Fitch Affirms Driver Master S.A. Compartment 1’s Notes on Revolving Period Extension

Fitch Ratings-Frankfurt/London-25 June 2019: Fitch Ratings has affirmed Driver Master S.A. - Compartment 1’s EUR227.2 million class A and B notes following an extension of the revolving period by one year, as follows:

- EUR43.3 million Series 2015-1 class A notes (XS1253866443), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR2.6 million Series 2015-2 class A notes (XS1253866526), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR16.2 million Series 2015-3 class A notes (XS1253866872), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR43.1 million Series 2015-4 class A notes (XS1253867094), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR19.8 million Series 2015-5 class A notes (XS1253868225), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR19.8 million Series 2015-6 class A notes (XS1253868811), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR19.8 million Series 2015-7 class A notes (XS1253871955), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR19.8 million Series 2015-8 class A notes (XS1253873225), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR32.3 million Series 2015-9 class A notes (XS1253874462), due May 2028: affirmed at 'AAAsf'; Outlook Stable
- EUR1.0 million Series 2015-1 class B notes (XS1253880949), due May 2028: affirmed at 'A+sf'; Outlook Stable
- EUR1.9 million Series 2015-2 class B notes (XS1253881160), due May 2028: affirmed at 'A+sf'; Outlook Stable
- EUR7.6 million Series 2015-3 class B notes (XS1253881327), due May 2028: affirmed at 'A+sf'; Outlook Stable

The transaction is a platform for Volkswagen Bank GmbH (VWB) to securitise German auto loans on a revolving basis.

MAIN CHANGES TO STRUCTURE
The main changes to the structure since our last review are:
- The legal final maturity date for all series of notes has been extended by one year to May 2028;
- Except for Series 2015-2 class A and Series 2015-1 class B, which entered the amortisation phase on the June 2018 interest payment date (IPD), the revolving period will be extended by another year for all other series until the June 2020 IPD. The notes' margins of the revolving series have been adjusted to 25bp from 20bp for class A and 70bp from 50bp for class B notes;
- Skandinaviska Enskilda Banken AB will be the only swap counterparty for the non-amortising class A and B series;  
- The cumulative net loss ratio was replaced with the 12-month average dynamic net loss ratio. The new ratio ensures, among other performance triggers, that the notes’ amortisation schedule switches to pro-rata and/or the revolving period ends if it exceeds 25bp.

KEY RATING DRIVERS
Small Loss Expectation
Fitch has maintained a loss base-case expectation of 0.6% for the portfolio, reflecting the performance of this transaction, other Driver term transactions, the bank’s total loan book as well as our expectations of a weakening German economy over the short to medium term.

The loss base case is based on a recovery base case of 65% and a default base case of 1.7%. To reflect the low default base case, the continuation of the revolving period and the presence of balloon risk, Fitch applied a 'AAA' default multiple of 7.5x.

Sensitivity to Pro-Rata Period
The transaction features a pro rata allocation mechanism if certain target overcollateralisation conditions are fulfilled and loss triggers are not breached. The length of the pro rata period and thus outflow of funds to junior positions in the waterfall is driven by the lifetime loss combined with loss timing and the amortisation profile together with prepayments.

During the revolving period renewal process, the cumulative net loss ratio was replaced with the 12-month average dynamic net loss ratio, which among other conditions, is intended to ensure a switch back to sequential amortisation in case of significant performance deterioration. Fitch views the new ratio as adequate to shield the transaction from excessive cash outflows to junior positions in 'AAA' and 'A+' stress scenarios by limiting the length of the pro-rata period.

Minimum Credit Enhancement (CE) Modelled
The class A and B notes currently benefit from CE of 15.3% and 11.1%, respectively, coming from overcollateralisation and a floored cash reserve. However, CE can decrease during the revolving period to 10.2% for the class A notes and 6.0% for the class B due to losses and/or additional taps occurring. Fitch has therefore modelled the transaction at these minimum CE levels.

RATING SENSITIVITIES
Expected impact upon the notes’ ratings (class A/B) from increased defaults:
Current Ratings: 'AAAsf'/ 'A+sf'
Increase of default base case by 10%: 'AA+sf'/ 'Asf'
Increase of default base case by 25%: 'AA+sf'/ 'A-sf'

Expected impact upon the notes’ ratings (class A/B) from decreased recoveries:
Current Ratings: 'AAAsf'/ 'A+sf'
Reduction of recovery base case by 10%: 'AAAsf'/ 'Asf'
Reduction of recovery base case by 25%: 'AA+sf'/ 'A-sf'

Fitch considers the recovery-related sensitivities above to also provide an indication on rating changes upon a potential deterioration of used car prices of vehicles equipped with diesel engines (see Fitch: European Diesel Restrictions Could Hit Used Car Prices). As the exact diesel share is not reported, we have estimated the total diesel share in the pool to be around 45%. This is based on VW estimates for the total loan book. Assuming a decrease of 25% in diesel vehicles'
recovery proceeds as sensitivity, while leaving recovery proceeds for non-diesel vehicles unchanged, the resulting rating sensitivity lies within the 10% and 25% sensitivities (that are applied to the entire pool) above.

Expected impact upon the notes’ ratings (class A/B) from increased defaults and decreased recoveries:
Current Ratings: ‘AAAsf’/’A+sf’
Increase of default base case by 10%; reduction of recovery base case by 10%: ‘AA+sf’/’A-sf’
Increase of default base case by 25%; reduction of recovery base case by 25%: ‘AA-sf’/’BBB+sf’

Expected impact upon the notes’ ratings (class A/B) from an extended write-off timing and increased prepayments:
Current Ratings: ‘AAAsf’/’A+sf’
Extension of final write-off timing to 12 months (from 10 months): ‘AA+sf’/’A+sf’
Increase of prepayment base case to 15% (from 12%): ‘AA+sf’/’A+sf’

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO 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 has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third-party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transaction closing, 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.

Fitch conducted a review of a small targeted sample of origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall, 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.

SOURCES OF INFORMATION
The information below was used in the analysis.
- Investor reports provided by Volkswagen Bank GmbH up to 31 May 2019
- Dynamic delinquency data from September 2008 to June 2018, for the overall loans book and split into new vs used cars
- Loss vintage data, for the overall book and split into different sub-pools: new balloon, new amortising, used balloon, and used amortising. The data provided spans the period between January 2004 and December 2018
- Updates from the originator review dated 4 April 2019

MODELS
The model below was used in the analysis. Click on the link for a description of the model.
EMEA Cash Flow Model.
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Additional information is available on www.fitchratings.com
Applicable Criteria
Consumer ABS Rating Criteria (pub. 29 Jan 2019)
Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (pub. 08 Mar 2019)
Global Structured Finance Rating Criteria (pub. 02 May 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 08 Mar 2019)

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