

## Research

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### New Issue: Dowson 2024-1 PLC

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# New Issue: Dowson 2024-1 PLC

## Ratings Detail

Ratings						
Class	Rating*	Amount (mil. £)	Available credit enhancement at closing (%)§	Interest	Legal final maturity	
A	AAA (sf)	227.50	36.30	Daily compounded SONIA plus 0.88%	August 2031	
B	AA (sf)	35.00	25.00	Daily compounded SONIA plus 1.25%	August 2031	
C	A+ (sf)	24.50	18.00	Daily compounded SONIA plus 1.60%	August 2031	
D	A (sf)	14.00	14.00	Daily compounded SONIA plus 2.35%	August 2031	
E	BBB (sf)	22.75	7.50	Daily compounded SONIA plus 3.95%	August 2031	
F-Dfrd	B- (sf)	26.25	0.00	Daily compounded SONIA plus 6.95%	August 2031	
X-Dfrd†	B (sf)	17.50	0.00	Daily compounded SONIA plus 4.85%	August 2031	

\*Our ratings on the class A, B, C, D, and E notes address the timely payment of interest and ultimate payment of principal, while our ratings on the class F-Dfrd and X-Dfrd notes address the ultimate payment of both interest and principal no later than the legal final maturity date.

§Available credit enhancement at closing comprises subordination, and for the class A notes, the class A reserve fund. †The class X-Dfrd notes are excess spread notes not backed by collateral. SONIA--Sterling Overnight Index Average.

## Transaction Summary

- S&P Global Ratings assigned its credit ratings to Dowson 2024-1 PLC's class A, B, C, D, E, F-Dfrd, and X-Dfrd notes. The class X-Dfrd notes are excess spread notes. The proceeds from the class X-Dfrd notes are used to fund the initial required cash reserves, the premium portion of the purchase price, and pay certain issuer expenses and fees.
- Dowson 2024-1 is the seventh public securitization of U.K. auto loans originated by Oodle Financial Services Ltd. (Oodle). We also rated the first six Dowson securitizations issued between September 2019 and September 2022.
- Oodle is an independent auto lender in the U.K., with a focus on used car financing for prime and near-prime customers.
- The underlying collateral comprises fully amortizing fixed-rate auto loan receivables arising under hire purchase (HP) agreements granted to private borrowers resident in the U.K. for the purchase of used and new vehicles. There are no personal contract purchase (PCP) agreements in the pool. Therefore, the transaction is not exposed to residual value risk.
- Of the underlying collateral, 12.6% was previously securitized in Dowson 2021-2 PLC.
- About 5.6% of the pool are multi-part agreements that include certain add-on components. These cover insurance, warranties, and refinancing of amounts owed by the obligor under any pre-existing HP, lease, or other auto finance agreement, which is terminated by the obligor upon entering a new agreement. The add-on components form about 0.74% of the pool.

- Collections will be distributed monthly with separate waterfalls for interest and principal collections, and the notes amortize fully sequentially from day one.
- A combination of note subordination and any available excess spread provides credit enhancement for the rated notes.
- The class A notes also benefit from credit enhancement and liquidity provided by the class A reserve fund, while a dedicated reserve fund ledger for each of the class B to F-Dfrd notes provides liquidity support to each of the respective notes. The class A reserve fund is sized at 2% of the class A notes' balance at closing, while the class-specific reserve funds for the class B to F-Dfrd notes are sized at 1% of the respective classes' closing balance.
- Commingling risk is partially mitigated by sweeping collections to the issuer account within two business days, and a declaration of trust is in place over funds within the collection account. However, due to the lack of minimum required ratings and remedies for the collection account bank, we have assumed one week of commingling loss in the event of the account provider's insolvency.
- Oodle is the initial servicer of the portfolio. A moderate severity and portability risk assessment along with a low disruption risk assessment results in no cap on the transaction ratings. The transaction features a back-up servicer, Lenvi Servicing Ltd.
- The assets pay a monthly fixed interest rate, and all notes pay compounded daily sterling overnight index average (SONIA) plus a margin subject to a floor of zero. Consequently, the notes benefit from an interest rate swap with a fixed amortization profile, with an option to rebalance subject to satisfaction of certain conditions.
- Our ratings on the transaction are not constrained by our structured finance operational risk and sovereign risk criteria. The remedy provisions at closing adequately mitigate counterparty risk in line with our counterparty criteria. The legal opinions adequately address any legal risk in line with our criteria.

## The Credit Story

### Strengths, concerns, and mitigating factors

Strengths	Concerns and mitigating factors
The portfolio is granular and well diversified across various brands and regions.	The purchased loan receivables arise from used car financing, predominantly in the near-prime market. As such, the transaction includes receivables with relatively long original maturities of up to 60 months, loan-to-value (LTV) ratios up to 125%, and higher vehicle ages. We have accounted for additional uncertainties from these features while sizing our loss and recovery assumptions.
The underlying collateral comprises auto loan receivables arising under HP agreements. There are no PCP agreements in the pool, and the transaction is therefore not exposed to any residual value risk.	The underlying collateral includes auto loan receivables under HP agreements, with some add-on components. Receivables with add-on components form about 5.6% of the pool, while the add-on components themselves currently comprise 0.74% of the pool. While these add-on components comprise warranties and insurance, among others, they are provided by dealers/third parties through a separate contract with the borrowers. Oodle only finances the amount against these. However, some add-on products may be exposed to setoff risk. We have accounted for this in our cash flow analysis by sizing setoff risk of 0.28%. Although well-maintained vehicles and additional insurance could potentially improve recoveries, the higher loan advanced against these components could result in an overall limited effect on the recovery rates.
As of the pool cutoff date, the portfolio did not contain any defaulted contracts.	Oodle will service the securitized assets. We expect relatively high asset performance sensitivity to a servicer disruption for near-prime loans. As a mitigant, following a servicer termination event, including the servicer's insolvency, the back-up servicer, Lenvi Servicing, will assume servicing responsibility for the portfolio. We considered this in our analysis, and also stressed the potential higher back-up servicing fee in our cash flow analysis.

**Strengths, concerns, and mitigating factors (cont.)**

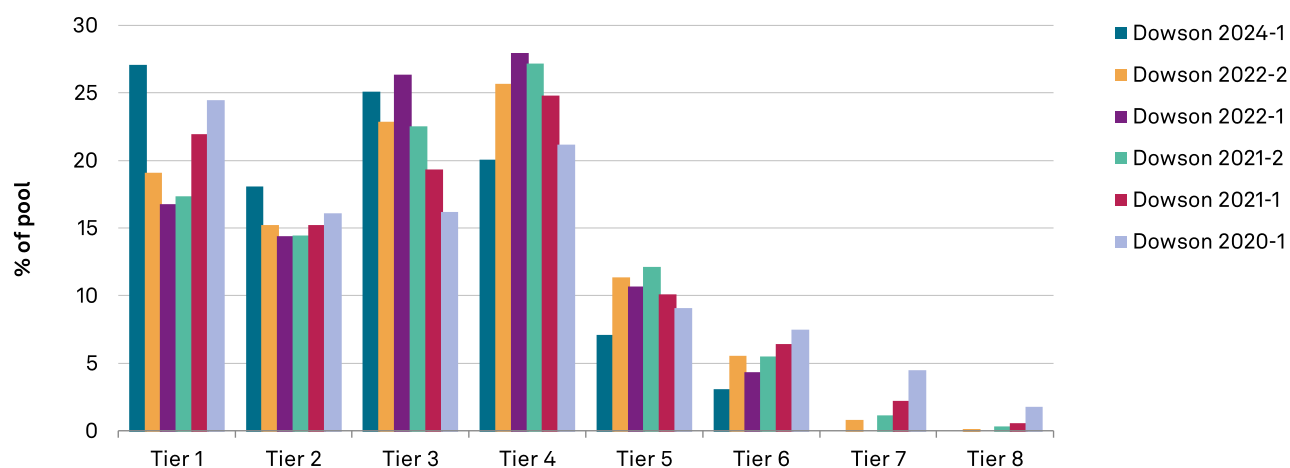
<b>Strengths</b>	<b>Concerns and mitigating factors</b>
The transaction is static with no replenishment period. Therefore, the notes amortize after closing. In our baseline scenario, this causes credit enhancement to build up quickly. Additionally, the portfolio's quality will not deteriorate through adverse replenishment.	The transaction is exposed to a commingling risk in case the originator becomes insolvent. This risk is partially mitigated through a two-day sweep of collections to the issuer account and a declaration of trust and liquidity from the reserves. However, in the absence of downgrade language in the collection account bank agreement, we have stressed the uncovered exposure in our cash flow assumptions.
The notes amortize sequentially. If the transaction incurs defaults, it uses excess spread and ultimately the class-specific general reserve to amortize the notes. As such, we expect relative credit enhancement on the notes to increase as the pool amortizes.	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 administrator taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency administrator will not have any financial incentive to take these steps as it will not benefit the bankruptcy estate's creditors. The inclusion of an insolvency administrator's incentive fee at a senior level in the priority of payments mitigates this risk, in our view. In our analysis, to account for this risk, we considered that 5% of recovery proceeds will have to be paid to the insolvency administrator.
An interest rate swap mitigates the issuer's exposure to interest rate risk resulting from the fixed interest of the receivables and the floating-rate obligations under the notes. The interest rate swap features an amortizing notional amount schedule, which is based on the collateral balance, assuming a 20% prepayment rate and 0% default rate.	The issuer can rebalance the swap notional on any interest payment date (IPD) if the swap notional amount exceeds the outstanding principal balance of the portfolio and if there are sufficient funds to make any partial termination payments that are subordinated in the waterfall. The swap notional rebalancing can lead to an unhedged position. We have considered this in our cash flow analysis. The swap notional can also be rebalanced upon repurchase of receivables due to breach of contracts, representations, and warranties if the disposal of the affected receivables causes the swap notional to exceed 120% of the remaining receivables' outstanding principal balance. The seller will cover potential swap termination costs under this scenario via a repurchase price. We note that there have been no repurchases on account of breach of contracts, representations, and warranties in existing transactions. In addition, any termination costs will be included in the repurchase price covered by the seller. Assets will be repurchased at par and repurchases will not occur if the seller is insolvent. As such, we have made no further adjustments for this in our cash flow analysis.

**Changes From Previous Transactions**

- Asset performance has deteriorated significantly on the Oodle book and within the Dowson transactions since Dowson 2022-2 closed. We therefore increased our hostile termination base case loss assumption for the loans that have not been previously securitized. This is despite an improvement in the previously non-securitized loans' weighted average credit risk tier, decreasing to 2.63 in this transaction from 3.15 in Dowson 2022-2. In January 2024, Oodle implemented strategic changes to shift to funding a lower credit risk customer profile which can be seen in the Dowson 2024-1 pool (see chart 1 below, and Credit Analysis And Assumptions).
- 12.6% of Dowson 2024-1's pool comprises well-seasoned receivables previously securitized in Dowson 2021-2, which we considered in our credit assumptions.
- The weighted-average effective interest rate has increased to 20.76% from 16.78% in Dowson 2022-2, and the weighted average cost of the liabilities has decreased. As such, excess spread has risen significantly.
- The class A reserve fund size has increased to 2.0% of the class A notes balance at closing from 1.5% of the class A notes balance at closing in Dowson 2022-2.

Chart 1

## Risk tier for all loans securitized



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## Asset Description

As of Sept. 23, 2024, the collateral pool backing the notes comprised 41,894 loan contracts, with a total outstanding principal balance of £350.06 million (see table 1). The purchased loan receivables arise from HP agreements primarily for the purchase of used cars by near-prime borrowers and a small component of add-on receivables.

The receivables require monthly interest and principal payments, have a fixed interest rate, and are fully amortizing (i.e., there are no balloon payments or residual value exposure).

At closing, the securitized pool complies with the eligibility criteria as per the transaction documents. The pool has been independently reviewed by Deloitte. The data provided is in line with our quality, timeliness, and reliability standards. The pool's characteristics are presented in the table below:

Table 1

Collateral key features*							
	Dowson 2024-1 PLC	Dowson 2022-2 PLC	Dowson 2022-1 PLC	Dowson 2021-2 PLC	Dowson 2021-1 PLC	Dowson 2020-1 PLC	Dowson 2019-1 PLC
Pool cutoff date	September 2024	August 2022	March 2022	October 2021	March 2021	March 2020	September 2019
Principal outstanding of the pool (mil. £)	350.06	298.55	286.23	413.54	293.86	220.01	353.40
Average remaining loan principal balance (£)	8,356	8,879	10,766	7,889	8,645	8,758	8,544

Table 1

Collateral key features* (cont.)							
	Dowson 2024-1 PLC	Dowson 2022-2 PLC	Dowson 2022-1 PLC	Dowson 2021-2 PLC	Dowson 2021-1 PLC	Dowson 2020-1 PLC	Dowson 2019-1 PLC
WA LTV ratio (%)	95.66	97.72	96.07	98.06	97.08	99.10	102.00
WA original term (months)	58.1	57.8	57.2	57.8	57.7	57.5	57.6
WA seasoning (months)	12.1	9.3	3.2	12.0	10.3	5.3	7.4
WA remaining term (months)	45.7	48.6	54.1	45.8	47.4	52.2	50.2
WA yield (%)	20.76	16.8	15.8	16.9	17.2	16.8	16.9
Payment by direct debit (%)	100	100	100	100	100	100	98.0
Top 3 geographic concentration (%)	18.5 (South East and London); 13.4 (North West); and 10.0 (West Midlands)	19.6 (South East and London); 14.54 (North West); and 11.4 (West Midlands)	22.3 (South East and London); 14.4 (North West); and 10.8 (West Midlands)	21.6 (South East and London); 14.6 (North West); and 11.8 (West Midlands)	22.0 (South East and London); 15.2 (North West); and 11.6 (West Midlands)	24.0 (South East and London); 14.0 (North West); and 11.8 (West Midlands)	24.6 (South East and London); 14.1 (North West); and 13.4 (West Midlands)
Top 3 manufacturer concentration (%)	14.7 (Ford); 10.3 (Mercedes-Benz); 9.5 (BMW)	13.4 (Ford); 11.9 (BMW); 10.8 (Mercedes-Benz)	13.8 (Ford); 12.3 (BMW); and 11.6 (Mercedes-Benz)	12.9 (Ford); 12.1 (BMW); and 11.0 (Mercedes-Benz)	12.8 (Ford); 12.4 (BMW); and 10.8 (Mercedes-Benz)	12.76 (BMW); 11.6 (Ford); and 11.04 (Mercedes-Benz)	12.9 (BMW); 11.8 (Ford); and 10.7 (Vauxhall)
<b>Loan type (%)</b>							
HP	94.40	95.09	94.19	94.07	100.00	100.00	100.00
HP with add-on§	5.60	4.53	5.81	5.93	-	-	-
Add-on component	0.74	0.39	0.46	0.62	-	-	-
PCP	-	-	-	-	-	-	-
Balloon payment portion (%)	-	-	-	-	-	-	-
<b>Vehicle type (%)</b>							
New cars	0.1	0.5	0.5	0.7	0.8	0.8	0.8
Used cars	99.9	99.5	99.5	99.3	99.2	99.2	99.2
<b>Vehicle age (%)</b>							
<4 years	16.9	17.9	18.5	33.4	19.8	40.8	41.7
4 to 6 years	25.0	29.7	30.3	32.7	42.1	28.9	32.1
>6 years	58.1	52.4	51.2	33.9	38.2	30.3	26.2

**Table 1**

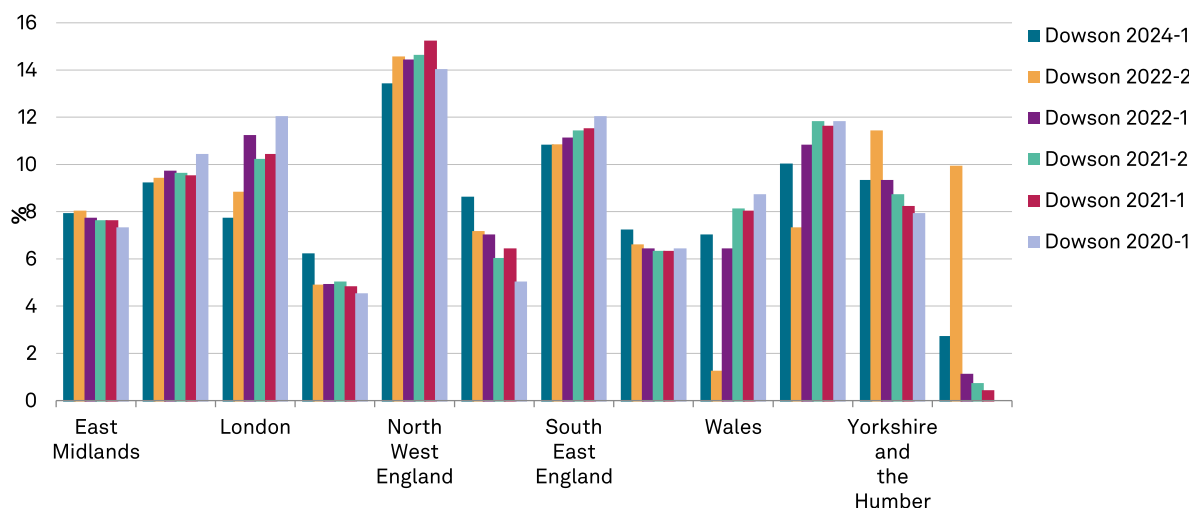
**Collateral key features\* (cont.)**

	Dowson 2024-1 PLC	Dowson 2022-2 PLC	Dowson 2022-1 PLC	Dowson 2021-2 PLC	Dowson 2021-1 PLC	Dowson 2020-1 PLC	Dowson 2019-1 PLC
<b>Customer type (%)</b>							
Private	100	100	100	100	100	100	100
Commercial	-	-	-	-	-	-	-
<b>Engine type (%)</b>							
Petrol	31.5	33.8	33.9	33.0	33.3	33.7	31.3
Diesel	61.5	65.3	65.4	65.4	66.1	65.3	66.3
Others (plug-ins, hybrids, etc.)	7.0	0.8	0.7	1.6	0.6	1.0	2.4

\*Calculations are according to S&P Global Ratings' methodology and based on the outstanding principal balance. \$HP with add-on agreements represent multi-part agreements, which include add-on components in addition to the auto loan receivable itself. The add-on component covers for insurance and warranties, and refinancing of amounts owed by the obligor under any pre-existing HP, lease, or other auto finance agreement which is terminated by the obligor in connection with its entry into a new agreement. Dealers/third parties provide the add-on product through a separate contract with the borrowers. Oodle only finances the amount against these. WA--Weighted average. LTV--Loan-to-value. HP--Hire purchase. PCP--Personal contract purchase.

**Chart 2**

**Geographic distribution**

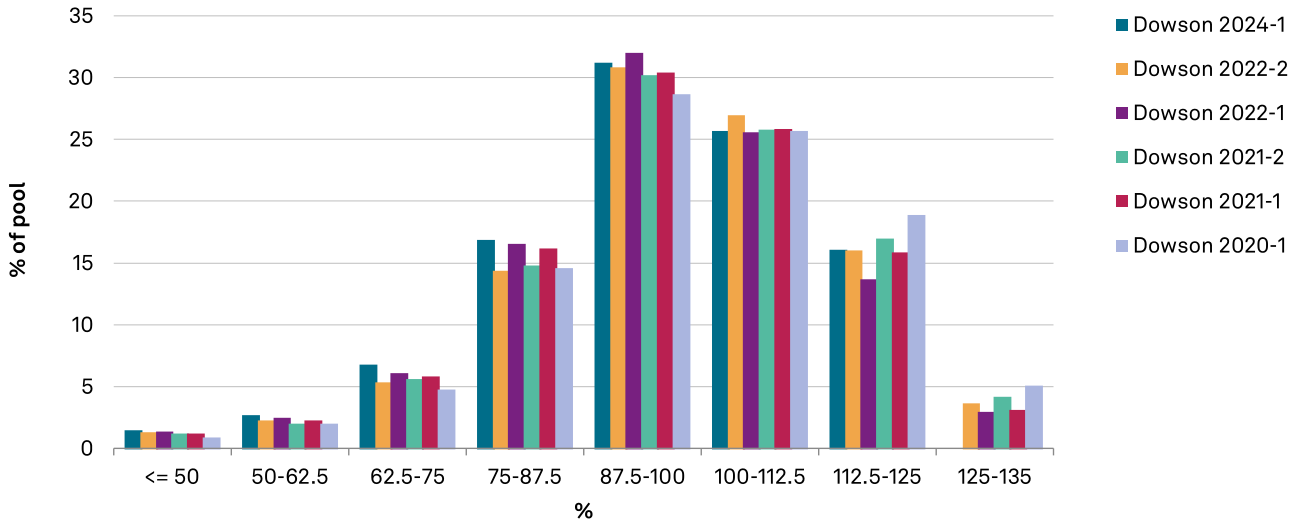


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**Chart 3**

**LTV ratio distribution**

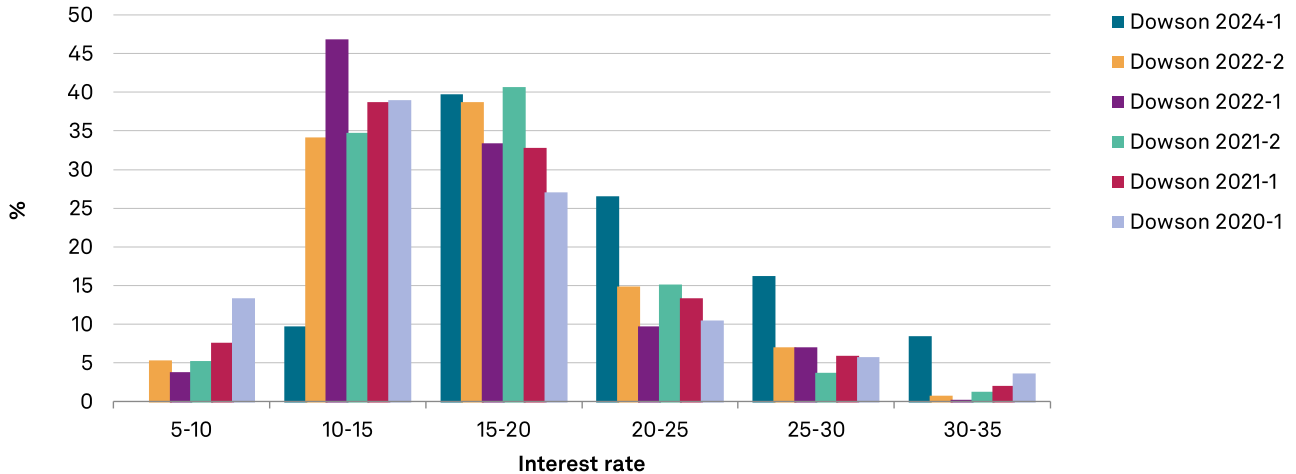


LTV--Loan to value.

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**Chart 4**

**Interest rate distribution**



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**Eligibility criteria**

The transaction documents set out certain eligibility criteria for receivables and the client accounts, some of which are:

- The receivable must not be a defaulted receivable (including voluntary terminations);

- The receivable must not have more than one monthly payment in arrears;
- The receivable must constitute legally valid, binding, and enforceable obligations of the obligor and be freely assignable;
- The receivable must provide for an original term of not more than 60 months;
- Oodle must hold legal title to the vehicle;
- The outstanding principal balance must not be greater than £125,000;
- The LTV ratio does not exceed 135%;
- The obligor must have paid at least one installment;
- The obligor must be a resident of the U.K.;
- The obligor must not be employed by Oodle; and
- The obligor did not enter into a simultaneous servicing agreement, except for an add-on product, which may give rise to any potential for setoff risk between the borrower and the seller.

Under the transaction documents, the seller will remedy any breach of these eligibility criteria either by correcting the breach where possible or by repurchasing the affected receivable.

### **Originator/seller**

Oodle was incorporated in June 2010 and is majority owned by funds and accounts advised or managed by KKR Credit Advisors (US) LLC and its affiliates. Oodle wrote its first loan in March 2016. As of August 2024, it employed approximately 475 staff. Its total lending volume surpassed £2.5 billion in July 2024.

Oodle originates HP and HP with add-on loans in the U.K. used car market across various risk tiers, through its dealer network and brokers.

Oodle relies heavily on its securitization platform (the Dowson public transactions) and warehousing facilities to fund its auto loans business, and to date it has issued six publicly placed transactions.

Oodle uses its own scorecard, most recently updated in 2023, whereby an internal risk rating, in addition to income and affordability checks, matches each customer to one of the HP products at the time of origination. In January 2024, Oodle implemented strategic changes to shift to funding a lower risk customer profile which can be seen in the assets securitized in Dowson 2024-1.

Overall, we consider the origination process' control framework to be appropriate, with relevant experience at key stages of the process. In addition, the origination process is subject to regular post-completion scrutiny, checking, and oversight.

### **Servicing**

We conducted an overview of Oodle's origination, underwriting, collections, and risk management practices in August 2024. We consider these to be in line with general market practice.

The company has satisfactorily addressed Financial Conduct Authority concerns regarding forbearance during the

pandemic. Since a large part of the senior management team changed in 2022, significant resources have been devoted to full internal digitization and enhanced reporting. The senior management team has significant experience in the U.K. auto sector and at established financial institutions.

We consider near-prime loans' asset performance to be more sensitive to a servicer disruption event and such assets to have fewer replacement servicers available. Consequently, we assess the severity and portability risk of the securitized assets as moderate under our operational risk criteria. Given Oodle's operating history, we consider disruption risk to be moderate. This assessment caps the potential ratings on the notes under our operational risk criteria at an initial level of 'AA'.

Oodle has never used Discretionary Commission Arrangements in its lending process. Therefore, the transaction is not exposed to them.

### Back-up servicing

A cold back-up servicer, Lenvi Servicing, was appointed at closing. Following a servicer termination event, including the servicer's insolvency, Lenvi Servicing will assume servicing responsibility for the portfolio. We have considered a higher servicing fee in our cash flow analysis, commensurate with the fee payable to the back-up servicer upon servicer replacement.

## Credit Analysis And Assumptions

We analyzed the transaction's credit risk under various stress scenarios examining separate gross loss and voluntary terminations loss as well as recoveries by applying our European auto ABS criteria.

### Macroeconomic and sector outlook

Table 2

	U.K. economic factors				
	Actual	Forecast			
	2023	2024f	2025f	2026f	2027f
Real GDP (y/y growth, %)	0.1	1.0	1.3	1.6	1.7
Unemployment rate (%)	4.0	4.3	4.4	4.4	4.4
Consumer price index inflation (average, y/y growth, %)	7.3	2.6	2.3	2.0	2.0

Sources: National statistics offices, OECD, Eurostat, Bank of England, European Central Bank, S&P Global Ratings. f--Forecast.

The U.K.'s resilient labor market continues to put upward pressure on inflation, while market expectations of rate cuts have already prompted a rebound in investments, for example in the housing market. Combined with the higher-than-expected economic activity--the quarter-over-quarter increase in GDP was 0.7% in the first quarter and 0.6% in the second quarter--this will prevent the Monetary Policy Committee from cutting rates too quickly.

We now project the economy will expand by 1.0% in 2024 and 1.3% in 2025. That said, disinflation outside the U.K., falling profit margins, and relatively weak retail sales have not yet left their mark on headline inflation, which should enable the Bank of England to ease rates to 3.0% by the start of 2026.

**Defaults**

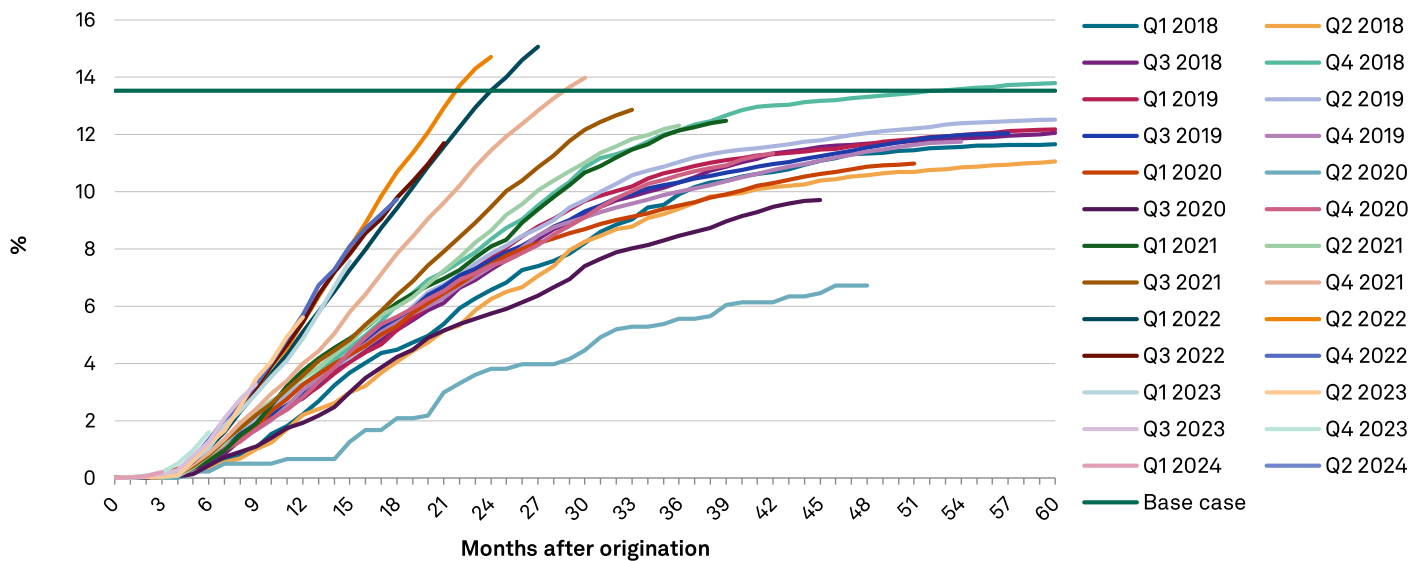
A loan is considered defaulted if a borrower has exceeded five missed payments or if the vehicle is repossessed. This definition differs to previous Dowson transactions where a default was deemed to occur if a customer had overdue installments of more than 120 days. While the two definitions are broadly comparable, there are some differences that occur if borrowers make partial repayments when they are in arrears.

**Cumulative hostile termination assumptions**

In the U.K., defaults or gross losses are referred to as hostile terminations. Oodle began originations in 2016. We were provided with the historical static gross loss curves for the managed portfolio from first-quarter 2018 to second-quarter 2024. The historical portfolio data presented in chart 5 is unweighted.

**Chart 5**

**Cumulative default rates (hostile terminations)**



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The data provided is in line with our minimum quality, timeliness, and reliability standards. The performance data provided covers the maximum loan term of 60 months, which we expect to reasonably reflect expected performance over the term of a loan.

To set our base-case assumptions, we used the actual unweighted performance data, which covers about 100% of the maximum loan term.

While some vintages in chart 5 show cumulative losses that exceed our base case, our base case is unstressed while the historical performance data shows performance through the period where borrowers were impacted by both cost of living pressures and rising interest rates on their other floating rate commitments.

At the same time, the historical performance data in chart 5 does not distinguish by risk tier, whereas our base case

reflects the significant weighting of loans in credit risk tiers 1 and 2 (47.3%) in the newly originated loans being sold in this transaction. This compares to 31.0% and 34.1% in Dowson 2022-1 and 2022-2, respectively. We expect default rates for risk tier 1 and 2 assets to be lower than default rates for other risk tiers.

Asset performance has deteriorated significantly on the Oodle book and within the Dowson transactions that we have rated since Dowson 2022-2 closed. We therefore increased our hostile termination base case loss assumption for the loans that have not been previously securitized. This is despite an improvement in the previously non-securitized loans' weighted average credit risk tier, decreasing to 2.63 from 3.15 in Dowson 2022-2. In January 2024, Oodle implemented strategic changes to shift to funding a lower credit risk customer profile which can be seen in the Dowson 2024-1 pool.

We have increased the expected gross losses from hostile terminations to 13.53% in our base case scenario for the 87.4% of the pool that has not been previously securitized. This represents an increase from the 13.0% base case that we applied for the assets in Dowson 2022-2 that were not previously securitized.

We considered that 12.6% of the pool comprises well-seasoned loans previously securitized in Dowson 2021-2. Following the exercising of the optional redemption for Dowson 2021-2, eligible collateral was included in the securitized pool for Dowson 2024-1. We have therefore adjusted our 13.53% base case to incorporate a lower expected default rate from these highly seasoned loans with significantly lower remaining terms, and our blended gross loss base case for hostile terminations on the total pool is 13.50%.

Given our experience with the originator (this is Oodle's seventh securitization that we have rated), high base-case gross loss assumption, and comparison to peer transactions, we have maintained the applicable multiple at the 'AAA' rating level for hostile terminations at 4.0x.

Compared to previous Dowson transactions, we have not increased our closing multiples at the lower rating levels. We believe the increased base case, improved pool credit quality, and the nature of the macroenvironment over the past three years mitigates recent elevated loss levels on the previous transactions.

### **Cumulative voluntary termination assumptions**

The HP agreements are subject to voluntary terminations. Under the U.K. Consumer Credit Act, borrowers who have paid back more than 50% of the total amount due may fully discharge their obligations toward 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.



to 50%. We apply the same stressed recovery assumptions for both hostile terminations and voluntary terminations.

We have applied a recovery-rate base case assumption of 37% and a 'AAA' haircut of 30%, based on the observed historical performance, overall recovery process, and collateral features such as LTV and vehicle age.

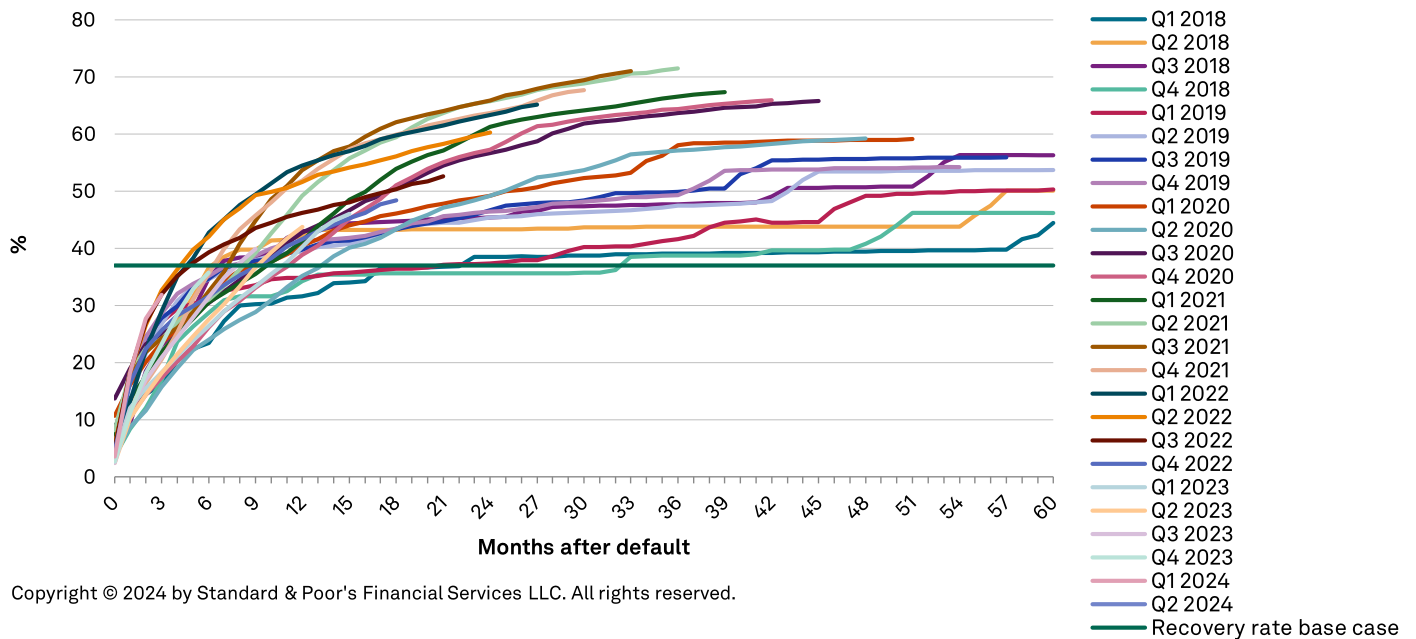
40% of the pool contains receivables with an initial LTV ratio above 100%. The loans' original maturities can be up to 60 months, which results in slower principal amortization. 99.9% of the vehicles being financed are used. The age distribution of the vehicles suggests that a material percentage could be non-euro 6 diesel-powered vehicles, which we believe could face lower recoveries. We considered these while determining our recovery rate haircuts and stressed recovery assumption.

For recoveries related to hostile terminations, we assumed 100% to be realized nine months after default. We did not apply any recovery lag for voluntary terminations, since the obligors must return the vehicles to exercise this right. The stressed recoveries exclude the recovery administrator fees, which we considered separately in our cash flow assumptions.

We received aggregate static recovery data by default cohort. The data spans from the first-quarter 2018 through second-quarter 2024 for subsequent periods.

**Chart 7**

**Cumulative recovery rates**



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**Credit assumptions summary**

Table 3

Credit assumption summary										
Rating level	Cumulative hostile termination base case (%)	HT stress multiple	Stressed cumulative HTs (%)	Cumulative VT base case (%)	VT stress multiple	Stressed cumulative VTs (%)	Recovery rate base-case (%)	Recovery rate haircut (%)	Stressed recovery rate (%)	Stressed cumulative net losses (%)
AAA	13.50	4.0	54.00	2.06	3.00	6.18	37.0	30.0	25.9	44.6
AA	13.50	3.0	40.50	2.06	2.75	5.67	37.0	20.0	29.6	32.5
A	13.50	2.0	27.00	2.06	2.50	5.15	37.0	15.0	31.5	22.0
BBB	13.50	1.5	20.25	2.06	2.25	4.64	37.0	10.0	33.3	16.6
BB	13.50	1.25	16.88	2.06	2.00	4.12	37.0	5.0	35.2	13.6
B	13.50	1.0	13.50	2.06	1.75	3.61	37.0	0.0	37.0	10.8

HT--Hostile termination. VT--Voluntary termination.

### Peer comparison at 'AAA'

Table 4

'AAA' comparison							
Rating level	Dowson 2024-1	Satus 2024-1	Dowson 2022-2	Dowson 2022-1	Dowson 2021-2	Dowson 2021-1	Dowson 2020-1*
Stressed cumulative HT gross loss (%)	54.00	48.0	48.5	52.0	50.05	55.3	59.5
Stressed cumulative VT gross loss (%)	6.18	6.0	7.02	7.5	6.78	7.5	7.5
Stressed recovery rate (%)	25.9	39.0	27.6	27.5	27.5	27.5	27.5
Stressed cumulative net loss (%)	44.6	32.9	40.2	43.14	41.20	45.5	48.6

\*The Dowson 2020-1 transaction was capped at a 'AA' rating level at closing. The 'AAA' levels provided in the table are for comparison purposes only and were not applicable for the transaction at closing.

## Environmental, Social, And Governance Factors

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For the auto ABS sector, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published on March 31, 2021).

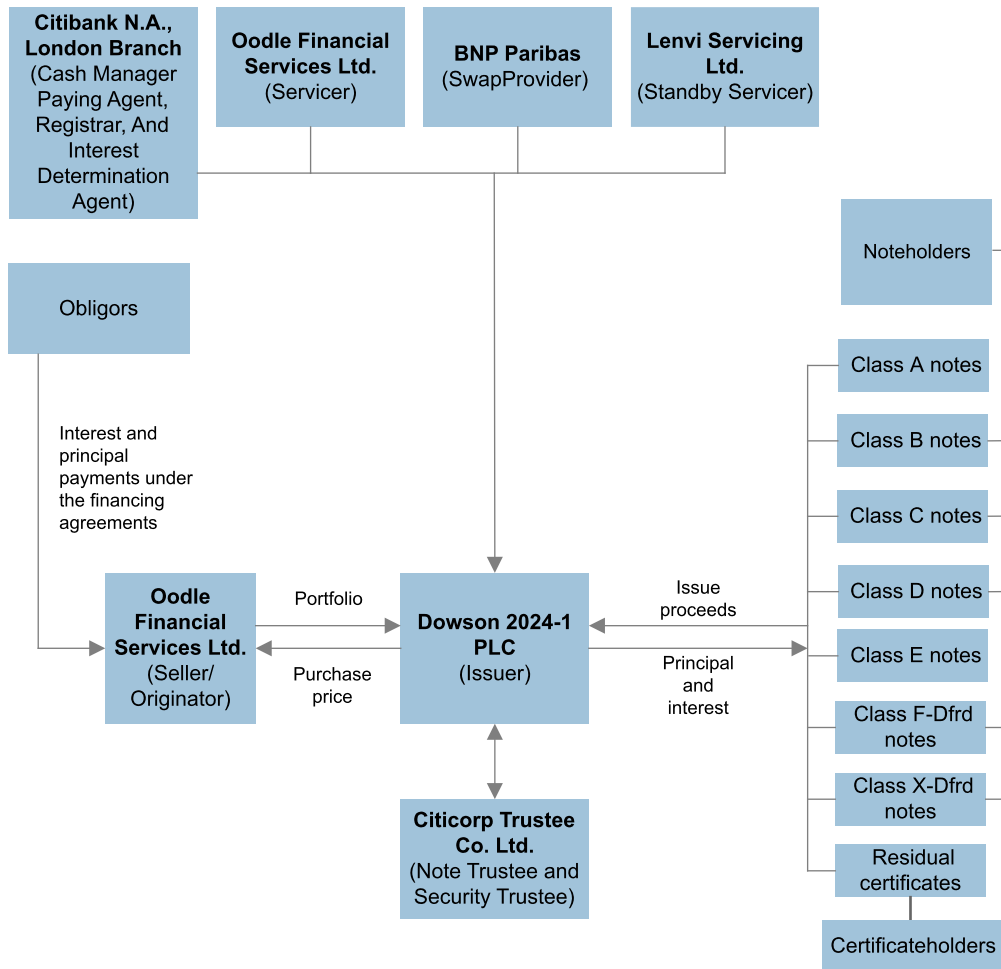
## Transaction Structure

At closing, the issuer purchased a pool of U.K. auto loan receivables with the issuance proceeds of the class A, B, C, D, E, and F-Dfrd notes (the collateralized debt). The initial pool balance equals the collateralized notes' aggregate note principal balance. The class X-Dfrd notes are excess spread notes, and the issuance proceeds funded the initial cash reserves, the premium component of the purchase price, and paid certain issuer fees and expenses.



**Chart 8**

**Transaction structure**



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The issuer is an English special-purpose entity, which we consider to be bankruptcy remote under our legal criteria. We have reviewed the received legal opinions, which provide assurance that the sale of the assets would survive the insolvency of the seller.

**Cash Flow Mechanics**

The transaction has a separate interest and principal waterfall. Interest on the notes is payable monthly in arrears in accordance with the interest waterfall. However, if available funds are not sufficient, interest is deferrable on all notes except the most senior note outstanding, without triggering an event of default. As soon as any mezzanine note becomes the most senior, interest payments will be timely. Cash flows redeem strictly sequentially in accordance with the priority of payments.

If the security trustee delivers an enforcement notice to the issuer following an event of default, all funds from the enforced security are distributed according to post-enforcement priority of payments. We have reviewed the issuer events of defaults and have concluded that they are remote in our rating scenarios. As a result, our analysis solely focuses on the pre-enforcement priority of payments.

### Clean-up call and optional redemption call

Oodle can exercise a clean-up call option as soon as the principal balance outstanding is at or below 10% of the pool balance at closing. If exercised, the repurchase price must be sufficient to cover the principal outstanding on the rated notes, plus all accrued interest. Furthermore, the issuer may also redeem all classes of notes at their outstanding balance together with accrued interest on any IPD on or after the optional redemption call date in May 2027.

### Available interest and principal amounts

**Table 5**

Available amounts	
Interest amounts	Principal amounts
Interest collections and recoveries from defaulted assets (HTs and VTs).	Scheduled principal payments.
Interest received on the issuer's bank account.	Unscheduled principal payments (prepayments).
The general reserve (subject to conditions for each note).	Payments to cure principal deficiencies.
Amounts received by the issuer under the swap agreement.	
Any surplus principal available as per the principal priority of payments.	

HT--Hostile termination. VT--Voluntary termination.

### Priority of payments

On each monthly payment date, the issuer applies interest collections from the previous month, including any recoveries from the liquidation of the vehicles and amounts received under the swap agreement. The issuer also applies principal collections from the previous month, including any amounts applied to cure principal deficiencies under the interest waterfall. The notes amortize from the first IPD. Unless redeemed earlier, the issuer will redeem the notes at their legal final maturity in August 2031, which is after the maturity of the pool's longest-term loan. The order of these payments is outlined in the table below.

**Table 6**

Priority of payments	
Interest waterfall	Principal waterfall
Senior fees (including an insolvency administrator's incentive fee).	Class A principal until fully paid.
Swap payments (excluding subordinated payments).	Class B notes' principal until fully paid.
Interest on the class A notes.	Class C notes' principal until fully paid.
Clear the class A PDL.	Class D notes' principal until fully paid.
Top-up the class A cash reserve to target.	Class E notes' principal until fully paid.
Interest on the class B notes.	Class F-Dfrd notes' principal until fully paid.
Top-up the class B notes' cash reserve to target.	Excess to be applied under the interest waterfall.
Clear the class B notes' PDL.	
Interest on the class C notes.	
Top-up the class C notes' cash reserve to target.	
Clear the class C notes' PDL.	

**Table 6**

Priority of payments (cont.)	
Interest waterfall	Principal waterfall
Interest on the class D notes.	
Top-up the class D notes' cash reserve to target.	
Clear the class D notes' PDL.	
Interest on the class E notes.	
Top-up the class E notes' cash reserve to target.	
Clear the class E notes' PDL.	
Interest on the class F-Dfrd notes.	
Top-up the class F-Dfrd notes' cash reserve to target.	
Clear the class F-Dfrd notes' PDL.	
Interest on the class X-Dfrd notes.	
Principal on the class X-Dfrd notes.	
Swap subordinated payments	
Excess to the residual certificates.	
PDL--Principal deficiency ledger.	

### Principal deficiency ledgers

The principal deficiency ledgers (PDLs) aim to ensure that the issuer's liabilities match the performing assets. This mechanism would accelerate the redemption of the most senior notes if there are defaults or voluntary terminations in the portfolio by redirecting interest collections to the principal waterfall. The transaction features a separate PDL for each collateralized class of notes. Principal deficiencies are debited to the PDL reverse-sequentially starting with the class F-Dfrd notes' PDL, while debits may subsequently be cleared through the interest waterfall sequentially starting with the class A PDL debits.

### Excess spread

Excess spread results from the difference between:

- The interest income received from the assets; and
- The interest on the rated notes plus any senior fees and expenses (including servicing fees and swap costs).

Excess spread is available to cure any principal deficiencies that arise as a result of defaulted receivables, or losses on voluntary terminations. In our analysis, we further sized for yield compression risk by modeling a gradual decline of the portfolio yield.

### Cash reserve

At closing, the seller funded a cash reserve through issuance of the class X-Dfrd notes. The cash reserve is split into dedicated reserves for each class of notes, sized at 2.0% of the class A notes' closing balance and 1.0% their respective closing balance for the class B, C, D, E, and F-Dfrd notes.

The dedicated reserve amount for each class is available to pay interest shortfalls for the respective class over the transaction's life. In addition, the reserves for all classes of notes are available to cover any senior expense shortfalls.

The class A reserve amount, in addition to interest and senior expense shortfalls, is available to cure the class A PDL.

The required reserve amount for each class amortizes in line with the outstanding note balance. This is subject to a floor of £350,000 for the class A notes, £150,000 for the class B notes, £100,000 for the class C notes, and £75,000 for the class D notes until the respective classes of notes are redeemed. There is no reserve floor for the class E and F-Dfrd notes.

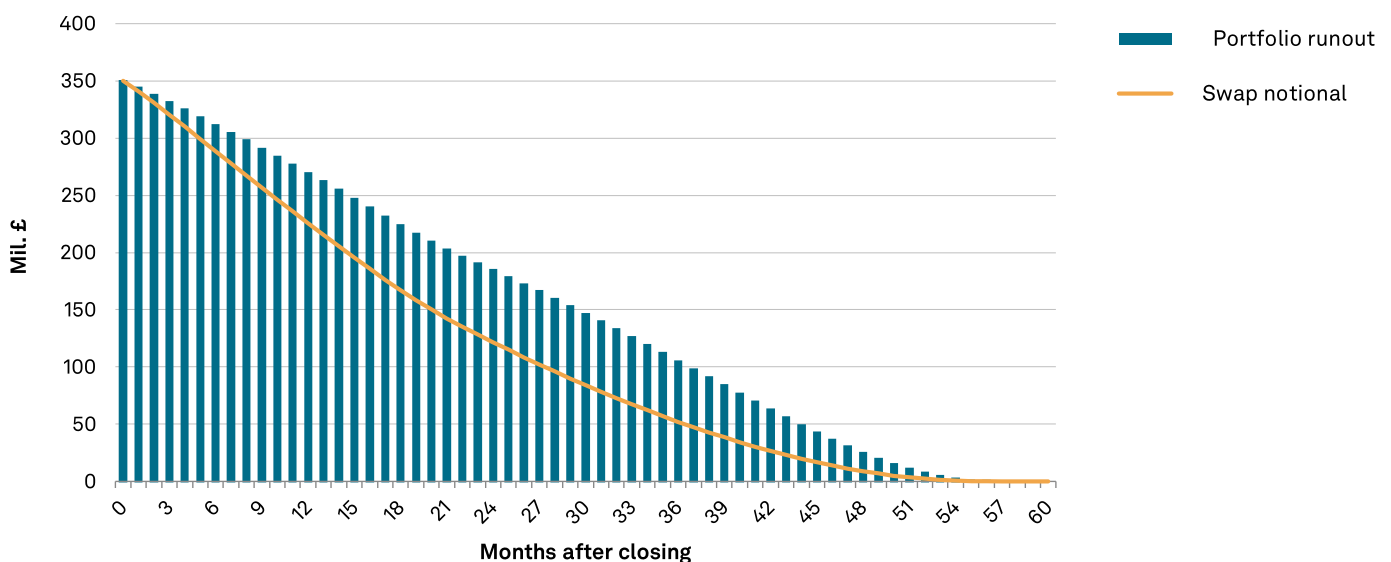
Amounts released due to the lower target level are treated as available revenue receipts. In addition, once the collateral balance is zero or at legal final maturity, all reserve amounts will be applied in the interest waterfall, and they would be available to cure any principal deficiencies.

### Interest rate swap

The receivables are fixed rate, while the notes pay a floating rate. Interest rate risk for the floating-rate class A, B, C, D, E, F-Dfrd, and X-Dfrd notes is largely mitigated through an interest rate swap agreement with BNP Paribas S.A. The swap notional amount is based on a predetermined notional schedule, which amortizes in line with the expected runout of the pool assuming 20% prepayments and 0% defaults (see chart 9). Under the swap agreement, the counterparty pays the issuer the compounded daily SONIA, in return for Dowson 2024-1 paying a fixed swap rate.

**Chart 9**

#### Interest rate swap notional schedule



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The issuer can rebalance the swap notional, on any IPD if the swap notional amount exceeds the outstanding principal balance of the portfolio and if there are sufficient funds to make any partial termination payments that are subordinated in the waterfall. The swap notional rebalancing can lead to an unhedged position, specifically in a rising interest rate scenario.

Since the swap can be rebalanced at the option of the Issuer, we have analyzed cash flow outcomes considering both exercise of this option to rebalance the swap as well as when such an option is not exercised, and the swap notional is strictly based on the fixed amortization schedule.

The swap notional can also be rebalanced upon repurchase of receivables due to breach of contracts representations and warranties if the disposal of the affected receivables causes the swap notional to exceed 120% of the outstanding principal balance of remaining receivables. Potential swap termination costs under this scenario will be covered by the seller via repurchase price. We have considered that there have been no repurchases on account of breach of contracts representations and warranties in existing transactions, and that the termination costs will be included in the repurchase price covered by the seller. Assets will be repurchased at par and repurchases will not occur if the seller was insolvent. As such, we have made no further adjustments for this in our cash flow analysis.

## **Mitigation Of Seller Risks**

### **Commingling risk**

Payments under the auto loans are paid by direct debit into a collection account in Oodle's name. Any prepayment amounts and vehicle sales proceeds are paid into a collection account in the servicer's name.

According to the transaction documents, the servicer must sweep all collections to the issuer transaction bank account within two business days. In order to mitigate the commingling risk attached to the potential bankruptcy of Oodle, a declaration of trust over the amounts standing to the credit of the collection accounts in favor of the issuer is in place. However, there is no minimum required rating for the collection account provider.

In the case of a servicer and collection account default, we consider that there is a week's worth of commingling loss. We believe that the available credit enhancement and liquidity reserves would be sufficient to ensure that the timely payment of interest on the class A to E notes would continue until obligors are notified to redirect their payments.

### **Setoff risk**

In general, if the servicer becomes insolvent, setoff risk may arise. This is because obligors can set off their loan installments against:

- Their salary (employee setoff);
- Insurance obligations (if the insurance provider becomes insolvent);
- Maintenance and servicing obligations (if the maintenance or service provider becomes insolvent); or
- Their deposits (deposit setoff).

Oodle is not a deposit-taking institution. Moreover, the seller's employees are excluded when receivables are transferred to the securitization vehicle by a specific eligibility criterion. Therefore, we currently consider that the transaction is not exposed to deposit and employee setoff risk.

The pool comprises a small portion of multi-part agreements, which include add-on components in addition to the auto loan receivable itself. The add-on component covers insurance and warranties, and refinancing of amounts owed

by the obligor under any pre-existing HP, lease, or other auto finance agreement, which is terminated by the obligor upon entering a new agreement. Dealers/third parties provide the add-on product through a separate contract with the borrowers. Oodle only finances the amount against these. According to the eligibility criteria, the add-on product may give rise to potential setoff risk between the borrower and the seller.

Oodle is not aware of any historical setoffs, where customers tried to set off amounts against their loan balance if a warranty provider was unable to fulfil their obligations or an insurance company had gone in insolvency.

Oodle is aware of the section 75 liability risk under the Consumer Credit Act and has implemented a number of measures to mitigate this risk as part of the roll-out of multi-part agreements, including:

- Agreeing to fund only a limited type of add-ons (non-insurance/insurance warranties and paint protection, excluding from scope 'higher-risk' products like GAP Insurance/PPI);
- Limiting introducers who are eligible to include these products in the transaction (only 'trusted' introducers);
- Setting LTV limits to cap the amounts funded, and also not paying commission on add-ons;
- Ensuring that any deposit funds are fully used as set off for the shortfall and add-on loans, to reduce their balance, before any deposit funds can be allocated to the vehicle; and
- Including specific indemnity in the introducer agreement. In the event of a claim Oodle has the protection of a statutory indemnity against the supplier of the add-on product and Oodle would normally have a claim against the dealer for any losses incurred by Oodle as a result of a breach of such warranty.

We have received satisfactory legal comfort that the add-on portion used to refinance any pre-existing HP agreement will not give rise to any setoff risk. In our analysis, we have considered a setoff loss for the add-on portion, which is used to cover for insurance, warranties, or paint protection products. We have therefore applied a setoff loss for the add-on portion of the pool, which compromises 0.28% of the pool.

### No title over the vehicles

The issuer does not have any rights over the vehicles themselves but only in connection with their sale proceeds. Accordingly, in case of seller insolvency, the issuer is reliant on any insolvency administrator taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency administrator will not have any financial incentive to take such steps because it will 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 will have to be paid to the insolvency administrator. We consider this level will be sufficient to incentivize the insolvency administrator.

## Cash Flow Assumptions

Table 7

Cash flow assumptions	
Length of recession	WAL (25 months)
Recession start (month)	1

Table 7

Cash flow assumptions (cont.)	
Cumulative gross loss curve (HT and VT)	Evenly distributed over WAL and back-loaded; VT start in month 11 (weighted based on month 1 for receivables from Dowson 2021-2 and month 13 for the remaining pool)
Recovery lag	HT: nine months; VT: immediate
Delinquency	Two-thirds of credit losses recovered six months later*
Stressed servicing fees (%)	1.25
Fixed fees (£)	150,000*
One-time back-up servicer invocation fee	100,000
Replacement bank cost	100,000§
Other fees (insolvency administrator incentive fees; %)	5.0 (as a % of recovery proceeds); subject to 1% cap of initial pool balance§
Prepayments (high/low; %)	24.0/0.5
Interest rate	Stressed interest rate curves
Initial yield (%)	20.76
Relative WAC compression (%)	9.98
Commingling stress	One week loss
Setoff loss (%)	0.28

\*We have excluded the fixed back-up servicing currently payable annually up to the period the back-up servicer steps in, as we have already considered the higher back-up servicing fee payable at 1.25%. §Calculations are according to S&P Global Ratings' methodology. WAL--Weighted-average life. HT--Hostile termination. VT--Voluntary termination. WAC--Weighted-average coupon.

Our analysis indicates that the available credit enhancement is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA (sf)', 'AA (sf)', 'A+ (sf)', 'A (sf)', 'BBB (sf)', and 'B (sf)' ratings on the class A, B, C, D, E, and X-Dfrd notes, respectively.

Our ratings on the class C and E notes are below the level indicated by our standard cash flow analysis. These ratings consider the results of sensitivities with higher stressed gross losses. Our rating on the class E notes also reflects the results of sensitivities where the swap rebalancing mechanism is utilized.

In our standard cash flow analysis the class F-Dfrd notes face shortfalls at all rating levels.

Therefore, we applied our 'CCC' criteria (see "Related Criteria") to assess if either a rating of 'B-' or in the 'CCC' category would be appropriate for these notes. The 'CCC' criteria specify the need to assess whether there is reliance on favorable business, financial, and economic conditions to meet the payment of interest and principal.

Under our ratings definitions, a security would generally be rated 'B-' if we believe the obligor has the capacity to meet its financial commitment on the obligation under the current conditions (see "Related Research").

In a steady state scenario, where the current level of stress shows little to no increase and collateral performance remains steady, the class F-Dfrd notes face only marginal ultimate interest failures. In our steady state scenario, we applied a 15% constant prepayment rate and reduced our voluntary termination multiple to 1.0x.

We therefore assigned our 'B- (sf)' rating to the class F-Dfrd notes. This tranche can withstand the steady state credit and cash flow stresses we apply at our 'B-' rating level.

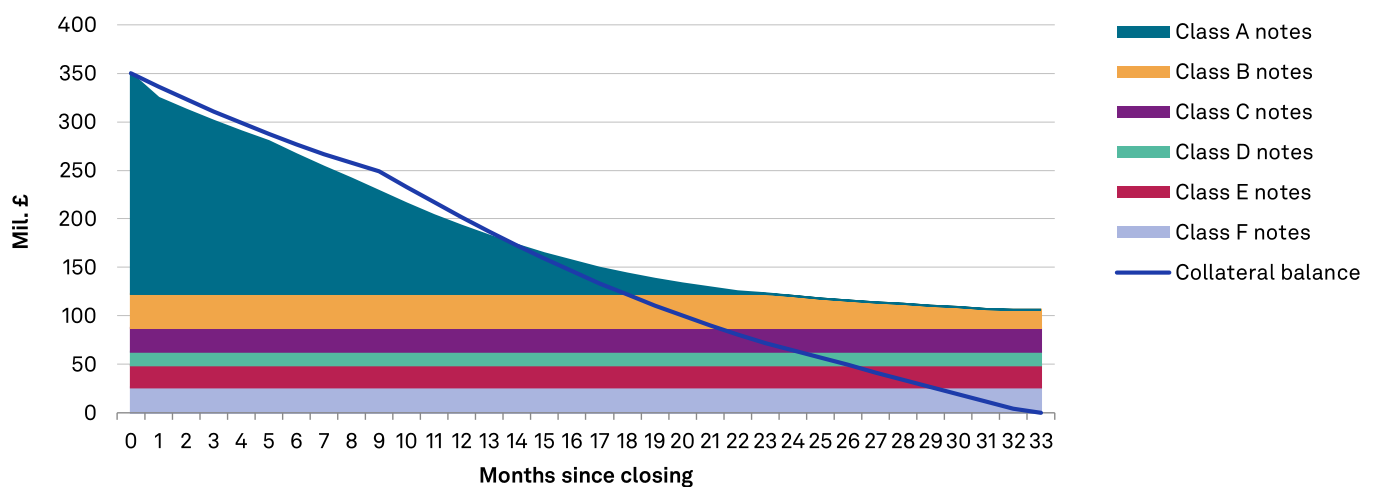
Our ratings address timely receipt of interest and ultimate repayment of principal for the class A to E notes, and the ultimate payment of interest and principal on the class F-Dfrd and X-Dfrd notes.

We have stressed bank account provider replacement costs to the extent the issuer may be expected to incur them at the time of replacement as well as a one-time back-up servicer invocation fee. Based on the assumptions discussed above, the high prepayment, down interest rate scenario, and equally loaded default scenarios have proved to be more stressful, mostly because they reduce the amount of available excess spread. Chart 10 shows the collateral and the note amortization profile under our most stressful scenario.

**Chart 10**

**Collateral and note balances (end of period)**

In the 'AAA' most stressful scenario



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## Counterparty Risk

The documented replacement mechanisms for the account bank provider and interest rate swap counterparty adequately mitigate the transaction's exposure to counterparty risk in line with our criteria. The remedy provisions at closing adequately mitigate counterparty risk in line with our counterparty criteria.

The issuer is exposed to Citibank, London Branch as issuer transaction account bank provider. The documented replacement mechanisms for the account bank providers adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

BNP Paribas is the interest rate swap provider. At closing, the transaction documents provide for a weak collateral posting framework and replacement triggers, which is consistent with our counterparty criteria to support a 'AAA' rating. Based on this, the collateral posting trigger would not apply. The counterparty would need to be replaced below 'A+'. Swap termination payments are subordinated to payments to noteholders, and the issuer has the right to



terminate the swap if the counterparty fails to replace itself within the remedy period.

**Table 8**

Supporting ratings			
Institution/role	Rating	Replacement trigger	Collateral posting trigger
Citibank N.A., London Branch as issuer bank account provider*	Issuer credit rating: A+/Stable/A-1	A/A-1	N/A
BNP Paribas S.A. as interest rate swap provider	Resolution counterparty rating: AA-/-- /A-1+	A+	N/A

\*Based on the rating on the parent company, Citibank N.A., in line with our bank-branch criteria (see "Related criteria"). N/A--Not applicable.

## Sovereign Risk

Our long-term unsolicited sovereign credit rating on the U.K. is 'AA'. Therefore, our structured finance sovereign risk criteria do not constrain the ratings in this transaction.

## Forward-Looking View

We consider the transaction's resilience to additional stresses to some key variables, in particular defaults and recoveries, to determine our forward-looking view.

In our view, borrowers' ability to repay their auto loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. Our 2024 forecast for unemployment rates in the U.K. is 4.3% and our forecast for inflation is 2.6%.

Furthermore, a decline in secondhand car values typically affects the level of realized recoveries.

Given our current macroeconomic forecast and forward-looking view of the U.K.'s auto market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of:

- An increased gross default base case of up to 30%;
- An increase in gross defaults from voluntary terminations of up to 30%; and
- A maximum haircut of 30% to the recovery rate base case.

We therefore ran eight scenarios with increased gross defaults and/or reduced expected recoveries, as shown in the tables below.

**Table 9**

Scenario stresses	Recovery rate base case (%)			
	Gross HT and VT default rate base case (%)	0.0	(10.0)	(30.0)
0.0	Base case	Scenario 3	Scenario 4	
10.0	Scenario 1	Scenario 5	Scenario 7	

**Table 9**

Scenario stresses (cont.)			
	Recovery rate base case (%)		
Gross HT and VT default rate base case (%)	0.0	(10.0)	(30.0)
30.0	Scenario 2	Scenario 6	Scenario 8

**Sensitivity analysis**

Class	Base case	1	2	3	4	5	6	7	8
Gross default rate - HT (%)	13.50	14.85	17.55	13.50	13.50	14.85	17.55	14.85	17.55
Gross default rate - VT (%)	2.06	2.27	2.68	2.06	2.06	2.27	2.68	2.27	2.68
Recovery rate base-case decrease (%)	37.0	37.0	37.0	33.3	25.9	33.3	33.3	25.9	25.9

Class of notes	Initial rating	1	2	3	4	5	6	7	8
A	AAA	AA+	AA	AAA	AAA	AA+	AA	AA+	AA
B	AA	AA	AA-	AA	AA	AA	A+	AA-	A
C	A+	A+	A	A+	A+	A	A	A	A-
D	A	A	A-	A	A	A	BBB+	A	BBB
E	BBB	BBB	BB+	BBB	BBB	BBB	BB	BBB-	BB-
F-Dfrd	B-	B-	CCC	B-	B-	B-	CCC	B-	CCC
X-Dfrd	B	B-	CCC	B	B-	B-	CCC	B-	CCC

- No change
- One-notch downgrade
- Two-notch downgrade
- Three-notch or more downgrade

Source: S&P Global Ratings.  
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The results of the above sensitivity analysis indicate a deterioration of up to two notches on the class A and C notes, and up to three notches for the class B, D, and E notes.

The transaction also embeds some other strengths that may offset a sudden increase in defaults. It has a short weighted-average life and delivers fast build-up of additional credit enhancement as it amortizes and is expected to have excess spread above 10% at close.

## Monitoring And Surveillance

We assess quarterly the underlying portfolio's performance, including defaults and delinquencies. Additionally, we also assess annually:

- The supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for each class of notes is sufficient to withstand losses that are commensurate with the current ratings assigned.

## Appendix

Transaction participants	
Issuer	Dowson 2024-1 PLC
Seller, originator, and servicer	Oodle Financial Services Ltd.
Backup servicer	Lenvi Servicing Ltd.
Collection account bank	HSBC Bank PLC
Account bank, paying agent, interest determination agent, cash manager, and registrar	Citibank N.A., London Branch
Note trustee and security trustee	Citicorp Trustee Co. Ltd.
Corporate services provider	CSC Capital Markets UK Ltd.
Listing agent	Walkers Listing Services Ltd.
Interest rate swap provider and arranger	BNP Paribas S.A.
Joint lead managers	Citigroup Global Markets Ltd., BNP Paribas S.A., Jefferies International Ltd., and Société Générale

## Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

## **Related Research**

- Credit Conditions Europe Q4 2024: Turn In Credit Cycle Won't Be Plain Sailing, Sept. 25, 2024
- U.K. Economic Outlook Q4 2024: Disinflation And Rate Cuts Will Stimulate Growth, Sept. 23, 2024
- European Auto ABS Index Report Q2 2024, Aug. 12, 2024
- S&P Global Ratings Updates Sector And Industry Variables For Its Global Auto ABS Methodology And Assumptions, May 7, 2024
- United Kingdom, April 22, 2024
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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