Fitch Affirms Driver Australia Master Trust Following Revolving Period Extension

Fitch Ratings-Sydney-25 June 2020:

Fitch Ratings has affirmed Driver Australia Master Trust's class A and B notes. The transaction is a securitisation of Australian automotive finance receivables originated by Volkswagen Financial Services Australia Pty Ltd (VWFSA) that will purchase eligible receivables on a revolving basis. The revolving period has been extended by six months to December 2020, and can be further extended subject to consent from noteholders.

The social and market disruption caused by the coronavirus and the related containment measures did not negatively affect the ratings, because there is sufficient credit enhancement to offset the effects under Fitch's base case scenario and adequate liquidity to support the current ratings.

The Stable Outlook is based on the notes' liquidity support and ability to withstand the sensitivity to higher defaults and lower recoveries stemming from the pandemic.

Driver Australia Master Trust

----Series 2016-1 Class A AU3FN0031654; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2016-1 Class B AU3FN0036638; Long Term Rating; Affirmed; A+sf; RO:Sta
----Series 2016-2 Class A AU3FN0036612; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2016-2 Class B AU3FN0036646; Long Term Rating; Affirmed; A+sf; RO:Sta
----Series 2016-4 Class A AU3FN0033601; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2017-1 Class A AU3FN0036737; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2017-2 Class A AU3FN0037180; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2018-1 Class A AU3FN0043253; Long Term Rating; Affirmed; AAAsf; RO:Sta
----Series 2018-1 Class B AU3FN0045787; Long Term Rating; Affirmed; A+sf; RO:Sta
----Series 2019-1 Class A AU3FN0048765; Long Term Rating; Affirmed; AAAsf; RO:Sta

KEY RATING DRIVERS

Coronavirus-Related Economic Shock: Fitch has made assumptions about the spread of the
coronavirus and the economic impact of the related containment measures. As a base-case (most likely) scenario, Fitch assumes a global recession in 1H20 driven by sharp economic contractions in major economies with a rapid spike in unemployment, followed by a recovery that begins in 3Q20 as the health crisis subsides. Fitch's downside (sensitivity) scenario in the Rating Sensitivities section below takes into consideration a more severe and prolonged period of stress, with recovery to pre-crisis GDP levels delayed until around the middle of the decade.

Coronavirus-Related Impact: The measures put in place to limit the virus spread are affecting Australia's economy, with many businesses temporarily shut with little or no income. We expect these measures to affect loan performance and this has been factored into our revised base-case assumptions.

Liquidity Risk from Payment Holidays: We have reviewed the ability of the transaction to survive a significant proportion of borrowers being offered and taking up a payment holiday. The transaction benefits from a cash collateral account sized at 1.2% of the outstanding amount of the class A and B notes balance with a floor of the lesser of 0.6% of the maximum discounted receivables balance and the outstanding amount of the class A and B notes. The transaction can withstand 71% of the portfolio being granted a payment holiday for six months, which is well above the 7.3% of receivables under payment holiday arrangements as of end-May, before needing to draw on the collateral account.

Obligor Default Risk: Obligor default and recovery rates are key assumptions in Fitch's quantitative analysis. Fitch took into consideration the historical performance of the VWFSA portfolio in reviewing the base case assumptions, as well as the performance of US auto loan receivables during the global financial crisis and VWFS's response to the crisis. The base case default rates were increased by 1.5x and recovery rates were reduced by 0.9x as a result. Fitch also adjusted its rating stress multiples and haircuts to reflect Fitch's through-the-cycle approach and to account for the fact that its base cases incorporate an additional element of economic stress. The revised assumptions are shown below and were applied in this analysis.

Base-case default expectations (and 'AAAsf' default multiples) are as follows:

New vehicles: 3.1% (4.2x)

Used vehicles: 5.4% (4.0x)

Base-case recovery expectations (and 'AAAsf' recovery haircuts) are as follows:

New vehicles: 43% (45%)

Used vehicles: 34% (45%)
As of the June payment date, 30+ day arrears were 2.2%, compared with the 1Q20 Dinkum ABS Index 30+ day arrears of 2.29%, and cumulative gross defaults totalled 0.5% of assets.

Fitch expects loan performance to deteriorate in the near term, but to continue to support the Stable Outlook on the rated notes. Fitch forecasts Australia’s GDP to contract by 5.0% in 2020, with the unemployment rate to increase to 7.9%. This is to be partially offset by a low cash rate of 0.25% and the application of both central bank and government stimulus measures. Fitch expects GDP growth to bounce back to 4.8% in 2021 and for the unemployment rate to fall to 6.9% in the medium term.

Cash-Flow Dynamics: The class A and B notes can withstand all Fitch 'AAAsf' and 'AA+sf' stresses, respectively. The class B notes have not been upgraded from 'A+sf', however, due to the transaction’s portfolio parameters, which only cover a limited number of characteristics compared with other revolving transactions and do not cover, among others, balloon payments.

Structural Risk: Structural risk was evaluated in the initial transaction analysis through the review of transaction documentation, legal opinions and structural features. There have been no material changes to the transaction since closing.

Counterparty Risk: Counterparty risk was evaluated in the initial transaction analysis through the review of transaction documentation, legal opinions and structural features. There have been no material changes to any transaction counterparties since closing.

Servicer, Operational Risk: All assets were originated by VWFSA, a wholly owned subsidiary of Volkswagen Financial Services AG which, itself, is wholly owned by Volkswagen AG (BBB+/Stable/F1). Fitch undertook an onsite operational review and found that the operations of the originator and servicer were consistent with the market standards for auto lenders. Collection and servicing activities have not been disrupted by the pandemic, as staff members are able to work remotely and have access to the office, if needed.

There is no back-up servicer, and the transaction is reliant on VWFSA's operational and credit-assessment capabilities. Fitch believes the transaction documents appropriately address seller- and servicer-related risks, like commingling and set-off.

Residual Value Risk: There are no residual value positions in the portfolio. There is refinance risk in the transaction, as 41.1% of the outstanding discounted receivables balance has balloon contracts. Refinance risk on loans with balloon payments has been considered in the default multiples.

RATING SENSITIVITIES
Factors that could, individually or collectively, lead to positive rating action/upgrade:

The class A notes are rated at 'AAAsf', which is the highest level on Fitch's scale. The ratings cannot be upgraded.

The ratings on the class B notes are unlikely to be upgraded during the revolving period due to the risks posed by the transaction's portfolio parameters, which only cover a limited number of characteristics compared with other revolving transactions. After the end of the revolving period, these risks will no longer be present and the ratings may be upgraded.

Current rating: AAAsf / A+sf

Model-implied rating: AAAsf / AA+sf

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A longer pandemic than Fitch expects that leads to deterioration in macroeconomic fundamentals and consumers' financial position in Australia beyond Fitch's baseline scenario. Credit enhancement cannot compensate for the higher credit losses and cash flow stresses, all else being equal. Fitch conducted sensitivity analysis by increasing gross default levels and decreasing recovery rates over the life of the transaction.

Downgrade Sensitivity:

Impact on note ratings of increased defaults:

Current rating: AAAsf / A+sf

Increase defaults by 10%: AAAsf / A+sf

Increase defaults by 25%: AAAsf / A+sf

Increase defaults by 50%: AA+sf / A+sf

Impact on note ratings of decreased recoveries:

Current rating: AAAsf / A+sf

Reduce recoveries by 10%: AAAsf / A+sf

Reduce recoveries by 25%: AAAsf / A+sf

Reduce recoveries by 50%: AAAsf / A+sf
Impact on note ratings of multiple factors:

Current rating: AAAsf / A+sf

Increase defaults by 10%; reduce recoveries by 10%: AAAsf / A+sf

Increase defaults by 25%; reduce recoveries by 25%: AAAsf / A+sf

Increase defaults by 50%; reduce recoveries by 50%: AAsf / A-sf

Coronavirus Downside Scenario Sensitivity:

Fitch has added a coronavirus downside sensitivity analysis that contemplates a more severe and prolonged economic stress caused by a re-emergence of infections in major economies and no meaningful recovery until around the middle of the decade. Under this more severe scenario, Fitch tested an increased WA default base case of 5.0% as well as lower WA base case recoveries of 36.4% (multiple factors). This compares with default and recovery base cases of 3.8% and 40.3%, respectively in the baseline scenario. The 'AAAsf' default multiple is reduced to 3.6x, compared with 4.1x in the baseline scenario, to reflect the higher degree of stress already included in the base case. Nevertheless, in this downside scenario we still model a material uplift even in 'AAAsf' default rates.

Impact on note ratings of multiple factors:

Current rating: AAAsf / A+sf

Downside scenario: AAAsf / A+sf

Best/Worst Case Rating Scenario

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.
CRITERIA VARIATION

Driver Australia Master Trust's 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. This is a variation from the Consumer ABS Rating Criteria, as the difference between the assigned and model-implied ratings is greater than one notch.

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

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that were material to this analysis. Fitch has reviewed the results of a third-party assessment of the asset portfolio information as part of its ongoing monitoring.

Prior to the transactions closing, Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis.

As part of its ongoing monitoring, Fitch reviewed 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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

The issuer has informed Fitch that not all relevant underlying information used in the analysis of the rated notes is public.
ESG Considerations
The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Applicable Criteria
Consumer ABS Rating Criteria (pub. 09 Jun 2020) (including rating assumption sensitivity)
Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (Excel) (pub. 06 Dec 2019)
Global Structured Finance Rating Criteria (pub. 17 Jun 2020) (including rating assumption sensitivity)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 06 Dec 2019)
Applicable Model
Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).
Multi-Asset Cash Flow Model, v2.7.0 (1)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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