

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

September 26, 2022

Overview

- We affirmed our ratings on the existing classes of A and B notes outstanding 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, 2022--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 Nov. 10, 2021). We therefore affirmed our ratings on the class A and B notes.

Compared with the annual renewal in September 2021 several changes were introduced under this renewal (see "VCL Master S.A., Compartment 1 Ratings Affirmed Following Review," published Sept. 27, 2021).

The initial required credit enhancement for the notes has changed. This is now 9.2% for the class A notes (down from 9.4% in September 2021) and 6.5% for the class B notes (down from 6.8% in September 2021).

The cash collateral account balance has also changed. The cash reserve mechanism is dynamic during the transaction's revolving period and switches to static during the amortization phase. While previously the reserve was funded based on the discounted receivables balance, it is now prefunded at 0.75% of the class A and B notes' balance and has a minimum target floor of 0.6% of the class A and B notes' balance, which can be reached on a maximum of two consecutive interest payment dates.

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Additionally, the transaction now links the availability of the buffer release to the credit enhancement increase conditions (CEIC). While previously the servicer insolvency was the only condition applicable for the buffer release to be applied, now the breach of any of the CEIC will grant access to this amount.

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 CEIC.

We maintained our 2.63% base-case gross loss assumptions from our last review. We do not believe that the expected level of macroeconomic stress warrants an overarching revision to our stressed default assumptions.

Under our updated global auto ABS criteria, we changed our stressed recovery assumptions, to 38.10% from 40% at 'AAA'. At the same time, the applied stressed recovery rate at 'A+' is 41.1% compared to 40.0% at the previous renewal.

Table 1

Credit Assumptions

Parameter	Current
Gross loss base case (%)	2.63
Gross loss multiple ('AAA')	4.4
Gross loss multiple ('A+')	2.9
Recoveries base case (%)	60
Recoveries haircut ('AAA') (%)	36.5
Recoveries haircut ('A+') (%)	31.5
Stressed recovery rate ('AAA')	38.1
Stressed recovery rate ('A+')	41.1

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

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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 2022, Aug. 2, 2022
- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 25, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- VCL Master S.A., Compartment 1 Ratings Affirmed Following Review, Sept. 27, 2021
- 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

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