

## Driver Six GmbH

### **€967 Million Asset-Backed Floating-Rate Notes**

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#### **Transaction Summary**

Standard & Poor's Ratings Services has assigned credit ratings to the asset-backed floating-rate notes issued by Driver Six GmbH, a special-purpose entity (SPE) established as a limited liability company in Germany.

German auto loan receivables originated and sold to the issuer by Volkswagen Bank GmbH (VW Bank) back the notes.

The ratings reflect an analysis of the ability of the servicer, VW Bank, to fulfill its role in the transaction and the cash flow mechanics of the transaction assuming various stress scenarios.

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provides protection for the class A and class B noteholders. BNP Paribas S.A. acts in a supporting role as guarantor for the issuer account provider (the Luxembourg branch of BNP Paribas Securities Services). The interest swap counterparty BNP Paribas complies with our criteria for derivative counterparties.

On the closing date, an affiliate of Volkswagen AG (the "subordinated lender") granted to Driver Six a subordinated loan of €28 million (2.8% of the discounted portfolio volume). The subordinated loan serves as credit enhancement to the class A and B notes because it ranks below the notes for payment of interest and principal. This loan is not part of the rated capital structure.

The receivables are purchased at a fixed discount rate of 6.3939%. This discount rate was set so that the cash flow from the assets covers the fixed rates under the swap agreements, plus fees and expenses. No excess spread builds up in the transaction.

### ***Notable Features***

Driver Six is VW Bank's eighth auto loan transaction after five "Driver" and two "Private Driver" transactions. It largely follows the structure of the Driver Five GmbH transaction. Similar to the previous Driver transactions, Driver Six features pro rata amortization of the notes, provided certain performance triggers are fulfilled. On breach of these triggers, the repayment of the notes switches temporarily or permanently to sequential amortization.

Driver Six is—like its predecessor—a non-replenishing structure (static pool) that amortizes from Day 1.

### ***Strengths, Concerns, And Mitigating Factors***

#### ***Strengths***

- VW Bank has a strong market position as one of the largest car-financing companies in Europe, and has more than 50 years of business experience.
- The structure of Driver Six was used for the five previous Driver transactions. These transactions have performed well, so we also expect this transaction, which is very similar in structure and has a similar asset pool, to perform well.
- The portfolio is highly granular and diversified between the federal states in Germany. The final pool cut as of Aug. 31, 2008 comprises 80,521 loan contracts. The largest single-borrower concentration is less than 0.05% and the top 20 loans comprise 0.26% of the portfolio.
- All contracts are current as of the last day of the month preceding the closing date.
- The portfolio does not revolve, so a shift in pool quality due to substitution cannot occur.
- The structure benefits from a cash reserve, which is initially sized at 1.5% of the discounted principal balance, and which amortizes to a floor of €12.5 million. The cash reserve serves primarily as liquidity support to mitigate any liquidity stresses. It ensures the timely payment of interest on the notes, while ultimately serving as credit support.

#### ***Concerns***

- No recovery data was provided.
- There is no excess spread in the structure, as the discount rate is set to match Driver Six's expenses.
- The payment structure is not fully sequential. Subject to certain performance triggers, the principal for the class A and B notes can be paid pro rata. Pro rata redemption of the class B notes causes the credit enhancement available for the class A noteholders to reduce in absolute terms.
- There is commingling risk due to a collection account that is currently in the originator's name rather than the issuer's.
- There is set-off risk for the cash deposits maintained by borrowers whose loans form part of this securitization.

#### ***Mitigating factors***

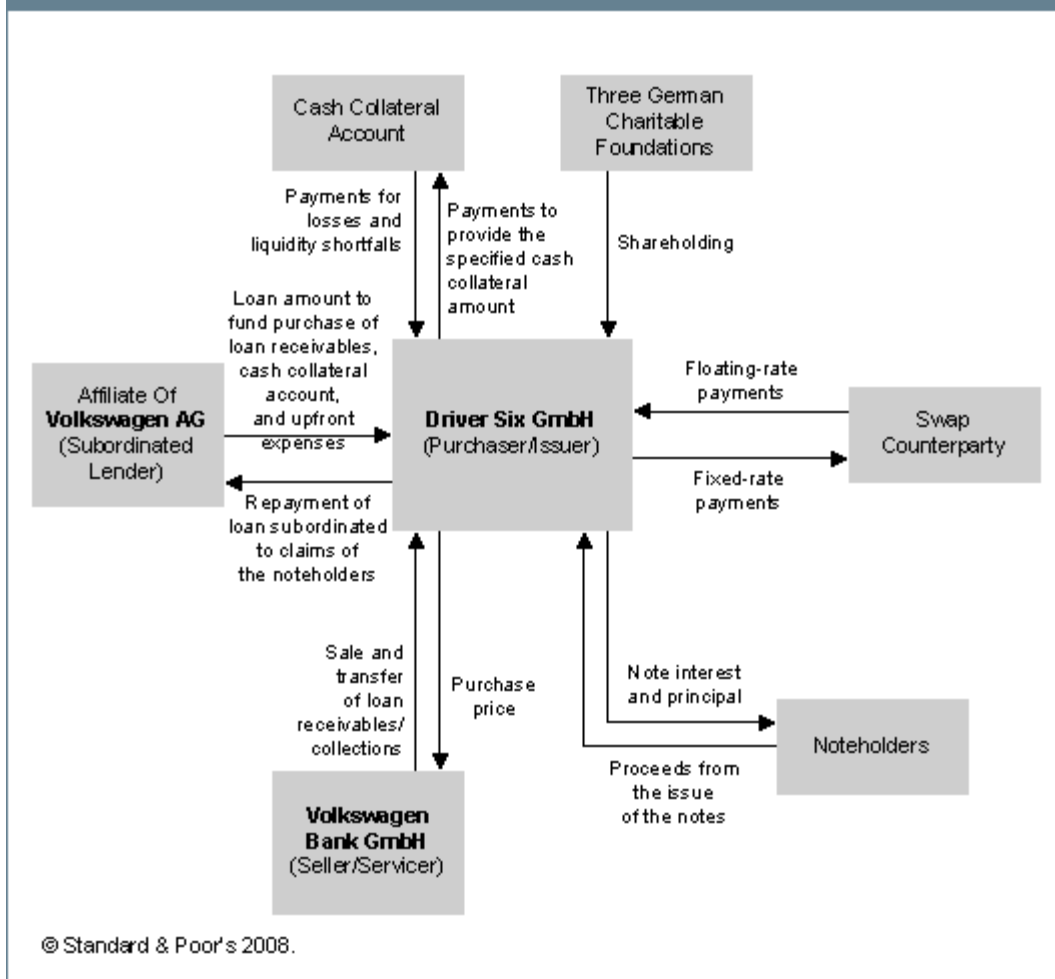
- The available data was used conservatively.
- In addition to the subordinated loan and a cash reserve, credit enhancement is provided through overcollateralization of 0.5%.

- Cash flows were appropriately stress-tested for each rating level, and various performance triggers were set for cumulative net loss rates, mitigating the risk derived from pro rata amortization. A breach of these triggers leads to a temporary switch to sequential repayment to build up additional enhancement. Further deterioration in the performance with cumulative net losses growing to more than 1.6% results in a permanent switch back to sequential note repayment.
- The cash reserve floor was sized and adequately stress-tested to cover the risk of back-loaded losses, and the potential losses on larger contract exposures at the end of the transaction.
- Set-off and commingling risks are mitigated because VW Bank is a supporting party to the transaction. VW Bank is committed to take appropriate action if it is downgraded below 'A-2' in line with our new criteria for support counterparties. In addition, the eligibility criteria state that borrowers whose loans are included in the portfolio may not have money deposited with VW Bank at the time of inclusion.

### ***Transaction Structure***

On the closing date, the issuer purchased the auto loan portfolio (see chart 1). The loan receivables are discounted at a fixed rate of interest, which equal administrative expenses, a servicing fee, the fixed interest rate due to the swap counterparty under the terms of the swaps on the class A notes and class B notes, and the interest due under the subordinated loan.

Chart 1: Driver Six GmbH  
Transaction Structure



### ***Priority of payments***

The class A notes and class B notes pay interest in arrears on a designated date each month at a rate of one-month EURIBOR for euro deposits, plus a margin as shown in the opening ratings table. The transaction has a combined interest and principal priority of payments. On each interest payment date (IPD), the interest on the class A notes is paid before interest is paid on the class B notes. However, class A noteholders only receive principal after interest is paid to the class B noteholders. Amounts standing in the priority of interest and principal payments for the class A and B notes include taxes payable by the issuer, servicing and administrative expenses, and net payments due under the swap agreement.

The notes are initially redeemed sequentially, creating additional overcollateralization for the class A notes. This changes when the credit enhancement reaches 9.1% for the class A notes. If that occurs, amounts relating to scheduled principal due in the previous month and amounts relating to any prepayments received are paid pro rata to the respective noteholders if the portfolio meets certain performance triggers. The first IPD is in October 2008 and the legal final maturity date is in September 2014.

VW Bank can exercise a clean-up call as soon as the portion of the discounted receivables falls below 9% of the discounted receivable balance at closing.

***Credit enhancement***

A combination of overcollateralization, a subordinated loan, a cash reserve, and (for the class A notes only) subordination of the class B notes provides protection for the class A and B noteholders. Performance triggers based on cumulative net losses protect noteholders. Once those performance triggers are hit, notes are redeemed sequentially until the required additional overcollateralization is generated. Overcollateralization percentages for the class A and B notes increase to 11.00% and 7.00%, respectively, as soon as cumulative net losses exceed 0.50% on any payment date before or during December 2009, or 1.15% after December 2009 but before or during September 2010.

If at any time the cumulative net loss ratio exceeds 1.6%, amortization permanently switches to sequential repayment.

***Swap***

Driver Six and the swap counterparty entered into separate swap agreements for the class A and B notes, both of which conform to our swap criteria. Under these swap agreements, the issuer pays interest on the nominal amount outstanding on each distribution date, calculated on the basis of a fixed rate of interest. In exchange, the swap counterparty pays a floating rate of interest (one-month EURIBOR) on the outstanding nominal amount. This amount, together with amounts allocated to principal, is then distributed to the class A and B noteholders.

***Servicing***

The originator and seller, VW Bank, services the loans. VW Bank is a wholly owned subsidiary of Volkswagen Financial Services AG, which in turn is owned by Volkswagen AG. It is the largest auto bank in Germany, with more than 50 years' experience in originating auto loans with German consumers. VW Bank is also active in other retail banking activities (including deposit taking).

***Losses due to prepayments***

As it is a present-value structure, Driver Six is subject to losses due to prepayments. This results from the issuer purchasing the loans at a fixed discount rate, while the intrinsic rates of returns for the individual loans may be higher than that discount rate, resulting in loan purchase prices above par. If any of these loans prepays, the issuer suffers a loss, as the prepayment is done at par. The seller, VW Bank, covers this loss. To stress-test the scenario where VW Bank is not available to take those losses, we have modeled potential losses arising from prepayments and have adjusted the loss assumptions in our models accordingly.

***Commingling and set-off***

Collections on the loan receivables occur monthly. VW Bank has direct debit arrangements for about 99.7% of the pool. As long as VW Bank, as the servicer, is rated at least 'A-2', it is entitled to commingle collections on loan receivables with its own funds. If VW Bank's rating is lowered below 'A-2', the bank must make advance payments to the issuer equal to approximately half a month's interest and principal collections. The cash advances must be paid into an account in the issuer's name

or a VW bank account, but with a sufficiently rated account bank. The cash in this account must be pledged to the issuer. The issuer grants security over this account to the trustee for the noteholders' benefit.

Downgrade language in line with our criteria regarding the bank account provider address bank account commingling risk.

As the debtors of the securitized loan contracts could potentially have cash deposits with VW Bank, there is the risk that borrowers could set off all or part of their payment obligation under the auto loans against claims they might have against the bank. While VW Bank is rated at least 'A-2', it pays to the issuer any amounts set off by borrowers. If the rating on VW Bank drops below 'A-2', VW Bank must fund the set-off risk reserve. This reserve collateralizes the set-off risk and is adjusted monthly. However, the eligibility criteria state that borrowers must not have deposits with VW Bank when their loans are included in the transaction portfolio.

### ***Collateral Description***

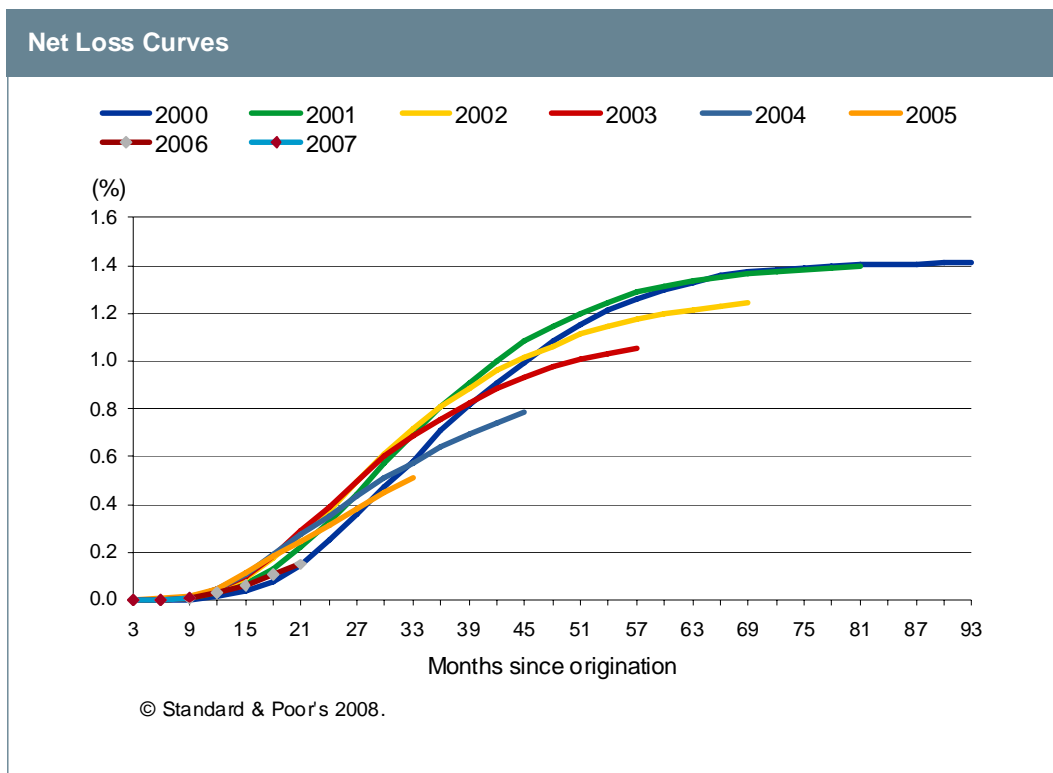
The final collateral pool backing the notes comprises 80,521 loans, with a total discounted principal balance of about €1 billion. The discount rate applied to Driver Six's final pool was 6.39%. The largest single-borrower concentration is less than 0.05% and the top 20 loans comprise 0.26% of the provisional portfolio. The average outstanding balance is €12,419.

No maintenance components are contained in the contracts sold, and no borrower is an affiliate of Volkswagen AG. Each borrower has paid at least two installments. This transaction contains consumer loan contracts (71.2%) and business loan contracts (28.8%). Approximately 19.5% of loan contracts are amortizing and 80.5% incorporate a balloon feature.

Loans have an original maturity of between 23 and 72 months, and the remaining terms are between 18 and 60 months. The securitized portfolio comprises predominantly Volkswagen, VW Nutzfahrzeuge, and Audi vehicles, along with some SEAT and Skoda vehicles. The geographical distribution shows a diversified portfolio, with the highest concentration at 19.4% for residents in North Rhine Westphalia (see map).



Chart 2 shows the cumulative net losses that occurred for the entire pool during the period after the year of vintage. For example, for the 2000 vintage, at 36 months the data shows accumulated net losses for all loans originated in 2000 after three years.



### ***Nature of the loan receivables***

The purchased loan receivables are from vehicle loan contracts originated by VW Bank using Volkswagen, Audi, SEAT, Skoda, and Volkswagen Nutzfahrzeuge dealers as agents, as well as by third parties.

The loan receivables require monthly interest and principal payments in exchange for financing a new or used vehicle. The transaction securitizes two types of loans: (i) the “classic credit” loan, which is paid down over its life in equal monthly installments (amortizing loan), and (ii) the “auto credit” loan, where in addition to equal monthly installments, the loan has a final payment that is significantly higher than the monthly installments (balloon loans).

If the loan contracts provide for a final larger balloon payment, the borrower can settle it either by:

- Paying in cash;
- Selling the vehicle to the car dealer for a purchase price equaling the balloon payment. The dealer settles the balloon payment on the borrower’s behalf. If the purchase price for the financed object is lower than the contractual balloon payment, the car dealer must pay the difference to settle the balloon payment; or
- Refinancing the balloon payment by concluding a new loan with VW Bank. VW Bank settles the balloon payment from the funds of the new loan contract.

### ***Standard & Poor’s Stress Test***

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction. We have sized the credit enhancement after analyzing the effect that various stress scenarios would have on the collateral.

We established the credit support for each class of notes issued by Driver Six based on our standard rating methodology for analyzing consumer finance transactions.

We were provided with quarterly static net loss data starting from the first quarter of 2000 for the four subportfolios: balloon loans for new cars, balloon loans for used cars, amortizing loans for new cars, and amortizing loans for used cars. The data received indicates that amortizing and balloon contracts for new vehicles are performing substantially better than those contracts for used vehicles. Base cases were derived for all four subportfolios, resulting in a weighted-average net loss for the whole portfolio of 1.23%.

The static net loss data indicates the actual write-offs after recoveries, including vehicle sale proceeds and other recovery sources. We were not provided with separate recovery or prepayment data. To get to gross loss numbers, we assumed a recovery rate of 50%.

We made assumptions on the timing of defaults, delinquencies, and prepayment levels. We based these on the standard criteria for European consumer finance transactions and our experience with similar types of assets in other securitizations. When stressing the gross loss base cases, we treated balloon loans more conservatively to account for the overall higher default rates that could be observed for these products compared with the amortizing contracts (see tables 1 and 2 for the base cases and stresses used).

Table 1

<i>Base Cases Used</i>	
	<i>Gross default base cases (%)</i>
Balloon loans (new cars)	1.9
Balloon loans (used cars)	3.2
Amortizing loans (new cars)	1.2
Amortizing loans (used cars)	4.6

Table 2

<i>Stresses Used</i>		
<i>Rating</i>	<i>Gross default multipliers (x)</i>	<i>Recovery haircut (%)</i>
AAA	4 to 5	25 to 35
A+	2 to 3	10 to 20

To determine the effect of pro rata amortization, the cash flow modeling took the performance triggers into account. We calculated losses that might arise due to prepayments for the different rating levels and added these to the loss assumptions used in the cash flow modeling. The ratings address 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. We tested different runs of the cash flows to control the timeliness of payments to noteholders. We applied this throughout the life of the transaction under different stress scenarios and corresponding to different rating levels.

In our cash flow scenarios, we have run different interest scenarios starting at the current level of EURIBOR that increase to scenarios with up to 18% and decrease down to 2%. Given the hedged nature of this transaction, the effect of these interest rate up and down scenarios is not substantial. In addition, we have tested for stressed prepayment rates of up to 16%–20%, depending on the rating level.

### ***Legal Issues—German Business Tax Reform 2008***

On Jan. 1, 2008, the German Business Tax Reform Act 2008 introduced the so-called interest-stripping rules (“*Zinsschranke*”), which limit the tax deductibility of interest. If applied, these limitations could potentially leave the issuer, a German taxpayer, exposed to additional tax liabilities based on a noncash profit.

The exact interpretation and application of the new law in practice remains somewhat unclear. We expect to receive comfort in the form of a legal opinion that the interest stripping-rules should not apply to the issuer. We have also conducted discussions with the Frankfurt tax authorities, which have confirmed (in a nonbinding manner) their intention, based on the reasoning of the law, not to apply the rules to certain types of securitization SPEs, which in our view include the issuer.

### ***Key Performance Indicators***

We monitor the performance of the transaction, checking:

- Any change in the portfolio composition due to amortization, prepayments, and defaults in the pool;
- The recovery proceeds; and
- The build-up of overcollateralization during the life of the transaction.

### ***Criteria Referenced***

- “Revised Framework For Applying Counterparty And Supporting Party Criteria” (published May 8, 2007)
- “European Legal Criteria for Structured Finance Transactions” (published on March 23, 2005).
- “European Consumer Finance Criteria” (published in March 2000).
- “*Auto Loan Criteria*” (published in 1999).

### ***Related Articles***

- “Changes Made, But Challenges Remain: Key Issues Surrounding German True-Sale ABS” (published on Jan. 30, 2006).
- “European Auto ABS Performance Report” (published quarterly).
- “ “ (published on July 7, 2004).
- “Why Structured Finance Ratings Can Change Over Time” (published on July 27, 2006).
- “Default Modelling for European Consumer Asset-Backed Securitizations” (published on June 23, 2003).
- “ “ (published on Feb. 29, 2008).
- “European ABS Outlook 2008—Positive Signs Emerging” (published on Jan. 31, 2008).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor’s credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). The criteria can also be found on Standard & Poor’s Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

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**Ratings Detail**

Class	Rating*	Amount (Mil. €)	Available credit support (%)¶	Interest	Legal final maturity
A	AAA	936	7.9	One-month EURIBOR plus 90 bps per annum	Sept. 21, 2014
B	A+	31	4.8	One-month EURIBOR plus 170 bps per annum	Sept. 21, 2014

\*Standard & Poor's ratings address timely interest and ultimate principal. ¶Available credit support includes a subordinated loan of €28 million (granted by an affiliate of Volkswagen AG (the subordinated lender)). It provides credit enhancement in the form of subordination for the class A and B notes. The subordinated loan is not part of the rated capital structure, and so was not included in the issuance description. In addition, available credit support includes overcollateralization and a cash reserve of 1.5%. EURIBOR—European interbank offered rate.

**Transaction Participants**

Originator	Volkswagen Bank GmbH
Arranger	Volkswagen Financial Services AG and BNP Paribas
Seller	Volkswagen Bank GmbH
Servicer	Volkswagen Bank GmbH
Security trustee	Wilmington Trust (London) Ltd.
Data protection trustee	Wilmington Trust SP Services (Frankfurt) GmbH
Interest swap counterparty	BNP Paribas
Issuer account provider	BNP Paribas Securities Services (Luxembourg)
Collection account provider	Volkswagen Bank GmbH
Subordinated lender	An affiliate of Volkswagen AG
Corporate services provider	Wilmington Trust SP Services (Frankfurt) GmbH
Paying agent	BNP Paribas Securities Services (Luxembourg)

## Supporting Ratings

Institution/role	Ratings
<a href="#">Volkswagen Bank GmbH</a> as collection account provider	A/Stable/A-1
<a href="#">BNP Paribas</a> as guarantor of the issuer account provider and interest swap counterparty	AA+/Stable/A-1+

## Transaction Key Features\*

Closing date	Sept. 30, 2008
Collateral	Auto loan receivables arising under loan contracts with borrowers resident in Germany
Structure	True sale amortizing structure
Country of origin	Germany
Concentration	Highest concentrations: North-Rhine Westphalia (19.4%), Bavaria (13.6%), and Baden-Wuerttemberg (11.3%)
Total receivables, discounted receivable balance (Bil. €)	1
Average current loan size, discounted receivable balance (€)	12,419
Current loan size range, discounted receivables balance (€)	Up to 106,740
Weighted-average seasoning (months)	11.5
Weighted-average asset life remaining (months)	35.4
Discount rate (%)	6.39
Weighted-average interest rate (%)	4.28
Arrears	None
Assets redemption profile	Amortizing loans (19.5%) and balloon loans (80.5%)
Note redemption profile	Sequential or pro rata, subject to compliance with performance tests
Initial cash reserve (%)	1.5
Credit enhancement	Subordination, initial overcollateralization, and cash reserve

\*Based on final pool cut as of Aug. 31, 2008.

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