Investment Stewardship Group

Voting Bulletin: Santander Consumer USA Holdings, Inc.

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**Santander Consumer USA Holdings, Inc.**
Market	United States
Meeting Date	10th June 2020
Key Resolutions[1]	**Item 3:** Report on Risk of Racial Discrimination in Vehicle Lending
Board Recommendation	The company recommends shareholders vote AGAINST the shareholder proposal.
BlackRock Vote	We voted FOR the shareholder proposal, as discriminatory lending practices (of all forms) are a material risk to the company's business and shareholders would benefit from increased and improved disclosure on compliance programs, processes and procedures, as well as risk mitigation processes and procedures, to prevent discriminatory lending (including racial discrimination).

[1] Full meeting agenda and resolutions can be accessed at http://s22.q4cdn.com/451161776/files/doc_financials/annual/2019/2020-Proxy-Statement.pdf

Overview

Santander Consumer USA Holdings, Inc. (Santander Consumer Holdings) engages in the provision of consumer financing services focusing on vehicle financing and third-party servicing.

Santander Consumer Holdings. is a controlled company under the NYSE guidelines given that Santander Holdings USA, Inc. owns over 50% (approximately 75%) of shares outstanding. Santander Holdings USA, Inc. is a wholly owned, private subsidiary of Banco Santander, SA.

At this year's annual general meeting, Santander Consumer Holdings received a shareholder proposal requesting additional disclosure on the company's vehicle lending practices, similar to proposals listed on both the 2019 and 2018 ballots, specifically on racial discrimination. We did not support the proposal in previous years as the company was addressing material weaknesses in financial reporting and had only recently become a public company.

Rationale for BlackRock vote

Item 3: Report on Risk of Racial Discrimination in Vehicle Lending

Shareholders filed a non-binding proposal requesting that Santander Consumer Holdings' board prepare a report in advance of the 2021 annual meeting on the risk of discrimination in vehicle lending and any steps the company has taken to prevent racial discrimination against borrowers.

Resolved: Shareholders of Santander Consumer USA Holdings Inc. (the "Company") request that the Board of Directors prepare a report on the risk of racial discrimination in vehicle lending and any steps that the Company has taken to prevent racial discrimination against borrowers. The report shall be prepared at reasonable cost omitting proprietary information and shall be made available on the Company's website no later than the 2021 annual meeting of shareholders.

We acknowledge that Santander Consumer Holdings has been responsive in addressing historical material weaknesses in financial reporting. Additionally, Santander Consumer Holdings continues to improve its risk oversight and compliance processes in response to various regulatory findings or litigation, as described in further detail below. This response includes the creation of the Regulatory and Compliance Oversight Committee of the Board and increased disclosure regarding its procedures and processes over the last few years.

In its Statement of Opposition, the company notes it is subject to certain federal consumer lending laws, including the Equal Credit Opportunity Act (ECOA) and it is also subject to the supervision of federal regulatory agencies, including the Consumer Financial Protection Bureau.[2] Racial discrimination in lending is prohibited under the ECOA.

The company developed its Fair Lending Policy to meet ECOA guidelines. The policy is applicable to both direct and indirect lending; it prohibits discriminatory lending practices and mandates the use of non-discriminatory metrics in calculating lending terms for prospective borrowers. The company notes the majority of its lending is indirect and its control over this indirect (dealer) business is minimal. Yet, the company states that it will terminate dealer relationships when discriminatory lending occurs.[3]

However, the Statement of Opposition does not clearly demonstrate how racially discriminatory lending risk is monitored and managed, nor does it outline the company's response to this risk. In our engagement prior to the annual meeting, there was no additional context provided on the steps the company has taken to prevent

[2] See Santander Consumer Holdings' 2020 Proxy Statement: http://d18rn0p25nwr6d.cloudfront.net/CIK-0001580608/bcc46c08-1f93-45b6-aa5b-4ad05e90c38c.pdf

[3] See previous footnote

discriminatory lending beyond pointing to the information in the proxy statement. Management relied on compliance with federal law, its existing compliance and risk management programs and the federal government's oversight to allay shareholder concerns.

Looking at the vehicle lending sector more broadly, there are financial and reputational risks associated with discriminatory lending based on race. A peer company received a federal court order to pay $80 million in damages for a racially discriminatory vehicle lending policy.[4]

Santander Consumer Holdings has also been censured for non-racial discriminatory lending issues. On May 19, 2020, the company agreed to change its underwriting practices as part of a $550 million settlement in 34 states. These states alleged the company violated consumer protection laws placing borrowers with subprime credit into auto loans, which the company knew carried a high probability of default.[5]

In our view, the company has an opportunity to provide investors with a more detailed explanation of how it assesses, manages and mitigates the risk of racial discriminatory lending practices. Given the high degree of reputational and litigation risks, improved disclosure on the mechanisms for compliance would give shareholders comfort that the risk is appropriately mitigated. Moreover, detail about this particular business risk would give investors a sense of how the company addresses other forms of discriminatory lending.

We will continue to monitor the evolution of this disclosure and underlying business practices with regards to compliance and risk mitigation in relation to discriminatory lending.

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[4] See: https://www.consumerfinance.gov/about-us/blog/harmed-ally-borrowers-have-been-sent-80-million-in-damages/

[5] See: https://www.law.com/ctlawtribune/2020/05/20/santander-reaches-550m-settlement-over-deceptive-auto-loan-practices-with-34-states/