Santander unveils €16bn bond buy-back

Mark Mulligan and Anousha Sakoui

Debt markets were given a significant confidence boost on Monday when Santander, Spain's largest bank, launched a programme to buy back securitised bonds with a face value of €16.5bn ($23.6bn).

The deal, believed to be the biggest of its kind, is expected to help stabilise some debt markets by setting a floor for prices for securities that are often hard to value.

The bank said in a regulatory filing that the offer covered 27 different issues of bonds backed by mortgages, consumer credits and business loans.

The deal comes as Santander, in a separate deal, moves to replace more than 30 different debt securities with two new issues. In both cases, the aim is to profit from depressed pricing in the secondary markets.

"It [the offers] could have a positive impact on securitisation markets by recycling cash back to investors, but also helps set a floor for prices for these products, which investors have struggled to establish during the financial crisis," said Phil Adams, European securitisation strategist at the Royal Bank of Scotland.

Although offering as little as 61 per cent of par value on some bonds in the latest proposal, Santander is likely to have pitched a few points above current trading values, making the offer attractive to institutional investors under pressure to mark their assets to market.

In June, Rabobank of the Netherlands bought back €986.5m worth of residential mortgage backed bonds at a discount.

Analysts said the size of the Santander offer could help re-establish prices on securities that are often hard to value.

The market is slowly reopening to banks to sell bonds to help fund their capital base.

Deutsche Bank yesterday launched a process to sell €300m-€500m of tier-one bonds targeted at retail investors, in a closely watched offering that could also help rebuild confidence in the debt markets.

Analysts said the Santander offer reflected the bank's confidence that its clients would eventually pay back much of the underlying loans.

Santander expects to book profits from the deal, which it will set aside as provisions against non-performing credits.

Financial Times, London, Aug. 24th 2009, Companies, online.