MOODY'S

Rating Action: Moody's assigns definitive ratings to Driver Master S.A., Compartment 2 Auto ABS

26 Jun 2023

EUR 647.1 million ABS Notes rated, relating to a portfolio of German auto loans

Paris, June 26, 2023 -- Moody's Investors Service ("Moody's") has assigned the following definitive ratings to Notes issued by Driver Master S.A., Compartment 2:

....EUR30M Series 2023-1 Class A Asset-Backed Floating Rate Notes due May 2032, Assigned Aaa (sf)

....EUR30M Series 2023-2 Class A Asset-Backed Floating Rate Notes due May 2032, Assigned Aaa (sf)

....EUR15M Series 2023-3 Class A Asset-Backed Floating Rate Notes due May 2032, Assigned Aaa (sf)

....EUR75M Series 2023-4 Class A Asset-Backed Floating Rate Notes due May 2032, Assigned Aaa (sf)

....EUR497.1M Series 2023-1 Class B Asset-Backed Floating Rate Notes due May 2032, Assigned Aa1 (sf)

Moody's affirmed the rating of the EUR947.1M (Current outstanding balance EUR10,374.2M) Series 2015-1 Class A Notes at Aaa (sf).

RATINGS RATIONALE

The rating action is prompted by the issuance of new Series of Class A and B Notes taking into account other amendments to the securitization structure.

Under the amendments the Issuer: (a) extended the programme revolving period for another twelve months up to the Notes' payment date falling in June 2024; (b) increased the subordination level of the Class A and B Notes; (c) reprice the Series 2015-1 Class A Notes coupon to 4.03% from 1.41%; (d) entered into swap agreements to hedge the floating rate Series of Notes; (e) changed the General Cash Collateral Account Balance Definition; (f) updated various triggers such as the credit enhancement increase condition or the early amortisation event; and (g) included a new buffer release reserve to cover negative buffer release amounts in case they are not covered by the Seller, Volkswagen Bank GmbH (A1/P-1 Bank Deposits and Aa3(cr)/P-1(cr)).

The expected loss assumption based on current portfolio balance reduced to 0.70%. Moody's has also decreased the PCE at 7.50%.

The ratings are primarily based on the credit quality of the portfolio, the structural features of the transaction and its legal integrity.

According to Moody's, the transaction benefits from various credit strengths such as a granular portfolio and an amortising cash reserve sized at 1.0% of Class A and B Notes outstanding balance during the revolving period. After the revolving period, the cash reserve will be calculated as the lesser of (a) the amount standing to the cash reserve account as of the last payment date of the revolving period, and (b) the aggregate outstanding principal balance of Class A and B Notes.

As of the end of May 2023 cut-off date, the portfolio consists of auto loans distributed through dealers to private individuals (98.72%) and commercial borrowers (1.28%) to finance the purchase of new (39.21%) and used (60.79%) cars. The contracts are split into three types of products: Auto Credit (69.58%), Classic Credit (10.12%), and Individual Credit (20.30%), representing either some balloon loans (89.88%) or some amortising loans (10.12%). The total principal of balloon payments represents 64.50% of balloon loans cash flows.

Moody's determined the portfolio lifetime expected loss of 0.7% and Aaa portfolio credit enhancement ("PCE") of 7.5 related to borrower receivables. The expected loss captures our expectations of performance considering the current economic outlook, while the PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. Expected loss and PCE are parameters used by Moody's to calibrate its lognormal portfolio loss distribution curve and to associate a probability with each potential future loss scenario in the cash flow model to rate Auto ABS.

Portfolio expected loss of 0.7% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the lifetime expectation for the pool taking into account: (i) historic performance of the book of the originator, (ii) benchmark transactions, and (iii) other qualitative considerations.

PCE of 7.5% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the pool which is mainly driven by: (i) the exposure to balloon payments despite considering the strength of the originator, and (ii) the relative ranking to originator peers in the EMEA market. The PCE level of 7.5% results in an implied coefficient of variation ("CoV") of 71.4%.

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in November 2022 and available at https://ratings.moodys.com/rmc-documents/391531. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may cause an upgrade of the ratings of the Notes include significantly better than expected performance of the pool together with an increase in credit enhancement of Notes.

Factors that would lead to a downgrade of the ratings include: (i) increased counterparty risk leading to potential operational risk of (a) servicing or cash management interruptions, and (b) the risk of increased swap linkage due to a downgrade of a swap counterparty rating; and (ii) economic conditions being worse than forecast resulting in higher arrears and losses.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, th function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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