Driver UK Master S.A., Compartment 2 Auto ABS Notes Ratings Affirmed

November 25, 2022

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Ratings List

Class	Ratings affirmed	Amount (mil. £)
A 2013-2	AAA (sf)	419.5
A 2013-4	AAA (sf)	200.0
A 2013-5	NR	425.0
A 2013-8	AAA (sf)	225.0
A 2014-1	AAA (sf)	100.0
A 2014-2	AAA (sf)	200.0
A 2014-3	AAA (sf)	200.0
A 2015-1	AAA (sf)	444.5
A 2016-2	AAA (sf)	484.5
A 2018-1	AAA (sf)	416.8
A 2018-2	AAA (sf)	237.2
A 2018-3	AAA (sf)	40.0
A 2019-1	AAA (sf)	368.7
A 2019-2	AAA (sf)	246.8
A 2020-1	AAA (sf)	182.8
A 2020-2	NR	350.0
A 2020-3	AAA (sf)	84.1
B 2013-3	A+ (sf)	140.6
B 2018-1	A+ (sf)	27.7
B 2018-2	A+ (sf)	88.4
B 2018-3	A+ (sf)	0.1
B 2019-1	NR	64.1
B 2020-1	A+ (sf)	68.7
B 2020-2	NR	146.8
B 2021-1	A+ (sf)	24.9
B 2021-2	NR	71.0

Ratings List (cont.)

Class	Ratings affirmed	Amount (mil. £)
NR--Not rated.		

Overview

- We affirmed our ratings on all of the outstanding classes of notes in Driver UK Master S.A., Compartment 2.
- The collateral comprises auto loans that Volkswagen Financial Services (U.K.) originated for its customers in England, Scotland, and Wales.

LONDON (S&P Global Ratings) Nov. 25, 2022--S&P Global Ratings today affirmed its 'AAA (sf)' and 'A+ (sf)' credit ratings on Driver UK Master S.A., Compartment 2's (DUKM C2) outstanding class A and B notes, respectively .

DUKM C2 is a securitization of a portfolio of U.K. auto loans originated by Volkswagen Financial Services (U.K.) Ltd. (VWFS). The underlying collateral comprises U.K. fixed rate auto loan receivables arising under hire purchase (HP) and personal contract purchase (PCP) agreements to private and commercial borrowers in the U.K. for purchase of used and new vehicles. The eligibility criteria will also permit the inclusion of lease purchase (LP) contracts going forward.

This pool of assets is well diversified across brands and geographically, with no concentration in Northern Ireland. The proportion of loans concentrated in Northern Ireland is expected to increase gradually as the underlying portfolio is harmonized with overall assets of the originator. At closing, the pool of assets included only a small proportion (4.5%) of battery electric vehicles (BEVs), but we expect BEVs to be gradually added to the portfolio during the revolving period. We have accounted for these factors in our analysis.

VWFS is the current servicer and there is no back-up servicer in place.

Periodically, noteholders in this transaction have the option to extend the revolving period. As part of this renewal, the main changes are:

- A 12-month extension to the revolving period to November 2023;
- An increase in the concentration limit of used vehicles to 55% from 50% and an increase in the concentration limit of used PCP vehicles to 50% from 40%;
- The introduction of a discount rate variation option, whereby the seller has an option to vary, at the time of renewal for the transaction, the discount rate for both the purchased receivables included in the portfolio and additional receivables purchased during the revolving period. Consequently, the discount rate for existing receivables has been raised to 8.250% from 5.872%. During the revolving period, assets will be purchased at a lower discount, at 3.436%, than the current discount of 3.794%;
- The noteholders may issue further class A series 2018-1 notes and class A series 2019-1 notes for £194.5 million and £31.2 million, respectively. At the same time, the class A series 2014-3 and class A series 2018-3 are partially redeemed by £194.5 million and £31.2 million, respectively. The maximum issuance amount for these notes have also been accordingly modified;

- The repricing of the note coupons and renewal of the interest rate swaps;
- The modification of the buffer release mechanism to consider any buffer top-up shortfall;
- A reduction of the interest compensation rate to 0.6% from 1.3%, and interest compensation reserve floor to £4 million from £8 million; and
- The extension of the legal final maturity date.

In our view, these amendments do not affect the outstanding ratings as we deem these offers to be opportunistic, rather than distressed. We have therefore affirmed our 'AAA (sf)' and 'A+ (sf)' ratings on the class A and B notes, respectively.

As part of our analysis, we reviewed and updated our base-case and stressed credit assumptions.

Table 1

Credit Assumptions

	Current	Previous
WA Gross loss base case (%)	1.85	1.78
Gross loss multiple ('AAA')	4.5	4.5
WA Voluntary terminations base case (%)	3.75	5.29
Voluntary terminations multiple ('AAA')	2.0	2.2
Recovery rate base case (%)	60.0	n/a
Recovery rate haircut ('AAA') (%)	32.5	n/a
Stressed recovery rate ('AAA') (%)	40.5	39.7
Residual value loss ('AAA') (%)	35.1	33.6
Balloon loss (%)	7.5	7.5

WA—weighted-average.

In the absence of any limit on the concentration of PCP loans in the portfolio, we consider as a worst-case a complete migration of the pool to PCP loans. This has raised the weighted-average gross loss we apply as well as the residual value haircut, to account for the higher residual value risk from this segment of the portfolio. Further, to the extent that we already consider a higher residual value risk from PCP loans, we have lowered our voluntary terminations base case for these loans, which has lowered the weighted-average voluntary terminations base case.

Under our global auto asset-backed securities (ABS) criteria, we establish a recovery rate base case and increasingly stressful recovery rate haircuts at higher ratings (tiered recoveries). We also establish recovery rate assumptions (base-case recovery rate and recovery rate haircuts) based primarily on an analysis of historical recovery rates for the issuer and the market, the volatility of past performance as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. We apply haircuts to the base-case recoveries to derive stressed recovery rates at each rating. Typical haircuts applied to our base case at the 'AAA' rating range from 15% to 50%. We apply the same stressed recovery assumptions for both hostile terminations and voluntary terminations. In assigning a recovery rate base case of 60% and a 'AAA' haircut of 32.5%, we considered the observed historical performance, overall recovery process, collateral features such as loan-to-value ratio.

Table 2

Credit Assumption Summary

Rating level	Cumulative hostile termination base case (%)	HT stress multiple	Stressed cumulative HTs (%)	Cumulative VT base case (%)	VT stress multiple	Stressed cumulative VTs (%)	Recovery rate base case(%)	Recover rate haircut (%)	Stressed recovery rate (%)	Stressed cumulative net losses(%)	Residual value loss
AAA	1.85	4.50	8.33	3.75	2.00	7.50	60	32.5	40.5	9.5	35.1
A+	1.85	3.00	5.74	3.75	1.63	6.09	60	28.6	42.84	6.7	22.6

HT--Hostile termination. VT--Voluntary termination.

VWFS has informed us that due to issues with its reporting system, approximately 9.3% of the annual statements issued in October 2022 contained incorrect information. The annual statements showed the wrong closing balance and subsequent annual statements showed the wrong opening and closing balance. Although the figure may vary each month, VWFS believes the October 2022 statements are a representative and indicative sample of its entire portfolio.

Based on the legal advice it received to mitigate potential risks, VWFS has removed all loans affected by these statement issues from its proposed sale portfolios for the additional purchase date falling on Nov. 25, 2022 for all its affected securitization transactions, including: Driver UK Master S.A., Compartment 2, Driver UK Master S.A., Compartment 3, Driver UK Master S.A., Compartment 4, and Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2020-1. VWFS will conduct a monthly process that started in October 2022 of identifying and then repurchasing all affected receivables in their securitizations, which it expects to complete by October 2023. We understand that VWFS has received legal advice confirming that although action on the affected receivables cannot be enforced by a court until the underlying customers receive correct annual statements, VWFS can in the meantime, and without interruption, continue to collect payments and issue court proceedings for affected receivables subject to a hostile termination.

We have considered the effect, if any, this reporting issue might have on this transaction. We have run a sensitivity analysis to assess the effect of a reduced recovery rate base case and extended recovery period timing for DUKM C2, given the potential effect on enforceability. In addition, we have factored in our current assessment of VWFS's ability to support its obligations to repurchase all affected receivables over the next 12 months--thereby reducing the exposure to the servicer over time--and to indemnify the issuer for any other related losses it may incur.

A combination of subordination, overcollateralization, and a cash reserve provides credit enhancement. The transaction does not have a principal deficiency ledger mechanism or any excess spread before the insolvency of the seller. The class A notes rank senior to the class B notes, and each class of notes ranks pari passu among themselves. Under the transaction documents, amortization is sequential, but switches to pro rata once the class-specific overcollateralization target levels are reached, assuming no specific triggers have been breached. The notes may switch to sequential payment again, once certain credit enhancement increase conditions have been met. If the servicer were to become insolvent at any point in the transaction's life, the notes would permanently switch to sequential amortization.

Our analysis indicates all class A notes in the transaction have available credit enhancement sufficient to withstand losses that are commensurate with a 'AAA (sf)' rating. Our cash flow analysis indicates that the available credit enhancement for the class B notes is commensurate with higher ratings than that currently assigned. However, we have affirmed our 'A+ (sf)' ratings on the class B notes on account of the transaction's revolving nature and the ongoing frequent issuance of new series.

Our ratings in this transaction are not constrained by the application of structured finance sovereign risk, counterparty, or operational risk criteria (see "Related Criteria").

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: 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 Q3 2022, Nov. 7, 2022
- Global Credit Conditions Downside Scenario: Recession Risks Deepen, Oct. 12, 2022
- Economic Outlook U.K. Q4 2022: Under The Pump, Oct. 4, 2022
- Driver UK Master S.A., Compartment 2 Series 2021-B Auto Loan Notes Assigned Rating; All Outstanding Series Affirmed, Nov. 25, 2021
- 2020 Annual European Structured Finance Default And Rating Transition Study, Sept. 21, 2021
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- Driver UK Master S.A., Compartment 2 (Series 2020-1), Nov. 25, 2020
- 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