S&P Global Ratings > Full Analyses

New Issue: Private Driver Espana 2020-1, Fondo De Titulizacion

Nov 30, 2020

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Ratings Detail

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Ratings Assigned

Class	Rating*	Amount (% discounted principal balance of the pool)	Available credit enhancement (%)§	Interest	Legal final maturity
Notes	AA (sf)	92.4	7.6	0.052	October 2034
Subordinated loan	NR	4.1	3.5	2.789	October 2034

*Our ratings addresses timely payment of interest and ultimate payment of principal on the notes. §Available credit enhancement includes a subordinated loan, overcollateralization, and a cash reserve. NR--Not rated.

Transaction Summary

- S&P Global Ratings has assigned its credit rating to **Private Driver Espana 2020-1, Fondo De Titulizacion**'s (PDE 2020-1) asset-backed fixed-rate notes. At closing, PDE 2020-1 will also issue an unrated subordinated loan.
- Our rating addresses timely payment of interest and ultimate payment of principal on the notes.
- The underlying collateral comprises auto loan receivables that VW Bank Spain granted to its retail and small-commercial customer base across Spain. While some of the loans in the pool have a balloon component, balloon installments are not securitized. Only amortization payments are eligible. Hence the transaction is not exposed to residual value risk, in our opinion.
- The transaction has a three-year revolving period. We have considered the transaction to have lower overcollateralization on day one given that the asset-liability test, which ensures a minimum level of credit enhancement available for the notes during the revolving period, is only in place from the sixth payment date after closing. We have also considered the gross loss ratios and overcollateralization triggers in our analysis.
- The assets pay a monthly fixed interest rate, and the rated notes pay a fixed coupon, both denominated in euro. Therefore, there is no interest or foreign exchange rate risk in this transaction.
- The loan receivables were purchased above par since the applicable discount rate is significantly lower than the weighted-average portfolio's contractual interest rate. The fixed discount rate is set to absorb the senior fees and expenses, fixed rate payable on the notes, and interest on the subordinated loan plus a 2% buffer.
- VW Bank Spain transferred credit rights to PDE 2020-1. The customer buys the car from a dealer of the Volkswagen network and owns the car. VW Bank Spain grants them a loan to finance the car and pays the purchase price directly to the dealer. This contract replicates a rent contract mechanism, although VW Bank Spain does not own the financed vehicle. The contract is regulated by the Spanish rent-purchase law, so that the financial entity can obtain a retention of the car's title (known as "Reserva de Dominio"). This charge on the asset must be recorded in a national and public register to be binding with respect to third parties and future transfers of the asset. The registration involves a cost that will be borne by the issuer.
- A fully funded cash reserve for the rated notes is in place, sized at 0.75% of the receivables' discounted balance and amortizing subject to a floor (€6 million). The cash reserve is primarily available to cover interest shortfalls for the notes but also to absorb losses at the end of the transaction's life. A combination of subordination, overcollateralization, and a cash reserve provide credit enhancement to the notes.
- Our rating in this transaction is not constrained by our operational risk or structured finance sovereign risk criteria. However, the counterparty risk related to the issuer bank account provider constrains our rating at 'AA', given the replacement language.
- There is a cash advance mechanism affecting the transfer of cash collections from the servicer to the issuer account, which fully mitigates commingling risk.
- The issuer is a Spanish special-purpose entity, which we consider to be bankruptcy remote. The legal opinion at closing provided assurance that the sale of the assets would survive the seller's insolvency.

The Credit Story

Download Table

The Credit Story

Strengths	Concerns and mitigating factors
The payment structure aims to protect the notes as no excess spread will be used to pay down principal or interest from the	The payment structure contains an asset liability test which ensures a minimum credit enhancement available at the end of the revolving period. However, this test will only be in place from month six after closing. Therefore, if any revolving period trigger is breached the transaction can start amortizing with a lower

subordinated loan unless 100% target overcollateralization is achieved during the amortization period. During the revolving period, this threshold will be settled at 7.6% in order to maintain the starting overcollateralization.	overcollateralization level available. Additionally, there are certain revolving period termination events that limit gross loss accumulation, and we have modeled the transaction with an overcollateralization reduced by 1.0% at the beginning of amortization period.
The discount rate has increased compared with its predecessor transaction. Currently, it also incorporates an additional buffer of 2% over the cost of the notes, subordinated loan, servicing fees, and expenses.	The cash reserve is amortizing, resulting in diminishing protection against principal losses for noteholders as the transaction nears maturity. However, there is a floor at €6 million which mitigates this risk.
We believe that commingling risk is mitigated by the advanced mechanism in place. In line with other U.K and German Driver transactions, this mechanism fully mitigates commingling risk in our view.	The pool is revolving for three years. Therefore, the portfolio's quality can deteriorate through adverse replenishment. However, this risk is mitigated by the eligibility criteria, and in our analysis, we have assumed that the closing pool would migrate to the limits established as per the eligibility criteria at the start of amortization. No solvency certificates will be provided during the revolving period; however, we believe that clawback risk is mitigated as the legal opinion discusses the "value equivalent" concept.
The pool contains no balloon installments; hence there is no indirect exposure to residual value risk.	The issuer will purchase assets with a contractual interest rate above the discount rate above par (i.e., a purchase price of such loan is more than 100% of the loan's outstanding principal balance), which may result in losses from prepayments, as borrowers repay only the loan's par value. Additionally, the purchase above par mechanism leads to slightly higher loss severities when a loan defaults. While VW Bank Spain covenants that it would hold the issuer harmless against any prepayment losses, we do not believe that this mechanism mitigates the risk in 'AA' rating scenario. We have therefore factored in prepayment losses and increased loss severity accordingly in our cash flow model to account for their effect on the available credit enhancement.
As of the cut-off date, the portfolio did not contain any delinquent or defaulted contracts, and it is highly granular and well diversified across Spain.	The retention of title clause offers collateral protection to the lender in accordance with the Spanish law since the borrower cannot sell the financed vehicle without the lender's approval, and the lender would receive the car before other creditors if the borrower defaulted. To be enforceable, the clause must be registered in the Chattels Register. Nearly 45% of the loan contracts in the pool have already been registered or will be registered before closing at the expense of VW Bank Spain. In case of servicer termination, the management company will instruct the successor servicer to conduct the registration on behalf of PDE 2020-1. Additionally, as the cost related to registration will be borne by PDE 2020-1, we sized them in our cash flow model as a sensitivity. In order to capture this risk, we have assumed a lower recovery rate for non-registered vehicles.
In our view, VW Bank Spain is an experienced and established originator and servicer in the Spanish market. It is a leading participant in the European auto financing industry.	No back-up servicer will be appointed at closing. In our view, this risk is mitigated by the cash reserve available to cover timely interest on the rated notes.
There is no interest rate risk in this transaction given that both assets and liabilities pay a fixed rate. Similarly, given that the only currency is euro, there is no foreign exchange risk in this transaction.	This transaction is exposed to a deposit setoff risk as the servicer is a deposit-taking institution. Borrowers holding deposits with the seller will be filtered out by the eligibility criteria at closing. Additionally, the seller will fund a dedicated deposit setoff reserve upon its downgrade, which will thereby fully cover this risk after closing. The other sources of setoff risk are either not present or negligible, in our view.
	In view of the current macroeconomic environment, eligible borrowers can benefit from COVID-19 related moratoria. The proportion of these moratoria granted by VW Bank Spain is currently low. We have stressed moratoria and therefore delayed collections on 10% of the pool in our cash flow assumptions.

Asset Description

As of the cut-off date, the collateral pool comprised 146,474 loans, with a total current principal balance of €1,500 million.

The entire portfolio comprises loan receivables granted to Spanish individuals and small-commercial clients for the purchase of new and used vehicles.

Collateral Key Features

Table 1 | **Download Table**

Collateral Key Features*

Pool Characteristics	Private Driver España 2020-1, Fondo De Titulizacion	DRIVER ESPANA SIX, FONDO DE TITULIZACION	DRIVER ESPANA FIVE, FONDO DE TITULIZACION
Originator	Volkswagen Bank GmbH, Spain Branch	Volkswagen Bank GmbH, Spain Branch	Volkswagen Finance S.A., E.F.C.
Country	Spain	Spain	Spain
Pool cut-off date	October 2020	January 2020	January 2018
Discounted outstanding principal balance of the pool (mil. €)	1,500.0	1,116.1	1,000.0
Discount rate (%)	3.1983	1.3493	1.425
Average remaining discounted loan	10,241	10,740	11,585

principal balance (€)			
Weighted-average life (months)	24.1	24	22
Weighted-average original term (months)	61.1	61	58
Weighted-average seasoning (months)	14.4	15.2	10.0
Weighted-average remaining term (months)	46.7	46	48.0
Weighted-average yield (%)	10.19	10.25	10.18
Top 3 geographic concentration			
First (%)	Catalonia (20.4)	Catalonia (20.6)	Catalonia (20.3)
Second (%)	Andalusia (17.8)	Andalusia (17.4)	Andalusia (17.2)
Third (%)	Madrid (13.1)	Madrid (14.2)	Madrid (16.1)
Top 3 vehicle make			
First (%)	Seat (41.6)	Seat (41.9)	Seat (36.6)
Second (%)	Volkswagen (31.6)	Volkswagen (31.9)	Volkswagen (33.4)
Third (%)	Audi (15.5)	Audi (16.4)	Audi (20.6)
Loan type (%)			
Amortizing	86.2	87.8	91.1
Balloon	13.8	12.2	8.9
Vehicle type (%)			
New	75.6	78.7	82.4
Used	24.4	21.3	17.6
Customer type (%)			
Private	85.2	84.7	83.9
Commercial and freelance	14.8	15.3	16.1
Affected contracts (volume percentage) with EA 189 EU5 engines (%)	0.0002	0.004	0.77
Largest borrower (%)	0.008	0.006	0.01
Top 20 borrowers (%)	0.096	0.10	0.06

*Calculations are according to S&P Global Ratings' methodology and based on the outstanding discounted principal balance. N.A.--Not available. TBD--To be determined.

Eligibility Criteria

The transaction documents set out certain eligibility criteria for the loan receivables, some of which are highlighted below:

- The loans constitute legally valid, binding, and enforceable agreements.
- The borrowers are corporate entities with a registered office in Spain or, if they are individuals, have their place of residence in Spain.
- The loans were granted according to the regular market practice for the acquisition of motor vehicles, and have been serviced by the seller since origination.
- The loans are denominated in euros, governed by Spanish law, payable in monthly installments of interest and principal, and the applicable interest rate is fixed.
- The loans are up-to-date in payments (i.e., there are no overdue amounts), and none of the loans have been terminated or written off.
- At least two installments have been paid on the loans.
- The loans have the maximum original term of 94 months and at least three monthly installments remaining until maturity.
- The loans are not impaired by setoff rights or due to warranty claim or any other rights of the borrowers.
- None of the borrowers is an employee of the seller, or an affiliate of Volkswagen AG.

Similarly, during the revolving period the following concentration limits will apply:

- Discounted receivables balance for used cars cannot exceed 30%.
- Discounted receivables balance of balloon contracts cannot exceed 25%.
- Discounted receivables balance cannot exceed 0.5% in respect of any single borrower.
- Discounted receivables balance corresponding to legal persons cannot exceed 10%.
- Discounted receivables balance with a term to maturity exceeding 60 months cannot exceed 30%.

- Discounted receivables balance assigned to "self-employed" borrowers cannot exceed 20%.

Origination

VW Bank Spain is an established originator of auto loans in the Spanish market. It offers financing through the car dealership network. Credit decision-making is centralized and includes multiple stages such as credit scoring, data verification, and if required, manual approval.

Overall, VW Bank Spain's risk management falls in line with VW Bank Group's general risk policy, with specific corrections needed to meet Spain's legal and regulatory requirements.

Operational Risk

All monthly payments are made by direct debit. Overdue accounts are categorized by the length of delinquency, which then determines the contact frequency and cure approach taken.

We believe that VW Bank Spain's origination, underwriting, servicing, and risk management policies and procedures are in line with market standards and are adequate to support the rating assigned. Our operational risk criteria focus on key transaction parties (KTPs) and the potential effect of a disruption in the KTP's services on the issuer's cash flows, as well as the ease with which the KTP could be replaced if needed. Based on our view of the servicer's capabilities and the characteristics of the underlying receivables, we believe that the severity risk and portability risk following a disruption to the servicer are both low. Consequently, our operational risk criteria do not constrain the maximum potential rating assignable to the transaction.

The transaction does not have a named back-up servicer at closing, but the servicer may be replaced following certain termination events, which include the servicer's insolvency. We rely on the general availability of servicing in the Spanish market to mitigate the risk of servicing disruption and have applied a stressed servicing fee in our cash flow analysis, in line with market standards. Furthermore, the cash reserve provides coverage to ensure timely payment of note interest to mitigate servicer disruption risk.

We have been informed that there is a civil lawsuit against the management company (Titulization de Activos S.G.F.T. S.A.) as a result of certain derivative agreements. We treat the management company as an administrative key transaction party under our operational risk criteria. In our view, its future performance would not have an adverse rating impact because of the availability of replacement companies in the ample and well-established securitization market of Spain. On the same ground, we have reasons to believe that an early liquidation event related to the failure to replace the management company upon insolvency within four months is rating remote.

Credit Analysis And Assumptions

In line with the transaction's eligibility criteria, we analyzed historical performance data at the subpool level based on the breakdown by credit product (auto credit and classic credit) and car type (new and used). We received monthly and quarterly static gross loss data from first-quarter 2005 to second-quarter 2020. We derived recovery data per defaulted cohorts from gross versus net loss data available to us.

We examined gross credit loss data and recoveries by applying our European auto ABS criteria.

Macroeconomic And Sector Outlook

In our analysis, we considered the following economic data and their baseline effect on collateral credit quality in determining our credit assumptions (see "Related Research").

Table 2 | **Download Table**

Macroeconomic Outlook

	Actual	Forecast			
	2019	2020f	2021f	2022f	2023f
Real GDP (y/y growth, %)	2	(11.3)	8.2	4.3	2.6
Unemployment rate (annual average, %)	14.1	16.0	17.5	15.6	14.3
CPI (%)	0.8	0.2	1.3	1.4	1.4

Sources: National statistics offices, OECD, Eurostat, European Central Bank, S&P Global Ratings. CPI--Consumer price index. f--Forecast.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Defaults

A loan is considered defaulted in the transaction if it has more than eight overdue monthly installments, unless the servicer declares it defaulted earlier. The amount of time to constitute a default under this transaction's default definition is consistent with the market practice in Spain.

Gross Defaults

Chart 1 shows yearly averages of quarterly static cumulative gross defaults for the entire pool based on the current weight of four sub products (classic credit new vehicles, classic credit used vehicles, auto credit new vehicles, and auto credit used vehicles). Chart 2 demonstrates the geographic distribution of the collateral across Spain.

Chart 1 | Download Chart Data

Cumulative Gross Losses

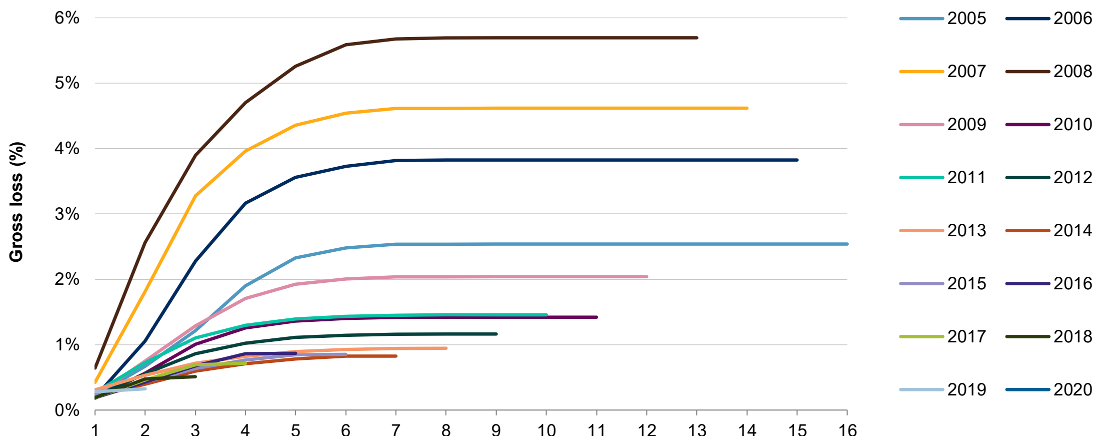
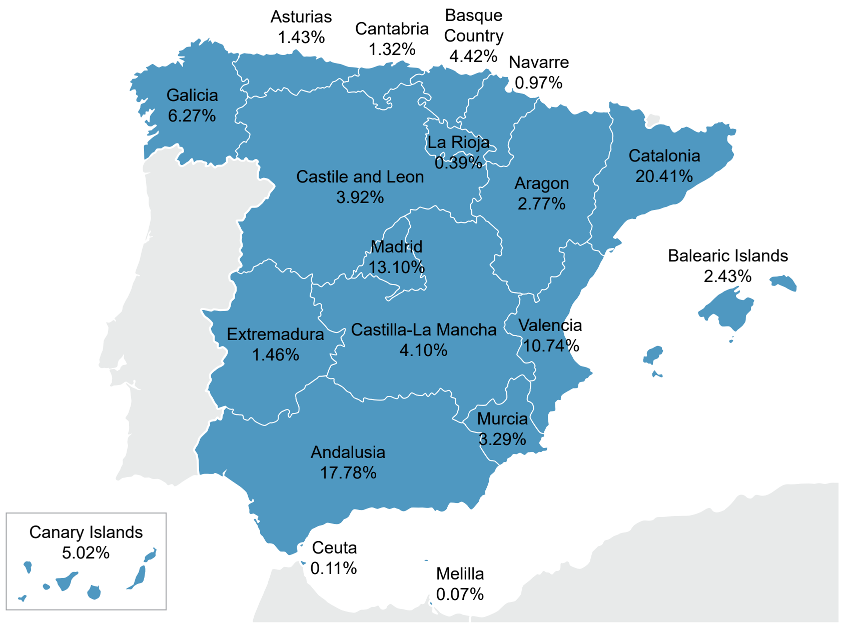


Chart 2

Private Driver España 2020-1, Fondo de Titulizacion



The historical data cover the worst part of the economic cycle, showing how the loans are performing in that situation. Starting from 2010, vintage curves demonstrate a lower level of cumulative gross losses compared to older cohorts.

Based on the pool composition, we see 2.13% of gross losses as our base case (2.23% after accounting for the worst-case pool composition, given the concentration limits during the revolving period). This reflects performance trends in the historical data provided, our expectation of deteriorating macroeconomic growth in Spain, our view of portfolio quality, and our analysis of the originator's underwriting and servicing standards. Compared to DRIVER ESPANA SIX, we have increased our gross loss base-case assumption, resulting in a higher pool-wide base-case gross loss despite a comparable pool composition. Compared to the predecessor transaction, we have also increased the credit multiple to 4.9x at 'AAA' to reflect the three-year revolving period. On a positive side, we accounted for the originator's experience and good data quality.

Recoveries and recovery timing

We have not received recovery data on the originator's loan book. We have derived our recovery rate assumption on the comparison between the gross loss data and the net loss data and the recovery information received. Additionally, we analyzed the recovery information for the previous securitizations by the same originator. The uniform recovery rate base assumption is 35.0%, in line with DRIVER ESPANA SIX. However, for the non-registered portfolio we have stressed a lower recovery rate at 30%.

Since the pool was purchased above par, this reduces the applicable recovery rate to 28.3% if measured against the principal balance of the loan contracts. We have applied this assumption in our cash flow model for all rating levels.

We have also tested the cash flow results to no recoveries on non-registered contracts at closing as a sensitivity run. DRIVER ESPANA transactions are not exposed to the balloon component of the loan; therefore the residual risk is not present.

We have set our base-case assumptions with a recovery period of 24 months. Under our assumptions, no recoveries will be realized under the first 24 months.

Cumulative Gross Loss And Recovery Assumptions

Table 3 | Download Table

Cumulative Base Case Gross Loss And Recovery Assumptions (%)

Segment	Percentage of portfolio	Concentration limit	Base case gross loss	Stressed recovery assumption
Auto credit new car contracts	13.2	25	1.85	28.3
Auto credit used car contracts	0.61	0	2.75	28.3
Classic credit new car contracts	62.4	45	1.75	28.3
Classic credit used car contracts	23.8	30	3.25	28.3
Total	100.00	2.23	2.13	28.3

Credit Assumptions Summary

Table 4 | Download Table

Credit Assumptions Summary

Rating Level	Base case gross loss (%)	Stress multiple	Stressed gross loss (%)	Stressed recovery rate (%)	Stressed cumulative net losses (%)
AA	2.23	3.9	8.68	28.3	6.2

Peer Comparison At 'AAA'

Table 5 | Download Table

'AAA' Comparison

Rating level	Private Driver España 2020-1, Fondo De Titulizacion	DRIVER ESPANA SIX, FONDO DE TITULIZACION	DRIVER ESPANA FIVE, FONDO DE TITULIZACION
Stressed gross loss (%)	10.9	8.78	9.10
Stressed recovery rate (%)	28.3	29.41	29.58
Stressed combined cumulative net loss (%)	7.6	6.2	6.4

Transaction Structure

At closing, PDE 2020-1 purchased the auto loan portfolio. The loan receivables are discounted at a fixed discount rate of interest equal to 3.1983%, so that the effective interest available to the issuer is reduced, leaving 2% excess spread in the transaction. Therefore, interest receipts are equal to the sum of:

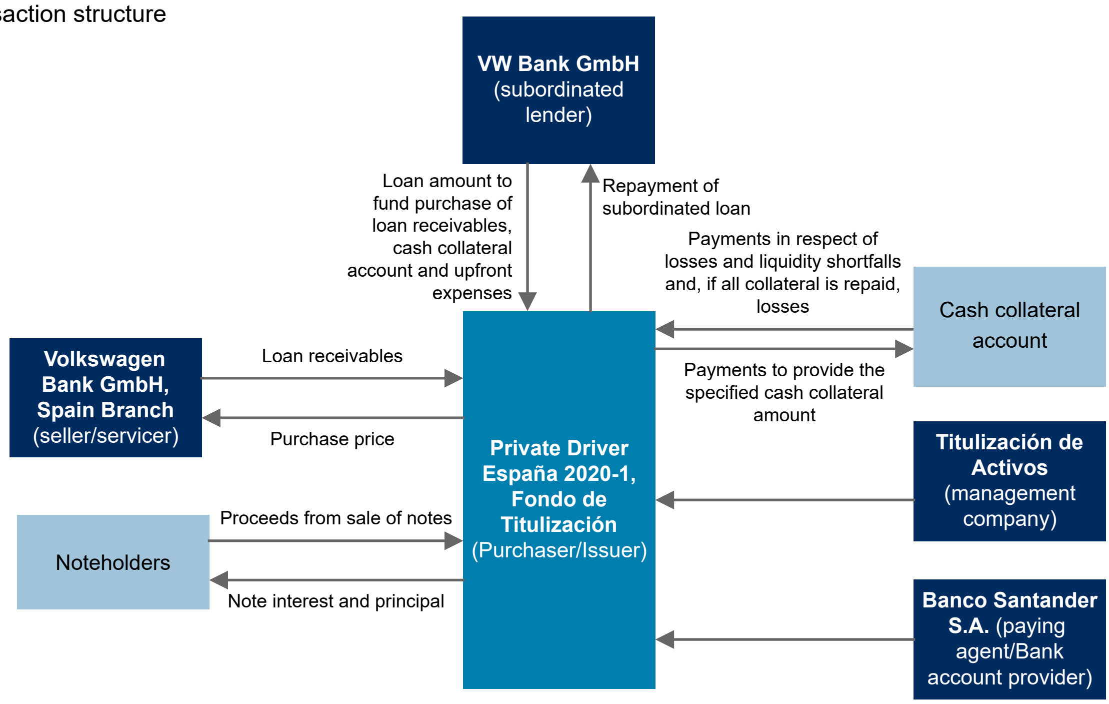
- The weighted-average interest due to the notes;

- The interest due under the subordinated loan;
- The administrative expenses and a servicing fee; and
- The additional 2% buffer.

Chart 3

Private Driver España 2020-1, Fondo de Titulización

Transaction structure



Cash Flow Mechanics

The transaction has a combined interest and principal waterfall. On each interest payment date (IPD), the notes' interest will be paid after senior costs. Senior costs in the priority of payments include taxes payable by the issuer and servicing and administrative expenses. The first IPD is on December 2020. The legal final maturity of the notes is in October 2034.

Priority of payments

On any monthly interest payment date, the issuer allocates all available cash collections--as well as withdrawals from the cash reserve, and any other available amounts--according to the simplified priorities of payment shown in table 6.

Table 6 | Download Table

Priority Of Payments	
1	Payment of taxes by the fund.
2	Payment of ordinary and extraordinary expenses of the fund
3	Amounts payable in respect of: (a) interest accrued during the immediately preceding period; plus (b) interest shortfalls (if any) on the notes.
4	Amounts payable to the reserve fund, until equal to the required balance.
5	Notes' prinicpal or portfolio replenishment during the revolving period.
6	Interest on the subordinated loan.
7	Principal on the subordinated loan.
8	All remaining amounts back to VW Bank Spain through a financial intermediation margin.

During the revolving period, the transaction's target credit enhancement is 7.6%, maintaining the starting overcollateralization level at closing. However, once the revolving period ends, excess spread will be used to build-up additional credit enhancement in order to meet the 100% target overcollateralization. Additionally, if the cumulative gross loss ratio exceeds 1.0% on any payment date up to November 2021 (included), or 2.50% after the payment date corresponding to November 2021 but prior to the one corresponding to November 2022 (inclusive), or 5.0% after the payment date on November 2022 (all together referred as credit enhancement increased conditions), the revolving period will end and any releases from the reserve fund will be used to pay down the notes. We have taken the first gross loss ratio trigger into account together with the target overcollateralization trigger during the revolving period in order to assess the minimum level of overcollateralization in this transaction. Given that the asset-liability test--which ensures that the transaction will start amortizing at a minimum 7.3% overcollateralization level--starts on the sixth IPD after closing, we have considered that the portfolio's overcollateralization may be reduced by up to 1% if a revolving period termination event occurs, as it is limited by the gross loss ratio trigger in place during the first year.

Revolving period termination events:

- An early liquidation event of the fund occurs;
- A seller insolvency event occurs;
- A service provider replacement event occurs;
- The credit enhancement increase condition is in effect;
- On any payment date falling after six payment dates after closing, the actual overcollateralization percentage is lower than 7.3%; and
- The seller ceases to be an affiliate of Volkswagen Bank GmbH or any successor.

Additionally, negative carry is addressed as if the amounts deposited in the accounts on two consecutive payment dates exceed 10% of the discounted balance, the excess will be used to partially amortize the notes.

Table 7 describes the initial overcollateralization levels and target overcollateralization levels.

Table 7 | Download Table

Overcollateralization Levels

	Actual overcollateralization (%)	Target overcollateralization levels (%)	Target overcollateralization levels (%)
Class	At closing	During revolving period*	After revolving period
Notes	7.6	7.6	100

*Revolving period termination event trigger refers to 7.3% target overcollateralization starting on the sixth payment date.

Cash reserve

The issuer deposited 0.75% of the initial discounted asset balance as a general cash reserve at closing. Amounts deposited in the general cash reserve account would be available to mitigate any liquidity shortfalls in the payment of senior costs and expenses, and interest on the notes. As soon as the aggregate discounted receivables balance has been reduced to zero or on the scheduled final maturity date, the issuer can also use the cash reserve to redeem the notes. The cash reserve amortizes at 0.75% of the outstanding discounted asset balance, subject to a floor, which is the lesser of (i) €6 million and (ii) the notes' outstanding amount. The amounts that are released from the reserve are paid directly to the subordinated loan, provided that no credit enhancement increase condition is in effect and that the servicer is solvent. If these conditions are not satisfied (a credit enhancement increase condition has occurred or the servicer is insolvent), the released amount is deposited back into the cash reserve account and can be used in the next payment dates.

Swap/hedging

The receivables are fixed rate, while the notes also pay fixed rate. The currency for both assets and liabilities is euro. Therefore, there is no interest or foreign exchange risk in this transaction.

Clean-up call

PDE 2020-1 can exercise a clean-up call option as soon as the receivables' discounted principal balance is below 10% of the maximum discounted receivables balance. If exercised, the repurchase price must be sufficient to cover the principal outstanding on the rated notes, plus all accrued interest.

Mitigation Of Seller Risks

Commingling risk

Borrower collections are paid by direct debit into the servicer collection bank account. These collections are not heavily concentrated on any specific monthly day, and all are received via direct debit. Transfers from the servicer collection bank account provider into the issuer distribution account occur monthly. If the credit rating on the servicer is lowered below a certain rating, then within 30 calendar days the servicer will start making cash advances to the issuer covering (i) the first 15 days of the month, and (ii) the remaining 15 days of the month. Those advances will be made 14 days ahead of said period's first day. Additionally, upon breaching the rating trigger, one month of collections will be advanced (or two months if the rating is breached before the IPD of the month on which the breach occurred). If the servicer is terminated (including for the reason of servicer insolvency), the management company will notify the borrowers to redirect collections and to pay collections directly to the fund.

The advance mechanism will address the servicer commingling risk if our short-term ICR on Volkswagen Bank GmbH falls below 'A-2' and our long-term ICR falls below 'BBB'; our long-term ICR on Volkswagen Bank GmbH falls below 'BBB+' if there is no short-term rating; or we consider that the servicer is no longer deemed eligible under our counterparty criteria.

We deem commingling risk to be fully mitigated by the cash advance mechanism.

The transaction does not have a back-up servicer appointed, but the servicer may be replaced following certain termination events, including insolvency of the servicer.

We believe that the size of the cash reserve would be sufficient to ensure that the timely payment of interest would continue on the notes until obligors are notified to redirect their payments to the issuer.

Claw-back risk

Claw-back risk was mitigated by the representations provided by the seller at closing. However, VW Bank Spain will not provide solvency certificates on any subsequent purchase date during the revolving period. Therefore, we consider that potential claw-back risk can arise during the revolving period.

The German legal opinion includes a "value equivalent transaction" ("Bargeschäft") concept, which effectively concludes that the s130/131 German Insolvency Code clawback laws will not apply to the closing date or revolving period sales. On the basis that those sales are "value equivalent transactions," they will be outside the scope of S130/131 clawback laws. In our view, this mitigates claw-back risk during the revolving period.

Setoff risk

In general, if the servicer becomes insolvent, setoff risk may arise. This is because obligors can set off their loan installments against:

- Their salary (employee setoff);
- Insurance obligations (if the insurance provider becomes insolvent);
- Maintenance and servicing obligations (if the maintenance or service provider becomes insolvent); or
- Their deposits (deposit setoff).

According to the eligibility criteria, none of the borrowers is an employee of the seller or an affiliate of Volkswagen AG. Additionally, the loan contracts are free of claims for compensation against the seller and free of rights of third parties. We therefore do not expect any employee, maintenance, or servicing setoff risk to arise.

Except for moto car insurance, other insurance contracts are provided by companies not related to the seller. Since the seller itself is not an insurance company and there are no reciprocal obligations between the seller and the borrowers under the insurance contracts, the insurance-related setoff claims by the borrowers are not recognized by Spanish law. Therefore, the insurance setoff risk in this transaction is negligible, in our view.

The seller is a deposit-taking institution. Despite a very limited current exposure, the transaction is thereby exposed to a deposit setoff risk. It is structurally mitigated by the obligation by the seller, upon the loss of a 'BBB' credit rating, to fund a deposit setoff reserve covering the lesser of the borrowers' deposits and their discounted loan receivables balances. The exposure will be monitored monthly and disclosed in the investor reports. At closing, borrowers already holding deposits with the seller were filtered out by the eligibility criteria. We therefore deem the setoff risk arising from the borrowers' deposits fully structurally mitigated.

Retention of title over the vehicles

The issuer does not have any rights over the vehicles themselves; it only has rights in connection with their sale proceeds. The retention of title clause offers collateral protection to the lender in accordance with the Spanish law since the borrower cannot sell the financed vehicle without the lender's approval, and the lender would receive the car before other creditors if the borrower defaulted. To be enforceable, the clause must be registered in the Chattels Register. Nearly 45% of the loan contracts in the pool have already been registered or will be registered before closing at the expense of VW Bank Spain. The remaining 55% of the loan contracts in the pool will not benefit from the registered reservation of title at closing.

In case of servicer termination, the management company will instruct the successor servicer to conduct the registration on PDE 2020-1's behalf of those loan contracts that have been previously registered. The costs related to registration will be borne by PDE 2020-1.

In our stress scenarios, we assumed that the servicer or a successor servicer would tend to register those contracts that are currently unregistered, should the macroeconomic conditions deteriorate. This would serve to enhance the lender's rights belonging to PDE 2020-1. We have stressed the registration costs related to the entire underlying pool in our cash flow model as a sensitivity scenario.

We have also tested the cash flow results' sensitivity to lower recovery assumptions that address the risk of loan contracts not having the reservation of title registered at closing. We have considered this scenario to be the driving run in our analysis.

Cash Flow Assumptions

Table 8 | Download Table

Cash Flow Assumptions

Scenario	AA
Cumulative gross loss (%)	8.68
Recession start	Closing
Length of recession	WAL (25 months)
Cumulative gross loss curve (hostile terminations and voluntary terminations)	Evenly distributed over WAL
Delinquency	Two-thirds of credit losses recovered six months later
Recoveries (%)	28.3
Recovery lag (months)	24
Stressed floating fees (including servicing fees) (%)	1.03
Fixed fees (€)	330,000
Replacement bank cost (€)	90,000
CPR high (%)	20
CPR low (%)	0.5
Interest up	From current to 12% with 2% monthly increase
Interest down	From current to 0% with 2% monthly decrease
Interest flat	At current level
Collateral interest (%)	3.1983
Prepayment loss	12.24% of prepaid amounts are assumed to be lost over 25 months
Commingling stress	Fully mitigated

WAL--Weighted-average life. WAC--Weighted average coupon. CPR--Constant prepayment rate.

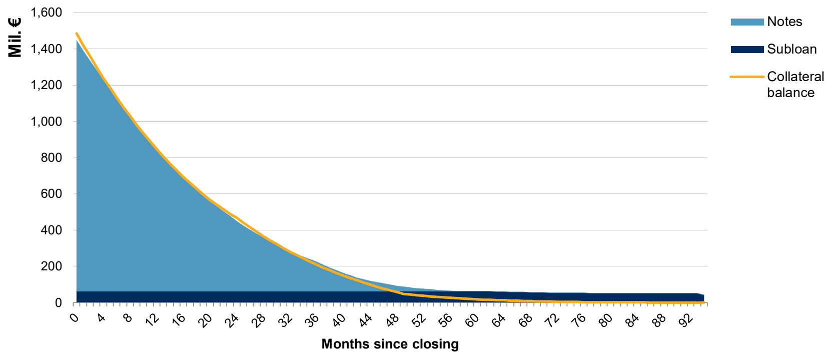
We have tested the class' ability to pay timely interest and ultimate principal on the notes under the above stress assumption through our cash flow model. Our analysis indicates that the available credit enhancement for the notes is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA' rating level. However, our counterparty criteria constrain our rating on the notes at 'AA'.

Our rating addresses both the availability of funds for the full payment of interest and principal, and the timeliness of these payments in accordance with the terms of the rated securities. Based on the assumptions discussed above, the scenarios with high prepayment and interest down proved to be more stressful, mostly because it results in a higher prepayment loss stress.

Chart 4 shows the collateral and the note amortization profile under our most stressful 'AA' scenario.

Chart 4 | Download Chart Data

Collateral And Note Balances
In the 'AA' most stressful scenario



Counterparty Risk

The remedies for the issuer's account bank provider and servicer adequately mitigate the transaction's exposure to counterparty risk in line with our criteria. Based on the replacement trigger on the bank account, the maximum achievable rating as per our counterparty criteria is 'AA'.

Table 9 | Download Table

Supporting Ratings

Institution/role	Current rating	Replacement trigger	Collateral posting trigger	Maximum supported rating
Banco Santander S.A. as bank account provider	ICR: A	A-	N/A	AA
Volkswagen Bank GmbH, Spain Branch as servicer	ICR: A-*	N/A§	N/A	AAA

*The rating on the Spain Branch of Volkswagen Bank GmbH is derived from its parent entity in accordance with our bank branch criteria. §Funding of advance mechanism to mitigated commingling risk starts at 'BBB'. N/A--Not applicable. ICR--Issuer credit rating.

Eligible investments

The issuer does not invest funds sitting in the bank accounts in eligible investments.

Sovereign Risk

Our long-term unsolicited sovereign rating on Spain is 'A'. We treat the transaction sensitivity to a sovereign default stress as low due to the underlying assets' nature and the robustness of the transaction structure. Therefore, our sovereign risk criteria enable the notes to achieve a 'AAA' maximum potential rating subject to passing the relevant cash flow stresses. The notes pass the applicable stresses and therefore can achieve up to a 'AAA' rating, which is higher than that on the sovereign.

Scenario Analysis

We analyzed the effect of a moderate stress on the credit variables and its ultimate effect on our ratings on the notes. We ran two stress scenarios to demonstrate the rating transition of a note (see table 10).

Table 10 | Download Table

Scenario Stress Analysis Results

Class	Initial rating	Scenario 1 stress test rating	Scenario 2 stress test rating
A	AAA (sf)	AAA (sf)	AAA (sf)

The results of the above scenarios are in in line with our credit stability criteria.

Sensitivity Analysis

As part of our analysis we also conducted additional sensitivity analysis to assess the impact of, all else being equal, an increased gross default base case and an additional haircut to the recovery rate base case, on our rating on the notes. For this purpose, we ran eight sensitivity runs by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 11 | Download Table

Scenario Stresses

	Recovery rate base case (%)		
Gross default rate base case (%)	**0.0**	**(10.0)**	**(25.0)**
0.0	Base case	Scenario 3	Scenario 4
10.0	Scenario 1	Scenario 5	Scenario 7
25.0	Scenario 2	Scenario 6	Scenario 8

The results of the above sensitivity analysis indicate a deterioration of no more than one notch compared with the ratings assigned (see table 12).

Table 12 | Download Table

Sensitivity Analysis Results

Class	Base Case	1	2	3	4	5	6	7	8
Gross default rate (%)	2.23	2.45	2.79	2.23	2.23	2.45	2.79	2.45	2.79
Recovery rate (%)	28.3	28.3	28.3	25.5	21.2	25.5	25.5	21.2	21.2
A	AAA	AA+	AA	AAA	AA+	AA+	AA	AA	AA-

Further sensitivity analysis was applied to the notes (in the base case run) to test the effect of a recovery timing extension by an additional six months and to capture registration costs while assuming 35% recovery rate for the entire pool. These sensitivities did not have a material impact, therefore, they are not driving the analysis.

Monitoring And Surveillance

We assess at least quarterly the underlying portfolio's performance, including defaults and delinquencies.

Additionally, we also assess at least annually:

- The supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for each class of notes is sufficient to withstand losses that are commensurate with the current ratings assigned.

Appendix

Transaction participants

Download Table

Transaction Participants

Issuer	Private Driver España 2020-1, Fondo De Titulizacion
Originator	Volkswagen Bank GmbH, Spain Branch
Seller	Volkswagen Bank GmbH, Spain Branch
Servicer	Volkswagen Bank GmbH, Spain Branch
Subordinated loan provider	Volkswagen Bank GmbH
Bank account provider	Banco Santander S.A.
Arranger	Banco Santander S.A.
Management company	Titulizacion De Activos, S.G.F.T., S.A.
Paying agent	Banco Santander S.A.

Related Criteria

- **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

- **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 | General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD**, March 2, 2015
- **Criteria | Structured Finance | General: Global Framework For Cash Flow Analysis Of Structured Finance Securities**, Oct. 9, 2014
- **Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions**, Oct. 9, 2014
- **Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables**, Oct. 9, 2014
- **General Criteria: Methodology Applied To Bank Branch-Supported Transactions**, Oct. 14, 2013
- **Criteria | Structured Finance | General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications**, July 12, 2012
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011
- **Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment**, May 28, 2009

Related Research

- **European Economic Snapshots: A Second COVID-19 Wave Is Dampening The Recovery**, Oct. 14, 2020
- **Credit Conditions Europe: Ill-Prepared For Winter**, Sept. 29, 2020
- **European Auto ABS Index Report Q2 2020**, Sept. 8, 2020
- **Banking Industry Risk Assessment: Spain**, June 18, 2020
- **New Issue: DRIVER ESPANA SIX, FONDO DE TITULIZACION**, Feb. 28, 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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- **Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance**, May 12, 2009

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