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**Navistar Financial S.A. de C.V.
SOFOM E.R. STRONG Commercial
Servicer Ranking Affirmed;
Outlook Revised To Negative**

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OVERVIEW

We affirmed our STRONG ranking on Navistar Financial S.A. de C.V. SOFOM E.R. as a commercial finance servicer in the Mexican market.

The ranking reflects our STRONG subranking for management and organization and our STRONG subranking for loan administration.

We revised our ranking outlook to negative from stable because the percentage of nonperforming contracts in its portfolio, although now contained since our last review, remains, in our view, high, compared to the company's historical levels (2012-2014) and to the levels observed in other servicers we rank.

We also revised the company's financial position to SUFFICIENT from INSUFFICIENT as a result of the March 2, 2017, upgrade of the long- and short-term components of the issuer credit rating (ICR) on the company to 'mxBB+' and 'mxB' from 'mxB+' and 'mxC', respectively.

NEW YORK (S&P Global Ratings) Jan. 22, 2018--S&P Global Ratings today affirmed its STRONG ranking on Navistar Financial S.A. de C.V. SOFOM E.R. (NF) as a primary commercial finance servicer for the Mexican market. We also revised the outlook to negative from stable.

The overall ranking reflects our STRONG management and organization subranking, which reflects NF's experienced management team and staff, an organizational structure that ensures adequate segregation of duties and a robust information technology platform that was enhanced since our last review, well-documented business continuity and disaster recovery plans procedures, adequate internal controls mechanisms that ensure a proper control of the company's operations, and comprehensive policies and procedures.

We believe the company could still improve its training program to include all employees and provide more technical and other soft skill development trainings. Furthermore, despite the average number of completed training hours increasing since our last review, it is still below the average of other servicers we rank.

In addition, although the overall employee turnover rate has decreased to 11.81% as of September 2017 from the observed 14.52% in December 2015 (used in our last review) and 29.27% in December 2016 because of an internal restructuring that aimed to seek efficiency, this number remains slightly above other servicers. In 2016, the company replaced senior management departures effectively such that business continuity was not affected; however, in our opinion, sustained high turnover ratios could affect the company's operational capability. As such, we will continue to closely monitor the organizational changes in the company.

The overall ranking also reflects our STRONG loan administration subranking. As of September 2017, NF's retail portfolio contained 5,372 loans and leases that represented approximately 6.5 billion Mexican pesos (MXN). Compared with our last review, we observe the serviced portfolio has been slightly reduced by number of loans (5,629 loans and leases), but has considerably increased by amount (MXN869 million).

In our opinion, the company continues to be proficient in loan boarding, document tracking, payment processing, investor reporting, customer service, and asset recovery, which we believe to be consistent with its current subranking.

The company has strengthened its early-stage collection and default management procedures by increasing its collection agents to 10 from eight and reducing the timing for early-stage collections and default management. However, in our

view, these actions have not been sufficient to significantly reduce its defaulted portfolio, which, in our view, remains at high levels, compared with the company's past historical performance and with the levels observed in other servicers we rank.

Of note, the company changed its classification of the restructured contracts beginning in December 2016. Before such date, all restructured contracts were considered performing, as long as they were delinquent for no more than 90 days. Now, only restructured contracts with more than one day of delinquency are considered nonperforming.

As a result of the change in the classification method, the overall number of nonperforming contracts increased. Nonperforming contracts represented 8.6% of the total portfolio as of September 2017, which is lower than the 10.2% observed as of December 2016 and the 8.9% in December 2015. However, this is still a significant increase from 3.3% in December 2012, 3.4% in December 2013, and 5.3% in December 2014.

According to the company, this trend in defaults was driven by factors such as: reduction of its clients' working capital and cash flows due to extension in the payment period of the accounts receivables from their own customers, volatility in the exchange rate that continues to affect NF customers' purchasing power, its capacity to acquire spare parts, and the country's insecurity that negatively affects the transportation sector, among others.

The outlook is revised to negative from stable. In our opinion, the company, despite implementing several measures in 2017 to contain the percentage of nonperforming contracts in its portfolio, has not been able to lower it back to its past historical levels (2012-2014). In the same tenor, current levels of the delinquent and defaulted portfolios, despite showing slight improvements from our last review, are still higher than those observed in other servicers we rank. We could lower our ranking within the next 12 months if there is a lack of considerable improvement in the delinquent and defaulted portfolios following the new countermeasures implemented in this area. Otherwise, we could affirm it.

Additional changes from our last review include:

During 2017, the organizational structure was adjusted to seek operational efficiency. Some of the modifications include having the risk area report directly to the CEO, separating it from the Credit Department. The Operations Department now consolidates the servicing and collections areas and the Asset Management Center (AMC). Also, a new Information Quality Assurance and Client Satisfaction Department was created with a direct reporting line to the CEO. Finally, the Finance Department now includes the treasury, corporate financing, controls, and financial planning areas. We believe these measures will continue strengthening NF's efficient servicing capabilities.

The company has focused on offering more training to its personnel to increase their abilities to perform their daily duties and to comply with the regulator's requirements. Total training hours per employee increased; however, they remain lower than other servicers we rank.

In 2017, the company focused on enhancing its systems and technology through applications that aim to improve its collection management, customer service, and reporting capabilities.

The company has reduced its collection management timing for early-stage collections (to 22 from 45 days) and default management (to 90 from 120 days), and has increased its collections agents to 10 from eight.

The company's financial position is revised to SUFFICIENT from INSUFFICIENT as a result of the March 2, 2017, upgrade of the long- and short-term components of the issuer credit rating (ICR) on the company to 'mxBB+' and 'mxB' from 'mxB+' and 'mxC', respectively (for more details, see "Standard & Poor's sube calificaciones de Navistar Financial a 'mxBB+' y 'mxB' de 'mxB+' y 'mxC' tras acción similar sobre su casa matriz; la perspectiva es estable").

RELATED CRITERIA

Criteria - Structured Finance - Servicer Evaluations: Revised Criteria For Including RMBS, CMBS, And ABS Servicers On Standard & Poor's Select Servicer List (/en_US/web/guest/article/-/view/sourceId/5360120), April 16, 2009
Criteria - Structured Finance - Servicer Evaluations: Servicer Evaluation Ranking Criteria: U.S. (/en_US/web/guest/article/-/view/sourceId/2088106), Sept. 21, 2004

RELATED RESEARCH

Research Update: Mexico 'BBB+/A-2' Foreign Currency Ratings Affirmed; Local Currency Ratings Lowered To 'A-/A-2' On Change In Methodology (/en_US/web/guest/article/-/view/sourceld/10378356), Dec. 18, 2017

Select Servicer List (/en_US/web/guest/article/-/view/sourceld/4821536), Dec. 14, 2017

Credit Conditions: Favorable Conditions in Latin America Should Remain, But Elections Loom (/en_US/web/guest/article/-/view/sourceld/10341635), Nov. 30, 2017

General Description Of The Credit Rating Process, July 25, 2017

Outlook On Mexico Revised To Stable From Negative On Improved Debt Prospects; 'BBB+/A-2' Ratings Affirmed (/en_US/web/guest/article/-/view/sourceld/10178966), July 18, 2017

S&P Global Ratings Definitions (/en_US/web/guest/article/-/view/sourceld/504352), June 26, 2017

Standard & Poor's confirma calificaciones de 'mxBB+' y 'mxB' de Navistar Financial, la perspectiva es estable, April 11, 2017

Standard & Poor's sube calificaciones de Navistar Financial a 'mxBB+' y 'mxB' de 'mxB+' y 'mxC' tras acción similar sobre su casa matriz; la perspectiva es estable, March 2, 2017

Navistar Financial S.A. de C.V. SOFOM E.R. STRONG Commercial Finance Servicer Ranking Affirmed; Outlook Stable (/en_US/web/guest/article/-/view/sourceld/9597092), April 12, 2016

Servicer Analyst: Filix Gomez, Mexico City +52 (55) 5081-4490;
 filix.gomez@spglobal.com (mailto:filix.gomez@spglobal.com)

Secondary Contact: Cathy C de la Torre, New York +1 (212) 438-0502;
 cathy.de.la.torre@spglobal.com (mailto:cathy.de.la.torre@spglobal.com)

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