VCL Master S.A., Compartment 1 Class A And B German Auto ABS Ratings Affirmed

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Overview

- We affirmed our ratings on the outstanding class A and B notes under the VCL Master S.A., Compartment 1 program.
- VCL Master S.A., Compartment 1 is a securitization of a portfolio of German auto lease receivables, which Volkswagen Leasing GmbH (VW Leasing) originated.

FRANKFURT (S&P Global Ratings) Sept. 26, 2023--S&P Global Ratings today affirmed its 'AAA (sf)' and 'A+ (sf)' ratings on VCL Master S.A., Compartment 1's outstanding class A and B notes, respectively.

VCL Master S.A., Compartment 1 is a securitization of a portfolio of German auto lease receivables, which Volkswagen Leasing GmbH (VW Leasing) originated. VW Leasing is the initial servicer, and no back-up servicer was appointed at closing.

Each year, noteholders individually have the option to renew the revolving period for an additional 12 months. As part of the annual renewal, the note coupons and interest rate swaps are repriced, the legal maturity dates are extended, and other structural features, such as minimum required credit enhancement levels, may be amended to reflect changes in the collateral characteristics. In our view, these amendments do not affect the outstanding ratings as we deem these offers to be opportunistic, rather than distressed (see "S&P Global Ratings Definitions," published on June 9, 2023). We therefore affirmed our ratings on the class A and B notes.

Compared with the annual renewal in September 2022, several changes were introduced under this renewal (see "VCL Master S.A., Compartment 1 Class A And B German Auto ABS Ratings Affirmed," published on Sept. 26, 2022):

- While the initial required credit enhancement for the class A notes has remained at 9.2%, that for the class B notes has decreased to 6.1% (down from 6.5% in September 2022).
- The cash reserve mechanism is dynamic during the transaction's revolving period and switches to static during the amortization phase. At closing, it was funded at 0.75% of the sum of the class A and B notes. Previously, during the replenishment phase, the reserve had a minimum target floor of 0.60% of the class A and B notes' balance over two consecutive interest payment dates (IPDs). It has now increased to 0.75% of the class A and B notes. Also, the credit enhancement increase condition is now triggered on any IPD following a failure to replenish the cash reserve up to its floor level.

- The eligibility criteria have been modified so that the maximum share of used cars allowed in the pool is now 8% (up from 6%). Also, the criterium that limited the share of lease contracts in the pool younger than 12 months to 40% has been removed.
- A new mechanism to support the transaction in case of negative excess spread has also been introduced. After applying available collections as per the priority of payments and if no reserve rating trigger has been breached, the seller will provide ongoing support to cover any liquidity shortfalls for the payments of senior costs, swap costs, and interest on the notes. If, however, our issuer credit ratings on Volkswagen Financial Services AG's fall below 'BBB'/'A-2' (or 'BBB+' in the absence of a short-term rating), the seller will post within 10 business days a buffer release reserve. The reserve will cover senior costs and interest on the notes for approximately two payment dates. In our driving run, we have not modelled this reserve.
- The issuer now grants to the seller the option to modify the discount rate for receivables already purchased and those to be purchased during the replenishment phase. This option can be exercised in conjunction with the extension of the revolving phase, and it is subject to a confirmation from S&P Global Ratings that the ratings on the notes will not be adversely affected.
- Upon request from the relevant investor, the class A 2012-4 notes will enter amortization starting from October 2023.

We have accounted for all the abovementioned changes in our analysis.

A combination of subordination, initial and additional overcollateralization, and a cash reserve provides credit enhancement to the rated notes. The transaction does not have a principal deficiency ledger mechanism or any excess spread before either the insolvency of the seller or any of the credit enhancement increase conditions.

Following the good performance of the collateral over the past years, we have reviewed our credit assumptions. We reduced our base-case gross loss assumptions to 2.42% from 2.63% at our previous review. This reduction stems from a reduction in the net loss base case to 0.80% from 1.05%. At the same time, we have increased our recovery rate base case to 67% from 60%. We have also reduced the multiple to 4.3x at 'AAA' from 4.4x.

Table 1

Credit assumptions

Rating Level	Net loss base-case	Recovery rate base-case	Gross loss base-case	Multiple	Recovery haircut	Stressed recovery rate	Applied net loss
AAA	0.8%	67%	2.4%	4.3x	45%	36.9%	6.6%
A+	0.8%	67%	2.4%	2.8x	35%	43.6%	3.8%

The class A notes rank senior to the class B notes, and each class of notes ranks pari passu among themselves. Under the transaction documents, amortization is sequential, but switches to pro rata once the class-specific overcollateralization target levels are reached, assuming no specific triggers have been breached. The notes may switch to sequential payment again, once certain credit enhancement increase conditions have been met. If the servicer were to become insolvent at any point in the transaction's life, the notes would permanently switch to sequential amortization.

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 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: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Economic Outlook Eurozone Q3 2023: Short-Term Pain, Medium-Term Gain, June 26, 2023
- S&P Global Ratings Definitions, June 9, 2023
- European Auto ABS Index Report Q1 2023, May 22, 2023
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 24, 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
- 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

- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global 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