

Driver UK Master S.A., Compartment 6 ABS Notes And Schuldschein Loans Assigned Ratings

March 27, 2023

Ratings Assigned

Instruments	Rating*	Amount (mil. £)
Series 2023-1 class A notes§	AAA (sf)	227.2
Series 2023-2 class A notes§	AAA (sf)	419.7
Senior Schuldschein loan 2023-1§	AAA (sf)	98.5
Senior Schuldschein loan 2023-2§	AAA (sf)	39.4
Series 2023-1 class B notes†	A+ (sf)	22.8
Series 2023-2 class B notes†‡	NR	42.4
Junior Schuldschein loan 2023-1††	A+ (sf)	54.3
Subordinated loan	NR	136.4

*Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date. §Senior instruments. #Junior instruments. ‡We have not rated the series 2023-2 class B notes based on the issuer's request. NR--Not rated.

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Overview

- We assigned our 'AAA (sf)' ratings to Driver UK Master S.A., Compartment 6's (DUKM C6) series 2023-1 class A notes, series 2023-2 class A notes, senior Schuldschein loan 2023-1, and senior Schuldschein loan 2023-2, and our 'A+ (sf)' ratings to the series 2023-1 class B notes and junior Schuldschein loan 2023-1.
- At closing, DUKM C6 also issued unrated series 2023-2 class B notes.
- The proceeds of the notes, Schuldschein loans, and a subordinated loan was used to purchase a portfolio of auto loans originated by Volkswagen Financial Services (U.K.) Ltd (VWFS UK), and to fund the cash collateral account and the interest compensation ledger.

LONDON (S&P Global Ratings) March 27, 2023--S&P Global Ratings today assigned its 'AAA (sf)' credit ratings to Driver UK Master S.A., Compartment 6's (DUKM C6) series 2023-1 class A notes, series 2023-2 class A notes, senior Schuldschein loan 2023-1, and senior Schuldschein loan 2023-2 (together, the senior instruments), and its 'A+ (sf)' ratings to the series 2023-1 class B notes and junior Schuldschein loan 2023-1.

At closing, DUKM C6 also issued unrated series 2023-2 class B notes (together with the series

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2023-1 class B and junior Schuldschein loan 2023-1, the junior instruments).

The proceeds of the notes and a subordinated loan was used to purchase a portfolio of auto loans originated by Volkswagen Financial Services (U.K.) Ltd (VWFS UK), and to fund the cash collateral account.

The underlying collateral comprises loans representing either hire purchase, personal contract purchase, or lease purchase agreements in the U.K. All receivables are sterling-denominated and all borrowers are U.K. residents.

At closing, DUKM C6 purchased the underlying collateral pool at a discount rate of 8%, which includes a buffer (approximately 1.15% at closing) designed to meet any cost fluctuations if the replenishment period is extended. If the credit enhancement increase condition (CEIC) trigger is not breached, the buffer will be released back to VWFS UK outside the waterfall (if it is not used to pay the cost of fluctuations).

The transaction is expected to revolve for 14 months until May 2024. During this period, DUKM C6 can purchase further eligible receivables if no early amortization event occurs. New receivables will be purchased at a 2.682% purchase price discount for tap-up assets (further receivables overcollateralization percentage) and a 3.664% purchase price discount for top-up assets (replenished additional discounted receivables balance).

As long as the transaction is revolving, the issuer can issue further notes or loans, either by further amounts of existing series or issuing new series, up to the program volume (£5 billion). Unlike its rated predecessors, the collateral can be purchased using proceeds of a combination of floating rate asset backed notes and/or Schuldschein loans advanced to the issuer. The further instruments will rank pari passu with the initially issued instruments and have the same levels of credit enhancement and liquidity support.

Like its rated predecessors--Driver UK Master S.A., Compartment 2, Driver UK Master S.A., Compartment 3, and Driver UK Master S.A., Compartment 4--the revolving period can be extended subject to certain conditions, including confirmation from S&P Global Ratings that it would not lead to downgrades of the notes or Schuldschein loans. At the time of extension, each class of notes or loans can be either extended or amortized.

Collections will be distributed monthly according to a combined waterfall. During the amortization period, principal is paid sequentially until target overcollateralization levels are achieved, post which the transaction switches to a pro rata amortization, until breach of a CEIC trigger.

Subordination, overcollateralization, and a cash collateral reserve provide credit enhancement.

Commingling risk is fully mitigated through an advance mechanism upon servicer downgrade below a certain rating level. The transaction is exposed to potential employee setoff risk, which we have considered in our analysis.

Since the rated notes pay daily compounded Sterling Overnight Index Average (SONIA) rate plus a margin subject to a floor of zero, while the assets are purchased at a fixed discount rate, the rated notes benefit from an interest rate swap that fully mitigates any interest rate risk in the transaction.

There are no rating constraints in the transaction under our counterparty, operational risk, or structured finance sovereign risk criteria. We consider the issuer to be bankruptcy remote.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- 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
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European Auto ABS Index Report Q4 2022, Feb. 10, 2023
- Global Credit Conditions Downside Scenario: Inflation, Geopolitics Are Twin Threats To Our Base case, Dec. 8, 2022
- Economic Outlook U.K. Q1 2023: A Moderate Yet Painful Recession, Nov. 29, 2022
- United Kingdom, Oct. 24, 2022
- 2020 Annual European Structured Finance Default And Rating Transition Study, Sept. 21, 2021
- 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
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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