

VCL Multi-Compartment S.A., Compartment VCL 40 German Auto ABS Notes Assigned Ratings

October 25, 2023

Ratings

Class	Rating	Amount (mil. €)
A	AAA (sf)	709.50
B	AA (sf)	16.50
Subordinated loan	NR	17.70

NR--Not rated.

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Overview

- We assigned our ratings to VCL Multi-Compartment S.A., Compartment VCL 40's class A and B notes.
- The notes securitize a portfolio of German auto lease receivables, originated by Volkswagen Leasing GmbH to its mostly retail customer base.

FRANKFURT (S&P Global Ratings) Oct. 25, 2023--S&P Global Ratings today assigned its credit ratings to VCL Multi-Compartment S.A., Compartment VCL 40's (VCL 40) class A and B notes. At closing, VCL 40 was also granted an unrated subordinated loan.

Our ratings address the timely payment of interest and the ultimate payment of principal on the class A and B notes.

VCL 40's notes securitize a portfolio of German auto lease receivables, which Volkswagen Leasing GmbH (VW Leasing) originated to its mostly retail customer base in the ordinary course of business. The lease receivables arise from fixed-term, level payment lease contracts, with payments due monthly. The residual values of the leased vehicles corresponding to the lease receivables were not sold to VCL 40, so no direct residual value risk is present in this transaction.

The transaction is static (i.e., it has no replenishment period), and the notes started to amortize immediately after closing. Amortization is sequential, but will switch to pro rata after further overcollateralization has built up, assuming no performance triggers are breached.

A combination of subordination, overcollateralization, and a cash reserve provides credit enhancement to the rated notes. VCL 40 will benefit from excess spread if a servicer replacement event occurs or the cumulative net loss ratio exceeds 1.6%. There is no principal deficiency ledger

mechanism in place.

A fixed-to-floating interest rate swap agreement with Skandinaviska Enskilda Banken AB (publ) is in line with our counterparty criteria and mitigates the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate liabilities.

All the receivables to be securitized were previously refinanced through the existing warehousing facility, VCL Master S.A. Compartment 1.

The transaction's capital structure is slightly different compared with that of VCL Multi-Compartment S.A., Compartment VCL 38 (VCL 38), which we rated in March 2023 (see "Related Research"). The cash reserve in VCL 40 amortizes at 1.20% of the aggregate discounted receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the lesser of (i) €7.5 million, and (ii) the aggregate outstanding principal amount of the class A and B notes as of the end of the relevant monthly period. VCL 38's cash reserve equaled 1.10% of the initial aggregate discounted receivables balance.

Like VCL 38, seller-related risks (German trade tax risks and value-added tax [VAT] risks) are mitigated by a nonamortizing seller risk reserve (which decreased to 1.10% of the initial discounted pool balance from 1.25% in VCL 38), which VW Leasing funded at closing. In our view, the seller risk reserve only partially mitigates the potential German trade tax and VAT risks. Therefore, we have considered the uncovered portion (0.86% of the initial discounted pool balance in a 'AAA' scenario) as a loss in our cash flow analysis.

Similar to other recent VCL transactions that we rate, the servicer will advance collections to cover potential commingling risk if our ratings on its parent company, Volkswagen Financial Services AG, fall below 'BBB'/'A-2' (or 'BBB+' in the absence of a short-term rating) or if we consider that the servicer is no longer deemed eligible under our counterparty criteria (see "Related Criteria"). We deem that commingling risk is fully mitigated by this servicer advance mechanism.

Given the sovereign rating on Germany (unsolicited; AAA/Stable/A-1+), our ratings in this transaction are not constrained by our structured finance sovereign risk criteria (see "Related Criteria").

The final documentation and the remedy provisions presented at closing adequately mitigate counterparty risk in line with our counterparty criteria. They also adequately address operational risk in line with our operational risk criteria.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured

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Finance Securities: Methodology And Assumptions, Jan. 30, 2019

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European Auto ABS Index Report Q2 2023, Aug. 10, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023
- S&P Global Ratings Definitions, June 9, 2023
- VCL Multi-Compartment S.A. Compartment VCL 38 German Auto ABS Notes Assigned Ratings, March 27, 2023
- European ABS Outlook 2023, Jan. 12, 2023
- Asset Price Risks: European Auto ABS Appear Resilient To A Potential Fall In Used Car Prices, Nov. 29, 2022
- Credit FAQ: Understanding Pro Rata Amortization Profiles In EMEA ABS Transactions, Nov. 24, 2022
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 23, 2022
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process, Jan. 8, 2019
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009

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