MORNINGSTAR | DBRS

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DBRS Morningstar Finalises Provisional Rating on Private Driver España 2020-1, Fondo de Titulización

AUTO

DBRS Ratings GmbH (DBRS Morningstar) finalised its provisional rating of AA (sf) on the Notes issued by Private Driver España 2020-1, Fondo de Titulización (the Issuer and the Fund). The transaction follows a standard structure under Spanish securitisation law, whereby the Fund acquires initial and additional receivables, related to auto loan contracts, to back the issuance of the Notes.

The rating of the Notes addresses the timely payment of interest and the ultimate repayment of principal by the legal maturity date.

The transaction is subject to a three-year revolving period during which time the Notes are backed by a pool of approximately EUR 1.5 billion of receivables related to auto loan contracts (the receivables or, collectively, the portfolio) originally granted by either Volkswagen Finance S.A., E.F.C. or Volkswagen Bank Spanish branch (VWBS). The loans are granted to individuals residing in Spain and small business and individual enterprises with registered offices in Spain for the acquisition of either new or used motor vehicles. On 1 June 2019, Volkswagen Bank GmbH (VWB) merged with Volkswagen Finance S.A., E.F.C. and all receivables were transferred to VWBS.

The receivables are related to both amortising and balloon contracts (Classic Credit and Auto Credit, respectively); however, none of the receivables pose direct residual value risk to the transaction and the balloon payments are neither securitised nor form part of the aggregate discounted receivables balance.

Initial subordination for the Notes includes the subordinated loan (4.1%), and overcollateralisation (3.5%).

DBRS Morningstar based its rating on a review of the following analytical considerations:
-- The transaction's capital structure, including form and sufficiency of available credit enhancement;
-- Relevant credit enhancement in the form of subordination, reserve funds, and excess spread;
-- Credit enhancement levels are sufficient to support DBRS Morningstar's projected cumulative net loss under various stressed cash flow assumptions for the Notes;
-- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested;
-- VWBS's capabilities with regard to originations, underwriting, and servicing and its financial strength;
-- The transaction parties' financial strength with regard to their respective roles;
-- The credit quality of the collateral and historical and projected performance of VWBS's portfolio;
-- The sovereign rating of the Kingdom of Spain, currently at A with a Stable trend; and
-- The consistency of the transaction's legal structure with DBRS Morningstar's "Legal Criteria for European Structured Finance Transactions" methodology and the presence of legal opinions that address the true sale of the assets to the Issuer.

TRANSACTION STRUCTURE

During the revolving period, receivables are sold to the Fund at a discount. The discount rate applied to the gross receivables balance to calculate the purchase price is fixed at 3.2% and derived from the transaction's liability costs plus of buffer of 2.0%. The discount rate is significantly lower than the maximum permissible contractual interest rates associated with the underlying loan agreements. This mechanism results in the upfront purchase of future interest entitlement.

During the revolving period, the target overcollateralisation percentage is aligned with the initial subordination levels afforded to the Notes at closing (7.6%). However, the actual overcollateralisation percentage is permitted to fall to 7.3% prior to being considered a revolving period termination event. Following the expiry of the revolving period, the target overcollateralisation percentage transitions to 100% resulting in the sequential amortisation of the Notes during the amortisation period. This approach differs from previous transactions originated by VWBS in the past where tiered overcollateralisation levels were considered in conjunction with specific performance triggers that allowed for pro rata amortisation during the amortisation period.

During the revolving period, additional discounted receivables can be purchased at a discount of 4.25%. This reduction in the purchase price allows for some flexibility in ensuring that the discounted receivables balance is restored to its target balance even in scenarios where the pool balance is diluted because of an increase in terminated loans. In low loss scenarios, this mechanism also allows for the repayment of interest and principal on the subordinated loan offset by an increase in the overcollateralisation amount while still ensuring that target overcollateralisation levels are met.

Liquidity support is available to the transaction through the availability of a reserve (cash collateral account) that is made available to the priority of payments to cover senior expenses and interest on the notes. At closing and during the revolving period, it is set at EUR 11.25 million and subsequently maintained at 0.75% of the aggregate discounted receivables balance with a floor equal to the lower of (1) EUR 6.0 million and (2) the outstanding balance of the Notes.

All underlying contracts are fixed rate, whilst the Notes have a fixed coupon. There is no interest rate mismatch inherent in the transaction.

DBRS Morningstar analysed the transaction cash flow structure in Intex DealMaker.

COUNTERPARTIES

The Issuer bank account is held at Banco Santander SA. The DBRS Morningstar Long-Term Issuer Rating on Banco Santander is at A (high) and DBRS Morningstar has concluded that it meets the minimum criteria to act in its capacity as the account bank. The transaction contains downgrade provisions relating to the account bank consistent with DBRS Morningstar criteria and the rating assigned to the Notes.

CORONAVIRUS CONSIDERATIONS

The Coronavirus Disease (COVID-19) and the resulting isolation measures have caused an economic contraction, leading to sharp increases in unemployment rates and income reductions for many borrowers. DBRS Morningstar anticipates that delinquencies may continue to increase in the coming months for many asset-backed securities (ABS) transactions, some meaningfully. The rating is based on additional analysis and adjustments to expected performance as a result of the global efforts to contain the spread of the coronavirus. For this transaction, DBRS Morningstar applied stresses to its expected recovery rate and applied additional stresses to expected default rates associated with commercial and self-employed borrowers.

On 16 April 2020, the DBRS Morningstar Sovereign group released a set of macroeconomic scenarios for the 2020-22 period in select economies. These scenarios were updated on 10 September 2020. For details, see the following commentaries: https://www.dbrsmorningstar.com/research/366542/dbrs-morningstar-global-macroeconomic-scenarios-september-update and https://www.dbrsmorningstar.com/research/359903/global-macroeconomic-scenarios-application-to-credit-ratings. The DBRS Morningstar analysis considered impacts consistent with the moderate scenario in the referenced reports.

On 8 May 2020, DBRS Morningstar published a commentary outlining how the coronavirus crisis is likely to affect the DBRS Morningstar-rated ABS transactions in Europe. For more details, please see: https://www.dbrsmorningstar.com/research/360734/european-abs-transactions-risk-exposure-to-coronavirus-covid-19-effect and https://www.dbrsmorningstar.com/research/362712/european-structured-finance-covid-19-credit-risk-exposure-roadmap.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883.

For more information regarding structured finance rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/358308.

ESG CONSIDERATIONS
A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: https://www.dbrsmorningstar.com/research/357792.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology applicable to the rating is "Rating European Consumer and Commercial Asset-Backed Securitisations" (3 September 2020).

DBRS Morningstar has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

An asset and a cash flow analysis were both conducted. Due to the inclusion of a revolving period in the transaction, the analysis is based on the worst-case replenishment criteria set forth in the transaction legal documents.

Other methodologies referenced in this transaction are listed at the end of this press release.

These may be found at: http://www.dbrsmorningstar.com/about/methodologies.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to "Appendix C: The Impact of Sovereign Ratings on Other DBRS Morningstar Credit Ratings" of the "Global Methodology for Rating Sovereign Governments" at: https://www.dbrsmorningstar.com/research/364527/global-methodology-for-rating-sovereign-governments.

The sources of data and information used for this rating include VWBS, and its agent, Banco Santander SA.

DBRS Morningstar received the following data and information:
-- Static monthly origination and cumulative gross and net loss data from January 2005 up to June 2020;
-- Dynamic monthly loss data from January 2009 up to June 2020;
-- Prepayment data from July 2006 up to June 2020;
-- Monthly dynamic delinquency data from January 2008 up to June 2020; and
-- Stratification tables and a theoretical amortisation profile for the initial portfolio as at 31 October 2020.

DBRS Morningstar did not rely upon third-party due diligence in order to conduct its analysis.

DBRS Morningstar was supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS Morningstar considers the data and information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit or independently verify the data or information it receives in connection with the rating process.

This rating concerns a newly issued financial instrument. This is the first DBRS Morningstar rating on this financial instrument.

This is the first rating action since the Initial Rating Date.

Information regarding DBRS Morningstar ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com.

To assess the impact of changing the transaction parameters on the rating, DBRS Morningstar considered the following stress scenarios, as compared to the parameters used to determine the rating:

-- Expected default: 2.7%.
-- Expected recovery rate: 39%.
-- Loss given default (LGD): 61% for the AA (sf) scenario.

DBRS Morningstar concludes that the expected ratings under the eight stress scenarios for the Notes will be:
Scenario 1: 25% increase in PD, expected rating of A (high) (sf)
Scenario 2: 50% increase in PD, expected rating of A (low) (sf)
Scenario 3: 25% increase in LGD, expected rating of A (high) (sf)
Scenario 4: 50% increase in LGD, expected rating of A (sf)
Scenario 5: 25% increase in both PD and LGD expected rating of A (low) (sf)
Scenario 6: 25% increase in PD and 50% increase in LGD, expected rating of BBB (high) (sf)
Scenario 7: 50% increase in PD and 25% increase in LGD, expected rating of BBB (high) (sf)
Scenario 8: 50% increase in both PD and LGD, expected rating of BBB (sf)

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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Initial Rating Date: 16 November 2020

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The rating methodologies used in the analysis of this transaction can be found at: http://www.dbrsmorningstar.com/about/methodologies.

-- Rating European Consumer and Commercial Asset-Backed Securitisations (3 September 2020), https://www.dbrsmorningstar.com/research/366294/rating-european-consumer-and-commercial-asset-backed-securitisations.
-- Legal Criteria for European Structured Finance Transactions (11 September 2019), https://www.dbrsmorningstar.com/research/350234/legal-criteria-for-european-structured-financetransactions.
-- Rating European Structured Finance Transactions Methodology (21 July 2020), https://www.dbrsmorningstar.com/research/357428/rating-european-structured-financetransactions-methodology.
-- Operational Risk Assessment for European Structured Finance Servicers (19 November 2020), https://www.dbrsmorningstar.com/research/370270/operational-risk-assessment-for-european-structured-finance-servicers.
-- Operational Risk Assessment for European Structured Finance Originators (30 September 2020), https://www.dbrsmorningstar.com/research/357430/operational-risk-assessment-for-europeanstructured-finance-originators.
-- Interest Rate Stresses for European Structured Finance Transactions (28 September 2020), https://www.dbrsmorningstar.com/research/367292/interest-rate-stresses-for-european-structured-finance-transactions.

A description of how DBRS Morningstar analyses structured finance transactions and how the methodologies are collectively applied can be found at: http://www.dbrsmorningstar.com/research/278375.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

Ratings

Private Driver España 2020-1

Date Issued	Debt Rated	Action	Rating	Trend	Issued
30-Nov-20	Notes	Provis.-Final	AA (sf)	--	EU

Contacts

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