

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's has assigned definitive ratings to notes issued by German auto loan ABS of Driver Multi-Compartment S.A., Compartment Driver fourteen

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Global Credit Research - 26 Mar 2018

#### Euro 854 million ABS notes rated

London, 26 March 2018 -- Moody's Investors Service ("Moody's") has assigned the following definitive ratings to notes issued by Driver Multi-Compartment S.A., Compartment Driver fourteen:

...EUR 833.4 M Class A Asset Backed Floating Rate Notes due February 2026, Definitive Rating Assigned Aaa (sf)

...EUR 20.7 M Class B Asset Backed Floating Rate Notes due February 2026, Definitive Rating Assigned A1 (sf)

Moody's has not assigned a rating to the EUR 32.4 M Subordinated Loan, which are also issued at closing of the transaction.

#### RATINGS RATIONALE

The transaction is a static cash securitisation of auto loans extended to obligors in Germany by Volkswagen Bank GmbH (A1/P-1/Aa3(cr)) ultimately owned by Volkswagen Aktiengesellschaft (A3/P-2/Stable Outlook). This public securitisation continues the series of Driver transactions sponsored by Volkswagen Bank GmbH. The previously Moody's rated Driver transactions are generally performing in line with or better than Moody's initial expectations.

The portfolio of underlying assets consists of auto loans distributed through VW Group auto dealers and has a total discounted balance of €900 M.

The securitized portfolio consists of 73,312 non-delinquent contracts with a weighted average seasoning of 2.1 years. The loans in the portfolio finance new cars (39.82%), demo cars (10.61%) and used cars (49.57%) to retail customers (99.57%) and corporate customers (0.43%).

According to Moody's, the transaction benefits from credit strengths such as the granularity of the portfolio, financial strength and securitisation experience of the originator, and the positive performance of past transactions. However, Moody's notes that the transaction features some credit weaknesses such as commingling risk and a high degree of linkage to Volkswagen Bank GmbH. Various mitigants have been put in place in the transaction structure, such as performance related triggers to switch to sequential amortisation and rating triggers to provide additional reserves. 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 provide cash collateral.

The securitized portfolio consists of approx. 90.9% 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 65.43% of the total portfolio cash flows of the discounted portfolio balance. This has been factored in Moody's quantitative analysis.

Moody's analysis focused, amongst other factors, on (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information of the total book and past ABS transactions; (iii) the credit enhancement provided by subordination and the reserve fund; (iv) the liquidity support available in the transaction by way of principal to pay interest and the reserve fund; and the (v) overall legal and structural integrity of the transaction.

The public and political debate about the future of diesel engines has heated up in recent months due to new proposals restricting diesel cars in various metropolitan areas in Europe, including Germany. As a consequence, diesel cars have recently shown signs of diminished attractiveness through declines in new car

registrations and a softening in the residual value premium of diesel over petrol cars. Moody's is closely monitoring developments, but at this time believes that these recent trends are captured in current rating assumptions, i.e. portfolio lifetime mean loss rate and recovery rate.

#### MAIN MODEL ASSUMPTIONS

Moody's determined the portfolio lifetime expected net loss of 1.7% and a Aaa portfolio credit enhancement ("PCE") of 8% related to the borrower receivables. The expected net loss captures 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 losses 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 its ABS CORE cash flow model.

The portfolio expected mean cumulative net loss level of 1.7% is lower than the EMEA Auto Loan average and is based on Moody's assessment of the lifetime expectation for the pool taking into account certain macroeconomic and pool specific factors.

The PCE of 8% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the pool. The PCE of 8% results in an implied coefficient of variation ("CoV") of 43.1%.

#### METHODOLOGY

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in October 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.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 include a significantly better than expected performance of the pool together with an increase in credit enhancement of the notes. Factors that may cause a downgrade of the ratings include a decline in the overall performance of the pool and a significant deterioration of the credit profile of the originator Volkswagen Bank GmbH.

The ratings address the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal with respect to the Class A Notes and Class B Notes by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed but may have a significant effect on yield to investors.

#### LOSS AND CASH FLOW ANALYSIS:

Moody's used its cash-flow model Moody's ABS CORE as part of its quantitative analysis of the transaction. Moody's ABS CORE model enables users to model various features of a standard European ABS transaction - including the specifics of the loss distribution of the assets, their portfolio amortisation profile, yield as well as the specific priority of payments, swaps and reserve funds on the liability side of the ABS structure.

#### STRESS SCENARIOS:

In rating auto loan ABS, loss rate and loss volatility measured as portfolio credit enhancement (PCE) are two key inputs that determine the transaction cash flows in the cash flow model. Parameter sensitivities for this transaction have been tested in the following manner: Moody's tested nine scenarios derived from the combination of mean loss: 1.70% (base case), 1.95% (base case \* 115%), 2.20% (base case \* 130%) and PCE: 8.0% (base case), 8.4% (base case \* 105%), 8.8% (base case \* 110%). The results for Class A Notes under these scenarios vary from Aaa (base case) model output to Aa1 model output where the mean loss is 2.2% and PCE is 8.8%. The results for Class B Notes under these scenarios vary from A1 (base case) to A2 where the mean loss is 2.2% and PCE is 8.8%.

Parameter sensitivities provide a quantitative/model indicated calculation of the number of notches that a Moody's rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather how the initial model output for Class A and Class B Notes might have differed if the two parameters within a given sector that have the greatest impact were varied. Results are model outputs, which are one of many inputs considered by rating committees, which take quantitative and

qualitative factors into account in determining actual ratings.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's describes its loss and cash flow analysis in the section "Ratings Rationale" of this press release.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

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