Fitch Affirms Driver Australia Master Trust; Confirms Extension

Fitch Ratings has affirmed Driver Australia Master Trust’s class A and B notes. The transaction is a securitisation backed by Australian automotive receivables originated by Volkswagen Financial Services Australia Pty Ltd (VWFSA), a wholly owned subsidiary of Volkswagen Financial Services AG, itself wholly owned by Volkswagen AG (VW, BBB+/Negative/F2).

Fitch also confirms that the extension of the revolving period by one year, the revision of the note margins, the issue of the new Series 2017-1 Class A notes with a facility limit of AUD350 million and the increase in the facility limit for the Series 2016-4 Class A notes by AUD200 million and the Series 2016-2 class B notes by AUD20 million will not cause a downgrade or withdrawal in the ratings assigned to the existing notes. A full list of rating action follows at the end of this commentary.

KEY RATING DRIVERS
The affirmation of the rated notes reflect Fitch’s view that available credit enhancement is sufficient to support the notes at their current rating levels, the stable credit quality and pool performance and Fitch’s expectation of economic conditions over the next 12-month revolving period and the subsequent amortisation period.

As at June 2017, net losses since closing were 0.17% of the outstanding discounted receivables balance (AUD0.28 million). The 30+ day delinquency rate was 2.49% of the outstanding discounted receivables balance, which was affected by the substantial reduction in the portfolio balance after the recent term-takeout.

The transaction is a platform for the seller VWFSA to securitise, on a revolving basis, Australian auto loan receivables. Each investor, at the end of the 12-month revolving period, may decide to extend the revolving period for their series or initiate its amortisation. At the end of the revolving period, note margins, along with maximum issuance amounts for each series, may be amended. During the revolving period, retained principal collections may be applied to replenish the pool with new receivables or VWFSA may also sell additional receivables to the transaction, which can be funded via a tap-up of the notes. Any new receivables sold to the trust through either replenishment or a tap-up will be purchased at a purchase-price discount of 2.2% and 1%, respectively. In the event of a tap-up, the cash collateral account will also be funded with 1.2% of the additional note balance.

RATING SENSITIVITIES
Unexpected decreases in the frequency of defaults and loss severity on defaulted receivables could produce loss levels higher than Fitch’s base case, possibly resulting in negative rating action on the notes. Fitch has evaluated the sensitivity of the ratings to increased defaults and reduced recovery rates over the life of the transaction.

Expected impact on note ratings from increased defaults:
Current rating: AAAsf/A+sf
Increase defaults by 10%: AA+sf/A+sf
Increase defaults by 25%: AA+sf/A+sf
Increase defaults by 50%: AAsf/A+sf

Expected impact on note ratings from decreased recovery rates
Current rating: AAAsf/A+sf
Reduce recoveries by 10%: AAAsf/A+sf
Reduce recoveries by 25%: AAAsf/A+sf
Reduce recoveries by 50%: AA+sf/Asf

Expected impact on note ratings from multiple factors:
Current rating: AAAsf/A+sf
Increase defaults by 10% and reduce recoveries by 10%: AA+sf/A+sf
Increase defaults by 25% and reduce recoveries by 25%: AAsf/Asf
Increase defaults by 50% and reduce recoveries by 50%: A+sf/BBBsf

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G-10
Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY
As part of its ongoing monitoring, Fitch conducted a file review of a small targeted sample of VWFSA’s origination files and found the information contained in the reviewed files to be adequately consistent with the originator’s policies and practices and the other information provided to the agency about the asset portfolio.

Overall, Fitch’s assessment of the asset pool information relied upon for the agency’s rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

VARIATIONS FROM CRITERIA
The class B notes pass the 'AA-sf' stresses within the cash flow model, however, Fitch has not assigned a rating higher than 'A+sf' to the class B notes due to the transaction’s limited portfolio parameters, including that of balloon concentration. This is a variation from the Global Consumer ABS Rating Criteria, as the difference between the assigned and model-implied ratings is greater than one category and the breakeven default stress multiple is not within +/- 0.1 of Fitch’s applied default stress multiple.

SOURCES OF INFORMATION
The information below was used in the analysis:
Transaction reporting data provided by VWFSA as of 19 June 2017
Transaction documentation provided by King & Wood Mallesons, the issuer’s counsel.

The issuer has informed Fitch that not all relevant underlying information used in the analysis of the rated notes is public.

The full list of rating actions is shown below with the maximum permitted issuance balances as at 26 June 2017:

AUD500 million Series 2016-1 Class A notes: affirmed at ‘AAAsf’; Outlook Stable
AUD100 million Series 2016-2 Class A notes: affirmed at ‘AAAsf’; Outlook Stable
AUD200 million Series 2016-3 Class A notes: affirmed at ‘AAAsf’; Outlook Stable
AUD300 million Series 2016-4 Class A notes: affirmed at ‘AAAsf’; Outlook Stable
AUD40 million Series 2016-1 Class B notes: affirmed at ‘A+sf’; Outlook Stable
AUD50 million Series 2016-2 Class B notes: affirmed at ‘A+sf’; Outlook Stable
AUD21.5 million Subordinated Loan: not rated
The ratings assigned are as follows:
AUD350 million Series 2017-1 Class A notes 'AAAsf'; Outlook Stable

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