

## **New Issue: DRIVER ESPANA FIVE, FONDO DE TITULIZACION**

**€914 Million Asset-Backed Floating-Rate Notes (Excluding  
Subordinated Loan)**

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## Ratings Detail

Ratings Assigned					
Class	Rating*	Amount (mil. €)	Available credit enhancement (%)§	Interest	Legal final maturity
A	AA+ (sf)	888.00	12.50	One-month EURIBOR plus 0.4%	Dec. 21, 2028
B	AA- (sf)	26.00	9.90	One-month EURIBOR plus 0.54%	Dec. 21, 2028
Subordinated loan	NR	51.00	4.80	Fixed rate	Dec. 21, 2028

\*S&P Global Ratings' credit ratings address timely payment of interest and ultimate principal.

§Available credit enhancement includes the class B notes' subordination (for the class A notes only), a subordinated loan (that does not form part of the capital structure), overcollateralization, and a cash reserve (see "Transaction Key Features"). EURIBOR--Euro Interbank Offered Rate. NR--Not rated.

Transaction Participants	
Originator and servicer	Volkswagen Finance S.A., E.F.C.
Arranger	ING Bank N.V.
Joint lead managers	ING Bank N.V. and DZ Bank AG
Management company (Sociedad Gestora)	Titulización De Activos, S.G.F.T., S.A.
Transaction account provider	BNP Paribas Securities Services (Madrid Branch)
Paying agent	BNP Paribas Securities Services (Madrid Branch)
Subordinated lender	Volkswagen Financial Services AG
Interest rate swap counterparty	ING Bank N.V.

Supporting Ratings	
Institution/role	Ratings
BNP Paribas Securities Services (Madrid Branch)	A/Stable/A-1
ING Bank N.V.	A+/Stable/A-1

Transaction Key Features	
Closing date	Feb. 28, 2018
Portfolio type	Static
Collateral	Loan receivables without balloon derived from auto loan contracts concluded by VW Finance with retail costumers
Closing discounted principal balance (mil. €)	1,000.00
Country of origination	Spain

Transaction Key Features (cont.)	
Customer type*	Private (83.90%), freelance (12.24%), and companies (3.86%)
Amortization type*	91.1% standard amortizing loans and 8.9% loans with balloon (where the balloon installment is not securitized)
Vehicle type*	New (82.44%) and used (17.56%)
Concentration*	The top three regions are: Catalonia (20.28%), Andalusia (17.18%), and Madrid (16.13%)
Average loan discounted principal balance (€)*	11,584.8
Weighted-average seasoning (months)*	10.0
Weighted-average asset remaining life (months)*	48.0
Arrears	Loans in arrears are not eligible for the pool
Subloan	5.10% of the discount amount
Overcollateralization	3.50% of the discount amount
Cash reserve	1.30% of the discounted principal balance, amortizing to 1.10% of initial discounted principal balance

\*Based on the pool as of Jan. 31, 2018.

## Transaction Summary

S&P Global Ratings has assigned its 'AA+ (sf)' and 'AA- (sf)' credit ratings to DRIVER ESPANA FIVE, FONDO DE TITULIZACION's asset-backed floating-rate class A and B notes. At closing, DRIVER ESPAÑA FIVE also issued an unrated subordinated loan.

The collateral in DRIVER ESPAÑA FIVE comprises auto loan receivables that Volkswagen Finance S.A., E.F.C. (VW Finance) originated and granted to its retail and small-commercial customer base throughout Spain. This transaction is VW Finance's fifth public asset-backed securities (ABS) securitization in Spain. The last transaction issued by VW Finance is Driver España Four, not rated by us.

Our ratings on the class A and B notes address the timely payment of interest and ultimate payment of principal. They reflect our analysis of the ability of the servicer (VW Finance) to fulfill its role in the transaction, and the transaction's cash flow mechanics, assuming various stress scenarios.

The transaction's documented payment structure and capital structure mirror that of DRIVER ESPAÑA THREE, FONDO DE TITULIZACIÓN, which is the most recent VW Finance-originated transaction that we have rated (see "New Issue: DRIVER ESPANA THREE, FONDO DE TITULIZACION," published on Feb. 26, 2016). A combination of subordination, overcollateralization, and a cash reserve will provide credit enhancement to the rated notes. The transaction does not have any excess spread, or a principal deficiency ledger mechanism. In our opinion, a fixed-to-floating interest rate swap agreement mitigates the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate liabilities.

We believe that the admission by Volkswagen AG (VW) on Sept. 22, 2015, that it installed software designed to manipulate diesel engine exhaust emissions in relation to nitrogen oxides (NOx) in 11 million passenger cars and commercial vehicles could ultimately affect the transaction in a number of areas: potential declines in the realization proceeds if lessees default, potential dilution of the lease receivables backing the transaction as a result of vehicle

owner claims against VW, and potential increase in the operational risk associated with VW.

On Feb. 2, 2016, VW announced its schedule for the first wave of remediation actions to repair the affected vehicles in Europe. The recall started with the VW Amarok fitted with the EA 189 2.0 liter diesel engine and should continue over the course of the year. On April 28, 2016, VW disclosed the start of the technical modification of the Golf Blue Motion Technology with a 2.0 liter diesel engine following the German authority confirmation that the proposed solution does not result in any changes to the fuel consumption levels, performance data, or noise emissions of the vehicles concerned. Later, on June 8, 2016, VW announced that the technical solutions for several affected 2.0 liter diesel engine variants used in the high-volume Golf, Passat, and Tiguan ranges had been confirmed by the German authorities. More recently, in Aug. 14, 2016, VW stated they have received approval from German authorities for the technical solutions for the Volkswagen Polo and SEAT Ibiza models with 1.2 liter diesel affected engines.

As of the cut-off date, just 0.77% of Driver España's discounted pool balance related to vehicles equipped with diesel engines affected by the manipulation of NOx exhaust emissions. Therefore, the exposure is minimal and we have not considered any adjustment to the stressed recovery rate to account for it.

The transaction is not exposed to vehicles affected by the CO2 irregularities as eligibility criteria explicitly exclude them.

## **Notable Features**

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provides protection against principal losses for the class A and B notes.

At closing, a subordinated loan of €51.00 million (5.10% of the discounted portfolio volume) was granted to DRIVER ESPAÑA FIVE to acquire receivables. The subordinated loan provides credit enhancement to the class A and B notes because it ranks below the notes for the payment of interest and principal. This loan does not form part of the rated capital structure.

DRIVER ESPAÑA FIVE is a static structure with no portfolio replenishment features. The notes begin amortizing sequentially immediately after closing. DRIVER ESPAÑA FIVE purchased the receivables at a fixed discount rate. The transaction does not benefit from any excess spread or a principal deficiency ledger mechanism. This is because, at closing, the issuer purchased the receivables above par value, using a discount rate of 1.425% that incorporates the notes' interest and senior fees.

DRIVER ESPAÑA FIVE also features pro rata amortization of the notes, once further credit enhancement has been built up and provided that certain cumulative default performance triggers are fulfilled. On breach of these triggers, the repayment of the notes switches temporarily or permanently to sequential amortization.

VW Finance transferred credit rights to DRIVER ESPAÑA FIVE. The customer buys the car from a dealer of the VW Finance network and owns the car. VW Finance grants them a loan to finance the car and pays the purchase price directly to the dealer. This contract replicates a rent contract mechanism, although VW Finance does not own the financed vehicle. The contract is regulated by the Spanish rent-purchase law, so that the financial entity can obtain a

retention of the car's title (known as "Reserva de Dominio"). These clauses have to appear in the contract and also be registered, in order to be applicable.

If this clause appears in the contract and is registered, the borrower cannot sell the financed vehicle without the lender's approval, and the lender would receive the car before other creditors, if the borrower defaulted. This charge on the asset has to be recorded in a national and public register to be binding with respect to third parties and future transfers of the asset (see "Concerns and mitigating factors" section below).

## **Rationale**

### **Operational risk**

Under our structured finance operational risk criteria, auto loans are considered as having low severity and portability risks, and as such our criteria do not impose any caps on the maximum achievable rating due to operational risks (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). Volkswagen Group is one of the most active issuers in European auto securitization, using its DRIVER platform for auto loans and VCL platform for auto leases. Our ratings on the class A and B notes reflect our assessment of VW Finance's good origination policies and servicing capabilities. There is no back-up servicer in place in the transaction.

### **Economic outlook**

Spanish economic growth continued to remain robust in 2017, outpacing that of most eurozone countries despite political uncertainties in Catalonia.

We expect GDP growth to remain strong, reaching 2.7% in 2018 and 2.1% in 2019. On the external side, favorable economic conditions among trading partners and increasing competitiveness should support export growth. However, we expect a gradual slowdown as the still high level of private-sector debt is likely to weaken demand for bank loans. We forecasted overall GDP growth to gradually slow to 2.0% in the coming years.

The minority government and fragmented parliament might hinder structural reforms needed to reduce constraints on economic growth. In our view, the risks related to government debt are decreasing. Although debt remains high, limiting the fiscal space, the government is likely to meet this year's budget deficit target.

On the political front, the crisis in Catalonia may dampen consumer and producer sentiment as well as disrupt business, especially in Catalonia. We currently expect that our structured finance ratings remain unaffected by the tensions. The geographical concentration of the portfolio in the Catalonia region is 20.28%, below the threshold of 30.00%, above which we apply additional stresses in our ratings analysis to capture the possibility of region-specific credit deterioration among borrowers (see "Spain's Dispute With Catalonia Is Unlikely To Move Ratings Unless Tensions Escalate Further," published on Oct. 12, 2017).

Both domestic and external demand are driving growth. Solid employment growth boosted household incomes and consumer confidence. Given the strong labor market, the unemployment rate fell to 16.4% in December 2017 (its lowest level since February 2009) and there is still room for further employment-driven growth as the unemployment rate is still one of the highest in the region. We forecast unemployment to be 15.6% in 2018, 14.5% in 2019, and 13.6% in 2020, compared with 19.6% in 2016.

However, the largest share of employment creation is in temporary contracts, and the transition to permanent contracts is very low in Spain (see "European Economic Snapshots For 1Q 2018 Published," published on Feb. 16, 2018).

Since we rated Driver España 3 in 2016, the macroeconomic environment has considerably improved and is currently stable. We have factored this into our credit assumptions.

### **Credit risk**

We analyzed credit risk by applying our criteria for European auto ABS (see "Methodology And Assumptions For European Auto ABS," published on Oct. 15, 2015). We have used performance data from VW Finance's loan portfolio from January 2005 to December 2017 and from the transaction's predecessors that we have rated (DRIVER ESPAÑA THREE, FONDO DE TITULIZACION; DRIVER ESPAÑA TWO, FONDO DE TITULIZACION; and Private Driver España 2013-1) to analyze credit risk. We calculated our cumulative gross loss assumption of 2.0% by factoring in the performance of the four different products securitized: Classic credit new vehicles, classic credit used vehicles, auto credit new vehicles, and auto credit used vehicles. We consider it unlikely that the performance will deteriorate to levels seen before 2009 due to the macroeconomic outlook and VW Finance's more stringent underwriting and servicing procedures since then. We calculated the uniform recovery rate assumption of 35% based on the comparison of gross cumulative loss and net cumulative loss data. We have also adjusted our credit analysis to account for sale above par.

As DRIVER ESPAÑA FIVE is not exposed to balloon loans, there is no additional indirect residual value risk in this transaction, in our view.

### **Cash flow analysis**

Our ratings on the class A and B notes reflect our assessment of the transaction's structural features under the transaction documents. The note's payment structure will switch to pro rata from sequential payment after the transaction reaches certain overcollateralization levels. A notable feature is that the issuer purchased the loans above par and we have taken into account losses due to prepayments at par in our cash flow analysis. Taking into account our credit analysis forecast, our analysis indicates that the available credit enhancement for the rated notes is sufficient to withstand the credit and cash flow stresses that we apply at a 'AAA' rating level for the class A notes and at a 'AA-' rating level for the class B notes. However, our structured finance ratings above the sovereign criteria (RAS criteria) constrain our rating on the class A notes at 'AA+ (sf)' (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published Aug. 8, 2016).

### **Sovereign risk**

Following the application of our European auto ABS criteria and our RAS criteria, we have determined that our assigned rating on each class of notes in this transaction should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our European auto ABS criteria. Our analysis indicates that the available credit enhancement for the rated notes is sufficient to withstand the stresses that we apply at a 'AA+' rating level for the class A notes and at a 'AA-' rating level for the class B notes.

### **Counterparty risk**

The transaction will be exposed to BNP Paribas Securities Services (Madrid Branch) as bank account provider and to ING Bank N.V. as swap counterparty. The replacement mechanisms in the transaction documents mitigate these risks in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). The swap agreement is in line with our current counterparty criteria.

### **Legal risk**

The issuer is a bankruptcy remote entity, in line with our legal criteria and the Spanish securitization law (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The legal opinion provides comfort that the sale of the assets would survive the insolvency of VW Finance as the seller. We have sized the commingling risk exposure and incorporated the resulting loss in our cash flow modeling. We believe the transaction is not exposed to any sort of set-off risk, as the transaction's documented eligibility criteria for the inclusion of receivables excludes loans that the originator granted to its employees. In addition, the originator and seller is not a deposit-taking entity.

### **Credit stability**

We have analyzed the effect of a moderate stress on our credit assumptions and their ultimate effect on our ratings on the notes. We have run two scenarios and the results are in line with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

## **Strengths, Concerns, And Mitigating Factors**

### **Strengths**

- As one of the largest European auto financing groups, VW Finance benefits from an established market position, in our view.
- The pool, comprising 86,320 loans, is granular and geographically diversified in Catalonia, Madrid, and Andalusia. The pool has low borrower concentration risk, with the top 20 borrowers accounting for about 0.13% of the pool. The pool is also diversified by product type.
- As of the pool cut-off date, Jan. 31, 2018, the pool did not contain any contracts with payments that are overdue. The portfolio does not revolve, so a shift in pool quality due to substitutions cannot occur.
- Under certain conditions related to deteriorating asset performance, the transaction will switch from pro rata to sequential amortization.
- The structure benefits from a fully funded liquidity reserve, initially sized at 1.3% of the initial discounted balance of receivables and amortizing subject to a floor (minimum level). The liquidity reserve serves primarily as liquidity support to mitigate any temporary shortfalls. Ultimately, it is available to repay the notes at the end of the transaction's life.

### **Concerns and mitigating factors**

- The retention of title clauses is not registered in DRIVER ESPAÑA FIVE's name, while VW Finance is the servicer of the assigned receivables. However, under statutory regulations, DRIVER ESPAÑA FIVE is the owner of all the rights, payments, and compensations arising for VW Finance from the retention of title clauses in connection with the receivables assigned to DRIVER ESPAÑA FIVE. If VW Finance becomes insolvent, the contracts must be re-registered in the name of DRIVER ESPAÑA FIVE. We sized the potential costs related to this re-registration in our cash flow model.

- There is commingling risk due to a collection account that is in the servicer's name rather than DRIVER ESPAÑA FIVE's. The collections are swept twice per month from the servicer to the issuer. Taking into account the period to notify the borrowers to pay collections directly to the Fund and to redirect collections, we sized commingling risk as a loss of one-month of collections assuming 0% default and a CPR of 3.4% (being the average historical CPR over the last two years experienced by the originator) and we stressed it our cash flow analysis.
- Unlike most other European auto ABS transactions, there will be no excess spread in the structure, as the discount rate of 1.4250% is set to match the issuer's senior liabilities and expenses. This is a purchase above par transaction.
- The liquidity reserve is amortizing, subject to a target amount, resulting in diminishing protection against principal losses for noteholders as the transaction nears maturity. We have incorporated the transaction's amortizing features in our cash flow model to account for its effect on the available credit enhancement.
- The payment structure is not fully sequential. Subject to certain performance triggers, the principal for the class A and B notes can be paid pro rata. Pro rata redemption of the class B notes would cause the available credit enhancement for the class A noteholders to reduce in absolute terms. We have stress-tested back-load curves in the cash flows to address this structural mechanism, and the arranger has set various performance triggers for cumulative net gross rates, mitigating the risk derived from pro rata amortization.
- The issuer purchased assets with a contractual interest rate above the discount rate above par (i.e., a purchase price of such loan is 118.34% of the loan's outstanding principal balance), which may result in losses from prepayments, as borrowers repay only the loan's par value. Additionally, the purchase above par mechanism leads to slightly higher loss severities when a loan defaults. While VW Finance covenants that it would hold the issuer harmless against any prepayment losses, we do not believe that this mechanism mitigates the risk in 'AA+' and 'AA-' rating scenarios. We have therefore sized and factored in a prepayment loss of 15.51% and increased loss severity accordingly in our cash flow model reducing the uniform recovery rate assumed to 29.58% from 35.00% to account for their effect on the available credit enhancement.
- As in most structured finance transactions, there is counterparty risk derived from the reliance on third parties to perform different activities. The documented minimum required rating and remedial actions to mitigate the counterparty risk exposure in the transaction are in accordance with our current counterparty criteria.
- Policy and political uncertainties linked to Catalonia remain the key risks to our outlook. The minority government and fragmented parliament might hinder additional structural reforms needed to reduce constraints on economic growth. We currently consider that our structured finance ratings will remain unaffected by the tensions. The geographical concentration of the portfolio in the Catalonia region is 20.28%, below the threshold of 30% above which we apply additional stresses in our ratings analysis to capture the possibility of region-specific credit deterioration among borrowers.
- Part of the portfolio in the transaction is equipped with diesel engines. In this particular transaction, used vehicle represents just 17.56% of the total portfolio, therefore the effect of diesel ban should be limited, because new vehicles are more likely to comply with Euro 6 standards and therefore are largely excluded by diesel ban. On top of that, the transaction is not exposed to residual value risk. Therefore the potential reduction in resale values only affects recoveries. We expect the impact to be limited as the borrowers are prime, which we consider to be less likely to default (see "Stalling Diesel Car Sales in Europe Could Weaken Auto ABS Collateral Performance," published on June 5, 2017).

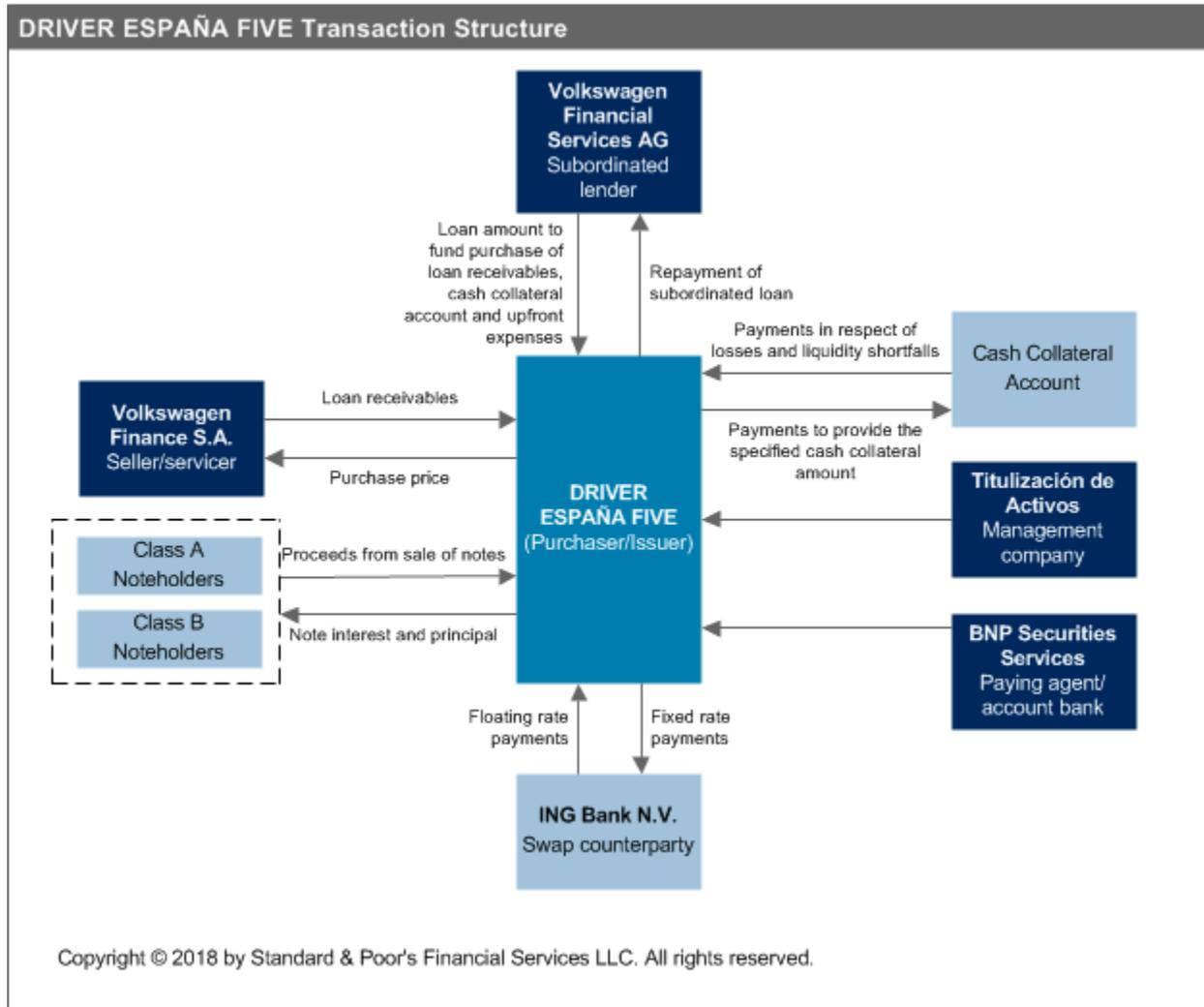
## Transaction Structure

At closing, DRIVER ESPAÑA FIVE purchased the auto loan portfolio (see chart 1). The loan receivables are discounted at a fixed discount rate of interest equal to 1.425%, so that the effective interest available to the issuer are

reduced, leaving no excess spread in the transaction. Therefore, interest receipts are equal to the sum of:

- The weighted-average interest due to the swap counterparty under the terms of the swap on the class A and B notes;
- The interest due under the subordinated loan; and
- The administrative expenses and a servicing fee.

Chart 1



## Collateral Description

The collateral pool backing the notes comprises 86,320 loans, with a total discounted principal balance of about €1,000,002,231.57. Loans granted to buy new cars represent 82.44% of the pool.

**Table 1**

<b>Collateral Distribution Of The Pool</b>	
<b>Pool characteristics</b>	
Pool discounted principal balance outstanding (mil. €)*	1,000.00
Discount rate (%)	1.425
Weighted-average contractual interest rate (%)	10.18
Average remaining discounted loan principal balance (€)*	11,584
Weighted-average original term (months)*	58.01
Weighted-average remaining term (months)*	47.97
Weighted-average seasoning (months)*	10.04
<b>Percentage of pool discounted principal balance (%)*</b>	
Share of new vehicles	82.44
Share of private customers	83.90
Volkswagen	33.42
Audi	20.59
Skoda	9.36
Seat	36.58
Other	0.04
Affected contracts (volume) with EA 189 EU5 engines*	0.77

\*Based on the final pool as of Jan. 31, 2018.

The largest single-borrower concentration is about one basis point (bp), and the top 20 borrowers comprise 13 bps of the final portfolio. Most borrowers are classified as private (83.90% of the pool) and all of them pay the monthly installments via direct debit. We understand that loans with one or more installment in arrears are not eligible for the final pool.

Loans have an original maturity of between five and 96 months, and the remaining terms are between three and 93 months. The geographical distribution shows a diversified portfolio, with the highest concentration at 20.28% for residents in Catalonia (see chart 2).

Chart 2

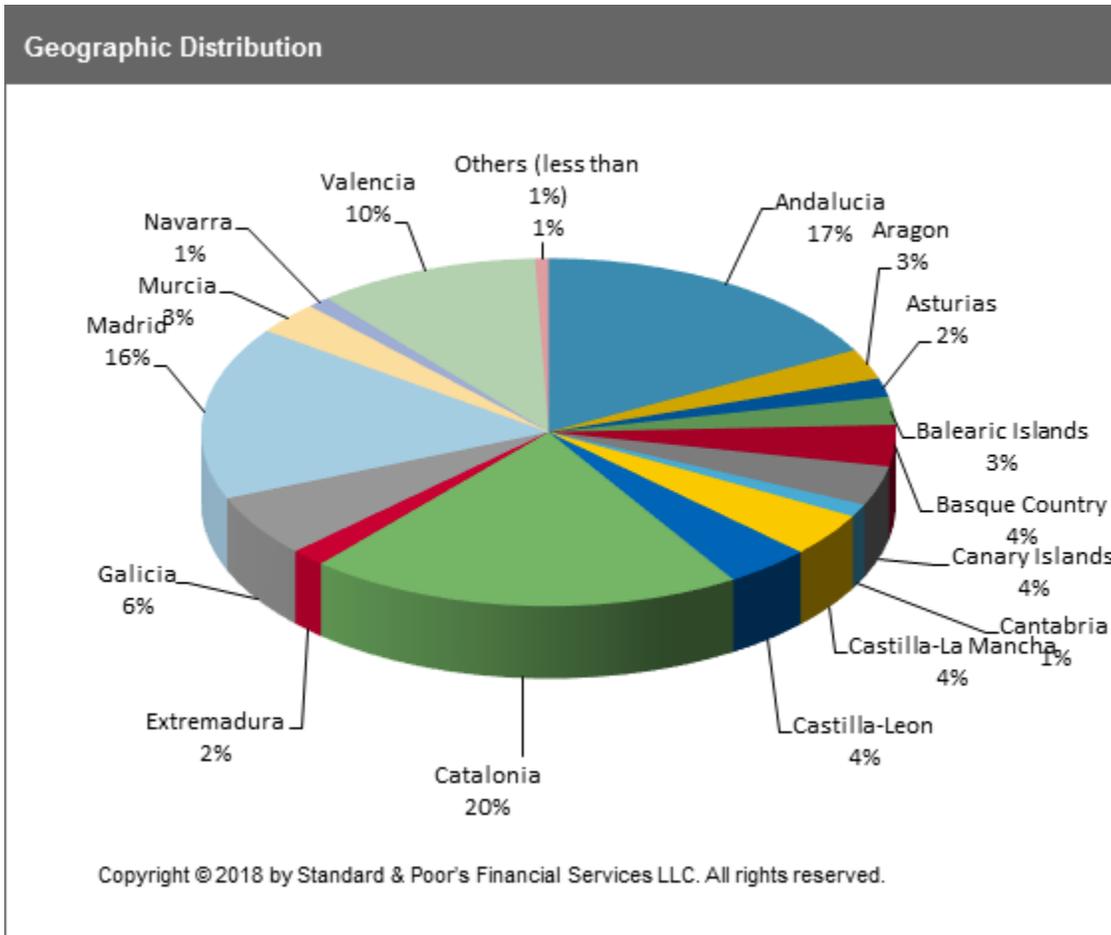
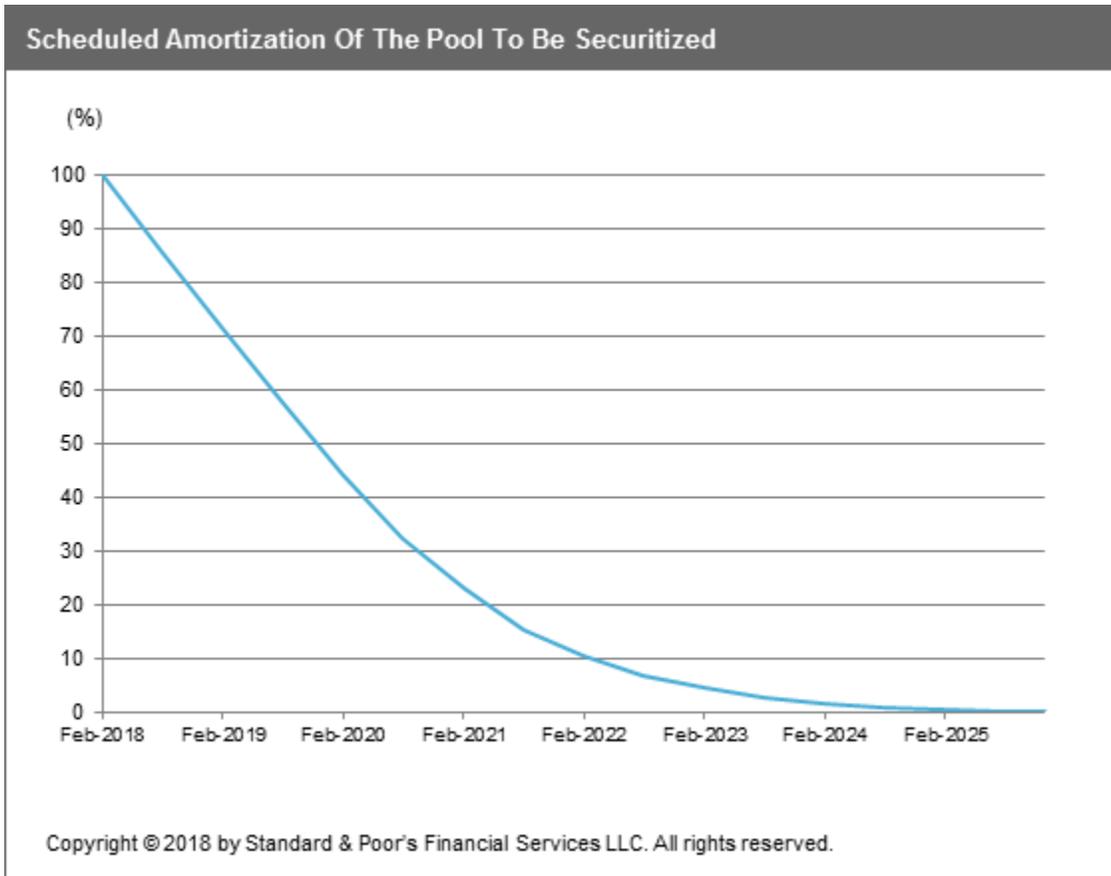


Chart 3 shows that no apparent maturity concentrations are present.

Chart 3



Each loan will provide for the retention of title (Reserva de Dominio) of the financed vehicle, and VW Finance has the right to demand registration of the retention of title in the Chattels Register ("Registro de Bienes Muebles"). Of the pool, 44.79% has this clause already registered in VW Finance's name.

## Credit Structure

### Credit enhancement

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provides protection for the class A and B noteholders.

### Cash reserve

The issuer deposited 1.3% of the initial discounted asset balance as a general cash reserve at closing. Amounts deposited in the general cash reserve account would be available to mitigate any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. As soon as the aggregate discounted receivables balance has been reduced to zero or on the scheduled final maturity date, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve amortizes at 1.3% of the outstanding discounted asset balance, subject to a floor, which is the lesser of (i) €11.00 million and (ii) the class A and B notes' outstanding amount. The

amounts that are released from the reserve are paid directly to the subordinated loan, provided that no credit enhancement increase condition is in effect and that the servicer is solvent. If these conditions are not satisfied (a credit enhancement increase condition has occurred or the servicer is insolvent), the released amount is deposited back into the cash reserve account and can be used in the next payment dates.

The issuer does not invest funds sitting in the bank accounts in eligible investments.

### **Bank account provider**

The bank account provider holds the cash collateral account, the monthly collateral account, and the distribution account.

The minimum documented required long-term rating on the bank account provider is 'A' and short-term rating is 'A-1', or 'A+' if there is no short-term rating. For the bank account provider and the paying agent, the replacement costs are borne by the downgraded counterparty, up to €10,000. We have taken into account the limitation on the payment of the replacement costs, and stressed our cash flow assumptions accordingly.

### **Priority of payments**

The class A and B notes will pay interest in arrears on a designated date each month at a rate of one-month Euro Interbank Offered Rate (EURIBOR) plus a margin. The transaction has a combined interest and principal priority of payments. On each interest payment date (IPD), class A interest will be paid before class B interest. However, class A noteholders only receive principal after interest is paid to the class B noteholders. Amounts in the priority of interest and principal payments for the class A and B notes include taxes payable by the issuer, servicing and administrative expenses, and payments to the swap counterparty. The first IPD is on March 21, 2018. The legal final maturity of the notes is in December 2028.

**Table 2**

<b>Priority Of Payments (Simplified)</b>	
1	Taxes.
2	Senior fees, including payments for administration cost and expenses, trustee fees, and servicer fees.
3	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party or downgraded below threshold).
4	Interest on the class A notes.
5	Interest on the class B notes.
6	Top-up cash reserve (only if drawn upon previously).
7	Class A notes' principal (sequential or pro rata).
8	Class B notes' principal (sequential or pro rata).
9	Payments to the swap counterparty not paid above.
10	Interest on the subordinated loan.
11	Principal on the subordinated loan.
12	All remaining amounts back to VW Finance through a financial intermediation margin.

As soon as overcollateralization has reached 21.0% (plus 980 bps compared with the closing level) for the class A notes, and 14.5% (plus 590 bps compared with the closing level) for the class B notes, the issuer pays principal payments received pro rata to the class A and B noteholders. The percentage of overcollateralization for the class A

and B notes remains constant for as long as the portfolio's performance stays within the predetermined boundaries: if the cumulative gross loss ratio exceeds 1.8% on any payment date up to the one corresponding to month May 2019 (included) or 4.0% for any payment date after the one corresponding to month May 2019 but prior to the one corresponding to February 2020 (inclusive), the issuer repays the notes sequentially until overcollateralization reaches 25.0% for the class A notes, and 18.0% for the class B notes.

If at any time the cumulative gross loss ratio exceeds 8.0%, or in the case of a servicer insolvency event, amortization permanently switches to sequential repayment.

Table 3 describes the initial overcollateralization levels and target overcollateralization levels.

**Table 3**

<b>Overcollateralization Levels</b>					
<b>Class</b>	<b>Actual overcollateralization (%)</b>		<b>Target overcollateralization levels (%)</b>		
	<b>At closing</b>	<b>Post closing</b>	<b>If gross loss triggers are breach</b>	<b>Credit enhancement increase condition</b>	<b>in effect</b>
A	11.20	21.0	25.0		100.0
B	8.60	14.5	18.0		100.0

### **Servicing**

The originator and seller, VW Finance S.A. Madrid, is servicing the loans. VW Finance is a wholly owned subsidiary of VW Financial Services AG (BBB+/Stable/A-2). We conducted an operational visit to the servicer, in which we were informed about the origination, underwriting, servicing and collecting processes, risk management, and IT systems in place. In our opinion, the servicer's operations are sufficient to maintain the minimum servicing standards.

## **Mitigation Of Seller Risks**

### **Commingling risk**

Borrower collections are paid into the servicer collection bank account. These collections are not heavily concentrated on any specific monthly day and all of collections are received via direct debit. Transfers from the servicer collection bank account provider into the issuer distribution account occur bi-monthly. Taking into account the period to notify the borrowers to pay collections directly to the fund and to redirect collections, we sized commingling risk as a loss of one-month of collections assuming 0% default and a CPR of 3.4% (the average historical CPR over the last two years experienced by the originator) and we stressed it our cash flow analysis.

### **Set-off risk**

Volkswagen Finance is not a deposit-taking institution, so there is no deposit set-off risk in the transaction. Additionally, the representations and warranties ensure that no borrower is a seller employee.

### **Losses due to prepayments and purchase above par**

As it is a present-value structure, the issuer might be subject to losses due to prepayments. This results from the fact that the issuer will purchase the loans at a fixed discount rate, while the contractual interest rates of the loans are on average higher than the discount rate, resulting in the issuer purchasing these loans above par. The pool's

weighted-average interest rate is 10.18%, compared with the applied discount rate of 1.425%. Hence, the portfolio's discounted value is 118.34% of its principal balance. If any of these loans prepays, the issuer would suffer a loss, as the prepayment is made at par. The seller, VW Finance, will cure this loss. Under our rating scenarios, we assume that losses are not cured, because VW Finance's default risk is not mitigated to a level that is commensurate with our rating scenarios. To stress-test the scenario where VW Finance is not available to take those losses, we have sized and stressed potential losses arising from prepayments at 15.51% and have adjusted the loss assumptions in our models accordingly, so that the assumed stressed recovery rate is reduced to 29.58%.

## **Credit And Cash Flow Analysis**

Our rating analysis includes an assessment of the credit risk inherent in the transaction. We tested the available credit enhancement, analyzing the effect that various stress scenarios would have on the collateral. We also tested the credit support for each class of notes to be issued, based on our rating methodology for analyzing auto transactions.

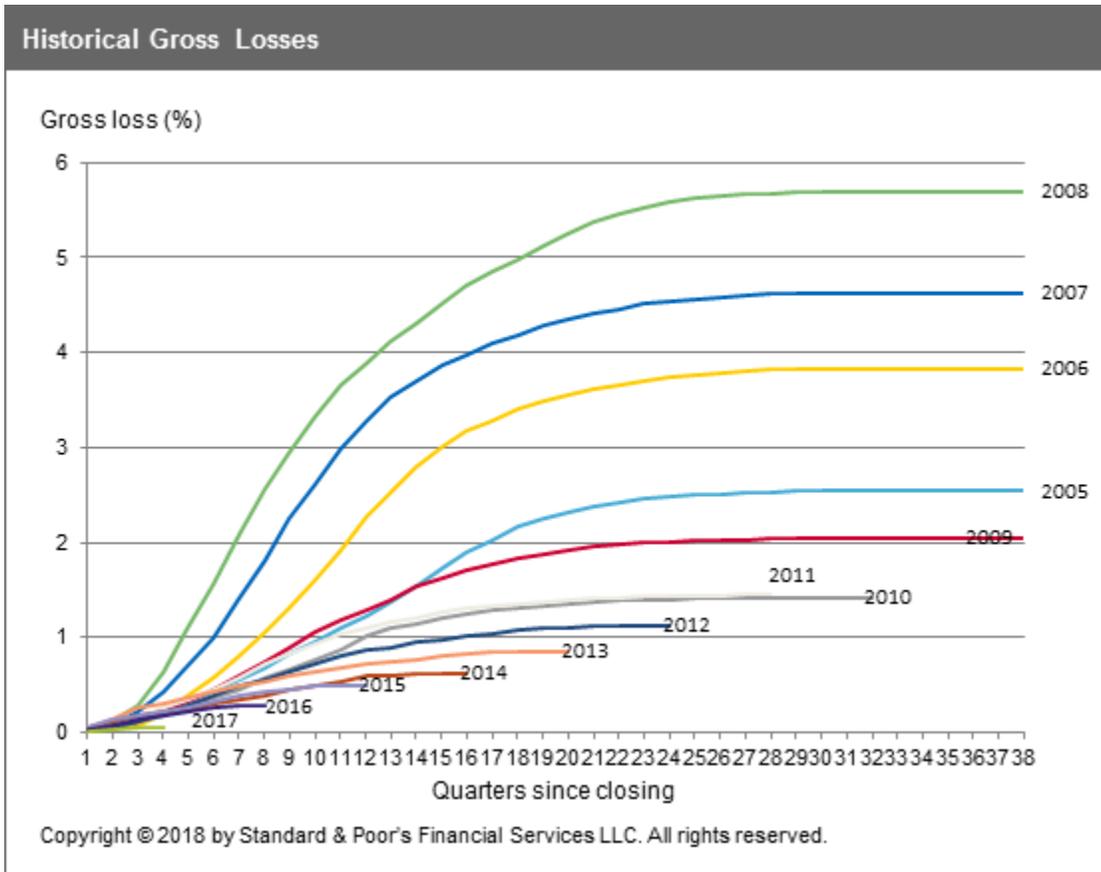
### **Gross losses and gross loss multiples**

We received from the originator quarterly static gross loss and net loss data from January 2005 to December 2017. We have conducted an actuarial analysis on the historical data and derived the default assumptions.

We calculated our cumulative gross loss assumption of 2.00% by factoring in the performance of the four different products securitized: Classic credit new vehicles, classic credit used vehicles, auto credit new vehicles, and auto credit used vehicles. There are more than 12 years of historical data (static and dynamic), where the curves are starting to flatten. In addition, the historical data cover the worst part of the economic cycle, showing how the loans are performing in that situation. Gross loss vintage curves show a change in "behavior" starting from 2010. Originated curves after 2009 show better performance than older cohorts. We consider it unlikely that performance will deteriorate to levels seen before 2009 due to the macroeconomic outlook and VW Finance's more stringent underwriting and servicing procedures since then.

Chart 4 shows the historical cumulative gross losses, by year of origination.

Chart 4



We set our gross loss multiples taking into consideration the originator's experience and the quality of the data provided.

Table 4 summarizes our multiples stress assumptions.

Table 4

Loss Multiples Used For Different Ratings	
Rating	Multiples (x)
AAA	4.50
AA-	3.17

#### Recovery timings and recovery rate haircuts

We have not received recovery data on the originator's loan book. We have derived our recovery rate assumption on the comparison between the gross loss data and the net loss data and the recovery information received. Additionally, we analyzed the recovery information for the two previous Spanish securitizations, DRIVER ESPAÑA THREE AND DRIVER ESPAÑA TWO. The recovery rate base assumption is 35%, higher than 30% in DRIVER ESPAÑA THREE.

DRIVER ESPAÑA deals are not exposed to balloon loans, therefore the residual risk is mitigated. Additionally, we have considered that the weight of affected engines in this current portfolio is limited to 0.77%, thus much lower than

34.39% in DRIVER ESPAÑA THREE. We therefore consider that, based on the current information, the credit analysis conducted for DRIVER ESPAÑA FIVE also covers the potential effects from the engine emissions issue.

We have set our base-case assumptions with a recovery period of 24 months. Under our assumptions, no recoveries will be realized under the first 24 months.

### **Prepayment**

We have modeled the prepayment rate up to 20.0% and down to 0.5%.

To determine the effect of pro rata amortization, our cash flow modeling considered the performance triggers and we ran additional scenarios with a back-load of defaults. We calculated losses that might arise due to prepayments for the different rating levels and added these to the loss assumptions we used in our cash flow modeling. In addition, we adjusted the loss severity used in our cash flow modeling for the fact that, on average, the portfolio has been purchased above par.

The ratings address not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities. We tested different cash flow runs to control the timeliness of payments to noteholders. We applied this throughout the transaction's life under different stress scenarios and corresponding with different rating levels.

### **Sovereign Risk**

Following the application of our European consumer finance criteria and considering our RAS criteria, we have determined that our assigned rating on each class of notes in this transaction should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our European consumer finance criteria.

In this transaction, our long-term rating on the Republic of Spain (BBB+/Positive/A-2) constrains our ratings on the class A and B notes.

Under our RAS criteria, we applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by legal final maturity.

Our RAS criteria designate the country risk sensitivity for consumer loans as moderate. Under our RAS criteria, this transaction's notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a severe stress. However, as all six of the conditions in paragraph 44 of the RAS criteria are met, we can assign ratings in this transaction up to a maximum of six notches (two additional notches of uplift) above the sovereign rating, subject to credit enhancement being sufficient to pass an extreme stress (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

## Scenario And Sensitivity Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

### Methodology

When rating European auto and consumer ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 5).

**Table 5**

Scenario Stresses		
Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross loss rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base-case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

### Transaction analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. Tables 6 to 8 show the implied base-case stresses and scenario stress results.

**Table 6**

Scenario Stresses			
Stress horizon—12 months			
Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	2.00	2.00	2.00
Recovery rate (%)	29.58	22.68	18.07
CPR (%)	4	2.9	2.4
Mild recession length	N/A	12	12

CPR--Constant prepayment rate.

**Table 7**

Scenarios (Default Rates And Loss Severities)				
	Default rates		Loss severities	
	Scenario 1 (%)	Scenario 2 (%)	Scenario 1 (%)	Scenario 2 (%)
AAA	8.5	9.8	77.3	81.9
AA	6.5	7.8	77.3	81.9
A	4.5	5.8	77.3	81.9
BBB	3.3	3.9	77.3	81.9
BB	2.8	3.4	77.3	81.9

**Table 8**

Scenario Stress Analysis—Rating Transition Results			
Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AA+ (sf)	AAA (sf)
	B	AA- (sf)	AA+ (sf)
Scenario 2	A	AA+ (sf)	AAA (sf)

**Table 8****Scenario Stress Analysis—Rating Transition Results (cont.)**

<b>Scenario stress</b>	<b>Class</b>	<b>Initial rating</b>	<b>Scenario stress rating</b>
	B	AA- (sf)	AA- (sf)

Given the stresses we applied under scenario 1 and scenario 2, the class A and B notes would most likely maintain their respective ratings.

A number of features of this transaction, including triggers that lead to a temporary and finally permanent sequential repayment mechanism, the initial overcollateralization, and the cash reserve, enhance the stability of the ratings under each scenario.

For the purposes of our analysis above, we make a simplified assumption that the management company will not call an early liquidation event.

## Key Performance Indicators

We regularly assess the following as part of our ongoing surveillance of this transaction:

- The performance of the underlying portfolio, including defaults and delinquencies;
- The portfolio's composition, including the product mix;
- The transaction's supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards;
- The recovery proceeds; and
- The build-up of overcollateralization during the transaction's life.
- We currently do not expect bond cash flow disruptions or rating implications from the potential phase out of LIBOR and similar IBOR benchmarks after 2021. However, as new proposed benchmarks emerge, we will need to consider whether they meet our criteria (see "With A LIBOR Phase-Out Likely After 2021, How Will Structured Finance Ratings Be Affected?," published on Oct. 19, 2017).

## Related Criteria

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
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- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
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- Eurozone Growth Momentum Stays Solid, Nov. 30, 2017
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- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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- New Issue: DRIVER ESPANA THREE, FONDO DE TITULIZACION, Feb. 26, 2016
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- Europe's Carmakers Face A Long Road To Clear The Air On Emissions, Feb. 2, 2016
- Ratings Assigned To DRIVER ESPANA TWO's Class A And B Spanish Auto ABS Notes, Oct. 14, 2015
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009

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