S&P Global Ratings

Research

New Issue: Red & Black Auto Lease Germany 3 S.A.

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

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Ratings Detail

Ratings Assigned

Class	Rating*	Amount (mil. €)§	Available credit enhancement (%)†	Interest	Legal final maturity
A	AAA (sf)	350.0	15.5	One-month EURIBOR plus 0.70%	Sept. 15, 2031
B	BBB (sf)	41.2	5.5	0.70%	Sept. 15, 2031
C	NR	20.6	N/A	1.40%	Sept. 15, 2031

*Our ratings address timely interest and principal. §The portfolio's composition may change over time due to replenishment of maturing assets. †Credit enhancement figures indicate the enhancement available at closing, which comprises class subordination, unrated class C notes. The notes also benefit from a liquidity reserve equal to 0.50% of the initial outstanding principal balance. NR--Not rated. N/A--Not applicable. EURIBOR--Euro Interbank Offered Rate.

Transaction Participants

Originator, seller, servicer, and reserve loan provider	ALD AutoLeasing D GmbH
Arranger	Societe Generale S.A.
Note trustee	Intertrust Trustees GmbH
Data trustee	Intertrust (Deutschland) GmbH
Swap counterparty	DZ BANK AG
Transaction account provider	Elavon Financial Services DAC
Paying agent	Elavon Financial Services DAC
Cash administrator, and interest determination agent	US Bank Global Corporate Trust Ltd.
Lead manager	Societe Generale S.A.

Supporting Ratings

Institution/role	Ratings
Elavon Financial Services DAC as transaction bank account	AA-/Stable/A-1+
DZ BANK AG as interest rate swap provider	AA-/Negative/A-1+
Société Générale S.A. as reserve funding provider	A/Negative/A-1

Transaction Key Features

Closing date	Oct. 21, 2020
Collateral	Auto lease installment receivables resulting from lease agreements with corporate, public sector, and private clients.
Country of origin	Germany
Deal structure	Revolving true sale
Redemption profile	Fully sequential
Total receivables (mil. € discounted lease balance)*	411.8
Leasing installments (mil. €)*	411.8

Transaction Key Features (cont.)	
Receivables representing residual values (mil. €)*	0
Revolving period (years)	1
Customer type	Private customers (8.9%), commercial customers (91.1%)
Lessee concentration*	Top 1: 1.2%; top 10: 7.8%; and top 15: 9.9%
Geographic concentration*	North Rhine-Westphalia (27.1%), Baden-Wuerttemberg (14.7%), and Bavaria (13.0%)
Major industry concentration of the pool (%)*	Wholesale trade (12.6%), specialized construction activities (9.2%), and retail trade (4.9%).
Number of leasing contracts*	72,196
Number of lessee groups*	30,751
Weighted-average seasoning (months)*	15.3
Weighted-average remaining term (months)*	27.3
Weighted-average discount rate (%)*	3.28%, floored at 2.75% during revolving period
Liquidity reserve at closing	Fully funded at closing at 0.50% of the initial outstanding principal balance. The reserve does not amortize and can be used to cover any liquidity shortfalls on senior fees, swap payments, and interest on the class A and B notes during the transaction's life, and note redemption once the portfolio has amortized.

*As of Sept. 30, 2020.

Transaction Summary

S&P Global Ratings has assigned its 'AAA (sf)' and 'BBB (sf)' credit ratings to Red & Black Auto Lease Germany 3 S.A.'s (Red & Black Auto Lease Germany 3) class A and B notes, respectively. At closing, Red & Black Auto Lease Germany 3 also issued unrated class C notes.

This is ALD AutoLeasing D GmbH's (ALD) third public term securitization in Germany. ALD is a subsidiary of the Société Générale Group. It provides fleet financing for its German corporate, public sector, and private clients. The collateral comprises German auto lease receivables. Different to its predecessor transaction, Red & Black Auto Lease Germany 2 S.A. (Red & Black Auto Lease Germany 2), related residual values are not securitized. ALD originated the lease contracts for its German corporate, small and midsize enterprise (SME), and retail customers. Most of these lease contracts contain a servicing component. In this transaction, the servicing component is not securitized.

The transaction has an initial one-year revolving period, during which the originator can sell further lease receivables to the issuer, followed by sequential note amortization.

A combination of subordination, excess spread, and a cash reserve (that provides both liquidity and credit support) provides credit enhancement to the rated notes. A fixed-to-floating interest rate swap agreement is in place to mitigate the risk of potential interest rate mismatches between the fixed-rate assets and class A floating-rate liabilities. In addition, Société Générale S.A. also funds various reserves to cover for maintenance costs, setoff risk, and commingling risk, if its long-term issuer credit rating is lowered below 'BBB', or if ALD becomes insolvent.

Rating Rationale

Our rating reflects our assessment of the factors below.

Economic outlook

In our base-case scenario for Germany, we forecast economic growth to decrease by 5.4% this year and increase in 2021 by 4.7%. In 2022 and 2023, we forecast GDP growth of 2.4% and 1.6%, respectively. At the same time, we expect unemployment rates to increase to 4.3% in 2020 and to 4.5% in 2021, compared with 3.1% in 2019. In our view, the partial unemployment schemes unveiled across Europe will limit 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 our worsened economic outlook for Germany.

Operational risk

ALD is part of the international organization ALD S.A. ALD has a well-established origination platform with a solid operating history and stable brand in Germany. The business continuity plan was successfully activated at the start of lockdown due to the COVID-19 pandemic and most of the staff have been able to continue operations and handle borrowers' requests remotely during this period, with minimal disruption. Our ratings on the class A and B notes reflect our assessment of the company's origination policies, as well as our evaluation of ALD's ability to fulfil its role as servicer under the transaction documents. Our structured finance operational risk criteria do not cap the maximum achievable rating in the transaction (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014).

Credit analysis

We have analyzed credit risk under our global equipment ABS criteria, using historical loss data from the originator's loan book (see "Global Equipment ABS Methodology And Assumptions," published on May 31, 2019).

We have reviewed historical performance measures such as delinquencies, gross losses, and recovery rates, taking into account macroeconomic and industry trends. We expect to see 2.50% of defaults in the securitized pool, reflecting our macroeconomic projections stemming from the spread of COVID-19, the worsening of ALD's lease book performance, as well as our view of the originator's servicing procedures. As we do not currently believe that the expected level of macroeconomic stress warrants an overarching revision to the stressed default assumptions at the 'BBB' rating level or higher, we have offset the impact of such increased base-case default rates in relation to COVID-19 by reducing the corresponding multiple on rating levels of 'BBB' and higher

Additionally, due to the pool characteristics, we have considered the portfolio's obligor and industry concentration risks. Based on our analysis, our stressed gross loss assumption of 15.0% for a 'AAA' rating level results from the industry concentration exposure (see "Credit And Cash Flow Analysis" below).

Cash flow analysis

As the transaction is revolving, we considered portfolio deterioration through adverse migration, which certain portfolio limits partially offset. We have constructed a worst-case pool, subject to the transaction's replenishment and eligibility criteria, and only modeled the amortization period.

Subordination, excess spread, and a cash reserve (which provides both liquidity and credit support) provide credit enhancement to the transaction.

We have addressed secondary risks associated with the insolvency of the originator or the reserves funding provider (such as uncovered commingling risks, as well as lease termination risk) by sizing them in the cash flows.

We have applied certain liquidity stresses, such as a delay in cash receipts due to payment holidays and extended recovery timing, to test the impact of forbearance measures, like the impact of payment holidays and disruptions in recovery processes in this transaction.

Our cash flow stresses include high/low constant prepayment rates, high/low EURIBOR (Euro Interbank Offered Rate) stress scenarios, and reflect the mechanics in the transaction documents. Our analysis indicates that the available credit enhancement is sufficient to withstand the credit and cash flow stresses that we apply at a 'AAA' rating level for the class A notes and at a 'BBB' rating level for the class B notes.

Counterparty risk

Red & Black Auto Lease Germany 3 is exposed to several counterparties, which provide non-derivative, and derivative support under our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

We believe that the transaction's documented downgrade and replacement language mitigates its exposure to counterparty risk and is in line with our criteria.

Legal risk

We consider the issuer to be a bankruptcy remote entity, in line with our criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The external legal opinions provided at closing confirm that the sale of the assets would survive the seller's insolvency.

We believe the transaction may be exposed to various seller-related risks. We have addressed these secondary risks by sizing them in the cash flows. The risk of the issuer taking on all obligations under the lease agreements is limited by the presence of a condition that a back-up maintenance coordinator will be procured if an appointment trigger is breached.

Lease termination

The lessees could terminate whole-lease agreements once contractually agreed maintenance services cease to be provided. The issuer will appoint a back-up maintenance coordinator if an appointment trigger is breached and will also establish a maintenance reserve. We believe sufficient cash will be available to pay the insolvency administrator to cooperate with the issuer. These factors mitigate the risk of lessees terminating their contracts.

Credit stability

In line with our approach to scenario analysis, we have run two scenarios to test the stability of the assigned ratings. The results show that under moderate stress conditions, the ratings on the notes would not suffer more than the maximum projected deterioration that we would associate with each rating level in the one-year horizon.

Country risk

The application of our criteria for structured finance ratings above the sovereign (we currently rate Germany at the 'AAA' category) does not cap the rating in this transaction (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

Strengths, Concerns, And Mitigating Factors

Strengths

- ALD is an established player in the fleet management market, with a strong worldwide presence. This is ALD's third public German transaction.
- The structure benefits from a nonamortizing cash reserve, fully funded at closing at 0.50% of the initial outstanding principal balance. The reserve serves primarily as liquidity support to mitigate any cash strains; ultimately, it is available to repay the notes.

Concerns and mitigating factors

- As ALD primarily provides fleet leasing to commercial clients, the single-obligor and industry concentration in the underlying portfolio is higher than we typically see in auto-related portfolios. Nevertheless, it is in line with ALD's previous European securitizations and its rated peers. This risk is mitigated in the transaction documents by limiting the concentration of lessee groups and industries in the pool. Moreover, we have incorporated the risk of simultaneous default of several large lessee groups into our credit analysis by including a concentration floor in our stressed gross loss assumptions (see "Credit Analysis").
- The portfolio mainly comprises leases that contain servicing components. Although this transaction does not securitize the servicing components, we understand that lessees may have termination rights if the contractually agreed services are not rendered. In our view, if the servicer becomes insolvent, the provisions for the appointment of a back-up servicer and a back-up maintenance coordinator, would ensure servicing continuity. The issuer will appoint a back-up servicer and a back-up maintenance coordinator if the long-term rating on Société Générale, the majority shareholder, falls below 'BBB-'. Furthermore, a maintenance cost reserve can be used to pay maintenance costs, if they exceed the maintenance collections. We considered the availability of sufficient cash to make payments to the insolvency administrator, in order to motivate it to cooperate with the issuer and the back-up servicer/back-up maintenance coordinator, to continue rendering the services.
- During the replenishment period, the credit quality of the pool may shift and the performance may deteriorate due to substitution of amortizing assets. The transaction documentation provides for caps on some of the asset characteristics that limit a material shift in portfolio quality. Further, the documentation provides for performance triggers, which would stop the replenishment period if the transaction accumulates more losses than available excess spread.
- We understand that several legal and tax risks could arise if the originator were to become insolvent. The issuer's funds could become commingled with the originator's funds. Lessees may be entitled to set off their payment obligations against certain amounts the originator owes them, and the issuer may become liable to pay German trade tax. If the long-term rating on Société Générale falls below 'BBB', or if ALD becomes insolvent, Société Générale would fund the maintenance cost reserve, the setoff reserve, and the commingling reserve. In our cash flow analysis, we have sized different risks, compared them with the reserve's available amounts (if any), and included any uncovered amounts.

Transaction Structure

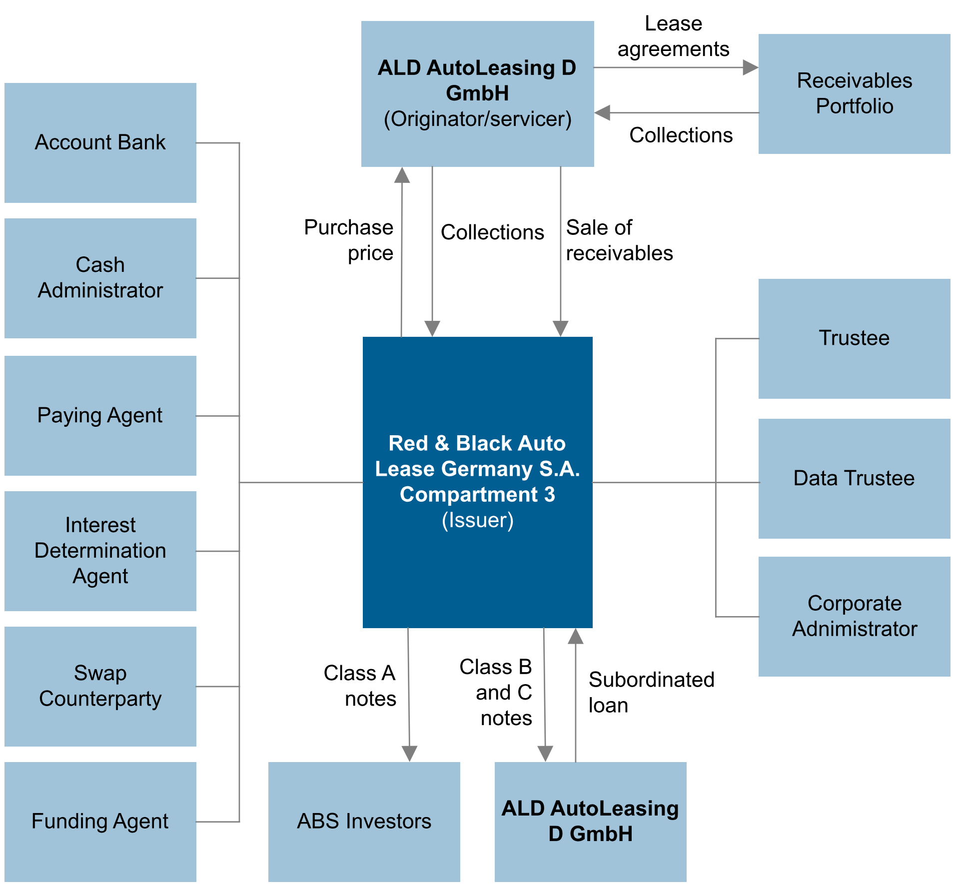
Red & Black Auto Lease Germany 3, the issuer, is a newly established special-purpose entity (SPE), which we consider to be bankruptcy remote under our legal criteria. At closing, the issuer purchased a portfolio of auto lease installment receivables in an aggregate discounted amount of €411.8 million. Subsequently, the issuer used all principal and interest cash flows from the assets to purchase further assets from the originator so that the portfolio volume remains at its initial level. Replenishment will continue for one year from the first payment date, or will end earlier if performance levels breach certain triggers.

An interest rate swap counterparty mitigates the interest rate risk between the fixed-rate assets and the floating rate of interest payable on the class A notes.

Chart 1

Transaction Structure

Red & Black Auto Lease Germany S.A. Compartment 3



Priority of payments

The class A notes pay interest in arrears on the 15th day of each month, at an indicative rate of one-month EURIBOR plus a 0.70% margin. The B and C notes pay a fixed rate of 0.70% and 1.40%, respectively. The first interest payment date is on Nov. 15, 2020, and the legal final maturity date is on Sept. 15, 2031.

On each monthly interest payment date, Red & Black Auto Lease Germany 3 will meet its obligations in a particular priority of payments. For this, it will use all cash flows received from the assets (including principal, interest, prepayments, and a pro rata share of recoveries), all net swap receipts, and any amounts on the cash reserve account. In addition, amounts on the commingling, and setoff reserve are available to cover for related shortfalls. Upon ALD's insolvency, amounts in the maintenance reserve will be paid to ALD equal to 105% of the uncovered maintenance cost in that month.

Table 1

Normal Period Payment Waterfall	
1	Taxes.
2	Pay uncovered maintenance amounts to the servicer after insolvency.
3	Senior fees and admin expenses.
4	Servicing fees (including back-up maintenance coordinator fees).
5	Swap payments.
6	Interest due on the class A notes.
7	Interest due on the class B notes.
8	Top-up the general reserve to the required amount.
9	Purchase of new receivables during the revolving period.
10	Payment of principal due on the class A notes during the amortization period.
11	Payment of principal due on the class B notes during the amortization period.
12	Interest due on the class C notes.
13	Principal on the class C notes during the amortization period.
14	Subordinated swap termination payments.
15	Interest on the subordinated loan.
16	Subordinated loan redemption amount.
17	Excess value

If an enforcement event occurs, Red & Black Auto Lease Germany 3 will no longer top up the reserve and the waterfall will switch so that Red & Black Auto Lease Germany 3 will pay interest and principal on the class A notes before paying interest and principal on the class B notes. We have reviewed the enforcement events and deem them to be sufficiently remote for our assigned ratings.

The originator can exercise an optional redemption as soon as the aggregate discounted asset balance is less than 10% of the aggregate discounted asset balance at closing.

Replenishment

The transaction has a revolving period, during which Red & Black Auto Lease Germany 3 will use collections from the assets to purchase further assets from the originator. According to the transaction documents, Red & Black Auto Lease Germany 3 can only purchase assets that comply with the eligibility and replenishment criteria (see "Collateral

Description" below).

The revolving period continues for one year from the first payment date, or earlier if an early amortization event occurs, including if:

- For three consecutive months, the aggregate outstanding portfolio, calculated including the additional receivables purchased on the most recent purchase date, is less than or equal to 90% of the aggregate note balance as of the closing date;
- The cumulative default ratio exceeds 2.5%;
- The three-month average dynamic delinquency ratio exceeds 5%;
- Amounts available for replenishment are insufficient to fully replenish the asset pool up to the initial level;
- ALD being insolvent, or
- A back-up servicer or a back-up maintenance coordinator has not been appointed in each case within 90 calendar days following a downgrade event.

The portfolio's composition after being replenished is limited by the concentration limits under the replenishment criteria (see table 2).

Table 2

Concentration Limits*

Single-obligor concentrations	**Percentage of the outstanding discounted asset balance (%)**
Top 1 lessee group limited up to	1.50
Top 2 to 4 lessee groups limited up to (each)	1.25
Top 5 to 10 lessee groups limited up to (each)	1.00
Top 11 to 20 lessee groups limited up to (each)	0.75
All other lessee groups limited up to (each)	0.50
Industry concentrations	
Any single industry limited up to	15.00
Other limits	
Weighted-average remaining term of all lease agreements	below 36 months
Weighted-average discount rate of all lease agreements (%)	at least 2.75
Exposure to private sector non-financial corporations or natural persons (%)	at least 90

Interest rate hedging

Red & Black Auto Lease Germany 3 and the swap counterparty have entered into an interest rate swap agreement that is in line with our current counterparty criteria. The swap hedges the issuer's exposure to interest rate risk resulting from the fixed discount rate under the purchased receivables and the floating-rate obligations under the class A notes. Under this swap agreement, Red & Black Auto Lease Germany 3 pays a fixed rate of an amount to be determined on the outstanding principal balance of the class A notes. In exchange, the swap counterparty pays to the issuer a floating interest rate based on one-month EURIBOR (i.e., the same index that the notes pay) plus the class A note margin of 0.70%, subject to a floor at 0%.

Credit enhancement

A combination of subordination, excess spread, and a cash reserve (which provide both liquidity and credit enhancement) provides credit enhancement. In addition, a setoff, commingling, and maintenance reserve aim to protect noteholders from seller risks. The cash reserve was fully funded at closing. Société Générale will fund the remaining reserves at the earlier of a downgrade of its long-term rating to below 'BBB' (downgrade event) or ALD's insolvency.

Excess spread

Excess spread results from the difference between (i) the interest income received from the assets, and (ii) the fixed payments paid under the swap, plus the weighted-average note spreads on class A and B notes, as well as any senior fees and expenses. At closing, taking into account the minimum covenanted weighted-average discount rate of all lease agreements of 2.75%, unstressed excess spread was about 2.0%.

Cash reserve

The liquidity reserve is a cash reserve that ALD fully funded at closing. The entire reserve will be released into the waterfall each month. The nonamortizing cash reserve will top up to the required liquidity reserve amount in the waterfall after interest payments and before principal payments/asset replenishment. This means that the reserve will be available in full (unless there is a severe liquidity stress) at the end of the replenishment reserve.

Once either the aggregate discounted asset balance or the class A and B notes' balance reduces to zero, Red & Black Auto Lease Germany 3 will not top up the reserve in the waterfall at all, so that all amounts remaining in the reserves at that time are available to cure losses.

Lease termination

The lessees could terminate whole-lease agreements once contractually agreed maintenance services cease to be provided. In order to mitigate this risk, the issuer will appoint a back-up maintenance coordinator if an appointment trigger is breached. In addition, Societe Generale will fund, at the earlier of a downgrade of its long-term rating to below 'BBB' or ALD's insolvency, a maintenance reserve. Upon ALD's insolvency, amounts in the maintenance reserve will be paid to ALD equal to 105% of the uncovered maintenance cost in that month. In our cash flow analysis, we considered an additional incentive amount equal to 1% of the initial asset balance as sufficient cash to make payments to the insolvency administrator, in order to motivate it to cooperate with the issuer and the back-up servicer/back-up maintenance coordinator.

Commingling risk

Commingling risk may arise if the servicer becomes insolvent. We assume that: (i) the amounts in the collection account at servicer insolvency, plus (ii) the amounts that come into the collection account before the issuer has notified borrowers to redirect their payments would become part of the insolvency estate of the servicer and would therefore be lost.

Collections are transferred from the originator's collection account to the issuer's account monthly, on the payment date (the 15th day of the month).

Of the pool, 74% of the pool pays via direct debit. The remaining 26% pays via other payment methods. Upon a servicer insolvency, the issuer notifies borrowers to redirect their payments to the issuer's account, and the servicer's collection authority under the direct debit is revoked. In our analysis, we assume that one and a half months of collections will be lost due to commingling of amounts in the collection account at servicer insolvency and amounts that come into the collection account after servicer insolvency and before borrowers would be notified.

In order to mitigate this risk, Societe Generale will fund, at the earlier of a downgrade of its long-term rating to below 'BBB' or ALD's insolvency, a commingling reserve, equal to 5% of outstanding portfolio balance of the preceding collection period.

In our view, the reserve does not fully cover the commingling risk over the life of the transaction. Accordingly, we have accounted for half of the collections in the 2nd month as loss in our cash flows.

Setoff risk

Setoff risk under the lease agreement may arise due to security deposits the originator holds, as well as potential adjustments to the year-end service calculations of the lease contracts, or mileage amounts that may be payable by the originator to the lessees under the lease agreements. We have used the above inputs and stressed assumptions to calculate the setoff risk we would expect. In order to mitigate this risk, Societe Generale will fund, at the earlier of a downgrade of its long-term rating to below 'BBB' or ALD's insolvency, a commingling reserve, equal to the outstanding setoff exposure subject to a cap of €5.0 million. In our view, the reserve fully covers the setoff risk over the transaction's life.

Trade tax

If a tax audit from the German tax authorities were to conclude that the issuer was effectively headquartered in Germany (i.e., by way of the servicer), the issuer would become liable to pay trade tax risk on its business profits. We have addressed this secondary risk by sizing them and subtracting these amounts, equal to about €0.84 million, as a loss from the cash flows because the transaction does not have a tax reserve.

Collateral Description

The transaction securitizes a pool of auto lease receivables. Unlike Red & Black Auto Lease Germany 2, no residual values of the related vehicles are securitized. Most lessees are corporate and SME entities that have their registered office in Germany, but there are also some private lessees in the pool. In our view, the pool shows good diversification over contract maturities and over vehicle make, but shows considerable single-lessee and industry concentration.

The lease receivables are based on leasing contracts that ALD originated to its commercial leasing customers in the ordinary course of business. Most of the contracts are service lease contracts that comprise a financing part and a servicing part. While this transaction only includes the financing part, the existence of the servicing part could lead to certain termination rights for the lessees if the servicer (or its substitute) fails to provide the contractually agreed services.

According to the transaction documents, the receivables must be in line with certain eligibility criteria:

- The lease receivable derives from a lease agreement, which is legal, valid, and binding, based on the originator's form of contract, and governed by German law;

- At least one lease installment has been paid in the lease agreement;
- There is no material breach, default, or violation of any obligation under the associated lease agreement;
- The receivable is not in arrears;
- The receivable is not derived from a defaulted lease agreement;
- The receivable gives rise to monthly installments;
- The receivable provides for an original term no longer than 72 months;
- Each lease receivable is denominated in euro;
- The receivable has been originated in the ordinary course of business;
- Each leased vehicles is a new vehicle; and
- The receivable has not been granted a payment holiday under the COVID-19 scheme.

Table 3 shows the stratifications of the pool. The portfolio's composition may change over time due to replenishment of maturing assets (see "Replenishment" above).

Table 3

Pool Distribution*

	Red & Black Auto Lease Germany 3 (final pool)	Red & Black Auto Lease Germany 3(provisional pool)	Red & Black Auto Lease Germany 2
Aggregate outstanding portfolio principal amount (mil. €)	411.8	411.8	730.0
Number of lease contracts	72,196	71,218	45,125
Number of lessee groups	30,751	30,475	14,684
Average balance per lease contract (€)	5,704	5,782	16,177
average balance per lessee group (€)	13,391	13,512	49,714
Weighted-average discount rate (%)	3.28	3.26	3.69
Weighted-average seasoning (months)	15.3	14.9	15.9
Receivable type (%)			
Lease receivable	100.0	100.0	42.1
Receivables representing residual values	0.0	0.0	57.9
Product type (%)			
Closed calculation	65.9	66.1	61.3
Open calculation	1.8	1.7	1.8
Finance lease	32.3	32.1	36.9
Customer type (%)			
Private	8.9	8.8	0.0
Corporate	91.1	91.2	100.0
Vehicle make (%)			
Largest	35.7(Ford)	35.4 (Ford)	36.6 (Ford)

Table 3

Pool Distribution* (cont.)

	Red & Black Auto Lease Germany 3 (final pool)	Red & Black Auto Lease Germany 3(provisional pool)	Red & Black Auto Lease Germany 2
Second largest	13.5 (Kia)	13.4 (Kia)	10.0 (Renault)
Third largest	11.5 (Hyundai)	11.6 (Hyundai)	8.7 (Hyundai)
Vehicle type (%)			
Car	80.7	80.9	79.6
Light commercial vehicle (LCV)	19.3	19.1	20.4
Engine type (%)			
Petrol	74.8	74.5	N/A
Diesel	25.2	25.5	N/A
Electric	N/A	N/A	N/A
Hybrid	N/A	N/A	N/A
Top 3 industry (NACE) (%)			
Largest	12.6 (Wholesale trade)	12.7 (Wholesale trade)	15.1 (Wholesale trade)
Second largest	9.2 (Specialized construction activities)	8.7 (Specialized construction activities)	9.1 (Specialized construction activities)
Second largest	4.9 (Retail trade)	4.7 (Retail trade)	5.3 (Retail trade)
Top obligors (%)			
Top 1	1.1	1.2	1.5
Top 15	9.9	10.1	8.6
Obligors above 1.5% (count)	0	0	1
Obligors above 1.5% (%)	0	0	1.5

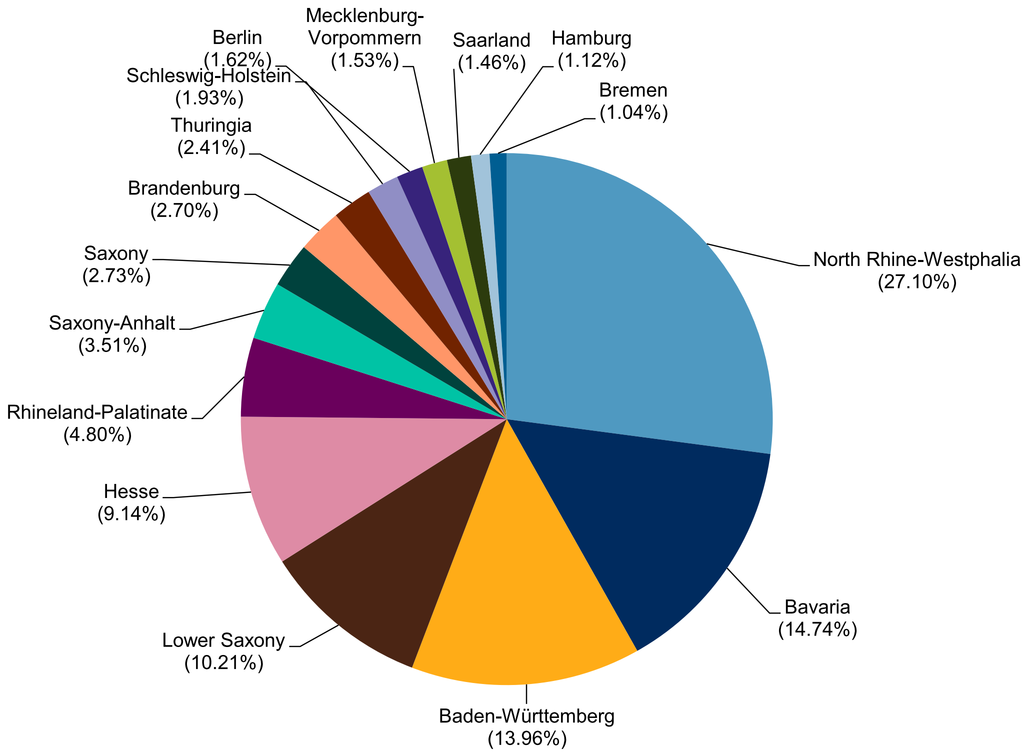
*Portfolio stratifications may change through replenishment. N/A--Not applicable.

The pool has considerable industry and single-lessee concentrations. In the pool, the largest industry accounts for 12.6%, and it is capped through concentration limits at 15.0%; and the largest lessee group accounts for 1.1% and is capped through concentration limits at 1.5%.

Lessees are fairly well distributed in Germany, and higher concentrations are in the federal states that show stronger economic activity (see chart 2).

Chart 2

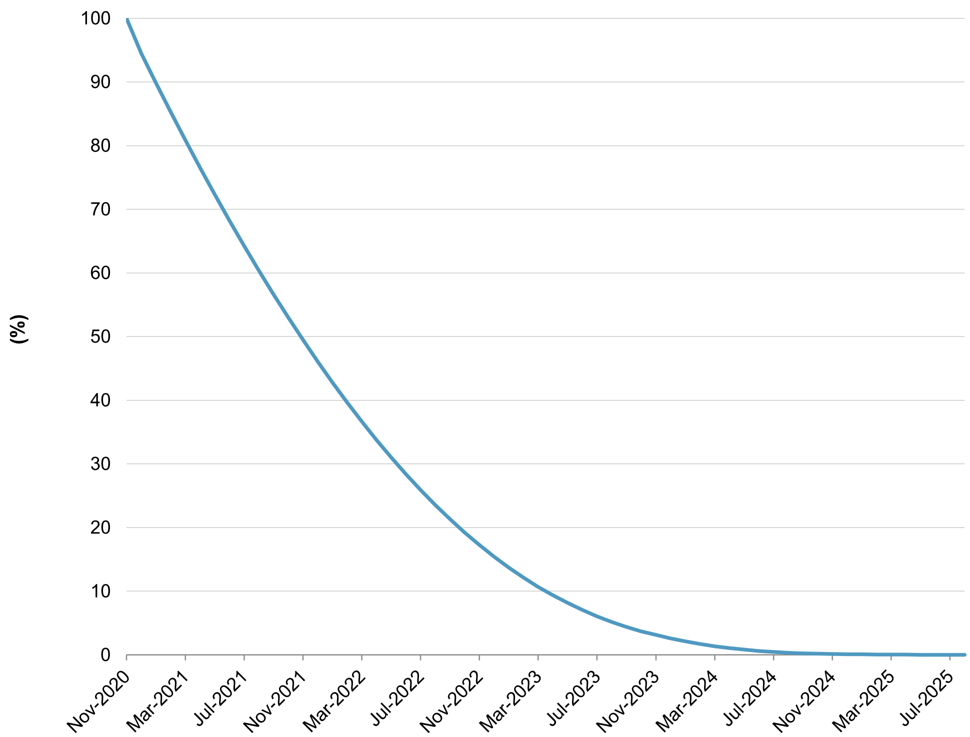
Geographic Distribution Of The Portfolio



ALD originated the contracts in the pool between 2014 and 2020 (with the bulk of originations coming from 2018 to 2020).

Chart 3

Scheduled Amortization Of The Securitized Pool



Credit Analysis

We have received quarterly static gross loss and recovery data from first-quarter 2008 to second-quarter 2020. The gross loss data show that, historically, ALD has experienced fairly low levels of default in comparison with other German auto lease transactions. On the recovery side, we have received data on all defaulted lessees since the first quarter of 2008.

Given the few defaults observed historically and based on the high concentrations inherent in the portfolio, we based our stressed gross loss assumption on the following three considerations: Historical gross losses, single-lessee concentrations, and industry concentrations. We sized our gross loss base cases based on the total lease book.

Macroeconomic and sector outlook

The economic costs of the coronavirus pandemic for Europe are mounting quickly as measures to contain the virus increase, both in the region and abroad. In our base-case scenario for Germany, we forecast economic growth to decrease by 5.4% this year and increase in 2021 by 4.7%. In 2022 and 2023, we forecast GDP growth of 2.4% and 1.6%, respectively. At the same time, we expect unemployment rates to increase to 4.3% in 2020 and to 4.5% in 2021, compared with 3.1% in 2019. In our view, the partial unemployment schemes unveiled across Europe will limit 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 our worsened economic outlook for Germany.

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 could be around mid-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). As the situation evolves, we will update our assumptions and estimates accordingly.

We will investigate the potential effects the current recession may have, especially on lower rating categories. For this specific transaction and in line with our research article "European Auto And Consumer ABS: Analysis Adjusted To Reflect COVID-19 Effects," published on May 11, 2020, we have added 25 basis points to the weighted-average base case we obtained following our standard approach and we prolonged the recovery timing.

In our analysis, we considered the following economic data and their baseline effect on collateral credit quality in determining our credit assumptions (see table 4 and "Related Research").

Table 4

Economic Factors

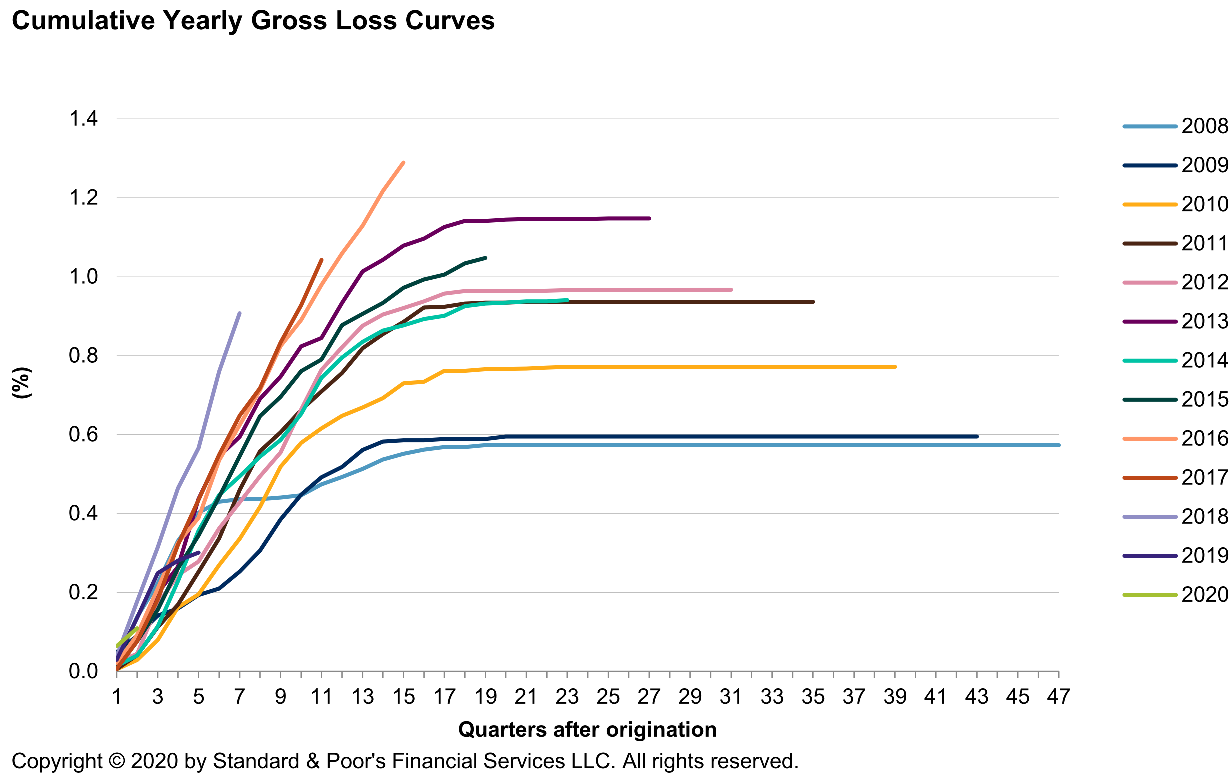
	Actual	Forecast			
	2019	**2020f**	**2021f**	**2022f**	**2023f**
Real GDP (y/y growth, %)	0.6	(5.4)	4.7	2.4	1.6
Unemployment rate (annual average, %)	3.1	4.3	4.5	4.0	3.6
CPI y/y (%)	1.4	0.0	1.1	1.5	1.5

Sources: National statistics offices, OECD, Eurostat, Bank of England, European Central Bank, and S&P Global Ratings. f--Forecast. y/y--Year on year. CPI--Consumer price index.

Default risk

Chart 4 shows quarterly averages of the cumulative gross loss cohorts for the total lease book. The data show that the performance has remained stable until 2017 but has worsened in recent years.

Chart 4



In light of our current recessionary outlook for Europe and the weaker performance of recent vintages, we have increased our base-case default rate assumption for the total lease book by 0.5% to 2.50%, compared with Red & Black Auto Lease Germany 2. In our view, government actions taken so far to bolster European economies from the effects of COVID-19 will support ABS performance. Unemployment and GDP growth are two of the primary drivers for defaults in equipment ABS, and many of the support measures, including state guarantees and a short-term work scheme, are protecting workers and firms (see "European Auto And Consumer ABS: Analysis Adjusted To Reflect COVID-19 Effects," published on May 11, 2020).

While we expect higher base-case defaults because of COVID-19, we do not currently 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 between 'AAA' and 'BBB', respectively. At the same time, we kept our multiples unchanged for ratings below 'BBB,' compared with Red & Black Auto Lease Germany 2.

Table 5

Gross Loss Assumptions	
Base case for the closing pool (%)	2.5
'AAA' stress assumption (%)	11.0
'BBB' stress assumption (%)	4.4

As described above, we also considered single-lessee concentrations and industry concentrations to capture the idiosyncratic risk in this pool. As the transaction is revolving, we did this by looking at the concentration limits in addition to the actual concentration levels in the pool. To account for the lack of granularity and potentially worse performance than the loss experience suggests, we considered the supplemental analysis described below.

Based on the replenishment limits, the largest single lessee group concentration cannot exceed 1.5%. Therefore, we are not adding any largest obligor to our stress assumption for all rating levels. As such, the blended default rate equals the stressed default rate.

Table 6 summarizes the top single lessee group concentration based on the pool. The table also provides the concentration coverage we would typically deem to be commensurate with a 'AAA' and 'BBB' rating and the resulting gross loss numbers.

Table 6

Single Lessee Concentrations

Rating level	Number of largest lessee groups expected to be covered	Resulting gross loss assumption (%)
AAA	10	7.83
AA	4	3.88

We have also analyzed the transaction's exposure to largest industry concentration risk. Based on the replenishment limit, the largest industry is capped at 15.0% of the pool. We have received data on the internal rating distribution of the pool by industry and a breakdown by subindustries. In our view, the data show that the currently largest industry (wholesale trade; 12.6%) subpool has on average a slightly worse internal rating compared with the remaining pool. Therefore, we have considered the concentration risk for industry in our analysis at the 'AAA' rating level.

Table 7

Industry Concentration

Rating level	Number of largest industries expected to be covered	Resulting gross loss assumption (%)
AAA	1	15.00
BBB	N/A	N/A

N/A--Not applicable.

Recovery analysis

We received full recovery data for the historical defaults that ALD has observed between the first quarter of 2008 to the second quarter of 2020. Chart 5 shows total cumulative recoveries received on defaulted contracts by annual default cohort.

Chart 5

Cumulative Annual Recovery Curves

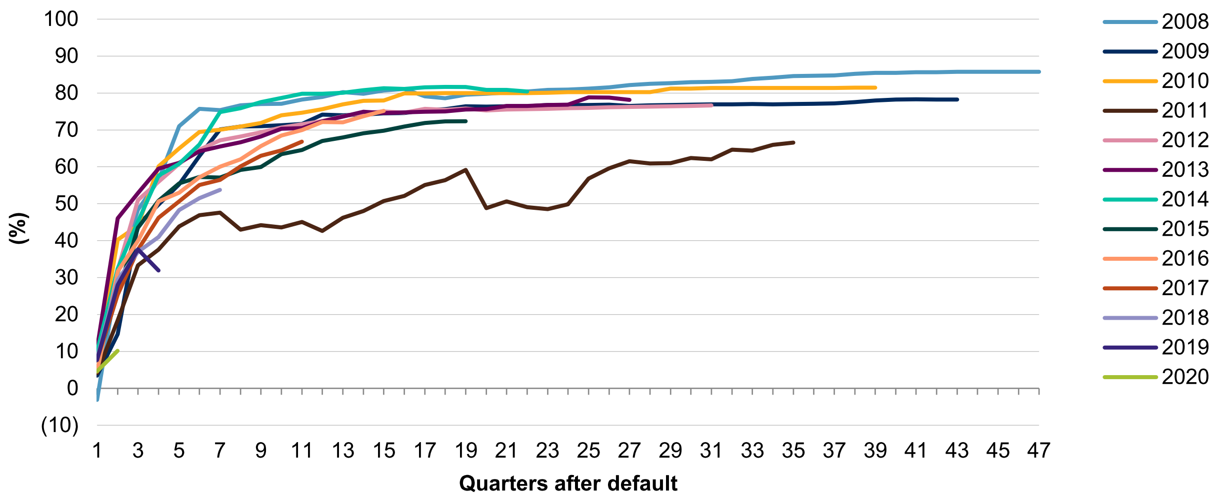


Table 8 gives the base-case and stressed assumptions we applied.

Table 8

Recovery Rate Assumptions	
Base case for the closing pool (%)	60.0
'AAA' stress assumption (%)	33.0
'BBB' stress assumption (%)	42.0

Cash Flow Analysis

In our analysis, we assess whether the cash flows that the pool of assets generates are sufficient to ensure timely payment of interest and ultimate payment of principal by the legal final maturity date of the liabilities. We applied the following assumptions in our stressed cash flow analysis (see table 9).

Table 9

Cash Flow Assumptions

Scenario	AAA	BBB
Cumulative gross loss (%)	15.00	4.39
Recession start	Closing	Closing
Length of recession	15 months	15 months
Recoveries (%)	33.00	42.00
Recovery lag (months)	70% in month 14, 20% in month 21, and the remaining 10% in month 30	70% in month 14, 20% in month 21, and the remaining 10% in month 30
Weighted-average coupon (%)*	2.75	2.75
Relative weighted-average coupon compression (%)	0.91	0.91

Table 9

Cash Flow Assumptions (cont.)

Scenario	AAA	BBB
Stressed servicing fee (% per year)	1	1
Fixed fees (per year)	€100,000	€100,000
Bank account replacement cost	€92,500	€92,500
Seller risks		
Insolvency administrator's incentive fee as a percentage of closing pool	1% (applied in month one)	1% (applied in month one)
Trade tax stress (as a percentage of closing pool; %)	0.20	0.20
Setoff stress (as a percentage of closing pool; %)	0.00	0.00
Commingling stress	Half a month of collections, applied in month two.	Half a month of collections, applied in month two.
CPR high (%)	20.0	20.0
CPR low (%)	0.5	0.5
Delinquency	Liquidity stress equal to two-thirds of the stressed gross losses applied in a given month, and we assume obligors become current again after six months	Liquidity stress equal to two-thirds of the stressed gross losses applied in a given month, and we assume obligors become current again after six months

*Based on the minimum covenanted discount rate. CPR--Constant prepayment rate.

Cash flow results

Our analysis indicates that the rated classes of notes achieve timely payment of interest and ultimate payment of principal under the respective stressed rating scenario and assumptions discussed above. The class A and B notes pass at the 'AAA' and 'BBB' rating levels, respectively. The high prepayment scenarios have proven to be more stressful, mostly because they reduce the amount of available excess spread.

Monitoring And Surveillance

As part of the ongoing surveillance of this transaction, we will regularly assess:

- The performance of the underlying portfolio, including defaults, delinquencies, and prepayments;
- The supporting ratings; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Related Criteria

- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | ABS: Global Equipment ABS Methodology And Assumptions, May 31, 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: 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 Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Economic Research: European Economic Snapshots: A Second COVID-19 Wave Is Dampening The Recovery, Oct. 14, 2020
- Economic Research: The Eurozone Is Healing From COVID-19, Sept. 24, 2020
- European Auto ABS Index Report Q2 2020, Sept. 8, 2020
- European Economic Snapshots: The Eurozone Will Recover Only Gradually, July 24, 2020
- Nowcasting In Times Of Crisis: How We Are Tracking The COVID-19 Recovery, July 23, 2020
- Eurozone Economy: The Balancing Act To Recovery, June 25, 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
- EU Response To COVID-19 Can Chart A Path To Sustainable Growth, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- European ABS And RMBS: Assessing The Credit Effects Of COVID-19, March 30, 2020
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016