

Auto Loans  
Germany  
New Issue

## Driver Seven GmbH

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### Related Research

#### Applicable Criteria

- *Global Structured Finance Rating Criteria (September 2009)*
- *EMEA Consumer ABS Rating Criteria (September 2009)*
- *Residual Values in European Auto ABS - Securitising Market Risk (April 2006)*
- *Criteria for Structured Finance Loss Severity Ratings (February 2009)*

#### Other Research

- *Counterparty Criteria for Structured Finance Transactions (October 2009)*
- *Fitch Issuer Report Grades (November 2004)*
- *Criteria for Interest Rate Stresses in Structured Finance Transactions (February 2010)*

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### Ratings

Class	Amount (EURm)	Final Maturity	Rating	LSR	CE (%)	Outlook
A	500,000,000	April 2016	AAA	LS1	9.75	Stable
B	19,100,000	April 2016	A+	LS3	6.25	Stable
Subordinated Loan	24,656,491		n.r.			
OC	2,700,000		n.r.			
<b>Total</b>	<b>546,456,491</b>					
Cash Collateral Account	6,830,706					

Closing occurred on 22 April 2010. The transfer of the portfolio to the issuer occurred on 22 April 2010. The ratings assigned above are based on the portfolio information provided by the originator as of 31 March 2010. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase.  
Source: Fitch

### Transaction Summary

This transaction is a securitisation of auto loan receivables originated by Volkswagen Bank GmbH (VWB, the seller) within Germany. VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group (rated 'BBB+'/'Stable'/'F2'). The proceeds from the issuance of the class A and B notes and the subordinated loan were used to purchase a portfolio of loan receivables against German borrowers and to fund the cash collateral account (CCA) of EUR6.83m (1.25% of the initial discounted asset balance). The transaction is static and will amortise from closing. The portfolio consists of 41,946 loans, with an outstanding discounted principal balance of EUR546.5m and an average balance of EUR13,028 per loan.

### Key Rating Drivers

- **Performance of Underlying Receivables:** the performance of the notes will be affected in particular by default and recovery levels on the underlying receivables. Fitch Ratings has analysed the credit and asset value risks and formed a loss rate assumption based on historical data provided by VWB. Stress tests on default and recovery rate expectations were used to analyse the impact on the transaction's cash flows.
- **Static Transaction, Amortising Loans Collateralised by New or Used Vehicles:** the transaction is static, as were the previous Driver Six, Driver Five, Driver Four and Driver One transactions. The loan receivables are either fully amortising (classic credit), or include a balloon payment at maturity (auto credit). Both loan products are granted for the purchase of either new or used vehicles.
- **Available Data and Assumptions made:** to derive its base case assumptions, Fitch analysed static loss data, as no static default vintages or recovery information are available. The transaction has no definition of loss per se, but losses are registered when VWB, as servicer, writes off the loan and hence VW has some discretion regarding the loss allocation. However, in Fitch's opinion, the definition of write-off limits the possibility of the servicer accelerating this date, thereby depriving the transaction of expected recoveries.
- **Increased Stress on Balloon Payments:** based on the increased pressure on both the economy and the automotive industry in the past two years, Fitch has revised its expectations on used car prices. This revision has led to a higher balloon payment stress compared to previous Driver transactions. The revised

assumptions have been applied to both balloon loan products (new and used car financings).

- **Counterparty Exposure to VWB:** the transaction is dependent on VWB's credit and operational capabilities. This is because the originator will act as servicer and no back-up servicer is envisaged at closing. VWB will further collect the monthly loan instalments to its own accounts, which may cause commingling risk. Risks resulting from a potential default of VWB are reduced by a number of mitigating factors, for example an advance mechanism for commingling risk.
- **Asset Outlook:** Although Germany's economy has also come under significant pressure, the expected increase in unemployment rate has not yet materialised and no significant performance deterioration in the originator's loan portfolio has yet been observed. However, Fitch expects unemployment to rise over the next 18 to 24 months. As such, the default rates for this portfolio are expected to exceed the levels of the 2004 to 2006 vintages.

## Rating Sensitivity<sup>1</sup>

This section of the report provides a greater insight into the model implied sensitivities the transaction faces when one risk factor is stressed, while holding others equal. The modelling process first uses the estimation and stress of base case assumptions to reflect asset performance in a stressed environment, and secondly, the structural protection was analysed in a customised proprietary cash flow model (see Financial Structure & Cash Flow Modelling). The results below should only be considered as one potential outcome given that the transaction is exposed to multiple risk factors that are all dynamic variables.

### Rating Sensitivity to Default Rates

The change in rating (ie ratings migration), if the base case probability of default for each loan is increased or decreased by a relative amount, is demonstrated below. For example, increasing the base case default rate by 50% may result in a three notch downgrade of the class A from 'AAA' to 'AA-'.

#### Rating Sensitivity to Defaults

	Class A	Class B
Original default rate base case (=2.9%)	AAA	A+
Increase in default rate base case by 10% (=3.2%)	AA+	A+
Increase in default rate base case by 25% (=3.6%)	AA	A+
Increase in default rate base case by 50% (=4.3%)	AA-	A-

Source: Fitch

### Rating Sensitivity to Recovery Rates

The change in rating if the base case recovery rates are adjusted is demonstrated below:

#### Rating Sensitivity to Recovery Rates

	Class A	Class B
Original rating recovery rate base case (=59%)	AAA	A+
Decrease in rating recovery rate base case by 10% (=53%)	AAA	A+
Decrease in rating recovery rate base case by 25% (=44%)	AA+	A+
Decrease in rating recovery rate base case by 50% (=29%)	AA	A

Source: Fitch

<sup>1</sup> These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance.

## Rating Sensitivity to Shifts in Multiple Factors

The table below summarises the rating sensitivity to stressing multiple factors concurrently. Three scenarios are evaluated to demonstrate the sensitivity of the rating to varying degrees of stress, ie mild, moderate and severe changes to the expected level of defaults and recoveries.

### Rating Sensitivity to Multiple Factors

	Class A	Class B
Original base case assumptions (default rate: 2.9%, recovery rate: 59%)	AAA	A+
Mild stresses: Default base case increase of 10%, recovery rate decrease of 10%	AA+	A+
Moderate stresses: Default base case increase of 25%, recovery rate decrease of 25%	AA	A
Severe stresses: Default base case increase of 50%, recovery rate decrease of 50%	A	BBB-

Source: Fitch

## Model, Criteria Application and Data Adequacy

Fitch has analysed the risk of debtor default in accordance with its “*EMEA Consumer ABS Rating Criteria*”, dated 1 September 2009, available at [www.fitchratings.com](http://www.fitchratings.com). The following information was provided by the originator to support Fitch’s collateral analysis:

- Net loss rate vintages broken down into four sub-categories based on vehicle age (new vs. used) and amortisation type (fully amortising vs. balloon loans) going back to beginning of 2000;
- origination volumes since 2000;
- dynamic loss data going back to beginning 2000;
- dynamic delinquency data since end 2008;
- stratification tables for the final pool cut; and
- the scheduled amortisation of the portfolio.

In addition, Fitch has used performance data collected for the predecessor transactions Driver One to Driver Six.

No default and recovery rate data were available (these are key drivers in the agency’s approach to auto loan transactions). The agency determined these input factors via a peer group comparison and recovery data derived from the predecessor Driver transactions.

Fitch used its proprietary cash flow model to analyse the impact of its default rate, recovery rate, and the respective timing assumptions, as regards the issuer’s ability to meet its debt service under the notes.

## Transaction and Legal Structure

### Issuer & True Sale

Driver Seven GmbH is a bankruptcy remote, limited liability company founded under German law that is jointly and equally owned by three German charitable trusts.

At closing, the issuer purchased loan receivables, as well as additional rights connected with the loan receivables from the seller. The seller also transferred the security title of the financed vehicles under the loan agreements to the issuer.

The issuer has appointed the security trustee to act in the fiduciary interest of noteholders. A first-ranking security interest over the assets of the issuer is granted to the security trustee to secure the issuer’s liabilities.

## Capital Structure & Credit Enhancement

All securitised receivables within the portfolio were discounted with a single discount rate equal to 3.2497% p.a.. The discount rate is based on the following components provided by the different parties:

### Discount Rate Calculation (%)

Swap rate	1.4230
Weighted average note and sub-loan margin	0.7967
Servicing fee	1.0000
Senior expenses	0.0300
<b>Sum</b>	<b>3.2497</b>

Source: Volkswagen Bank GmbH

The servicing fee component equals the amount due to VWB under the servicing agreement. As such, the transaction does not contain excess spread.

At closing, the issuer's assets and liabilities were as follows:

### Driver Seven GmbH Structure

Asset	Amount	Liabilities	Amount	Size as % of receivables' balance
Receivables	546,456,491	Class A	500,000,000	91.5
		Class B	19,100,000	3.5
		Sub loan	24,656,491	4.5
		OC	2,700,000	0.5
<b>Sum</b>	<b>546,456,491</b>		<b>546,456,491</b>	
Cash collateral account	6,830,706	Purchase Price Discount (CCA)	6,830,706	1.25

Source: Fitch, transaction documents

Receivables purchased by the proceeds of the subordinated loan, that has an initial share of 4.5% of the total receivables balance, together with over-collateralisation (0.5%) and the cash collateral account (1.25%) provide credit enhancement to the class B notes of 6.25%. The class A notes are further protected by subordination of the class B notes, leading to CE of 9.75% for the class A notes. The cash reserve, which only at the maturity date will be available to repay outstanding debt, is funded through a purchase price discount.

Compared to Driver Six, the transaction starts with a loss protection that is 1.85% points higher for the Class A and 1.45% points for Class B. In Fitch's view, the increased credit protection is sufficient to cover the agency's loss expectations for the coming quarters and provide sufficient enhancement to support a Stable Outlook on both ratings.

### Interest Rate Swap

At closing, the issuer entered into two swaps to hedge itself against the fixed-floating interest rate mismatch. While it will receive "interest" payments equal to the fixed discount rate on the net present value of the receivables balance, its obligations under the notes are linked to one-month Euribor.

The first swap is referenced to the interest due on the class A notes and the second to interest payments due on the class B notes. The issuer pays a predetermined fixed rate including the note margins, and the swap counterparty pays 1-month-Euribor plus the note margins. Both swaps are linked to the outstanding balance of the respective notes.

## Eligibility Criteria & Concentration Limits

The eligibility criteria stipulate, inter alia, that:

- no loan receivable was overdue as of the cut-off date;
- on the cut-off date, at least two loan instalments were paid in respect of each of the loan contracts;
- each loan contract has a maximum original tenor of 72 months, a minimum remaining term of 18 months and a maximum remaining term of 60 months;
- the total amount of loan receivables will not exceed EUR500,000 in respect of any single obligor; and
- borrowers have either their registered offices or their place of residence in Germany.

In the event of any breach of the eligibility criteria, the seller will have 60 days in which to repurchase the receivables concerned at a price equal to the NPV (calculated using the discount rate mentioned above).

## Priority of Payments

The transaction uses a combined waterfall for principal and interest payments. According to the discount mechanism, there is no excess spread available to cover defaults. Prior to an issuer event of default, distributions are made on each payment date from the available distribution amount in the following order of priority:

### Interest Priority of Payments

Position	Description
1-5	Senior expenses
6	Payments due to the swap counterparty, including termination fees, except where the termination is attributable to the swap counterparty
7	Accrued and unpaid interest on the class A notes
8	Accrued and unpaid interest on the class B notes
9	Replenishment of the CCA to its required amount to cover previous interest shortfall advances
10	Reduction of principal on the class A notes down to the targeted class A note balance (see table, Targeted OC Levels)
11	Reduction of principal on the class B notes down to the targeted class B note balance (see table, Targeted OC Levels)
12	If VWB is no longer deemed to be rated at least 'F3' by Fitch, to credit the cash collateral increase amount to the CCA to secure a potential tax liability (see Tax Risk below)
13	Following a swap termination attributable to the swap counterparty, all amounts due and payable under the swap agreement
14	Amounts payable in respect of accrued and unpaid interest on the subordinated loan
15	To the subordinated lender, until the aggregate principal amount of the subordinated loan has been reduced to zero
16	Remaining balance to the seller

Source: Transaction Documents, Fitch

## Performance Triggers

The notes start to amortise sequentially until the relevant targeted OC levels are reached. If the relevant OC levels equal the relevant targeted level, the class B and the subordinated loan are amortised to maintain the OC at the target levels.

The target levels are dependent on two triggers, which are related to the performance of the portfolio:

## Targeted OC Levels<sup>a</sup>

Trigger (%)	Target OC class A	Target OC class B
Initial available level	8.5	5.0
No trigger breached	11.0	7.0
Level 1 trigger breached	14.0	8.0
Level 2 trigger breached/asset balance amortises below 10%	100.0	100.0

<sup>a</sup> OC is calculated by deducting the CCA from the credit enhancement levels  
Source: Transaction documents

A level 1 trigger is hit if the cumulative losses exceed the following thresholds:

- until the payment date of July 2011: 0.50%; and
- from August 2011 until April 2012: 1.15%. Should the level 1 trigger be breached, the priority of payments will return to a sequential pay-down until either the new targeted OC level is reached or the notes are repaid in full.

A level 2 trigger is hit if the cumulative losses exceed 1.6% at any payment date.

If the level 2 trigger has been breached, or as soon as the notes have reduced below 10% of their initial balance, the amortisation will change back to a sequential order until the final maturity date is reached.

## Cash Collateral Account (CCA)

The CCA available to the issuer is fully funded on the closing date. Up to the maturity date, the CCA will be available to cover potential interest shortfalls. As soon as the maturity date is reached, the CCA is released and outstanding amounts are also available to redeem the notes.

During the amortisation period, the CCA is maintained at its required amount, which is equal to the lower of:

- EUR6.83m (ie 1.25% of the initial asset balance); or
- the outstanding notes' balance.

To secure a potential tax liability, a reserve will be posted by VWB to an issuer account as soon as Fitch deems VWB's Short-Term Rating to be below 'F3' (see *Tax Risk* below).

## Legal Opinions

Fitch has reviewed opinions that cover German and English law to confirm that Fitch's analytical assumptions - which are being factored into the credit analysis with respect to the transaction - are supported by such legal opinions.

## Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

## Asset Analysis

### Originator Overview

VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group (rated 'BBB+' / Stable / 'F2'). VWB's main activities include promoting the automotive sales

of the VW Group (mainly VW, Audi, Seat and Skoda) and strengthening customer loyalty to the VW Group brands. It holds a banking licence, is regulated by the German banking supervisor, Bafin, and is a member of the German Federal Deposit Insurance Fund.

## Loan Products

VWB offers different kinds of financing for new and used cars. Some 17.3% of the initial portfolio balance consists of fully amortising “classic credit” loans, while 82.7% consists of balloon “auto credit” loans.

### *Classic Credit Loans*

This type of financing corresponds to a classic loan agreement. It is financed at a fixed interest rate and with the full amortisation of the loan amount through equal monthly instalments. The annuity is paid until the loan amount, plus interest, has been paid in full.

### *Auto Credit Loans*

Auto credit loan borrowers have three options at loan maturity: (i) to pay off the final balloon payment; (ii) to refinance the final balloon payment; or (iii) to return the vehicle to the dealer: under a guarantee to the seller, the dealer has the obligation to make the final balloon payment. If the dealer defaults and fails to fulfil its duties, the borrower will be liable for the final balloon payment under the loan agreement.

According to a survey conducted by VWB in February 2009, 56% of obligors selected the first option, 15% selected the second option and 29% selected the third option. In most cases, obligors who selected to return vehicles subsequently purchased a new car.

In the past, dealer defaults did rarely happen and borrowers could always return their cars to the dealers who then settled the balloon payments. Hence, historic default data do not reflect scenarios where dealers default. Fitch has therefore considered the impact of a joint default of the dealer and the borrower. For more details on the balloon risk analysis, please see section “*Balloon Loans*” below.

## Underwriting, Servicing and Collections

Fitch meets with VWB on an annual basis to discuss the servicing and origination processes and also to receive updates on changes to the established processes. The last review took place in January 2009. VWB has advised that since then no material changes were made to the underwriting and servicing procedures. Fitch will continue to monitor the servicing and collection processes as part of its ongoing reviews. The agency considers VWB’s underwriting and servicing departments and its procedures to be adequate and capable to exercise all tasks necessary for securitisation transactions.

### *The Private Client Origination Centre/Underwriting (Einzelkunden Neugeschäft)*

Volkswagen Financial Services manages its underwriting and distribution channel through the Private Client Origination Centre (PCOC). The PCOC processes all loans and co-operates/builds relationships with a network of over 2,800 distributors/dealers. PCOC employees must receive three months’ training before carrying out any operational duties. VWFS’s policy is normally to employ people with at least three years’ experience in banking or who hold an appropriate business degree. The PCOC has approximately 90 area managers who are responsible for 40-80 dealers each.

The main in-house systems used by the PCOC are KREDIS (Credit Information System), LEASIS (Leasing Information System), ZGP (Customer Data) and IXOS (Electronic Documentation). All dealers have front-end systems with the same input fields to handle customer enquires.

The application process is fully automated once the dealer has forwarded the loan application, customer profile and information on the vehicle to be financed to the PCOC. The PCOC checks the overall commitment and legal status of the applicant, obtains a credit score from an external credit agency (Schufa, Creditreform, Buerger), scores the applicant based on the internal scoring system, and sends the decision to the dealer. Loans are settled once all the information required to make a decision has been checked for accuracy. All successful applications are processed within 24 hours.

The authority to approve a loan depends on the seniority of staff. For example, a junior loan administrator can approve a loan of up to EUR50,000, while applications greater than EUR50,000 are approved by a senior loan administrator. Loans with a balance greater than EUR175,000 are managed by the special clients' team.

### *The Debt Management Team/ Servicing*

The debt management team is responsible for dealing with delinquent contracts.

Borrowers receive a call from VWFS's call centre eight days after the due date to discuss the reasons why the missed payment has occurred. The obligors receive a reminder letter 12 days after the due date, a second letter 24 days after, and a phone call 28 days later. A third reminder is sent to the borrower 36 days after the due date. The loan can be terminated and transferred to the collection department after a loan contract is more than 53 days overdue.

The debt management team is able to identify the more vulnerable loans through ongoing monitoring, and these are prioritised. The debt management team's call centre consists of 51 full-time employees who will call an obligor immediately after a promise to pay is broken and can approve payment holidays.

### *The Collection Centre/ Collections*

As soon as the contract is terminated it is transferred to the collection centre. The collection centre is responsible for repossession, second-hand vehicle marketing, court collections and charge-offs. It employs two external collection agencies, which are compensated on the basis of their performance and success rates.

Vehicles can earliest be repossessed after the due date of the contract termination. VWFS requires three bids from the dealer network before the vehicle is sold. A court settlement to determine the borrower's outstanding obligation is initiated around four months after the due date, while the foreclosure process normally commences around six months after the due date, and is followed by write-off.

### **Portfolio Summary**

The securitised loan claims have all been originated by the seller and are against German private and commercial entities. The portfolio composition is quite similar to the previous Driver transactions.

The characteristics of the initial portfolio, as of 31 March 2010, are shown in the table left.

The majority of the portfolio consists of VW group vehicles (97.5% VW, Audi, Skoda and Seat). The concentration of vehicle manufacturers is shown in the chart on the left.

The portfolio is well distributed across Germany and shows no significant single borrower concentrations, with the biggest twenty debtors having a total share of 0.33% via 32 loan contracts.

### **Portfolio Credit Analysis**

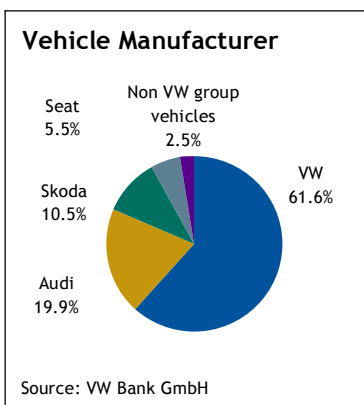
#### **Loss Rate**

Fitch was provided with net loss data in vintage form going back to the beginning of 2000. The data were split into four sub-categories, distinguishing between new and

### **Portfolio Characteristics**

Initial discounted balance (EUR)	546,456,491
Number of loan contracts	41,946
Average balance (EUR)	13,028
WA original term (months)	45.7
WA remaining term (months)	35.4
New vehicles (%)	61.2
Used vehicles (%)	38.8
Direct debit (%)	99.8
Fully amortising (%)	17.3
Balloon loans (%)	82.7
Corporate borrowers (%)	25.4
Retail borrowers (%)	74.6

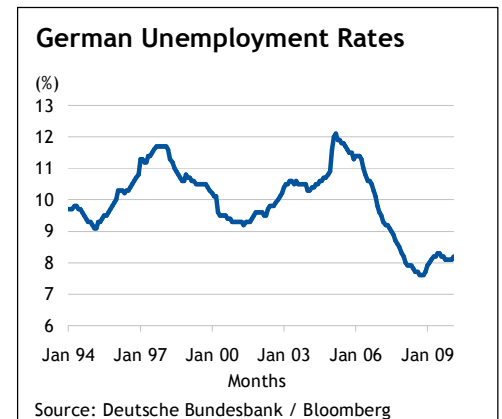
<sup>a</sup> Percentages shown are by asset balance  
Source: Fitch and VW Bank GmbH



used car financings, and balloon (AC-loans) and fully amortising loans (CC-loans). Fitch analysed the vintage curves for all four categories and assigned four separate base-case default rates. In accordance with the eligibility criteria, the agency has derived its base case over the maximum tenor of 72 months. Different default behaviour across the four categories was observed. The differences were as expected by the agency and similar to auto loan portfolios of other originators. The portfolio's overall base-case net loss rate was then calculated based on the portfolio's composition.

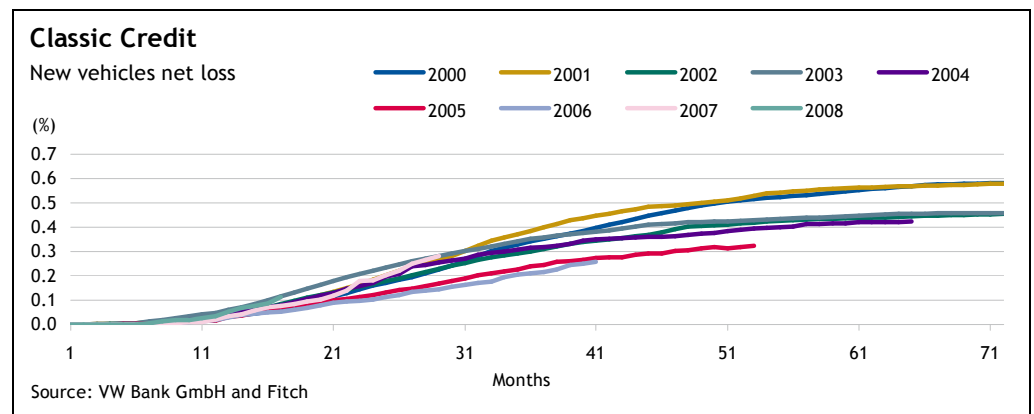
The charts below show the annual performance based on monthly vintages provided by the seller for the four product groups.

In Fitch's opinion, unemployment levels and growth rates are key drivers of Consumer ABS performance. As shown in the chart below, unemployment levels have increased from 2001 to 2005, peaking at 12.1% in Q105 before improving significantly to a bottom level of 7.6% in Q308. Since then, unemployment rates have increased moderately to currently around 8.2%.

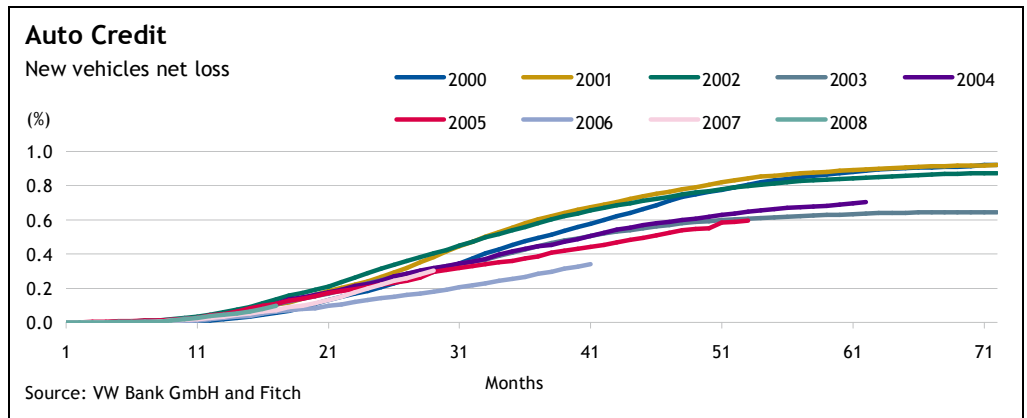


The performance of the provided cohorts reflect the unemployment development: the 2000 to 2002 cohorts generally show the highest loss rates, whereas the 2005 and 2006 cohorts outperformed the previous levels, influenced by both the ongoing improvement of collection, scoring and underwriting processes as well as the favourable economic environment in Germany during this time. The 2007 and 2008 cohorts do not continue the improving trend but to date show net loss ratios in the median range of the historic cohorts. Fitch considers this to be due to the negative economic environment since 2008, characterised by the recession, increased corporate insolvency and slightly increased unemployment rates in Germany. Fitch expects German unemployment rates to further increase to around 8.7% in 2010 and 9.0% in 2011 and expects loss rates in Driver Seven to be higher than the rates seen in the 2004 to 2006 vintages. The base cases set for Driver Seven do reflect the agency's expectation.

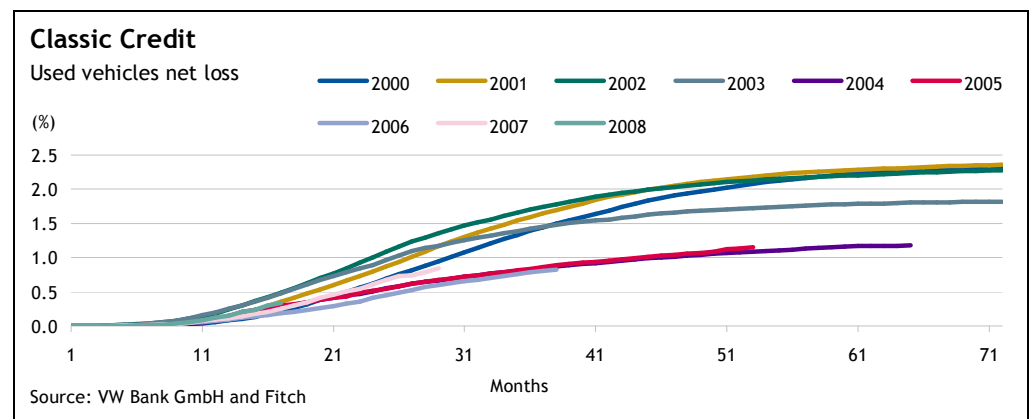
For the classic credit new vehicles portfolio, Fitch has assumed a base case of 0.55%.



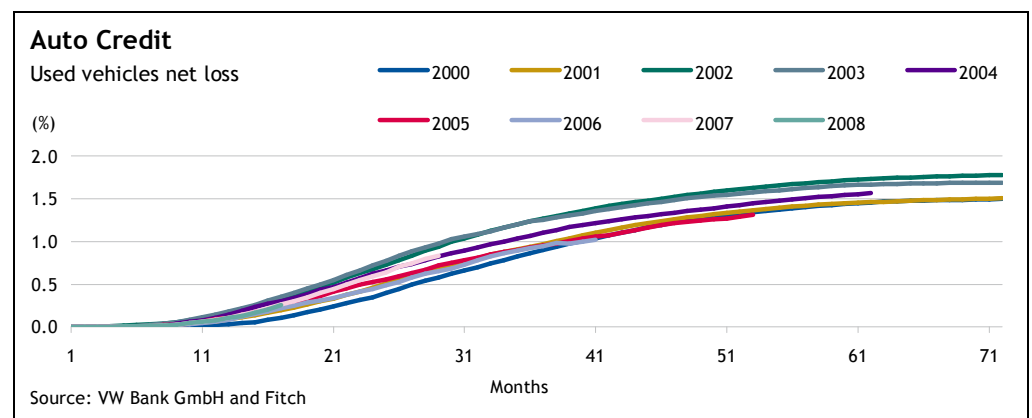
For the auto credit new vehicles portfolio, the 2007 and 2008 vintages are close to the average of all historic vintages. Fitch assumed a base case loss of 0.85%.



For the classic credit used vehicles portfolio, the 2004 to 2006 vintages outperformed the other vintages. The 2007 and 2008 vintages to date perform rather in line with pre-2004 vintages. Fitch assumed a base case assumption of 2.00%.



The historic vintages of auto credit loans financing used vehicles all performed relatively similar. Fitch applied a base case loss of 1.80%.



### Defaults and Recovery Rates

VWB did not provide historic default and recovery rates, only net loss data; thus Fitch determined these values via the following steps:

- four base case loss rates were derived for the different product types (see above);
- base case recovery rate assumptions were assumed based on recovery rate data derived from previous Driver transactions and peer comparison data (base case recovery rates of 62% for new vehicles and 54% for used vehicles were assumed, which are comparable to previous Driver transactions);

- base case default rates were then determined for all four sub-categories based on the base case recovery rates and the four net loss base cases.

## Key Assumptions

Product (%)	Loss base case	Recovery rate base case	Resulting default rate base case	Portfolio share
CC-N	0.55	62.0	1.5	8.3
AC-N	0.85	62.0	2.2	52.9
CC-U	2.00	54.0	4.4	9.0
AC-U	1.80	54.0	3.9	29.8
<b>WA / Total</b>	<b>1.21</b>	<b>58.9</b>	<b>2.9</b>	<b>100.0</b>

Source: Fitch

Typically, the foreclosure process takes between 30 days and six months; therefore, Fitch has taken the view that the time to recovery will be a maximum of six months.

## Defaults and Recovery Stresses

In line with its criteria, Fitch has applied stresses below the median level to the default rate expectation of 2.9% (4.1x for 'AAA' and 2.7x for 'A+'), and recovery stress haircuts below the median (45.0% for 'AAA' and 30.0% for 'A+') to its recovery rate expectation of 58.9%. This is to reflect Fitch's view that the base cases already incorporate a certain level of economic stress. It also takes into account that origination procedures and volumes were relatively stable over the observed period and the pool benefits from a high level of obligor diversity.

## Stressed Assumptions

(%)	Rating default rate	Rating recovery rate	Rating loss rate
AAA	11.7	32.4	7.9
A+	7.8	41.2	4.6

Source: Fitch

## Balloon Loans

Fitch has also considered the additional risks arising from the balloon loans. Should the borrower choose to return the vehicle to the dealer, the dealer is obliged to make the final balloon payment. The borrower will only be liable for this payment if the dealer defaults. Similarly, if VWB does not offer refinancing, the borrower is obliged to pay. If VWB and the dealers default, any borrowers that would have chosen the refinancing or return option are at a higher risk of default. This is because the final balloon payment could cause borrowers to experience a refinancing risk, especially if the residual value of the vehicle is well below the balloon payment.

Fitch has incorporated this risk by applying the joint probability of default of the dealers and the debtors, combined with the haircuts applied for used car prices, in the stressed rating scenarios. When determining the haircuts on used car prices in the event of a default of the dealers and VWB, the agency revised its expectations on achievable car sales prices in the secondary market, based on historical secondary car market data available to the agency. Based on this information, the agency set the residual haircuts to 30.0% for 'AAA' and 21.7% for 'A+'. These assumptions are higher than the haircuts applied to previous Driver transactions.

The resulting loss expectations were added to the necessary level of credit enhancement calculated in the cash flow model (1.0% in 'AAA', and 0.3% in 'A+'). Under the underlying documents, neither the customer nor the dealer has the option to return the vehicle to the issuer, which is why the issuer is exposed to significantly lower residual value risk compared to an auto lease transaction.

## Prepayment Risk

The transaction is exposed to the risk of a shortfall between the interest rate of a prepaid loan and the discount rate for loans whose interest rate is above the discount rate (approximately 62% of the portfolio). Should borrowers of loans with interest rates higher than the discount rate prepay, the difference between the actual interest rate and the assumed discount rate will not be received.

This risk is mitigated by VWB's obligation to make a payment adjustment in such cases and would only become relevant if VWB can not make such payments anymore.

## Financial Structure and Cash Flow Modelling

To analyse the credit enhancement levels available for each rating, the agency ran several scenarios using its proprietary cash flow model to analyse structural elements, such as sequential and pro rata pay-down. Defaults were allocated over the amortisation profile using a default distribution that was first derived from historical vintages; it was then front-loaded to take into account the agency's expectation that the upcoming 12 to 18 months will be the most stressful for the transaction, due to the expected economic downturn. Recoveries were distributed up to six months after the simulated default, thus replicating the maximum foreclosure period. Furthermore, prepayments were considered.

Each rating scenario was tested for rising and falling interest rate stresses and prepayment stresses.

## Default and Recovery Timing

In addition to the timing assumptions derived from historical data, Fitch has tested front- and back-loaded default and recovery timing scenarios. The mechanism that the transaction starts amortising on sequential basis and only switches to pro-rata amortisation if the targeted OC levels are reached (as described above) makes the structure relatively insensitive to changes in default and recovery timing. The available credit enhancement for the class A and B notes is sufficient to pass all tested scenarios. Sensitivity only arises in an extremely back-loaded default timing scenarios, which the agency deems unlikely.

## Interest Rate Stress

Starting with a one-month Euribor rate of 0.50%, Fitch tested increasing, stable and decreasing interest rates in accordance with its stresses, which are updated on a monthly basis (see "*Criteria for Interest Rate Stresses in Structured Finance Transactions*", published 17 February 2010 and available at [www.fitchratings.com](http://www.fitchratings.com)).

The structure is insensitive to changed interest rate environments as the transaction is hedged against the interest rate exposure that arises from the mismatch between the fixed interest bearing portfolio and floating interest payable under the notes.

## Prepayment Rates

Fitch derived its base case prepayment assumptions based on the performance of the current Driver transactions. Prepayments show an increasing trend with the ongoing seasoning of the transaction but were generally at a lower level in the younger Driver transactions.

Based on the expectation for low prepayment ratios in the next years, Fitch applied an annual constant prepayment rate (CPR) base case of 7.5% for year one and two, 10% for year three, and 15% thereafter. The base case rates were stressed upwards and downwards by a factor of 1.5 at 'AAA' and 1.3 at 'A+'.

The structure reacts relatively insensitive to changed prepayment assumptions.

## Key Parties

**Issuer:** Driver Seven GmbH

**Security Trustee:** Wilmington Trust SP Services

**Originator and Servicer:** Volkswagen Bank GmbH<sup>a</sup>

**Issuer Account Bank:** BNP Paribas Securities Services, guaranteed by BNP Paribas (rated 'AA/F1+', Outlook Negative')

**Swap Counterparty:** HSBC Bank plc (rated 'AA'/Stable/'F1+')

<sup>a</sup> VWB is not publicly rated by Fitch. However, the agency has formed an internal credit opinion on the ability of VWB to perform its obligations in accordance with the relevant criteria.

## Counterparty Risk

### Servicing

At closing, VWB will act as servicer. A back-up servicer will not be appointed. VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group (rated 'BBB+'/Stable/'F2').

A servicer replacement event will occur, inter alia, in the following circumstances:

- failure (unremedied for three days) by VWB to make any due payment to the issuer;
- failure (unremedied for three days) by VWB to duly perform any material aspect of its covenants or agreements under the transaction;
- withdrawal of the banking license of VWB;
- insolvency proceedings are commenced against VWB.

On the occurrence of a servicer replacement event, the defaulted servicer will no longer have the authority to collect amounts in its own accounts. Additionally, it shall immediately cancel the direct debit agreements with the borrowers concerned, notifying them of this change. On the occurrence of this event, borrowers will be instructed to make payments directly into the distribution account of the issuer. A servicer dismissal will become effective only after a new servicer has assumed all of its rights and obligations.

The discount rate is calculated using a 1% p.a. servicing fee. Hence, the receivables are purchased at a purchase price which factors in potential back-up servicing expenses. Fitch has modelled the transaction accordingly and deems a 1% p.a. servicing fee to be sufficient to fund a replacement servicer if necessary.

VWB will be entitled to receive any amounts received from loan receivables after the date of their write-off. In Fitch's opinion, the definition of write-off limits the possibility of the servicer accelerating this date, thereby depriving the transaction of expected recoveries.

Due to VWB being a frequent seller in securitisation transactions, Fitch regularly meets with VWB and receives an update of the servicing and origination processes. Fitch deems VWB's servicing procedures and current credit profile adequate for assigning the highest ratings.

In the event of a servicer default leading to collection disruptions, the cash collateral account is available to cover around 5 months of senior cost and interest on the notes, which further mitigates the servicer risk.

### Commingling Risk

From closing onwards, VWB will collect the loan instalments and balloon payments on its own accounts and will forward the collections to the issuer on a monthly basis. This may - in case of VWB becoming subject to insolvency proceedings - lead to funds owed to Driver Seven being commingled with other VWB funds.

When Fitch's internal view of the creditworthiness of VWB is below a level consistent with an 'A'/'F1' rating, an advance mechanism is applied, reducing the commingling horizon to a two-day period. Furthermore, the structure foresees that, if Fitch's internal view of the creditworthiness of VWB falls below a level consistent with an 'BBB+'/'F2' rating, the advance mechanism will be amended to reduce commingling risk to a same-day horizon.

Fitch deems the proposed mechanisms to be in line with its counterparty criteria.

## Set-Off Risk

While providing auto loan products, VWB also offers different deposit accounts to retail customers. This may - in case of VWB becoming subject to insolvency proceedings - lead to borrowers setting off loan payments with deposits held at VWB, and hence the issuer having no recourse against the borrower.

The eligibility criteria exclude borrowers that hold a deposit with VW Bank at the cut-off date. However, borrowers may open an account and deposit funds during the life of the transaction. Set-off risk exposure for the previous Driver transactions is rather limited (ie below 1%). The risk that a borrower offsets its deposits against the loan instalments is partially mitigated by VWB's obligation to post a set-off reserve, if: the total amount of potential set-off risk is greater than 1% of the outstanding asset balance; and VWB is no longer deemed to be investment grade by Fitch. The reserve will be in an amount equal to the potential set-off risk and will be adjusted on a monthly basis.

Although this set-off trigger is at a lower rating level compared to other European securitisation transactions regularly analysed by Fitch, the agency is still comfortable with the trigger levels due to the structural mitigants in place and the relatively low set-off exposure seen for existing Driver transactions. Fitch will closely monitor the set-off risk exposure, which is regularly reported to the agency, and may take rating action should the exposure increase significantly.

## Account Bank

BNP Paribas Securities Services acts as the issuer account bank. As this entity is not publicly rated, a guarantee by its parent company BNP Paribas (rated 'AA'/Negative/'F1+') is provided. The documentation contains downgrade language in line with Fitch's counterparty criteria.

## Interest Rate Swap Counterparty

HSBC Bank plc (HSBC - 'AA'/Stable/'F1+') is the swap counterparty for both swaps. In Fitch's view, the creditworthiness of HSBC is adequate to support the current rating on the notes. Additionally, the agreements already foresee downgrade language in line with Fitch's criteria. For details on Fitch's criteria, please refer to the report "*Counterparty Criteria for Structured Finance Transactions*", published 22 October 2009 and available at [www.fitchratings.com](http://www.fitchratings.com).

## Tax Risk

In June 2004, the Federal Ministry of Finance issued a circular regarding the VAT impact of the purchase of, and collection on, receivables (Factoring Circular).

According to the Factoring Circular, an ABS transaction will not be VAT taxable as long as the assignor also performs the servicing. However, it remains unclear as to whether this relief would continue to apply after the substitution of the initial servicer in this transaction.

Based on legal advice, the agency has taken the view that the issuer could be held liable for VAT on the purchase price discount funded by the seller, because this discount can be considered a taxable service rendered by the seller to the issuer. Hence, the current tax risk amounts to the VAT rate, times the sum of the initial overcollateralisation of 0.50% and the cash collateral account of 1.25% (currently the equivalent of 0.3325% of the original discounted principal balance).

This risk only becomes relevant if the seller ceases to perform the servicing. Therefore, if the credit quality of VWB deteriorates below investment grade, a VAT reserve for the above-mentioned amount will be established using amounts available in the distribution account (after reducing principal to the targeted note balances).

## Performance Analytics

Throughout the life of the transaction, Fitch will monitor the performance of the collateral and any changes at the servicer, or with the structure, that may influence the ratings of the notes.

Fitch will receive monthly servicer reports detailing the performance of the portfolio. These will provide the basis for the agency's surveillance of the performance of the transaction against both base case expectations and the performance of the industry as a whole. The ratings on the Driver Seven transaction will be reviewed by a committee on average every 12 months, or where considered appropriate (eg in the event of a deterioration of performance, an industry - wide development, or a change at VWB that may influence the transaction) with any affirmation or change in the ratings disseminated publicly.

Fitch's quantitative analysis will focus on monitoring the key performance parameters (delinquencies, defaults, recoveries, and prepayment) against the base case assumptions.

Fitch's structured finance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers at [www.fitchratings.com](http://www.fitchratings.com).

Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.

**Appendix A: Transaction Overview**

**Driver Seven GmbH**

Germany/Auto Loans

**Capital Structure**

Class	Ratings <sup>a</sup>	Size (%)	Size (m)	CE (%)	Interest rate (%)	PMT freq.	1 <sup>st</sup> IPD	Final maturity	ISIN/CUSIP
A	AAA	91.50	500.00	9.75	1mE + 0.70	monthly	21 May 10	April 2016	XS0494086845
B	A+	3.50	19.10	6.25	1mE + 1.65	monthly	21 May 10	April 2016	XS0494088460
Subloan	n.r.	4.50	24.66	n.a.	n.a.	monthly	21 May 10	n.a.	n.a.
Overcollateralisation	n.r.	0.50	2.70	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total</b>			<b>546.46</b>						
Cash collateral account (CCA)	n.r.	1.25	6.83	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Cash reserve (=CCA)</b>		EUR6.83m		<b>Credit enhancement</b>	Subordination, subordinated loan, cash collateral account and overcollateralisation				
<b>Scheduled revolving period</b>		none		<b>Swaps</b>	Class A and class B interest rate swaps				

<sup>a</sup> All rated classes have a Stable Outlook  
Source: Fitch

**Key Information**

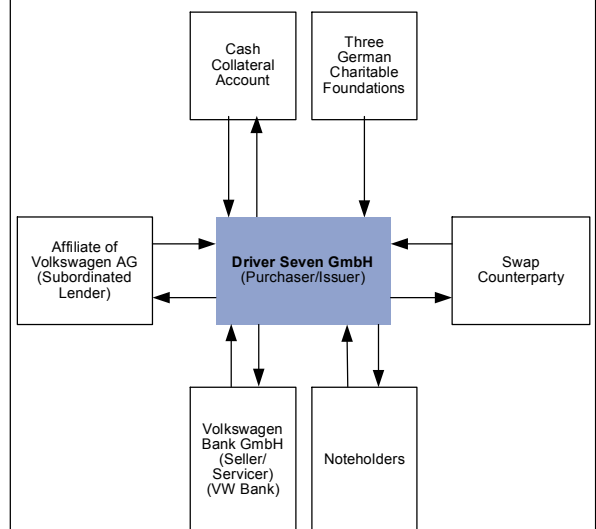
Details	Parties
<b>Closing date</b>	22 April 2010
<b>Country of assets and type</b>	Germany, auto loans
<b>Country of SPV</b>	Germany
<b>Analyst</b>	Uli Maute uli.maute@fitchratings.com
<b>Surveillance analyst</b>	+49 69 768076 238 Uli Maute
	<b>Seller/originator</b> Volkswagen Bank GmbH
	<b>Servicer</b> Volkswagen Bank GmbH
	<b>Backup servicer</b> n.a.
	<b>Issuer</b> Driver Seven GmbH
	<b>Issuer account bank provider</b> BNP Paribas Securities Services, guaranteed by BNP Paribas
	<b>Guarantor</b> n.a.
	<b>Security trustee</b> Wilmington Trust (London) Limited
	<b>Swap counterparty</b> HSBC Bank plc
	<b>Frequency</b> Monthly

Source: Fitch

**Key Rating Drivers**

- **Performance of Underlying Receivables:** the performance of the notes will be affected in particular by default and recovery levels on the underlying receivables. Fitch has analysed the credit and asset value risks and formed a loss rate assumption based on historical data provided by VWB. Stress tests on default and recovery rate expectations were used to analyse the impact on the transaction's cash flows.
- **Static Transaction, Amortising Loans Collateralised by New or Used Vehicles:** the transaction is static. The loan receivables are either fully amortising (classic credit), or include a balloon payment at maturity (auto credit). Both loan products are granted for the purchase of either new or used vehicles.
- **Available Data and Assumptions Made:** to derive its base case assumptions, Fitch analysed static loss data, as no static default vintages or recovery information are available. The transaction has no definition of loss per se, but losses are registered when VWB, as servicer, writes off the loan and hence VW has some discretion regarding the loss allocation.
- **Increased Stress on Balloon Payments:** based on the increased pressure on both the economy and the automotive industry in the past two years, Fitch has revised its expectations on used car prices. This revision has led to a higher balloon payment stress compared to previous Driver transactions.
- **Counterparty Exposure to VWB:** the transaction is dependent on VWB's credit and operational capabilities. This is because the originator will act as servicer and no back-up servicer is envisaged at closing. VWB will further collect the monthly loan instalments to its own accounts, which may cause commingling risk. Risks resulting from a potential default of VWB are reduced by a number of mitigating factors.
- **Asset Outlook:** although Germany's economy has come under significant pressure, the expected increase in the unemployment rate has not yet materialised and no significant performance deterioration in the originator's loan portfolio has yet been observed. However, Fitch expects unemployment to rise over the next 18 to 24 months. As such, the default rates for this portfolio are expected to exceed the levels of the 2004 to 2006 vintages.

**Structure Diagram**



Source: Transaction documents

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