S&P Global Ratings

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New Issue: Driver China fifteen Trust

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New Issue: Driver China fifteen Trust

Ratings Detail

Rating As Of May 30, 2024

Class	Rating	Amount (mil. RMB)	Credit support provided by subordination and overcollateralization (%)§
A	AAA (sf)	5,232.0	12.80
Subordinated	NR	738.0	0.50

§Available credit support for the notes consists of overcollateralization of about RMB30 million and note subordination. NR--Not rated. RMB--Chinese renminbi.

Profile

Closing date	May 30, 2024
Legal maturity date	March 26, 2031
Collateral	Renminbi-denominated loans to prime-quality borrowers, secured by mortgaged vehicles
Structure type	Prime auto loan-backed securities with repayment based on overcollateralization target
Issuer	Driver China fifteen Trust
Trustee	China Foreign Economy And Trade Trust Co., Ltd.
Originator and servicer	Volkswagen Finance (China) Co. Ltd.
Primary credit enhancement	Note subordination and overcollateralization

Supporting Ratings

Bank account provider	Industrial and Commercial Bank of China Ltd.

Loan Pool Statistics As Of April 30, 2024

Total number of contracts	97,599
Total discounted receivables balance of contracts (RMB)	6,000,011,822.93
Maximum discounted receivables balance of contracts (RMB)	2,337,673.49
Average discounted receivables balance of contracts (RMB)	61,476.16
Weighted average down-payment (%)	33.81
Weighted average interest rate (%)	5.52
Discount rate (%)	3.8775
Total balloon loans as a percentage of total pool balance (%)	0.93
Weighted-average contract seasoning (months)	14.35
Weighted-average remaining term to maturity (months)	29.90

Rationale

We assigned our 'AAA (sf)' rating to the class A notes issued by China Foreign Economy And Trade Trust Co. Ltd. as trustee of Driver China fifteen Trust (the issuer). This is an auto loan securitization transaction originated by Volkswagen Finance (China) Co. Ltd. (VWFC).

The rating reflects the following factors.

- The credit risk associated with the underlying collateral portfolio and the credit support available are commensurate with S&P Global Ratings' view of credit risk under a 'AAA' rating stress for the class A notes. Our assessment of credit risk takes into account originator VWFC's underwriting standards and centralized approval process, which are largely consistent with the global practice and risk-management approach of parent company Volkswagen Financial Services AG, with some local adaptation.

- Credit support for the class A notes comprises the subordination of the subordinated notes and overcollateralization via about Chinese renminbi (RMB) 30 million of additional collateral. In addition, any balance remaining in the cash reserve on the legal maturity date of the notes or when the receivables pool balance reaches zero may be applied toward redemption of the class A notes, providing additional support.

- The transaction's cash flows can meet the timely payment of interest and ultimate payment of principal to the rated noteholders under stresses commensurate with the rating assigned. All rating stresses are assessed on the basis that the issuer does not call the notes on or beyond the call-option date, and that the notes must be fully redeemed via the mechanisms under the transaction documents.

- The timely payment of senior expenses and rated notes' coupon is supported by the use of interest and principal collections from the underlying pool of loans and a liquidity reserve of RMB72 million initially. The liquidity reserve was fully funded by VWFC at closing and may be used to support senior expenses and rated note interest on any trust payment date. The reserve will be maintained at 1.2% of the aggregate outstanding discounted receivables balance, subject to a floor of RMB60 million or the aggregate outstanding balance of the class A notes.

- The legal structure of the trust, established as a special-purpose trust (SPT) under China's Trust Law, and the transaction structure and terms, are consistent with the governance of National Financial Regulatory Administration (NFRA) and The People's Bank of China (PBOC)'s credit assets securitization (CAS) scheme. The legal structure of the SPT reflects our criteria for insolvency remoteness.

- Our rating also reflects the counterparty exposure to Industrial and Commercial Bank of China Ltd. as a bank account provider. The rating on the bank account provider, coupled with the replacement trigger of the bank account provider if the rating on it falls below a certain level, is consistent with our counterparty criteria to support a 'AAA' rated transaction.

- The rating on the notes is higher than our sovereign rating on China. We applied our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumption," criteria published Jan. 30, 2019. Based on our analysis, the criteria allows a maximum differential of six notches above the sovereign rating. Therefore, the highest rating that can be assigned to this transaction is 'AAA' under our criteria for a rating above the sovereign.

Strengths And Weaknesses

Strengths

In our opinion, the strengths of the transaction observed in the rating analysis are:

- The sound credit quality of the loan portfolio at close. All underlying loans have a full-recourse feature and most of the receivables contracts are fully amortizing loans backed by new passenger vehicles for personal use. The initial portfolio is well-diversified, with a single borrower concentration of about 0.04%, and it is seasoned by more than 14 months in weighted-average terms. Our observations in other markets suggest these features tend to support consistent and stronger performance.

- The limited exposure period. The remaining terms of a majority of the majority of loans at close are 36 months or less, with a weighted-average asset life of around two and a half years. We believe the risk exposure period of the pool--or weighted-average life of the notes--is likely to remain short, considering VWFC's current product strategy and underwriting practice of extending a majority of loans with terms of 36 months or less.
- The highly integrated risk-management and technology platform used in the servicer's operation with its parent group. VWFC leverages the experience and capability of parent company VWFS AG and global affiliates for risk management, with adaptations and local expertise reflective of more than a decade of operation in China. VWFC also employs a comprehensive information technology system to support loan operations. Its information technology infrastructure, which is integrated into a global auto loans securitization support platform, can flag loans and track payments. Such support is critical in preventing operational risk. In S&P Global Ratings' view, VWFC's information technology operations, system back-up, and business continuity management reflect strong parent support and meet global standards.

Weaknesses

In our opinion, the weaknesses of the transaction and the corresponding mitigants observed in the rating analysis are:

- The shorter operating history of China's auto finance sector, which has seen rapid growth only in the past decade. As a result, the sector has limited historical performance data available for analysis, and it has not experienced true periods of economic stress. We have factored this potential weakness into our credit risk analysis of the transaction. We also note that China's regulators have set forth requirements on auto loan origination, and have adopted continued supervision and administrative guidelines on loan quality control. In our view, such regulatory oversight will prevent a lowering of the origination standards in China's auto finance sector, and is the main reason for the reasonable credit performance in the vintage loan pools.
- Relative lack of experience in servicing transition in China's securitization market. Despite the recent rapid development of Chinese securitization, only a few transactions to date have experienced the critical stress of a failure of important counterparties such as the servicer, and the potential for negative effects on the transaction's cash flow. In this transaction, the risk of servicer transition and cash flow continuity are partly mitigated by the payment arrangements such as direct debit associated with borrowers and a liquidity reserve.
- The target overcollateralization arrangements could reduce the credit enhancement amount provided to the rated notes under a pro-rata payment structure once the relevant target overcollateralization is reached. The transaction's principal payment structure is not fully sequential. Collections on the receivables could be allocated to the subordinated notes (subject to a floor if the clean-up call is not exercised) if the relevant class A note overcollateralization target is met. The transaction includes documented cumulative loss tests, which, if breached, would switch the transaction's payment structure from pro-rata to sequential. The tests are documented at cumulative loss levels higher than those assumed by us at the relevant points in time. However, the credit support provided at transaction close and the target overcollateralization percentages are set at levels that somewhat mitigate this concern. We have taken into account the transaction's target overcollateralization levels and loss tests in our cash-flow analysis.
- Potential commingling risk should the servicer default. VWFC as the servicer in this transaction can hold the

collections for a period of one month before remittance to the SPT account. If a certain rating trigger is hit, then VWFC will remit the collections and/or advance at least 1.5 months of collections into the SPT account. This amount would serve as a commingling reserve to mitigate potential commingling risk for the transaction. In assessing this risk, we have considered VWFS AG's announcement in its annual report that it will ensure its affiliated companies, including VWFC, will meet their liabilities and associated transaction arrangement. We have also factored such mitigation to commingling risk in our cash flow analysis.

Notable Features

The receivables portfolio is purchased by the issuer at a single, fixed discount rate. The issuer is acquiring some of the receivables at a price that is above the notional amount of the contract, and some below the notional amount, depending upon the interest rates of the receivables. This could result in prepayment losses if those receivables with higher interest rates prepay before their stated maturity. The discount rate is set by VWFC at a rate that is intended to match the yield on the transaction to the issuer's expenses. Consequently, there is no excess spread in the transaction.

Under the transaction's payment structure, collections--after payment of senior expenses and class A note interest--initially will be allocated to the class A and subordinated notes on a sequential-payment basis. If class A notes' overcollateralization level reaches the relevant targeted level, subject to cumulative gross loss triggers, then remaining collections will be allocated to the subordinated notes. As a result, the transaction may pay interest and principal to the subordinated notes (subject to a floor if the clean-up call is not exercised) before the class A notes are fully redeemed. This may consume part of the credit support in this transaction.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For the auto asset-backed securities (ABS) sector, we view its exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published March 31, 2021).

The transaction's above-average exposure to environmental credit factors is in line with our sector benchmark, given that the collateral pool primarily comprises vehicles with internal combustion engines (ICE). While the adoption of electric vehicles (EV) and future regulation could in time lower the value of ICE vehicles, we believe our current approach to evaluating recovery value is adequate. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

The transaction's exposure to social credit factors is average, in line with the sector benchmark. Social risks for the auto sector could become more relevant over the longer term if consumer preferences change considerably regarding vehicle ownership and usage.

The transaction's exposure to governance credit factors is below average, in line with the sector benchmark. Given the nature of structured finance transactions, most have relatively strong governance frameworks that typically restrict what activities the special-purpose entity can undertake. We consider the risk management and governance practices in place to be consistent with industry standards and our benchmark expectations.

Transaction Structure

This is a securitization transaction based on China's CAS scheme set up by NFRA and PBOC.

VWFC sold a pool of auto loan receivables, along with all related rights such as mortgages, to an SPT, which is set up by China Foreign Economy And Trade Trust Co., Ltd., the trustee, for the purpose of securitization. To fund the receivables purchase, the trustee issued, on behalf of the SPT, two classes of trust certificates: class A and subordinated notes.

The collateralized assets are loans extended to individual borrowers and institutional borrowers, the majority of which were used to finance the purchase of new cars manufactured by Volkswagen AG group, including those made by local joint ventures. The loans have original terms of up to 60 months, but about 70% of the loans have remaining terms of within 36 months. Initial loan-to-value (LTV) ratios of most loans ranged from 50% to 80%, and the weighted-average initial LTV ratio is 66%. Vehicles financed by these loans are mortgaged for the benefit of the originator.

The issuer purchases the receivables portfolio at a single, fixed discount rate, which means that some underlying assets are purchased at a price above the par value. This could result in prepayment losses. VWFC sets the discount rate at a rate that is intended to match the yield on the transaction to the issuer's expenses. Consequently, there is no excess spread in the transaction.

The asset pool is static (i.e., no asset substitution or reinvestment is allowed). Asset collections will be used to pay down the principal of the class A notes, after satisfying SPT taxes, senior expenses, interest on the class A notes, and the replenishment of the liquidity reserve.

The class A and subordinated notes will initially receive principal repayments on a sequential basis until the class A notes reach a target balance, determined by the applicable class A target overcollateralization percentage. Thereafter, provided certain performance triggers have not been breached and the class A target balance is maintained, collections may be allocated to pay items that rank below principal repayments on the class A notes.

A cash liquidity reserve equal to RMB72 million was funded upon transaction close. The liquidity reserve provides liquidity support to the transaction's senior expenses and interest on the rated notes, if needed.

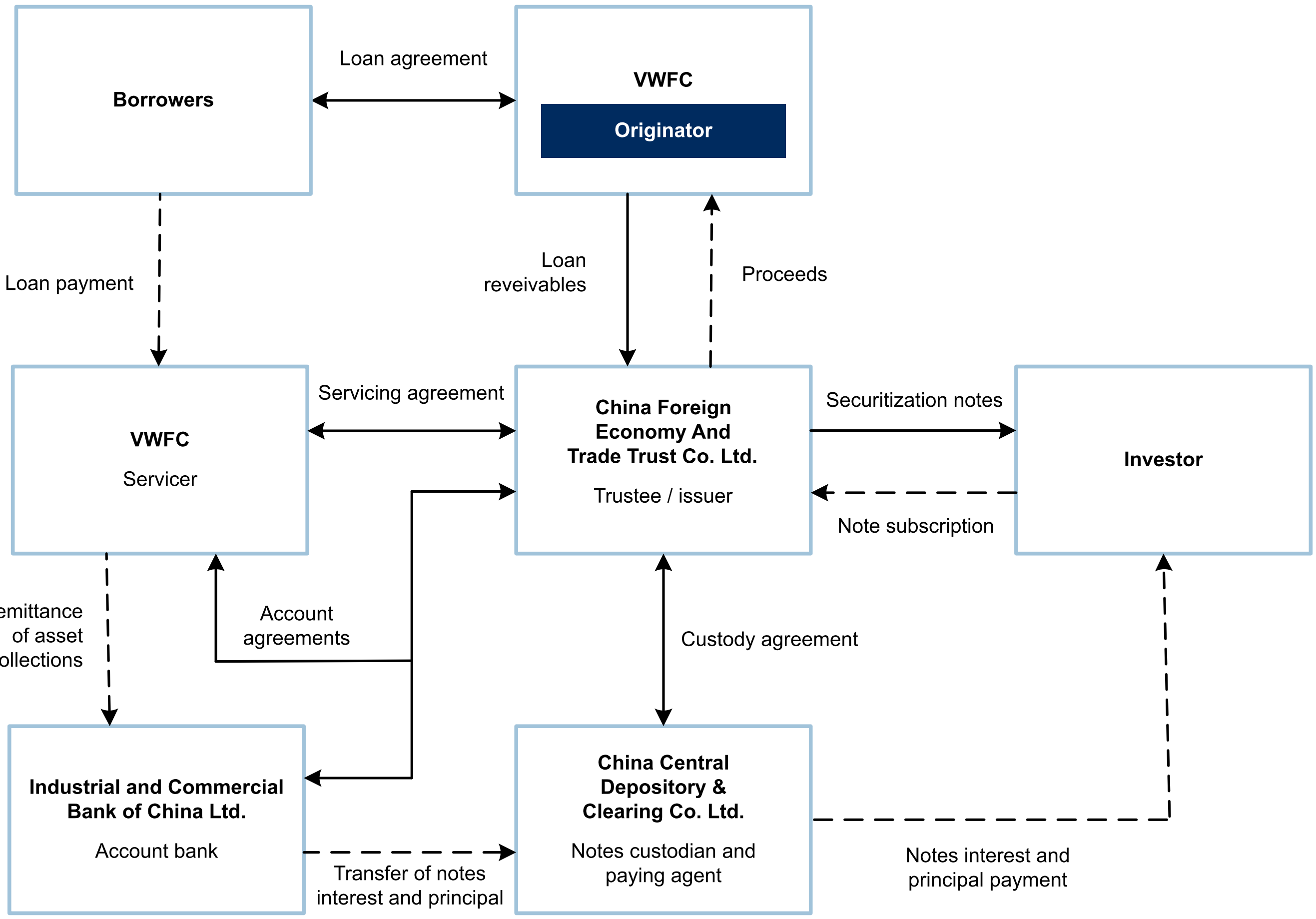
The originator is the transaction's servicer to collect borrower payments and to manage arrears.

The structure of the transaction is shown in chart 1.

Chart 1

Driver China fifteen Trust

Transaction structure



Source: Company information, compiled by S&P Ratings.

Asset Segregation And Issuer's Bankruptcy Remoteness Under The CAS Scheme

The CAS pilot program shares the typical features of international securitization transactions, such as asset sale and issuer bankruptcy remoteness. The program is primarily for bank and nonbank financial institution originators under the management of NFRA.

We believe the asset true sale and issuer's bankruptcy remoteness in this transaction meet our special-purpose entity criteria. The primary reason for this is that the securitization transaction adopts an SPT structure by referring to China's Trust Law, in line with the regulations in the CAS pilot program.

Collateral Assignment

Typical car loan contracts in China have clauses addressing the transferrable and assignable nature of the receivables, meaning that the originators can sell or transfer the contracts to third parties without the borrowers' consent, pursuant to Part III (Contracts) of China's Civil Code. The asset eligibility criteria stipulated in this transaction confirms that the purchased receivables are assignable.

Legally, the issuer has the title of the receivables and the associated rights, including the mortgage, after the asset sale. Practically, however, the transfer will not be effective against the borrowers if the originator does not notify the borrowers of the transfer. Without such notification, although the receivables have been legally acquired by the issuer, the borrowers' payments will continue to be made to the originator or the initial servicer. This issue could be more complicated if the originator becomes insolvent, making it unable to issue a notice to borrowers that a trust has been created over the related loan and that borrowers should redirect their payments to the new lender.

The transaction addresses this concern by introducing a rights-perfection event upon the termination of the initial servicer. The occurrence of a rights-perfection event will cause the title and rights transfer to be perfected through the originator's notification to each borrower, each guarantor (if any), and the vehicle's insurance company. Such notification will state a trust has been created over the related loan and all payments on the loans should be made from then on to the issuer accounts or the replacement servicer's account.

Through an executed power of attorney upon transaction closing, the originator has empowered the trustee to issue the transfer notices to individual obligors directly if the servicer does not do so, and to redirect the loans payments to the replacement servicer's account or the issuer's accounts.

Note Terms And Conditions

Interest payments and overcollateralization percentages

The class A notes are fixed-rate, pass-through notes. Interest payments on the class A notes rank in priority to interest payments on the subordinated notes. The subordinated notes will receive payments only after the class A notes' targeted overcollateralization level is reached.

Interest paid on each class of notes will be calculated on the outstanding principal, which is the initial principal as reduced by principal repayments on previous payment dates.

The overcollateralization percentage for the class A notes is determined by subtracting the current balance of the class A notes from the current discounted receivables balance of the collateral pool and dividing the resultant figure by the current discounted receivables balance of the collateral pool.

Principal payment structure

The transaction's principal payment structure is not fully sequential. Principal will be initially paid to class A notes and subordinated notes on a sequential basis, until the class A notes reach a target balance, determined by the applicable class A target overcollateralization percentage. Thereafter, provided certain performance triggers have not been breached,and the class A target balance is maintained, collections may be allocated to payments that rank below principal payments on the class A notes.

There is no documented lock-out period from the commencement of amortization before collections may be allocated to paying subordinated note principal. Nevertheless, our cash-flow analysis of the transaction suggests that, under rating stresses commensurate with the rating assigned to the class A notes, collections would not be applied to pay subordinated note principal during the first 12 months from the closing date.

In addition, the repayment structure will switch back to fully sequential principal repayments after the collateral pool has reached 10% of its initial discounted receivables balance, further mitigating tail-end risk.

Clean-up call

The originator has a "clean-up call" option to purchase the auto loans from the trust if the discounted receivables balance at the end of any month is 10% or less of the aggregate discounted receivables balance as of the cut-off date. The originator may exercise its clean-up call option only if the clean-up call price for the loans, together with amounts in certain issuer accounts, will be sufficient to repay in full the notes and all fees and expenses of the trust. Upon the originator's exercise of its clean-up call option, the notes will be redeemed and repaid in full and the trust will be liquidated.

Our analysis is on the basis that the notes are fully redeemed by their legal final maturity date. We don't assume the clean-up call will be exercised.

Priority Of Payments

The transaction has a combined interest and principal cash-flow priority of payments. The pre-enforcement priority of payments is summarized in table 1.

Table 1

Priority Of Payments (Summarized)	
1	Taxes: to pay any taxes of the trust due under applicable laws that have not been paid, if any
2	Servicer fee
3	Senior fees and expenses, to pay trustee, account bank, paying agent, rating agencies, and auditor
4	Interest on the class A notes
5	Top up the liquidity reserve to its required level
6	Class A note principal to the targeted balance
7	Accrued and unpaid interest on the subordinated notes
8	Subordinated note principal
9	All remaining amount to the originator by way of final success fee

The notes will be amortized sequentially until the class A notes reach their target balance, which is determined by the applicable class A note target overcollateralization level. Following that, provided the class A target balance is maintained, collections may be allocated to payments that rank below principal payments on the rated notes, such as the interest and principal payments on the subordinated notes.

The target overcollateralization levels applied to determine the target balance of the notes depend on whether an asset performance trigger has been breached. If a trigger has not been breached, the class A and subordinated notes would continue to be amortized; however, there would be no further build up in credit support in percentage terms for class A notes because the target overcollateralization percentage would remain unchanged. The target overcollateralization level will be 100% for the class A notes, which translates to a fully sequential principal amortization structure for the transaction, if a performance trigger has been breached, a servicer replacement event occurs, or the discounted receivables balance is less than 10% of its aggregate cut-off date discounted receivable balance. In this situation, given the transaction's combined principal and interest priority of payments, the payment structure will become a sequential turbo repayment structure.

Performance triggers

The performance triggers are as follows:

- 1.2% for any payment date prior to or during March 2025; or
- 1.6% for any payment date from April 2025 but prior to or during November 2025; or
- 2.0% for any payment date.

The target overcollateralization levels are set out in table 2.

Table 2

Overcollateralization Levels As A Percentage Of Discounted Collateral Pool Balance

	Actual overcollateralization (%)	Target overcollateralization levels(%)	
	At closing	**No trigger breached**	**Trigger breached**
Class A notes	12.8	23	100

Before the call-option date, after the class A notes reach their initial targeted balance, the transaction would only revert to a completely sequential principal payment structure if relevant cumulative gross loss ratio is triggered.

We analyzed the effect of a moderate stress on the transaction to determine whether the maximum expected rating transition of the notes under such a scenario would be within the limits specified in the credit stability section of "S&P Global Ratings Definitions," published June 9, 2023. The results of our analysis suggest that under a moderate rating stress, the maximum expected rating transition on the class A notes within time horizons of one year and three years would fall within the bounds of those outlined in the article.

Originator/Servicer Overview

Company background

VWFC was founded in Beijing in August 2004. It is a wholly owned subsidiary of VWFS AG, the captive financing subsidiary of Volkswagen AG. As a manufacturer captive finance company, VWFC's primary business is to provide retail and wholesale financing for vehicle purchases in China that are mainly related to Volkswagen AG Group, including vehicle brands such as Volkswagen, Audi, Škoda, Jetta, Porsche, Bentley, and Lamborghini. Supported car sales include locally manufactured vehicles from SAIC Volkswagen, JAC Volkswagen and FAW-Volkswagen, and imported vehicles from Volkswagen AG.

The company's management team has extensive experience in either the automotive or finance industry, or both. In addition to its own risk and compliance/auditing function, VWFC benefits from its parent's support in risk management and the implementation of global policies and systems.

Loan origination and underwriting

Around 3,000 auto dealerships across China act as the first-contact points for potential borrowers of VWFC auto loan products. The dealerships provide loan product introductions, preliminary loan terms suggestions, verify each borrower's identity, and collect supplementary documents. The dealerships enter loan application data in VWFC's contract management system.

VWFC has three major retail auto loan products: Classic Credit, Structured Payment, and Balloon Credit.

Although dealers refer borrowers and help to enter loan-application data, VWFC undertakes all credit review and checking processes thereafter. The dealers cannot influence the review/approval process; all credit decisions are centralized within VWFC. Additionally, VWFC's credit review and approval department is separated from the company's sales department, which manages the relationship with the dealerships.

After VWFC receives a loan application and related documents from the dealerships, VWFC's credit-scoring system (Decision Matrix) will review the application, and group applications into different risk levels based on VWFC's internal application score and external credit score. Based on Decision Matrix's calculation, coupled with risk rules, the application will be suggested for automatic approval, conditional auto approval, manual review, or automatic rejection.

Based on the guideline provided by VWFS AG, VWFC's credit-scoring system employed different parameters to reflect local borrower features (including customer, contract, and credit data). The scoring system considers borrowers' credit history, contract terms, and borrower information. It is a behavior-prediction model that can be calibrated with past performance data. Key reasons for rejection include credit history, borrowers' financial background, job stability, and income level.

Credit reviewers and approvers will handle cases referred by the credit-scoring system. They might conduct telephone interviews, validate information, do on-site visits, and make suggestions for the credit decisions.

The credit process includes checks on each borrower's identity, the borrower's credit history, and affordability in the PBOC Credit System, a nationwide credit reference system, and other external credit data sources.

According to VWFC, the scoring system automatically approves nearly 70% of loan applications. The remaining applications are automatically rejected or reviewed manually.

For an approved case, VWFC will notify the dealer/customer, and ask the dealer to send disbursement documentation. The Customer Care and Consumer Protection Department's Payment & Filing team is responsible for loan disbursement. The team checks loan documents and vehicle registration. VWFC systematically manages contract document creation, receipt, use and storage to ensure proper documentation and maintenance of legal enforceability against the loan borrowers.

Regulatory oversight and characteristics of prime loans

VWFC's loan underwriting policies generally reflect the regulatory control on auto loan risks in China, which include borrowers' credit history, the loan tenor, and LTV ratio, etc.

Borrowers with good credit quality and debt serviceability are no longer required to mortgage the vehicles financed by such loans or other collateral to the lenders after the amendment. However, all of the loans in the securitized pool as of the cut-off date are secured by mortgages over the financed vehicles.

Loan servicing

VWFC is responsible for servicing the receivables in the collateral pool. Its customer care and risk-management departments track and manage loan repayments.

Almost all borrowers repay their loans through direct-debit repayments into VWFC's account if there is no voluntary payment from the client. To do this, all borrowers need to maintain a bank account at VWFC-designated banks, and deposit sufficient money for periodic loan repayments. Each of these banks has a nationwide network in China for such service.

VWFC's internal information technology system tracks whether borrowers make payment on time and in full, and alerts the customer service department of delinquencies. VWFC has defined processes and timelines for the management of contracts in arrears and post-delinquency collection. For example, the collection team conducts or coordinates telephone contact for overdue loans, on-site collection for severe delinquency, manages outsourced collection activities, and manages the legal and foreclosure process.

The collection measures and method of borrower contact depend on the length of delinquency. The whole process starts days before the payment date with a loan payment reminder, and ends when VWFC believes the prospect of loan recovery is remote and decides to write off the loan, or when the whole owed amount is fully repaid. VWFC may arrange obligors' repayment, and voluntary or involuntary vehicle sales for borrowers to repay the loans. For any remaining amount owed to VWFC after vehicle sale, including costs and expenses incurred during the collection process, VWFC has the right to continue pursuing the borrowers, due to the full-recourse nature of the loans. The guidelines and practice for collections are comprehensive and detailed, in our view.

Collateral

The securitized pool contains consumer loan contracts, secured by vehicles manufactured by Volkswagen AG group, its local affiliates, and other producers. The aggregate discounted receivables balance is about RMB6 billion.

The following summarizes some distinct features of the collateral pool:

- The collateral pool is a static auto loan pool that will amortize each month, with no reinvestment or substitution of receivables.
- Over 95% of the portfolio comprises receivables that are backed by new passenger vehicles. Historical data in other markets show that losses are typically lower for loans when new vehicles are financed than for used vehicles being financed.

- Less than 9% of the loans in the asset pool are structured payment products and balloon loans. The remainder are fully amortizing, with level payments of principal and interest each month.
- The transaction has a diversified pool of 97,599 loans, with the largest single borrower accounting for 0.04% of the initial discounted receivables balance. Borrower concentrations consequently do not present an additional risk for this transaction.
- The collateral pool is relatively seasoned, with a weighted-average contract seasoning of about 14 months, as of the cut-off date.
- All contract payments, including interest, principal, and expenses, are full-recourse obligations of the borrowers. As a result, the trust is not exposed to any market-value risk associated with the sale of the motor vehicles (on performing receivables), which is a risk that may be associated with other products, such as operating leases.

The receivables pool for Driver China fifteen Trust as of April 30, 2024, is summarized in table 3.

Table 3

Pool Characteristics (Percentage Of Pool By Outstanding Discounted Receivables Balance)	
Customer type	
Individual	94.68
Corporate	5.32
New and used (financed vehicle)	
New	95.07
Used	4.93
Loan payment method	
Direct debit	100.00
Seasoning (months)	
Less than or equal to 12	48.42
Greater than 12 and less than or equal to 24	36.05
Greater than 24 and less than or equal to 36	13.33
Greater than 36 and less than or equal to 48	2.08
Greater than 48 and less than or equal to 60	0.12
Remaining term to maturity (months)	
Less than or equal to 12	12.53
Greater than 12 and less than or equal to 24	30.37
Greater than 24 and less than or equal to 36	23.91
Greater than 36 and less than or equal to 48	16.90
Greater than 48 and less than or equal to 60	16.29
Effective interest rate (after considering subsidy from VW) (%)	
Equal to 0.00	20.58
Greater than 0.00 and less than or equal to 5.00	14.57
Greater than 5.00 and less than or equal to 6.00	10.98
Greater than 6.00 and less than or equal to 7.00	24.10
Greater than 7.00 and less than or equal to 8.00	14.65
Greater than 8.00 and less than or equal to 18.00	15.12

Table 3

Pool Characteristics (Percentage Of Pool By Outstanding Discounted Receivables Balance) (cont.)	
Discounted receivables balance (RMB)	
Less than or equal to 50,000	25.29
Greater than 50,000 and less than or equal to 100,000	35.43
Greater than 100,000 and less than or equal to 150,000	20.83
Greater than 150,000 and less than or equal to 200,000	8.78
Greater than 200,000 and less than or equal to 250,000	3.69
Greater than 250,000 and less than or equal to 300,000	2.03
Greater than 300,000 and less than or equal to 350,000	1.18
Greater than 350,000 and less than or equal to 400,000	0.53
Greater than 400,000	2.24

The obligor concentrations for the collateral pool are set out in table 4.

Table 4

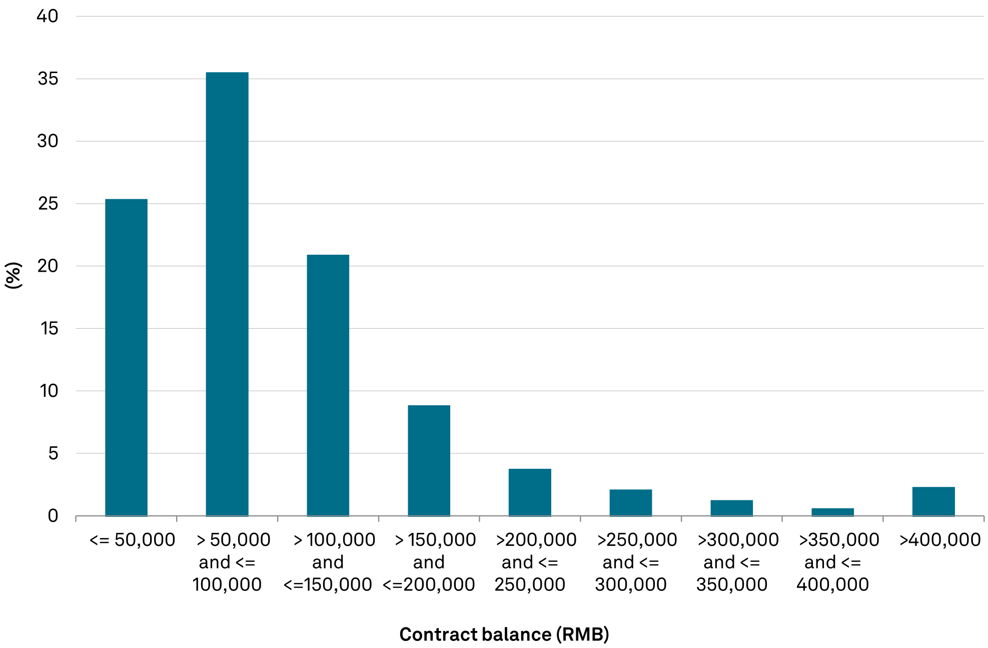
Obligor Concentrations (Percentage Of Pool By Outstanding Discounted Receivables Balance)	
The largest obligor	0.04
The largest 10 obligors	0.29
The largest 20 obligors	0.49

Charts 2 to 6 illustrate characteristics of the collateral portfolio.

Chart 2

Securitized Loans

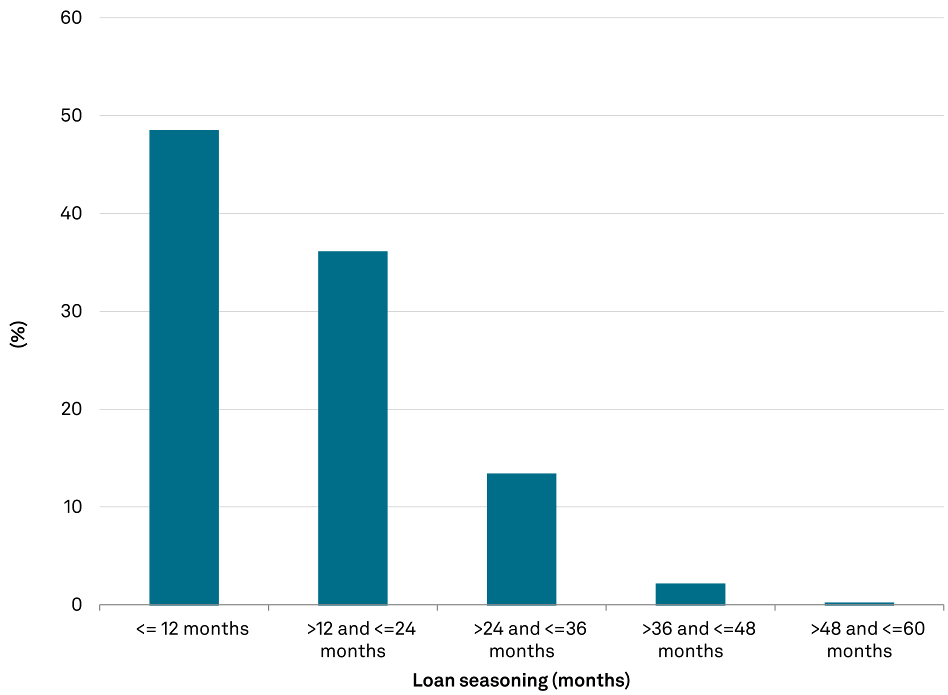
Outstanding discounted receivables balance



RMB--Chinese renminbi. Source: Company data, compiled by S&P Ratings.

Chart 3

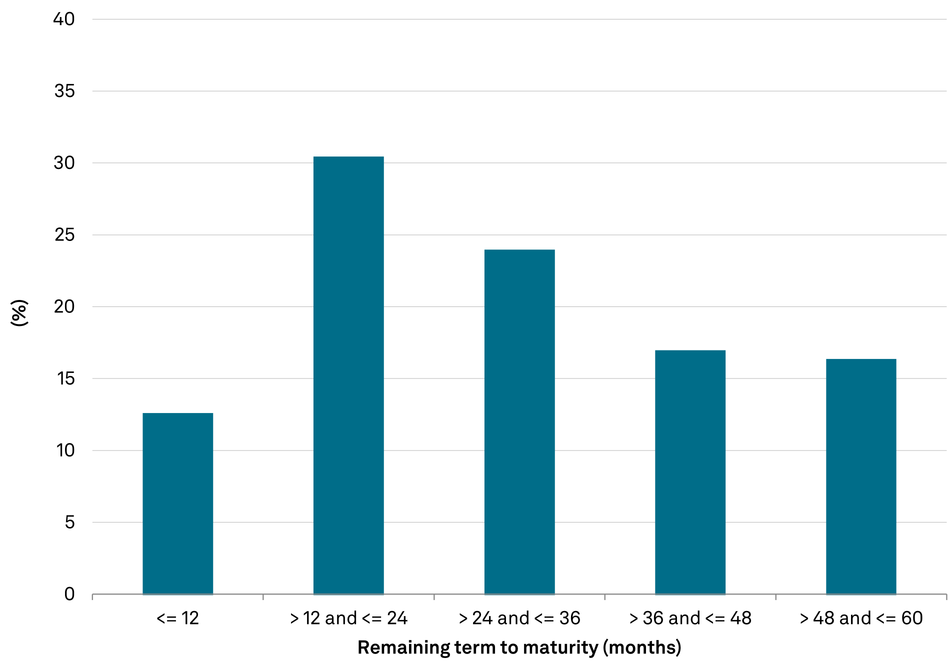
Securitized Loans
Seasoning distribution



Source: Company data, compiled by S&P Ratings.

Chart 4

Securitized Loans
Remaining terms

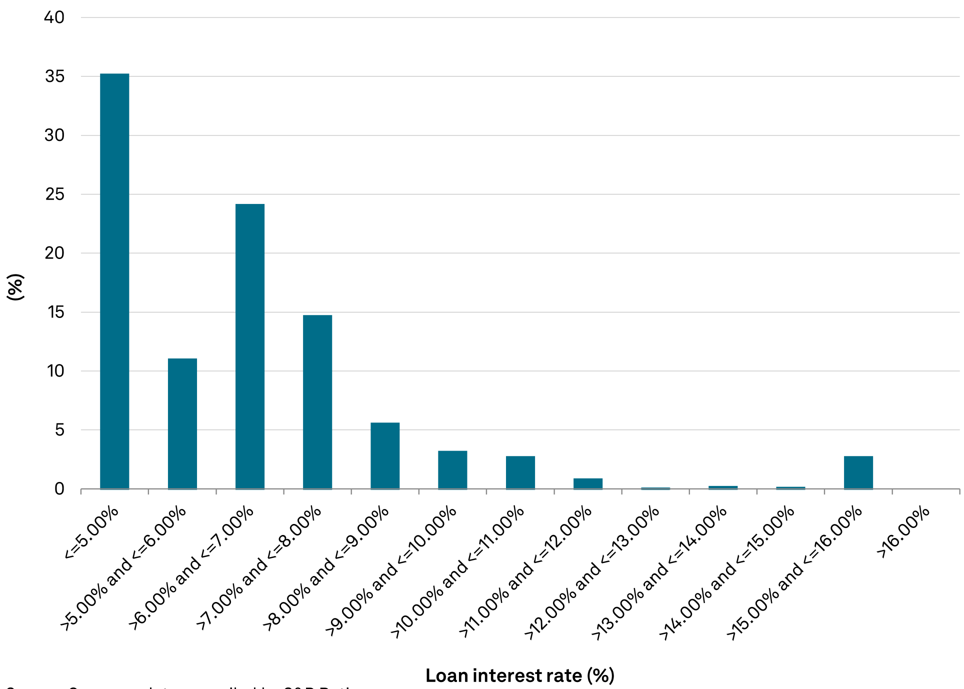


Source: Company data, compiled by S&P Ratings.

Chart 5

Securitized Loans

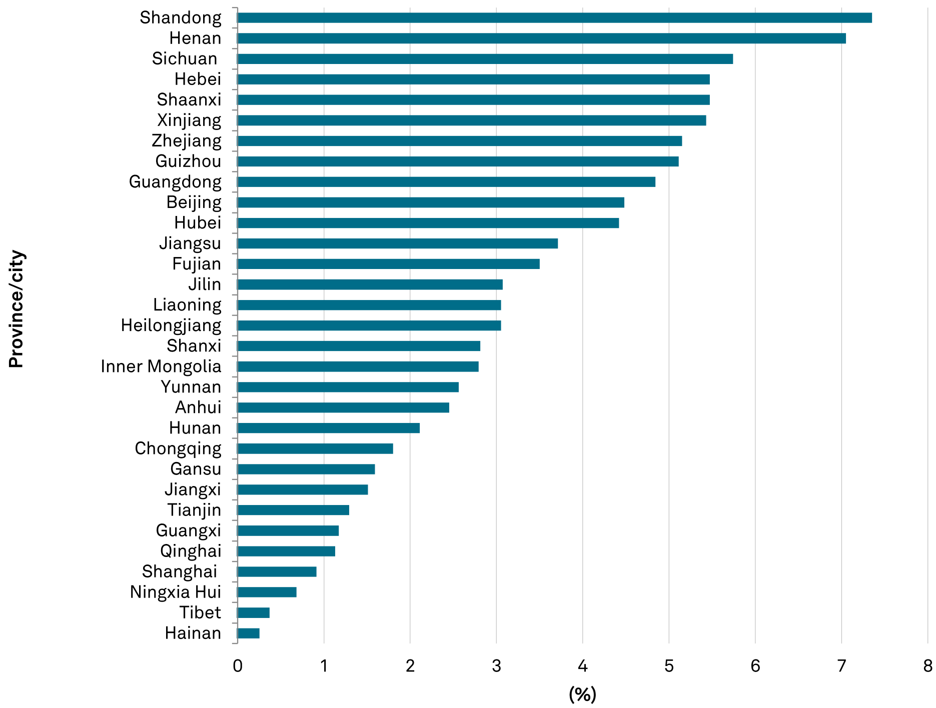
Effective interest rate distribution



Source: Company data, compiled by S&P Ratings.

Chart 6

Securitized Loans
Geographic distribution of borrowers



Source: Company data, compiled by S&P Ratings.

Eligibility Criteria

- The loan contracts constitute legal, valid, binding and enforceable agreements;
- The purchased receivables are assignable, and the loan contracts require monthly payments;
- VWFC is entitled to dispose of the loan receivables free from rights of third parties;
- The purchased receivables are free of defenses, whether peremptory or otherwise, for the agreed term of the loan contracts as well as free of rights of third parties and that the borrowers in particular have no set-off claim thereto or thereunder or the status and enforceability of the purchased receivables is not impaired by set-off rights;
- No purchased loan receivable is overdue;
- The status and enforceability of the purchased receivables is not impaired due to warranty claims or any other rights of the borrowers;
- None of the borrowers is an employee of an affiliate of Volkswagen AG or of the originator;
- According to the originator's records, no termination of any loan contract has occurred;
- The loan contracts shall be governed by the laws of China and have not been concluded prior to January 2008;

- The loan contracts have been entered into exclusively with the borrowers, which have their registered office in China if they are corporate entities or their place of residence in China if they are individuals;
- On the cutoff date, at least two contractual instalments, which include interest payments, have been paid in respect of each of the purchased receivables and that each purchased loan receivable requires monthly payments to be made within 60 months of the date of origination of each loan contract and may also provide for a final balloon payment;
- Each of the purchased receivables will have at least six and no more than 58 instalments;
- The total outstanding amount of purchased receivables entrusted hereunder pursuant to the loan contracts with one and the same borrower does not exceed RMB4 million in respect of any single borrower;
- The loan contracts, which are subject to the provisions of PRC law on consumer financing, comply in all material respects with the requirements of such provisions;
- According to the originator's records, no insolvency proceedings have been initiated against any of the borrowers during the term of the relevant loan contract up to the cutoff date;
- Each loan contract under which the relevant receivables arise provides for a mortgage of the relevant financed object;
- The purchased receivables are "normal" loans according to NFRA's "five-category" loan classification method;
- The purchased receivables are denominated in renminbi;
- At the time each loan contract was entered into, the receivable under such loan contract was approved by the originator in the ordinary course of the originator's business; and
- The maximum delinquent days of each purchased receivable were historically no more than 60 days.

Commingling Risk

Our counterparty criteria consider a transaction's commingling risk through the rating on the servicer, the amount of funds likely to be held in a servicer account at any given time, and the potential impact of a delay in receipt of those funds on the supported securities. In our opinion, there is potential commingling risk in this transaction should the servicer default, because VWFC, acting as the servicer in this transaction, can hold the collections for a period of one month before remittance to the SPT account.

However, the servicer will deposit an amount equal to monthly collection of the current month, plus the expected collections of next month into the distribution account if the rating on the servicer is lowered to a certain level in the scales used by local ratings agencies in China, or if the rating on VWFC's parent falls below a certain rating by S&P Global Ratings. Going forward, the servicer will also deposit half-month collections on a bi-weekly basis when the trigger event persists.

This arrangement, along with VWFS AG's public announcement in its annual report that it will exert its influence to ensure its affiliated companies (VWFC included) meet their liabilities, establishes a creditworthiness linkage between VWFC and VWFS AG. It also provides a level of comfort that a sudden failure of VWFC without its parent breaching this rating trigger is a more remote scenario. We believe such an arrangement and the consequent deposits from servicer can serve as a commingling reserve to mitigate commingling risk of this transaction.

Set-Off Risk

We believe the obligor set-off risk in this transaction is remote because VWFC is not an authorized deposit-taking institution in China and the eligibility criteria require that the obligor is not an employee of VWFC or Volkswagen AG. In addition, the representations and warranties provided by VWFC in respect of the collateral pool include that the borrowers in particular have no set-off claim thereto or thereunder the loans, or the status and enforceability of the purchased receivables is not impaired by set-off rights.

Counterparty Risk With Respect To The Bank Account Provider

Issuer accounts for this transaction are held with Industrial and Commercial Bank of China Ltd. The bank will be replaced if the ratings on the bank are lower than 'BBB' within 90 calendar days of the downgrade. This arrangement meets our counterparty criteria to support a 'AAA' rated transaction, considering the transaction's cash flow arrangement.

Counterparty Risk With Respect To The Servicer

VWFC cannot resign from its role as the initial servicer, but can be removed if a servicer termination event occurs. Such an event might happen if VWFC failed to duly observe or perform in any material respect any of its covenants or agreements, and which failure materially and adversely affected the rights of the noteholders, or if it were to become insolvent or is disqualified by the regulators. The transaction does not have a back-up servicer upon transaction close. VWFC as the servicer will be replaced following the occurrence of a servicer termination event, and a noteholders' meeting will appoint a back-up servicer.

Prime auto transactions in other markets do not typically include back-up servicers upon transaction close, however, because of the high credit quality and homogeneous nature of the receivables, combined with the availability of institutions experienced in servicing them. We believe that in China the most likely servicer replacement would be other auto finance companies or commercial banks that have a nationwide network for loan collections.

All loan payments in this transaction will be collected through the direct debit of borrowers' cash accounts in major national banks rather than by other more demanding collections processes. This will reduce the workload of the servicer and make it easier to find a replacement. We have also considered the servicer fees level and believe it is sufficient to attract a replacement. The transaction includes a liquidity reserve that is funded up front and could cover three to four months of tax, transaction expenses, and rated note interest should asset collections be temporarily unavailable to meet the transaction obligations. In our view, this will allow the transaction sufficient time to find a new servicer and resume asset collections.

Liquidity Support

Timely payment of senior expenses and rated note interest is supported by the use of principal collections through the combined waterfall, and a liquidity reserve funded at closing by VWFC, equal to RMB72 million, or around 1.2% of initial discounted receivable balance.

The liquidity reserve is held in the liquidity reserve account, which is called the cash collateral account in this transaction. It will amortize, but be topped up to and maintained at the higher of 1.2% of the outstanding discounted receivables balance as of the end of the relevant collection period and a floor of (1) RMB60 million; or (2) the aggregate outstanding balance of the class A notes, whichever is lower. On each payment date, the trustee may draw funds in the cash collateral account if asset collections are insufficient to cover any tax, senior fees/expenses, servicing fees, and interest due to the class A notes.

Interest-Rate Risk

The collateralized loans carry fixed interest rates, and the interest rate is also fixed on the class A notes. As a result, there is no interest-rate mismatch in this transaction.

Credit And Cash-Flow Analysis

We consider a significant performance deterioration of the underlying receivables to be the principal factor affecting rating transition in this transaction. We have applied our criteria titled, "Global Auto ABS Methodology And Assumptions," published March 31, 2022, to the credit risk analyses in this transaction.

Historical performance data

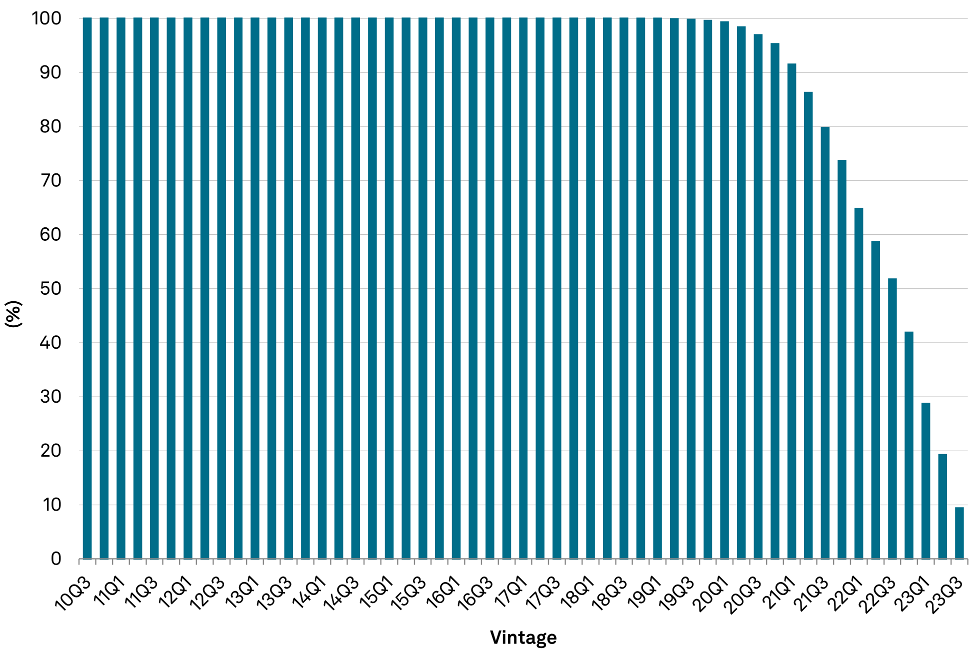
We received the following historical performance data for auto loan pools originated by VWFC:

- Static pool data grouped by origination month, including detailed origination amounts, repayments every month, and delinquency every month. The data include vintage performance data from August 2010 to November 2023.
- Dynamic pool data: aggregate loan amounts, repayments, and delinquency statistics for each month from April 2010 to November 2023.

The pay-out ratio for each quarterly vintage is depicted in chart 7.

Chart 7

VWFC's Loan Vintages
Payout ratio



Q--Quarter. Source: Company data, compiled by S&P Ratings.

VWFC generally sets 90-plus and 180-plus (practice before Dec. 31, 2018) or 120-plus days (practice since Jan. 1, 2019) delinquencies for the recognition of loan defaults and loan losses, respectively. A loan can also be deemed defaulted or irrecoverable due to termination or detected fraud.

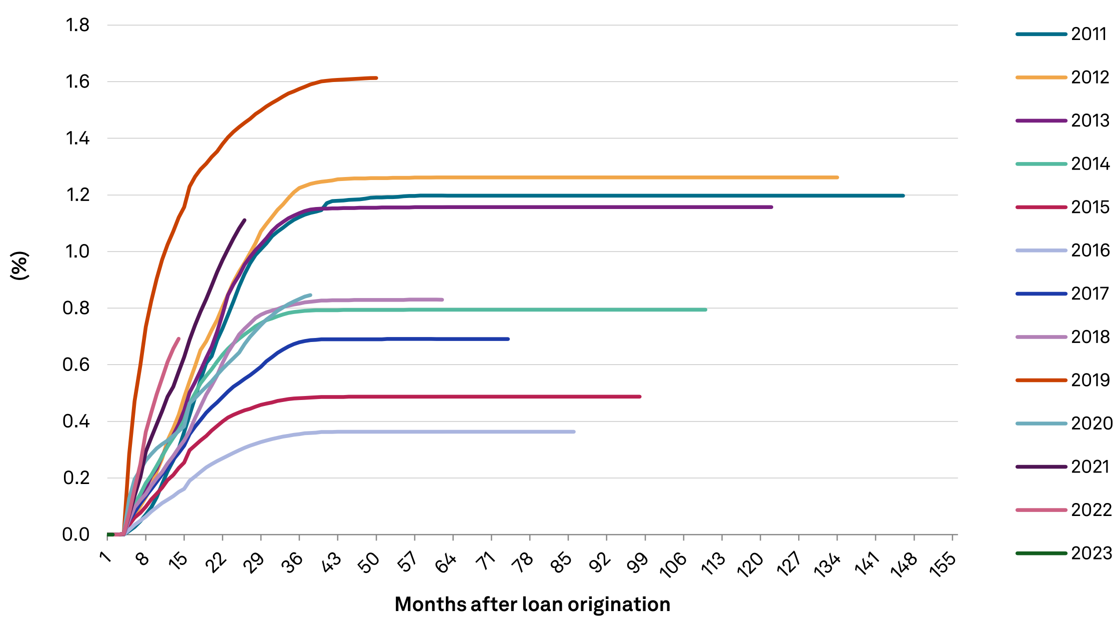
In our credit risk analysis, we have assumed all loans that are delinquent for more than 90 days would default, and used this classification to determine the base-case default frequency for the securitized pool. This assumption reflects the low cure rates--returning from delinquency to current--of loans overdue for more than 90 days, and the practical collection operations VWFC adopts as an aforementioned definition.

We assume that loans overdue for more than 180 days (for loans originated on or before Dec. 31, 2018) or more than 120 days (for loans originated since Jan. 1, 2019), or charged off would be deemed as losses, due to the remote prospect of recovery. We used this as a benchmark to estimate the recovery after defaults for the collateral pool.

Charts 8 and 9 illustrate the cumulative default and cumulative loss experience of VWFC's total auto loan portfolio, based on our assumptions of deemed default and deemed loss, from August 2010 to November 2023.

Chart 8

Historical Performance
Cumulative default rate by year of origination

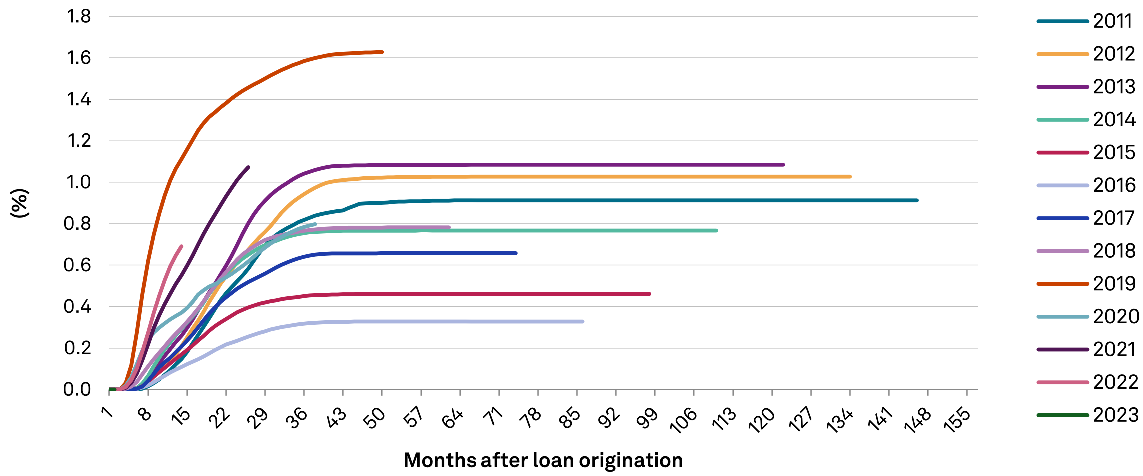


Note: Yearly vintage as of 2023Q4. Source: Company data, compiled by S&P Ratings.

Chart 9

Historical Performance

Cumulative loss rate by year of origination



Note: Yearly vintage as of 2023Q4. Deemed losses are defined as loans overdue for more than 180 days (for loans originated on or before Dec. 31, 2018) or more than 120 days (for loans originated since Jan. 1, 2019), plus net charge-off.
Source: Company data, compiled by S&P Ratings.

Base-case assumptions and stressed default and loss

We have revised our base-case default assumption for the collateral pool to 1.4% from 1.3% in our previous base-case default assumption for Driver China series ABS. This is based on the historical performance observed in the static pool and dynamic pool data, securitized pool characteristics, China's macroeconomic conditions, peer comparison, and our observation of the VWFC's underwriting, servicing capabilities, and risk management. We have considered the worsening performance of loans originated in 2019, 2021, and 2022 in our credit analysis. Performance volatility in 2019 was largely due to an increase in used car loans origination, while the worsening performance of VWFC's portfolios in 2021 and 2022 were due to the impact of the pandemic, and the company's shift in product offerings towards longer tenor and high LTV products. The originator has developed several risk control measures to manage the products with higher risk profiles since the fourth quarter of 2022, when the asset performance gradually stabilized.

We applied a stress multiple to the base-case default percentage. The magnitude of the stress multiple that we applied reflects the 'AAA' rating on the notes, and our consideration of the relatively short development history of auto loan securitization in China. We have not observed any real macroeconomic stress because the economic environment has been benign in the past decade. As a result, we applied a higher stress multiple.

We have taken into account the short remaining terms of the securitized loans in our analysis. We believe these factors help in making the risk exposure period of the pool, or weighted-average life of the notes, relatively short.

We gave limited credit to recoveries. Our base-case recovery assumption for the collateral pool is 10.0%, which we derived from the "deemed default" and "deemed loss" loans. For a 'AAA' rating stress scenario, we gave 50% credit to the 10% base-case expected recoveries to arrive at a loss-severity assumption of 95%. Although some loans in the collateral pool may not have mortgage registrations, known as waiving mortgage registration (WMR) loans. We consider our stressed default and loss severity assumptions for this transaction to be sufficient to capture any potential increase in risk associated with the inclusion of WMR loans.

Table 5 shows a summary of the credit assessment.

Table 5

Credit Assessment Summary

	AAA
Base-case default frequency (%)	1.4
Stress multiple used (x)	6.0
Default frequency (%)	8.40
Loss severity (%)	95.0
Minimum credit support after credit to recovery (%)	7.98

Cash-flow analysis

We analyzed the capacity of the transaction's cash flows to support the rated notes during amortization--i.e., timely interest payments and repayment of principal by the legal maturity date--by running several different scenarios correlated with a 'AAA' rating level for the rated notes. Our cash flow analysis included various scenarios that reflect different combinations of the following factors:

- Level of defaults and recoveries commensurate with the rating level;
- Three different default curves: a front-loaded, back-loaded, and normal default curve. The curves we employed primarily reflected the default timing that we observed in VWFC's static default curves;
- Recovery period, which we assumed to be nine months;
- Stressed fees and expenses upon servicer transition and unexpected expenses increase; and
- Different prepayment rates.

For the prepayment rates, we modeled three different prepayment curves. The prepayment stresses assumed are voluntary prepayments (table 6). In addition to the normal constant prepayment rate (CPR) test that mimics VWFC's historical prepayment behavior, we used a high CPR test--increasing to 15% annualized CPR under high CPR stress and a low CPR scenario (constant at 1%).

Table 6

Constant Prepayment Rate Assumptions

Months from transaction close	Low CPR (% per year)	Normal CPR (% per year)	High CPR (% per year)
1	1.0	5.0	5.0
2	1.0	5.0	6.0
3	1.0	5.0	8.0
4	1.0	5.0	10.0
5	1.0	5.0	12.0
6	1.0	5.0	14.0

Table 6

Constant Prepayment Rate Assumptions (cont.)			
Months from transaction close	**Low CPR (% per year)**	**Normal CPR (% per year)**	**High CPR (% per year)**
7+	1.0	5.0	15.0

Our rating addresses not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities.

The transaction can sustain all scenarios that we analyzed in our cash-flow adequacy tests. Listed in order of effect on the transaction, the following are some of the noteworthy features of the transaction cash flows:

- Receivables with a contractual interest rate above the discount rate are purchased above par value (i.e., the purchase price of the receivable is more than 100% of its actual outstanding principal balance). This may introduce losses from prepayments because when borrowers prepay or default, they repay only the receivable's par value. In this case, the issuer will incur a loss. We have incorporated prepayment losses in our cash-flow model. Its effect on available credit enhancement is limited, however, according to our analysis.

Sensitivity Analysis

We cash-flow modeled two additional scenarios to determine how vulnerable the notes would be to a lowered rating under each scenario:

- Scenario 1: Base-case default frequency is 25% higher than our expected level of 1.75%; and
- Scenario 2: Base recoveries are only 75% of our expected base recovery rate of 10%.

The minimum credit support under each scenario is set out in table 7.

Table 7

Minimum Credit Support After Credit To Recovery (%)	
Scenario	**AAA**
Expected	7.98
Scenario 1	9.98
Scenario 2	8.09

Table 8 sets out what the rating level of the class A notes would be at transaction close under each scenario.

Table 8

Rating Transition	
Scenario	**Class A notes**
Expected	AAA (sf)
Scenario 1	AAA (sf)
Scenario 2	AAA (sf)

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- China Securitization Performance Watch 1Q 2024: A Slow Start For Issuance, May 16, 2024
- China Securitization: ABS And RMBS Tracker February 2024, March 28, 2024
- China Structured Finance Outlook 2024: Consumer ABS A Bright Spot Amid Flat Total Issuance, Jan. 11, 2024
- Global Auto Loan ABS: A Brief Market Update, Sept. 22, 2023
- S&P Global Ratings Definitions, June 9, 2023
- A Primer On China's Auto Loan Asset-Backed Securities Market, April 28, 2022
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, published Dec. 17, 2016

The issuer has not informed S&P Global Ratings whether the issuer is publicly disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains non-public.

REGULATORY DISCLOSURES

Please refer to the initial rating report for any additional regulatory disclosures that may apply to a transaction.