MOODY'S
INVESTORS SERVICE

CREDIT OPINION
22 November 2021

New Issue

Closing date
22 November 2021

TABLE OF CONTENTS

Contacts

Jacqui Dredge +61.2.9270.1422
Assistant Vice President
jacqui.dredge@moodys.com

Ilya Serov +61.2.9270.8162
Associate Managing Director
ilya.serov@moodys.com

» Contacts continued on last page

Driver Australia seven Trust

New Issue – Volkswagen Financial Services Australia's first auto loan transaction for 2021

Capital structure

Exhibit 1
Definitive ratings

Notes	Rating	Amount[1] (AUD million)	% of notes	Legal final maturity	Coupon	Subordination[3]	Reserve Fund[4]	Total Credit Enhancement[5]
Class A	Aaa (sf)	526.2	87.70%	Jan-30	1m BBSW + 0.7%[2]	12.30%	1.20%	13.50%
Class B	Aa2 (sf)	33.0	5.50%	Jan-30	1m BBSW + 1.0%[2]	6.80%	1.20%	8.00%
Subordinated Loan	NR	34.8	5.80%		Undisclosed	NA		
Over-collateralisation		6.0	1.00%					
Total Portfolio		**600.0**	**100.00%**					

[1] The amounts are based on the portfolio as of 31 October 2021.
[2] The coupon on the Class A and Class B notes will have a floor of 0.0%.
[3] At closing, including over-collateralisation.
[4] As % of initial portfolio balance.
[5] No benefit attributed to excess spread.
Sources: Moody's Investors Service, VWFSA and transaction documents

Summary

Driver Australia seven Trust is a static cash securitisation of auto loans extended to consumer and commercial obligors in Australia by Volkswagen Financial Services Australia Limited (VWFSA, A3/P-2).

VWFSA is 100% owned by Volkswagen Financial Services AG (VWFS AG, A3/P-2), which is part of Volkswagen Aktiengesellschaft (Volkswagen AG, A3/P-2). VWFSA has been operating a traditional captive finance model in Australia since 2001 providing wholesale funding to automotive dealers, financing auto loans to retail customers and more recently offering fleet services such as operating leases and fleet maintenance. VWFSA originates retail auto loans through a network of largely Volkswagen, Audi and Skoda dealerships distributed throughout Australia.

Key strengths of this transaction include its high level of granularity, the rich history of performance data for VWFSA auto loans, and the experience and financial stability of VWFSA as originator and servicer. A key credit challenge is the relatively higher-than-average exposure to receivables with balloon payments compared with peer Australian auto loan portfolios.

Credit strengths

» ***Granularity of the portfolio:*** The securitised portfolio is highly granular, with the largest obligor representing 0.1% of the pool and the 10 largest obligors representing 0.7%. The portfolio also benefits from its strong geographical diversification across Australia. (See “Asset description”)

» ***Asset type:*** The pool is 100.0% secured by motor vehicles. The recovery rates for motor vehicles are generally higher than those for other types of equipment. (See “Asset description”)

» ***No residual value risk*:** This transaction is not exposed to residual value risk. VWFSA does originate consumer loans with a guaranteed future value and chattel mortgage products where VWFSA is exposed to residual value risk; however, such loans are not included in this transaction. (See “Asset description”)

» ***Financial strength:*** The originator and servicer (VWFSA) is rated A3/P-2 and is a leading auto financing company in Australia. VWFSA's current rating limits the transaction’s exposure to operational risks (for example, portfolio servicing disruptions). (See “Asset description”)

» ***Securitisation experience:*** VWFSA has more than seven years of securitisation experience, with Driver Australia seven Trust being its seventh Australian term ABS transaction. In addition, VWFS AG (the parent of VWFSA) has more than 20 years of securitisation experience with numerous well-performing transactions from various subsidiaries, Volkswagen Leasing GmbH and from Volkswagen Bank GmbH as an affiliate of Volkswagen AG. (See “Asset description”)

» ***Credit enhancement:*** The transaction benefits from several sources of credit enhancement, including (i) subordination of the notes, (ii) the subordinated loan, (iii) initial over-collateralisation, and (iv) an amortising cash collateral reserve fully funded at closing. The cash collateral reserve provides limited additional credit enhancement because it is only available to pay interest and senior fees until legal final maturity. (See “Securitisation structure description”)

Credit challenges

» ***Balloon loans:*** Of the portfolio, 41.9% comprises receivables requiring a balloon payment at the end of the receivable term. The aggregate of the balloon payments constitute 16.9% of the current portfolio balance. Loans with a balloon payment are subject to higher refinancing and, consequently, default risk. (See “Asset analysis - Additional asset analysis”)

» ***Commingling risk:*** Commingling risk to the transaction arises from the monthly transfer of collections from the servicer to the issuer. The commingling risk is mitigated by (i) the servicer’s current credit rating, (ii) an increase in the collection transfer frequency and cash advances upon a downgrade of VWFS AG below Baa1, and (iii) borrower notification to pay into the issuer collections account upon servicer insolvency. (See “Securitisation structure analysis - Additional structural analysis”)

» ***Obligor prepayment risk:*** Around 50% of the receivables in the portfolio are purchased at a premium to the outstanding loan balance. In the event of prepayment of these receivables, which the borrowers prepay at par, the issuer will receive less than the outstanding discounted balance of the prepaid receivable. VWFSA compensates Driver Australia seven Trust through the interest compensation mechanism for such a loss; however, the transaction remains exposed to VWFSA for such potential compensation. (See “Securitisation structure analysis - Additional structural analysis”)

ESG considerations

The overall environmental, social, and governance (ESG) risk is low to moderate. Our credit analysis of the transaction, which takes into consideration ESG risk, includes the risks to vehicles' recovery values from changes in carbon emissions regulations, the social and demographic trends that affect the obligors in ABS backed by vehicles, and the low exposure to severe weather events or other environmental factors. Governance risk is low based on our consideration of the transaction parties and a number of transactional features that support the integrity of the transaction's operations for the benefit of noteholders. Please refer to our Cross-Sector Rating Methodology: General Principles for Assessing Environmental, Social and Governance Risks, June 2021, which explains our general principles for assessing ESG risks in our credit analysis globally.

» ***Environmental:*** Environmental risks to this transaction are moderate; however, the potential consequences, mitigated by the short transaction tenor, are not likely to be material to the credit quality of the notes. (See “Additional asset analysis - ESG - Environmental considerations”)

» ***Social:*** Social risks to this transaction are low to moderate because of the potential effects of the coronavirus pandemic on the portfolio. We regard the pandemic as a social risk under our ESG framework because of the substantial implications for public health and safety. Although the employment levels in Australia have returned to pre-pandemic levels, the recent resurgence of the coronavirus in the country raises uncertainty around the medium-term economic outlook. This could increase volatility in the default and recovery rates of auto loans. (See “Additional asset analysis - ESG - Social considerations”)

» ***Governance:*** Governance risks to this transaction are low because of the presence of features such as risk retention, third-party reviews, and representations and warranties. (See “Additional structural analysis - ESG - Governance considerations”)

Key characteristics

Exhibit 2
Asset characteristics

Receivables (pool as of 31 October 2021)	
Receivables:	Loans granted to individuals and commercial borrowers residing in Australia to finance the purchase of new and used vehicles
Total securitized portfolio amount (AUD):	600,025,098
Length of revolving period:	N/A
Number of contracts:	15,241
Average contract balance (AUD):	39,369
Maximum contract balance (AUD):	659,564
Borrower concentration:	Top 1: 0.1% Top 10: 0.7% Top 20: 1.3%
Type of obligors:	Consumer: 30.8% Commercial: 69.2%
Status of vehicles:	New: 77.2% Used: 22.8%
Types of vehicles and equipment:	Motor vehicle: 100%
Weighted average remaining term:	48.0 months
Maximum remaining term:	82.0 months
Weighted average seasoning:	8.6 months
Weighted average original term:	56.6 months
Weighted average interest rate:	6.0%
Interest basis:	100% fixed rate
Balloon loans (as a % of initial pool balance):	41.9%
Aggregate balloon payments (as a % of initial pool balance):	16.9%
Delinquency status:	No loans in arrears greater than 30 days as of pool cut-off date
Historical portfolio performance data	
Delinquencies observed:	30 days past due arrears have historically been in the range of 0.8%-2.5% since Jan 2010
Mean default rate observed (extrapolated):	2.30%
Mean default rate modelled:	2.80%
Recovery rate observed:	49.70%
Recovery rate modelled:	40.00%
Portfolio credit enhancement:	11.50%
Transaction parties	
Sellers/originators:	Volkswagen Financial Services Australia Pty Limited (VWFSA, A3/P-2)
Servicer(s):	VWFSA
Backup servicer:	No back up servicer contracted
Custodian:	VWFSA

Sources: Moody's Investors Service, VWFSA and transaction documents

Exhibit 3
Securitisation structure characteristics

Credit enhancement, liquidity and hedging	
Credit enhancement:	» Subordination of the notes and the subordinated loan » Cash collateral reserve » Overcollaterisation
Form of liquidity:	Cash collateral reserve of 1.2% of the balance of the notes, subject to a floor AUD6 million
Number of interest payments covered by liquidity reserve:	N/A
Notes interest payments:	Monthly in arrears on each payment date
Notes principal payments:	Pass-through on each payment date
Notes payment dates:	» The 21st of each month » First payment date: 21 December 2021
Hedging arrangements:	Interest rate swap
Transaction parties	
Issuer:	Perpetual Corporate Trust Limited as Trustee of the Driver Australia seven Trust
Trustee:	Perpetual Corporate Trust Limited
Security trustee:	P.T. Limited
Trust manager:	Perpetual Nominees Limited
Backup trustee:	N/A
Sub-trust manager:	Volkswagen Financial Services Australia Pty Limited (VWFSA, A3/P-2)
Collection account bank:	Australia and New Zealand Banking Group Limited (ANZ, Aa3/P-1/Aa2(cr)/P-1(cr))
Interest rate swap counterparty:	ING Bank N.V. (ING Bank, A1/P-1/Aa3(cr)/P-1(cr))
Basis swap counterparty:	N/A
Currency swap counterparty:	N/A
Liquidity facility provider:	N/A
Joint lead manager:	ANZ Merrill Lynch International

Sources: Moody's Investors Service, VWFSA and transaction documents

Asset description

The portfolio consists of fixed-rate auto loans extended to private individuals (30.8%) and commercial borrowers (69.2%) in Australia. We based our asset analysis on factors including historical performance data, pool characteristics, and originator and servicer quality.

Assets as of 31 October 2021

VWFSA has provided us with pool stratifications for this portfolio, which we assessed as of the pool cut-off date. The discounted cash flow of the securitised portfolio amounts to about AUD600 million and includes 15,241 loan contracts.

The key pool features are as follows:

» Loans are secured by new motor vehicles (77.2%) and used motor vehicles (22.8%).

» Around 41.5% of the portfolio is secured by Volkswagen Group vehicle brands. No other brand constitutes more than 8.3% of the portfolio.

» The weighted-average seasoning of the portfolio is 8.6 months. The weighted-average remaining term of the portfolio is 48.0 months.

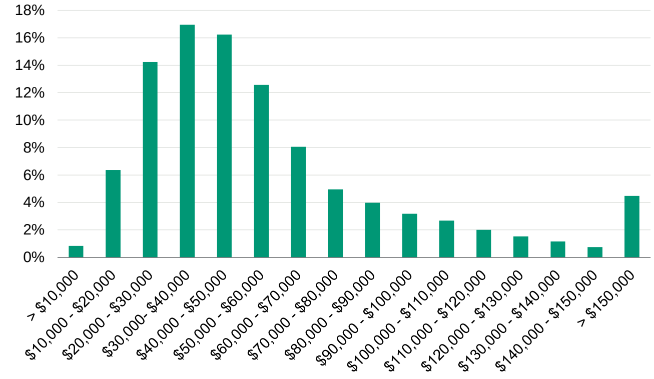
» Around 41.9% of the receivables in the portfolio require a balloon payment at the end of the receivable term. The aggregate balloon exposure as a percentage of the current portfolio balance is 16.9%.

» The portfolio is highly granular, with the 10 largest obligors accounting for 0.7% of the total portfolio balance. The portfolio also benefits from strong geographical diversification across Australia.

» There are no loans in hardship, including coronavirus-related hardship, in the pool as of the cut-off date.

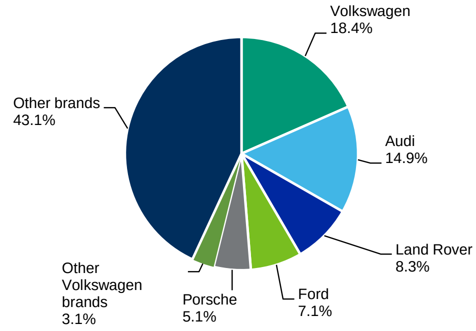
Exhibits 4-13 summarise the key portfolio characteristics.

Exhibit 4
Portfolio breakdown by outstanding balance (AUD)



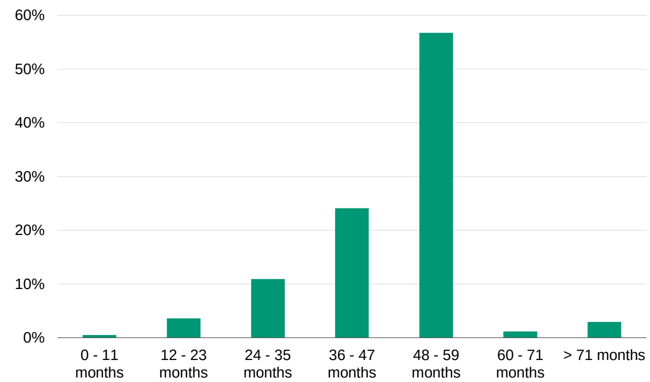
Source: VWFSA

Exhibit 5
Portfolio breakdown by vehicle brand



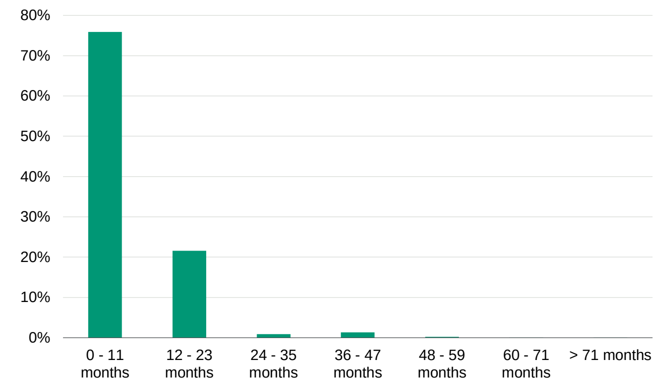
Source: VWFSA

Exhibit 6
Portfolio breakdown by remaining term



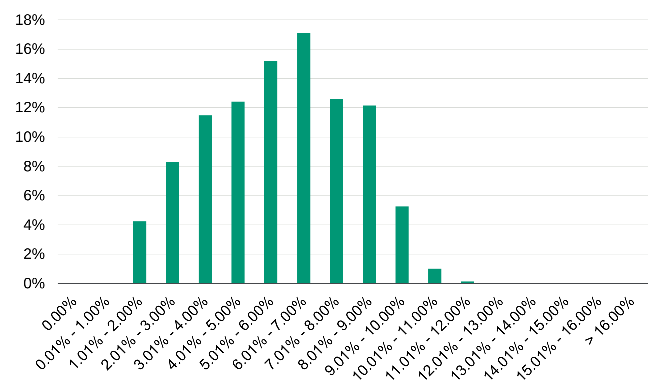
Source: VWFSA

Exhibit 7
Portfolio breakdown by seasoning



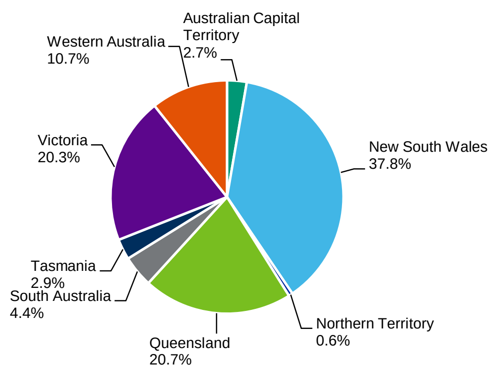
Source: VWFSA

Exhibit 8
Portfolio breakdown by interest rate



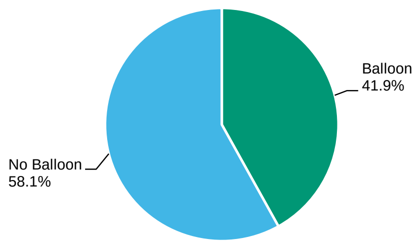
Source: VWFSA

Exhibit 9
Portfolio breakdown by region



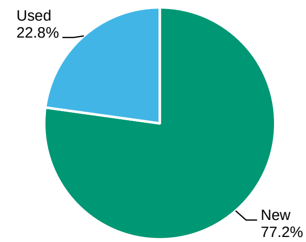
Source: VWFSA

Exhibit 10
Portfolio breakdown by loan type



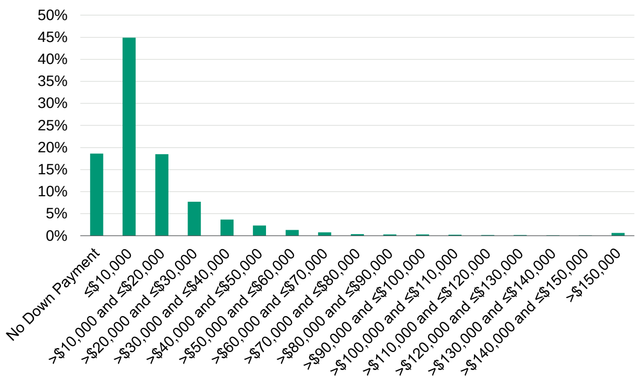
Source: VWFSA

Exhibit 11
Portfolio breakdown by vehicle type



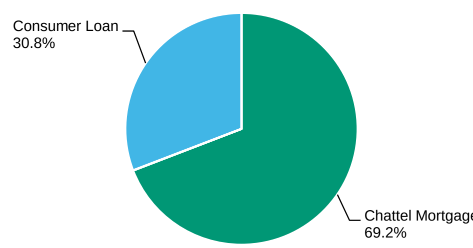
Source: VWFSA

Exhibit 12
Portfolio breakdown by down payment (AUD)



Source: VWFSA

Exhibit 13
Portfolio breakdown by customer type



Source: VWFSA

Eligibility criteria

As of the pool cut-off date, all receivables must comply with, among others, the following key eligibility criteria:

» the receivable has a maximum original loan term of 84 months;

» the obligor in relation to the receivable is a corporation or a registrable Australian body, a registered scheme, an entity otherwise established under Australian law, a permanent resident or citizen of Australia, a citizen of New Zealand, or a person residing in Australia on a work visa;

» the receivable is denominated and payable only in Australian dollars in Australia;

» total receivables extended to a single borrower within the portfolio may not exceed AUD750,000;

» the receivable is not in arrears by more than one month;

» at least two installments have been paid in respect of each of the receivables and the receivable will require substantially equal monthly payments to be made within 84 months of the date of origination in addition to a balloon payment (if applicable).

Originator and servicer

VWFSA is the transaction's originator and servicer.

VWFSA has been operating a traditional captive finance model in Australia since 2001 providing wholesale funding to automotive dealers, financing auto loans to retail customers and more recently offering fleet services such as operating leases and fleet maintenance.

VWFSA originates retail auto loans through a network of largely Volkswagen, Audi and Skoda dealerships distributed throughout Australia.

VWFSA targets prime retail obligors and underwrites loans using a credit scoring system to assess the borrower's credit risk. The underwriting process takes into consideration, among other things, (i) external credit bureau information, in some cases from two different bureaus, (ii) internal payment behaviour if the borrower is a repeat customer; (iii) the customer's debt history; and (iv) fraud information. The underwriting process is in line with the market standard.

In terms of 30+ day delinquencies, the average historical performance of VWFSA's portfolio between July 2016 and July 2021 of 1.7% is on par with its peer group of Australian auto loan originators. Extrapolated cumulative losses are around 1.15% for originations from 2006 onwards.

VWFSA has around eight employees in the collections management team. Collection management is organised centrally from an internal collection centre. The collection process and early arrears management are highly automated and include the use of external recovery agencies and external lawyers in the pre-legal and legal phases, respectively.

This transaction benefits from the experience and financial strength of the originator and servicer. VWFSA is rated A3/P-2 and is a leading auto financing company in Australia. VWFSA's current rating limits the transaction's exposure to operational risks.

Exhibit 14

Originator background

VWFSA	
Date of operations review:	September 2021
Rating:	A3/P-2
Ownership structure:	A wholly owned subsidiary of Volkswagen Financial Services AG (VWFS AG,A3/P2)
Asset size:	AUD6.8 billion as at 30/06/2021
% of total book securitised:	52% of retail book
Transaction as % of total assets:	9%
% of transaction retained:	7.01%[1]

[1] As a percentage of total nominal balance

Sources: Moody's Investors Service and VWFSA

Exhibit 15

Servicer background

VWFSA	
Rating:	A3/P-2
Total number of receivables serviced:	181,363
Number of staff:	158
Servicer assessment:	Experienced servicer of auto loans

Sources: Moody's Investors Service and VWFSA

Back-up servicer

There is no back-up servicer for this transaction.

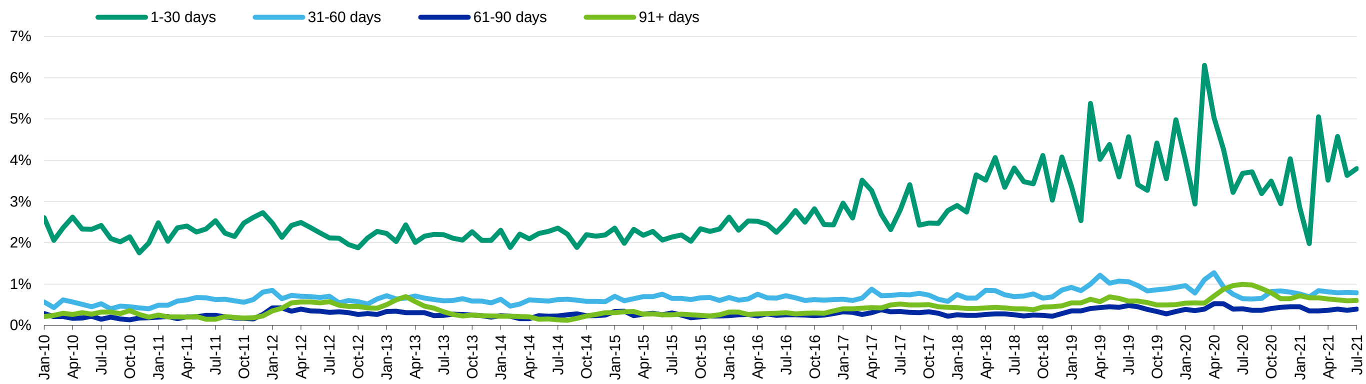
Historical performance data

Delinquencies

Since January 2010, 30+ day delinquencies for the VWFSA portfolio have ranged between 0.8% and 2.5%. As of July 2021, 30+ day delinquencies were 1.8%.

Exhibit 16

VWFSA portfolio delinquency performance



Source: VWFSA

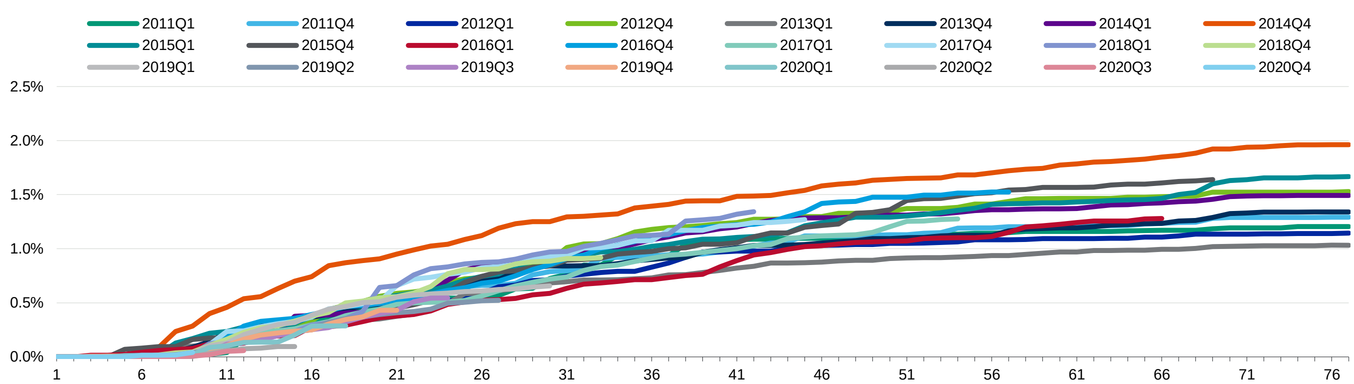
Loss performance

VWFSA provided us with vintage historical data on gross defaults and net losses from 2006 to 2021. The exhibit below includes only a subset of that loss data.

In our view, the quantity and quality of data received is adequate compared with transactions that have achieved high-investment-grade ratings in this sector.

Exhibit 17

Cumulative net losses



Source: VWFSA

Static pool

Driver Australia seven Trust is a static structure. There can be no substitutions of the assets after the closing date.

Asset analysis

Primary asset analysis

We based our analysis of the credit quality of the transaction's assets on factors including historical performance data, originator and servicer quality, pool characteristics and comparable portfolios.

Default distribution

The first step in the rating analysis is to define a default distribution for the pool of loans to be securitised. Because of the large number of loans, we use a continuous distribution to approximate the default distribution, the lognormal distribution.

Two main parameters determine the shape of the default distribution: the mean default and the portfolio credit enhancement (PCE). The mean default 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. We generally derive these parameters from the historical data. We may make adjustments based on further analytical elements, such as performance trends, differences in the portfolio composition or changes in servicing practices, among others.

Derivation of default rate and PCE

Our base case assumptions are a mean default rate of 2.8% and a PCE of 11.5%.

We estimated these two parameters based on the historical default data provided to us, benchmarking with other ABS in the Australian market, as well as by using qualitative analysis, focusing on portfolio characteristics and the current economic environment in Australia.

The PCE has been defined following an analysis of data variability, as well as by benchmarking this portfolio with past and similar transactions. Factors that affect the potential variability of a pool's credit losses are (i) historical data variability, (ii) quantity, quality and relevance of historical performance data, (iii) originator quality, (iii) servicer quality, (iv) certain pool characteristics, such as asset concentration, and (v) certain structural features, such as revolving periods.

Derivation of recovery rate assumption

In our analysis, we have assumed a stressed fixed recovery rate of 40.0%. This is based on the historical observed recovery rate of 49.7%, benchmarked with other ABS portfolios in the market, and takes into account the strength of the recovery data provided to us. The observed recovery rates are higher than that of the average Australian auto ABS issuer.

Key modelling assumptions

The following exhibit describes our key modelling assumptions.

Exhibit 18

Key modelling assumptions

Modelling input	Assumption
Default distribution:	Lognormal
Mean default:	2.8% (actual extrapolated = 2.3%)
Default definition:	3 months
Portfolio credit enhancement (PCE)	11.5%
Timing of default curve:	Sine 6-15-45
Recovery:	40.0% (actual = 49.7%)
Recovery lags:	N/A
Residual value inputs:	N/A
Conditional prepayment rate (CPR):	10% for the first 12 months and 15% thereafter
Amortisation profile:	Scheduled portfolio amortisation
Fees:	1.2% with a floor of AUD50,000

Source: Moody's Investors Service

Comparables

We have compared this transaction with Driver Australia six Trust and Smart ABS Series 2017-2 Trust given the similarities between these transactions in terms of obligors, contract types and asset types. In these transactions, the borrowers are prime consumer or commercial obligors and the assets are auto loans and lease receivables.

For detailed pool and structural comparisons, refer to Appendix 1.

Additional asset analysis

Balloon loans

Of the portfolio, 41.9% comprises receivables requiring a balloon payment at the end of the receivable term. The aggregate of the balloon payments constitute 16.9% of the current portfolio balance. The average size of the balloon payment is around AUD23,900, which is comparatively larger than the average balloon payment of other Australian auto ABS issuers. However, the average vehicle value and loan size for the Driver Australia seven Trust are also larger than those for other Australian auto ABS issuers.

At the end of the receivable term, obligors are required to either pay the balloon payment in accordance with the receivables contract or refinance this payment. We have adjusted the mean default assumptions upwards to account for the higher refinancing and, consequently, the default risk of such receivables.

ESG - Environmental considerations

The impact of environmental risk on this transaction backed by loans secured by vehicles is moderate.

The risk to vehicles' recovery values from changes in carbon emissions regulations is somewhat mitigated by the short tenor of the transaction. The potential environmental risks of a single obligor are mitigated by portfolio granularity, and geographical and industry diversification.

Most auto loan portfolios such as this one can withstand severe weather events such as cyclones and bushfires because the obligors are spread over a large area, which results in very low exposure to any one severe weather event.

ESG - Social considerations

The social risk to this transaction is low to moderate because of the potential impact of the coronavirus pandemic on pool performance. Although the employment levels in Australia have returned to pre-pandemic levels, the recent resurgence of the coronavirus in the country raises uncertainty around the medium-term economic outlook. This could lead to increased volatility in the default and recovery rates of consumer auto and recreational vehicle loans.

Aside from the pandemic, the social risk is generally low in ABS transactions. Technological obsolescence, shifting demand patterns and changes in government policy mean that some segments will experience greater volatility in vehicle sales and recovery rates; however, the short tenor of the transaction mitigates the risk from long-term trends. In addition, the geographical and demographic borrower diversification of the pool should mitigate the risk of economic decline in any one region or industry.

Securitisation structure description

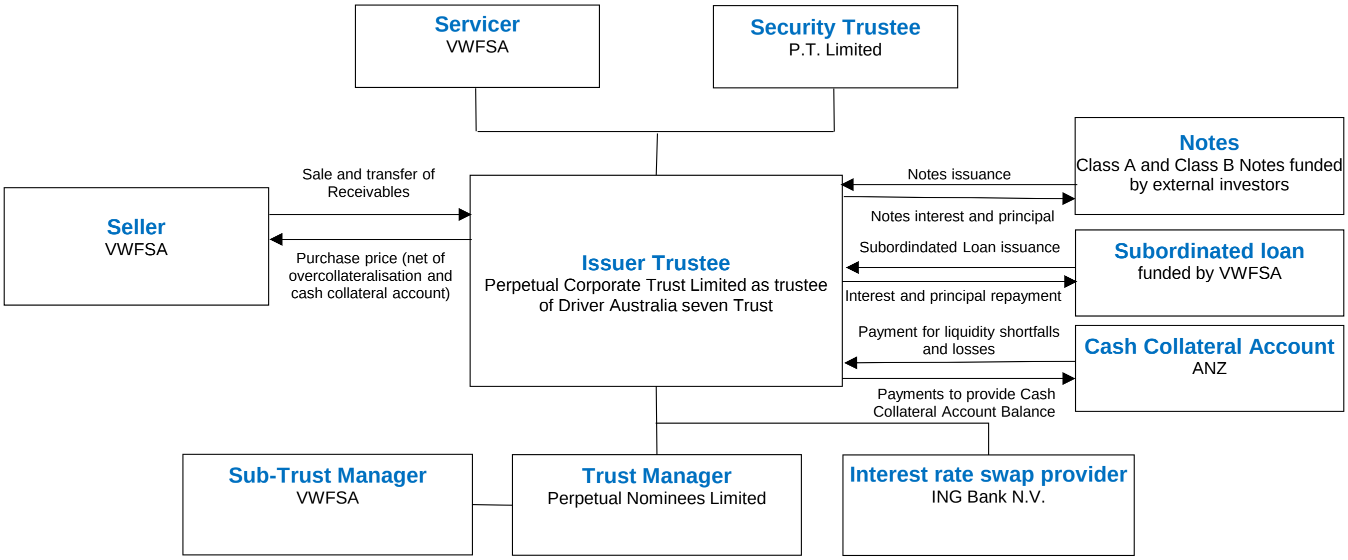
Driver Australia seven Trust is a bankruptcy-remote trust established in accordance with the master trust deed entered into by the trustee and the manager. The deed provides for the creation of a series of separate and distinct trusts whose terms and conditions will be governed by their respective transaction documents. The assets of each trust are segregated from the assets of any other trust and can only be available to meet the liabilities incurred by the trustee in respect of that trust.

The trust has issued two classes of notes and a subordinated loan to purchase the portfolio. Collections will be at first distributed sequentially. All notes and the subordinated loan may participate in proportional collections distribution, subject to performance criteria and over-collateralisation requirements.

Structural diagram

Exhibit 19 is a structural diagram illustrating the relationship between the transaction parties and noteholders.

Exhibit 19
Driver Australia seven Trust



Sources: Moody's Investors Service, VWFSA and transaction documents

Detailed description of the structure

Portfolio purchase price

Similar to that of other VWFS AG-sponsored transactions, the portfolio's net present value is calculated as the sum of each receivable's future expected cash flow discounted by the transaction discount rate to the issue date. The transaction discount rate is calculated to target zero excess spread.

The portfolio purchase price is equal to the portfolio's net present value less the over-collateralisation percentage and the cash collateral reserve.

Credit enhancement

Credit enhancement in the transaction includes subordination of the notes and the subordinated loan and over-collateralisation. An additional source of credit enhancement is the cash collateral reserve.

Over-collateralisation

The transaction benefits from over-collateralisation of 1.0% at closing. The initial over-collateralisation is created by defining a lower portfolio purchase price than the portfolio net present value calculated using the transaction discount rate at closing.

Available distribution amount

On each payment date, the available distribution amount will be applied in the transaction priority of payments described below. The available distribution amount is calculated as follows:

» all collections received or collected in respect of the receivables including principal, interest, obligor fees, enforcement proceeds and insurance proceeds, *plus*

» interest compensation amounts payable by VWFSA, *less*

» interest compensation amounts payable to VWFSA, *plus*

» withdrawals from the cash collateral reserve, *plus*

» net swap receipts, *less*

» the buffer release amount to be paid to VWFSA (provided that no insolvency event with respect to VWFSA has occurred)

Interest compensation amount

An *interest compensation amount* is an adjustment to the initial net present value of a purchased receivable and is payable on the full discharge of the payment obligations of the obligor of that purchased receivable. It is calculated as the difference between:

» the net present value of that receivable calculated using the transaction discount rate on the issue date; and

» the sum of the actual payments received from that receivable, discounted back to the issue date at the transaction discount rate.

If the sum of the discounted actual payments received is greater than the net present value of that receivable on the issue date, Driver Australia seven Trust will pay the interest compensation amount to VWFSA. If the sum of the discounted actual payments received is less than the net present value of that receivable on the issue date, VWFSA will pay the interest compensation amount to Driver Australia seven Trust.

Buffer release amount

The *buffer release amount* is calculated by applying the buffer release rate to the future discounted receivables balance (the amount of the purchased receivables scheduled to be paid in the future, calculated by using the transaction discount rate). The *buffer release rate* of 3.0% is the difference between the transaction discount rate and the ongoing cost of the transaction calculated as follows:

» the transaction discount rate of 5.8%, *less*

» estimated liability costs of 1.6%, *less*

» senior expenses of 1.2%

The reduction in the available distribution amount by the buffer release amount targets zero excess spread for the transaction. However, in the event of insolvency of VWFSA, the buffer release amount will be available for the benefit of the noteholders.

Allocation of payments

Combined waterfall

On each monthly payment date, assuming no event of default has occurred, the available distribution amount will be applied in the following simplified order of priority:

1. Trust expenses including taxes and senior fees;
2. To the interest rate swap provider, unless the swap provider is the defaulting party under the swap documentation;
3. Accrued and unpaid interest on Class A notes;
4. Accrued and unpaid interest on Class B notes;
5. To the cash collateral reserve, until its balance is equal to the specified amount;
6. Principal payments to Class A notes until the Class A notes principal balance is equal to the Class A targeted note balance;
7. Principal payments to Class B notes until the Class B notes principal balance is equal to the Class B targeted note balance;
8. Subordinated interest rate swap provider payments (if any) not paid under item 2;
9. Accrued and unpaid interest on the subordinated loan;
10. Principal payments to the subordinated loan;
11. Any surplus as an income distribution to VWFSA.

Cash collateral reserve
On the issue date, a cash collateral reserve will be established in the amount of 1.2% of the original portfolio balance.

On each monthly payment date, the cash collateral reserve will amortise to the greater of:

1. 1.2% of the current portfolio balance; and
2. the lesser of (i) AUD6.0 million and (ii) the aggregate outstanding principal balance of the Class A and Class B notes (effectively with no hard floor in place).

Withdrawals from the cash collateral reserve are available to cover shortfalls under items 1 though 4 of the combined waterfall above. The cash collateral reserve will be replenished under item 5 of the combined waterfall above.

The cash collateral reserve is only available to cover principal losses at the legal final maturity date. Moreover, before the legal final maturity date and unless credit enhancement triggers are breached or there is a servicer insolvency event, the cash collateral reserve amortisation amounts are distributed directly to VWFSA and cannot be used to cover any payment shortfalls.

Targeted note balances
The available distribution amount will at first be distributed sequentially. The sequential repayment of principal is subject to targeted note balances, which will be calculated based on target over-collateralisation percentages (excluding the cash collateral reserve).

Initially, the target over-collateralisation percentages will be:

» 26% for the Class A notes; and

» 18% for the Class B notes

If the cumulative net loss ratio exceeds (i) 0.4% for the first 12 months; (ii) 0.8% from month 13 to month 24; or (iii) 1.2% from month 25 onwards, the target over-collateralisation percentages will be:

» 30% for the Class A notes; and

» 21% for the Class B notes

If the cumulative net loss ratio exceeds 1.8% at any time, the target over-collateralisation will be 100% for both Class A and Class B notes.

The targeted note balances for Class A and Class B notes will be zero from the payment date in which the aggregate portfolio balance is less than 10% of the initial portfolio balance (that is to say, the transaction will revert to fully sequential principal repayment).

Call option date
VWFSA may redeem all classes of notes in any period in which the aggregate portfolio balance is less than 10% of the initial portfolio balance.

Excess spread
The net present value of all receivables within the portfolio will be calculated at the transaction discount rate of 5.8%. As 3.0 percentage points of the transaction discount rate will be released through the buffer release mechanism and the remainder of the transaction discount rate is used to pay senior fees and the interest costs on the Class A notes, Class B notes and the subordinated loan, the transaction does not benefit from excess spread.

Interest rate mismatch
The transaction is exposed to interest rate risk because the receivables are fixed rate, while the rated notes bear a floating rate of interest.

To mitigate this risk, the issuer will enter into two interest rate swap agreements with a suitably rated swap counterparty, one each for the Class A and Class B notes. Under the interest rate swap agreements, the issuer will make payments to the swap provider at a fixed rate of interest and receive payments based on the one-month bank bill swap rate plus a margin on each of the Class A and Class B notes.

The transaction is further exposed to interest rate risk because the coupons on the Class A and Class B notes have floors of 0.0%, while the interest rate swap agreements do not include corresponding floors.

Asset transfer risk

The receivables will be sold to the trust by way of equitable assignment. The trustee will hold an equitable interest in the receivables and VWFSA will hold legal ownership of the receivables until the occurrence of a title perfection event, upon which the trustee may perfect its legal title to the receivables.

Back-up servicer arrangements

There is no back-up servicer or back-up servicer facilitator appointed at closing.

Securitization structure analysis

Primary structural analysis

Once we determine the asset default distribution and recoveries (see the "Asset analysis" section above), we use a cash flow model to assess the structural features of the transaction, including the priority of payments of interest and principal, liquidity, the impact of portfolio yield, portfolio amortisation and hedging.

Another key input into the cash flow model is the assumption for the timing of losses. The curve is derived from the historical data provided by VWFSA.

The sum of the loss experience per note class weighted by the probability of such a loss scenario (derived from the lognormal probability distribution) determines the expected loss on each tranche.

Additionally, we calculate the average life for each class in each loss-rate scenario. The weighted-average life of each class of notes is then calculated as the sum product of the probability of each loss-rate scenario and the corresponding average life in each loss-rate scenario for a specific class of notes.

The combination of the expected loss and weighted-average life for each class of notes is mapped into our rating, based on the idealised expected loss table, yielding the final rating assigned to each tranche of notes.

Additional structural analysis

In addition to analysing legal issues such as the bankruptcy remoteness of the trust, we also analyse the prepayment risk, cash commingling and governance considerations.

Prepayment risk

The purchase price for the portfolio of receivables sold to Driver Australia seven Trust is calculated as the sum of each receivable's future expected cash flow discounted by the transaction discount rate to the issue date, less the over-collateralisation percentage.

As the weighted-average interest rate of the portfolio is 6.0% — higher than the transaction discount rate of 5.8% — a portion of the receivables portfolio is purchased at a premium to par. In the event that these receivables are prepaid by the obligors, which would occur at par, the issuer will receive less than the outstanding discounted balance of the prepaid assets due to the difference between the receivable's interest rate and the transaction discount rate. VWFSA compensates Driver Australia seven Trust through the interest compensation mechanism for such a loss; however, the transaction remains exposed to VWFSA for such potential compensation.

The buffer release amount partly mitigates prepayment risk. In the event of insolvency of VWFSA, the buffer release amount would be available to offset collection shortfalls arising from prepayments.

We have incorporated the prepayment risk in our analysis of the transaction.

Interest rate mismatch

We have assessed the impact of linkage to ING Bank N.V. as the swap provider. Given ING Bank N.V.'s Counterparty Risk Assessment of Aa3(cr), the swap linkage has no present rating impact on the notes. This is because the link between the notes' ratings and ING

Bank N.V.'s rating is mitigated by an obligation to post cash collateral and novate the swap if the swap provider's Counterparty Risk Assessment falls below A3(cr) and Baa2(cr), respectively. For more information, please refer to our cross-sector methodology: Moody's Approach to Assessing Counterparty Risks in Structured Finance, published in May 2021.

In addition to this, the buffer release amount also mitigates swap counterparty risk. If a replacement swap is executed at a higher cost following the failure of the swap counterparty, the buffer release amount will be reduced by the increased swap cost.

Asset transfer risk/true sale

Driver Australia seven Trust title perfection events include insolvency of VWFSA, a servicer replacement event, or a breach of a representation or warranty by VWFSA.

Following a title perfection event, the trustee may perfect its legal title to the receivables, which includes notifying all borrowers in writing of the sale and where they should make future payments, taking possession of all files and registering the transfer of legal ownership of the receivables from VWFSA. The trustee may then initiate direct enforcement action against the obligors as necessary.

The trustee has an irrevocable power of attorney from VWFSA, entitling it to perfect title following the occurrence of a title perfection event. In addition, VWFSA covenants that it will not grant any encumbrance over its interest in the receivables.

Commingling risk

Collections are transferred to the issuer collections account monthly, before which they are commingled in the servicer's operational bank account. The resulting commingling risk is mitigated by (i) the current financial strength of VWFSA as servicer (rated A3/P-2), (ii) cash advances upon a downgrade of Volkswagen Financial Services AG (the parent company of VWFSA) below Baa1, and (iii) borrower notification to pay into the issuer collections account upon servicer insolvency.

The cash advance mechanism mentioned above provides that the servicer must arrange the following transfer within 14 calendar days of the downgrade of Volkswagen Financial Services AG below Baa1:

Expected collections will be advanced twice per month to a collateral account pledged to the issuer:

» Determine the expected collections for the second until 15th calendar day of each monthly period and transfer the amount on the 11th business day before the start of the monthly period.

» Determine the expected collections from the 16th calendar day of each monthly period and the first calendar day of the following monthly period and transfer the amount on the 11th business day before the 15th calendar day of each monthly period to the monthly collateral account opened with the account bank.

Actual collections will be transferred to the issuer collections account twice per month:

» Transfer actual collections from the first 15 days of each monthly period on the first business day following the 15th calendar day of that month.

» Transfer actual collections from the 16th day to the last calendar day of the month on the first business day of the following monthly period.

ESG - Governance considerations

This securitisation's governance risk is low and typical of other ABS secured by vehicles in the market. Strong ABS governance relates to the transaction features that promote the integrity of the operations of the transaction for the benefit of investors, as well as the data provided to investors. The following are some of the governance considerations related to this transaction:

» Risk retention: VWFSA will retain the subordinated loan, which creates an alignment of interest to the performance of this transaction.

» Third-party reviews: An independent due diligence firm will review the final portfolio stratifications. This increases the likelihood that the data provided to us and to investors is accurate.

» Representation and warranty (R&W) framework: This transaction includes an obligation of the R&W providers to remedy loans that breach R&Ws.

Methodology and monitoring

Methodology

Methodology used: Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS, September 2021 (1264141)

Monitoring

We will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including tracking the performance of the underlying collateral; material developments regarding the originator, servicer and other transaction parties; the amount and form of credit enhancement; and factors that affect the integrity of the legal structure. The starting point is typically the monitoring of the collateral performance relative to our initial expectations.

The performance metrics that we typically track are the then-current cumulative default rate and recoveries for the transaction, which we use in combination with the issuer's historical loss experience to update, when deemed appropriate, our estimate of the ultimate lifetime default rate and recoveries on the pool of loans. We take into account any material changes in the macroeconomic environment that could affect future performance. We then use that updated estimate to assess whether the current ratings assigned to the transaction are still appropriate based on the credit protection available to investors.

Any subsequent changes in the rating will be publicly announced and disseminated via a press release.

Originator/servicer/cash manager-related triggers

Exhibit 20
Counterparty and structural triggers

Driver Australia seven Trust	
Key servicer termination events:	» Insolvency » Payment default » Breach of obligations under the transaction documents » Incorrect or misleading representation or warranty
Appointment of replacement servicer upon:	» Termination of Servicer's appointment
Key manager termination event:	» Breach of obligations under the transaction documents » Insolvency » Incorrect or misleading representation or warranty
Title perfection events:	» Insolvency with respect to VWFSA » An event of default is continuing, which includes non payment of senior obligations, breach of representation, insolvency of the Trustee » Breach of representation or warranty by VWFSA and not remedied within 20 days
Notification of obligors of true sale:	» Upon the occurrence of a title perfection event
Collections sweeping arrangements:	» Collections are transferred from the Servicer to Trust collections account once per month prior to the Trust payment date » If VWFS AG is downgraded below Baa1 the frequency of cash transfer will increase to twice per month

Sources: Moody's Investors Service and transaction documents

Exhibit 21
Counterparty linkages

Counterparty Rating Triggers	Condition	Remedies
Interest rate swap counterparty	Loss of A3(cr) Loss of Baa2(cr)	Post cash Novate
Collection account bank	Loss of A2/P-1	Replace

Sources: Moody's Investors Service and transaction documents

Appendices

Appendix 1: Transaction comparison table

Driver Australia seven Trust has been compared to Driver Australia six Trust and SMART ABS Series 2017-2 Trust.

Exhibit 22

Transaction comparison table

Deal name	Driver Australia seven Trust	Driver Australia six Trust	SMART ABS Series 2017-2 Trust
Closing date:	22-Nov-21	25-Oct-19	27-Jul-17
Pool cut date:	31-Oct-21	30-Sep-19	30-Jun-17
Originator:	VWFSA	VWFSA	Macquarie Leasing
Captive finance company:	Yes	Yes	No
Servicer:	VWFSA	VWFSA	Macquarie Leasing
Pool characteristics:			
Total securitized portfolio amount (AUD):	600,025,098	1,000,006,169	582,367,497
Number of contracts:	15,241	32,972	17,251
Average contract balance (AUD):	39,369	30,329	33,758
Maximum contract balance (AUD):	659,564	638,224	425,579
Weighted average remaining term:	48.0 months	44.4 months	50.8 months
Maximum remaining term:	82.0 months	81.0 months	82.0 months
Weighted average seasoning:	8.6 months	13.0 months	6.7 months
Weighted average original term:	56.6 months	57.4 months	57.5 months
Weighted average interest rate:	6.0%	6.6%	7.0%
Interest basis:	100% fixed rate	100% fixed rate	100% fixed rate
Contracts with balloon payment:	41.9%	41.4%	49.1%
Aggregate balloon as a % of current balance:	16.9%	17.8%	17.3%
Novated lease %:	0.0%	0.0%	27.1%
Delinquency status:	No loans in arrears greater than 30 days as of pool cut-off date	No loans in arrears greater than 30 days as of pool cut-off date	No loans in arrears greater than 30 days as of pool cut-off date
Asset Type:			
Car:	100.0%	100.0%	72.0%
Truck/bus (inlcuding utes/vans):	0.0%	0.0%	28.0%
Equipment/other:	0.0%	0.0%	0.0%

Sources: Moody's Investors Service, VWFSA and transaction documents

Exhibit 23

Transaction comparison table (continued)

Deal name	Driver Australia seven Trust	Driver Australia six Trust	SMART ABS Series 2017-2 Trust
Vehicle mix:			
New:	77.2%	81.1%	58.7%
Used:	22.8%	18.9%	41.3%
Demo:	0.0%	0.0%	0.0%
Geographical disribution:			
Australian Capital Territory:	2.7%	2.9%	2.1%
New South Wales:	37.8%	39.5%	36.5%
Northern Territory:	0.6%	0.5%	1.5%
Queensland:	20.7%	21.5%	18.9%
South Australia:	4.4%	2.4%	3.8%
Tasmania:	2.9%	3.0%	1.0%
Victoria:	20.3%	24.5%	26.8%
Western Australia:	10.7%	5.7%	9.5%
Obligor concentration:			
Top 1:	0.1%	0.1%	0.1%
Top 10:	0.7%	0.6%	0.5%
Top 20:	1.3%	1.1%	1.0%
Historical portfolio performance and asset assumptions:			
Mean default rate observed (extrapolated):	2.3%	2.6%	2.5%
Mean default rate assumed (stressed):	2.8%	2.8%	2.9%
Recovery rate observed:	49.7%	50.7%	44.4%
Recovery rate assumed (stressed):	40.0%	40.0%	35.0%
Portfolio credit enhancement:	11.5%	11.5%	13.2%
Structural features:			
Note payment frequency:	Monthly	Monthly	Monthly
Length of revolving period:	N/A	N/A	N/A
Subordination to Aaa notes at closing:	13.50%	12.50%	15.00%
Liquidity reserve/facility at closing:	1.20%	1.20%	1.00%
Liquidity reserve/facility floor:	1.0%	1.0%	AUD300,000
Interest rate swap:	Yes	Yes	Yes
Basis swap:	No	No	No
Currency swap:	No	No	No
Interest accrual shut-off:	No	No	Yes. For all Notes, interest will no longer accrue if the Note is charged-off in full
Principal to pay interest:	No	No	Yes, for Class A and Class B Notes only
Principal to pay interest shut-off:	No	No	Yes. Principal draw cannot be used for a Note once that Note has an unreimbursed charge-off

Sources: Moody's Investors Service, VWFSA and transaction documents

Moody's related publications

For a more detailed explanation of our approach to this type of transaction, as well as similar transactions, please refer to the following reports:

Methodology used

» Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS, September 2021 (1264141)

Special reports

» Auto ABS - Asia Pacific: Sector update Q3 2021 - Performance is uneven amid ongoing coronavirus fallout, September 2021 (1296993)

» Structured Finance - Asia-Pacific: Coronavirus resurgence poses asset performance risk, August 2021 (1297802)

» ABS Australia - Performance update: Excel Q1 2021, May 2021 (1283921)

» Structured Finance - Australia: 2021 Outlook - Asset quality will be sound, but uneven recovery will hurt performance, November 2020 (1246331)

» Global Auto ABS Market Comparison Tool, June 2018 (SF428154)

New Issue reports

» Driver Australia six Trust, October 2019 (1199220)

» SMART ABS Series 2017-2 Trust, July 2017 (1084526)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

REPORT NUMBER 1308130

Contacts

Jacqui Dredge +61.2.9270.1422
Assistant Vice President
jacqui.dredge@moodys.com

Ilya Serov +61.2.9270.8162
Associate Managing Director
ilya.serov@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE