

## RATING ACTION COMMENTARY

# Fitch Assigns Driver UK Master S.A. - Compartment 6 Final Ratings on Third Tap Issuance

Tue 28 May, 2024 - 11:25 AM ET

Fitch Ratings - London - 28 May 2024: Fitch Ratings has assigned Driver UK Master S.A. - Compartment 6's two new series final ratings with Stable Outlooks. Fitch has also affirmed all existing ratings with Stable Outlooks following the third tap issue and revolving period extension. A full list of rating actions is below.

There are two new additional series not rated by Fitch - the series 2024-1 class B and series 2024-2 class B.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Driver UK Master S.A. - Compartment 6		
Class A 2023-1 XS2596590518	LT AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable
Class A 2023-2 XS2596590278	LT PIFsf Paid In Full	AAAsf Rating Outlook Stable
Class A 2023-3 XS2711333240	LT AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable

Class A 2023-4 XS2711333836	LT	AAAsf Rating Outlook Stable		AAAsf Rating Outlook Stable
		Affirmed		
Class A 2024-1 XS2783778736	LT	AAAsf Rating Outlook Stable		
		New Rating		
Class A 2024-2 XS2810275813	LT	AAAsf Rating Outlook Stable		
		New Rating		
Class B 2023-1 XS2596590435	LT	PIFs	Paid In Full	A+sf Rating Outlook Stable
Class B 2023-3 XS2711355136	LT	A+sf Rating Outlook Stable		A+sf Rating Outlook Stable
		Affirmed		
Class B 2024-1 XS2783778819	LT	NRsf	New Rating	

### [VIEW ADDITIONAL RATING DETAILS](#)

### TRANSACTION SUMMARY

The transaction is a securitisation of auto loan receivables originated by Volkswagen Financial Services (UK) Ltd in England, Scotland, Wales and Northern Ireland. The transaction features a revolving period which has been extended by 12 months, now ending in May 2025, and can be further extended subject to consent from investors.

The portfolio consists of personal contract purchase (PCP), hire purchase and lease purchase loans, predominantly financing VW Group brand vehicles. The transaction includes both notes and Schuldschein loans. Notes and Schuldschein loans of the same seniority rank equally with each other.

The originator has sold a further GBP1.2 billion portfolio to the issuer, which funded the purchase by increasing the issued amounts under the transaction as follows:

- Four new series issued for a total GBP972.4 million

Series 2024-1 class A GBP797 million

Series 2024-2 class A GBP60 million

Series 2024-1 class B GBP92.6 million

Series 2024-2 class B GBP22.8 million

- Senior Schuldschein Loan 2023-2: a further issue of GBP52.3 million; total issued amount GBP226 million

- Senior Schuldschein Loan 2023-3: a further issue of GBP46.6 million; total issued amount GBP415.3 million

- Junior Schuldschein Loan 2023-1: a further issue of GBP32.5 million; total issued amount GBP196.1 million

The maximum commitment amount for series 2023-1 class A has decreased to GBP167.2 million from GBP200 million and series 2023-1 class B was fully redeemed at the renewal date.

## KEY RATING DRIVERS

**Low Credit Losses:** Fitch has revised its remaining life default rate assumption to 1.2% from 1.4% previously. The base case acknowledges the strong performance, helped by the prime nature of the borrowers, but also incorporates Fitch's view that the persistent cost of living pressures will continue to weigh on household finances. We have increased the 'AAA' default multiple to 7.0x from 6.5x previously, reflecting the lower degree of stress incorporated in the default base case. Fitch's base case recovery rate and 'AAA' recovery haircut are unchanged at 65% and 45%, respectively.

**Third Tap Issuance:** The notes' coupons have been changed to 0.75% from 0.8% for the senior instruments and to 1.55% from 1.7% for the junior instruments. The swap notional has increased to match the senior and junior instrument balances following the tap issue and new series issuance. Credit enhancement for the senior instruments remains above the documented minimum of 28.87% and the transaction complies with all applicable portfolio covenants.

**Used-Car Price Exposure:** Loans regulated by the Consumer Credit Act provide obligors with voluntary termination (VT) rights, allowing them to return the vehicle before

maturity. PCP loans also provide the option of returning the vehicle at maturity instead of paying a balloon amount. The issuer is exposed to the risk of declines in used-car prices, as proceeds from the sale of returned vehicles may be lower than the outstanding loan balance. Fitch assumed a total residual value (RV) and VT loss of 24.9% at 'AAAsf' and 16.7% at 'A+sf'.

Fitch has revised its base case sale proceeds assumption to 98% from 100%, in light of declining used-car prices in the UK. Fitch expects reduced recovery rates for loans originated at the peak of the RV market. Given the pool has a high RV share combined with a relatively short weighted-average life, future RV losses may be higher than historically.

**Sensitivity to Pro-Rata Period:** The transaction features pro-rata amortisation of notes and Schuldschein loans if certain over-collateralisation conditions are fulfilled and performance triggers are not breached. The length of the pro-rata period and therefore outflow of funds to junior positions on the waterfall is driven by lifetime losses, combined with the default and recovery timing. Smaller losses with back-loaded timing may lead to a later switch back to sequential amortisation and could be more detrimental for the senior instruments than larger losses with a front-loaded timing.

The cumulative defaults trigger has been removed for this renewal, and the transaction now relies on triggers based on dynamic net losses. This leads to a later trigger breach in all modelled scenarios due to its back-loaded nature, which impacts the speed at which yield builds up in the transaction. Consequently, Fitch views the overall package of early-amortisation triggers as weaker than previously. Nevertheless, in high rating scenarios, we expect the triggers to be breached before target over-collateralisation is reached, limiting the outflows of excess spread to the junior instruments.

**Seller-Related Risks Addressed:** Commingling risk is mitigated by a cash advance mechanism that comes into effect upon the seller losing eligibility as defined in Fitch's Counterparty Criteria. Payment interruption risk is addressed by liquidity from the cash reserve fund, while Fitch views servicer continuity risk as adequately reduced by the high availability of replacement servicers in the UK market.

## **RATING SENSITIVITIES**

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

Rating sensitivity to increased defaults

Increase base case by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'A+sf' / 'Asf'

Rating sensitivity to reduced recoveries

Reduce base case by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'A+sf' / 'Asf'

Rating sensitivity to increased defaults and reduced recoveries

Increase defaults and reduce recoveries by 10% / 25% / 50% each:

Class A notes/ senior Schuldschein loans: 'AA+sf' / 'AA+sf' / 'AA+sf'

Class B notes/ junior Schuldschein loans: 'A+sf' / 'Asf' / 'BBB+sf'

Rating sensitivity to reduced net sale proceeds

Reduce net sale proceeds by 10% / 25% / 50%:

Class A notes/ senior Schuldschein loans: 'AAsf' / 'Asf' / 'BBBsf'

Class B notes/ junior Schuldschein loans: 'A-sf' / 'BBBsf' / 'BBsf'

Rating sensitivity to multiple factors

Increase defaults by 10% / 25% / 50% and reduce recoveries and net sale proceeds by 10% / 25% / 50% each:

Class A notes / senior Schuldschein loans: 'AAsf' / 'Asf' / 'BBB-sf'

Class B notes / junior Schuldschein loans: 'A-sf' / 'BBB-sf' / 'B+sf'

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

Rating sensitivity to reduced defaults and increased recoveries and net sale proceeds by 10% each:

Reduce defaults by 10% and increase recoveries and net sale proceeds by 10%:

Class B / Junior Schuldschein Loans: 'AAsf'

The class A notes / senior Schuldschein Loans are at their maximum achievable rating and cannot be upgraded.

### **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**

Driver UK Master S.A. - Compartment 6

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. 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.

### **REPRESENTATIONS, WARRANTIES AND ENFORCEMENT MECHANISMS**

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool was not prepared for this transaction. Offering Documents for this market sector typically do not include RW&Es that are available to investors and that relate to the asset pool underlying the trust. Therefore, Fitch credit reports for this market sector will not typically include descriptions of RW&Es. For further information, please see Fitch's Special Report titled 'Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions'.

### **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>.

## **FITCH RATINGS ANALYSTS**

### **Sophie Crofts**

Associate Director

Primary Rating Analyst

+44 20 3530 1859

sophie.crofts@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

### **Amarachi Onyebuchi**

Senior Analyst

Secondary Rating Analyst

+44 20 3530 1854

amarachi.onyebuchi@fitchratings.com

### **Andy Brewer**

Senior Director

Committee Chairperson

+44 20 3530 1005

andy.brewer@fitchratings.com

## **MEDIA CONTACTS**

### **Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following

issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

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

[Consumer ABS Rating Criteria \(pub. 11 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Consumer ABS Rating Criteria - Residual Value Addendum \(pub. 11 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

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

[Global Structured Finance Rating Criteria \(pub. 19 Jan 2024\) \(including rating assumption sensitivity\)](#)

## 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, v3.1.1 \(1\)](#)

[Voluntary Termination \(VT\) Risk Model, v1.6.1 \(11 Oct 2023, 11 Oct 2023\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Driver UK Master S.A. - Compartment 6

UK Issued, EU Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following



<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-

looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or

guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit

Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.