




27 MAR 2023

# Fitch Assigns Driver UK Master S.A. - Compartment 6 Final Ratings

Fitch Ratings - London - 27 Mar 2023: Fitch Ratings has assigned Driver UK Master S.A. - Compartment 6 final ratings, with Stable Outlooks, as detailed below.

## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Driver UK Master S.A. - Compartment 6			
<ul style="list-style-type: none"> <li>Class A 2023-1 XS2596590518</li> </ul>	LT	AAAsf	New Rating
<ul style="list-style-type: none"> <li>Class A 2023-2 XS2596590278</li> </ul>	LT	AAAsf	New Rating
<ul style="list-style-type: none"> <li>Class B 2023-1 XS2596590435</li> </ul>	LT	A+sf	New Rating
<ul style="list-style-type: none"> <li>Class</li> </ul>	LT	NRsf	New Rating

ENTITY/DEBT	RATING	RECOVERY	PRIOR
B 2023-2 XS2596590195			
• Junior Schuldschein Loan 2023-1	A+sf 		New Rating
• Senior Schuldschein Loan 2023-1	AAAsf 		New Rating
• Senior Schuldschein Loan 2023-2	AAAsf 		New Rating
• Subordinated Loan	NRsf		New Rating

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Transaction Summary

The transaction is a 14-month revolving securitisation of auto loan receivables originated by

Volkswagen Financial Services (UK) Ltd (VWFS UK) in England, Scotland, Wales and Northern Ireland. The portfolio consists of personal contract purchase (PCP), hire purchase and lease purchase loans, financing predominantly VW Group brand vehicles. The transaction includes both notes and Schuldschein loans. Notes and Schuldschein loans of the same seniority rank equally with each other.

## KEY RATING DRIVERS

**Used-Car Price Exposure:** Loans regulated by the Consumer Credit Act provide obligors with voluntary termination (VT) rights, allowing them to return the vehicle before maturity. PCP loans also provide the option of returning the vehicle at maturity instead of paying a balloon amount. The issuer is exposed to the risk of declines in used-car prices, as proceeds from the sale of returned vehicles may be lower than the outstanding loan balance. Fitch assumed a total residual value (RV) and VT loss of 24.8% at 'AAAsf', and 16.4% at 'A+sf'.

**Prime Portfolio Resilient to Inflation:** Fitch has assumed a weighted-average base-case default rate of about 1.3%. The low level of the base case reflects the high credit quality of the pool and the stable performance of VWFS UK's book over time. The assumption is set above recent performance to account for our expectation of a limited increase in defaults as falling real incomes in the UK weaken household finances. However, we believe the finances of the typical prime borrower in this portfolio have sufficient buffers to absorb higher living costs and avoid a large increase in defaults.

We applied a 'AAAsf' default multiple of 6.5x, accounting for the low absolute level of the base case and the risks posed by the 14-month revolving period. The recovery base case and 'AAA' recovery haircut were set at 65% and 45%, respectively. The strength of the UK used car market over the last two years has been highly supportive of recoveries. We expect values to remain high in the near term, which will provide additional protection against a potential uptick in defaults.

**Sensitivity to Pro-Rata Period:** The transaction features pro-rata amortisation of notes and Schuldschein loans if certain over-collateralisation conditions are fulfilled and performance triggers are not breached. The length of the pro-rata period and therefore outflow of funds to junior positions on the waterfall is driven by lifetime losses, combined with the default and recovery timing. Smaller losses with back-loaded timing may lead to a later switch back to sequential amortisation and could be more detrimental for the notes than larger losses with a front-loaded timing.

**Seller-Related Risks Addressed:** Commingling risk is mitigated by a cash advance mechanism that comes into effect upon the seller losing eligibility as defined in Fitch's counterparty criteria. Payment interruption risk is addressed by liquidity from the cash reserve fund, while Fitch views servicer continuity risk as adequately reduced by the high availability of replacement servicers in the UK market.

## RATING SENSITIVITIES

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

**Rating sensitivity to increased defaults**

Increase base case by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'A+sf' / 'A+sf'

#### **Rating sensitivity to reduced recoveries**

Reduce base case by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'A+sf' / 'A+sf'

#### **Rating sensitivity to increased defaults and reduced recoveries**

Increase defaults and reduce recoveries by 10% / 25% / 50% each:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'A+sf' / 'Asf'

#### **Rating sensitivity to reduced net sale proceeds**

Reduce net sale proceeds by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AAsf' / 'A+sf' / 'BBBsf'

Class B notes/ junior Schuldschein loans: 'Asf' / 'BBBsf' / 'BB+sf'

#### **Rating sensitivity to multiple factors**

Increase defaults by 10% / 25% / 50% and reduce recoveries and net sale proceeds by 10% / 25% / 50% each:

Class A notes / senior Schuldschein loans: 'AAsf' / 'Asf' / 'BBBsf'

Class B notes / junior Schuldschein loans: 'A-sf' / 'BBBsf' / 'BBsf'

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

#### **Rating sensitivity to reduced defaults and increased recoveries and net sale proceeds**

Reduce defaults by 10% and increase recoveries and net sale proceeds by 10% each:

Class B notes / junior Schuldschein loans: 'AA+sf'

The class A notes / senior Schuldschein loans are at their maximum achievable rating and cannot be upgraded.

## **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, Fitch's assessment of the asset pool information relied upon for the agency's ratings 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](http://www.fitchratings.com/esg)

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**Applicable Criteria**

[Consumer ABS Rating Criteria \(pub.08 Aug 2022\) \(including rating assumption sensitivity\)](#)

[Consumer ABS Rating Criteria – Residual Value Addendum \(pub.09 Nov 2021\) \(including rating assumption sensitivity\)](#)

[Global Structured Finance Rating Criteria \(pub.01 Mar 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.14 Mar 2023\)](#)

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

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.10 Feb 2023\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.28 Dec 2022\)](#)

**Applicable Models**

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

description of model(s).

Consumer ABS Asset Model, v1.1.0 (1)

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

UK Voluntary Termination (VT) Risk Model, v1.6.0 (1) (2)

## Additional Disclosures

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