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VCL Master Residual Value S.A., Compartment 2 Class A Auto ABS Notes Assigned Ratings; Class B Notes Upgraded

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PRIMARY CREDIT ANALYST

Sebastian Mauersberger
Frankfurt
+ 49 1729 913944
sebastian.mauersberger@spglobal.com

Ratings list

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement (%)†	Interest‡	Legal final maturity
Ratings assigned					
A 2021-1	AAA (sf)	500.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2024-1	AAA (sf)	250.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2024-2	AAA (sf)	260.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
Ratings raised					
B 2015-1	AA- (sf)	110.9	32.5	One-month EURIBOR plus 1.40%	Sept. 25, 2031
B 2016-3	AA- (sf)	643.1	32.5	One-month EURIBOR plus 1.40%	Sept. 25, 2031
B 2018-2	AA- (sf)	68.3	32.5	One-month EURIBOR plus 1.40%	Sept. 25, 2031
B 2020-1	AA- (sf)	280.0	32.5	One-month EURIBOR plus 1.40%	Sept. 25, 2031
B 2023-1	AA- (sf)	150.0	32.5	One-month EURIBOR plus 1.40%	Sept. 25, 2031
Ratings affirmed					
A 2015-1	AAA (sf)	464.1	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2015-2	AAA (sf)	523.7	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2015-3	AAA (sf)	930.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2015-4	AAA (sf)	780.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031

Ratings list (cont.)

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement (%)†	Interest‡	Legal final maturity
A 2015-5	AAA (sf)	755.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2015-6	AAA (sf)	300.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2016-1	AAA (sf)	476.5	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2016-2	AAA (sf)	50.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2016-4	AAA (sf)	378.6	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2018-2	AAA (sf)	349.2	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2018-4	AAA (sf)	265.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2018-5	AAA (sf)	361.5	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2021-2	AAA (sf)	500.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2023-1	AAA (sf)	500.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031
A 2023-2	AAA (sf)	100.0	45.9	One-month EURIBOR plus 0.75%	Sept. 25, 2031

*Our ratings address timely payment of interest and ultimate principal. §The current issuance amount may be less than the maximum commitment for each class. †Reflects the documented minimum figures and includes subordination, overcollateralization, and a cash reserve. ‡Subject to a floor of zero. EURIBOR--Euro interbank offered rate.

Overview

- We assigned our 'AAA (sf)' ratings to VCL Master Residual Value S.A., Compartment 2's series A 2021-1 notes, A 2024-1 notes, and A 2024-2 notes.
- At the same time, we raised our ratings on the outstanding class B notes. We also affirmed our ratings on the outstanding class A notes.
- The transaction is a securitization of a portfolio of German auto lease residual values, which Volkswagen Leasing GmbH (VW Leasing) originated.

FRANKFURT (S&P Global Ratings) Sept. 25, 2024--S&P Global Ratings today assigned its 'AAA (sf)' credit ratings to VCL Master Residual Value S.A., Compartment 2's series A 2021-1, A 2024-1, and A 2024-2 asset-backed floating-rate notes. At the same time, we raised to 'AA- (sf)' from 'A+ (sf)' our ratings on the issuer's outstanding class B notes. We also affirmed our 'AAA (sf)' ratings on the outstanding class A notes.

VCL Master Residual Value, Compartment 2 is a securitization of a portfolio of German auto lease residual values, which Volkswagen Leasing GmbH (VW Leasing) originated. VW Leasing is the initial servicer, and no back-up servicer was appointed at closing.

Together with the issuance of the series 2024 class A notes and S&P Global Ratings assigning its 'AAA (sf)' ratings to the series 2024-1, 2024-2, and 2021-1 class A notes, the revolving phase has been extended by one year until September 2025. The existing class A and B notes have also been repriced and the issuer has entered into new swap agreements.

On any payment date during the revolving period, the issuer can issue new series of notes and/or increase the size of the outstanding ones, subject to maintaining the initial required credit enhancement for both the class A and B notes. Prior to today's extension, the revolving period was last extended on Sept. 25, 2023 (see "VCL Master Residual Value S.A. , Compartment 2 Series 2023 Auto ABS Notes Assigned Ratings; Other Ratings Affirmed," published on Sept. 25, 2023).

The initial required credit enhancement or target overcollateralization amounts for both the class A and B notes have changed since our previous review. In September 2024, the required credit enhancement for the class A notes decreased to 45.90% from 46.50%. It also decreased for the class B notes to 32.50% from 33.00%. A combination of subordination, initial and additional overcollateralization, and a cash reserve provide credit enhancement to the rated notes.

In addition to the abovementioned changes, several additional updates were made to the transaction documents. We have included in our analysis the following list of amendments:

- During the revolving period, the cash reserve remains floored at 3% of the class A and B notes outstanding. The reserve falling below the floor level on two consecutive payment dates would trigger the end of the revolving phase and the start of sequential amortization. Previously, the trigger was breached if the reserve was below the floor on just one payment date.
- The rating triggers for the posting of the buffer release and commingling reserves are now conditional on the rating on Volkswagen Bank GmbH instead of Volkswagen Financial Services AG, due to the internal restructuring of Volkswagen AG's financial services branches and subsidiaries on July 1, 2024.
- The time to post the buffer release and commingling reserve upon any event trigger has been increased to 30 calendar days from 10 business days and 14 calendar days, respectively.

Rating Rationale

Operational risk

VW Leasing has underwritten auto leasing contracts in Germany since 1966. In our view, the company's track record of stable, strong quality asset origination is among the best of all European auto ABS issuers. Our ratings on the class A and B notes reflect our assessment of the company's origination policies, as well as our evaluation of VW Leasing's ability to fulfill its role as servicer under the transaction documents. There is no back-up servicer. For our analysis, we rely on the general availability of servicing in the German market and have also incorporated assumptions in our cash flow analysis, to analyze any potential impact from servicer disruption risk.

The collateral in this pool comprises expectancy rights related to prime auto leases. Under our operational risk criteria, we therefore consider the severity risk to be moderate and portability risk as low. We assess the disruption risk of servicer as low. Therefore, the criteria do not impose any cap on the maximum achievable rating due to operational risks (see "Related Criteria").

Credit risk

Following the good performance of the collateral in recent years, we have reviewed our credit assumptions. We reduced our base-case gross loss assumptions to 1.85% from 2.42% in our previous review. This follows a reduction in the net loss base case to 0.50% from 0.80%. We have increased the multiple at 'AAA' to 4.9x from 4.3x to account for the low gross loss base case. At the same time, we have increased our recovery rate base case to 73% from 67%. We increased the recovery rate haircut at 'AAA' to 50% from 45% to account for the higher recovery rate base case.

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	0.5%	73%	1.9%	4.9x	50.0%	36.5%	5.8%
AA-	0.5%	73%	1.9%	3.4x	36.7%	46.2%	3.4%

The portfolio consists of residual values, which are subject to market value decline risk. We reviewed our market value decline assumptions, in view of the current dampened auto market, and the consequent impact on used car values. We consider our market value decline assumptions for rating stresses of 'BBB' and above as already including the stress levels we expect to see in used car markets. Therefore, we have not changed our assumptions for calculating the rating dependent stress residual value losses. The residual value loss we apply decreased to 42.00% from 42.30% at 'AAA' and 30.60% from 30.80% at 'AA-', due to changes in pool composition.

We have analyzed credit risk and residual value risk under our global auto ABS criteria, using historical loss data for VW Leasing's book and performance data from previous VCL leasing transactions (see "Related Criteria").

Cash flow analysis

We have assessed the transaction's documented payment structure, and assumed the notes will have the minimum required credit enhancement in our cash flow analysis. The issuer can extend the transaction's revolving period several times. Once the revolving period ends, the transaction amortizes sequentially until certain overcollateralization targets for the class A and B notes are reached. However, the amortization between the class A and B notes and the subordinated loan switches to pro rata amortization from sequential if certain conditions are fulfilled, or when class-specific target overcollateralization levels are reached. Our analysis indicates that the minimum available credit enhancement for the class A notes is sufficient to withstand the credit and cash flow stresses that we apply at 'AAA'.

The class B notes are able to withstand our stresses at a higher rating level than that currently assigned. However, we limited our upgrade to 'AA- (sf)' on the class B notes on account of the transaction's revolving nature and the ongoing frequent issuance of new series.

Counterparty risk

Our ratings on the class A and B notes also consider that the replacement mechanisms implemented in the transaction documents adequately mitigate the counterparty risks to which the transaction is exposed. We have analyzed these counterparty risks by applying our counterparty criteria (see "Related Criteria"). Our ratings on the notes reflect that the swap agreements are in line with our counterparty criteria.

Legal risk

We consider the issuer to be bankruptcy remote, in line with our legal criteria (see "Related Criteria"). We have received a transaction legal opinion on the September 2024 renewal, which provides assurance that the structure achieves a valid and effective sale of assets, and we believe that the sale of the assets would survive the seller's insolvency.

We consider that the transaction may be exposed to trade tax risk. We have sized the unmitigated exposure as an additional loss.

Sovereign risk

Under our structured finance sovereign risk criteria, the maximum differential between the rating on the security and the rating on the sovereign depends on the asset sensitivity to country risk and the sovereign rating. We view the asset sensitivity to the country risk as low, and our long-term unsolicited sovereign rating on Germany is 'AAA'. Consequently, our sovereign risk criteria do not cap our ratings on the rated notes.

Forward-Looking View

In our analysis, we considered the following economic data and their baseline effect on collateral credit quality in determining our credit assumptions (see "Related Research").

Table 2

Economic factors

	2024f	2025f	2026f
Real GDP (y/y growth, %)	0.3	1.2	1.2
Unemployment rate (annual average, %)	3.3	3.2	3.1
CPI inflation (%)	2.7	2.3	1.9

Sources: S&P Global Ratings.

We consider the transaction's resilience to additional stresses to some key variables, in particular defaults and recoveries, to determine our forward-looking view.

In our view, borrowers' ability to repay their auto loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. As of today, our forecast on unemployment rates for Germany is 3.3% in 2024, 3.2%, and 3.1% for 2025 and 2026, respectively. Our forecast for inflation in Germany is 2.7% in 2024, and we expect this to decline to 2.3% in 2025 and 1.9% in 2026.

Furthermore, a decline in second-hand car values typically lowers realized recoveries and increases residual value losses. Although used car prices may decline moderately in Germany in 2024, we do not expect them to fall significantly.

Given our current macroeconomic forecast and forward-looking view of Germany's auto market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of:

- An increased gross default base case of up to 30%;
- A maximum haircut of 30% to the recovery rate base case; and
- An increase in market value decline of up to 15%.

We therefore ran eight scenarios with increased gross defaults and/or reduced expected recoveries, as shown in the table below.

Sensitivity analysis

Class	Base case	1	2	3	4	5	6	7	8
Default rate base-case increase (%)	0	10	30	0	0	10	30	10	30
Recovery rate base-case decrease (%)	0	0	0	10	30	10	10	30	30
Market value decline (%)	0	0	0	5	15	5	5	15	15
Gross default rate (%)	1.9	2.0	2.4	1.9	1.9	2.0	2.4	2.0	2.4
Recovery rate (%)	73.0	73.0	73.0	65.7	51.1	65.7	65.7	51.1	51.1
AAA' residual value loss (%)	42.0	42.0	42.0	44.1	48.3	44.1	44.1	48.3	48.3
AA-' residual value loss (%)	30.6	30.6	30.6	32.1	35.2	32.1	32.1	35.2	35.2

Class of notes	Initial rating	1	2	3	4	5	6	7	8
A	AAA	AAA	AAA	AAA	AA+	AAA	AA+	AA+	AA+
B	AA-	AA-	AA-	AA-	A	AA-	AA-	A	A

No change

One-notch downgrade

Two-notch downgrade

Three-notch or more downgrade

Source: S&P Global Ratings.

The results of the above sensitivity analysis indicate a deterioration of no more than two notches on the notes, which is in line with the credit stability considerations in our rating definitions. Transaction features such as initial subordination levels and a liquidity reserve enhance the stability of the ratings under each scenario.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, July 26, 2024
- 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

- European Auto ABS Index Report Q2 2024, Aug. 12, 2024
- Credit Conditions Europe Q3 2024: Keep Calm, Carry On, June 25, 2024
- Economic Outlook Eurozone Q3 2024: Growth Returns, Rates Fall, June 24, 2024
- VCL Master Residual Value S.A. , Compartment 2 Series 2023 Auto ABS Notes Assigned Ratings; Other Ratings Affirmed, Sept. 25, 2023
- S&P Global Ratings Definitions, June 9, 2023
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- 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