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[SPSF] New Issue: Driver Japan Nine

Primary Credit Analyst:

Yoshitaka Matsuda, Tokyo (81) 3-4550-8232; yoshitaka.matsuda@spglobal.com

Secondary Contact:

Toshiaki Shimizu, Tokyo (81) 3-4550-8302; toshiaki.shimizu@spglobal.com

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¥60 Billion Beneficial Interests And ABL Due June 2028

Ratings As Of Feb. 27, 2020

Class	Amount (bil. ¥)	Rating	Interest rate	Legal final maturity date	Overcollateralization ratio (%)§
Beneficial interests 2	37.5	AAA (sf)	Fixed	June 28, 2028	6.5
ABL 2	22.5	AAA (sf)	Fixed	June 28, 2028	6.5

§The overcollateralization ratio is defined as follows: 1-(A+B)/(C-D-E); A: the rated obligations and equally ranked obligations; B: prior obligations to the rated obligations; C: underlying assets (including cash); D: liquidity reserves; E: obligations, except for senior, mezzanine, or subordinate obligations (seller's interest, etc.) ABL--Asset-backed loan.

Profile

Closing date	Feb. 27, 2020
Collateral	Auto loan receivables
Originator/Trustor 1/Servicer	Volkswagen Financial Services Japan Ltd.
Trustee (Trusts 1 and 2)	Deutsche Trust Company Ltd. Japan
Collection account	MUFG Bank Ltd.
Arrangers	BNP Paribas Securities (Japan) Ltd. and Mizuho Securities Co. Ltd.
ABL 1 Lender/Trustor 2	Mizuho Securities Co. Ltd.
Underwriter	BNP Paribas Securities (Japan) Ltd.
Subservicers/Guarantors of auto loan receivables	JACCS Co. Ltd. and Cedyna Financial Corp.

Credit Support

Overcollateralization	(1) Credit support provided through overcollateralization mitigates the credit risk of the beneficial interests and ABLs. (2) Principal payments in cash for the subordinate beneficial interest will not be made until credit enhancement reaches the target level. Accordingly, credit enhancement for ABL 1 is set to rise to the target level as seasoning increases. After credit enhancement reaches the target level, payments convert to pro rata on ABL 1 and the subordinate beneficial interest. We incorporate an impact of pro rata-basis redemption in our cash flow analysis. (3) During the one-year revolving period, the amount of the subordinate beneficial interest that serves as credit enhancement increases if the originator entrusts additional loans.
Early amortization triggers	Early amortization triggers would mitigate potential adverse impact on redemption of ABL 1.

Transaction Structure

Servicing risk	A backup servicer will not be appointed at the closing date. In the event that certain credit events stipulated in trust agreements occur, trustee 1 will appoint a backup servicer and, in certain cases, have that backup servicer take over servicing operations from the initial servicer. This structure mitigates the risk of an extended period of disruption to servicing activities.
Liquidity risk	A cash reserve to be funded at closing for four months' worth of interest payments and transaction expenses mitigates liquidity risk. In addition, this cash reserve is nonamortizing during the transaction term and ultimately serves as credit support.
Commingling risk	Advance payment collections by the servicer and overcollateralization mitigate commingling risk.
Counterparty risk	Under the transaction documents, qualified banks have a short-term credit rating of 'A-1' or above. In the future, if the bank of the account is no longer eligible as a qualified bank, the account will be transferred within 30 days to a financial institution that is eligible.

Assumed Scenarios

(%)	Base scenario	'AAA' stress scenario
Cumulative default rate	0.8	4.0
Losses on balloon payments	0.0	7.0
Monthly prepayment rate	1.0	0.05 to 3.0
Cumulative default rate considering losses on balloon payments	0.8	7.3
Excess spread	--	1.1
Break-even overcollateralization level	--	6.2

Rationale

S&P Global SF Japan Inc. (SPSF) today said that it has assigned its 'AAA (sf)' ratings to Driver Japan nine's beneficial interests 2 and its corresponding asset-backed loan (ABL 2) under the transaction. Both are due June 2028 and worth a combined ¥60.0 billion (see tables above). The collateral comprises Japanese auto loan receivables that Volkswagen Financial Services Japan Ltd. (VWFSJ) originated.

The ratings reflect our views primarily on the following.

- We assume a cumulative default rate on the initial receivables balance of 0.8% during the transaction term, based on the characteristics of and historical data on the underlying auto loan assets, performance data on past series, and our overall outlook for the future performance of Japanese auto loan assets.
- We also assume a cumulative default rate of 7.3% under our 'AAA' stress scenario, considering that the underlying assets include auto loans with balloon payments (such loans have equal payments during the loan's life except for the last "balloon" payment, which is significantly larger).
- Credit support, provided through overcollateralization, mitigates the credit risk of the underlying assets.
- Credit support available to beneficial interests 2 and ABL 2 withstood our 'AAA' stress scenario after analyzing the cash flow stressed on all the parameters, including default rates.
- Advance payment collections by the transaction's servicer mitigate commingling risk.
- Cash reserves in order to provide liquidity support for interest payments on rated classes and transaction costs are funded on the transaction's closing date.
- Initial servicer VWFSJ and subservicers JACCS Co. Ltd. and Cedyna Financial Corp. are able to fulfill their roles in the transaction.

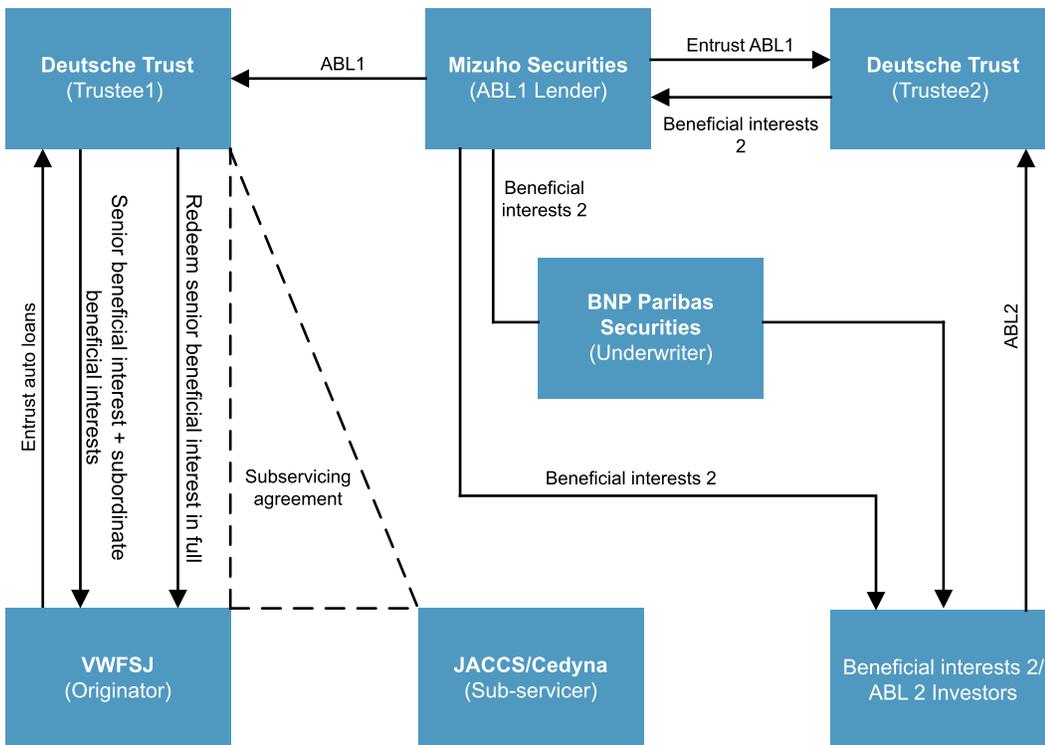
- As soon as the overcollateralization ratio has reached a certain level after a revolving period, the principal will be redeemed on a pro rata basis. The transaction's payment structure and cash flow mechanisms include the establishment of early amortization triggers that will convert principal payments to a monthly pass-through turbo structure if these early amortization triggers hit.
- The transaction's legal structure establishes that the entrustment of the underlying assets are not considered as security interest and thus the underlying assets will not be considered as part of the originator's property in the event of its bankruptcy.

Transaction Structure

The ¥60 billion beneficial interests 2 and ABL 2 are backed by a pool of auto loan receivables that VWFSJ originated. The transaction structure is shown below (see chart 1).

Chart 1

Driver Japan Nine Transaction Structure



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1. The originator entrusted a pool of auto loan receivables and cash with Deutsche Trust Co. Ltd. Japan (Deutsche Trust Japan; trustee 1). At the entrustment, the lien on the receivables was perfected against third-party claims via registration of the transfer of the receivables, pursuant to regulations for perfection under Japan's Special Perfection Law. Perfection against obligor claims will be suspended unless certain events, such as a servicer replacement, occur.

The originator received the senior beneficial interest and subordinate beneficial interest. Upon entrustment of the auto loans, the originator transferred withheld ownership of the relevant purchased vehicles to trustee 1. However, withheld ownership was not be registered in trustee 1's name.

2. Trustee 1 raised funds from Mizuho Securities Co. Ltd. (ABL 1 Lender). Trustee 1 then redeemed the senior beneficial interest in full on the trust commencement date. The originator holds the subordinate beneficial interest for the life of the transaction.

3. The ABL 1 Lender entrusted ABL 1 with Deutsche Trust Japan, which serves also as trustee 2. Then, BNP Paribas Securities (Japan) Ltd. and Mizuho Securities sold beneficial interests 2 to investors through a private placement. Investors also chose to lend money through ABL 2 instead of purchasing beneficial interests 2. At the transfer of beneficial interests 2, their assignment was perfected against obligor and third-party claims following trustee 2's written consent to a notarially certified date, pursuant to Article 94 of the Trust Law.

4. During the revolving period, the originator may entrust further auto loan receivables with trustee 1 if funds are available.

5. The originator will continue to collect the receivables with the subservicers.

ABL 1, beneficial interests 2, and ABL 2 carry fixed rates of interest and dividend. Trustee 1 is scheduled to pay interest and principal on ABL 1 from its account to a separate account for trustee 2 on each monthly trust calculation date. After the one-year revolving period, trustee 1 will redeem ABL 1 sequentially until overcollateralization reaches 11.5%--which is 5.0 percentage points higher than the level at closing. As soon as overcollateralization has reached 11.5%, trustee 1 will redeem the principal on ABL 1 and the subordinate beneficial interest pro rata.

Trustee 2 will use collections from ABL 1 to pay interest and principal on beneficial interests 2 and ABL 2 via a pass-through structure after deducting its trustee fee. The payment priority of beneficial interests 2 and ABL 2 is *pari passu* throughout the transaction term.

In this transaction, a backup servicer will not be appointed at closing. In the event that certain credit events stipulated in trust agreements occur, trustee 1 will appoint a backup servicer and, in certain cases, have that backup servicer take over servicing operations from the initial servicer.

Cash Flow

Delivery of collections

Each monthly collection period of this transaction starts on the 11th of each month and ends on the 10th of the following month. JACCS will collect payments from the receivables it subservices on behalf of VWFSJ through automatic withdrawal from the obligors' accounts on the 27th of each month. Cedyne will collect the same on the 26th of each month. JACCS and Cedyne, as the guarantors, will transfer the full amount of scheduled collected proceeds--regardless of the amount of actual collected proceeds--to VWFSJ on the same respective days. VWFSJ makes advance payment to trustee 1 for one month of scheduled collections on the fourth business day before the 28th of the month when automatic withdrawal occurs. It reimburses the advance payment four business days before the

28th of the following month. In this transaction, the modified following business day convention will apply to the 28th of each month.

Trustee 1 will distribute interest and principal on ABL 1 one business day before the 28th of each month. Trustee 2 will distribute interest and principal on beneficial interests 2 and ABL 2 on the 28th of the same month.

Revolving period

During the revolving period, VWFSJ can entrust additional auto loan receivables with trustee 1. The revolving period starts on the trust commencement date and ends on March 10, 2021, at the latest. It will end earlier if and when any of the early amortization events described below occur.

During the revolving period, trustee 1 will use interest and principal collected from the auto loan receivables less an amount equivalent to the sum of trustee fees, servicing fees, and other expenses to pay interest on ABL 1. Then, trustee 1 will retain excess cash collected from the asset pool (retained cash) in a trust. However, if VWFSJ entrusts additional auto loan receivables, it will receive a newly issued senior beneficial interest and subordinate beneficial interest and will use the retained cash to redeem the new senior beneficial interest. As soon as overcollateralization has reached 8.5%, payment to the subordinate beneficial interest will start using the excess overcollateralization or earnings.

Repayment of beneficial interests and ABL

After the revolving period has ended, trustee 1 will use interest and principal collected from the auto loan receivables, less an amount equivalent to the sum of trustee fees, servicing fees, and other expenses, to pay interest on ABL 1. Then ABL 1 will redeem sequentially until overcollateralization reaches 11.5%. As soon as overcollateralization has reached 11.5%, trustee 1 will transfer principal payments received pro rata to ABL 1 and the subordinate beneficial interest. The percentage of overcollateralization for ABL 1 will remain constant as long as the portfolio's performance stays within the following predetermined boundaries:

- The cumulative gross loss ratio exceeds 0.50% during the first six months after closing, 0.80% between month six and month 15, or 1.15% between month 15 and month 24, and trustee 1 therefore repays ABL 1 sequentially until overcollateralization reaches 17.0% for ABL 1.
- Additional credit enhancement reaches the required level, and the repayment therefore reverts to pro rata.
- The cumulative gross loss ratio exceeds 1.6% at any time, and amortization therefore permanently switches to sequential payments.

Discount rate

The discount rate applied to each loan (including additional auto loans that VWFSJ may entrust during the revolving period) in Driver Japan nine's pool is set to be the greater of: (1) a predetermined rate (which is set, based on the entrusted pool, such that the cash flow from the assets covers the fixed interest rate of ABL 1, plus fees and expenses), and (2) the applicable interest rate in the relevant auto loan agreement.

Early amortization triggers

This transaction is structured with early amortization triggers, which mitigates the potential adverse impact on redemption of ABL 1. In the early amortization period, trustee 1 repays ABL 1 sequentially. Early amortization trigger

events include, but are not restricted to, the following:

- The cumulative gross loss ratio exceeds 1.6%;
- A servicer replacement event occurs;
- A subservicer replacement event occurs; and
- The outstanding cash amount in the trust account exceeds 10% of the portfolio volume for three consecutive months.

Credit enhancement

Overcollateralization provides credit protection for the transaction. In addition, the structure benefits from a nonamortizing cash reserve, which serves primarily as liquidity support and ultimately as credit support. Meanwhile, advance payments by the transaction's servicer mitigate commingling risk.

Originator

VWFSJ, established in 1990, is a subsidiary of Volkswagen Finance Overseas B.V. that in turn is controlled by Germany-based Volkswagen Financial Services AG, which car manufacturer Volkswagen AG owns. VWFSJ's primary business is to provide financing for customers of Volkswagen AG and grant credit to car dealers. These car dealers sell predominantly Volkswagen and Audi vehicles, along with those of Bentley, Lamborghini, and Ducati, in Japan. VWFSJ outsources its auto loan operations—including credit and scoring, processing contract applications, and collections—to JACCS and Cedyne, which are Japanese consumer credit companies. JACCS and Cedyne also provide guarantees to VWFSJ against losses from auto loans. VWFSJ had ¥377.8 billion in total assets and 75 employees as of Oct. 31, 2019.

Subservicers

JACCS is a Japanese consumer credit company, providing shopping credit, auto loans, and credit cards to retail customers. It is an equity method affiliate of MUFG Bank Ltd.

Cedyne is also a Japanese consumer credit company providing shopping credit, auto loans, and credit cards, as well as loan guarantee and collection agency services to retail customers. Cedyne was formed in April 2009 through the merger of OMC Card, Central Finance, and QUOQ. In April 2019, Cedyne became a wholly owned subsidiary of Sumitomo Mitsui Card Co. Ltd.

Collateral Description

The entrusted collateral pool backing the transaction comprises 26,586 auto loans, with a total discounted principal balance of about ¥64,173 million. The assets meet the major eligibility criteria listed below.

- No receivable is in default or overdue.
- The borrower has made at least two monthly payments.

- The borrower makes monthly payments via automatic withdrawal or remittance.
- The borrower makes monthly payments in equal monthly installments and without skipped or irregular payments (except for annual or semiannual bonus payments and final balloon payments).
- The current principal outstanding balance of each receivable is greater than ¥50,000 and less than ¥10,000,000.
- The remaining number of monthly installments is no higher than 82.
- JACCS or Cedyna guarantees the receivables.

According to the transaction documents, receivables added to the portfolio during the revolving period need to comply with the same eligibility criteria as the receivables entrusted at closing. In addition, the portfolio's concentration in used cars and in the amount of balloon payments should not exceed certain limits during the revolving period. The concentration limit for balloon payments is 50%, that for used cars is 35%, and that for non-Volkswagen group brand cars is 5% of the total amount of loans. All limits are as of the day immediately after the trust commencement date and the additional entrustment date.

The largest single contract from an obligor represents about 0.03% of the portfolio and the top 20 loans from obligors make up 0.38% of the portfolio. The average outstanding loan balance is ¥2.41 million.

The entrusted contracts contain no maintenance components, and each borrower has paid at least two installments. The underlying assets of this transaction comprise consumer loan contracts (83.9%) and business loan contracts (16.1%). About 8.7% of the loan contracts are amortizing and 91.3% incorporate a balloon feature. The share for the balloon payment amount is 36.4% of the total initial amount of all loans.

Loans have an original maturity of between six and 84 months, and the remaining terms are between one and 82 months. The securitized portfolio comprises predominantly auto loans for Volkswagen and Audi vehicles. The collateral pool does not contain auto loans for the purchase of Ducati vehicles.

The largest car dealer represented about 11.6% of the mother portfolio and the top 20 dealers comprised 54.4% of the mother portfolio as of Oct. 31, 2019.

The composition of the entrusted pool of entrusted receivables is similar to that of the pools of entrusted receivables underlying past series of transactions issued by the originator. The proportion of used car loans and balloon loans has increased moderately.

Table 1 shows: attribute data of VWFSJ's entire auto loan book (the mother pool) as of Oct. 31, 2019; the pool of entrusted receivables as of Feb. 10, 2020; and attribute data of the entrusted receivables pools of the past series. The mother pool consists of receivables that VWFSJ originated and JACCS or Cedyna guarantees. Some of the receivables in the mother pool failed to meet the eligibility criteria for the entrusted pool. An overview of the loan products securitized in the Driver Japan nine transaction also follows (see table 2).

Table 1

Attribute Data Of Receivables Pools					
	Driver Japan nineMother pool (as of Oct. 31, 2019)	Driver Japan nine entrusted pool (as of Feb. 10, 2020)	Driver Japan eight entrusted pool (as of Feb. 10, 2019)	Driver Japan seven entrusted pool (as of Feb. 10, 2018)	Driver Japan six entrusted pool (as of Feb. 10, 2017)
Country of origin	Japan	Japan	Japan	Japan	Japan
Total receivables (¥)*	264,557,306,114	64,172,991,168	69,520,797,756	58,823,742,157	64,171,706,472
No. of contracts	125,311	26,586	30,362	25,466	30,757
Guarantee providers	Cedyna (52.3%); JACCS (47.7%)	Cedyna (56.7%); JACCS (43.3%)	Cedyna (57.6%); JACCS (42.4%)	Cedyna (58.8%); JACCS (41.2%)	Cedyna (61.1%); JACCS (38.9%)
Customer type	Retail (82.1%); Corporate (17.9%)	Retail (83.9%); Corporate (16.1%)	Retail (85.1%); Corporate (14.9%)	Retail (84.8%); Corporate (15.2%)	Retail (85.6%); Corporate (14.4%)
Vehicle type**	New (75.9%); Used (24.1%)	New (74.6%); Used (25.4%)	New (75.3%); Used (24.7%)	New (76.2%); Used (23.8%)	New (77.1%); Used (22.9%)
Geographic concentration	Tokyo (17.6%); Kanagawa (10.0%); Osaka (7.7%); Aichi (7.1%); Saitama (6.4%)	Tokyo (16.8%); Kanagawa (10.9%); Osaka (7.4%); Aichi (7.3%); Saitama (6.8%)	Tokyo (18.1%); Kanagawa (10.1%); Aichi (7.3%); Osaka (7.2%); Saitama (6.8%)	Tokyo (18.0%); Kanagawa (10.4%); Aichi (7.3%); Saitama (6.7%); Osaka (6.6%)	Tokyo (17.7%); Kanagawa (10.2%); Aichi (6.9%); Saitama (6.6%); Osaka (6.3%)
Average outstanding receivables size (¥)*	2,111,206	2,413,789	2,289,731	2,309,893	2,086,410
Outstanding loan size range (¥)*	4,376 to 57,856,678	50,419 to 9,996,172	51,322 to 9,987,070	50,096 to 9,976,018	50,096 to 9,980,361
Weighted-average seasoning (months)	16.3	9.1	9.3	9.6	11.8
Weighted-average remaining term (months)	33.9	40.5	39.2	38.9	36.3
Weighted-average interest rate (%)	2.25	2.27§	2.32§	2.12§	2.06§
Asset redemption profile	Amortizing loans (8.6%); balloon loans (91.4%); balloon payment share (42.7%)	Amortizing loans (8.7%); balloon loans (91.3%); balloon payment share (36.4%)	Amortizing loans (10.9%); balloon loans (89.1%); balloon payment share (37.7%)	Amortizing loans (10.6%); balloon loans (89.4%); balloon payment share (38.2%)	Amortizing loans (13.6%); balloon loans (86.4%); balloon payment share (39.5%)
Manufacturer breakdown	Volkswagen (50.8%); Audi (42.3%); Others (6.9%)	Volkswagen (51.2%); Audi (48.3%); Others (0.5%)	Volkswagen (54.6%); Audi (45.1%); Others (0.3%)	Volkswagen (51.8%); Audi (47.8%); Others (0.4%)	Volkswagen (51.6%); Audi (48.1%); Others (0.3%)
Type of loan products***	Owner's Plan (6.1%); Solutions (44.6%); S-Loan (46.1%); S-Loan Plus (0.7%); Others (2.5%)	Owner's Plan (5.5%); Solutions (48.8%); S-Loan (42.4%); S-Loan Plus (0.1%); Others (3.2%)	Owner's Plan (6.5%); Solutions (45.9%); S-Loan (42.4%); S-Loan Plus (0.8%); Others (4.4%)	Owner's Plan (7.3%); Solutions (40.2%); S-Loan (46.5%); S-Loan Plus (2.8%); Others (3.2%)	Owner's Plan (10.8%); Solutions (38.8%); S-Loan (44.2%); S-Loan Plus (3.4%); Others (2.8%)

*The receivables balance of the mother pool is actual, while that of the final pool is discounted by the aforementioned discount rate. **Used includes refinanced loans. §We calculated the weighted-average interest rate using the interest rates applied in the auto loan agreements and the principal amounts of the discounted loans. The discounted weighted-average interest rate is slightly higher than this rate. ***Solutions includes Loans of Audi Future Drive.

Table 1 (continued)

Attribute Data Of Receivables Pools					
	Driver Japan five entrusted pool (as of Feb. 10, 2016)	Driver Japan four entrusted pool (as of Feb. 10, 2015)	Driver Japan three entrusted pool (as of Feb. 10, 2014)	Driver Japan two entrusted pool (as of Feb. 10, 2013)	Driver Japan one entrusted pool (as of Dec. 10, 2011)
Country of origin	Japan	Japan	Japan	Japan	Japan
Total receivables (¥)*	64,176,234,995	34,225,000,579	32,086,508,758	30,270,523,940	27,322,416,961

Table 1 (continued)

Attribute Data Of Receivables Pools (cont.)					
	Driver Japan five entrusted pool (as of Feb. 10, 2016)	Driver Japan four entrusted pool (as of Feb. 10, 2015)	Driver Japan three entrusted pool (as of Feb. 10, 2014)	Driver Japan two entrusted pool (as of Feb. 10, 2013)	Driver Japan one entrusted pool (as of Dec. 10, 2011)
No. of contracts	31,976	16,751	15,890	14,160	17,182
Guarantee providers	Cedyna (62.0%); JACCS (38.0%)	Cedyna (63.5%); JACCS (36.5%)	Cedyna (65.8%); JACCS (34.2%)	Cedyna (73.0%); JACCS (27.0%)	JACCS (100.0%)
Customer type	Retail (85.0%); Corporate (15.0%)	Retail (85.0%); Corporate (15.0%)	Retail (85.4%); Corporate (14.6%)	Retail (86.3%); Corporate (13.7%)	Retail (86.2%); Corporate (13.8%)
Vehicle type**	New (79.5%); Used (20.5%)	New (82.8%); Used (17.2%)	New (82.4%); Used (17.6%)	New (82.0%); Used (18.0%)	New (80.7%); Used (19.3%)
Geographic concentration	Tokyo (17.4%); Kanagawa (10.5%); Aichi (6.9%); Osaka (6.6%); Saitama (6.0%)	Tokyo (18.3%); Kanagawa (10.5%); Aichi (7.1%); Osaka (6.3%); Saitama (5.4%)	Tokyo (18.0%); Kanagawa (10.0%); Aichi (7.4%); Osaka (6.3%); Saitama (6.2%)	Tokyo (20.6%); Kanagawa (11.3%); Aichi (8.1%); Saitama (5.8%); Chiba (5.0%)	Osaka (15.9%); Fukuoka (9.8%); Hokkaido (6.4%); Hiroshima (4.9%); Nagano (4.7%)
Average outstanding receivables size (¥)*	2,007,013	2,043,162	2,019,289	2,137,749	1,590,177
Outstanding loan size range (¥)*	50,072 to 9,997,761	50,449 to 9,981,969	50,080 to 9,964,054	50,072 to 9,963,395	50,185 to 9,615,910
Weighted-average seasoning (months)	13.4	12.8	12.4	11.7	17.1
Weighted-average remaining term (months)	32.7	36.1	38.0	40.2	36.4
Weighted-average interest rate (%)	1.96§	2.21§	2.49§	2.50§	2.81§
Asset redemption profile	Amortizing loans (16.1%); balloon loans (83.9%); balloon payment share (41.0%)	Amortizing loans (21.5%); balloon loans (78.5%); balloon payment share (35.9%)	Amortizing loans (27.8%); balloon loans (72.2%); balloon payment share (32.3%)	Amortizing loans (27.9%); balloon loans (72.1%); balloon payment share (29.8%)	Amortizing loans (33.6%); balloon loans (66.4%)
Manufacturer breakdown	Volkswagen (51.5%); Audi (48.2%); Others (0.3%)	Volkswagen (49.6%); Audi (49.9%); Others (0.5%)	Volkswagen (52.6%); Audi (47.1%); Others (0.3%)	Volkswagen (53.2%); Audi (46.5%); Others (0.3%)	Volkswagen (59.5%); Audi (40.3%); Others (0.2%)
Type of loan products***	Owner's Plan (14.4%); Solutions (38.3%); S-Loan (41.5%); S-Loan Plus (4.1%); Others (1.7%)	Owner's Plan (20.6%); Solutions (37.0%); S-Loan (37.2%); S-Loan Plus (4.3%); Others (0.9%)	Owner's Plan (26.3%); Solutions (39.6%); S-Loan (29.2%); S-Loan Plus (3.4%); Others (1.5%)	Owner's Plan (25.9%); Solutions (39.9%); S-Loan (29.2%); S-Loan Plus (3.0%); Others (2.0%)	Owner's Plan (30.6%); Solutions (38.8%); S-Loan (24.0%); S-Loan Plus (3.6%); others (3.0%)

*The receivables balance of the mother pool is actual, while that of the final pool is discounted by the aforementioned discount rate. **Used includes refinanced loans. §We calculated the weighted-average interest rate using the interest rates applied in the auto loan agreements and the principal amounts of the discounted loans. The discounted weighted-average interest rate is slightly higher than this rate. ***Solutions includes Loans of Audi Future Drive.

Table 2

Overview Of Securitized Loan Products	
Loan product	Description
Owner's plan	Equal monthly payments and no balloon payment; bonus payments allowed.
Solutions, etc.	Balloon payments and an option to have VWFSJ or the dealer guarantee the repurchase of the vehicle at a price equal to the balloon payment.
S-Loan, etc.	Balloon payments but no option to have VWFSJ or the dealer guarantee the vehicle repurchase at a price equal to the balloon payment.

Table 2

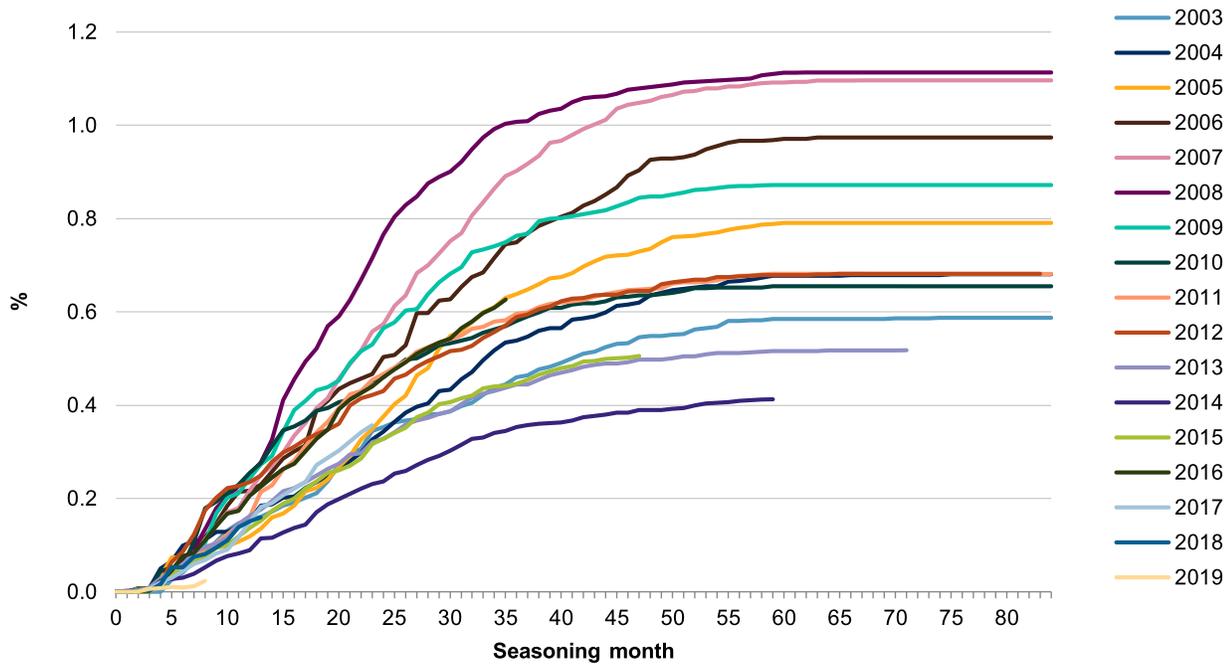
Overview Of Securitized Loan Products (cont.)

Loan product	Description
S-Loan Plus	Balloon payments and an option to sell the vehicle to the car dealer at a price previously agreed upon if the borrower buys a new Audi vehicle from that dealer. The originator suspends execution of new loans currently.

Cumulative gross losses on the loans in the mother pool since the vintage year are shown below (see chart 2).

Chart 2

Cumulative Gross Losses On Loans In Mother Pool Since Vintage Year

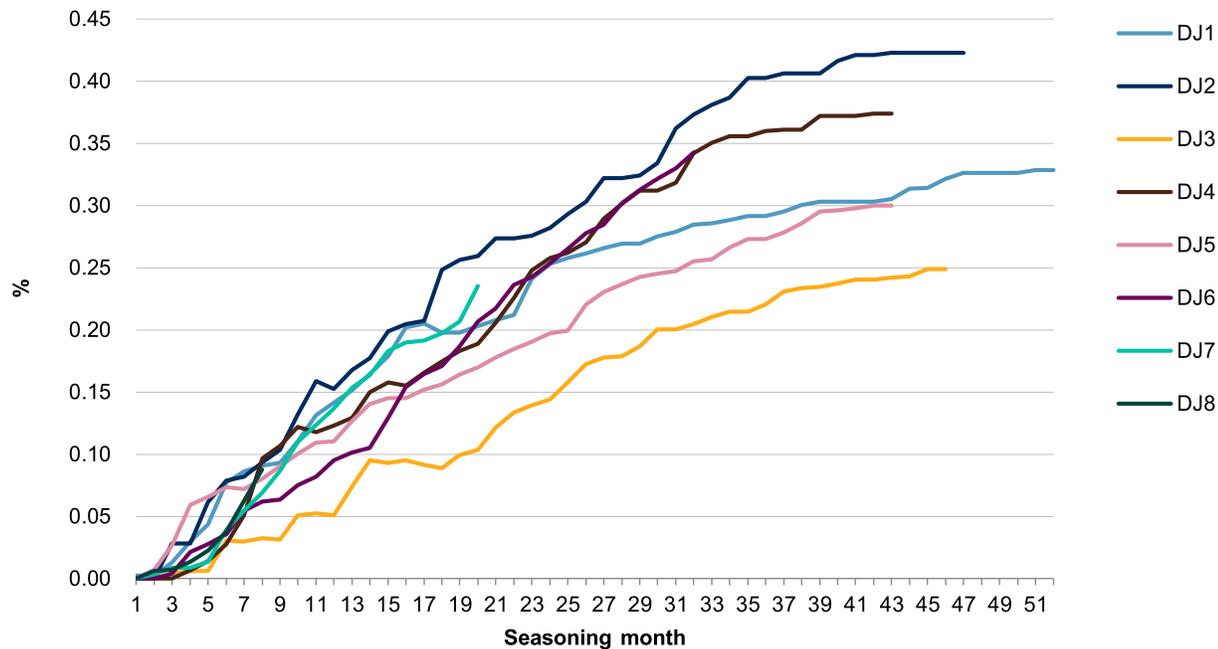


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The cumulative gross loss ratio (see note) of the past series are shown below (see chart 3).

Chart 3

Cumulative Gross Loss Ratio Of Previous Driver Japan Series



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Characteristics of the loan receivables

The entrusted loan receivables are from vehicle loan contracts that VWFSJ originated, using mainly Volkswagen and Audi dealers as agents.

The transaction securitizes some types of loans that contain balloon payments. Such loans have equal installments during the loan's life, except for the last installment (balloon payment), which is significantly higher than the regular installments. The final balloon payment for these loans is typically set to match or be lower than the estimated residual value of the car at loan maturity. Upon expiration, borrowers have the following three alternatives.

- Keep the vehicle or sell the vehicle to a third-party dealer such as a used car dealer, and pay the final installment in cash.
- Sell the vehicle to the car dealer. The dealer will settle the balloon payment on the borrower's behalf. The borrowers of "Solutions" loans can opt to have VWFSJ or the dealer guarantee the purchase at a price equal to the balloon payment. The borrowers of "S-Loan Plus" loans have an option to sell the vehicle to the car dealer at a price previously agreed upon if they buy a new Audi vehicle from that dealer (see table 2).
- Extend the loan or divide up the final scheduled payment of the loan, provided JACCS or Cedyne approves such an application from the borrower on behalf of VWFSJ.

In this transaction, trustee 1 will not accept extensions of auto loans. VWFSJ pays indemnity to trustee 1 regarding the

receivables for which the borrowers exercised these options.

Originator review

We held a meeting with VWFSJ, JACCS, and Cedyna to review their policies and procedures for loan origination, underwriting, and servicing.

Origination/underwriting.

VWFSJ has outsourced its auto loan operations—including credit and scoring, processing contract applications, and collections—to Cedyna since 2002 and JACCS since 2007. VWFSJ determines to which company—JACCS or Cedyna—it outsources operations by area and dealer. There were 443 dealers, including 255 Volkswagen car dealers and 126 Audi car dealers, as of September 2019.

Each subservicer, on behalf of VWFSJ, originates the loan contracts via the Volkswagen group dealer network, and makes credit decisions centrally. The subservicers use almost the same criteria that apply to their own auto loans. Generally, they base their credit decisions on auto-scoring results and conduct their own additional underwriting if necessary.

As for loans with balloon payments, the subservicers evaluate whether a customer can repay the entire loan, including the balloon payment, without resorting to selling the car and using the proceeds to complete repayment of the loan. VWFSJ sets the amount of the balloon payment conservatively, based on its projection of the residual value. VWFSJ also considers the subservicers' projections. Currently, the limit on balloon payments is essentially 50% of the vehicle price at the time of purchase for two-year loans, 40% for three-year loans, 30% for four-year loans, and 20% for five-year loans. However, the prices differ by car type and VWFSJ occasionally offers prices slightly higher than the above limits for some car types as sales promotions.

VWFSJ monitors dealers periodically. VWFSJ uses the criteria that the Volkswagen group uses globally, and checks dealers' financial information as well as their flow of inventory. If a subservicer finds that a dealer failed to comply with relevant laws while confirming a borrower's plans, the subservicer will report this to VWFSJ.

Servicing.

The subservicers will collect payments on behalf of VWFSJ through automatic withdrawal from the obligors' accounts each month. Each subservicer, as a guarantor, will transfer the full amount of the scheduled collected proceeds—regardless of the amount of actual collected proceeds—to VWFSJ on the same day. The subservicers acquire overdue loans from VWFSJ after payment in subrogation. They service them through JACCS's contact center and Cedyna's control center.

Credit Analysis Of Underlying Collateral

Performance outlook for Japanese auto loan receivables

We expect the performance of consumer receivables—auto loan receivables, shopping credit receivables, credit card receivables (shopping and cashing receivables), and consumer loan receivables—backing ABS transactions to remain stable in 2020.

In our projections for performance of auto loans, the October 2019 consumption tax hike may affect the debt-servicing ability of retail obligors. Accordingly, we have been paying closer attention to the performance of auto loans after the tax increase. However, we haven't observed any material changes so far. We have no material concerns over the future performance, because at two percentage points, to 10% from 8%, the hike was relatively small. Taxpayers' benefit programs, including the introduction of certain forms of tax relief and points reward systems, also help alleviate taxpayer burdens.

We expect Japan's unemployment rate to remain at the 2% level in 2020. The unemployment rate surged to nearly 5% at the time of the 2008-2009 financial crisis. However, the employment environment, which could impact consumers' debt servicing ability, is likely to remain stable in 2020, in our view. In addition, the default rate of auto loan-backed ABS in 2008-2009 did not rise significantly. With these factors in mind, we do not expect a material deterioration in the performance of auto loans in 2020.

In addition, obligors may sell their vehicles and use the proceeds to repay auto loans if they face difficulties. In such cases, conditions in the used car market may affect the performance of auto loans.

According to the Japan Automobile Dealers Association, the number of registered used cars has been increasing moderately since 2015. The increase is attributable to the ease of conducting car deals on the internet in addition to those done through conventional dealerships. This has helped expand the used car market by exposing it to a wide range of potential buyers, and particularly consumers in their 20s. Stable vehicle prices because of the revitalization of the used car market is likely to be a positive factor for performance of auto loans, in our view.

Meanwhile, we will also keep a close eye on the environment of the overall automobile industry, amid tightening regulations on environmental protection. This is because new technologies, including electric vehicles, and the introduction of fuel regulations may reduce sales of older models and lower prices of used cars.

Assessment of the credit quality of the underlying assets

We examined surveillance data on the past eight series and the following data that VWFSJ provided:

- Monthly static and dynamic data on gross losses, early terminations (prepayments), and cancellations from the mother pool (from July 2002 to October 2019); and
- Attribute data of the entrusted pool as of Feb. 10, 2020.

We assessed the major factors that will affect the credit quality of the underlying assets of this transaction. We did so based on a comprehensive analysis of trends in the auto loan sector and economic trends in Japan.

Cumulative default rate

The transaction defines the default rate as either the amount of receivables on which obligors have failed to make monthly installment payments for three consecutive months, or in relation to which the unpaid balance can be declared immediately due and payable because of the occurrence of events of default prescribed in the auto loan agreement.

Under this transaction, upon the entrustment of an auto loan the originator transfers its withheld ownership of the relevant purchased vehicle to trustee 1. However, the withheld ownership is not be registered in trustee 1's name. We

base our calculation of the default rates on the total amount of defaulted receivables, and we do not incorporate recoveries, including proceeds from vehicle sales and other recovery sources, or guarantees that JACCS and Cedyna provide.

For the cumulative default rate under the base scenario, we arrived at 0.7% of the total initial principal amount of the receivables. Meanwhile, we arrived at 0.8% for the cumulative default rate under the final base scenario, because we stipulate the minimum credit enhancement at 0.8% under our criteria "Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables," published Oct. 9, 2014. In addition, we arrived at a cumulative default rate of 4.0% under our stress scenario commensurate with a 'AAA' rating. A higher multiple (5x the average cumulative default rate assumption under the base scenario) resulted from a low cumulative default rate under our base scenario, which is set at less than 1.0%.

The default rate of the mother pool has been relatively stable. Vintage pools originated in 2006 or before have reached cumulative default rates of 0.6% to 1.0% (see chart 2). The cumulative default rates of the mother pool's 2007 and 2008 vintages reached about 1.1%, reflecting the adverse effects of the economic recession and deterioration of the labor market after the collapse of Lehman Brothers in autumn 2008. The cumulative default rates of the vintage pools originated in 2009 and onwards have been improving. The cumulative default rates of the 2013 vintage pool fell to 0.5%-0.7%, and have been declining in the pools originated in 2014 and onward.

Compared with the mother pools, the entrusted pools are characterized by 1) a slightly higher share of used vehicles, 2) a shorter seasoning period and longer residual period, 3) a smaller share of corporate obligors, and 4) a lower share of balloon loans. However, these differences are only limited and will not cause material differences in default rates between the mother pools and the entrusted pools, in our view.

The performance of the past series have been relatively stable (see chart 3). We believe the credit quality of the obligors in this asset pool is relatively high compared with those of typical auto loans underlying auto loan ABS transactions in Japan. We base this on our consideration that: 1) the prices of Volkswagen and Audi vehicles are somewhat higher than those of domestic car manufacturers' vehicles, and 2) the fact new vehicles make up about 75% of the asset pool. The historical default rate, which has remained low, underpins our view.

Considering all these factors, we assume the performance of securitization pools is mostly on the same level as the performance of pools originated in 2009 and onward.

Although VWFSJ is a captive finance company of Volkswagen AG group, and the change of the group's sales policy may influence its credit policy, JACCS and Cedyna's control of VWFSJ's credit policy as guarantors mitigates the risk that the manufacturer's business policy could constrain the policy.

Balloon payments

We take into account the additional risk from the loans with balloon payments in accordance with our criteria, as described below.

Although VWFSJ's historical data show only limited defaults on balloon payments, under our 'AAA' stress scenario we assume that:

- When the originator and/or dealers become unable to repurchase vehicles; or
- When the originator becomes unable to provide refinancing loans,
- borrowers must repay the debt in full only with cash at the same time that the vehicles' market values decline significantly.

We assume that 7% of the amount of balloon payments will default in our 'AAA' stress scenario. This is 1.75x higher than the 'AAA' cumulative default rate of 4.0% that we assume for the loans without balloon payments.

We view the credit quality of the obligors in this asset pool as relatively high compared with typical auto loans in the Japanese auto loan ABS deals. In addition, borrowers may be able to repay their debt by selling the relevant vehicles. VWFSJ's conservative credit policy for balloon payments, as well as the diversification of maturities, mitigates the risk of a decline in market value.

Although we don't assume recovery from the vehicles, we would expect borrowers to be able to sell their vehicles independently. In this transaction, there is a revolving period for one year in which VWFSJ can entrust additional receivables. In establishing a stress scenario commensurate with our 'AAA' rating, we incorporate the possibility that an increase in the share of balloon payments leads to deterioration of creditworthiness of the portfolio. However, additional entrustments heighten subordination and thus credit support, which mitigates the risk of deterioration of creditworthiness of the portfolio.

Prepayment rate

Dynamic data of the mother pool that VWFSJ provided indicates a monthly prepayment rate of about 1.0% of the receivables' outstanding balance at the end of the previous month.

For the prepayment rate under the base scenario, we assumed 1.0% monthly. In addition, under our 'AAA' stress scenario, we arrived at a prepayment rate of 0.05% at minimum and 3.0% at maximum monthly.

Cancellations

Under this transaction, VWFSJ has to repurchase cancelled receivables. However, VWFSJ would be unable to fulfill its obligations with respect to repurchases if it were to go bankrupt. Because payments on the cancelled receivables would stop as a result of VWFSJ's bankruptcy, causing a temporary disruption of cash flow to the transaction, cancellations would impair the performance of the transaction. Generally, apart from cancellations that occur immediately after origination of loan agreements, the number of cancellations of auto loan receivables is limited. In fact, the data shows actual cancellations are concentrated immediately after origination of loan agreements, and the cancelled amount is limited. In addition, under this transaction, entrusted receivables fulfill the eligibility criterion of at least two monthly payments made. We regard the risk of cancellation in the receivables pool as low.

Cash Flow Analysis

We conducted cash flow analysis on multiple scenarios based on projected cash flow provided by the originator, and we applied stresses to various parameters, including cumulative default rate and prepayment rate, commensurate with ratings (see table 3).

Regarding the cumulative default rate, we assume all defaults would occur as assumed during 24 months. We also assume three different patterns of default timing (frontloaded, standard, and backloaded).

As a result, we confirmed the following regarding beneficial interests 2 and ABL 2 under the stress scenario commensurate with a 'AAA' rating:

- Interest payments will be made in full without delay.
- Principal payments will be made in full by the final legal maturity date in June 2028.

In conducting analysis, we consider benefits from the nonamortizing cash reserve, which serves primarily as liquidity support and ultimately as credit support. To determine the effect of pro rata amortization, when modeling the cash flow, we take into account the performance triggers, the subordination level during the revolving period, and the patterns of defaults in past transactions.

Table 3

Assumed Scenarios And Break-Even Overcollateralization Level		
(%)	Base scenario	'AAA' stress scenario
Cumulative default rate	0.8	4.0
Losses on balloon payments	0.0	7.0
Monthly prepayment rate	1.0	0.05 to 3.0
Cumulative default rate considering losses on balloon payments	0.8	7.3
Excess spread	-	1.1
Breakeven overcollateralization level	-	6.2

Scenario Analysis

We formulated scenarios for the underlying assets relating to this transaction, assuming a set of circumstances. Specifically, in our scenario analysis, we assumed the underlying assets' performance would diverge from the assumptions under our base scenario, and we examined how this would affect the transaction.

Setting scenarios and assumptions

In our opinion, the cumulative default rate is the parameter that most affects the ratings on ABS transactions backed by auto loan receivables. Specifically, we set two scenarios in which default rates are higher than the assumption we made under our base scenario (see table 4). Under this scenario analysis, we apply a cumulative default rate of 0.7% to our base-case assumption. We apply this because it is the rate before we adjust for minimum credit enhancements under our criteria.

Table 4

Assumptions Of Scenario Analysis		
(%)	Scenario 1	Scenario 2
Cumulative default rate	0.9 (1.25x base-case assumption)	1.1 (1.5x base-case assumption)

Results of the scenario analysis

A scenario in which the cumulative default rate is 0.9% (about 1.25x the cumulative default rate assumption under our base scenario) gives rise to the possibility of a downgrade to 'AA+'. A scenario where the cumulative default rate is 1.1% (about 1.5x the cumulative default rate assumption under our base scenario) gives rise to the possibility of a downgrade to 'AA'.

We base this analysis on an assumption that all assumptions for performance of underlying assets, except for the abovementioned cumulative default rates, remain unchanged after the initial rating. Even if the cumulative default rate develops as we assume in the scenario, we may not change the actual ratings in line with the results of this analysis. This is because we determine the ratings from a comprehensive perspective, incorporating various factors in addition to those considered in this analysis.

Structural Analysis

Servicing risk and liquidity risk

VWFSJ acts as the transaction's servicer and JACCS and Cedyna as its subservicers. We conducted an operational review meeting with VWFSJ, JACCS, and Cedyna. We asked them about various issues, including their organizational structures as servicers/subservicers, their methods for managing receivables, and their system development. We believe that they have sufficient capability to fulfill their respective roles in this transaction.

VWFSJ could be discharged from its servicing activities in the event of certain credit events involving the company. Choosing a new servicer and entrusting servicing operations with that company may be a time-consuming process and may result in a temporary disruption of collections from the receivables pool. This would, in turn, impair the performance of the transaction. In this transaction, a backup servicer will not be appointed at the closing date. In the event that certain credit events in trust agreements occur, trustee 1 will appoint a backup servicer and, in certain cases, have that backup servicer take over servicing operations from the initial servicer. This structure mitigates the risk of an extended period of disruption to servicing activities.

In addition, this transaction will benefit from a cash reserve sufficient to cover four months' worth of interest payments and transaction expenses, to be funded at the transaction's closing.

Commingling risk

There is a risk that collected funds may not be transferred (maximum: one month's worth of collection proceeds) because of commingling if VWFSJ defaults. In this transaction, advance payment collections by VWFSJ mitigate this commingling risk. Overcollateralization also mitigates commingling risk.

Counterparty risk

A collection account is established in the name of trustee 2 at MUFG Bank. In the future, if the rating on the bank is lowered and the bank loses its status as a qualified bank (under the transaction documents, qualified banks have a short-term credit rating of 'A-1' or above), the collection account will be transferred within 30 days to a bank that satisfies the above criteria.

Legal Risk

Because the securitized asset pool of this transaction contains balloon auto loans, in our analysis we considered the typical characteristics and contract structure of balloon auto loans and other relevant factors. On the basis of our understanding of the above characteristics and contract structure, we then considered whether installment or balloon payments of auto loans can be impaired as a result of any adverse factors, such as the cancellation of a borrower's obligation to make such payments when the originator or a car dealer that provided the borrower with a buyback guarantee enters into insolvency proceedings.

We analyzed whether a borrower's obligation to make the installment or balloon payments would be cancelled through trustee 1's termination of the auto loan agreement by treating it as an executory bilateral contract when the originator--which guarantees to buy the vehicle back from the borrower after the borrower's completion of installment payments--becomes subject to insolvency proceedings before the originator and the borrower complete the performance of their respective obligations in relation to such a buyback guarantee. When the borrower exercises the option to have the originator buy back the vehicle, the originator is obligated to pay to the borrower the buyback price following such buyback and the borrower is obligated to hand over the vehicle to the originator. We note that: (1) such obligations of the originator and borrower arise based on the sale and purchase agreement, which is separate from the auto loan agreement; (2) the linkage between the originator's payment to meet the obligation to buy back the vehicle and the borrower's obligation to make the installment payments under the auto loan agreement is weak; and (3) the originator's payment to buy back the vehicle cannot be deemed as consideration for the borrower's installment payments. Therefore, there seems to be a low likelihood that the auto loan agreement would be terminated as a result of the originator's insolvency because the trustee treated the agreement as an executory bilateral contract.

In addition, we analyzed whether the borrower would be able to assert a payment suspension claim under the Installment Sales Act. When the originator or a car dealer that provides the borrower with the buyback guarantee enters into insolvency proceedings, there is a possibility that the insolvency trustee will deem the sale and purchase agreement as an executory bilateral contract, will terminate the sale and purchase agreement, and will not pay the buyback price for the vehicle under the sale and purchase agreement. However, the application of the buyback price to the balloon payment is only one of the options the borrower has to make the balloon payment. It would be unfair if the borrower became entitled to refuse to make the balloon payment simply because the borrower was prevented from exercising the option to use the buyback price. The insolvency trustee is also lawfully entitled to terminate the sale and purchase agreement under insolvency laws, and its failure to pay the buyback price as a result of its termination of the sale and purchase agreement would not constitute a default of the buyback guarantee. Therefore, there seems to be little possibility that the borrower would be able to refuse to make the installment payments or the balloon payment by asserting the payment suspension claim.

Surveillance

We will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that

any material changes in its operations are communicated and assessed.

The key performance indicators in the surveillance of this transaction are:

- Increases in credit enhancement for the obligations;
- Default rates;
- Delinquency rates; and
- Prepayment rates.

Note

The cumulative gross loss ratio is calculated as follows:

- The numerator is the sum of the discounted principal balance of all auto loan receivables that have defaulted from the initial cut-off date through to the end of the monthly period immediately preceding the relevant trust calculation date.
- The denominator is the sum of: (1) the aggregate discounted principal balance of the initial auto loan receivables as of the initial cut-off date, and (2) the aggregate discounted principal balance of all additional auto loan receivables (if any) entrusted as of the additional entrustment dates that occur within six months prior to the relevant trust calculation date.

Related Criteria

- Counterparty Risk Framework: Methodology And Assumptions, March, 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Methodology: Credit stability Criteria, May 3, 2010
- Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Japan Structured Finance 2020 Outlook: Potential Apartment Loan RMBS Woes Amid General Tranquility, Jan. 8, 2020
- Japanese Structured Finance Scenario And Sensitivity Analysis 2017: The Effects Of The Top Five Macroeconomic Factors, Dec. 26, 2017

- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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