FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Driver Belgium Master SA - Compartment 1 on Restructuring

Tue 25 Feb, 2025 - 08:56 ET

Fitch Ratings - Paris - 25 Feb 2025: Fitch Ratings has affirmed Driver Belgium Master SA - Compartment 1's class A and B notes following a restructuring and extension of the revolving period by 12 months. A full list of rating actions is below.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Driver Belgium Master SA - Compartment 1				
A 2022-1 BE6338895426	LT	AAAsf	Affirmed	AAAsf
A 2022-2 BE6338896432	LT	AAAsf	Affirmed	AAAsf
A 2022-3 BE6338897448	LT	AAAsf	Affirmed	AAAsf

B 2022-1 BE6338900473	LT	AA-sf	Affirmed	AA-sf
B 2022-2 BE6338901489	LT	AA-sf	Affirmed	AA-sf

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VIEW ADDITIONAL RATING DETAILS

TRANSACTION SUMMARY

Driver Belgium Master SA - Compartment 1 is a revolving securitisation of auto loan receivables granted to Belgian individuals by Volkswagen D'Ieteren Finance SA (VDFin). VDFin is a joint venture between D'Ieteren Group and Volkswagen Financial Services AG. Fitch initially rated the transaction in November 2022.

The main changes to the structure since our last restructuring analysis in November 2023 are:

- The revolving period has been extended by 12 months for all series of notes until February 2026.

- The legal final maturity date for all series of notes has been extended by 12 months until February 2035.

- The notes' margins remain 62bp for the class A notes and lowered to 125bp from 140bp for the class B notes. New swap rates payable by the issuer have been determined for the class A and B notes as well as a new hypothetical swap rate on the subordinated loan.

- The minimum over-collateralisation (OC) levels during the revolving period have been increased to 9.5% from 9.0% for the class A notes and 5.5% from 5.0% for the class B notes.

We have been informed that the fraud cases reflected mainly throughout 2022 by higher defaults have been brought under control by different measures such as restriction of manual acceptances, change of dealers' incentive schemes and improvements in the scoring model. In our view, this is confirmed by recent data, which is back to pre-2022 levels.

KEY RATING DRIVERS

Default Assumptions Reflect Changes: Fitch assumed a default base case of 2.2% and a default multiple of 6.0, unchanged from the previous renewal in 2023. Fitch has determined its assumption based on the total book data combined with transaction performance data. In contrast to the previous analysis, which used sub-pool bases cases, Fitch sees limited migration potential to a riskier portfolio based on the current pool stratification and origination history.

For this renewal we learned that the default declaration practice was recently changed to a more conservative method, which leads to earlier declarations of defaults but does not affect the exposure at default. This will likely lead to higher book defaults and higher recoveries, with losses unchanged. Our base case incorporates the expectation of higher defaults, especially in view of the transaction's default history which has outperformed VDFin's total book, likely due to positive selection.

Assumptions Capture Revolving Risks: The 12-month extension of the revolving period allows limited migration towards weaker performing borrowers, mainly related to used car finance. The share of used cars could increase by a few percentage points from 14% as of January 2025, considering the portfolio limit of 20% and the limited replenishment capacity within 12 months. We have determined this as immaterial to our total default base case.

Fitch considers the performance triggers to end the short revolving period early are loose compared with historical data but views the minimum OC levels as supportive. We model the structure as per minimum OC levels at the end of the revolving period.

Data Limitation Drives Recovery Assumptions: We previously derived recoveries from default and write-off data. The time until write-off has recently been lengthened and is

Sensitivity to Pro-Rata-Like Amortisation: The transaction has a pro-rata allocation mechanism if certain target OC conditions are fulfilled and performance triggers are not breached. The length of the pro-rata period and therefore the outflow of funds to junior positions in the waterfall is driven by the cumulative defaults ratio combined with the target OC level. Cumulative defaults were at 0.7% as of December 2024 compared with a 3.0% trigger value. We assumed cumulative defaults of 1.0% from the start of amortisation in March 2026.

Diluted Stop Pro-Rata Trigger: Fitch notes that the cumulative defaults trigger is rather weak because its denominator is diluted over time, looking at the sum of all assets purchased since closing. Consequently, the trigger is only breached late in the transaction's life, leading to a significant portion of funds flowing out to the subloan. However, with late write-offs leading to higher delinquencies, the second trigger, which looks at late delinquencies as of the outstanding portfolio balance, is likely breached earlier. Its trigger value is also set at 3.0% and since this ratio is not subject to dilution, this is credit-positive in our modelling.

Increased Target OC levels: The minimum and target OC levels have been increased for both classes. The change of the target OCs in particular has had a credit-positive impact on both notes, guaranteeing more funds being allocated to pay down principal on class A and B and less on the subloan.

Liquidity and Seller-Related Risks Addressed: A cash reserve is available to cover at least three months of senior fees, swap and notes' interest payments and shields the transaction from payment interruptions. Commingling risk is reduced by a cash advance mechanism upon the seller losing eligibility in line with Fitch's counterparty criteria. We consider the servicer replacement procedures to be adequate but slightly weaker than in peer transactions given the missing facilitator.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

In Fitch's most stressful scenario for all notes, defaults are clustered later in the transaction's life. This is mostly due to the pro-rata mechanism if certain target OC

1.0% in our driving scenario for the class B notes, the pro-rata attribution would be prolonged and reduce funds available to them.

Expected impact on the notes' ratings of increased defaults (class A/B)

Increase default rate by 10%: 'AAAsf'/'AA-sf'

Increase default rate by 25%: 'AA+sf'/'A+sf'

Increase default rate by 50%: 'AA+sf'/'Asf'

Expected impact on the notes' ratings of decreased recoveries (class A/B)

Reduce recovery rates by 10%: 'AA+sf'/'AA-sf'

Reduce recovery rates by 25%: 'AA+sf'/'A+sf'

Reduce recovery rates by 50%: 'AA-sf'/'Bsf'

Expected impact on the notes' ratings of increased defaults and decreased recoveries

(class A/B)

Increase default rates by 10% and decrease recovery rates by 10%: 'AA+sf'/'AA-sf'

Increase default rates by 25% and decrease recovery rates by 25%: 'AA-sf'/'A-sf

Increase default rates by 50% and decrease recovery rates by 50%: 'A-sf'/'NRsf'

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The class A notes are already at the highest achievable rating and cannot be upgraded.

There could be a positive impact on the class B notes' rating if defaults and losses are smaller and more front-loaded than assumed, leading to a shorter pro-rata period. For

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. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transaction 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.

Overall, and together with any assumptions referred to above, Fitch's assessment of the 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.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 28 Nov 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 28 Nov 2023)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 20 Jun 2024)

Consumer ABS Rating Criteria (pub. 11 Oct 2024) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 24 Oct 2024)

Global Structured Finance Rating Criteria (pub. 18 Nov 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Consumer ABS Asset Model, v1.1.0 (1)

Multi-Asset Cash Flow Model, v3.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Driver Belgium Master SA - Compartment 1	EU Issued, UK Endorsed

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