

# VCL Master S.A., Compartment 1 New Auto ABS Series Assigned Rating; Existing Notes Affirmed

September 25, 2020

## Overview

- We are assigning our 'AAA (sf)' rating to the new notes issued by VCL Master S.A., Compartment 1.
- At the same time, we are affirming our ratings on the existing classes of A and B notes outstanding under the 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. 25, 2020--S&P Global Ratings today assigned its 'AAA (sf)' credit rating to VCL Master S.A., Compartment 1's series A 2020-1 asset-backed floating-rate notes. At the same time, we have affirmed our 'AAA (sf)' and 'A+ (sf)' ratings on the issuer'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.

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, 2019, whereby the revolving period was extended by 12 months until September 2020. The initial required credit enhancement level or target overcollateralization amounts on both the class A and B notes have remained unchanged since the September 2019 renewal (see "Related Research").

A combination of subordination, initial, and additional overcollateralization, and a cash reserve provides credit enhancement to the rated notes. As part of the renewal, the credit enhancement increase conditions (CEIC) were amended in relation to the required cash collateral account balance. The CEIC would now breach if the specified general cash collateral amount is below the required level for three consecutive determination dates, up from a similar requirement on each payment date previously. The condition however 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

### PRIMARY CREDIT ANALYST

**David Tuchenhagen**  
Frankfurt  
+ 49 693 399 9307  
david.tuchenhagen  
@spglobal.com

### SECONDARY CONTACT

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

### RESEARCH CONTRIBUTOR

**Vidhya Venkatachalam, CFA**  
CRISIL Global Analytical Center, an  
S&P Global Ratings affiliate, Mumbai

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").

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until the second half of 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

Table 1

### Economic Factors

	Actual		Forecast		
	2019	2020	2021	2022	2023
Real GDP (y/y growth, %)	0.6	(5.4)	4.7	2.4	1.6
Unemployment rate (annual average, %)	3.2	4.3	4.5	4.0	3.6
CPI inflation (%)	1.4	0.0	1.1	1.5	1.5

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

Compared to the eurozone, we forecast a 5.4% contraction in Germany's GDP this year, followed by a 4.7% rebound in 2021. At the same time, we expect unemployment to increase to 4.3% in 2020 and 4.5% in 2021, compared with 3.2% in 2019. In our view, the partial unemployment schemes unveiled across Europe will limit the rising unemployment. We believe changes in GDP growth and the unemployment rate largely determine portfolio default performance. European light vehicles sales will likely decline by 20%-25% in 2020 followed by single digit growth in 2021 and 2022, which could keep auto market activity dampened (see "Related Research"). We set our credit assumptions to reflect our worsened 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 receivables related to prime auto leases. Under our operational risk criteria, we therefore consider both the severity risk and portability risk 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 transaction is exposed to lessee default risk. In light of our current recessionary outlook for Europe, we have increased our base-case default rate assumption for the securitized pool by 0.25% to 2.88% from 2.63% in our previous review. In our view, government actions taken so far to bolster European economies from the effects of COVID-19 will support ABS performance. Unemployment is one of the primary triggers of auto ABS defaults, and many of the support measures, such as partial unemployment schemes, aim to prevent unemployment from spiking. While we expect higher base-case defaults because of COVID-19, we do not believe that the expected level of macroeconomic stress warrants an overarching revision to the stressed default assumptions at the 'BBB' rating level or higher, although that could change. Hence, we have lowered the multiples to 4.0x and 2.65x, from 4.4x and 2.9x at 'AAA' and 'A+', respectively, reflecting the increase in our base-case assumption. Therefore, in the 'AAA' and 'A+' rating scenarios, our stressed gross loss assumptions remain unchanged, from the renewal in September 2019.

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. However, to reflect current disruptions to collection and workout efforts on recoveries, we have extended the recovery timing in our cash flow analysis by 50%.

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 (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 current 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 2020 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 and value added tax risk. We have sized the unmitigated exposure as an additional loss. We have also considered potential additional loss on account of a late delinquency trigger, to the extent not offset by the additional overcollateralization.

## **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 compared to thresholds under our criteria.

## **Related Criteria**

- 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: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 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

## **VCL Master S.A., Compartment 1 New Auto ABS Series Assigned Rating; Existing Notes Affirmed**

Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014

- Criteria | Structured Finance | General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, 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
- Criteria | Structured Finance | General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

## **Related Research**

- Economic Research: The Eurozone Is Healing From COVID-19, Sept. 24, 2020
- Global Auto Sales Forecasts: Hopes Pinned On China, Sept. 17, 2020
- European Auto And Credit Card ABS Index Reports For Q2 2020 Published, Sept. 8, 2020
- European Structured Finance Outlook H2 2020: Weathering The Storm, July 28, 2020
- Credit FAQ: How European ABS And RMBS Servicers Are Managing COVID-19 Disruption And Payment Holidays, June 4, 2020
- European Short-Time Work Schemes Pave The Way For A Smoother Recovery, May 20, 2020
- European Auto And Consumer ABS: Analysis Adjusted To Reflect COVID-19 Effects, May 11, 2020
- European Auto And Consumer ABS: Analysis Adjusted To Reflect COVID-19 Effects, May 11, 2020
- European Economic Snapshots: Larger Risks To Growth Loom Ahead, May 5, 2020
- Economic Research: EU Response To COVID-19 Can Chart A Path To Sustainable Growth, April 22, 2020
- Economic Research: Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European ABS And RMBS: Assessing The Credit Effects Of COVID-19, March 30, 2020
- COVID-19 Will Batter Global Auto Sales And Credit Quality, March 23, 2020
- VCL Master S.A., Compartment 1 German Auto ABS Notes Ratings Affirmed, Sept. 30, 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

**VCL Master S.A., Compartment 1 New Auto ABS Series Assigned Rating; Existing Notes Affirmed**

- 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

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.