25 NOV 2022

Fitch Assigns Driver Belgium Master SA - Compartment 1 Final Ratings

Fitch Ratings - Frankfurt am Main - 25 Nov 2022: Fitch Ratings has assigned Driver Belgium Master SA - Compartment 1's class A and B notes final ratings, as follows:

Rating Actions

ENTITY/DEBT		RATING		RECOVERY	PRIOR
Driver Belgium Master SA - Compartment 1					
• A 2022-1 BE6338895426	LT	AAAsf	New Rating		
• A 2022-2 BE6338896432	LT	AAAsf	New Rating		
• A 2022-3 BE6338897448	LT	AAAsf	New Rating		
• A 2022-4 BE6338898453	LT	AAAsf	New Rating		

ENTITY/DEBT		RATING		RECOVERY	PRIOR
• A 2022-5 BE6338899469	LT	AAAsf (Stable)	New Rating		
• B 2022-1 BE6338900473	LT	AA-sf (Stable)	New Rating		
• B 2022-2 BE6338901489	LT	AA-sf (Stable)	New Rating		
• Subordinated Loan	LT	NRsf	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◈
NEGATIVE	⊖	◈
EVOLVING	◎	◆
STABLE	○	

Transaction Summary

Driver Belgium Master SA - Compartment 1 is a one-year revolving securitisation of auto loan receivables granted to Belgian individuals by Volkswagen D'Ieteren Finance SA (VDFin). VDFin is a joint venture between D'Ieteren Group and Volkswagen Financial Services AG. This is the first Belgian Auto ABS transaction Fitch has rated.

KEY RATING DRIVERS

Default Expectations Reflect Macroeconomic Risks: Fitch has set separate default base cases of 1.5% and 4.5% for the transaction's new car and used car sub-pools. The base cases are set above more recent vintages, which we consider positively skewed by state support measures during the pandemic. However, they are below the worst performing vintage of the observed time horizon, which featured higher unemployment rates than we expect over the next two years.

The agency's base case setting reflects the weaker macroeconomic outlook for Belgium, and its expectation of moderate performance deterioration, as rising inflation impairs the ability of lower income obligors to service debt. We have applied a default multiple of 6x at 'AAAsf'.

Assumptions Capture Revolving Risks: Fitch has captured a potential migration towards weaker performing borrowers during the one-year revolving period by reaching the 20% used car loan share limit, yielding a weighted average (WA) base-case default of 2.1%. The performance triggers to end the revolving period early are loose compared with the provided historical data. Fitch has assumed cumulative defaults of 0.5% from the start of its modelling.

Sensitivity to Pro-Rata Period: The transaction has a pro-rata allocation mechanism if certain target over-collateralisation (OC) conditions are fulfilled and performance triggers are not breached. Fitch found that the length of the pro-rata period and therefore the outflow of funds to junior positions in the waterfall is driven by the cumulative default ratio. Back-loaded defaults would cause most stress for the transaction given a prolonged outflow of these funds.

Liquidity and Seller-Related Risks Addressed: A cash reserve is available to cover at least three months of senior fees, swap and notes' interest payments as calculated by Fitch and shields the transaction from payment interruptions. Commingling risk is reduced by a cash advance mechanism upon the seller losing eligibility in line with Fitch's counterparty criteria. We consider the servicer replacement procedures to be adequate but slightly weaker than in peer transactions given the missing facilitator.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

Downside risks have increased and in April 2022 we published an assessment of the potential rating and asset performance impact of a plausible, but worse-than-expected, adverse stagflation scenario on Fitch's major structured finance and covered bond sub-sectors (see What a Stagflation Scenario Would Mean for Global Structured Finance). Fitch expects the Belgian ABS unsecured and auto ABS sector in the assumed adverse scenario to experience a "mild to modest impact" on asset performance, and "virtually no impact" on ratings.

Fitch's most stressful scenario for all notes is the one in which defaults are clustered later in the transaction's life. This is mostly due to the pro-rata mechanism if certain target OC conditions are fulfilled and performance triggers are not breached.

In its modelling Fitch found that the class B notes show a higher sensitivity towards modelling parameters (such as default timing and the starting value of the cumulative default ratio whose built-up beyond 3.5% stops making funds available for the sub-loan) than the class A notes. If we applied a starting value after the end of the revolving period of the cumulative default ratio of 0% instead of 0.5% in our driving scenario for the class B notes, the pro-rata attribution would be prolonged by two periods and reduce funds available to this class.

Expected impact on the notes' ratings of increased defaults (class A/B)

Increase default rate by 10%: 'AAAsf'/'AA-sf'

Increase default rate by 25%: 'AA+sf'/'AA-sf'

Increase default rate by 50%: 'AA+sf'/'A+sf'

Expected impact on the notes' ratings of decreased recoveries (class A/B)

Reduce recovery rates by 10%: 'AAAsf'/'AA-sf'

Reduce recovery rates by 25%: 'AA+sf'/'A-sf'

Reduce recovery rates by 50%: 'Asf'/'BB+sf'

Expected impact on the notes' ratings of increased defaults and decreased recoveries (class A/B)

Increase default rates by 10% and decrease recovery rates by 10%: 'AAAsf'/'A+sf'

Increase default rates by 25% and decrease recovery rates by 25%: 'AAsf'/'BBB+sf'

Increase default rates by 50% and decrease recovery rates by 50%: 'A-sf'/'BB-sf'

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The class A notes are already at the highest achievable rating and cannot be upgraded. There could be a positive impact on the class B notes' rating if defaults and losses are smaller and more front-loaded than assumed, leading to a shorter pro-rata period.

A reduction in inflationary pressure on food and energy and improving growth prospects for western European economies due to resolution of the Ukrainian war would also improve asset performance and be beneficial to all classes of notes.

Best/Worst Case Rating Scenario

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch reviewed the results of a third party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

REPRESENTATIONS, WARRANTIES AND ENFORCEMENT MECHANISMS

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by clicking the link to the Appendix. The appendix also contains a comparison of these RW&Es to those Fitch considers typical for the asset class as detailed in the Special Report titled 'Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions'.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Applicable Criteria

Consumer ABS Rating Criteria (pub.08 Aug 2022) (including rating assumption sensitivity)

Global Structured Finance Rating Criteria (pub.26 Oct 2021) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub.29 Jul 2022)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub.01 Aug 2022)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub.20 Sep 2021)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Consumer ABS Asset Model, v1.0.0 (1)

Multi-Asset Cash Flow Model, v2.12.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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