

Press Release:

S&P Global Ratings lowers to ABOVE AVERAGE its ranking on Navistar Financial as commercial finance servicer; the outlook is negative

May 18, 2020

Rating Action Overview

- We lower our rating to ABOVE AVERAGE from EXCELLENT on Navistar Financial S.A. de C.V. SOFOM E.R. as commercial finance servicer in the Mexican market.
- This ranking downgrade reflects our opinion that the company's indicators relative to non-performing assets are negatively compared to the indicators observed last year and to those of other servicers we rate.
- The outlook is negative, which reflects our opinion that the Company's operation capacity might be affected if the Company experiences financial pressures in the future, due to the Coronavirus pandemic.
- The financial position is SUFFICIENT.

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Mexico City, May 18, 2020.- S&P Global Ratings lowered its ranking to ABOVE AVERAGE from EXCELLENT (NF; mxBBB-/Watch Negative/mxA-3) on [Navistar Financial, S.A. de C.V., SOFOM, E.R.](#) as primary commercial finance servicer in the Mexican market. The ranking outlook is negative.

This ranking downgrade reflects our opinion that the company has not significantly improved its non-performing portfolio, in comparison to what has been observed in the previous year, in addition to our opinion that such figures are still negatively compared against the figures observed in other servicers we rate.

We affirm the subranking as EXCELLENT for Company's management capacity and organizational structure. This subranking reflects the Navistar Financial's experienced management team and general personnel; an organizational structure that guarantees an appropriate duty segregation; a solid and constantly-improved, technology platform; its well-documented business continuity plans and disaster recovery plans; its appropriate internal-control mechanisms which guarantee appropriate control of the company's operations; as well as its comprehensive policies and procedures.

Since the Company did not significantly improve its nonperforming-portfolio indicators, we lower the subranking on its portfolio management. The ABOVE AVERAGE subranking on the Navistar Financial's portfolio management also considers the Company's appropriate process to capture new

loans and track documents, its good payment-processing practices, as well as its adequate reporting and customer service capacity. This subranking takes into account the improvements made on the Company's model for early collection and payment default management.

As of March 2020, the Navistar Financial's retail portfolio had 5,608 loans and leases, amounting \$8,000 million Mexican Pesos (MXN) approximately. In comparison to our last review, we observe that the retail portfolio increased slightly in the quantity of agreements (5,372 loan and lease agreements), and its amount has increased significantly (MXN6.5 billion, approximately).

Based on the information provided by the Company, as of March 2020, the non-performing assets and agreements in default represented 7.3% and 19.5% of the total portfolio, in comparison to 8.6% and 18.1 %, respectively, as of September 2017 (estimations were made using the number of retail agreements). Even though the company implemented measures to manage nonperforming assets, these indicators are negatively compared to those of other similar institutions rated by us, whose non-performing assets are around 5.2% and, in our opinion, they are no longer consistent with their prior subranking.

Since our last review (see [“S&P Global Ratings confirma clasificación de EXCELENTE de Navistar Financial como administrador de activos de financiamiento comercial: revisa perspectiva a negativa”](#) [S&P Global Ratings affirms EXCELLENT ranking on Navistar Financial as commercial finance servicer; outlook revised to negative], published on January 22, 2018) the following changes and/or events have occurred:

- A new Chief Financial Officer was appointed.
- The employee turnover rate is similar to that of other asset servicers we rate. The turnover rate at senior and medium management is slightly higher; however, the company has demonstrated that the business continuity was not affected.
- In 2018, the company provided different training courses to reinforce some relevant topics, increasing the average training hours per employee; however, as for those employees outside the collection area, the average training hours got reduced in 2019.
- Navistar Financial renewed all its computing equipment.
- The company implemented a new platform for the automation of the regulatory process, in addition to other improvements in the IT department.
- An internal audit area was added to the organizational structure in Mexico, which strengthens even more the company's internal controls. This area reports to the corporate internal audit area.
- The company implemented a predictive system in its call center, which led to a more efficient contact with clients.
- The collection process was improved by reducing the time to start the advanced collection efforts.

In the middle of the coronavirus pandemic, the company adopted several measures to prioritize liquidity and funding, to support debtors by agreeing modifications to loans, and to maintain the portfolio quality.

Additionally, the company's collection efforts are currently being supported by the commercial personnel. We will closely monitor these efforts and their potential effect on the company's operation.

The outlook is negative. In our opinion, the company might experience financial pressures in the future, due to the uncertainty respect of the duration of the coronavirus crisis. This uncertainty might produce macroeconomic conditions leading to a sale reduction in the truck industry. If weak conditions continue

longer than expected, the company might experience financial pressure in the future, which ultimately might affect its asset management capability. If this occurs, we might lower its ranking.

S&P Global Ratings recognizes the high uncertainty level on the coronavirus transmission rate and peak outbreak. Some government authorities believe that the pandemic peak will be in the middle of next year and we are considering that assumption to assess the economic and credit implications. We believe that the measures taken to contain COVID-19 have led the global economy to a recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The financial position is SUFFICIENT, based on our company's long-term and short-term, issuer credit ratings at national scale -CaVal-, corresponding to 'mxBBB-1' and 'mxA-3', respectively. Currently, both ratings are on Negative Credit Watch. If our opinion about the company's credit quality deteriorates, it potentially might affect our assessment of the servicer's financial position.

Navistar Financial is in our Select Servicer List. In order to be included in this list, the servicer must meet the criteria to obtain, at least, one AVERAGE ranking with stable outlook, and SUFFICIENT financial position. The ranking downturn has no implications in the ratings on the securities serviced by Navistar Financial and it does not involve any change in our opinion about the company's credit quality.

Related Articles

[Analytical Approach: Global Servicer Evaluations Rankings](#), January 7, 2019.

[Select Servicer List](#), May 1, 2020.

CreditConditions Emerging Markets: COVID-19 Magnifies Risks, March 31, 2020.

[Economic Research: Recovery From The COVID-19 Pandemic Will Be Uneven Across Latin America](#), April 17, 2020.

[COVID-19 Credit Update: Latin American Structured Finance Begins To Feel The Pandemic's Effects](#), May 7, 2020.

[S&P Global Ratings coloca calificaciones de Navistar Financial en Revisión Especial Negativa tras acción similar sobre su casa matriz](#), [S&P Global Ratings places Navistar Financial's on Negative CreditWatch listing after similar action respect of its parent company], April 17, 2020.

[S&P Global Ratings confirma calificación de 'mxAAA \(sf\)' de los certificados bursátiles NAVISCB 17; retira identificador de Bajo Observación por Criterios](#), [S&P affirms mxAAA (sf) rating on the NAVISCB17 bonds; removes Under Criteria Observation identifier], January 2, 2020.

[S&P Global Ratings confirma clasificación de EXCELENTE de Navistar Financial como administrador de activos de financiamiento comercial; revisa perspectiva a negativa](#), [S&P Global Ratings affirms EXCELLENT ranking on Navistar Financial as commercial finance servicer; outlook revised to negative], January 22, 2018.

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