Presale:

VCL Multi-Compartment S.A., Compartment VCL 31

October 22, 2020

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Preliminary Ratings

Class	Prelim. rating*	Prelim. amount (mil. €)	Overcollateralization and subordination (%)	Cash reserve (%)§	Available credit enhancement (%)†	Interest (%)‡	Legal final maturity
A	AAA (sf)	705.00	6.0	1.2	7.2	1ME + a margin	Sept. 2026
B	AA- (sf)	17.00	3.7	1.2	4.9	1ME + a margin	Sept. 2026
Subordinated loan	NR	TBD	N/A	N/A	N/A	N/A	N/A

Note: This presale report is based on information as of Oct. 22, 2020. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *Our preliminary ratings address timely payment of interest and ultimate principal. §Preliminary amount. †Includes subordination, overcollateralization, and a cash reserve (see the Transaction Key Features table). ‡Subject to a floor of zero. 1ME--One-month Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable. TBD--To be determined.

Supporting Ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
The Bank of New York Mellon, Frankfurt Branch as the transaction accounts provider*	AA-/Stable/A-1+	'A+' if no short-term rating, or 'A-1' short term and 'A' long term	N/A
Interest rate swap counterparty	TBD	TBD	TBD

*Based on the ratings on the parent company, The Bank of New York Mellon. N/A--Not applicable. TBD--To be determined.

Transaction Summary

S&P Global Ratings has assigned its preliminary credit ratings to VCL Multi-Compartment S.A., Compartment VCL 31's (VCL 31) class A and B notes. At closing, VCL 31 will also issue an unrated subordinated loan. Our preliminary ratings address timely payment of interest and ultimate payment of principal on the class A and B notes.

VCL 31's notes will securitize a portfolio of German auto lease receivables, which Volkswagen

Leasing GmbH (VW Leasing) originated to its mostly retail and commercial customer base in the ordinary course of its business. The lease receivables arise from fixed-term, level payment lease contracts, with payments due monthly. The residual values of the leased vehicles corresponding to the lease receivables will not be sold to VCL 31, so no additional residual value risk is present in this transaction.

The transaction is static (i.e., it has no replenishment period), and the notes will start to amortize immediately after closing. Amortization will begin sequentially, but will switch to pro rata after further overcollateralization has built up, assuming no performance triggers are breached.

A combination of subordination, overcollateralization, and a cash reserve will provide credit enhancement to the rated notes. The transaction will not have any excess spread as long as VW Leasing is not insolvent, or a principal deficiency ledger mechanism.

The fixed-to-floating interest rate swap agreement with a suitable counterparty, in line with our counterparty criteria, will mitigate the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate liabilities.

All of the receivables to be securitized have previously been refinanced through the existing warehousing facility, VCL Master S.A. Compartment 1.

The transaction's capital structure will be similar to that of VCL 30. Additionally, the cash reserve will be amortizing at 1.2% of the outstanding asset balance, subject to a floor of 1.0% of the initial discounted pool balance, similar to VCL 24, VCL 26, VCL 29, and VCL 30. In VCL 25, the cash reserve was nonamortizing.

Similar to VCL 30, seller-related risks (German trade tax risks, and value-added tax [VAT] risks) are mitigated by a nonamortizing seller risk reserve (1.10% of the initial discounted pool balance), which VW Leasing will fund at closing. In our view, the seller risk reserve partially mitigates the potential German trade tax risk and VAT risks. Therefore, we have considered the uncovered portion (0.87% of the initial discounted pool balance) as a loss in our cash flow analysis.

As in VCL 24, VCL 25, VCL 26, VCL 29, and VCL 30, an advance mechanism will be applied to address the servicer commingling risk if our short-term issuer credit rating (ICR) on Volkswagen Financial Services AG falls below 'A-2' and our long-term ICR falls below 'BBB'; our long-term ICR on Volkswagen Financial Services falls below 'BBB+' if there is no short-term rating; or we consider that the servicer is no longer deemed eligible under our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). We expect commingling risk to be fully mitigated at closing.

Our preliminary ratings in this transaction are not constrained by our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

We expect the final documentation and the presented remedy provisions at closing to adequately mitigate counterparty risk in line with our counterparty criteria. We also expect that the final documentation will adequately address any operational risk in line with our operational risk criteria.

Changes From The Predecessor Transaction

- The relative size of the class B tranche has increased by 37 basis points (bps) to 2.27% in VCL 31 from 1.90% in VCL 30. At the same time, the relative size of the class A tranche has reduced by 10 bps and the subordinated loan's size has reduced by 27 bps to 3.28% from 3.55%. This has decreased the amount of subordination the class B tranche benefits from by 27 bps, to

3.73% from 4.00%. Our analysis shows nevertheless that the overall credit enhancement for the class B tranche is still sufficient to sustain a 'AA-' rating.

- In light of our macroeconomic outlook for Germany, which forecasts increasing unemployment, we increased the gross loss assumption to 2.25% (an increase of 0.25%). The increase in our base-case reflects our view that the more recent origination vintages included in the securitized pool will experience higher defaults than the older vintages, which were used for our loss extrapolations. However, while we expect higher base-case defaults, we do not currently believe that the expected level of macroeconomic stress warrants an overarching revision to the stressed default assumptions at the 'BBB' rating level or higher. Therefore, we have lowered our stress multiples between 'AAA' and 'BBB', respectively, such that the overall level of stressed losses for these rating levels remains unchanged from VCL 30.

The Credit Story

Strengths

- In our view, VW Leasing has a strong market position as one of the largest leasing companies in Europe, with more than 50 years' business experience.
- The preliminary pool is granular and diversified. As of Aug. 31, 2020, it comprised 88,051 contracts. The largest single lessee concentration is 0.11% and the top 20 lessees comprise just 1.15% of the pool's discounted principal balance.
- As of the pool cut-off date, the pool did not contain any contracts with overdue payments.
- The portfolio will not revolve, so a shift in pool quality due to substitution cannot occur.
- The structure will benefit from an amortizing liquidity reserve, initially sized at 1.2% of the initial discounted pool balance, which will be fully funded at closing. The liquidity reserve will serve primarily as liquidity support to mitigate any cash strains. Ultimately, it is available to repay the notes at the end of the transaction's life.

Concerns and mitigating factors

- Lack of historical default and recovery data: although historical net loss data provided by VW Leasing covers the period between 2010 to June 2020, it nonetheless does not include any default or recoveries information. We have factored this in when deriving credit and stress assumptions.
- The transaction's payment structure will not be fully sequential. Once certain target overcollateralization levels have been reached (and as long as they are maintained), the issuer will pay pro rata principal on the class A and B notes. We have stress-tested appropriate cash flows for each rating level, which included modeling the potential effect of the pro rata payment structure with a back-loaded loss curve.
- The cash reserve will amortize, subject to a floor amount equivalent to 1.0% of the initial discounted pool balance, resulting in diminishing protection for noteholders as the transaction nears maturity. We have incorporated the amortizing feature in our cash flow model to account for its effect on available credit enhancement.
- The transaction will be exposed to commingling risk (as the servicer collects the collections), VAT risk (in accordance with section 13c of the German VAT Act), and German trade tax risk. A specific advance mechanism mitigates commingling risk. To mitigate the other listed risks, the seller will fund at closing a nonamortizing seller risk reserve of 1.10% of the initial discounted pool balance. In our view, the seller's risk reserve partially mitigates potential tax risks. Therefore, we stressed the uncovered portion (0.87% of the initial discounted pool balance) as an additional senior cost in our cash flows.

Asset Description

As of the cut-off date, the preliminary collateral pool backing the notes comprised 88,051 contracts with a total current principal balance of €750 million.

Collateral Key Features*

	VCL 31	VCL 30	VCL 29	VCL 26	VCL 25	VCL 24
Originator	VW Leasing	VW Leasing	VW Leasing	VW Leasing	VW Leasing	VW Leasing
Country	Germany	Germany	Germany	Germany	Germany	Germany
Type of assets	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases
Pool cut-off (date)	Aug. 31, 2020	Feb. 28, 2020	Oct. 31, 2019	Mar. 31, 2018	Oct. 31, 2017	Oct. 31, 2016
Closing date	Nov. 25, 2020	March 25, 2020	Nov. 25, 2019	April 25, 2018	Nov. 27, 2017	Nov. 25, 2016
Pool volume (mil. €)	750	1,000	1,000	1,596	1,596	1,250
Number of receivables	88,051	109,798	107,487	168,630	165,743	114,545
Discount rate or weighted-average yield (%)	5.70	5.70	5.70	5.70	5.70	5.70
Buffer rate (%)	TBD	4.50	4.45	4.50	4.53	4.61
Discount rate minus buffer release rate (%)	TBD	1.19	1.25	1.20	1.17	1.10
Weighted-average original term (months)	39.8	39.8	39.8	39.1	39.2	39.8
Weighted-average remaining term (months)	30.9	31.8	32.0	30.4	30.1	32.5
Weighted-average seasoning (months)	8.9	8.0	7.9	8.8	9.2	7.4
Contract type amortizing (%)	100	100	100	100	100	100
Contract type balloon (%)	0	0	0	0	0	0
New vehicles (%)	90.7	92.7	94.6	95.3	95.2	95.7
Used and demonstration vehicles (%)	9.3	7.3	5.4	4.7	4.8	4.3
Vehicle type: car (%)	100	100	100	100	100	100
Customer type: private (%)	19.1	13.1	11.5	69.5	71.9	72.8
Customer type: commercial (%)	80.9	86.9	88.5	30.5	28.1	27.2
Engine type: gasoline	33.9	31.8	30.1	24.1	N.A.	N.A.
Engine type: diesel	62.5	66.4	68.4	74.4	N.A.	N.A.
Engine type: other	3.6	1.8	1.5	1.5	N.A.	N.A.
Vehicle brand: Audi (%)	31.8	31.7	32.4	33.8	36.1	37.2
Vehicle brand: VW (%)	33.2	34.4	32.7	33.1	33.1	33.9
Vehicle brand: VW LCV (%)	12.9	12.9	14.3	15.9	16	16.9
Vehicle brand: Skoda (%)	14.1	13.8	13.3	13.3	11.4	9.7
Vehicle brand: Seat (%)	7.6	6.7	6.9	3.5	3.2	2.2
Largest geographic concentration	22.6	22.3	22.5	21.7	22.2	21.7
Top 2 geographic concentration	17.1	17.6	17.5	17.7	18	17.8

Collateral Key Features* (cont.)

	VCL 31	VCL 30	VCL 29	VCL 26	VCL 25	VCL 24
Top 3 geographic concentration	15.0	15.1	15.7	15.7	15.3	15.6

*Calculations are according to S&P Global Ratings' methodology and based on the outstanding discounted principal balance.
LTV-Loan-to-value. N.A.--Not available. LCV--Light commercial vehicle. TBD--To be determined.

Chart 1

Geographic Distribution

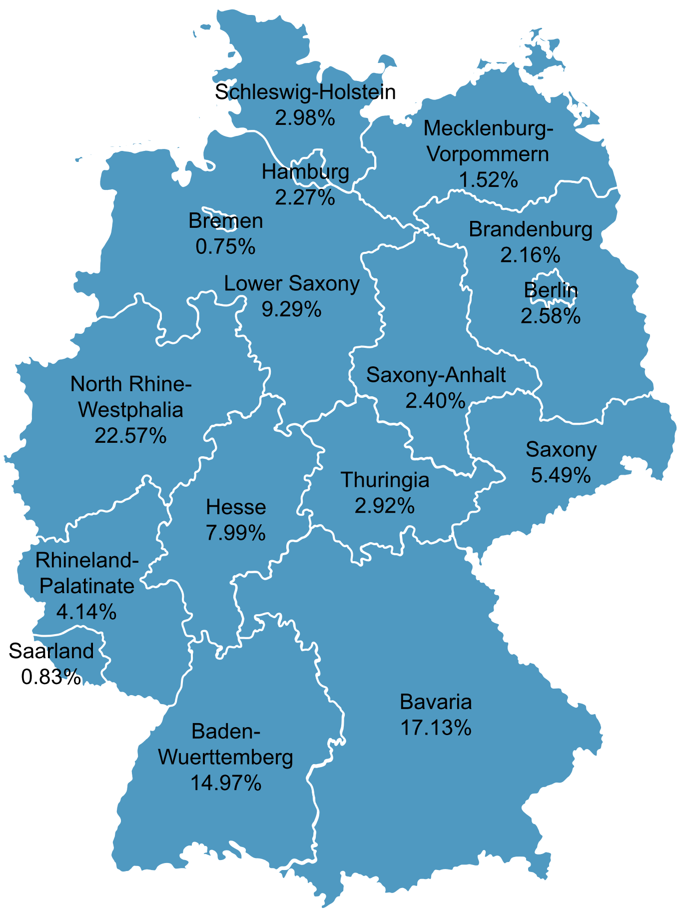
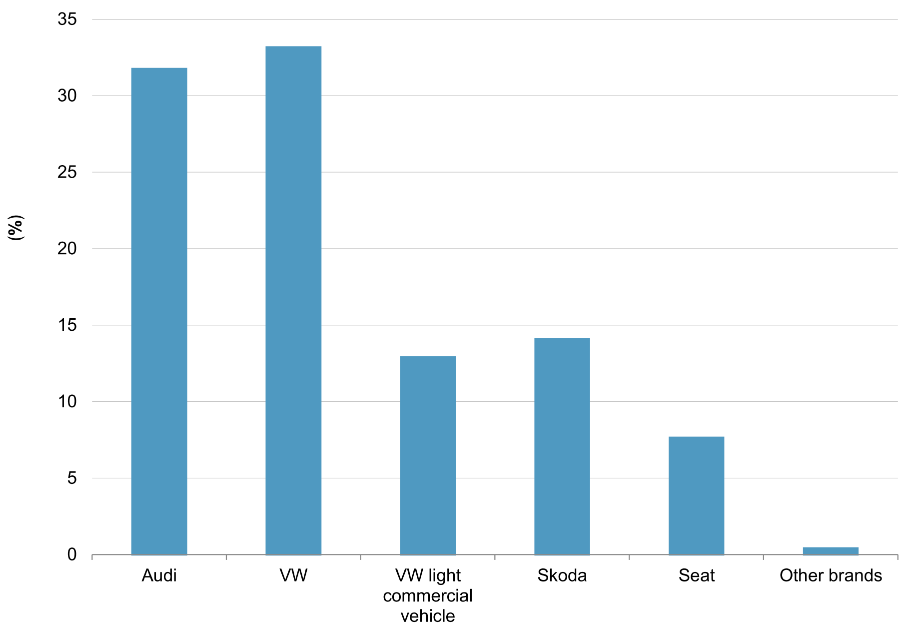


Chart 2

Pool Distribution By Brand
As of Aug. 31, 2020



Eligibility Criteria

The transaction documents set out the eligibility criteria for receivables in the pool. Simplified, these state that:

- Contracts are legally valid and binding agreements and enforceability is not impaired;
- Receivables are denominated and payable in euro;
- The leased vehicles are situated in Germany;
- The seller may freely dispose of the receivables;
- Receivables are free of defenses and from the rights of third parties. Lessees have no set-off claim;
- No receivable was overdue at the cut-off date;
- None of the lessees is an affiliate of Volkswagen AG, Family Porsche Stuttgart, or Family Piech Salzburg Group;
- Contracts are governed by the laws of Germany;
- Lessees have their registered office/place of residence in Germany;
- At least two lease instalments have been paid;
- At least 95% of the leased vehicles are VW, Audi, SEAT, Skoda, or VW Nutzfahrzeuge;

- Lease contracts require monthly payments to be made within 12 to 60 months after origination;
- The total amount of purchased lease receivables due from one and the same lessee does not exceed 0.50% of the initial aggregate discounted pool balance;
- Where applicable, contracts comply with the requirements of the German Civil Code ("Bürgerliches Gesetzbuch") on consumer financing; and
- Acquisition of the leased vehicles by VW Leasing is financed in compliance with the requirements of section 108 (I) sentence 2 of the German Insolvency Code ("Insolvenzordnung").

Nature of the leases

A lease contract comprises two elements. The first, typically the regular lease instalments, relates to the payments from the lessee covering the vehicle's value deprecation for the contract's duration. The second relates to the vehicle's residual value when the lease contract expires. VCL 31 will only purchase the regular lease instalments, and not the residual value. Furthermore, it will also purchase rights associated with the premature termination of a lease receivable or with the transfer of the lease receivable, plus rights to payments from the realization of vehicles. It will not buy rights to insurance premiums, any VAT payments, and the residual value element.

Commercial retail lessees have no contractual right to prepay the lease contract. If VW Leasing allows prepayment, it will pay the outstanding net present value of the future lease payments due to VCL 31, discounted at the rate at which the issuer initially purchased the receivables.

VCL 31 will purchase the lease receivables in this transaction from the VCL Master Compartment 1 securitization, where they have been warehoused. Furthermore, all of the corresponding residual values can be refinanced via the VCL Master Residual Value S.A. Compartment 2 securitization. The legal title over the leased vehicles is held by the trustee of VCL 31.

Originator/Seller

VW Leasing is a limited liability company and has underwritten auto leasing contracts in Germany since 1966. It is wholly owned by Volkswagen Financial Services AG, which in turn is a 100% subsidiary of Volkswagen AG. In the overall car financing market, VW Leasing is the leading captive car leasing provider in Germany. Its objectives are to lease motor vehicles and other movable assets from brands such as Volkswagen, Audi, SEAT, Skoda, and Volkswagen Nutzfahrzeuge vehicles, service-leasing to commercial and non-commercial customers, and leasing of used vehicles of all makes, including demonstration vehicles as used vehicles.

In our view, the company's track record of stable, strong quality asset origination is among the best of all European auto ABS issuers.

Servicing

We conducted an overview of VW Leasing's origination, underwriting, collections, and risk management practices. We consider these to be in line with general market practice and our criteria for assessing operational risk (see "Related Criteria"). In our operational risk analysis, we look at the risk that cash flows may be disrupted following an operational failure of the servicer. Our preliminary ratings on the class A and B notes reflect our assessment of the company's origination policies, as well as our evaluation of VW Leasing's ability to fulfil its role as servicer under the transaction documents. Our structured finance operational risk criteria do not impose any cap on the maximum achievable rating due to operational risks.

The transaction will not have a back-up servicer at closing. We rely on the general availability of servicing in the German market to mitigate the risk of servicing disruption and have applied a stressed servicing fee in our cash flow analysis, in line with market standards.

Credit Analysis and Assumptions

We analyzed the transaction's credit risk under various stress scenarios by applying our European auto ABS criteria (see "Related Criteria").

Economic outlook

In our base-case scenario for Germany, we forecast economic growth to decrease by 5.4% this year and increase in 2021 by 4.7%. In 2022 and 2023, we forecast GDP growth of 2.4% and 1.6%, respectively. At the same time, we expect unemployment rates to increase to 4.3% in 2020 and to 4.5% in 2021, compared with 3.1% in 2019. In our view, the partial unemployment schemes unveiled across Europe will limit the rise in unemployment. We believe changes in GDP growth and the unemployment rate largely determine portfolio default performance. We set our credit assumptions to reflect our worsened economic outlook for Germany.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The current consensus among health experts is that COVID-19 will remain a threat until a vaccine or effective treatment becomes widely available, which could be around mid-2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Defaults

A written-off purchased lease receivable is one that has been reduced by recoveries and that VW Leasing has finally written off in its capacity as servicer in accordance with its customary accounting practice. The net loss definition used in the performance data is in line with the net loss definition used in the transaction documents.

Cumulative net losses (VW Leasing's own books)

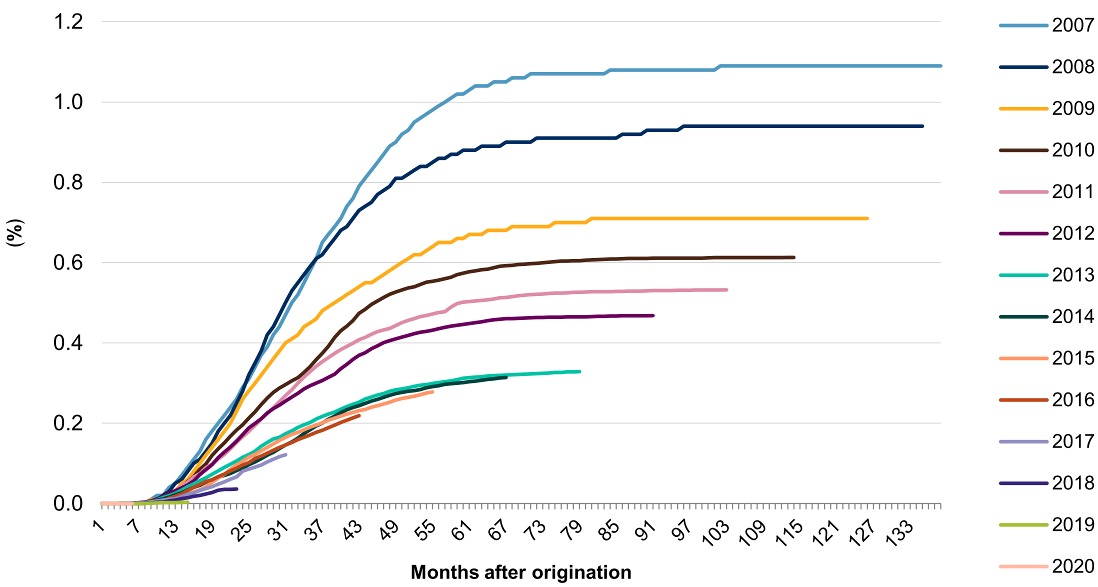
We received monthly static net loss data, showing cumulative net losses (i.e., actual write-offs after recoveries) as a percentage of VW Leasing's origination volume in its entire lease book. The data range is from April 2007 to June 2020. The originator did not provide us with separate recovery or prepayment data. To arrive at a gross loss proxy, we "gross up" the net loss data, using a recovery rate assumption of 60%, which we derived from the historical recoveries of other VCL transactions.

We have also used the performance information available from the predecessor transactions. The quality of data provided is in line with our standards in relation to quality, timeliness, and reliability.

Performance in the originators' books has significantly improved between 2007 and 2017 and has stabilized at very low levels since then (see chart 3).

Chart 3

Cumulative Net Losses (VW Leasing's Own Books)



Based on the historical performance of receivables originated by VW Leasing and of the outstanding VCL transactions, we sized an average net loss of 0.80% for the pool. We then derived a gross loss assumption of 2.00% by assuming a 60% recovery rate. In light of our macroeconomic outlook for Germany, which forecasts increasing unemployment, we increased the gross loss assumption to 2.25% (an increase of 0.25%). The increase in our base-case reflects our view that the more recent origination vintages included in the securitized pool will experience higher defaults than the older vintages, which were used for our loss extrapolations. However, while we expect higher base-case defaults, we do not currently believe that the expected level of macroeconomic stress warrants an overarching revision to the stressed default assumptions at the 'BBB' rating level or higher. Therefore, we have lowered our stress multiples between 'AAA' and 'BBB', respectively, such that the overall level of stressed losses for these rating levels remains unchanged from VCL 30.

Therefore, to keep the overall level of gross losses unchanged, we applied our base-case multiples of 3.822x and 2.637x for defaults at the 'AAA' and 'AA-' rating levels, respectively.

Recoveries and recovery timing

Moreover, we sized stressed recoveries of 40% for all rating levels based on recovery data provided for previous VCL transactions and a peer comparison with other German auto leasing transactions. Our recovery rate assumption already incorporates the risk of deterioration in the diesel vehicles realization values.

Under our European auto ABS criteria, we apply a uniform stressed recovery rate at all rating levels. We establish recovery rate assumptions based primarily on an analysis of historical recovery rates for the issuer and the market, the volatility of past performance as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. Typical stressed recovery rates assumed are in the range of 30% to 45%.

Table 1 summarizes our credit assumptions.

Table 1

Credit Assumption Summary

Rating level	Net loss base case (%)	Recovery rate (for gross up) (%)	Gross loss base case (%)	Multiple	Stressed cumulative default rate (%)	Stressed recovery rate (%)*	Stressed cumulative net losses (%)
AAA (sf)	0.80	60	2.25	3.822	8.60	40	5.2
AA- (sf)	0.80	60	2.25	2.637	5.93	40	3.6

*100% of recoveries are realized nine months after default in our cash flow assumptions, and we assume no lag for residual value recoveries.

Residual value risk

VCL 31 is not exposed to direct residual values. Hence, there is no additional residual value risk in this transaction.

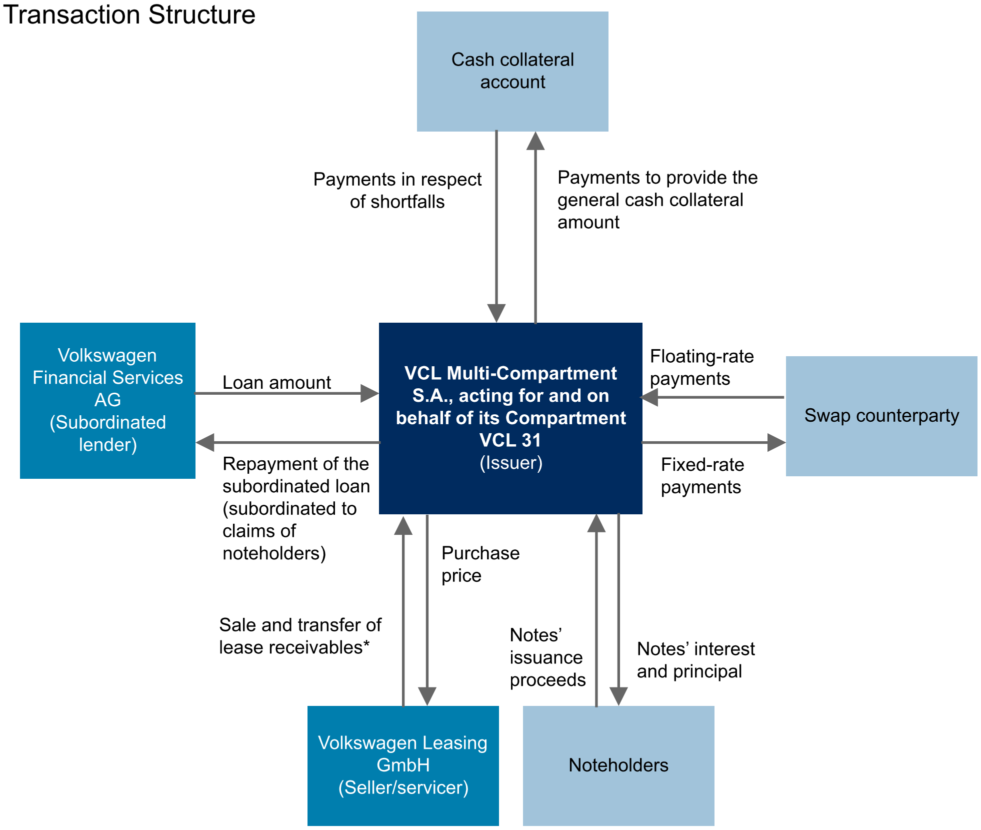
Transaction Structure

At closing, the issuer will buy a pool of auto lease receivables with a net present value of an amount to be determined. The lease receivables will be discounted at a fixed rate of 5.7016%. However, the effective interest available to the issuer will be reduced in a way to leave no excess spread in the transaction, unless VW Leasing becomes insolvent. Therefore, interest receipts will be equal to the sum of:

- The weighted-average interest due to the swap counterparty under the terms of the swaps on the class A and B notes;
- The interest due under the subordinated loan; and
- Administrative expenses and a servicing fee.

Chart 4

VCL Multi-Compartment S.A., Compartment VCL 31
Transaction Structure



*Currently held by VCL Master S.A. acting for and on behalf of its Compartment 1 pursuant to the receivables purchase agreement / distribution of collections.

The issuer is a Luxembourg special-purpose entity, which we consider to be bankruptcy remote under our legal criteria (see "Related Criteria"). We anticipate that the transaction legal opinion at closing will confirm that the sale of the assets would survive the seller's insolvency.

Cash Flow Mechanics

Priority of payments

The class A and B notes will pay interest in arrears on a designated date each month, at the Euro interbank offered rate (EURIBOR) plus a respective margin. The first interest payment date (IPD) will be on Dec. 21, 2020, and the legal final maturity of the notes will be in September 2026.

On each monthly IPD, the issuer will apply to the priority of payments any asset collections (less the buffer release amount), net swap receipts, and amounts drawn from the cash reserve from the previous month, in the order outlined in table 2.

Table 2

Priority Of Payments (Simplified)

1	Taxes and payments to the trustee.
2	Senior fees, including payments to the corporate services provider, data protection trustee, and servicer.
3	Payments to the account bank. Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party).
4	Interest on the class A notes.
5	Interest on the class B notes.
6	Top-up cash reserve (only if drawn upon previously).
7	Class A notes' principal (sequential or pro rata).
8	Class B notes' principal (sequential or pro rata).
9	Payments to the swap counterparty not paid above.
10	Interest on the subordinated loan.
11	Principal on the subordinated loan.
12	Final success fee to VW Leasing.

Repayment of the notes

From closing, the issuer will redeem the notes sequentially until it reaches the target overcollateralization levels for the class A and B notes. Once the target overcollateralization levels have been reached, the transaction will switch to pro rata pay-down. Moreover, the transaction will switch back to sequential pay-down if there is a credit enhancement increase condition level 1 or level 2 (see table 3), or if the servicer becomes insolvent.

The target overcollateralization levels would increase if one of the following performance triggers is breached:

- Trigger level 1: The cumulative net loss ratio exceeds 0.50% before or during February 2022 or 1.15% between February 2022 (exclusive) and November 2022; or
- Trigger level 2: The cumulative net loss ratio exceeds 1.6% at any time.

Table 3

Overcollateralization Levels

	Actual overcollateralization (%)	Target overcollateralization levels (%)		
	At closing	**No trigger breach**	**Trigger level 1 breached**	**Trigger level 2 breached**
Class A	6.0	12.25	14.00	100.00
Class B	3.7	7.50	8.25	100.00

Event of default

If interest on the most senior notes outstanding is not paid timely or principal is not fully paid by the legal maturity, the noteholders or the trustee can call an event of default. This could lead to multiple events, such as the swap terminating (with the issuer needing to make termination payments), and the post-enforcement priority of payments being applied. However, we consider these events as rating remote, and as such, we do not model the post-enforcement priority of payments in our analysis. If the trustee were to call an event of default, it could affect the transaction's cash flows.

Cash reserve

The issuer will deposit 1.2% of the initial discounted asset balance as a general cash reserve at closing. Amounts deposited in the general cash reserve account will be available to bridge any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. On the scheduled maturity date, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve will amortize at 1.2% of the outstanding discounted asset balance, subject to a floor amount of 1.0% of the initial discounted asset balance.

Funds in this account can only be invested in cash. After all the lease receivables and notes have been repaid, VW Leasing is entitled to any outstanding balance in the cash collateral account.

Excess spread

There is no excess spread in the transaction. All receivables are discounted using a rate equal to 5.7016%. We calculated this number for VCL Master Compartment 1 in order to cover swap, interest and costs, and a buffer in case of increased interest cost for the warehouse facility prior to the subsequent sale to VCL 31. The difference between the 5.7016% discount rate and total interest (i.e., swap payments) and senior costs for this transaction is taken out of the available distribution amount prior to applying the waterfall sequence. Following the servicer insolvency, the buffer component will not be released, and it will be considered as cash available to the issuer.

Interest rate mismatch-swap

At closing the issuer will also enter into fixed-to-floating interest rate swap agreements with a swap counterparty to hedge the risk between the assets' fixed-rate interest and the notes' floating-rate interest for the class A and B notes. Under the swap agreements the issuer pays a fixed rate on the class A and B notes' agreements. The swap counterparty pays one-month EURIBOR plus a class-specific margin. The notional in both contracts is the class A and B outstanding note balance, respectively.

Mitigation Of Seller Risks

Commingling risk

An advance mechanism will be applied to address the servicer commingling risk if our short-term ICR on Volkswagen Financial Services falls below 'A-2' and our long-term ICR falls below 'BBB'; our long-term ICR on Volkswagen Financial Services falls below 'BBB+' if there is no short-term rating; or we consider that the servicer is no longer deemed eligible under our counterparty criteria. We expect commingling risk to be fully mitigated at closing.

Setoff risk

The transaction's eligibility criteria for the pool exclude leases granted to VW employees, thereby mitigating employee setoff risk. We also do not believe any setoff would arise from lessee deposits, insurance, or maintenance/servicing agreements. Lastly, we are not currently aware of any setoff claims that have arisen due to vehicle defects. As part of our ongoing surveillance of the transaction, we will monitor any potential setoff that could arise because of vehicle recalls, and consider the mitigating factors available at that time to determine any potential ratings impact.

Trade tax risk

Similar to VCL 30, seller-related risks (German trade tax risks, and VAT risks) are mitigated by a nonamortizing seller risk reserve (1.10% of the initial discounted pool balance), which VW Leasing will fund at closing. In our view, the seller risk reserve only partially mitigates the potential German trade tax risk and VAT risks. Therefore, we have considered the uncovered portion (0.87% of the initial discounted pool balance) as a loss in our cash flow analysis.

Cash Flow Assumptions

In our cash flow modeling of this transaction, we applied stressed losses equally for a period of 16 months. We also ran a back-loaded loss curve to test the impact of the pro rata pay-down mechanism on the available credit enhancement. We stressed the prepayment rates, and ran interest rate scenarios at current levels (with a 0% floor), down to 0%, and up to 12%. The model incorporates the potential pro rata amortization of the notes, and the amortizing features of the cash reserve. We did not model commingling losses because we consider that the advance mechanism will fully mitigate these losses. We also modeled potential tax payments for 0.87% of the portfolio's initial discounted value because we consider that the seller risk reserve only partially mitigates the related risk. In addition, we modeled the cash credit enhancement's erosion due to negative interest rate scenarios.

Table 4

Cash Flow Assumptions

Recession start	At closing
Length of recession	WAL (16 months)
Cumulative gross loss curve 1	Evenly distributed over WAL
Cumulative gross loss curve 2	Back loaded
Recovery lag	9 months
Delinquency	Two-thirds of credit losses recovered six months later*
Stressed servicing fees (%)	1.03
Fixed fees (£)	100,000
Replacement bank cost	80,000*

Table 4

Cash Flow Assumptions (cont.)

Other Fees (insolvency administrator incentive fees) (%)	1.0*
Prepayments (high/low)(%)	20.0/0.5
Interest rate	Up: current to 12% with 2% monthly increaseDown: current to 0% with 2% monthly decreaseFlat: at current level
Initial WAC (%)	TBD
Relative WAC compression (%)	N/A
Commingling stress	None, mitigated through cash advancing

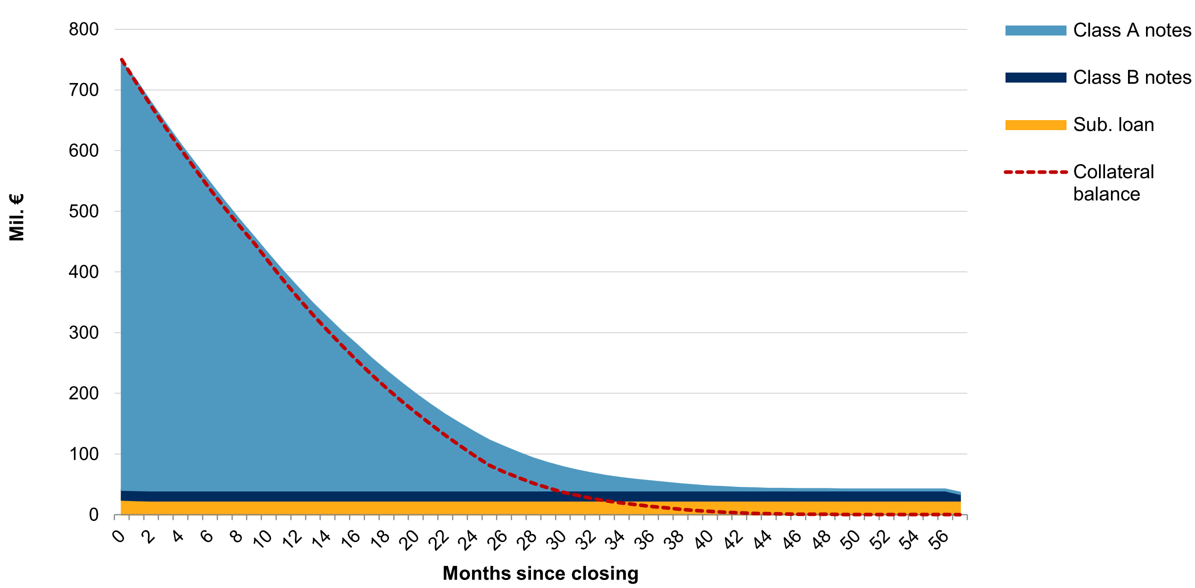
*Calculations are according to S&P Global Ratings' methodology. WAL--Weighted average life. WAC--Weighted average coupon. N/A--Not applicable. TBD--To be determined.

The ratings scenarios 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.

Chart 5 below shows the collateral and the note amortization profile under our most stressful scenario.

Chart 5

Collateral And Note Balances (End Of Period) In A 'AAA' Rating Scenario



Counterparty Risk

Our preliminary ratings also reflect that the replacement mechanisms to be implemented in the transaction documents will adequately mitigate the counterparty risks to which the transaction is exposed. We expect the final documentation and the presented remedy provisions at closing to adequately mitigate counterparty risk in line with our counterparty criteria.

Sovereign Risk

Our long-term unsolicited sovereign rating on Germany is 'AAA'. Therefore, our preliminary ratings in this transaction are not constrained by structured finance sovereign risk.

Scenario Analysis

We analyzed the effect of a moderate stress on the credit variables (recovery rates and prepayment rates) and its ultimate effect on our ratings on the notes. We ran two scenarios to test the rating's stability, and the results are in line with our credit stability criteria (see tables 6 and 7).

Table 6

Scenario Stresses

12-month stress horizon			
Rating variable	**Base case**	**Scenario 1**	**Scenario 2**
Gross loss rate (%)	2.25	2.25	2.25
Stressed recovery rate (%)	40.00	30.66	24.44
Constant prepayment rate (%)	10.00	8.0	6.7

Table 7

Scenario Stress Analysis: Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA (sf)	AA+ (sf)
	B	AA- (sf)	A(sf)
Scenario 2	A	AAA (sf)	AA- (sf)
	B	AA- (sf)	BBB+ (sf)

Monitoring And Surveillance

As part of our ongoing surveillance of this transaction, we will regularly assess:

- The performance of the underlying pool, including defaults, delinquencies, and prepayments;
- The supporting ratings in the transaction; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Appendix

Transaction participants

Transaction Participants

Seller and servicer	Volkswagen Leasing GmbH
Arranger	Crédit Agricole Corporate and Investment Bank
Lead managers	Credit Agricole Corporate and Investment Bank, MUFG Bank Ltd and RBC Capital Markets.
Security trustee	Intertrust Trustees GmbH
Expectancy rights trustee	Wilmington Trust (London) Ltd.
Corporate services provider	Circumference FS (Luxembourg) S.A.
Bank account provider and cash administrator	The Bank of New York Mellon, Frankfurt Branch
Principal paying agent, calculation agent and interest determination agent	The Bank of New York Mellon, London Branch
Data protection trustee	Data Custody Agent Services B.V.
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Swap counterparties	To be determined

Related Criteria

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

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- European Auto ABS Index Report Q2 2020, Sept. 8, 2020
- European Structured Finance Outlook H2 2020: Weathering The Storm, July 28, 2020
- European Economics Snapshots: The Eurozone Will Recovery Only Gradually, July 24, 2020
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- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009