FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Driver Belgium Master SA - Compartment 1 After Restructuring

Mon 27 Nov, 2023 - 10:41 ET

Fitch Ratings - Paris - 27 Nov 2023: Fitch Ratings has affirmed Driver Belgium Master SA - Compartment 1's class A and B notes following an extension of the revolving period by 15 months.

RATING ACTIONS

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

A 2022-4 BE6338898453	LT	AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable
A 2022-5 BE6338899469	LT	AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable
B 2022-1 BE6338900473	LT	AA-sf Rating Outlook Stable Affirmed	AA-sf Rating Outlook Stable
B 2022-2 BE6338901489	LT	AA-sf Rating Outlook Stable Affirmed	AA-sf Rating Outlook Stable

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 initial review on 25 November 2022 are:

- The revolving period is extended by 15 months for all series of notes until February 2025.

- The legal final maturity date for all series of notes is extended by 15 months until February 2034.

- The notes' margins are adjusted to 62bp from 65bp for class A and 140bp from 145bp for class B notes. New fixed leg swap rates payable by the issuer have been determined.

- Payment interruption risk is now first addressed by the obligation of the seller to compensate the issuer for senior and interest payments not covered by the discount rate. Such amounts are prefunded via a reserve in case of a change in ownership of the seller or a rating trigger event.

- The cumulative gross loss trigger value at which the pro-rata allocation of principal available funds stops during the amortisation period is now 3.0% compared to 3.5% previously.

KEY RATING DRIVERS

Default Expectations Reflect Macroeconomic Risks: Fitch increased the base case for new cars by 0.3% to 1.8% while keeping the base case on the used car sub-pool unchanged at 4.5%. The base cases are set above the vintages 2019 and 2020, which we consider positively skewed by state-support measures during the pandemic. The proposed levels reflect the performance deterioration seen since then in VDFin's loan portfolio.

The deterioration is partly due to the inflationary environment but also because of an increase in fraudulent loan applications. Fraud is often committed at the early stage of a contract term. The contracts in the transaction are only eligible if at least one instalment has been paid, which should reduce the risk that fraud cases will end up in the portfolio.

Assumptions Capture Revolving Risks: Following the extension of the revolving period by 15 months Fitch has captured in its default rate setting a potential migration towards weaker performing borrowers, mainly related to used car finance. We assumed a used car share of 15% at the end of the revolving period. The sub-pool shares yield a weighted average (WA) base-case default of 2.2% compared to 2.1% at closing.

Fitch has considered the performance triggers to end the revolving period early too loose compared with the provided historical data but has gained comfort from the minimum over-collateralisation (OC) levels in place.

Sensitivity to Pro-Rata Period: 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 gross loss ratio. It was 0.31% as of October 2023 compared to a 2.75% trigger. The cumulative gross loss trigger value during amortisation has been reduced to 3.0% from 3.5%. This adequately reduces the risk that additional purchases over a longer revolving period dilute the trigger. We assumed cumulative gross losses of 0.9% from the start of the amortisation.

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

Fitch's most stressful scenario for all notes is the one in which defaults are clustered later in the transaction's life. This is mostly due to the pro-rata mechanism if certain target OC conditions are fulfilled and performance triggers are not breached.

In its modelling Fitch found that the class B notes show a higher sensitivity towards modelling parameters, such as default timing and the observed cumulative gross loss ratio at the start of the amortisation period. The ratios built-up beyond 3.0% at that time would stop making funds available for the sub-loan. If we applied a starting value after the end of the revolving period of the cumulative default ratio of 0.7% instead of 0.9% in our driving scenario for the class B notes, the pro-rata attribution would be prolonged by one period and reduce funds available to this class of notes. The rating impact is -1 notch for the class B notes.

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'/'AA-sf'

Increase default rate by 50%: 'AAsf'/'A+sf'

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

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

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

Reduce recovery rates by 50%: 'A+sf'/'BBBsf'

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'/'A+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'/'BBsf'

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.

A reduction in inflationary pressure on food and energy and improving growth prospects for western European economies would also improve asset performance and be beneficial to all classes of notes.

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. 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.

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APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2022)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 28 Dec 2022)

Global Structured Finance Rating Criteria (pub. 01 Mar 2023) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 14 Mar 2023)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 07 Jul 2023)

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, v2.13.1 (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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