Creditreform Rating

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Creditreform Rating has confirmed ratings of German auto lease securitisation VCL Master Residual Value S.A., Compartment 2

After the renewal of the transaction, Creditreform Rating has confirmed the ratings of the Class A and Class B notes series of VCL Master Residual Value S.A., acting for and on behalf of its Compartment 2 (VCLM RV C2), as follows:

EUR Floating Rate Asset Backed Class A notes series (current outstanding amount after the renewal):

Series	Amount	Rating / Outlook
A 2015-1	414,100,000	AAA_{sf} / stable
A 2015-2	448,700,000	AAA_{sf} / stable
A 2015-3	550,000,000	AAA_{sf} / stable
A 2015-4	496,800,000	AAA_{sf} / stable
A 2015-5	400,000,000	AAA_{sf} / stable
A 2015-6	222,600,000	AAA_{sf} / stable
A 2016-1	441,500,000	AAA_{sf} / stable
A 2016-2	50,000,000	AAA_{sf} / stable
A 2016-4	373,600,000	AAA_{sf} / stable
A 2018-1	218,100,000	AAA_{sf} / stable
A 2018-2	309,200,000	AAA_{sf} / stable
A 2018-4	100,000,000	AAA_{sf} / stable
A 2018-5	27,900,000	AAA_{sf} / stable
A 2019-1	253,400,000	AAA_{sf} / stable

EUR Floating Rate Asset Backed Class B notes series (current outstanding amount after the renewal):

Series	Amount	Rating / Outlook
B 2015-1	110,900,000	$A+_{sf}$ / stable
B 2015-3	166,400,000	$A+_{sf}$ / stable
B 2016-1	68,800,000	Not rated
B 2016-3	307,100,000	$A+_{sf}$ / stable

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Series	Amount	Rating / Outlook
B 2017-1	74,400,000	Not rated
B 2018-1	52,800,000	A+$_{sf}$ / stable
B 2018-2	33,300,000	A+$_{sf}$ / stable
B 2019-1	39,400,000	Not rated

VCLM RV C2 is a platform for VW Leasing GmbH (VWL) to securitise the residual value portion of German auto lease receivables. VCLM RV C2, has currently issued 14 series of Class A Notes und eight series of Class B Notes. The legal final maturity is 25 September 2026.

The transaction features a revolving period of 6 month during which the Issuer will purchase new expectancy rights for revolving series. CRA has not rated the note series B 2016-1, B 2017-1 and B 2019-1 upon request of the mandator. The compartment may from time to time issue further series of Class A and Class B Notes.

VCLM RV C2 securitises only the residual value portion of the leases; finance portions of the lease contracts are not securitised by the Issuer. The securitised asset pool consists of the residual value claims of 530,144 auto lease financing contracts originated by VWL and extended to retail and corporate customers. The portfolio has a weighted average remaining term of approximately 15 months and a total volume of currently EUR 8,280,582,379.50.

A combination of subordinated loan and overcollateralization will provide credit enhancement to the rated Class A notes series (current total CE 48.00%) and Class B notes (current total CE 37.70%). In addition, a cash reserve, currently amounting to 2.69% of the expectancy rights balance, is available to provide credit enhancement to the Class A and B Notes.

To hedge the interest rate risk arising from a mismatch between fixed residual value and floating-rate interest payments on Class A and Class B notes, the Issuer will enter into two swap agreements to receive floating (1m Euribor + 0.57% for Class A notes and 1m Euribor + 1.20% for Class B notes floored at zero) while paying the fixed leg of each swap.

The transaction is subject to the risks of obligors' defaults and used car market values' deterioration. CRA used data of residual value forecasts and historical data of sale proceeds to determine an expected RV loss of 37.30% and 32.07% in an AAA$_{sf}$ and A+$_{sf}$ rating scenario, respectively, taking into account a stable recovery procedure, a moderate RV setting strategy of VWL and increased market value risks.

To size the credit risk of the portfolio and derive base case assumptions about loss rates and expected recovery performance, Creditreform Rating used data provided by VWL as well as internal databases. Following the analysis of historical data, CRA set the base case gross loss rate at 0.87% and the base case recovery rate at 65%.

CRA decided to maintain a conservative approach in selecting the appropriate scenario-specific stress multiples at x7.71 and x5.29 in an AAA_{sf} and $A+_{sf}$ scenario, respectively.

Moreover, CRA set the recovery haircuts at 48.45% (AAA_{sf}) and 38.81% ($A+_{sf}$), taking into account transaction-specific features such as observed volatility and established recovery procedures as well as potential market value risks. This resulted in total expected net losses of 4.44% (AAA_{sf}) and 2.76% ($A+_{sf}$). These scenario-specific assumptions about residual value risk and credit risk were tested in CRA's proprietary cash flow model, which was tailored to reflect the structure of VCLM RV C2 and to test the transactions' ability of paying interest and ultimate payment principal at final maturity.

In order to gauge the effect of variations in default and recovery rates as well as sale proceeds on rating indications, Creditreform Rating conducted a sensitivity analysis including independent and combined stresses of the base case assumptions. The best-case scenarios of AAA_{sf} for the Class A notes series and $A+_{sf}$ for the Class B notes series represent a scenario with unchanged base case assumptions. The worst-case ratings of A_{sf} and B_{sf} for the Class A and B notes series, respectively, represent a scenario, where a severe 20% stress on sale proceeds is applied.