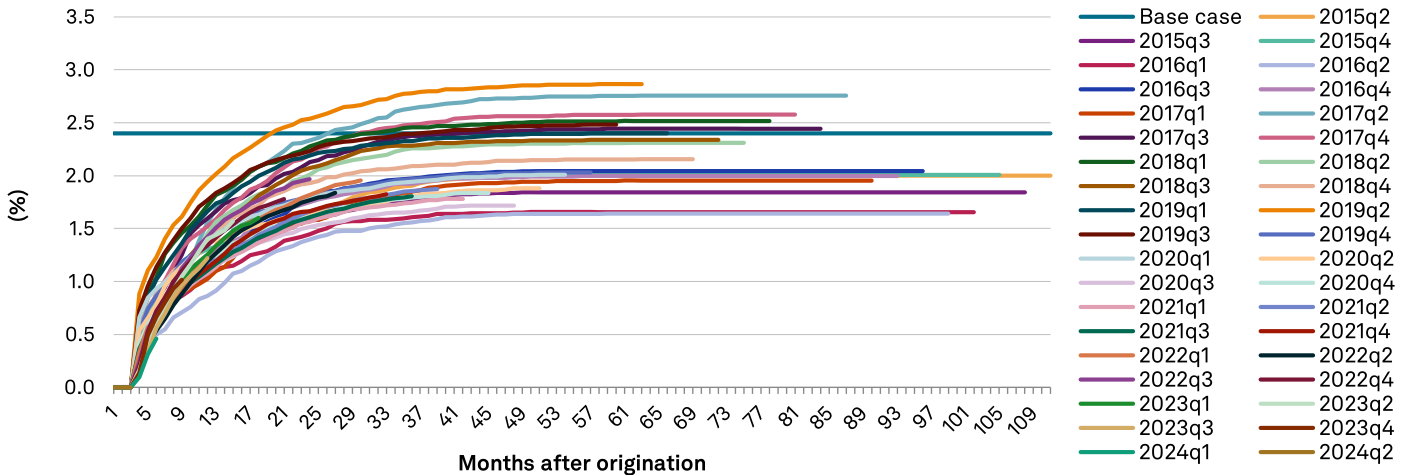
Cumulative monthly gross loss curves (PIL)



q--Quarter. Source: S&P Global Ratings.
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Chart 2

Cumulative monthly gross loss curves (POS)



q--Quarter. Source: S&P Global Ratings.
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Our base-case assumptions reflect performance trends based on historical data in Pepper Spain's book, our economic forecasts for Spain, our view of the portfolio's quality, and our analysis of the originator's underwriting and servicing standards.

Our weighted-average gross loss base case assumption for the securitized pool is 4.92% (2.4% and 8.0% for the POS loans and PIL portfolios, respectively). The applicable multiple at 'AAA' is 5.50x to reflect the information available that only covers the positive part of the economic cycle, the potential volatile performance driven by economic factors, and product type.

Recoveries and recovery timing

We have been provided with principal base recoveries default information from June 2015 to June 2024.

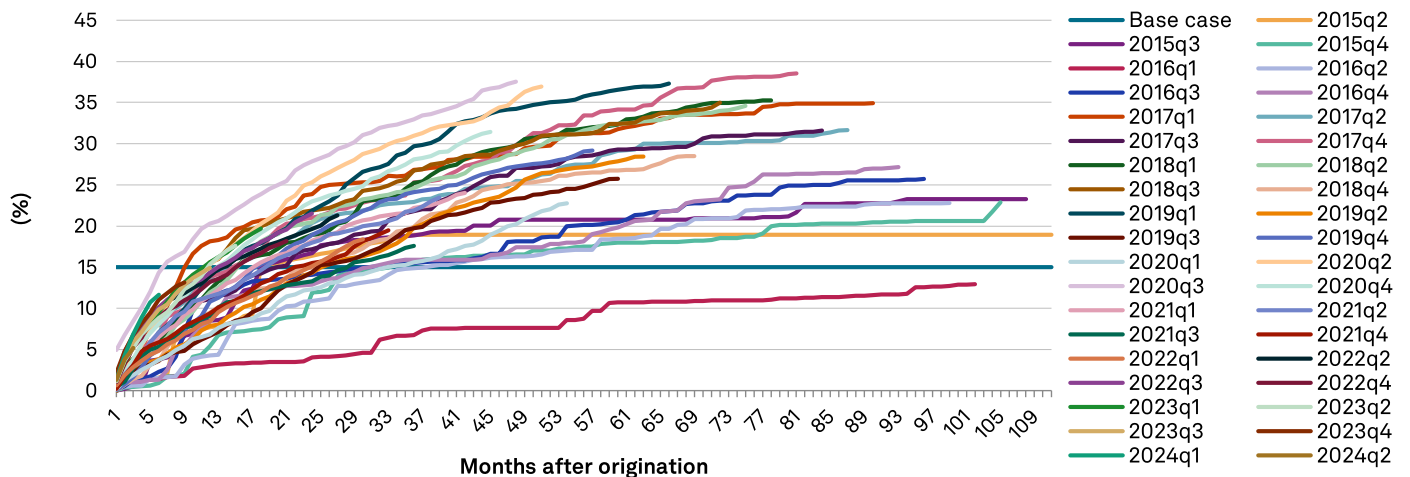
We started giving credit to recoveries in this transaction for the following reasons:

- The receivables are unsecured, and Pepper Spain does not have the recourse to the goods purchased by the relevant borrower. However, since 2020 Pepper Spain has focused on improving recoveries, establishing specialized teams. Pepper Spain has continued to fine tune its recovery process, which is reflected in the cohorts that now reach levels of 25%-30% for POS and 20%-25% for PIL.
- We have now almost four more years of information since the first Pepper Iberia transaction.
- Pepper Spain has established a solid track record as a servicer, having gained four years of experience in the Spanish market since we rated the first Pepper Iberia transaction.

Consequently, our recoveries assumption is 15% for both the POS and PIL portfolios.

Chart 3

Cumulative monthly recovery curves (POS)

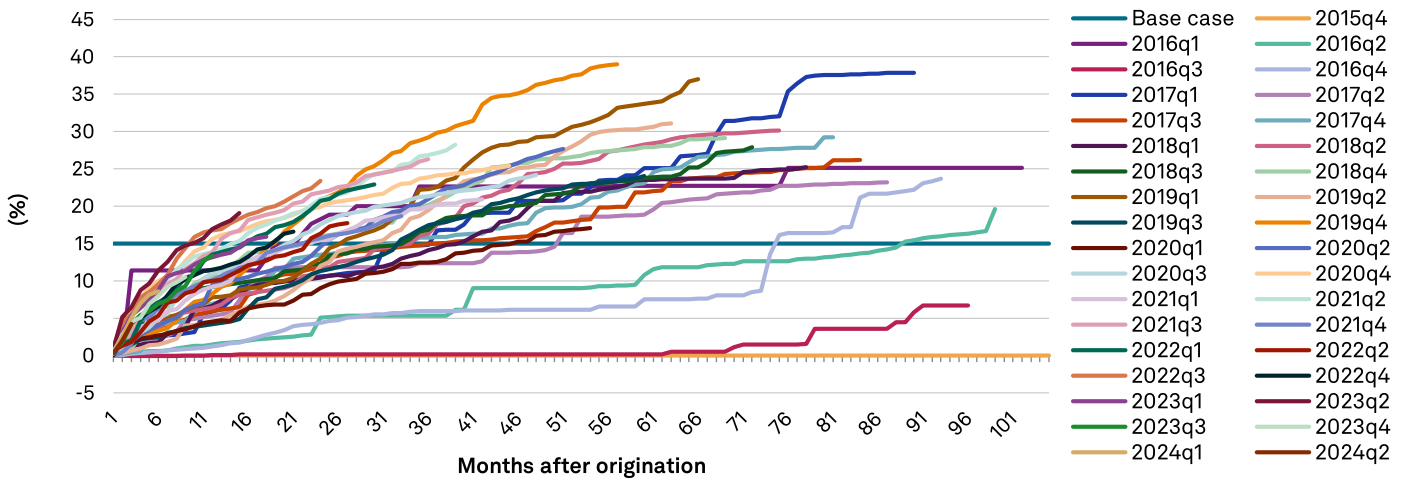


q--Quarter. Source: S&P Global Ratings.

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Chart 4

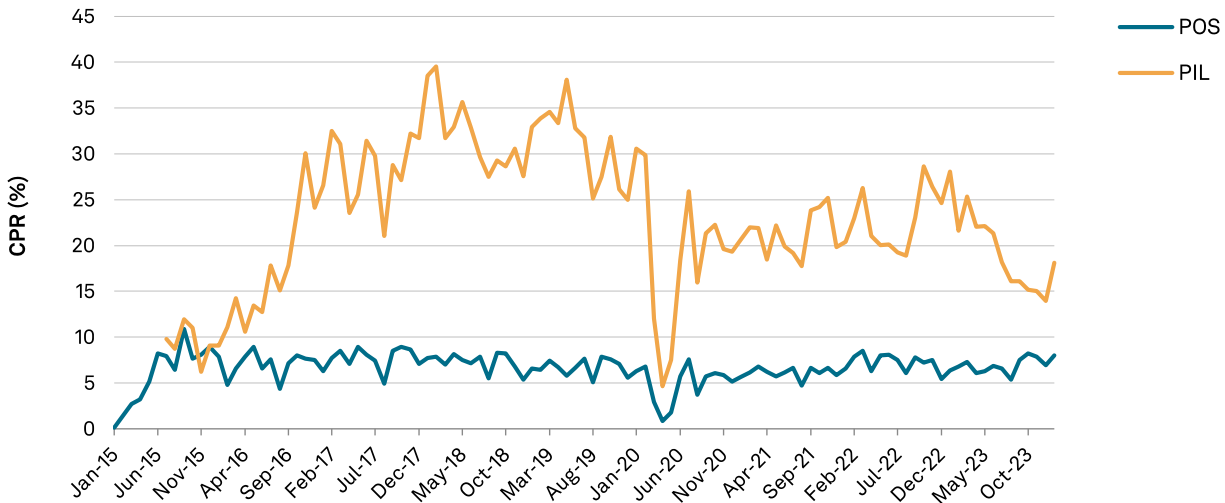
Cumulative monthly recovery curves (PIL)



q--Quarter. Source: S&P Global Ratings.
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Chart 5

Annualized prepayment rate



CPR--Constant prepayment rate. Source: S&P Global Ratings.
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Table 5

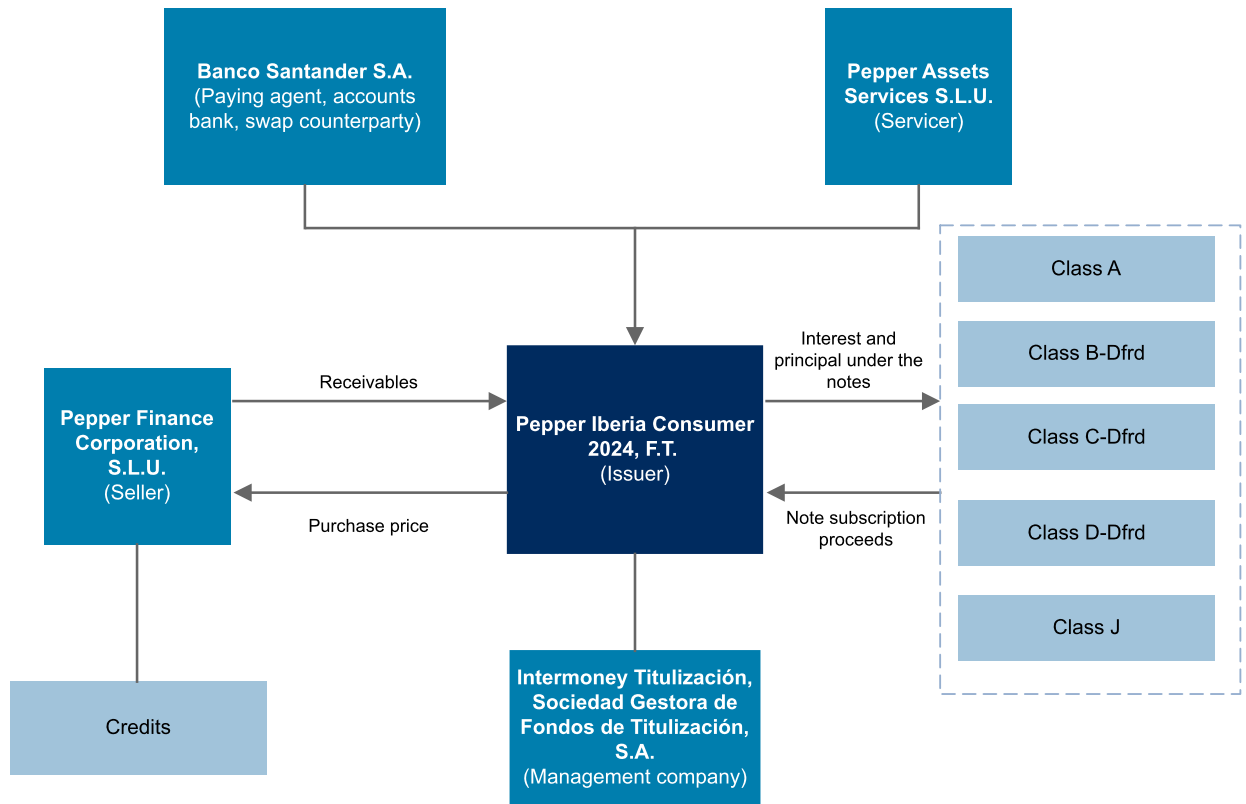
Credit risk stress assumptions							
Rating level	Cumulative gross loss base-case (%)	Stress multiple	Stressed cumulative gross losses (%)	Stressed recovery rate (%)	Haircut to recoveries (%)	Stressed cumulative net losses (%)	
AAA	4.92	5.50	27.06	15.0	55.0	25.2	
AA	4.92	4.50	22.14	15.0	50.0	20.5	
A	4.92	3.50	17.22	15.0	45.0	15.8	
BBB	4.92	2.25	11.07	15.0	40.0	10.1	
BB	4.92	1.75	8.61	15.0	35.0	7.8	
B	4.92	1.20	5.90	15.0	30.0	5.3	

Transaction Structure

In this transaction, Pepper Finance Corporation S.L.U. sells unsecured consumer loans to Pepper Iberia Consumer 2024 Fondo de Titulizacion, which issues notes to fund such purchase.

Chart 6

Transaction structure



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The issuer is an Spanish special-purpose entity, which we consider to be bankruptcy remote under our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The transaction legal opinion confirms that the sale of the assets would survive the seller's insolvency.

Recent changes introduced to Spanish interest stripping rules could limit the issuer's ability to deduct net interest expenses if they exceed a certain threshold. In considering the issuer's tax status for the purposes of our legal criteria, we have taken account of forecasts provided by the originator indicating that the issuer's net interest expense should not exceed that threshold.

Cash-Flow Mechanics

The transaction has a separate interest and principal waterfall. Interest on the notes is payable monthly in arrears in

accordance with the interest waterfall. Interest due on the class B-Dfrd, C-Dfrd, and D-Dfrd notes is deferrable if available funds are insufficient to pay timely interest. Interest is not accrued on deferred interest. When the class B-Dfrd, C-Dfrd, and D-Dfrd notes are the most-senior notes outstanding, our ratings address timely payment of interest and ultimate payment of principal. The cash reserve and then the principal available funds can be used to pay senior expenses and interest on the most senior class of notes outstanding.

If an event of default occurs, all funds from the enforced security are distributed according to the post-enforcement priority of payments. We have reviewed the issuer events of defaults and have concluded that they are remote in our ratings scenarios. As a result, our analysis solely focuses on the pre-enforcement priority of payments.

Available funds

On each monthly payment date, the available interest amount and available principal amount will be applied according to the priority of payments.

Table 6

Available funds	
Available interest amount	Available principal amount
Interest collections.	Principal collections.
Any monies standing to the credit of the cash reserve fund, which are applied to make up a revenue shortfall.	Amounts applied in the interest waterfall to cure principal deficiencies (the PDL cure amounts).
Reallocated principal collections to remedy a revenue shortfall.	Unapplied principal amounts toward the purchase of new loans during the revolving period.
Cash reserve release amounts.	Repurchase price paid by the transferor in respect of a repurchase of a defaulted loan in circumstances where the PDL has been debited in respect of such defaulted loan.
Interest accrued on transaction account.	On the interest payment date on which the class D-Dfrd notes are to be redeemed, any amounts standing to the credit of the cash reserve.
Interest rate swap transaction agreement amounts due and payable or any swap collateral account surplus	Any amounts arising from the repurchase of receivables, other than defaulted receivables.
Repurchase price paid by the seller for defaulted or non-compliant receivables.	On the sixth payment date, cash sitting within the pre-funding reserve.
Excess funds from the collateralized part of the class J notes.	

PDL--Principal deficiency ledger.

Revolving period and amortization period

The transaction has a 24-month revolving period during which the issuer uses collections to purchase new loans from the seller.

The amortization period will start earlier than predetermined if an early amortization event takes place. These events include performance-based breaches, such as when are any debits balance outstanding on any principal deficiency ledger (PDL), a failure to maintain the cash reserve fund at its required amount, cumulative losses exceeding 7.5%, and loans in arrears between three and seven installments exceeding 3.5%, among others.

Payment waterfall

During the program's revolving and amortization phases, the transaction will use separate revenue and principal waterfalls, where excess spread can be used to cure any principal deficiencies arising from defaults on the receivables

or reallocated principal collections to cover senior items in the interest waterfall (see table 7).

Table 7

Simplified priority of payments		
Item	Interest priority of payments	Principal priority of payments
1	Senior fees and expenses. Senior swap fees	Amounts to be applied to meet a remaining revenue shortfall (comprises senior expenses, the senior swap fees, and interest amounts on the most senior class other than the class J notes' interest). Payments to pay the purchase price for further loans to be purchased by the issuer during the revolving period.
2	Class A notes' interest.	Class A note principal until fully redeemed.
3	Cure amount of the class A notes' PDL.	Class B-Dfrd note principal until fully redeemed.
4	Class B-Dfrd notes' interest.	Class C-Dfrd note principal until fully redeemed.
5	Cure amount of the class B-Dfrd notes' PDL.	Class D-Dfrd note principal until fully redeemed.
6	Class C-Dfrd notes' interest.	Class J note principal until fully redeemed.
7	Cure amount of the class C-Dfrd notes' PDL.	
8	Class D-Dfrd notes' interest.	
9	Cure amount of the class D-Dfrd notes' PDL.	
10	Cure amount of the class J notes' PDL.	
11	Top-up of the cash reserve to the required level.	
12	Swap junior payments	
13	Class J notes' interest and other junior items	

PDL--Principal deficiency ledger.

Cash reserve

At closing, the seller funded a cash reserve through part of the issuance of the class J notes equivalent to 1.25% of the class A, B-Dfrd, C-Dfrd, and D-Dfrd notes' balance.

The cash reserve is replenished on each payment date through the interest priority of payments up to its required amount, under the transaction documents. This required amount is 1.25% of the aggregate principal amount outstanding of the class A notes, B-Dfrd, C-Dfrd, and D-Dfrd notes. The cash reserve can be used to cover revenue shortfalls (senior expenses and interest payments on the most senior class of notes other than the class J notes).

The cash reserve is amortizing and any excess from the cash reserve will flow down the interest waterfall, becoming available to cure any debits on the PDLs.

Pre-funding reserve fund

At closing, the issuer used a portion of the notes' proceeds to credit the pre-funding reserve fund. The issuer may use this cash to purchase new receivables during the revolving period after using any principal available funds.

At the sixth payment date, any cash exceeding €500,000 sitting in the pre-funding reserve fund will be applied pro-rata

to redeem each class of notes, maintaining the same credit enhancement and cost of funding in the structure.

If there are not enough receivables to be purchased by the issuer, the transaction may be exposed to negative carry as there may be a potential asset-liability mismatch during the revolving period. Our rating analysis considers the potential negative drag during the revolving period.

Mitigation Of Seller And Servicer Risks

Commingling

If the servicer becomes insolvent, monies sitting in its collection accounts--that belong to the issuer--may become commingled with other funds in its insolvency estate. There is a mechanism in place in which the seller's collection accounts are pledged in the issuer's favor. In line with the previous transaction, the legal opinion provides comfort that this pledge creates a valid security interest over monies deposited in the collection accounts. However, the opinion does not confirm that the security will be immediately enforceable in the event the servicer becomes subject to insolvency proceedings, and identifies a risk that the ability to enforce the security and access the monies in these accounts could be subject to a moratorium period of up to one year from the declaration of insolvency. We believe that if this occurs, the transaction could experience a temporary liquidity stress, which we have considered in our modelling.

Set-off risk

Employee set-off risk will not arise as the eligibility criteria exclude loans granted to employees. Likewise, deposit set-off risk is also excluded as the servicer is not a deposit-taking institution.

However, there is set-off risk associated with POS loans granted to finance services that require more than one interaction with the obligor (typically dental or beauty). Borrowers have the right to withdraw services not yet provided and consequently get a reduction on their loan in proportion with the withdrawn service. Therefore, the amount of exposure is the value of the unfinished treatment.

If a treatment provider becomes insolvent, the seller commits to mitigate the related shortfall by repurchasing the loan(s) associated with unfinished treatments, but this risk cannot be excluded if both the seller (Pepper) and the treatment provider become insolvent.

We have sized a set-off loss on day one equal to 1.2% of the pool size, based on an average calendar of treatment completion provided and the seasoning limits, and non-completed treatment limits defined in the eligibility criteria.

Cash-Flow Analysis

In our cash-flow modeling, we did not consider the revolving period, and so we model the transaction only during the amortization stage. Below we summarize the main assumptions used in our cash-flow analysis:

Table 8

Cash flow assumptions

Recession start	Day one
-----------------	---------

Table 8

Cash flow assumptions (cont.)	
Length of recession	Weighted-average life of the assets (18 months)
Cumulative gross loss curve	Evenly distributed over weighted-average life
Recovery lag	50% in the first year and 50% in month 30.
Delinquency	Two-thirds of credit losses recovered six months later
Stressed servicing fees (%)	1.0
Fixed fees (£)	100,000
Prepayments (high/low)(%)	24/0.5
Interest rate patterns	Up, down, up-down, and down-up
Weighted-average yield on collateral (%)	4.0 fixed (POS)13.0 fixed (PIL)
Commingling stress	Liquidity, one month recovered in 12 months period
Swap notional	Pre-defined scheduled with 16% of prepayment rate
Setoff stress	Loss equal to 1.2% of initial portfolio balance.

POS--Point-of-sale. PIL--Personal loan.

Counterparty Risk

The issuer is exposed to Banco Santander S.A as the transaction's account provider and servicer's collection accounts.

The transaction is also exposed to Banco Santander S.A. as the interest rate swap provider. The documented replacement mechanisms for the interest rate swap and account providers adequately mitigate the transaction's exposure to counterparty risk in line with our criteria.

Table 9

Supporting Ratings				
Institution/role	Current counterparty rating	Minimum eligible counterparty rating	Remedy period (calendar days)	Maximum supported rating
Banco Santander S.A.as transaction account provider	A+/Stable/A-1	A	60	AAA
Banco Santander S.A. as special collection account provider	A+/Stable/A-1	BBB	60	AAA
Banco Santander S.A. as direct debit collection account provider	A+/Stable/A-1	BBB	60	AAA
Bankinter as direct debit collection account provider	A-/Stable/A-2	BBB	60	AAA
CaixaBank S.A. as direct debit collection account provider	A-/Positive/A-2	BBB	60	AAA
Banco Santander S.A. as interest rate swap provider	RCR: AA-/--/A-1+	Dynamic trigger based on the rating of the most senior tranche	10 business days for collateral posting and 90 calendar days for replacement.	AAA

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. 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 notes' risk profile, and our cash flow analysis results, the notes can achieve up to six notches above the sovereign rating. Consequently, our sovereign risk criteria do not cap our ratings on the notes.

Forward-Looking View

In our view, the ability of the borrower to repay consumer loans is highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. High interest rates have a lower impact on borrowers with fixed-rate loans in the near term, while in the longer term, interest rate increases will likely further stretch consumer finances even if loans are fixed.

We expect unemployment in Spain to remain stable, and we anticipate inflation decreasing to 2.0% in 2024, down from the peak of 8.3% in 2022.

Considering the macroeconomic environment in our forward-looking view of the Spanish consumer loans market, we conducted additional sensitivity analysis to assess, all else being equal, the effect of an increased gross default base case up to 30% and a reduction to the recovery rate base case by a maximum of 30% on our ratings on the notes. We ran eight scenarios by either increasing the gross default base case and/or reducing the recovery rate base case, as shown in chart 7.

Chart 7**Sensitivity analysis**

Class	Base case	1	2	3	4	5	6	7	8
Default rate base-case increase (%)	-	10	30	-	-	10	30	10	30
Recovery rate base-case decrease (%)	-	-	-	10	30	10	10	30	30
Gross default rate (%)	4.92	5.41	6.40	4.92	4.92	5.41	6.40	5.41	6.40
Recovery rate (%)	15	15	15	13.5	10.5	13.5	13.5	10.5	10.5

Class of notes	Initial rating	1	2	3	4	5	6	7	8
Class A	AAA	AAA	AA	AAA	AAA	AAA	AA	AA+	AA
Class B-Dfrd	AA	AA-	A	AA	AA	AA-	A	AA-	A
Class C-Dfrd	A	A	BBB+	A	A	A	BBB+	A-	BBB+
Class D-Dfrd	BBB	BBB	BB+	BBB	BBB	BBB	BB	BBB	BB
Class J-Dfrd	NR	NR	NR	NR	NR	NR	NR	NR	NR

No change

One-notch downgrade

Two-notch downgrade

Three-notch or more downgrade

Source: S&P Global Ratings.

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The results of the above sensitivity analysis indicate no deterioration in four of the tests for the class A notes, and across all eight tests a deterioration for the class A, B-Dfrd, C-Dfrd, and D-Dfrd notes of a maximum three notches compared with the ratings assigned. This is driven by increasing the default base case by 148 basis points (bps) and decreasing the recovery rate base case by 500 bps in the most stressful scenario 8 (see Chart 7).

Monitoring And Surveillance

We continuously assess the underlying portfolio's performance, including defaults and delinquencies. We also monitor supporting ratings, the servicer's operations, and its ability to maintain minimum servicing standards.

Appendix

Transaction participants

Issuer	Pepper Iberia Consumer 2024 Fondo de Titulizacion
Originator and seller	Pepper Finance Corporation S.L.U.
Arranger	Jefferies
Management company	Intermoney Titulización, Sociedad Gestora de Fondos de Titulización, S.A.
Servicer	Pepper Assets Services S.L.U.

Transaction participants (cont.)	
Interest rate swap provider	Banco Santander S.A.
Accounts bank	Banco Santander S.A.
Special collection account bank	Banco Santander S.A.
Direct debit collection account bank	Banco Santander S.A.
Direct debit collection account bank	Bankinter S.A.
Direct debit collection account provider	CaixaBank S.A.
Back-up servicer	Pepper Spanish Servicing, S.L.U.

Related Criteria

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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- EMEA Structured Finance Chart Book: September 2024, Sept. 13, 2024
- European And U.K. Credit Card ABS Index Report Q2 2024, Aug. 12, 2024
- Credit Conditions Europe Q3 2024: Keep Calm, Carry On, June 25, 2024
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- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
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