

Driver UK Master S.A., Compartment 4 U.K. Auto ABS Class A Notes Affirmed

February 25, 2022

Overview

- We affirmed our 'AAA (sf)' rating on Driver UK Master S.A., Compartment 4's class A notes following the program's annual renewal.
- The transaction is a securitization of a portfolio of U.K. auto loan receivables, which Volkswagen Financial Services (UK) originated.

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LONDON (S&P Global Ratings) Feb. 25, 2022--S&P Global Ratings today affirmed its 'AAA (sf)' credit rating on Driver UK Master S.A., Compartment 4's class A notes.

Driver UK Master S.A., Compartment 4 is a securitization of a portfolio of U.K. auto loan receivables, which Volkswagen Financial Services (UK) originated. Volkswagen Financial Services (UK) is the initial servicer, and no back-up servicer has been appointed.

This is a revolving transaction, and each year noteholders can extend the revolving period. As part of this annual renewal, other structural features may also be amended.

The main changes following the most recent renewal are:

- A 12-month extension to the revolving period;
- The repricing of the note coupons and interest rates swaps;
- The extension of the legal final maturity date; and
- A decrease in the replenished receivables' overcollateralization percentage.

In our view, these amendments do not affect the outstanding rating as we deem these offers to be opportunistic, rather than distressed (see "S&P Global Ratings Definitions," published on Nov. 21, 2021). We have therefore affirmed our 'AAA (sf)' rating on the class A notes.

As part of our analysis, we reviewed and updated our base case and stressed credit assumptions.

Credit Assumptions

Parameter	Current
Gross loss base case (%)	1.85
Gross loss multiple ('AAA')	4.5
Voluntary terminations base case (%)	3.75
Voluntary terminations multiple ('AAA')	2
Stressed recovery rate ('AAA')(%)	40
Residual value haircut ('AAA') (%)	33.6

A combination of subordination, initial and additional overcollateralization, and a cash reserve provides credit enhancement to the rated notes. The transaction does not have a principal deficiency ledger mechanism or any excess spread before the seller's insolvency.

Under the transaction documents, amortization is sequential, but switches to pro rata once the class-specific overcollateralization target levels are reached, assuming no specific triggers have been breached. The notes may switch to sequential payment again, once certain credit enhancement increase conditions have been met. If the servicer were to become insolvent at any point in the transaction's life, the notes would permanently switch to sequential amortization.

Based on our revised credit assumptions and the amendments to the terms and conditions of the notes, our cash flow analysis indicates that the available credit enhancement for the class A notes is sufficient to withstand the credit and cash flow stresses that we apply at the current rating level.

Potential effects of proposed criteria changes

Our rating is based on our applicable criteria, including our European auto ABS criteria. However, these criteria are under review (see "Request For Comment: Global Auto ABS Methodology And Assumptions," published on Nov. 30, 2021).

As highlighted in that article, we are soliciting feedback from market participants on proposed changes to our criteria. We will evaluate the market feedback which may result in further changes to the criteria. As a result of this review, our future auto ABS criteria may differ from our current criteria. The criteria change may affect the ratings in this transaction. Until such time that we adopt new criteria, we will continue to rate and surveil these notes using our existing criteria (see "Related Criteria").

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019

Driver UK Master S.A., Compartment 4 U.K. Auto ABS Class A Notes Affirmed

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
- Criteria | Structured Finance | ABS: European Consumer Finance Criteria, March 10, 2000

Related Research

- Request For Comment: Global Auto ABS Methodology And Assumptions, Nov. 30, 2021
- S&P Global Ratings Definitions, Nov. 21, 2021
- Driver UK Master S.A., Compartment 4 U.K. Auto ABS Class A Notes Affirmed; Class B Rating Withdrawn, June 25, 2020
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- European 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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