MOODY'S

Rating Action: Moody's assigns definitive ratings to Driver Belgium Master S.A., SIC, Compartment 1 Auto ABS

25 Nov 2022

EUR 502.25 million ABS Notes rated, relating to a portfolio of Belgian auto loans

Frankfurt am Main, November 25, 2022 -- Moody's Investors Service ("Moody's) has assigned the following definitive ratings to the Notes issued by Driver Belgium Master S.A., SIC, Compartment 1:

....EUR102.50M Class A Series 2022-1 Asset Backed Floating Rate Notes due December 2032, Assigned Aaa (sf)

....EUR92.75M Class A Series 2022-2 Asset Backed Floating Rate Notes due December 2032, Assigned Aaa (sf)

....EUR97.50M Class A Series 2022-3 Asset Backed Floating Rate Notes due December 2032, Assigned Aaa (sf)

....EUR90.75M Class A Series 2022-4 Asset Backed Floating Rate Notes due December 2032, Assigned Aaa (sf)

....EUR97.50M Class A Series 2022-5 Asset Backed Floating Rate Notes due December 2032, Assigned Aaa (sf)

....EUR14.25M Class B Series 2022-1 Asset Backed Floating Rate Notes due December 2032, Assigned Aa2 (sf)

....EUR7.00M Class B Series 2022-2 Asset Backed Floating Rate Notes due December 2032, Assigned Aa2 (sf)

Moody's has not assigned a rating to the EUR24.99M Subordinated Loan due December 2032.

RATINGS RATIONALE

The transaction is a revolving cash securitisation of auto loans extended to obligors in Belgium by Volkswagen D'leteren Finance S.A. (NR) ultimately owned by Volkswagen Financial Services AG (A3(Senior Unsecured)/P-2), Stable Outlook. The initial revolving period is twelve months but can be extended annually with investor consent.

The portfolio of underlying assets consists of auto loans and has a total amount of approximately EUR 530.0 million.

As of October 2022, the pool cut consisted of 44,284 contracts with a weighted average seasoning of 19.7 months. The loans in the portfolio finance new cars (90.8%) and used cars (9.2%) to retail customers (100.0%), with 33.8% as Classic Credit (standard amortising loan product) and 66.2% as Auto Credit (balloon loan product).

According to Moody's, the transaction benefits from credit strengths such as (i) the granularity of the portfolio, (ii) financial strength and securitisation experience of VW Group, (iii) the good historical performance of the originator's portfolio, and (iv) credit enhancement provided through subordination of the Class B Notes, a Subordinated Loan, initial over-collateralisation, the building-up of additional over-collateralisation during the life of the deal and a fully funded reserve fund at closing. However, Moody's notes that the transaction features some credit weaknesses such as a revolving master structure, the potential extension of the revolving period, a high balloon loans exposure, commingling risk and a high degree of linkage to the originator.

The revolving master structure allows for some flexibility. This flexibility includes: (i) the increase of the Notes' balances of existing series to the maximum issuance amounts, (ii) the issuance of additional series of Notes, and (iii) the take-out of assets in order to securitize them in form of a term transaction ("term take-out").

Various mitigants have been put in place in the transaction structure, such as early amortization triggers, performance related triggers to switch to sequential amortization, eligibility criteria and provisions to ensure that the transaction is not negatively affected by the execution of the flexibility outlined above. Commingling risk is mitigated by (i) the automatic termination of collection rights in case of a servicer insolvency, and (ii) a rating trigger to change the cash flow sweep mechanism and to advance expected collections.

Moody's analysis focused, amongst other factors, on: (i) an evaluation of the underlying portfolio of loans and the eligibility criteria; (ii) historical performance information of the total book of the originator and past ABS transactions of VW Group; (iii) the credit enhancement provided by subordination, over-collateralisation and the reserve fund; (iv) the revolving master structure of the transaction and its resulting flexibility including mitigants put in place, (v) the liquidity support available in the transaction by way of principal to pay interest and the reserve fund; and (vi) the legal and structural integrity of the transaction.

The portfolio consists of approximately 66.2 % balloon loans ("AutoCredit" loans), which consist of equal installments during the life of the loan and a larger balloon payment at loan maturity. The total balloon cash flows account for 48.10% of the total discounted portfolio balance. We expect higher defaults on balloon loans in a manufacturer default scenario and have taken this into consideration in our quantitative analysis.

MAIN MODEL ASSUMPTIONS

Moody's determined the portfolio lifetime expected defaults of 1.8%, expected recoveries of 50.0% and Aaa portfolio credit enhancement ("PCE") of 8.5% related to borrower receivables. The expected defaults and recoveries capture our expectations of performance considering the current economic outlook, while the PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. Expected defaults and PCE are parameters used by Moody's to calibrate its lognormal portfolio loss distribution curve and to associate a probability with each potential future loss scenario in the cash flow model to rate Auto ABS.

Portfolio expected defaults of 1.8% are lower than the EMEA Auto ABS average and are based on Moody's assessment of the lifetime expectation for the pool taking into account: (i) historic performance of the book of the originator, (ii) benchmark transactions, and (iii) other qualitative considerations, such as the high balloon component of the portfolio.

Portfolio expected recoveries of 50.0% are in line with the EMEA Auto ABS average and are based on Moody's assessment of the lifetime expectation for the pool taking into account: (i) historic performance of the originator's book, (ii) benchmark transactions, and (iii) other qualitative considerations.

PCE of 8.5% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the pool which is mainly driven by: (i) the exposure to balloon payments despite considering the strength of the originator, (ii) the relative ranking to originator peers in the EMEA market, and (iii) the flexibility of the revolving structure. The PCE level of 8.5% results in an implied coefficient of variation ("CoV") of 68.2%.

METHODOLOGY

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in November 2022 and available at https://ratings.moodys.com/api/rmc-documents/391531. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may cause an upgrade of the ratings of the Class B Notes include a significant better than expected performance of the pool together with an increase in credit enhancement of Notes.

Factors that may cause a downgrade of the ratings include a decline in the overall performance of the pool and a meaningful deterioration of the credit profile of the originator.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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