

## RATING ACTION COMMENTARY

# Fitch Assigns VW's Driver Japan thirteen 'AAAsf' Final Ratings; Outlook Stable

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### Related Content:

[Driver Japan thirteen](#)

[Driver Japan thirteen - Appendix](#)

Fitch Ratings - Tokyo - 28 Feb 2024: Fitch Ratings has assigned final ratings to Driver Japan thirteen's trust beneficial interests of the second trust (BIs 2) and asset-backed loans of the second trust (ABL 2). The total issue amount has been increased to JPY55 billion (BIs 2: JPY28.7 billion, ABL2: JPY26.3 billion) from JPY40 billion when the expected rating was assigned.

The final ratings are as follows:

JPY55 billion BIs 2 and ABL 2: 'AAAsf'; Outlook Stable

JPY3.83 billion subordinated BIs: 'NRsf'

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
Driver Japan thirteen		

BIs 2 &amp; ABL 2

LT AAAsf Rating Outlook Stable

AAA(EXP)sf Rati

Outlook

Stable

New Rating

Subordinated BIs

LT NRsf New Rating

NR(EXP)sf

[VIEW ADDITIONAL RATING DETAILS](#)**TRANSACTION SUMMARY**

The transaction is ultimately backed by a pool of auto loan receivables originated by Volkswagen Financial Services Japan Ltd. (VWFSJ), an indirectly wholly owned subsidiary of Volkswagen Financial Services AG (A-/Stable/F1), which is wholly owned by Volkswagen AG (A-/Stable/F1). The transaction has a legal final maturity date of June 2032.

The transaction has initial credit enhancement of 6.5%, which is calculated by dividing the subordinated BIs (excluding the portion corresponding to the cash reserve) by the total discounted principal balance of the underlying auto loan receivables.

**KEY RATING DRIVERS**

**Low Obligor Default Risk:** Fitch assumes a low base-case cumulative gross loss rate of 0.75% for this transaction before considering the balloon payment risk. This is based on very stable historical default performance over the past 21 years, including three recessionary periods. Fitch expects performance to remain stable in the near term, reflecting our expectation that the employment environment in Japan will be steady.

**Balloon-Payment Risk Considered:** Balloon-payment loans made up 39.4% of the initial portfolio. Obligor are required to make balloon payments if not covered by refinancing of loans or buy-back of vehicles by VWFSJ or dealers. In Fitch's view, this may lead to an unexpected payment shock to the obligor that may cause higher obligor defaults compared with fully amortising loans without balloon payments. Fitch accounted for the risk that obligors fail to cover balloon payments at maturity by applying a higher default rate multiple.

**Counterparty Risk Addressed:** The transaction has structural mechanisms that ensure remedial action is taken if the transaction account bank's rating falls below Fitch's eligible rating of 'A/'F1'. A cash reserve, to be posted at closing and maintained without

amortisation throughout the transaction period, should cover four months of interest and expenses to mitigate payment interruption risk.

**Servicing Continuity Risk Mitigated:** VWFSJ, as the servicer, delegates its function to JACCS Co., Ltd. and SMBC Finance Service Co., Ltd., as sub-servicers in this transaction. No back-up servicer is appointed at closing. However, if a servicer replacement event occurs, The Norinchukin Trust & Banking Co., Ltd. as Trustee 1 will assume the servicing responsibilities or may appoint a third party as a successor servicer.

The key rating drivers listed in the applicable sector criteria, but not mentioned above, are not material to this rating action.

## **RATING SENSITIVITIES**

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

Unexpected increases in the gross loss rate and decreases in the asset yield could produce loss levels higher than Fitch's base case, which could in turn result in negative rating action on the BIs 2 and ABL 2. Fitch has evaluated the sensitivity of the ratings assigned to Driver Japan thirteen to increased gross loss levels, and decreased asset yield.

For instance, its analysis found that the ratings were susceptible to downgrades under Fitch's moderate (25% increase) and severe (50% increase) gross loss scenarios.

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

The rated debts are at 'AAAsf', which is the highest level on Fitch's scale. The ratings cannot be upgraded.

Key Rating Drivers and Rating Sensitivities are further discussed in the corresponding new issue report entitled "Driver Japan thirteen", published today.

## **USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10**

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

## **DATA ADEQUACY**

Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

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

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by clicking the link to the Appendix. The appendix also contains a comparison of these RW&Es to those Fitch considers typical for the asset class as detailed in the Special Report titled 'Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions'.

## **ESG CONSIDERATIONS**

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

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

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**APPLICABLE CRITERIA**

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 29 Dec 2022\)](#)

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

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

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Nov 2023\)](#)

[Global Structured Finance Rating Criteria \(pub. 20 Jan 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

Consumer ABS Asset Model, v1.1.0 ([1](#))

Multi-Asset Cash Flow Model, v3.1.1 ([1](#))

## **ADDITIONAL DISCLOSURES**

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Driver Japan thirteen

EU Endorsed, UK Endorsed

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