S&P Global
Ratings

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VCL Master Residual Value S.A., Compartment 2 Series A 2022-1 Auto ABS Rating Assigned; Other Ratings Affirmed

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Ratings Detail

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement† (%)	Interest‡	Legal final maturity
Ratings assigned					
A 2022-1	AAA (sf)	358.4	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
Ratings affirmed					
A 2015-1	AAA (sf)	464.10	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2015-2	AAA (sf)	523.70	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2015-3	AAA (sf)	930.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2015-4	AAA (sf)	780.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2015-5	AAA (sf)	595.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2015-6	AAA (sf)	300.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2016-1	AAA (sf)	476.50	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2016-2	AAA (sf)	50.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029

Ratings Detail (cont.)

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement† (%)	Interest‡	Legal final maturity
A 2016-4	AAA (sf)	628.60	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2018-2	AAA (sf)	349.20	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2018-4	AAA (sf)	185.00	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2018-5	AAA (sf)	361.50	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
A 2021-2	AAA (sf)	100.0	43.8	One-month EURIBOR plus 0.80%	Sept. 25, 2029
B 2015-1	A+ (sf)	110.90	30.9	One-month EURIBOR plus 1.50%	Sept. 25, 2029
B 2015-3	A+ (sf)	300.00	30.9	One-month EURIBOR plus 1.50%	Sept. 25, 2029
B 2016-3	A+ (sf)	393.10	30.9	One-month EURIBOR plus 1.50%	Sept. 25, 2029
B 2018-2	A+ (sf)	48.30	30.9	One-month EURIBOR plus 1.50%	Sept. 25, 2029
B 2020-1	A+ (sf)	40.00	30.9	One-month EURIBOR plus 1.50%	Sept. 25, 2029

*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. NR--Not rated.

Overview

- We assigned our 'AAA (sf)' rating to VCL Master Residual Value S.A., Compartment 2's series A 2022-1 notes.
- At the same time, we affirmed our ratings on the outstanding class A and B notes.
- Following the issuer's request, we withdrew our rating on the series A 2019-1 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. 26, 2022--S&P Global Ratings today assigned its 'AAA (sf)' credit rating to VCL Master Residual Value S.A., Compartment 2's series A 2022-1 asset-backed floating-rate notes. At the same time, we affirmed our 'AAA (sf)' and 'A+ (sf)' ratings on the issuer's outstanding series of A and B notes. Additionally, we withdrew our rating on the series A 2019-1 notes at the issuer's request.

VCL Master Residual Value S.A., 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.

On any payment date during the revolving period, the issuer can issue new series of notes, subject to maintaining the initial required credit enhancement for both the class A and B notes. The last renewal was on Sept. 27, 2021, when the revolving period was extended by 12 months until September 2022 (see "VCL Master Residual Value S.A. , Compartment 2 Series A-2021-2 Rating Assigned; Existing Notes Affirmed," published on Sept. 27, 2021. Furthermore, additional series 2022-1 class A notes were issued in September 2022.

The initial required credit enhancement or target overcollateralization amounts for both the class A and B notes have changed since our last review. In September 2022 the required credit enhancement for the class A notes increased to 43.80% from 42.20%. This decreased for the class B notes to 30.90% from 31.20%. A combination of subordination, initial and additional overcollateralization, and a cash reserve provide credit enhancement to the rated notes. The reserve is sized at 3.00% of the class A and B notes (i.e., amortization of the reserve starts at closing). It is floored at 2.5% of the maximum note balance during replenishment for a maximum of two consecutive interest payment dates.

The credit enhancement increase conditions (CEIC) are breached if the specified general cash collateral amount is below the required level for three consecutive determination dates. The CEIC continues to require that a minimum cash collateral balance is available on each determination date. In our cash flow assumptions, we have therefore considered the cash collateral balance to decline to the minimum level at the start of amortization.

During previous reviews, the buffer release rate would only have flown through the pre-enforcement priority of payments if the servicer became insolvent. Since this renewal, the mechanism has changed and the buffer release remains in the waterfall if any of the CEIC triggers are breached. If the CEIC are in place, the transaction pays sequentially, which could benefit the notes if there is available excess spread. However, in the current renewal scenario, the transaction has negative carry as the collateral pool's yield (i.e., the receivables' discount rate) is less than the senior cost to be paid. This is due to higher swap costs stemming from current market conditions.

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.

Rating Rationale

Economic outlook

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 1

Economic Factors

	Actual	Forecast		
	2021	2022	2023	2024
Real GDP (y/y growth, %)	2.9	1.9	2.0	1.9
Unemployment rate (annual average, %)	3.6	3.0	3.0	2.9
CPI inflation (%)	3.2	7.6	4.1	2.3

Sources: National Statistics offices, Eurostat, S&P Global Ratings.

While Germany registered a 2.9% increase in GDP in 2021, this year we expect 1.9% growth. We expect growth of 2.0% in 2023 and 1.9% in 2023. At the same time, we anticipate unemployment will decrease to 3.0% in 2022 and to remain stable in 2023. In our view, the current macroeconomic outlook is deteriorating. Given continuing uncertainty about the Russia-Ukraine conflict, the proxy economic war with Russia involving sanctions, energy, food, and other materials only appears to be escalating. With no end to the conflict in sight, and Russia tightening the noose on natural gas flows to Europe, the German market is bracing for a challenging period ahead. We believe changes in GDP growth and unemployment largely determine portfolio default performance. We set our credit assumptions to reflect the Germany's economic outlook.

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

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 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.

Under our updated global ABS criteria, we decreased our stressed recovery assumptions, to 38.1% from 40%, and marginally increased our residual value loss assumptions to 42.10% from 42.03% in our previous review, under our 'AAA' rating scenario. The class B notes benefit from a higher stressed recovery rate of 44.1% compared to 40.0% at closing. We also decreased our residual value loss assumptions under our 'A+' rating scenario to 29.80% from 31.34% in our last review. In our analysis, we have accounted for the transaction's revolving nature, its vulnerability toward sudden market value decline, along with the increasing share of both hybrid and electric vehicles.

In addition, the transaction is exposed to lessee default risk. Therefore, our base-case default rate assumption for the securitized pool is maintained at 2.63%. The multiples are 4.4x and 2.9x at 'AAA' and 'A+' levels, respectively. Overall, the total stressed gross losses applied in the 'AAA' and 'A+' rating scenarios remain unchanged from the renewal in September 2021.

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 (for instance, the credit enhancement increase condition not being in effect) are fulfilled, or when class-specific target overcollateralization levels are reached. Our analysis indicates that the minimum available credit enhancement for the class A and B notes is sufficient to withstand the credit and cash flow stresses that we apply at the respective rating levels.

Our proprietary models show that the class B notes could achieve a cash flow result one notch higher than the assigned ratings. However, we have affirmed a slightly lower rating at 'A+ (sf)' due to Germany's current macroeconomic outlook.

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 2022 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.

Rating stability

We analyzed the effect of a moderate stress on the credit variables and their ultimate effect on our ratings on the notes, the results of which indicate no material deterioration on the ratings on the class A and B notes compared to thresholds under our 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 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

- Europe Braces For A Bleak Winter, Aug. 29, 2022
- European Auto ABS Index Report Q2, 2022, Aug. 2, 2022
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 25, 2022

- S&P Global Ratings Definitions, Nov. 10, 2021
- VCL Master Residual Value S.A. , Compartment 2 Series A-2021-2 Rating Assigned; Existing Notes Affirmed, 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
- Two VCL Master Residual Value S.A., Compartment 2 ABS Ratings Withdrawn At The Issuer's Request, Sept 24, 2019
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- How We Rate And Monitor EMEA Structured Finance Transactions, March 24, 2016
- 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