

DRIVER ESPANA SIX's Spanish Auto ABS Notes

Assigned Ratings

February 28, 2020

Ratings Assigned

Class	Rating	Amount (mil. €)
A	AAA (sf)	1,000.0
B	A+ (sf)	35.7
Subordinated loan	NR	41.3

NR--Not rated.

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Overview

- We have assigned credit ratings to DRIVER ESPANA SIX's class A and B notes.
- The transaction securitizes a portfolio of auto loan receivables that Volkswagen Bank Spain Branch originated and granted to its retail and small-commercial customer base throughout Spain.

MOSCOW (S&P Global Ratings) Feb. 28, 2020--S&P Global Ratings today assigned its credit ratings to DRIVER ESPANA SIX, FONDO DE TITULIZACION's asset-backed floating-rate class A and B notes. At closing, DRIVER ESPANA SIX also issued an unrated subordinated loan.

Our ratings address timely payment of interest and ultimate payment of principal on the class A and B notes.

This transaction's payment and capital structure mirror that of DRIVER ESPANA FIVE, FONDO DE TITULIZACION, which is the most recent transaction originated by Volkswagen Finance S.A., E.F.C. that we have rated (see "New Issue: DRIVER ESPANA FIVE, FONDO DE TITULIZACION," published on Feb. 28, 2018). Compared to the predecessor, in this transaction the role of the seller and servicer is performed by Volkswagen Bank GmbH, Spain Branch (VW Bank Spain). It is operationally the same entity as before, but it has been recently consolidated under Volkswagen Bank GmbH as part of a larger Volkswagen Group restructuring initiative.

Volkswagen Group is one of the most active issuers in European auto securitization, using its DRIVER platform for auto loans and VCL platform for auto leases. Our ratings on the class A and B notes reflect our assessment of VW Bank Spain's good origination policies and servicing capabilities. There is no back-up servicer in place.

The underlying collateral comprises auto loan receivables that VW Bank Spain granted to its retail and small-commercial customer base across Spain. While some of the loans in the pool have a

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balloon component, balloon installments are not securitized. Only amortization payments are eligible. Hence the transaction is not exposed to residual value risk, in our opinion.

The transaction is static and amortizes from day one. Collections are distributed monthly according to a combined payment waterfall. The transaction features a unique payment structure that switches between sequential and pro rata dependent on the actual overcollateralization levels as compared to their targets (and the latter are driven by the cumulative gross loss ratios).

The assets pay a monthly fixed interest rate, and the rated notes pay one-month EURIBOR plus a margin, subject to a floor of zero. To mitigate fixed-float interest rate risk, the rated notes benefit from a balance guaranteed interest rate swap.

A notable feature of this transaction is that the loan receivables were purchased above par since the applicable discount rate is significantly lower than the weighted-average portfolio's contractual interest rate. The fixed discount rate was set to absorb the senior fees, fixed rate payable under the swap, and interest on the subordinated loan. The transaction therefore has no excess spread.

VW Bank Spain transferred credit rights to DRIVER ESPANA SIX. The customer bought the car from a dealer of the Volkswagen network and owns the car. VW Bank Spain granted them a loan to finance the car and paid the purchase price directly to the dealer. This contract replicates a rent contract mechanism, although VW Bank Spain does not own the financed vehicle. The contract is regulated by the Spanish rent-purchase law, so that the financial entity can obtain a retention of the car's title (known as "Reserva de Dominio"). This charge on the asset has to be recorded in a national and public register to be binding with respect to third parties and future transfers of the asset. The registration involves a cost that, for the majority of the portfolio, will be borne by the issuer.

A fully funded cash reserve for the rated notes is in place, sized at 1.3% of the discounted balance of the receivables and amortizing subject to a floor. The cash reserve is primarily available to cover interest shortfalls for the notes but also to absorb losses at the end of the transaction's life.

A combination of subordination, overcollateralization, and a cash reserve provides credit enhancement to the rated notes.

Our ratings in this transaction are not constrained by our operational risk or structured finance ratings above the sovereign criteria.

The counterparty risk of the issuer bank account provider and swap provider is mitigated in line with our criteria to support a 'AAA' rating. There is a cash advance mechanism affecting the transfer of cash collections from the servicer to the issuer account; however it does not fully mitigate commingling risk. We have assumed two weeks of commingling loss in the event of the servicer insolvency.

The issuer is a Spanish special-purpose entity, which we consider to be bankruptcy remote. The closing legal opinion provides assurance that the sale of the assets would survive the seller's insolvency.

Related Criteria

- 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

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- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
- Criteria | Structured Finance | General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European Developed Sovereign Rating Trends 2020, Jan. 29, 2020
- European Auto ABS Index Report Q3 2019, Nov. 28, 2019
- Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable, Sept. 20, 2019
- New Issue: DRIVER ESPANA FIVE, FONDO DE TITULIZACION, Feb. 28, 2018
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- How We Rate And Monitor EMEA Structured Finance Transactions, March 24, 2016
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009

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