S&P Global Ratings

Research

New Issue: LT Rahoitus 2025-1 DAC

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New Issue: LT Rahoitus 2025-1 DAC

Ratings Detail

Ratings					
Class	**Rating***	**Amount (mil. €)**	**Available credit enhancement (%)§**	**Interest (%)**	**Legal final maturity**
A	AAA (sf)	538.8	7.4	1mE + 0.54	July 2036
B	AA+ (sf)	7.4	6.1	1mE + 0.90	July 2036
C	NR	28.8	N/A	1mE + 2.00	July 2036

*Our ratings address timely payment of interest and ultimate payment of principal on the class A and B notes. §Available credit enhancement consists of subordination on the class A and B notes and an amortizing liquidity reserve. NR--Not rated. 1mE--One-month Euro Interbank Offered Rate.

Transaction Summary

- S&P Global Ratings has assigned its credit ratings to LT Rahoitus 2025-1 DAC's asset-backed floating-rate class A and B notes. The transaction also issued unrated asset-backed class C notes.
- Our ratings address timely payment of interest and ultimate payment of principal on the class A and B notes.
- This is LocalTapiola Finance Ltd.'s (LTF) sixth publicly rated ABS transaction. We have previously rated LT Autorahoitus DAC in 2021, LTF's first public transaction.
- The underlying collateral comprises Finnish loan receivables for primarily cars and a small proportion of light commercial vehicles, motorbikes, vans, and campers. LTF originated and granted the loans to its private and commercial customers. According to the pool, 70.7% of the current principal balance loans amortize with a final balloon payment.
- The transaction is static with notes amortizing immediately, whereby collections received are distributed monthly according to separate principal and interest waterfalls. Principal is paid purely sequentially.
- A liquidity reserve was funded at closing through a subordinated loan. The reserve is available to cure any shortfalls on the senior fees, expenses, and class A and B interest. A servicer advance reserve was also funded at closing to be drawn to pay any amount to an obligor or deposit with the Finnish enforcement authority on the obligor's behalf in relation to repossession of the financed vehicle.
- A combination of the liquidity reserve, excess spread, and subordination provides credit enhancement. Commingling and setoff risks are fully mitigated, in our view.
- Of the assets, 94.8% pay a monthly fixed interest rate, and the class A, B, and C notes pay one-month Euro Interbank Offered Rate (EURIBOR) plus a margin subject to a floor of zero. Consequently, the class A, B, and C notes benefit from an interest rate swap until the notes redeem. The notional on the swap is based on the fixed-rate assets' current outstanding balance, excluding defaulted contracts.
- Of the assets, 5.2% are variable rate loans that pay one-month EURIBOR plus a margin. Changes in EURIBOR affect the contract term so that when the rate increases the contract term extends and when the interest rate goes down the contract term is shortened. As the EURIBOR on the variable rate loans and on the notes reset at different dates there is basis risk in the transaction. Given the small share of variable-rate loans in the pool, we deem this risk as

negligible.

- The issuer can fully redeem the notes if the seller exercises a clean-up call on the payment date on which the collateral pool balance and defaulted amounts less realized recoveries is lower than 10% of the collateral pool's balance at closing.
- Our structured finance sovereign risk criteria and operational risk criteria do not constrain our ratings on the notes. The remedy provisions at closing adequately mitigate counterparty risk in line with our counterparty criteria. The legal opinions at closing to adequately address any legal risk in line with our criteria.

The Credit Story

Strengths, Concerns, And Mitigating Factors

Strengths	Concerns and mitigating factors
The pool is granular and well-diversified across brands and geographically. As of the pool cutoff date, the largest and top 10 borrowers are 0.05% and 0.25%, respectively. The portfolio's weighted-average down payment is 11.9%, indicating a strong loan-to-value (LTV) ratio.	The Finnish economy has been in a recession, having contracted by 1.2% in 2023 and is expected to contract by 0.4% in 2024. GDP growth outlook is positive. Delinquencies in LTF's book have increased in line with macroeconomic conditions. We have taken the current macroeconomic conditions and outlook into account for the setting of our credit assumptions.
The transaction is static, meaning there is no replenishment period. In our baseline scenario, this causes credit enhancement for the senior notes to build up quickly. Additionally, the portfolio's quality cannot deteriorate through adverse replenishment.	About 47.1% of the used vehicles in the pool correspond to vehicle models that are at least six years old. While this is slightly higher than in other jurisdictions, historically recovery rates have been high.
As of the pool cutoff date, the portfolio did not contain any contracts that were overdue for more than 30 days or defaulted, as per eligibility criteria. About 8.2% of the loans in the portfolio are delinquent for less than 30 days. This is comparatively higher than other jurisdictions. We understand that the higher delinquencies are largely driven by the Finnish e-invoicing structure. Further, in our analysis, we observed that roll rates into the 30-day to 60-day delinquency bucket is limited, and we have considered this in our analysis.	About 70.7% of the current principal balance of the loans in the pool are balloon loans that have a final installment payment that is significantly higher than previous installments. In a stressed environment, the balloon payment could result in the obligor experiencing a payment shock, if the vehicle's value declines and the originator does not provide follow-up financing. We have accounted for the additional losses resulting from payment shock after a market value decline of the underlying vehicles under our ratings scenario.
The notes amortize strictly sequentially. If the transaction incurs defaults, it uses available excess spread to redeem principal.	LTF services the securitized assets, and the transaction does not have a back-up servicer at closing. We expect that the general availability of servicing in the Finnish market would mitigate the risk of servicing disruption, as well as Cafico Corporate Services Ltd. as the back-up servicer facilitator. Despite the short operating history of the originator, we consider the investment-grade rating on LTF to significantly mitigate any potential servicer disruption risk. Furthermore, the liquidity reserve will provide additional liquidity for the rated notes.
The seller has notified borrowers of the sale and transfer of the portfolio. As a result, we consider commingling risk to be fully mitigated. LTF is not a deposit-taking institution, and the eligibility criteria exclude borrowers who are employees of the seller. Insurance payments are directly made to and received from the insurance provider by the borrower, with no involvement from the seller. This mitigates any setoff risk.	Previous LTF public securitizations featured a dual special-purpose entity (SPE) structure as is common in the Finnish market. LT Rahoitus 2025-1 will be the first transaction from LTF with a single SPE structure. Previously the purchaser SPE has been registered as owner of the title. In the single SPE setup, the issuer will have the right of retention of the title while the seller remains the registered owner of the vehicle. We have stressed an incentive fee to incentivize the insolvency administrator to continue realizing recoveries in case of servicer insolvency.
An interest rate swap mitigates the interest rate risk between the fixed-rate assets and the floating rate of interest payable on the notes. The swap rate is however floored at zero, mitigating issuer exposure when the absolute value of the one-month EURIBOR is negative. The notional on the swap is based on the fixed-rate assets' outstanding balance, excluding defaulted contracts.	The liquidity reserve is amortizing, as the class A and B notes redeem and can reduce to a floor of 0.5% of the class A and B notes' outstanding balance at closing. This could result in a potential reduction in available liquidity support and credit enhancement, if delinquencies and defaults were to occur later in the life of the transaction. We have accounted for this in our cash flow analysis by considering a back-loaded default curve.

Strengths, Concerns, And Mitigating Factors (cont.)

Strengths	Concerns and mitigating factors
LTF has an operational history of more than seven years, and this is its sixth public ABS transaction. The historical data covers in full the maximum term of the securitized receivables and is based on stable origination volumes, after a strong growth phase especially in the first two years of operation. LTF is rated 'BBB' by S&P Global Ratings. Underwriting standards have remained consistent in the past years. We have taken this into account for the setting of our credit assumptions.	In view of the current macroeconomic environment and as per the seller's credit and collection policies, borrowers benefit from two payment holidays each year. We have therefore stressed payment holidays on the principal amount in our cash flow analysis.
	Under Finnish law, at the time of repossession, the remaining amounts owed by the borrower on the loan are determined based on the government's valuation of the refinanced vehicle. Should the vehicle receive a government valuation higher than the borrower debt, the excess needs to be paid to the borrower, along with value-added tax (VAT) to the government for the resale. These payments rank senior to payments to noteholders in the payment waterfall. At closing, LTF funded a servicer advance reserve to be drawn for these payments. We have reviewed these historical payments and sized for a stressed amount to test the potential effect of these amounts exceeding the servicer advances reserve in our analysis.

Environmental, Social, And Governance

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," March 31, 2021). In our view, the exposure to ESG credit factors in this transaction is in line with our sector benchmark.

Environmental credit factors are generally viewed as above average given that the collateral pool primarily comprises vehicles with internal combustion engines (ICE), which create emissions of pollutants including greenhouse gases. While the adoption of electric vehicles and future regulation could in time lower ICE vehicle values, we believe that our current approach to evaluating recovery values adequately accounts for vehicle values over the relatively short expected life of the transaction. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

Asset Description

As of the cutoff date, the preliminary collateral pool backing the notes comprised 33,408 auto loans totaling €575.00 million. The loans represent hire purchase contracts for new and used vehicles to private and commercial customers. The loans are either amortizing or have a lower monthly installment with a balloon payment at the end of the contract term. Installments are monthly and fully invoiced.

We received an audit report on the preliminary pool. We consider the data provided to be in line with our quality, timeliness, and reliability standards.

Table 1

Collateral Key Features*

	LT Rahoitus 2025-1 DAC	LT Autorahoitus DAC	SCF Rahoituspalvelut XIII DAC	SCF Rahoituspalvelut XII DAC
Originator	LocalTapiola Finance Ltd.	LocalTapiola Finance Ltd.	SCF Oy	SCF Oy
Country	Finland	Finland	Finland	Finland
Type of assets	Auto	Auto	Auto	Auto
Pool cutoff date	February 2025	February 2021	May 2024	April 2023
Principal outstanding of the pool (mil. €)	575.0	592.0	420.0	450.0
Average remaining loan principal balance (€)	17,211	15,035	21,746	21,495
WA down payment (%)	11.9	14.1	12.9	13.5
WA seasoning (months)	9.6	12.0	8.0	6.0
WA remaining term (months)	58.4	51.8	56.7	58.1
WA yield (%)	5.9	3.0	4.8	3.5
Payment by invoice (%)	100	100	100	100
Top 10 borrower concentration (%)	0.3	0.2	0.4	0.4
Top three geographic concentrations	Greater Helsinki (22.5%), South-Western Finland (12.9%), and Uusimaa (12.0%)	Greater Helsinki (22.9%), South-Western Finland (12.3%), and Western Tavastia (11.6%)	Greater Helsinki (26.6%), South-Western Finland (13.0%), and Uusimaa (10.9%)	Greater Helsinki (26.8%), South-Western Finland (12.2%), and Uusimaa (11.6%)
Top three manufacturer concentration	Mercedes-Benz (13.8%), Volvo (13.6%), and BMW (11.7%)	Kia (13.8%), Mercedes-Benz (12.7%), and BMW (10.5%)	Mercedes-Benz (11.3%), BMW (9.3%), and Kia (8.9%)	Mercedes-Benz (11.7%), Volvo (9.9%), and Kia (9.9%)
Loan type (%)				
Amortizing	29.3	42.4	27.9	30.1
Balloon	70.7	57.6	72.1	69.9
Vehicle type (%)				
New cars	5.9	21.7	35.3	32.1
Used cars	94.1	78.3	64.7	67.9
Customer type (%)				
Private	92.2	100.0	88.9	88.9
Commercial	7.8	0.0	11.1	11.1
Engine type (%)				
Petrol	35.8	42.3	33.3	29.5
Diesel	30.3	41.3	25.2	27.3
Others (electric, plug-ins, hybrids etc.)	Electric (14.7), hybrids (17.4), and others (1.7)	Others (16.4)	Electric (22.3), plug-ins (10.5), hybrids (6.9), and others (1.8)	Electric (18.6), plug-ins (14.2), hybrids (8.6), and others (1.8)

*Calculations are according to S&P Global Ratings' methodology and based on the outstanding discounted principal balance. WA--Weighted average. N.A.--Not available.

Chart 1

Geographic distribution

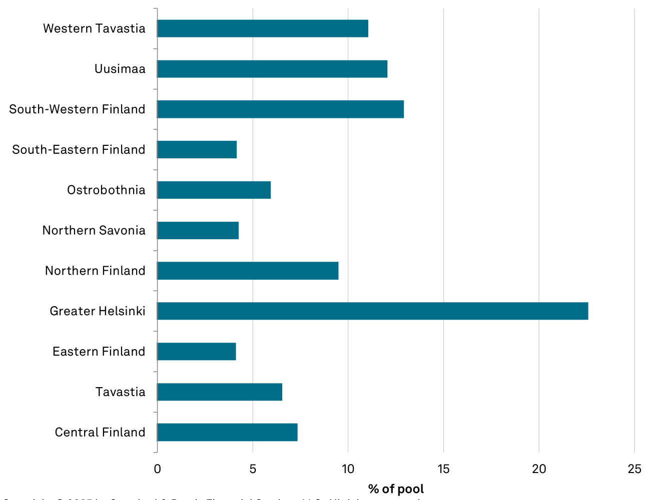


Chart 2

Seasoning distribution

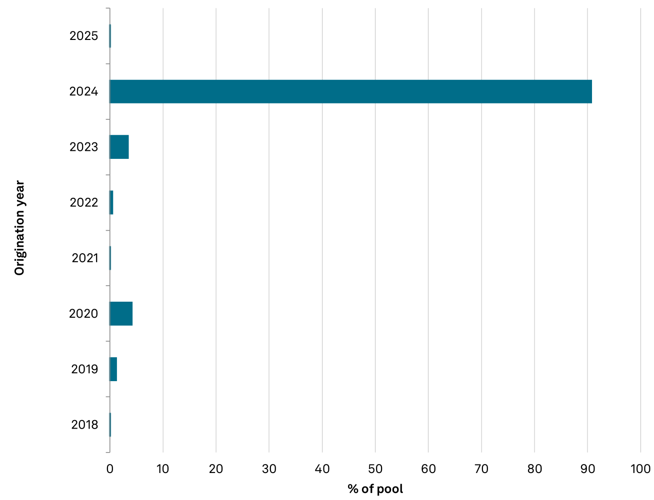
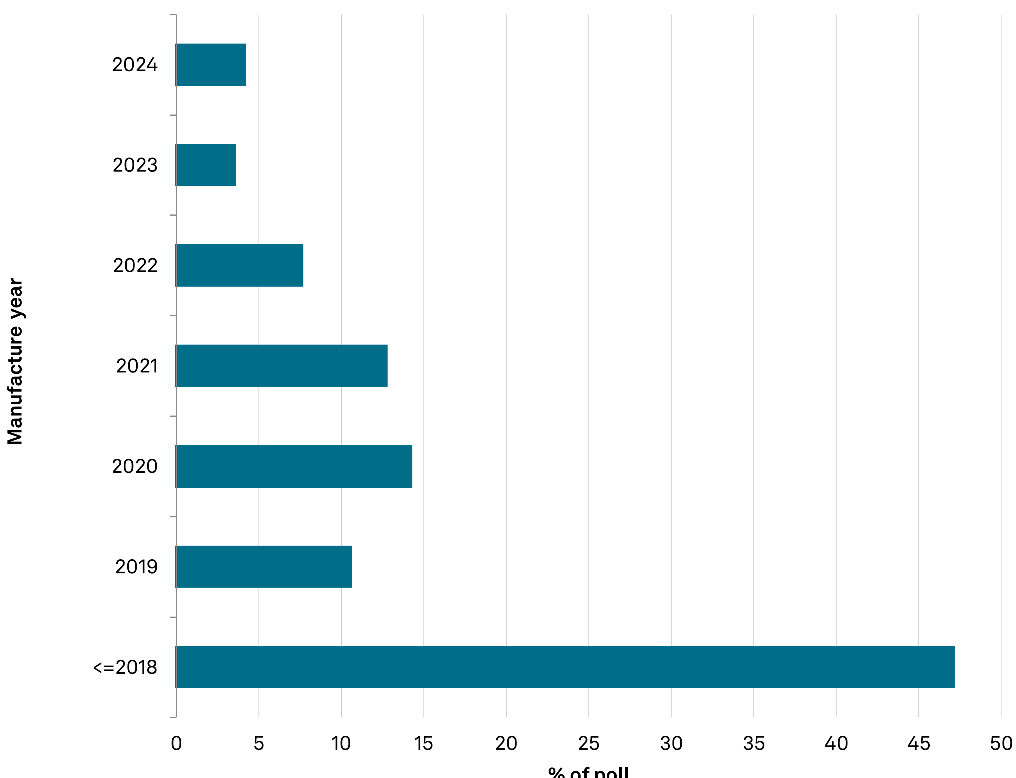


Chart 3



Eligibility criteria and concentration limits

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

- The borrower is an individual of Finland (excluding Aland Islands) and is not an employee, officer, or affiliate of the seller.
- The borrower is not entitled to draw any further amounts under the contract and does not have any deposit with the seller.
- The loan must be euro-denominated and not delinquent, defaulted, or disputed.
- The original balance of the loan does not exceed €100,000 if the borrower is a retail debtor or an original balance of €120,000 if the borrower is a corporate debtor. A minimum of one installment must have been paid and no principal payment have been deferred except for those under a payment holiday.
- The loan has an original maturity of not more than 78 months, and a remaining term of not less than three months.
- All loans are valid, binding, and enforceable, and comply with all applicable Finnish laws.
- Until the sale of the loan to the issuer, the seller owns the contract free of any adverse claims and is entitled to dispose of the contract free of any third-party rights.
- The borrower is aged between 18-80 and is not a student or unemployed at the time of origination.
- At contract origination, the vehicle was at maximum 12 years old in case of a light commercial vehicle, camper, and motorcycle or 15 years for any other vehicle.

Originator

LTF has an operating history of more than seven years, and this is its sixth public ABS transaction. It is a member of the LocalTapiola group, a Finnish company group offering insurance, investment, and savings. LTF's share capital is held by LocalTapiola General Mutual Insurance, LocalTapiola Mutual Life Insurance, and regional insurance companies. It has a current market share of 18.2% as of Nov. 30, 2024, being the second-largest company by new volume in Finland. For the year ended December 2023, LTF's operating profit amounted to €2.45 million.

LTF offers vehicle and machinery financing for private consumers, companies, and other entities, such as associations and public entities. While most of its contracts are hire purchase financing for private customers, it offers hire purchase and leasing products to private consumers, companies, and other entities for the purchase of new or used cars, vans, and trucks and hire purchase products for new or used vehicles such as caravans, boats, and motorcycles. LTF's first contracts were financed in February 2018. In November 2024, it had more than 120,000 active customers.

LTF's financing products are sold through its partner dealerships, which includes vehicles advertised on LTF's online portal.

Servicing

In December 2024, we reviewed LTF's origination, underwriting, collections, servicing, and risk management policies. In our view, LTF's origination process and servicing procedures are in line with market standards and our criteria for assessing operational risk.

In our operational risk analysis, we also look at the risk that cash flows may be disrupted following an operational failure of the servicer. The transaction does not have a back-up servicer at closing. We expect that the general availability of servicing in the Finnish market would mitigate the risk of servicing disruption, as well as Cafico Corporate Services Ltd. as the back-up servicer facilitator. We have also considered available mitigants and incorporated necessary assumptions in our cash flow analysis to analyze the potential impact from servicer disruption risk.

Credit Analysis And Assumptions

We analyzed the performance data provided by the originator for the total book, including separate gross credit losses, balloon losses, and recoveries. We analyzed the transaction's credit risk under various stress scenarios by applying our Global auto ABS criteria (see "Related Criteria").

Macroeconomic and sector outlook

In our analysis, we considered the following economic data and their baseline effect on collateral credit quality in determining our credit assumptions (see "Related Research").

We expect that Finland's GDP contracted 0.4% in 2024, though we forecast a modest recovery in the coming years. Unemployment is forecasted to peak in 2024 and inflation is expected to remain below the European Central Bank's target of 2% in the coming years.

Table 2

Economic factors

	2024f	2025f	2026f	2027f
Real GDP (y/y growth, %)	(0.4)	1.4	1.3	1.2
Unemployment rate (annual average, %)	8.2	8.0	7.8	7.7
Consumer price index inflation (%)	1.0	1.7	1.6	1.6

Sources: National Statistics offices, Eurostat, S&P Global Ratings. f--Forecast. y/y--Year on year.

Defaults

A loan is considered defaulted if it has installments overdue for more than 180 days or if the servicer has written it off as per its credit and collection policy. We have considered in our credit analysis historical delinquencies, which have been increasing, and the prevailing macroeconomic conditions while sizing our base-case assumptions.

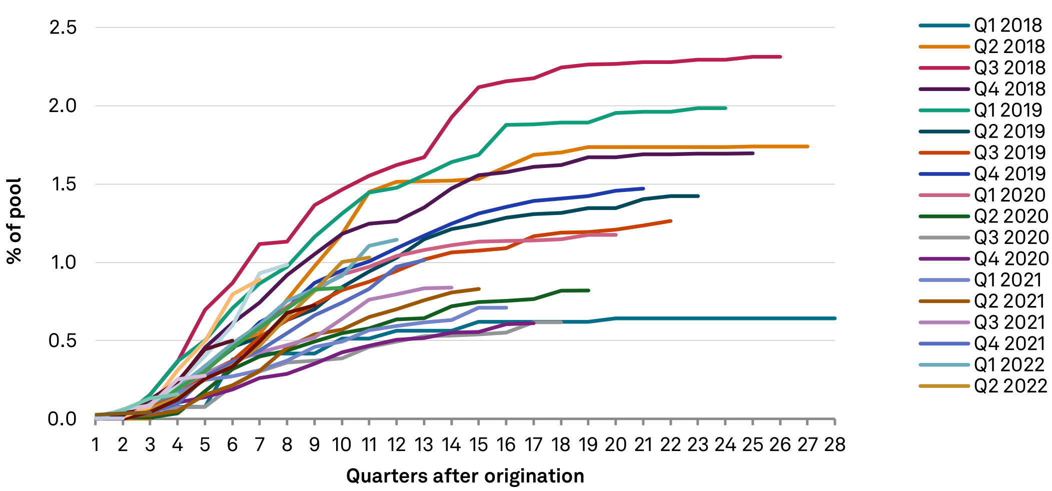
Gross defaults base case

We have received monthly and quarterly static gross loss data for 28 quarters, from the first quarter of 2018 to the fourth quarter of 2024, for the entire book.

Chart 4 shows quarterly static cumulative gross defaults.

Chart 4

Quarterly static cumulative gross losses



We expect 1.75% gross losses in our base-case scenario. This reflects likely performance trends based on the historical data provided, the macroeconomic conditions and outlook, our view of portfolio quality, and our analysis of the originator's underwriting and servicing standards. This is a significant reduction to the gross loss base case of 3.0% we set in 2021 for the first public LTF transaction. This reduction is mainly due to the longer timespan of the data. For LT Autorahoitus DAC, we had only three years of relevant data with significant growth in origination volumes. We took these into account for our base-case setting. We now have seven years of data available and origination volumes have stabilized.

We applied a gross default multiple of 4.8x at 'AAA' (down from 4.9x for LT Autorahoitus DAC) and 4.25x at 'AA+' to reflect that this is a repeat transaction, the longer time horizon for the data, and to account for the relatively low gross loss base case. We have also given benefit to the investment-grade rating on the originator and the fact that it operates under the overall LocalTapiola group. The group has a leading position in the Finnish nonlife market, with excellent capitalization.

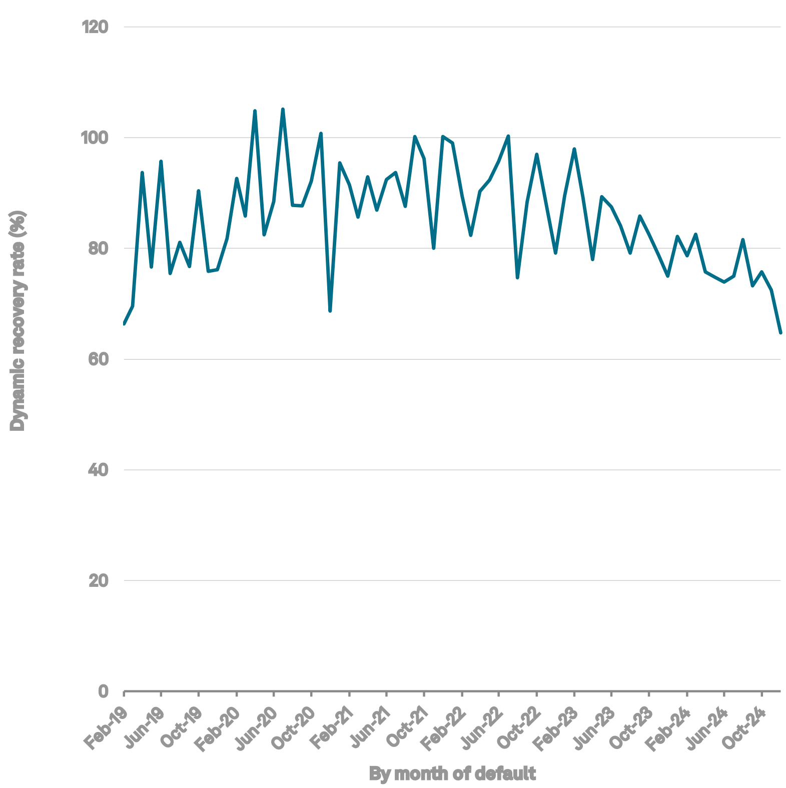
Finland has been in a recession during 2023 and 2024, unemployment has risen while inflation is under control. The Nordic and Finnish auto markets' performance has deteriorated. We have considered that Finland has been in an elevated stress scenario in our credit assumptions. We have also considered that our outlook for 2025 and beyond is positive.

Recoveries and recovery timing

Chart 5 shows monthly recovery data from February 2019 to December 2024 for the total loan book.

Chart 5

Dynamic recovery rate



For LT Autorahoitus DAC we had set a uniform stressed recovery rate of 40% at all levels under our European Auto ABS criteria. These criteria have been superseded by our Global Auto ABS criteria, under which we apply a recovery rate base case and rating dependent recovery rate haircuts (see "Related Criteria"). We establish recovery rate assumptions based primarily on an analysis of historical recovery rates for the issuer and the market, the volatility of past performance as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates.

Considering the historical recovery data, portfolio features (such as down payment, vehicle age, etc.), the current macroeconomic conditions, the share of battery-electric vehicles (BEVs) in the pool, and the strong legal environment in Finland, we have assumed a recovery rate base case of 69.0% for the pool and recovery rate haircuts of 40.0% at 'AAA' and 34.0% at 'AA+'.

The recovery timing assumption is 12 months following default, which is unchanged from our assumptions in LT Autorahoitus DAC.

Cumulative gross loss and recovery assumptions

Table 3

Credit assumptions summary

Rating level	Cumulative gross loss base case (%)	Stress multiple	Stressed cumulative gross default (%)	Recovery rate base case (%)	Recovery rate haircut (%)	Stressed recovery rate (%)	Stressed cumulative net losses (%)
AAA	1.75	4.80	8.40	69.00	40.00	41.40	4.9
AA+	1.75	4.25	7.44	69.00	34.00	45.50	4.1

Balloon loan risk

Balloon contracts may introduce additional obligor default risk to the transaction, if we assume that obligors expect to be able to finance the final balloon payment through the sale of the vehicle at contract maturity. In a stressed economic environment, these obligors may default on the balloon payment because the vehicle's market value could have declined to below the amount needed to pay the final balloon payment.

For balloon loans originated by LTF, the borrower remains liable to make the final balloon payment. Therefore, if a borrower defaults on the balloon payment, LTF will incur an additional loss equal to the difference between the balloon installment and the vehicle's sale proceeds.

We have lowered our balloon loan gross loss assumption at a 'AAA' level to 7.5% from 9.0%, based on LTF's balloon setting policy, and the overall size and concentration of maturing balloon payments. At the same time, we have given benefit to the significant manufacturer and brand diversification. At the 'AA+' level, we apply a balloon loan gross loss assumption of 6.75%.

In applying the additional loss rate in our cash flow analysis, we adjust the aggregate balloon payments on loans securitized to reflect stress scenario defaults and prepayments to establish an adjusted balloon payment amount. We multiply the applicable additional balloon loss rate by the adjusted balloon payment amount as a percentage of the total pool balance to calculate the incremental balloon gross loss rate.

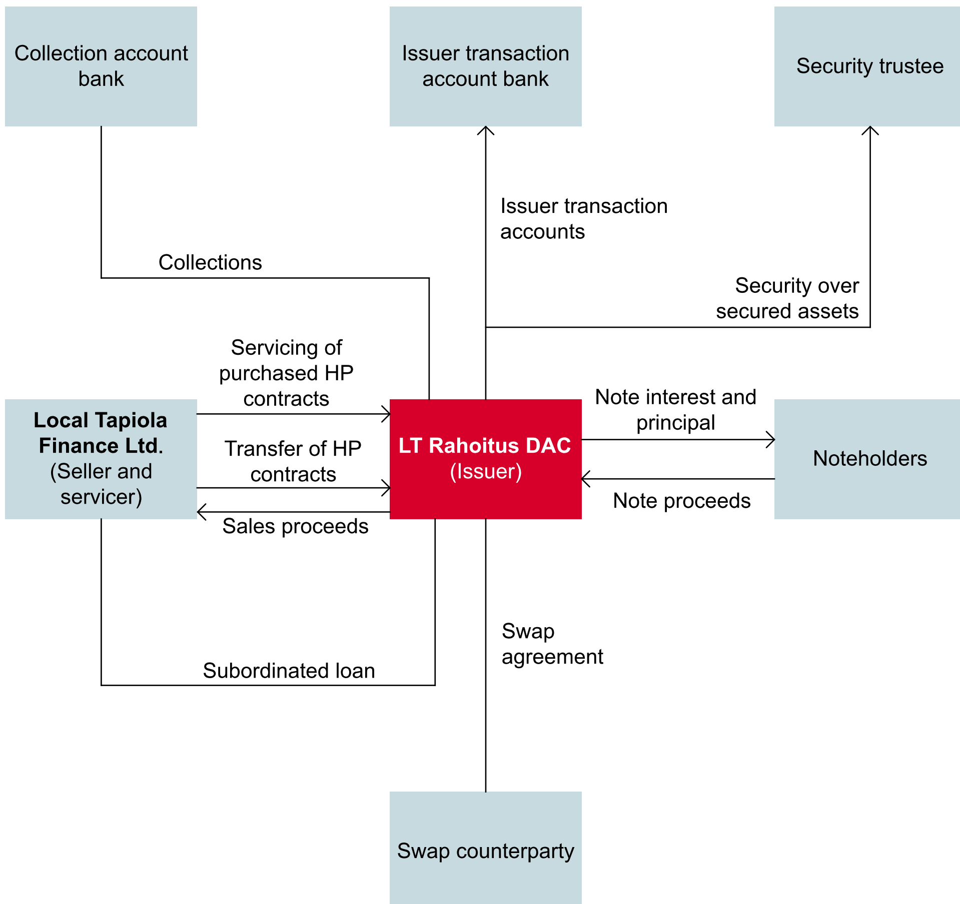
Transaction Structure

This sixth public ABS transaction of LTF features for the first time a single SPE structure. At closing, LT Rahoitus 2025-1 issued the class A, B, and C notes to finance the purchase price for a pool of auto loan receivables it purchased from the seller.

At the same time, the issuer used the proceeds from a subordinated loan it received from the seller to fund the cash reserve. It also entered a fixed-to-floating swap to hedge the risk between the share of assets that pay a fixed rate and the floating rate payable on the class A, B, and C notes.

Chart 6

Transaction structure



The issuer is an Irish SPE, which we consider to be bankruptcy remote, in line with our legal criteria (see "Related Criteria").

The final legal opinions at closing are in line with our legal criteria.

Cash Flow Mechanics

The transaction has a separate interest and principal waterfalls. Interest on the loans and notes is payable monthly in arrears in accordance with the interest waterfall.

Cash flows redeem 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 ratings scenarios. As a result, our analysis solely focuses on the priority of payments prior to an event of default.

Clean-up call

LTF can exercise a clean-up call option as soon as the aggregate of the collateral's principal balance outstanding excluding defaulted contracts is below 10% of the principal balance at closing, or upon the occurrence of any regulatory change or tax event. In case of a redemption due to the clean-up call, the price should be sufficient to redeem the class A and B notes in full, along with unpaid but accrued interest and amounts ranking senior to payments to the class A and B notes as per the pre-enforcement priority of payments. In our analysis, we have not considered a clean-up call to occur.

Priority of payments

The notes amortize from the first interest payment date. Unless redeemed earlier, the issuer will redeem the notes at their legal final maturity in July 2036, which is after the maturity of the pool's longest-term loan.

On each monthly interest payment date, the purchaser would pay the issuer, and the issuer pays to noteholders in arrears the interest and principal as follows:

Table 4

Issuer payment waterfall

Interest waterfall	**Principal waterfall**
Issuer taxes and senior expenses.	Principal addition amounts to cover shortfalls on senior expenses, issuer taxes, net swap payments, servicing fees, and interest on the class A and B notes.
Net swap payments payable by the issuer.	Class A notes' principal.
Servicing fees and to top up the servicer advance reserve to the required level.	Only after the class A notes have been fully redeemed, the class B notes' principal.
Class A loan interest.	Only after the class A and B notes have been fully redeemed, the class C notes' principal.
Required amount to cure the class A notes' PDL.	Only after the notes have been fully redeemed, any remaining amounts as pre-enforcement revenue receipts.
Class B loan interest.	
Required amount to top up the liquidity reserve.	
Required amount to cure the class B notes' PDL.	
Class C loan interest.	
Required amount to cure the class C notes' PDL.	
Any interest and principal payable by the issuer to the subordinated loan provider.	
Any swap subordinated amounts to the swap counterparty.	
Deferred purchase price.	

PDL--Principal deficiency ledger.

Principal deficiency ledger

The transaction features a separate principal deficiency ledger (PDL) for each class of notes that records principal deficiencies. Principal deficiencies may occur either because of net losses on receivables or the redirection of principal proceeds to make up for shortfalls in certain senior interest waterfall items that may include the class A and B notes' interest.

Principal deficiencies are first debited to the class C notes' PDL until the cumulative debits exceed the class C notes' balance, then to the class B notes' PDL until the cumulative debits exceed the class B notes balance, and then to the class A notes' PDL. Debits may subsequently be cleared through the interest waterfall starting with the class A notes' PDL debits, then the class B notes' PDL debits, and lastly the class C notes' debits.

Payment holiday

Under the transaction documents, the servicer is authorized to grant payment holidays to borrowers in accordance with their credit and collection policy. As per the seller's credit and collection policies, up to two payment holidays per calendar year are offered to customers. To avail a payment holiday, the credit agreement must not contain any unpaid installments when the payment holiday is applied. During the payment holiday, the borrower pays only interest, handling costs and expenses, while the maturity is extended by the principal amount under payment holiday.

The eligibility criteria exclude any loans on which any payments have been deferred, except for those under payment holiday.

In our analysis, we have considered that all the borrowers avail a payment holiday of two months within the first year.

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, servicing fees, and swap expenses.

As of the pool cutoff date (Feb. 11, 2025), this difference will equal about 1.26% after paying the interest on the class A and B notes based on our stressed fee assumptions. In our analysis, we further sized for yield compression risk by modeling a gradual decline of the portfolio yield to 4.83% from the initial yield of 5.87%.

Contractual fees

In Finland, borrowers pay fixed monthly fees in addition to principal and interest payments. The weighted-average contractual fee amounts to €15, with over 95% of the fees ranging between €10 and €20. We have given credit to these fees in our cash flow modelling.

Liquidity reserve

The structure benefits from a liquidity reserve, which was funded at closing from the proceeds of a subordinated loan. The reserve's total required amount is set at 1.2% of the initial balance of the class A and B notes.

It would amortize on each payment date to the higher of:

- 1.2% of the class A and B notes' outstanding balance; or
- 0.5% of the class A and B notes initial outstanding balance at closing.

The liquidity reserve can be applied to cure any shortfalls on senior fees and expenses and interest on the class A and B notes. It is replenished on each payment date through the priority of payments up to its required amount, before the class C notes' interest is paid. Any excess reserve amounts, upon amortization and once the rated notes have been fully redeemed, are released into the issuer interest waterfall.

Servicer advance reserve

At closing, the seller funded a servicer advance reserve for €100,000. The purchaser can draw upon this reserve, when required by law or otherwise to pay:

- Any amount to a borrower or deposit with the Finnish enforcement authority on the borrower's behalf following repossession of any financed vehicle; and
- Any VAT to the Finnish tax authorities on the resale of a financed vehicle, following repossession.

Any draws on the servicer advance reserve or any such payments exceeding the available servicer advance reserve are payable prior to payment of interest on the rated notes, as per the interest waterfall.

In our cash flow analysis, we considered the annualized maximum historical payouts made by the purchaser. To the extent the servicer advance reserve is insufficient, the available interest amounts are applied to make payments as per the interest waterfall.

Interest rate swap

The receivables are largely fixed rate (94.8%), while the notes pay a floating rate.

To hedge the interest rate risk, the issuer entered into a separate interest rate swap at closing. The notional amount under the swap is equal to the fixed-rate assets' current outstanding balance, excluding defaulted contracts.

The final swap documentation at closing is in line with our counterparty criteria to support 'AAA' ratings.

Under the swap's terms, the issuer pays the counterparty a fixed rate of interest. In exchange, the swap counterparty will pay the issuer a floating rate of interest based on one-month EURIBOR (i.e., the same index as the notes) plus a margin. The floating leg of the swap is floored at zero.

As the EURIBOR on the variable-rate loans and on the notes reset at different dates, there is basis risk in the transaction. Given the small share of variable-rate loans in the pool, we deem this risk as negligible.

Eligible investments

Eligible investments and minimum rating of temporary investments under the transaction's documents are in line with our "Global Investment Criteria For Temporary Investment In Transaction Accounts," published on May 31, 2012, and can support a maximum rating of 'AAA'.

Mitigation Of Seller Risks

Commingling risk

The seller notified all borrowers about the sale and transfer of the receivables to the issuer, and obtained legal perfection. Thereafter, all borrowers are paying monthly into the collection account held in the issuer's name. All collected amounts belonging to the issuer are transferred monthly into the issuer transaction account.

We therefore consider commingling risk fully mitigated in the transaction and have applied no further stresses in our analysis.

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); or
- Their deposits (deposit setoff).

Both employee and deposit setoff risk are mitigated by the eligibility criteria not permitting receivables from employees, officers, or affiliates of the seller and borrowers holding deposits with the seller, to form a part of the securitized portfolio. Further, LTF does not offer any deposit related product.

Insurance payments are directly made to and received from the insurance provider by the borrower, with no involvement from the seller. As such, we consider any setoff risk on account of insurance obligations also mitigated.

We have therefore applied no further stresses in our analysis, in relation to setoff risk.

Cash Flow Assumptions

Table 5

Cash flow assumptions

Recession start	Closing
Length of recession	Minimum of the weighted-average life and 36 months (36 months)
Cumulative gross loss curve	(i) Evenly distributed over the weighted-average life, and (ii) back-loaded
Recovery lag	12 months
Delinquency	Two-thirds of credit losses recovered six months later
Stressed servicing fees and trustee fee per annum (%)	1.0
Fixed fees per annum (€)	200,000
Replacement bank cost (€)	100,000
Prepayments (high/low) (%)	30.0/0.5
Interest rate	Up, up/down, down/up, down interest rate curves
Initial WAC (%)	5.87
Relative WAC compression (%)*	3.47
Commingling stress	N/A
Setoff stress (%)	N/A

*Based on a high prepayment scenario. WAC--Weighted average coupon. N/A--Not applicable.

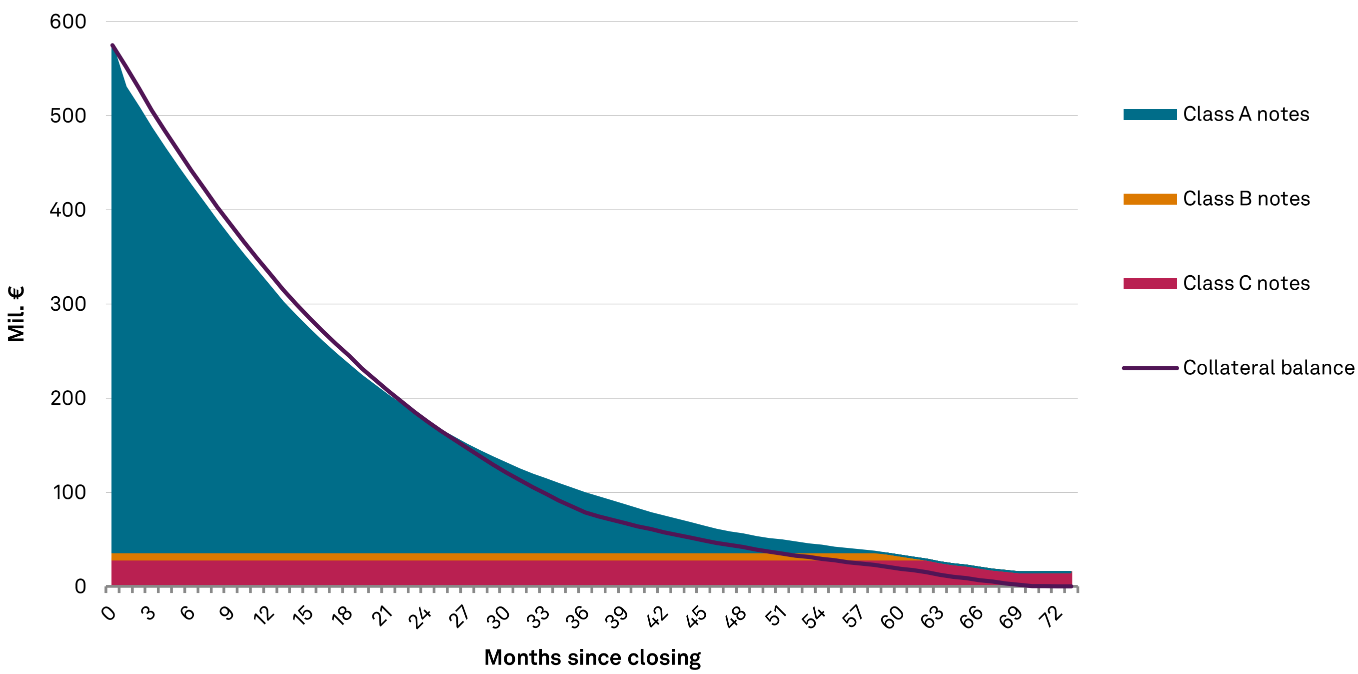
We have stressed bank account provider replacement costs to the extent the issuer may be expected to incur at the time of replacement. We have tested the notes' ability to pay timely interest and ultimate principal on the class A and B notes under the above stress assumption through a cash flow model.

Based on the assumptions discussed above, the high prepayment, up interest, and backloaded default scenarios are most stressful, mostly because of limited excess spread.

Chart 7 shows the collateral and the note amortization profile under our most stressful scenario.

Chart 7

Collateral and note balances (end of period) in a 'AAA' rating scenario



Counterparty Risk

The issuer is exposed to U.S. Bank Europe DAC as transaction account bank provider and Skandinaviska Enskilda Banken AB, Helsinki branch as the collection bank account provider. BNP Paribas S.A. acts as the swap counterparty. The documented replacement mechanisms for the account bank providers and the swap counterparty at closing adequately mitigate the transaction's exposure to counterparty risk in line with our counterparty criteria.

Table 6

Supporting ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
U.S. Bank Europe DAC as transaction bank account provider	ICR: A+/Stable/A-1	A/A-1	N/A
Skandinaviska Enskilda Banken AB, Helsinki branch as collection bank account provider*	ICR: A+/Positive/A-1	A/A-1	N/A

Table 6

Supporting ratings (cont.)

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
BNP Paribas S.A., as interest rate swap provider	RCR: AA-/--/A-1+	A+	N/A§

*Based on the rating on the parent company, Skandinaviska Enskilda Banken AB, in line with our bank branch criteria (see "Related criteria"). §Based on the weak collateral posting framework chosen at closing. N/A--Not applicable. RCR--Resolution counterparty rating. ICR--Issuer credit rating.

Sovereign Risk

Under our structured finance sovereign risk criteria, the maximum differential between the rating on the security and the rating on the sovereign depends on the asset sensitivity to country risk and the sovereign rating. We view the asset sensitivity to the country risk as low, and our long-term unsolicited sovereign rating on Finland is 'AA+'. Consequently, our sovereign risk criteria do not cap our ratings on the rated notes.

Forward-Looking View

The transaction's resilience to additional stresses to some key variables, in particular defaults and recoveries, determines our forward-looking

iew.

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. Given most of the loans are fixed rate, we believe interest rate changes will have a lower effect on these borrowers in the near term. As of today, our unemployment rate forecasts for Finland are 8.0% and 7.8% for 2025 and 2026, respectively. We expect inflation to remain below 2% with forecasts of 1.7% in 2025 and 1.6% in 2026.

Furthermore, a decline in second-hand car values typically affects the level of realized recoveries. Although used car prices may decline moderately in Finland in 2025, we do not expect them to fall significantly.

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

- An increased gross default base case of up to 30%; and
- A maximum haircut of 30% to the recovery rate base case.

Table 7

Sensitivity analysis

Class	Base case	1	2	3	4	5	6	7	8
Default rate base-case increase (%)	-	10	30	0	0	10	30	10	30
Recovery rate base-case decrease (%)	-	0	0	10	30	10	10	30	30
Gross default rate HT (%)	1.75	1.93	2.28	1.75	1.75	1.93	2.28	1.93	2.28
Recovery rate (%)	69	69	69	62.1	48.3	62.1	62.1	48.3	48.3

Class of notes	Initial rating	1	2	3	4	5	6	7	8
Class A	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Class B	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+

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

Source: S&P Global Ratings.

The results of the above sensitivity analysis indicate no deterioration on the class A notes and no deterioration on the class B notes, in line with the credit stability considerations in our rating definitions.

The transaction has features that may offset an increase in defaults. The transaction has a short weighted-average life and rapidly gains additional credit enhancement as the transaction amortizes. Most of the underlying receivables pay a fixed rate of interest and the interest rate swap helps to mitigate the effect on note coupon payments from rising interest rates on the one-month EURIBOR they are linked to. Additionally, the cash reserve provides additional credit enhancement. Furthermore, there is excess spread in the transaction.

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	LT Rahoitus 2025-1 DAC
Originator, seller, servicer, expenses advance provider, and subordinated loan provider	LocalTapiola Finance Ltd.
Back-up servicer facilitator	Cafico Corporate Services Ltd.
Collection account provider	Skandinaviska Enskilda Banken AB, Helsinki Branch
Transaction account provider, principal paying agent, and calculation agent	U.S. Bank Europe DAC
Arranger, swap counterparty, and joint lead manager	BNP Paribas S.A.
Joint lead manager	BofA Securities Europe S.A.
Joint lead manager	Nordea Bank ABP
Security trustee and note trustee	U.S. Bank Trustees Ltd.
Corporate administrator	Cafico Corporate Services Ltd.
Cash administrator	U.S. Bank Global Corporate Trust Ltd.

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- 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
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- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
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Related Research

- European Auto ABS Index Report Q4 2024, Feb. 14, 2025
- Presale: LT Rahoitus 2025-1 DAC, Feb. 4, 2025
- Sovereign Risk Indicators, Dec. 9, 2024
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- SCF Rahoituspalvelut XII DAC Class B To D-Dfrd Finnish Auto ABS Ratings Raised; Class A And E-Dfrd Ratings Affirmed, Nov. 19, 2024
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- 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
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

