

ISSUER COMMENT

RCI Banque Accelerates Its Deposit Funding Plans, a Credit Positive

From [Credit Outlook](#)

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Last Wednesday, [RCI Banque](#) (Baa3 stable, D+/baa3 stable¹), the captive bank of automaker [Renault S.A.](#) (Ba1 stable), announced that it had revised upwards its deposit collection objectives and now targets having online saving accounts constitute 20%-25% of funding in 2015, a year earlier than it originally forecast. This development is credit positive because it reduces RCI's reliance on market funding.

Wednesday's announcement marks the second time that RCI has revised its target since it began taking deposits in the retail market in February 2012. At the end of June 2013, deposits totaled €2.6 billion, or 10% of outstanding loans, with €1.2 billion coming from France since February 2012 and €1.4 billion from Germany since February 2013. In June, the bank said it aimed for deposits to constitute 20%-25% of its funding by 2016. Six months later, deposits totaled €4.3 billion (€1.3 billion in France and €3 billion in Germany), or 17% of outstanding loans. The funds collected in 2013 (€3.4 billion) were a significant 52% of RCI's funding plan for the year. In light of that progress, RCI moved up by one year its timetable for reaching its target.

Although the retail savings activity in Germany has exceeded RCI's expectations, with €3 billion raised in its first year of business, results in France have been more modest, growing 8% in the second half of 2013, compared with 119% in Germany. Two factors behind the smaller increase in France are competition from French tax-free savings products and withdrawals because of income tax payments in September. Nonetheless, we expect RCI to reach its goal of funding through retail deposits because Germany continues to exceed RCI's expectations. The launch of a new savings business in Austria this year should also help.

RCI's decision to begin collecting deposits is part of its effort to reduce its dependence on market funding following the European sovereign debt crisis, and follows a path taken by other captive banks facing funding difficulty amid depressed European car sales. [Banque PSA Finance](#) (Ba1 negative, D/ba2 negative) launched a deposit-gathering plan in 2013 and [Volkswagen Bank GmbH](#) (A3 positive, C-/baa2 stable), which has long had direct banking operations, reported customer deposits of €24.3 billion, or 72% of outstanding loans, at the end of June 2013. Although online retail deposits are a relatively expensive funding source, they are less confidence-sensitive than market funding.

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¹ The ratings shown in this article are the banks' foreign deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

RCI's strong deposit growth is also largely credit positive for its auto securitization business because of the multiple roles that the captive bank plays in these transactions. RCI's auto securitizations are organically linked to RCI's financial health insofar as the captive bank acts as originator, servicer, vehicle realization agent or maintenance provider in the securitization transactions. The performance of all RCI securitizations hinges on RCI's ability to adequately perform these key roles, and will thus benefit from the improved funding diversification.

Although deposit growth gives rise to set-off risk for securitizations, that risk is limited. Set-off risk arises to the extent that borrowers may net their deposits against their outstanding loans, should the bank become insolvent. This risk is limited by the low number of customers who are concurrently borrowers and depositors, eligibility criteria ensuring loans granted to depositors are not securitized and legal language in deposit accounts forbidding this compensation. Set-off risk is further mitigated in France because auto loans are provided by [Diac](#) (Baa3 stable) and deposits are taken by RCI Banque, two different legal entities.

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