

## Research

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### New Issue: MotoPark Finance PLC

£543. 8 Million Asset-Backed Floating- And Fixed-Rate Notes  
(Including £14. 8 Million Unrated Subordinated Notes)

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# New Issue: MotoPark Finance PLC

£543.8 Million Asset-Backed Floating- And Fixed-Rate Notes (Including £14.8 Million Unrated Subordinated Notes)

## Ratings Detail

### Ratings Assigned

Class	Rating*	Amount (mil. £)	Available credit enhancement (%)	Interest §	Legal final maturity
A	A (sf)	507.50	6.7	One-month British pound sterling LIBOR plus 0.80%	June 2025
B	BBB (sf)	21.50	2.7	One-month British pound sterling LIBOR plus 1.40%	June 2025
C	NR	11.00	0.7	15.00%	June 2025
D†	NR	3.78	0.0	20.00%	June 2025

\*Our ratings address timely interest and ultimate principal payments on all rated notes. §The total floating-rate coupon on the class A and B notes is subject to a minimum level of 0%. †The class D notes' proceeds were used to fund the initial cash reserve at closing. NR--Not rated. LIBOR--London Interbank Offered Rate.

### Transaction Participants

Trustee	HSBC Corporate Trustee Company (UK) Ltd.
Co-arrangers	FirstRand Bank Ltd., London Branch, and HSBC Bank PLC
Seller, originator, and servicer	FirstRand Bank Ltd., London Branch
Back-up servicer	Equiniti Gateway Ltd.
Interest rate swap counterparty, issuer bank account provider, cash manager, paying agent, and agent bank	HSBC Bank PLC
Listing agent	Walkers Listing Services Ltd.
Corporate services provider	Maples Fiduciary Services (UK) Ltd.

### Supporting Ratings

Institution/role	Rating
HSBC Bank PLC as issuer bank account provider and as interest rate swap counterparty	AA-/Stable/A-1+
Lloyds Bank PLC as servicer collection account provider	A/Positive/A-1

### Transaction Key Features\*

Closing date	Jan. 23, 2018
Collateral	Receivables arising under HP agreements and PCP agreements granted to commercial and private borrowers resident in the U.K. for the purchase of used and new vehicles (including motorcycles, scooters, and light commercial vehicles)
Country of origination	U.K.
Total receivable outstanding principal balance (mil. £)	539.989
Transaction structure	Revolving true sale

Transaction Key Features* (cont.)	
Replenishment period (months)	18
Concentration limits (% of total pool balance)	PCP loans: <20.00% PCP residual value amount: <15.00% HP balloon loans: <5.00% HP+ loans (secured): <10.00% Light commercial vehicles: <15.00% Motorcycles or scooters: <5.00% Weighted-average effective rate of assets: >10.00% Weighted-average original LTV ratio of assets: <100.00% Weighted-average remaining maturity of assets: <50 months VW Group's diesel engine cars: 22.00%§
Performance triggers (if breached would lead to early amortization)	Delinquency ratio: <2.5% Cumulative net loss ratio: <3.0% Cash in replenishment ledger: <10.0% (on two consecutive payment dates)
Notes payment frequency	Monthly
Redemption profile	Fully sequential
Credit enhancement for the class A notes (as a percentage of asset volume; %)	Subordination: 6.0; Initial cash reserve: 0.7
Credit enhancement for the class B notes (as a percentage of asset volume; %)	Subordination: 2.0; Initial cash reserve: 0.7
Initial annual excess spread (as a percentage of asset volume; %)	7.2†
Cash reserve description	Partially funded at closing at 0.7% of initial asset pool balance; Intended to be topped up at its 1.3% target level and to cover any liquidity shortfalls on senior fees, swap payments, and interest on the class A and B notes during the transaction's life; Amortizing after the end of the revolving period with a target level of 1.3% of the outstanding asset balance, subject to a floor (minimum amount) of 0.5% of the asset pool's initial balance; Amounts released due to the decrease of the target level are used to redeem notes on an ongoing basis whereas the trapped floor amount could be used at the end of the transaction to redeem notes if needed.

\*Based on the pool as of Dec. 31, 2017. §Audi, Bentley, Bugatti, Lamborghini, Porsche, Seat, Skoda, and Volkswagen. †Estimated, at end of the revolving period, as minimum allowed asset pool yield minus the sum of stressed senior fees, swap rate, and weighted-average rated notes margin. HP--Hire purchase. PCP--Personal contract purchase. LTV--Loan to value.

## Transaction Summary

S&P Global Ratings has assigned its credit ratings to MotoPark Finance PLC's (MotoPark) asset-backed floating-rate class A and B notes. At closing, MotoPark also issued unrated subordinated fixed-rate class C and D notes. The proceeds from the class D notes were used to fund the initial cash reserve.

MotoPark is the eighth public securitization of U.K. auto loans originated by FirstRand Bank's London Branch (FRB London) and the third one that we have rated. The predecessor transactions, Turbo Finance 6 PLC and Turbo Finance 7 PLC closed in February 2016 and November 2016, respectively. FRB London is one of the largest independent auto lenders in the U.K., where it operates under the commercial name MotoNovo Finance, with a focus on used car financing.

The collateral backing the notes comprises U.K. fixed-rate auto loan receivables arising under hire purchase (HP) agreements and personal contract purchase (PCP) agreements granted to commercial and private borrowers resident in the U.K. for the purchase of used and new vehicles (including motorcycles, scooters, and light commercial vehicles).

The transaction has an 18-month revolving period, during which the issuer reinvests the principal proceeds from the

pool to purchase further receivables subject to certain concentration limits and performance triggers, notably an asset-liability test. The notes start to amortize sequentially after the revolving period ends.

The transaction uses a pass-through combined waterfall structure and implements a default and voluntary termination (VT) provisioning mechanism, enabling to capture excess spread if needed.

A combination of note subordination, a cash reserve, and any available excess spread provides credit enhancement for the rated notes.

The special-purpose entity (SPE) is be exposed to counterparty risk through HSBC Bank PLC, as bank account provider and as the fixed-to-floating interest rate swap counterparty for the class A and B notes. The downgrade and replacement languages are in line with our current counterparty criteria to mitigate these risks (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "Global Derivative Agreement Criteria," published on June 24, 2013).

## **Key Changes From Turbo Finance 7**

The transaction includes up to 20% PCP loans (compared with 15% in Turbo 7), which contain final balloon installments. If a borrower elects not to purchase the vehicle at maturity, the issuer is exposed to residual value risk. The residual value risk is mitigated through a 15% concentration limit on the balloon installment amounts in the securitized pool, which in Turbo 7 is set at 9%. MotoPark also includes up to 10% of HP+ loans, the same as in Turbo 7. HP+ loans contain a secured and unsecured component, which we understand is structured to mitigate voluntary termination risk for high loan-to-value (LTV) ratio contracts. However, only the secured HP loan amount is included in the securitized pool.

The transaction implements a longer 18-month revolving period, compared to six months for Turbo 7.

## **Rating Rationale**

### **Economic outlook**

We forecast U.K. GDP growth of 1.0% in 2018 before rebounding to 1.3% and 1.5% in 2019 and 2020, respectively. We estimate an unemployment rate of 4.5% in 2018, increasing further to 4.7% and 4.8% in 2019 and 2020. Our consumer price index inflation forecast for 2018 is 2.4%, which will drop to 1.9% in 2019, before rising to 2.0% in 2020 (see "Hope Overcomes Fears As The Fundamentals Propel Europe Forward," published on Dec. 5, 2017). Rising inflation--not been matched by rises in nominal wages--will continue to constrain borrowers' disposable incomes, potentially affecting their ability to service their debts. We therefore believe that the strong U.K. auto securitization performance witnessed to date may begin to weaken. Our credit assumptions reflect this outlook.

### **Operational risk**

The originator and servicer in this transaction, MotoNovo Finance (MotoNovo), is a business segment of FirstRand Bank Ltd. (London Branch), whose parent is the second-largest bank in South Africa measured by total assets. MotoNovo is one of the largest independent auto lenders in the U.K., specializing in used car financing. We believe

that the company's origination, underwriting, servicing, and risk management policies and procedures are in line with market standards and are adequate to support the ratings assigned. Our operational risk criteria focus on key transaction parties (KTPs) and the potential effect of a disruption in the KTP's services on the issuer's cash flows, as well as the ease with which the KTP could be replaced if needed (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). Based on our view of the servicer's capabilities and the characteristics of the underlying receivables, our operational risk criteria do not constrain our ratings in this transaction. In addition, the transaction includes a back-up servicer, Equiniti Gateway Ltd., which would step-in within 90 days following a disruption of the initial servicer.

### **Credit risk**

We analyzed credit risk under our European auto asset-backed securities (ABS) criteria, using cumulative gross loss vintage curves for the used vehicle subpools and cumulative net loss from VTs for the originator's book (see "Methodology And Assumptions For European Auto ABS," published on Oct. 15, 2015). We analyzed residual value risk related to the PCP loans using our European consumer finance criteria (see "European Consumer Finance Criteria," published on March 10, 2000). As the VT data provided is not in line with the definitions under our European auto ABS criteria and the transaction documents, we reincorporated our gross VT base-case assumption into our gross loss base-case assumption, resulting in a higher stress multiple being applied to the VT part.

As the transaction re-invests principal collections into new receivables during the 18-month replenishment period, there is a risk of portfolio deterioration through substitution. The transaction benefits from the protection of certain performance triggers, which would stop the replenishment period if the transaction's performance were to deteriorate substantially.

Considering our macroeconomic forecasts and the significant growth in new originations, including relatively new contract types for the originator, we expect to see 6.5% of cumulative defaults and VTs in our worst-case pool scenario, compared with 6.0% for Turbo 7. The increased base-case assumption takes into account our macroeconomic outlook for the U.K., which remains subdued since we assigned ratings to Turbo 7. We have also observed higher default rates in younger vintages originated by MotoNovo, and the transaction's pool instead includes new loan products with relatively limited performance history and increasing origination volumes. Concentration limits on these loan products (PCP, HP+, and motorcycle) help to mitigate this risk.

We set mid-high-range multipliers for our base-case assumptions, as this is the third securitization from MotoNovo that we have rated, the longer revolving period compared to Turbo 7, and the inclusion of contract types with limited performance history.

Finally, we sized stressed recoveries of 30% for all rating levels based on recovery data provided for predecessor transactions, which we did not rate, and dynamic recovery data provided for the originator's book. After including a 5% incentive fee if an insolvency administrator is appointed to MotoNovo, the stressed recovery assumption is 28.5%.

The transaction is also exposed to residual values through the inclusion of PCP contracts. We have accounted for this risk through stressing residual value losses at each rating category. In addition, the risk is mitigated through a 15% concentration limit on the aggregate residual value amount in the pool.

### **Payment structure and cash flow analysis**

We have assessed the transaction's documented payment structure. During the 18-month revolving period, the transaction benefits from a default and VT provisioning mechanism, combined with an asset-liability test. If available excess spread is insufficient to cure monthly defaults and VTs, the transaction would stop revolving and the notes would start to redeem.

The transaction uses a combined interest and principal priority of payments, under which repayment of the notes is fully sequential. The transaction also benefits from an amortizing liquidity reserve, subject to a floor (minimum level). The latter primarily provides liquidity support to mitigate any temporary cash flow shortfalls to pay timely interest on the class A and B notes, and ultimately provide credit enhancement.

Our ratings on the class A and B notes address the timely payment of interest and the ultimate payment of principal.

Our analysis indicates that the credit enhancement available to the notes is sufficient to withstand the credit and cash flow stresses that we apply in the relevant scenarios for the ratings assigned to the class A and B notes (see "Global Framework For Cash Flow Analysis Of Structured Finance Securities," published on Oct. 9, 2014).

### **Counterparty risk**

The transaction is exposed to counterparty risk through HSBC Bank as the issuer bank account provider and as the fixed-to-floating interest rate swap counterparty. In our view, the documentation and the remedy provisions adequately mitigate counterparty risk in line with our current counterparty criteria.

### **Legal risk**

The issuer is an SPE established as a limited liability company in England and Wales. We consider it to be bankruptcy remote under our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017).

We reviewed legal opinions confirming that the sale of the assets would survive the seller's insolvency. The transaction is not exposed to setoff risk, as the originator is not a deposit-taking institution, and the eligibility criteria exclude the seller's employees from the securitization's scope.

A declaration of trust over the servicer's collections accounts in the issuer's favor would prevent the loss of funds deposited in the account at the time of potential servicer insolvency, in our view. However, if the servicer becomes insolvent, any collections in the account (plus collections that it receives directly afterward) may be subject to a liquidity stress, or could result in a loss if the servicer collection account provider becomes insolvent. We accounted for both risks in our analysis.

The issuer does not have any rights to the vehicles themselves, but only in connection with the sale proceeds of the vehicles. Accordingly, in case of the seller's insolvency, the issuer is reliant on any insolvency official taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official does not have any financial incentive to take these steps as it does not benefit the bankruptcy estate's creditors. The inclusion at a senior level in the priority of payments of an insolvency administrator's incentive fee mitigates this risk, in our view. In our analysis, to account for this risk, we considered that 5% of recovery proceeds would have to be paid to the insolvency's administrator.

### **Ratings stability**

We have analyzed the effect of a moderate stress on the credit variables, and its ultimate effect on our ratings on the notes. We have run two scenarios, the results of which are in line with our credit stability criteria (see "Methodology: Credit Stability Criteria" published on May 3, 2010).

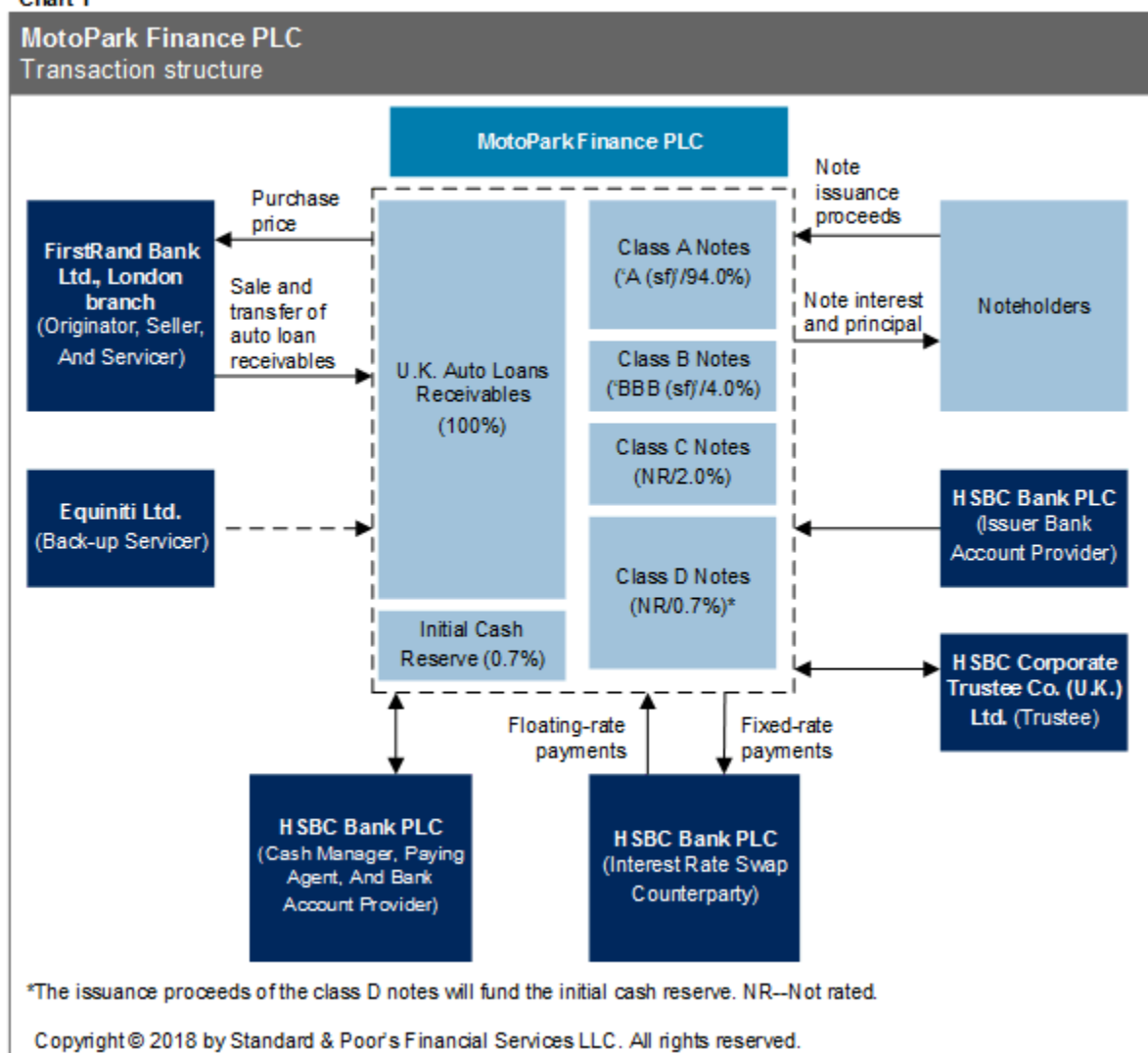
### **Sovereign risk**

Our long-term unsolicited rating on the U.K. is 'AA'. Therefore, our ratings in this transaction are not constrained by our updated criteria for structured finance ratings above the sovereign (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

## **Transaction Structure**

At closing, the issuer bought a pool of U.K. auto loan receivables at par value with the issuance proceeds of the class A, B, and C notes. The class D notes' issuance proceeds were used to fund the initial cash reserve, which was 0.7% of the initial asset pool balance at closing.

Chart 1



## Revolving period

The transaction has an 18-month revolving period during which the issuer reinvests principal proceeds from the asset pool to purchase further receivables.

During the revolving period, re-investment is subject to the following replenishment conditions, among others:

Table 1

Replenishment Conditions	
Subpool or pool metrics	Condition
HP loans with a balloon component (percentage of portfolio after additional purchases) (%)	<5.00
PCP loans (percentage of portfolio after additional purchases) (%)	<20.00
PCP balloon installments (percentage of portfolio after additional purchases) (%)	<15.00
Light commercial vehicles (percentage of portfolio after additional purchases) (%)	<15.00
Motorcycles or scooters (percentage of portfolio after additional purchases) (%)	<5.00



**Table 1**

<b>Replenishment Conditions (cont.)</b>	
<b>Subpool or pool metrics</b>	<b>Condition</b>
HP+ secured loans (percentage of portfolio after additional purchases) (%)	<10.00
Weighted-average effective interest rate of the pool (level after additional purchases) (%)	>10.00
Weighted-average OLTV (%)	<100.00
Weighted-average remaining term (months)	<50.00
VW Group's diesel engine cars backing the receivables (%)*	<22.00

\*Audi, Bentley, Bugatti, Lamborghini, Porsche, Seat, Skoda, and Volkswagen. HP--Hire purchase. PCP--Personal contract purchase. OLTV--Original loan-to-value. VW--Volkswagen.

In our analysis, we relied on these limits to construct a worst-case asset pool at the start of the amortization period, which is fully composed of used cars, contains the maximum residual value exposure of 15.00%, and yields the lowest allowed weighted-average coupon of 10.00%.

During the revolving period, the minimum amount which needs to be reinvested (or recorded in the issuer replenishment ledger if insufficient assets are available for sale) must be sufficient to balance performing assets (including the initial reserve fund and cash) and the issuer's liabilities on the class A, B, C, and D notes.

If available excess spread is insufficient to replace defaulted and voluntarily terminated assets with new performing ones (including cash), the asset/liability test implemented in the transaction would be breached, which would cause the revolving period to end.

This curing mechanism and the corresponding asset/liability test aims to ensure that no uncured defaults and VTs would accumulate within the structure during the revolving period.

The following amortization events would cause the revolving period to end and accelerate the redemption of the notes:

- The delinquency ratio exceeding 2.5%;
- The cumulative net loss ratio exceeding 3.0%;
- The replenishment ledger exceeding 10.0% of the initial asset pool balance for two consecutive payment dates;
- The occurrence of an event of default or a termination event under the swap;
- The occurrence of an enforcement event;
- The occurrence of a borrower notification event;
- After the first three months, the cash reserve being below its target level; and
- The performing assets (including the available funds) amount to less than the sum of the British pound sterling (GBP) equivalent principal amount outstanding of the class A, B, and C notes (asset/liability test).

### **Interest rate swap**

The floating-rate class A and B notes benefit from an interest rate swap with HSBC Bank as the initial counterparty. Under the swap, the issuer pays HSBC Bank a fixed rate of interest. In return, HSBC Bank pays the issuer GBP one-month LIBOR. The swap is structured so that the notional amount is equal to the lesser of the class A and B notes' outstanding principal balance and a predetermined amortization schedule (considering zero defaults and zero prepayments, shifted by six months). We have considered this feature in our analysis.

## Pre-enforcement priority of payments

The class A and B notes pay interest in arrears monthly, at a rate of one-month LIBOR plus a class-specific margin. The class C and D notes pay fixed-rate interest.

The first payment date is on Feb. 20, 2018. The legal final maturity date of the notes is in June 2025.

The transaction uses a combined interest and principal priority of payments. On each monthly payment date, the issuer applies any asset collections from the previous month and any amounts standing to the credit of the cash reserve, interest rate swap receipts and, during the revolving period, any amounts standing to the credit of the replenishment ledger in the order outlined in table 2.

**Table 2**

Priority Of Payments (Simplified)	
1	Senior fees (including the bankruptcy official's incentive, if needed)
2	Payments to the interest rate swap counterparty (except termination payments if the swap counterparty is the defaulting party or, following a swap termination, due to an unremedied downgrade of the swap counterparty)
3	Issuer's profit
4	Interest on the class A notes
5	Interest on the class B notes
6	Top-up of the cash reserve up to its required level
7	During the revolving period only, payment for the purchase price of additional assets or recording of the uninvested cash into the replenishment ledger so that the asset/liability equilibrium is maintained
8	After the end of the revolving period, principal due on the class A notes
9	After the end of the revolving period, principal due on the class B notes
10	Interest on the class C notes
11	After the end of the revolving period, principal due on the class C notes
12	Interest on the class D notes
13	After the end of the revolving period, principal due on the class D notes
14	Payments to the swap counterparty not paid above
15	On the earlier of the final maturity or the date when the class A, B, and C notes have been fully paid, principal amount outstanding on the class D notes
16	Deferred purchase price to the seller

As the waterfall is combined, principal can be diverted to pay interest, if needed, therefore constituting a source of liquidity.

## Amortization period

After the end of the revolving period, the issuer redeems the notes fully sequentially. The transaction has a default and VT provisioning mechanism. The target principal redemption amount equals the positive difference between issuer's liabilities on the class A, B, C, and D notes (also including the initial reserve top-up) and the performing assets (including the cash reserve). This means that the principal due is equal to principal payment received from the pool plus any defaulted or voluntarily terminated assets plus any funds released from the reserve fund due to a decrease of its target level.

The payment of this target redemption amount aims to ensure that the issuer's liabilities match the performing assets (including the cash reserve). This mechanism traps any available excess spread to try to provision for defaulted or

voluntarily terminated assets via acceleration of the redemption of the most senior notes.

### **Post-enforcement priority of payments**

The following enforcement events would cause the switch to the post-enforcement waterfall:

- Issuer's failure to pay interest or principal on the notes (apart from deferrable interest);
- Issuer's breach of other obligations;
- Issuer's insolvency; and
- Unlawfulness.

All these events are remote in our rating scenarios so we considered only the pre-enforcement waterfall in our analysis.

### **Cash reserve**

At closing, the proceeds of class D notes issuance were used to fund the cash reserve at 0.7% of the initial asset pool balance. During the revolving period, the cash reserve increases to a target level of 1.3% of the initial asset pool balance, subject to available funds.

After the end of the revolving period, it amortizes in line with its target level, set at 1.3% of the outstanding asset balance, subject to a floor equal to 0.5% of the initial asset pool balance.

The reserve fund is the main source of inherent liquidity in the structure and is intended to cover any liquidity shortfalls on senior fees, swap payments, and interest on the class A and B notes during the transaction's life. During the amortization period, in line with the definition of the principal due on the notes, the amounts released from the reserve fund due to the decrease of its target level are used to redeem the most senior class of notes. Similarly, at the end of the transaction's life, the trapped floor amount could be used to redeem the notes if needed.

## **Mitigation Of Seller Risks**

### **Commingling risk**

The standard payment method for borrowers is direct debit. In exceptional circumstances, customers may switch to other forms of payments such as cash, check, debit card, and internet transfer, among others, although this is actively discouraged.

As a result, the vast majority of payments under the auto loans are paid by direct debit (more than 99% in the closing pool) into a collection account in the name of the servicer, FRB London, held with Lloyds Bank PLC.

The servicer is entitled to commingle collections with its own funds for a period of up to one calendar week and is required to transfer weekly these accumulated collections to an account of the issuer, held with Lloyds Bank.

In order to mitigate the commingling risk attached to the potential bankruptcy of the servicer, a declaration of trust in favor of the issuer over the amounts standing to the credit of the servicer collection account is in place. However, if the servicer becomes insolvent, any collections in the account (plus collections that it receives directly afterward) may be subject to a liquidity stress, or could result in a loss if the servicer collection account provider becomes insolvent. We accounted for this risk in our analysis by sizing about two months of collections as liquidity stress and one week of

collections as commingling loss due to servicer collection account provider insolvency. We believe the liquidity reserve would be sufficient to ensure that the timely payment of interest would continue on the class A and B notes until obligors are notified to redirect their payments.

### Setoff risk

FRB London does not take deposits from borrowers and we understand that at the time of this review it has no medium-term plans to start such a deposit-taking business. Moreover, the seller's employees are excluded when receivables are transferred to the securitization vehicle by a specific eligibility criterion.

Therefore, we currently consider the transaction's exposure to deposit and employee setoff risk to be negligible.

### No title over the vehicles

The issuer does not have any rights over the vehicles themselves but only in connection with the sale proceeds of the vehicles.

Accordingly, in case of seller insolvency, the issuer is reliant on any insolvency official taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official does not have any financial incentive to take such steps as it does not benefit the bankruptcy estate's creditors.

This risk is mitigated by the inclusion at a senior level in the priority of payments of an insolvency administrator's incentive fee.

In our analysis, to account for this risk, we considered that 5% of recovery proceeds would have to be paid to the insolvency administrator. We consider this level is sufficient to incentivize the insolvency official.

## Collateral Description

As of Dec. 31, 2017, the closing pool backing the notes comprised 63,297 loan contracts, with a total outstanding principal balance of about £539.989 million. The closing pool's weighted-average interest rate is about 11.19%. The closing pool is very granular; the largest single borrower (by post code) represents 0.01% of the closing pool.

**Table 3**

<b>Closing Pool Composition*</b>	
Outstanding principal (mil. £)	539.989
Number of loans	63,297
Weighted-average effective loan contract rate (%)	11.2
Average remaining loan principal balance (£)	8,531
Weighted-average original LTV ratio (%)	90.0
Weighted-average original term (months)	52.6
Weighted-average seasoning (months)	5.1
Weighted-average remaining term (months)	47.3
Weighted-average age of car (months)	46.8
Payment by direct debit (as a percentage of the closing pool's principal balance; %)	99.8
<b>Distribution by type of financing contracts (as a percentage of the closing pool's principal balance; %)</b>	
Hire purchase agreement	74.7

**Table 3**

<b>Closing Pool Composition* (cont.)</b>	
Hire purchase agreement with balloon	0.3
Hire Purchase Plus	5.3
Personal contract purchase agreement	19.8
<b>Distribution by type of vehicles (as a percentage of the closing pool's principal balance; %)</b>	
New vehicles	6.2
Used vehicles	93.8
Cars	83.8
LCV	13.3
Motorcycle	2.9
<b>Distribution by customer type (as a percentage of the closing pool's principal balance; %)</b>	
Retail	94.9
Corporate	5.1
<b>Distribution by loan payment type (as a percentage of the closing pool's principal balance; %)</b>	
Fully amortizing and hire purchase agreement balloon payment (obligation of borrower)	89.6
Personal contract purchase agreement balloon payment (option of borrower)	10.4
<b>Distribution by manufacturer (as a percentage of the closing pool's principal balance; %)</b>	
Ford	14.8
Vauxhall	11.9
Audi	9.2
BMW	9.1
Mercedes Benz	7.4
Total exposure to VW Group's diesel engine cars§	13.9
<b>Top five region exposure (as a percentage of the closing pool's principal balance; %)</b>	
North West	12.2
South East	10.7
Scotland	9.9
East of England	9.7
Yorkshire and Humberside	9.7

\*As of Dec. 31, 2017. §Audi, Bentley, Bugatti, Lamborghini, Porsche, Seat, Skoda, and Volkswagen. LTV--Loan-to-value. LCV--Light commercial vehicle.

The closing pool is geographically diversified, generally reflecting the population distribution in the U.K.

### Eligibility criteria

The transaction's simplified eligibility criteria for the inclusion of receivables in the pool are as follows:

- Each related loan has been randomly selected and finances the purchase of a single motor vehicle, motorcycle, scooter, or light commercial vehicle (LCV);
- No more than one monthly installment was overdue;
- No defaulted or terminated receivables;
- At least one loan installment has been paid;
- The loans constitute legal, valid, binding, and enforceable agreements;

- None of the obligors is an employee of the seller;
- The loans are governed by the laws of England, Wales, or Scotland;
- The loans have been entered into exclusively with individuals or corporate borrowers resident or registered in England, Wales, or Scotland;
- Where applicable, loans comply with the Consumer Credit Act's requirements;
- The receivable was generated in the ordinary course of FRB London's business;
- The seller holds the legal title to the related financed vehicle;
- The loans are GBP-denominated;
- HP contracts provide for fixed monthly payments and may include a final balloon payment;
- PCP contracts provide for fixed monthly payments and, at the end of the contract term, the borrower can either pay the final balloon amount or the return the vehicle to the seller;
- No purchased receivable is an HP+ unsecured loan;
- Original loan maturity is between 12 and 61 months for HP contracts, and between 12 and 49 months for PCP contracts; and
- The original LTV ratio is no more than 125%.

Under the transaction documents, the seller agrees to remedy any breach of these criteria either by correcting the breach where possible, or by repurchasing the affected receivable at a price equal to its outstanding principal balance.

### **Nature of the loan receivables**

The purchased loan receivables arise from HP agreements and PCP agreements that FRB London originated primarily to private borrowers (about 95% of closing pool) resident in the U.K. mainly to finance the purchase of used cars (94%).

The HP loans require monthly interest and principal payments, with the majority being fully amortizing (HP balloon loans are limited to 5% during the revolving period). The PCP loans require monthly interest and principal payments, and contain an optional final balloon payment. The PCP balloon payment amounts are limited to 15% of the total pool balance during the revolving period. All loans embed a fixed interest rate.

## **Credit And Cash Flow Analysis**

Our rating analysis includes an assessment of the credit risk inherent in the transaction. We analyzed various stress scenarios and their effects on the transaction's cash flow by applying our European auto ABS criteria for hostile terminations, and our European consumer finance criteria for the residual value analysis.

### **Cumulative hostile termination assumptions**

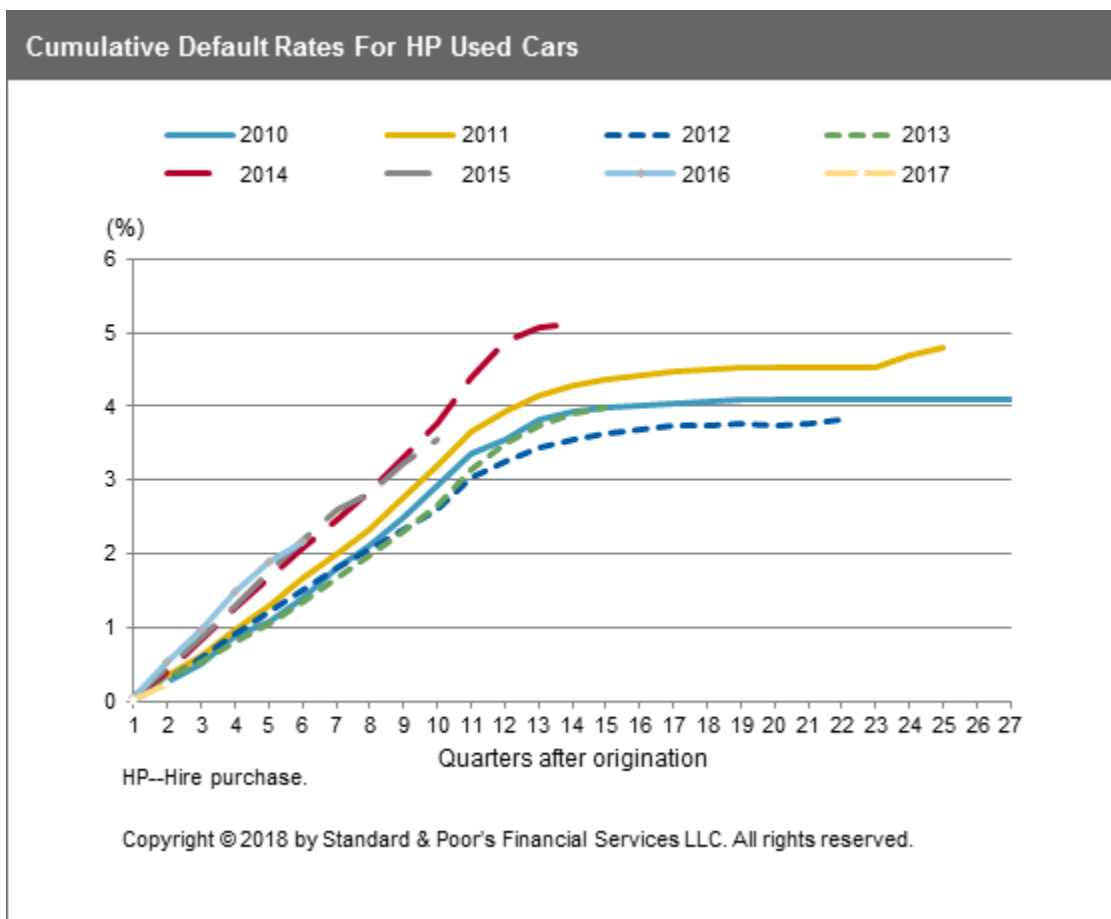
In the U.K., defaults or gross losses are referred to as hostile terminations. We received historical static cumulative default data expressed as a percentage of origination volumes for used vehicles, split by HP, PCP, LCV, and motorcycle contracts. The data span from Q4-2011 to Q2-2017, one more year of data compared to the previous Turbo 7 transaction.

Although we received more granular performance data by subpool for this transaction, due to small origination volumes and limited performance history of the new product types, we did not believe assigning separate base cases at the subportfolio level was appropriate. Therefore, we set our base-case default assumptions using the HP portfolio,

which represents the majority of the total managed portfolio and has a significantly longer performance history. Based on the limited performance data available for the new contract types, we generally did not observe higher defaults than for the HP contracts. In addition, in comparable U.K. auto loan transactions with longer performance histories between HP and PCP products, there generally has not been a material difference in our base-case assumptions between the HP and PCP contracts, rather, the difference is between new and used vehicles.

As the closing pool is mostly composed of used cars (about 94%) and as replenishment conditions do not limit the exposure to used cars during the revolving period, we considered a worst-case pool fully composed of second-hand vehicles. We derived our base-case cumulative default assumption for this worst-case pool by analyzing historical gross loss data for used cars (see chart 2).

**Chart 2**



When we set our default base case we considered, among others, the macroeconomic environment for the U.K., the seller's stated increased risk appetite, the new product types included in the securitized pool, and the continuously observed higher defaults for younger vintages. As a result, we increased our base-case hostile termination assumption to 5.00% from 4.75% in Turbo 7.

**Table 4**

**Base-Case Cumulative Hostile Termination Rate Assumptions**

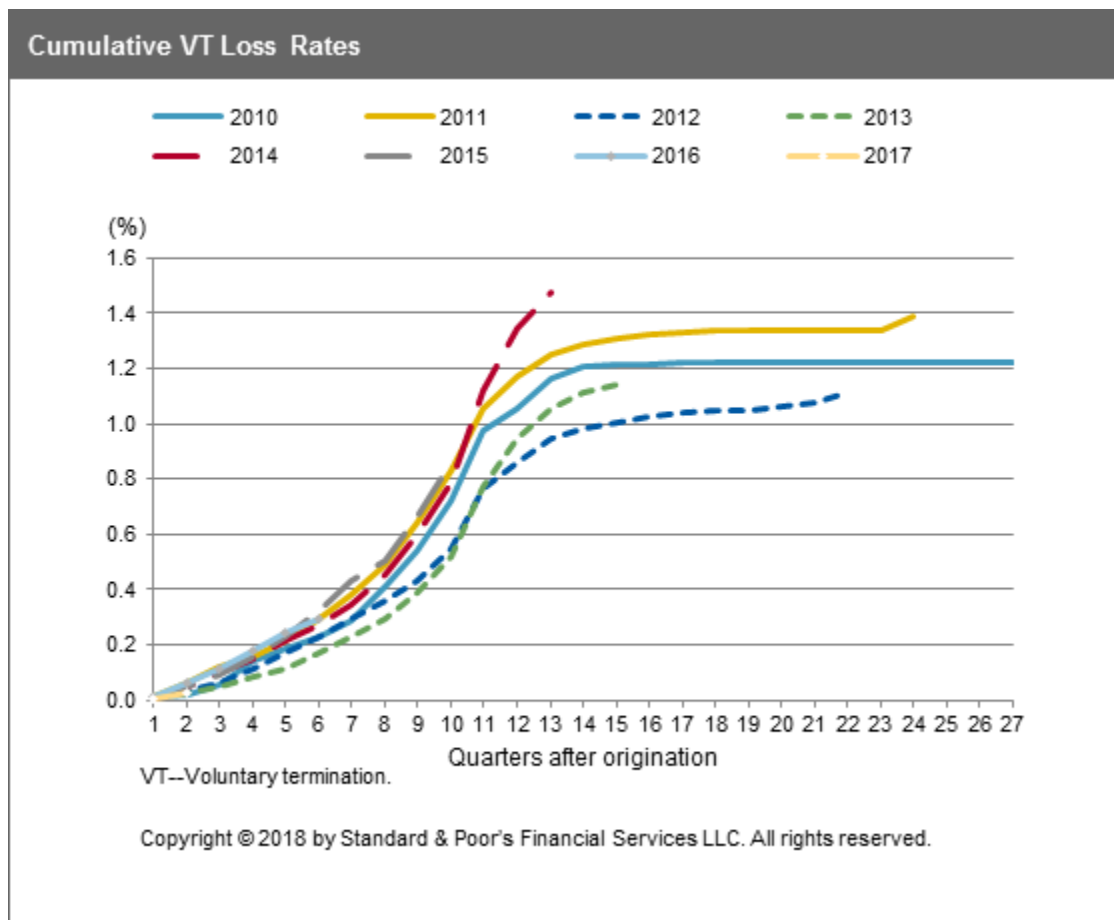
	(%)
Used vehicles	5.00

**Cumulative voluntary termination assumptions**

The HP agreements and PCP agreements composing the pool are subject to VTs. Under the U.K. Consumer Credit Act (CCA), borrowers who have paid back more than 50% of the total amount due have the option to discharge in full their obligations towards the lender by returning the vehicle. This feature might expose the issuer to a loss if the market value of the returned car is below the outstanding principal balance under the loan contract.

The seller has provided us with quarterly static cumulative gross losses resulting from early terminations for its entire book, spanning from Q4 2010 to Q2 2017. For Turbo 7, we received VT data based on cumulative net losses only.

**Chart 3**



**Table 5**

**Base-Case Cumulative Voluntary Termination Rate Assumptions**

	(%)
Voluntary termination cumulative gross loss rate base case	1.50



### Adjusted cumulative hostile termination base-case

The VT data provided by the seller are based on a VT definition that is more extensive than the transaction's and our criteria's definitions, which are strictly limited to the legal definition. The provided VT data comprises all terminations that are not considered hostile by the seller, including, for example, voluntary surrenders, repossessions, and deceased customers, but that do not necessarily fall within the CCA's provisions and that we would consider as defaults under our European auto ABS criteria. To account for this data limitation, we re-incorporated our gross VT base case into our gross HT base case. This reclassification results in the application of a higher stress multiple to the VTs.

**Table 6**

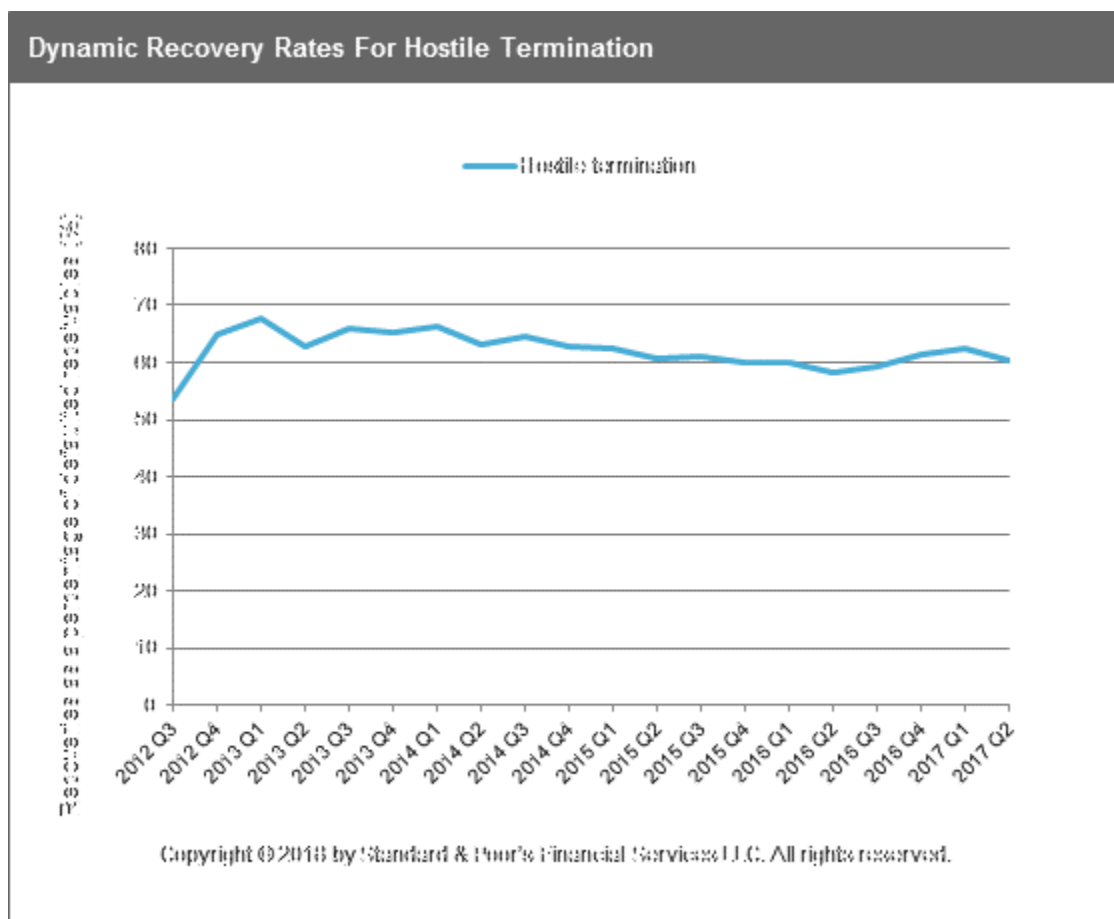
Adjusted Cumulative Hostile Termination Base Case	
	(%)
Base-case cumulative hostile termination rate assumption	5.00
Base-case cumulative voluntary termination rate assumption (re-incorporated)	1.50
Adjusted cumulative hostile termination base case	6.50

### Cumulative recovery assumptions

Under our European auto ABS criteria, we apply a uniform stressed recovery rate at all rating levels for both HTs and VTs.

We received quarterly dynamic recovery data and monthly static recovery data from the seller's book with a split between HT and VT. The data spans Q2 2017 from Q3 2012.

Chart 4



Based on this data, we considered a conservative stressed recovery rate of 30% at all rating levels, with 100% of these recoveries being realized nine months after default.

Table 7

Stressed Cumulative Recovery Assumptions*	
	(%)
Hostile and voluntary termination	30.0

\*100% of recoveries are realized nine months after default.

**Credit and stress test assumptions summary**

Table 8

Credit Assumption Summary						
Rating level	Cumulative default rate base-case (hostile and voluntary termination) (%)*	Stress multiple	Stressed cumulative default rate (hostile and voluntary termination) (%)§	Stressed recovery rate (%)†	Stressed cumulative losses (%)	
A (sf)	6.50	2.7	17.6	28.5	12.5	
BBB (sf)	6.50	1.85	12.0	28.5	8.6	

\*For the worst-case portfolio, fully composed of used cars. §Applied linearly over the asset's weighted-average life. †100% of recoveries are realized nine months after default. Includes the 5% incentive fee for the administrator (i.e., stressed recovery = 30% x (1-5%) = 28.5%).

In addition to the hostile termination (credit losses) and VT losses applied as outlined in table 8 above, we applied separate residual value losses to the balloon installments of the PCP loans that remain after considering prepayments and the other losses. We assumed a turn-in rate of 80% at contract maturity and base-case market value declines of 27% in our 'A' rating scenario, and of 75% and 22% in our 'BBB' rating scenario, respectively. After making portfolio-specific adjustments to our base-case market value decline assumptions, we tested a residual value loss of 10.7% in the 'A' rating scenario and 5.8% in the 'BBB' rating scenario on the residual value portion.

### **Cash flow analysis**

In our cash flow model analysis, we ran different interest rate scenarios: Increasing, flat, and decreasing interest rates (down to 0%, up to 14%).

In addition, we stressed low and high prepayment rates (0.5% and 30.0%, respectively).

Our model incorporates stressed servicing fees equal to 1.0% of the closing portfolio's balance and stressed fixed annual fees of £200,000.

We also assumed that 50% of the prepayments correspond to the loans with the highest yield. This resulted in the compression of the worst-case portfolio's weighted-average coupon to 11.2%, from the minimum of 10.00%, covenanted during the revolving period, over its weighted-average life. To account for commingling risk we applied about two months of collections as liquidity stress and one week of collections as commingling loss.

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

## **Scenario Analysis**

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses,
- Results of the effects of the stresses on ratings, and
- Results of the effects of the stresses on our cash flow analysis.

### **Methodology**

Our scenario analysis and sensitivity-testing model framework for rating European auto and consumer ABS transactions demonstrates the likely effect of scenario stresses on our ratings in a transaction over a one-year horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate, given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the transition of our rating on a class of notes (see table 9).

**Table 9**

<b>Scenario Stresses</b>		
<b>Rating variable</b>	<b>Scenario 1 (relative stress to base case)</b>	<b>Scenario 2 (relative stress to base case)</b>
Gross loss rate (%)	30	50
Recovery rate (%)	(30)	(50)
Constant prepayment rate (%)	(20)	(33)

Our base-case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base-cases would take account historically observed performance and an expectation of potential changes in these variables during the transaction's life. The sensitivity of rated notes in each transaction will differ depending on these factors, in addition to structural features of the transaction including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separated the applied methodology into three distinct stages. In the first stage, we stressed our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assumed that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the closing portfolio.

In the second stage, we applied our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment.

In the final stage of our analysis, we re-rated the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes, given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

### **Scenario stress and sensitivity analysis**

When applying scenario stresses in the manner described above, we intend the results of this modeling to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling.

**Table 10**

<b>Scenario Stresses</b>				
12-month stress horizon				
<b>Rating variable</b>	<b>Base-case/recovery rate benefit</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	
Gross loss rate (%)	6.5	8.5	9.8	
Recovery rate benefit (%)	28.5	20.0	14.3	
Constant prepayment rate (%)	17.0	13.6	11.3	

Many of this transaction's features—including the payment deficiency ledger-like mechanism, excess spread, and the cash reserve fund—enhance the stability of the ratings under each scenario.

In light of the methodology we applied to this transaction, under scenario 1, the class A notes would most likely retain their 'A (sf)' rating, and the class B notes would retain their 'BBB (sf)' rating. Under scenario 2, our rating on the class A notes would most likely be lowered to 'BBB+ (sf)' from 'A (sf)', and our rating on the class B notes to 'BBB- (sf)' from 'BBB (sf)'.

## Key Performance Indicators

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

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

## Related Criteria

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- 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 - ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria - Structured Finance - General: Methodology And Assumptions For Market Value Securities, Sept. 17, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 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: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
- Criteria - Structured Finance - ABS: European Consumer Finance Criteria, March 10, 2000

## **Related Research**

- EMEA Sector Roundup: Trends And Emerging Risks December 2017, Dec. 5, 2017
- Hope Overcomes Fears As The Fundamentals Propel Europe Forward, Dec. 5, 2017
- European Auto ABS Index Report Q3 2017, Dec. 2, 2017
- European Economic Snapshots For 4Q17 Published, Nov. 15, 2017
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Will Electric Vehicles Spark Residual Value Risk In European Auto ABS?, June 27, 2017
- Stalling Diesel Car Sales In Europe Could Weaken Auto ABS Collateral Performance, June 5, 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

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