S&P Global
Ratings

Research Update:

Navistar Financial's Leasing Securitizations (NAVISCB 16 and NAVISCB 17) Ratings Affirmed

July 16, 2019

This English version is provided on request and reflects the translation from the original one published only in Spanish by S&P Global Ratings on July 16, 2019. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply.

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Overview

- We affirmed our 'mxAAA (sf)' debt ratings on NAVISCB 16 and NAVISCB 17 notes, backed by a pool of leases and loans originated and serviced by Navistar Financial.
- The ratings affirmation reflects our view that the transactions' credit enhancement is still sufficient to withstand stress scenarios consistent with their current rating. The affirmation also reflects the performance posted by securitized portfolios.
- Furthermore, this rating action considers our view that the transaction's counterparty, legal and operational risks continue to be consistent with the current rating level.

Rating Action

Mexico City, July 16, 2019. - S&P Global Ratings affirmed today its 'mxAAA(sf)' national scale long-term rating on two notes with tickers NAVISCB 16 and NAVISCB 17 backed by porfolios of loans and l lease receivables originated and serviced by Navistar Financial, S.A. de C.V. SOFOM, E.R. (Navistar Financial: mxBBB-/Stable/mxA-3; Commercial Servicer Ranking: STRONG/Negative).

The irrevocable issuance trusts F/2844 and F/3290, established in Banco Invex S.A., Institucion de Banca Multiple, Invex Grupo Financiero (Banco Invex; mxAA-/Negative/mxA-1+), issued the NAVISCB 16 and NAVISCB 17 notes for $536.38 million Mexican pesos (MXN) and MXN737 million, respectively.

Both issuances pay monthly interest based on the Mexican interbank rate TIIE for a term of up to 28 days plus 1.55% and 1.80% for NAVISCB 16 and NAVISCB 17, respectively. The maturity dates are February 15, 2022 for NAVISCB 16 and March 15, 2023 for NAVISCB 17.

The ratings affirmation reflects our opinion of the transactions' credit enhancement levels, which continue to be sufficient to support their current rating level. The rating affirmation also reflects our opinion that the transactions' counterparty, legal and operating risks are consistent with the current rating level on both series. Finally, this rating action incorporates the performance observed in securitized portfolios, which have shown lower delinquency and default levels than expected.

Since we asigned the ratings on both series, securitized portfolios have had lower than expected default levels which are below our base-case credit losses assumptions. Based on the information provided by the servicer, the assigned receivables balance with a delinquency of more than 90 days a level of 0.69% for NAVISCB 16 and 0.56% for NAVISCB 17 as of May, 2019. Furthermore, the transactions' vintages represented 3.01% for NAVISCB 16 and 1.66% for NAVISCB 17. As a result of the above, we mantained our base case loss assumptions for both transactions of 4.97% for NAVISCB 16 and 4.87% for NAVISCB 17.

The overcollateralization ratios have remained stable at their target levels of 1.305x (times) for NAVISCB 16 and 1.295x for NAVISCB 17. We expect the overcolllateralization levels of NAVISCB 16 series to increase once its target amortization period concludes, in Sept. 2019, when the trust will use all the cashflow available after covering interest and expenses for the amortization of the notes on a full trubo basis. For NAVISCB 17, the target amortization period will end in Oct. 2020 and we expect overcollateralizationto remain at target level.

S&P Global Ratings received updated information on the portfolios as of May, 2019. The portfolio backing NAVISCB 16 was comprised of 239 contracts with a nominal value of MXN111.75 million, diversified among 193 clients. The portfolio's original term weighted average was 56 months and 16 months for the remaining term. The assets' weighted average rate is 10.7%. About 69% of the portfolio was conformed by leasing agreements and the remaining 31% by loan agreements.

On the other hand, the portfolio backing NAVISCB 17 was comprised of 474 contracts with nominal value of MXN310.56 million, distributed among 331 clients. The weighted average of the original term was 56 months and 16 months for the remaining term. The portfolio was mainly composed by financial leasing agreements, which represented 64%, and the remaining 36% was loan agreements. The assets' weighted average rate is 12.4%.

In our view, both portfolios presented an adequate geographic concentration. In the case of NAVISCB 16, the state with the highest concentration was Nuevo León with 13.24%, while for NAVISCB 17 the State of Jalisco had the highest concentration with 16.64% of the portfolio. These levels compare positively to those observed in similar transactions we have rated.

For the credit quality analysis of the securitized assets, we applied losses of 24.83% for NAVISCB 16 and 24.35% for NAVISCB 17. These losses were derived from the higher of (i) our base-case losses assumptions previously described, multiplied by a stress factor of 5x, consistent with the rating level of both series, and (ii) the sum of the five main obligors for each porfolio.

For this rating action we applied several credit scenarios, including different loss distribution curves to the securitized portfolios where we simulated economic and financial stress, using our 'Cash Flow Evaluator' model. The above in order to measure the transaction's capacity to meet its monthly interest payments, as well as the principal repayment at maturity under the stress scenarios related to the current rating levels. Also, we applied an additional stress to transactions' expenses, which we modelled according to the limits established in legal documentation.

According to our cash flow analysis, credit enhancement levels on both transactions are sufficient to withstand our stress scenarios consistent with their current rating level of 'mxAAA (sf)'. Both series have security deposits of MXN14.8 million for NAVISCB 16 and MXN30.6 million for NAVISCB 17. It is important to mention that these deposits are key to support the current rating level.

We apply several additional stress scenarios in order to measure the sensitivity of the ratings to changes on the assumptions used. We believe that the ratings could be sensitive to changes in the transactions' overcollateralizations levels and possible additional losses, the existance of an nterest rate cap, as well as to the transaction counterparties' rating level.

In terms of the operational risk, Navistar Financial, as servicer, is the only performance key transaction participant and we defined that ratings are not limited. This is based in our evaluation of the severity risk as 'moderate'; a 'high' portability risk ranking; and and a 'low' disruption risk ranking as a result of a 'stable' operating condition assessment and 'satisfactory' key performance attributes.

Our assessment of the transaction's legal risk remains unchanged since our previous rating action. As for counterparty risk, it remains in line to the current rating level. We believe that the transactions continue texposed to the credit quality of BBVA Bancomer, S.A. (global scale rating, BBB+/Negative/A-2, national scale, mxAAA/Stable/mxA-1+) and Banco Nacional de Mexico S.A. (global scale rating, BBB+/Negative/A-2, national scale mxAAA/Stable/mxA-1+) as the bank account providers and repo counterparties. In terms of the trust accounts in Banco Invex, we believe that the cash in these accounts have a very low exposure to counterparty risk of Banco Invex, since at any time, cash will remain in the permitted investments.

Also, the transactions are exposed to BBVA Bancomer's credit quality as *cap* provider.

We will continue monitoring the performance of the securitized portfolios, the transactions' collections derived from receivables, monthly amortization of the notes, as well as delinquency and default levels. We could take a negative rating action if defaulted portfolio deteriorates beyond our expectations and we would review our base case loss assumptions.

Navistar - Leasing agreements securitizations

Series	Current Rating	Previous Rating	Outstanding balance (million)	Legal maturity date
NAVISCB 16	mxAAA (sf)	mxAAA (sf)	MXN98.11	Feb 15, 2022
NAVISCB 17	mxAAA (sf)	mxAAA (sf)	MXN264.57	March 15, 2023

MXN- Mexican pesos. Balances as of May 31, 2019

Related Criteria and Research

Criteria

- Methodology And Assumptions For Rating Mexican Equipment ABS, Dec 11, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct 9, 2014
- Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct 9, 2014
- Methodology For Deriving Assumptions For Mexican Interest Rate Curves, Dec 31, 2013
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology For National And Regional Scale Credit RatingsJune 25, 2018
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Methodology: Credit Stability Criteria, May 3, 2010
- Global Derivative Agreement Criteria, June 24, 2013

Models

- Cash Flow Evaluator.

Related Research

- General Description of the Credit Rating Process
- *MÉXICO - Definiciones de calificación en Escala CaVal (Nacional)*
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of Macroeconomic The top Five Macroeconomic Factors, Dec, 16 2016
- Latin American Structured Finance Scenario And Sensitivity Analysis 2015: The Effects Of Regional Market Variables, Oct 28, 2015
- Credit Conditions Latin America: Optimism Fades Despite Fed's Pause, June 27, 2019
- *S&P Global Ratings asigna calificación de 'mxAAA (sf)' a los certificados bursátiles NAVISCB 17 respaldados por arrendamientos financieros y créditos de Navistar Financial,* Oct 6, 2017
- *Standard & Poor's asigna calificación de 'mxAAA (sf)' a certificados bursátiles NAVISCB 16 respaldados por arrendamientos financieros y créditos de Navistar Financial*, Aug 31, 2016

ADDITIONAL REGULATORY INFORMATION

1) Financial information as of May 31, 2019.

2) The rating is based on information provided to S&P Global Ratings by the issuer and / or its agents and advisers. Such information may include, among others, according to the characteristics of the rated transaction, value or entity, the following: terms and conditions of the issue, placement prospectus, audited quarterly and annual financial statements, operational statistics --including those of the holding companies, when applicable-, prospective information -for example, financial projections-, annual reports, information on the characteristics of the market, related legal *information, information from the interviews with management and information from other external sources, for example, CNBV, Mexican Stock Exchange.*

The rating is based on information provided prior to the date of this press release; consequently, any change in such information or additional information may result in a modification of the aforementioned rating.

3) S&P Global Ratings takes into account in its analysis the originator and/or asset servicer's capabilities. However, our estimation of their capabilities not necessarily have a direct impacto on assigned ratings.

4) S&P Global Ratings does not take into account in its analysis to determine the rating the existance of mechanisms to align incentives between originator, servicer and guarantor, and possible purchasers of securities issued under the rated securitization.

5) During the previous fiscal year S&P Global Ratings received income form Navistar Financial, S.A. de C.V. SOFOM, E.R. for additional services different to a rating, these represent 30.5% of the income received for rating services during that same year.

6) S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.