S&P Global
Ratings

RatingsDirect®

VCL Master Residual Value S.A. , Compartment 2 Series A-2021-2 Rating Assigned; Existing Notes Affirmed

September 27, 2021

PRIMARY CREDIT ANALYST

Roberto Amato
Frankfurt
+ 49 69 3399 9161
roberto.amato
@spglobal.com

Ratings Detail

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement† (%)	Interest‡	Legal final maturity
Ratings assigned					
A-2021-2	AAA (sf)	100.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A-2021-1	NR	300.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
B 2021-1	NR	77.50	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028
Ratings affirmed					
A 2015-1	AAA (sf)	464.10	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2015-2	AAA (sf)	523.70	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2015-3	AAA (sf)	930.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2015-4	AAA (sf)	780.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2015-5	AAA (sf)	595.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2015-6	AAA (sf)	300.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028

Ratings Detail (cont.)

Class	Rating*	Maximum commitment amount (mil. €)§	Minimum available credit enhancement† (%)	Interest‡	Legal final maturity
A 2016-1	AAA (sf)	476.50	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2016-2	AAA (sf)	50.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2016-4	AAA (sf)	628.60	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2018-2	AAA (sf)	349.20	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2018-4	AAA (sf)	185.00	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2018-5	AAA (sf)	361.50	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
A 2019-1	AAA (sf)	358.40	42.2	One-month EURIBOR plus 0.65%	Sept. 25, 2028
B 2015-1	A+ (sf)	110.90	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028
B 2015-3	A+ (sf)	300.00	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028
B 2016-3	A+ (sf)	393.10	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028
B 2018-2	A+ (sf)	48.30	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028
B 2020-1	A+ (sf)	40.00	31.2	One-month EURIBOR plus 1.30%	Sept. 25, 2028

*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 have assigned our 'AAA (sf)' rating to VCL Master Residual Value S.A., Compartment 2's series A 2021-2 notes.
- At the same time, we have affirmed our ratings on the outstanding class A and B notes.
- During the renewal process, the issuer has issued unrated class A 2021-1 and B 2021-1 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. 27, 2021--S&P Global Ratings today assigned its 'AAA (sf)' credit rating to VCL Master Residual Value S.A., Compartment 2's series A 2021-2 asset-backed floating-rate notes. At the same time, we have affirmed our 'AAA (sf)' and 'A+ (sf)' ratings on the issuer's remaining outstanding class A and B notes, respectively. During the renewal process, the issuer has issued unrated class A 2021-1 and B 2021-1 notes (see list).

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. 25, 2020, whereby the revolving period was extended by twelve months until September 2021. Further, additional series 2021-1 and 2021-2 class A notes, and series 2021-1 class B notes were issued in September 2021.

The initial required credit enhancement level or target overcollateralization amounts on both the class A and B notes have reduced. The required credit enhancement level for the class A notes has decreased to 42.20% from 42.50% in September 2020. At the same time, the required credit enhancement level for the class B notes has decreased to 31.20% from 31.70% in September 2020 (see "Related Research").

A combination of subordination, initial, and additional overcollateralization, and a cash reserve provide credit enhancement to the rated notes. The credit enhancement increase conditions (CEIC) in relation to the required cash collateral account balance remain unchanged. The CEIC breaches if the specified general cash collateral amount is below the required level for three consecutive determination dates. The condition continues to require a minimum cash collateral balance to be 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. The transaction does not have a principal deficiency ledger mechanism or any excess spread before the insolvency of the seller.

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			
	2020	2021	2022	2023	2024
Real GDP (y/y growth, %)	(5.1)	3.5	4.9	2.2	1.6
Unemployment rate (annual average, %)	4.2	4.2	3.6	3.4	3.3
CPI inflation (%)	0.4	2.5	1.5	1.6	1.7

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

While Germany registered a 5.4% contraction in GDP in 2020, this year we expect 3.5% growth. We expect this to continue with growth of 4.9% in 2022 and 2.2% in 2023. At the same time, we expect unemployment to remain stable at 4.2% in 2021 and decrease to 3.6% in 2022. In our view, the partial unemployment schemes unveiled across Europe and especially in Germany have limited the rise in unemployment. We believe changes in GDP growth and the unemployment rate largely determine portfolio default performance. We set our credit assumptions to reflect the economic outlook for Germany.

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. We assumed a residual value loss of 42.0% and 31.3% in the 'AAA' and 'A+' rating scenarios, which remains comparable with our previous assumptions.

In addition, the transaction is exposed to lessee default risk. During our 2020 surveillance process, considering the recessionary outlook for Europe, we had added several stresses to account for COVID-19-related risks. We have now removed all of those additional assumptions following the improved macroeconomic outlook for Germany. Therefore, our base-case default rate assumption for the securitized pool is 2.63%, back at pre-pandemic levels. The multiples are 4.4x and 2.9x at 'AAA' and 'A+', respectively. Overall, the total stressed gross losses applied in the 'AAA' and 'A+'

rating scenarios remain unchanged from the renewal in September 2020.

Moreover, we sized stressed recoveries of 40% for all rating levels, based on recovery data provided for previous VCL transactions and a peer comparison with other German auto leasing transactions.

We have analyzed credit risk by applying our criteria for European auto ABS, using historical loss data for VW Leasing's book and performance data from previous VCL leasing transactions and residual value risk by applying our European consumer finance criteria (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.

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 European legal criteria (see "Related Criteria"). We have received a transaction legal opinion on the September 2021 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 | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- 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 | ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, 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
- Criteria | Structured Finance | ABS: European Consumer Finance Criteria, March 10, 2000

Related Research

- European Auto ABS Index Report Q2 2021, Sept. 23, 2021
- Economic Snapshots Indicate Europe Responding Quickly To The Grand Reopening, July 9, 2021
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 26, 2021
- S&P Global Ratings Definitions, Jan. 5, 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
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009