S&P Global Ratings

Research Update:

Navistar Financial’s Equipment Lease Securitization NAVISCB 17 National Scale Rating 'mxAAA (sf)' Affirmed; Removed From UCO

January 2, 2020

This English version is provided on request and reflects the translation from the original 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 rating on the NAVISCB 17 notes, backed by a pool of financial leases and loans originated and serviced by Navistar Financial. At the same time, we remove the under criteria observation (UCO) identifier on the rating.
- The rating affirmation reflects our view that the transactions' credit enhancement is still sufficient to withstand stress scenarios consistent with its current rating, based in our current loss assumptions. The affirmation also considers the performance of the securitized pool since our previous rating action.
- Based on the application of our updated methodology to rate asset backed transactions (ABS), we increased the level of losses for the transaction to 26.09% from 24.35%. However, this increase reflects only the application of the updated criteria and not a deterioration in the credit quality of the securitized pool.

Rating Action

Mexico City, January 2, 2020. - S&P Global Ratings affirmed today its 'mxAAA(sf)' national scale long-term debt rating on the NAVISCB 17 notes, backed by a portfolio of loans and financial 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). At the same time, we removed the under criteria observation (UCO) identifier on the rating.

The Irrevocable Trust F/3290, in Banco Invex S.A., Institucion de Banca Multiple, Invex Grupo Financiero (Banco Invex; mxAA-/Negative/mxA-1+), issued the NAVISCB 17 notes for an amount of Mexican Pesos (MXN) $737 million. The notes pay a monthly interest rate TIIE for a term of 28 days plus a 1.80% spread. The notes have maturity date on March 15, 2023.

The ratings affirmation reflects our view that the transaction’s credit enhancement is still sufficient to withstand our stress scenarios consistent with its current rating, based in our updated default assumptions by rating level.

We placed the rating under UCO after the publication of our "Global Equipment ABS Methodology And Assumptions", (please see the bulletin [in Spanish] "Ratings Of Twelve Mexican ABS Transactions Placed Under UCO On Methodology Revision", that we published in October 1, 2019). We affirmed the rating after we concluded our rating revision based on the criteria update.

Since our previous rating action, in July 2019, the securitized pool has performed in line with our expectation, with nonperforming loans (more than 90 days delinquent) below our initial credit losses base-case assumption. According to the information provided by the servicer, the losses observed were of 2.94% of the initial amount of the portfolio.

On the other hand, transaction's overcollateralization has been stable, at its target level of 1.2950x (times). We expect that this level will continue because the amortization period will end in October 2020. As per the transaction documents, in the subsequent payment dates the trust will use all the amounts available after paying expenses and interest to amortize the principal of the notes (full turbo).

The underlying pool, as of October 2019, had receivables from 372 contracts with a nominal value of MXN224.52 million, diversified among a base of 257 clients. The weighted average of the original term for the portfolio was 57 months and 21 months for the remaining term. The portfolio was mainly composed by financial leasing agreements, which represented 60% and the remaining 40% was loan agreements. The assets' weighted average rate was 12.5%.

In our view, the portfolio presents an adequate geographic concentration. The State of Jalisco had the highest concentration with around 17.98%, followed by the State of Michoacan and the State of Mexico, with 12% and 11.79%, respectively. These levels positively compare to those observed in similar transactions we have rated.

We updated the level of losses applied to 26.09% from 24.35%, considered in our previous rating action. This percentage derived from the combination of (i) the concentration of the main obligors, and (ii) a level of losses applied to the remainder of the portfolio, equivalent to our base-case loss assumption multiplied by a stress factor corresponding to the current rating level, adjusted by country-specific risk factors.

We increased our base-case loss assumption to 5.6% from 4.87%, to reflect our view that the losses could increase amid a more adverse macroeconomic environment. However, these adjustments to the level of applied losses and to the credit losses base-case assumption, are mainly derived from the application of our updated criteria and do not correspond to a deterioration in the credit quality of the securitized pool.

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

According to our cash flow analysis, credit enhancement levels on the transaction are sufficient to withstand our stress scenarios consistent with their current 'mxAAA (sf)' rating level. The transaction has guarantee deposits for MXN22.7 million. It is important to mention that these deposits are fundamental to support the current rating level.

We applied several additional stress scenarios in order to measure the sensitivity of the rating to changes on the assumptions used. We believe that the rating could be sensitive to changes in the transactions' overcollateralization levels and potential additional losses, the existence of a cap agreement, as well as to the transaction counterparties' rating level.

We will continue monitoring the performance of the securitized portfolio, the transaction’s income derived from receivables, monthly amortization of notes, as well as levels of delincuency and nonperforming loans. We believe that the rating could be sensitive to changes in the transaction’s overcollateralization levels and potential additional losses, the existance of a cap contract, as well as to the transaction counterparties' rating level.

We could take a negative rating action if the nonperfomring loans deteriorate beyond our expectations and if consequently, we adjust upwards upwards our base-case loss assumption.

Navistar - Leasing agreements securitizations

Series	Current Rating	Prior Rating	Outstanding balance (million)	Legal maturity date
NAVISCB 17	mxAAA (sf)	mxAAA (sf) UCO	MXN165.85	March 15, 2023

MXN- Mexican pesos. Balance as of Dec. 31, 2019.

Related Criteria and Research

Criteria

– Global Equipment ABS Methodology And Assumptions, May 31, 2019.

– Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019.

– 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

– National And Regional Scale Credit Ratings, June 25, 2018.

– Understanding S&P Global Ratings' Rating Definitions, June 3, 2009

– Global Derivative Agreement Criteria, June 24, 2013

– Methodology: Credit Stability Criteria, May 3, 2010

Models

– Cash Flow Evaluator

Related Research

– General Description of the Credit Rating Process

– MEXICO - National Scale --CaVal--, Rating Definitions (In Spanish)

– 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: Political Challenges Will Prevail In 2020, Dec. 3, 2019.

– Trending Assets Q4 2019: Brazil Delivers, Dec. 13, 2019.

– Ratings Of Twelve Mexican ABS Transactions Placed Under UCO On Methodology Revision, Oct. 1, 2019.(in Spanish)

– Navistar Financial's leasing securitizations (NAVISCB 16 and NAVISCB 17) 'mxAAA (sf) Ratings Affirmed", July 16, 2019. (in Spanish)

– Navistar Financial STRONG Commercial Servicer Ranking Affirmed; Outlook Revised To Negative, Jan. 22, 2018.

ADDITIONAL REGULATORY INFORMATION

1) Financial information as of June 30, 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.

3) 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 39.7% 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.