S&P Global Ratings

Research

Presale:

Volkswagen Auto Lease Trust 2024-A

March 14, 2024

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Preliminary amount (mil. $)	Preliminary amount, if upsized (mil. $)	Expected legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	215.00	258.00	March 20, 2025
A-2-A/A-2-B(ii)	AAA (sf)	Senior	Fixed/floating	482.50	579.00	Dec. 21, 2026
A-3	AAA (sf)	Senior	Fixed	482.50	579.00	June 21, 2027
A-4	AAA (sf)	Senior	Fixed	70.00	84.00	Dec. 20, 2028

Note: This presale report is based on information as of March 14, 2024. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i)The actual coupons of these tranches will be determined on the pricing date. (ii)The class A-2 notes may be split into fixed-rate class A-2-A and floating-rate class A-2-B notes. If a floating-rate tranche is issued, the rate will be based on 30-day compounded average SOFR. The allocation of the principal amount between the class A-2-A and A-2-B notes will be determined on the pricing date. If class A-2-B notes are issued, the principal amount is not expected to exceed $241.25 million ($289.50 million if upsized).

Profile

Expected closing date	March 27, 2024.
Collateral	Prime automobile lease receivables.
Originator, servicer, sponsor, and administrator	VW Credit Inc., a wholly owned subsidiary of Volkswagen Group of America Inc., which is a wholly owned subsidiary of Volkswagen AG (BBB+/Stable/A-2).
Issuing trust	Volkswagen Auto Lease Trust 2024-A.
Origination trust	VW Credit Leasing Ltd.
Depositor	Volkswagen Auto Lease/Loan Underwritten Funding LLC, a Delaware limited liability company and a wholly owned special-purpose subsidiary of VW Credit Inc.
Indenture trustee	Citibank N.A. (A+/Stable/A-1).
Owner trustee	Deutsche Bank Trust Co. Delaware (A/Stable/A-1).
Origination trustees	U.S. Bank Trust Co. N.A. (A+/Stable/A-1) and Wilmington Trust Co. (A-/Stable/A-2).
Delaware trustee	Wilmington Trust Co. (A-/Stable/A-2).
Bank account provider	Citibank N.A. (A+/Stable/A-1).

Rationale

The preliminary ratings assigned to Volkswagen Auto Lease Trust 2024-A's (VALT 2024-A's) asset-backed notes series 2024-A, reflect our view of:

- The availability of approximately 22.2% credit enhancement in the form of 14.00% overcollateralization, which will build to a target of 15.50% of the initial securitization value; a 0.25% nonamortizing reserve account; and excess spread (all percentages are measured in terms of the pool's initial aggregate securitization value);
- The expectation that under a moderate 'BBB' stress scenario, all else being equal, our preliminary 'AAA (sf)' ratings will be within our credit stability limits (see the Cash Flow Modeling Assumptions and Results section);
- The timely payment of interest and principal by the designated legal final maturity dates under our stressed cash flow modeling scenarios, which we believe are appropriate for the assigned preliminary ratings;
- The credit quality and residual-value characteristics of the securitized pool of prime auto lease receivables together with our view of the credit risk and residual-value risk of the collateral pool, our updated macroeconomic forecast, and forward-looking view of the auto finance sector (see the Credit Enhancement And Collateral and the Macroeconomic And Auto Finance Sector Outlook sections);
- The historical credit performance and residual value realization of relevant previous transactions by the same originator;
- Automotive Lease Guide's (ALG) forecast of the vehicles' current residuals and residual value at lease inception;
- The series' bank accounts at Citibank N.A., which do not constrain the preliminary ratings;
- Our operational risk assessment of VW Credit Inc. (VW Credit) as an originator, servicer, and administrator, along with our view of the company's experience and track record in underwriting, servicing, residual setting, and remarketing;
- Our assessment of the transaction's potential exposure to environmental, social, and governance (ESG) credit factors, which are in line with our sector benchmark; and
- The transaction's payment and legal structures.

Our expected cumulative net credit loss for VALT 2024-A is 0.85%, which reflects the performance of the outstanding VALT transactions, our view of the collateral pool's characteristics, our static pool loss projections for VW Credit's lease originations, and our macroeconomic outlook, among other factors. Our 'AAA' stressed credit loss is 4.25% of the securitization value.

Our 'AAA' residual haircut for the VALT 2024-A pool is 28.35% of the pool's aggregate undiscounted base residual value, or 17.52% (17.51% if upsized) of the initial aggregate securitization value. In deriving our residual stress, we considered the base residual value of the leased vehicles in the pool compared to its historical retention values. We also considered the pool's residual maturity profile, the vehicle concentration, the vehicle segment concentration, ALG's residual forecasts, the historical retention values of Volkswagen and Audi vehicles, and our economic and industry outlooks (see the S&P Global Ratings' Stressed Losses section).

Our total stressed losses (credit and residual) are approximately 21.77% (21.76%, if upsized) at the 'AAA' level as a percentage of the initial aggregate securitization value. In our view, the credit enhancement provides adequate support for our assigned preliminary ratings (see the Cash Flow Modeling Assumptions and Results section).

Environmental, Social, And Governance

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

In our view, the exposure to ESG credit factors in this transaction is in line with our sector benchmark. Environmental credit factors are generally viewed as above average given that the collateral pool primarily comprises vehicles with internal combustion engines (ICEs), which emit pollutants that contribute to climate transition risks. While the adoption of electric vehicles and future regulation could in time lower ICE vehicle values, we believe that our current approach to evaluating recovery and residual values adequately accounts for vehicle values over the relatively short expected life of the transaction. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

Credit Enhancement And Collateral

Structural changes from VALT 2023-A

- While the initial overcollateralization amount is maintained at 14.00%, the target overcollateralization amount decreased to 15.50% from 16.00%.
- The securitization discount rate decreased to 10.70% from 12.00%, contributing to a decrease in pre-pricing per annum excess spread to 4.06% from 5.01%.

Table 1 shows the credit enhancement changes from recent transactions.

Table 1

Credit enhancement summary(i)

	VALT 2024-A	VALT 2024-A (if upsized)	VALT 2023-A	VALT 2022-A (ii)	VALT 2020-A	VALT 2019-A
Overcollateralization (%)						
Initial	14.00	14.00	14.00	14.00	14.00	15.00
Target(iii)	15.50	15.50	16.00	16.00	15.25	16.25 (15.25)
Reserve account (%)						
Initial	0.25	0.25	0.25	0.25	0.25	0.25
Target	0.25	0.25	0.25	0.25	0.25	0.25
Total initial hard credit enhancement (%)	14.25	14.25	14.25	14.25	14.25	15.25
Total target hard credit enhancement (%)(iv)	15.75	15.75	16.25	16.25	15.50	16.50 (15.50)

Table 1

Credit enhancement summary(i) (cont.)

	VALT 2024-A	VALT 2024-A (if upsized)	VALT 2023-A	VALT 2022-A (ii)	VALT 2020-A	VALT 2019-A
Discount rate (%)	10.70	10.70	12.00	9.50	6.75	7.75
Estimated excess spread per year (%)(v)	4.06	4.06	5.01	5.21	5.07	4.18
Initial aggregate securitization value ($)	1,453,488,402	1,744,186,117	1,744,189,004	1,162,791,075	1,162,108,740	1,529,411,767
Total securities issued ($)	1,250,000,000	1,500,000,000	1,500,000,000	1,000,000,000	1,000,000,000	1,300,000,000

(i)All percentages are based on the initial aggregate securitization value. (ii)VALT 2022-A was not rated by S&P Global Ratings. (iii)For series 2019-A, the overcollateralization target decreased to 15.25% from 16.25% after class A-2-B is fully paid. (iv)For series 2019-A, total target hard enhancement reduced to 15.50% from 16.50% after class A-2-B is fully paid. (v)The estimated annual excess spread reflects pre-pricing coupon guidance for all series. VALT—Volkswagen Auto Lease Trust.

Collateral changes from VALT 2023-A

- The mix of Volkswagen models decreased to 45.27% (45.25% if upsized) from 49.17%, and the mix of Audi models increased to 54.73% (54.75% if upsized) from 50.83%.
- The weighted average seasoning decreased to 10.34 months from 14.50 months.
- The percentage of 37- to 48-month original lease terms decreased to 54.67% from 64.36%.
- The weighted average FICO decreased to 771 from 775.
- The undiscounted base residual as a percentage of securitization value decreased to 67.55% (67.53% if upsized) from 71.35%.

Table 2

Collateral comparison

	VALT 2024-A	VALT 2024-A (if upsized)	VALT 2023-A	VALT 2022-A(i)	VALT 2020-A	VALT 2019-A
No. of leases	44,377	53,227	60,086	40,751	41,732	59,863
Aggregate securitization value ($)	1,453,488,402	1,744,186,117	1,744,189,004	1,162,791,075	1,162,803,597	1,529,411,767
Average securitization value ($)	32,753	32,769	29,028	28,534	27,864	25,549
New vehicles (%)	100	100	100	100	100	100
Vehicle make (%)						
Volkswagen	45.27	45.25	49.17	53.53	42.99	45.83
Audi	54.73	54.75	50.83	46.47	57.01	54.17
Weighted average original term (mos.)	38.69	38.69	39.81	40.53	39.71	39.14

Table 2

Collateral comparison (cont.)

	VALT 2024-A	VALT 2024-A (if upsized)	VALT 2023-A	VALT 2022-A(i)	VALT 2020-A	VALT 2019-A
Weighted average remaining term (mos.)	28.35	28.36	25.31	26.38	26.95	26.65
Weighted average seasoning (mos.)	10.34	10.34	14.50	14.15	12.76	12.49
Original lease term (%)						
Less than or equal to 36 mos.	45.33	45.33	35.64	31.55	33.36	52.29
37-48 mos.	54.67	54.67	64.36	68.46	66.64	47.71
Weighted average FICO score	771	771	775	770	775	769
Top five state concentrations (%)						
	CA=17.49	CA=17.41	CA=18.50	CA=16.09	CA=18.90	CA=21.20
	FL=15.37	FL=15.41	FL=14.62	FL=15.44	NY=13.51	FL=12.71
	NY=12.10	NY=12.05	NY=11.68	NY=13.30	FL=13.29	NY=12.50
	TX=9.18	TX=9.11	NJ=8.32	NJ=8.48	NJ=8.64	NJ=8.56
	NJ=8.21	NJ=8.23	TX=8.07	TX=6.97	TX=6.44	TX=5.16
Undiscounted base residual value ($)	981,827,648	1,177,814,676	1,244,482,211	790,858,749	731,412,532	992,284,336
Average base residual value ($)	22,125	22,128	20,712	19,407	17,526	16,576
Base residual as a % of the aggregate securitization value	67.55	67.53	71.35	68.01	62.90	64.88

(i)Not rated by S&P Global Ratings. VALT--Volkswagen Auto Lease Trust. Mos.--Months

Overall, we believe the series 2024-A pool's credit quality is generally comparable to the series 2023-A pool.

The VALT 2024-A securitized pool contains 44,377 (53,227 if upsized) prime auto lease receivables that have a weighted average FICO score of 771 (see table 2). The pool comprises a well-diversified mix of vehicle models. The top five models by securitization value are Audi Q5 (19.49%, 19.50% if upsized), Atlas (18.55%, 18.54% if upsized), Tiguan (12.38%, 12.44% if upsized), Audi Q7 (9.28%, 9.20% if upsized), and the Taos (9.26%, 9.24% if upsized).

The VALT 2024-A pool consists of 45.33% (base and upsized) leases with original terms of 36 months or less, 45.85% (45.86% if upsized) of 37-42 months, and 8.82% (8.81% if upsized) of 42-48 months. No leases with original terms greater than 48 months are included in the pool.

Macroeconomic And Auto Finance Sector Outlook

In our analysis, we considered the economic data and forecasts outlined in table 3 and their baseline effect on collateral credit quality in determining our base-case expected loss level.

Historically, changes in the unemployment rate have been a key determinant of charge-offs in the auto finance industry.

The U.S. economy has continued to outperform expectations. Better-than-expected growth has led us to raise our 2024 U.S. GDP forecast to 2.4% from 1.5%. Although this is slightly weaker than the 2.5% growth the U.S saw in 2023, the labor market remains sturdy, with strong job gains in both December 2023 and January 2024 and wage gains in most industries remaining above the inflation rate (see "U.S. Economic Forecast Update: A Sturdy Job Market Keeps Growth Going," published Feb. 21, 2024). Nonetheless, we expect unemployment to increase slightly to 3.9% this year from 3.6% in 2023.

We are also closely watching the following developments:

- Consumers are showing signs of strain due to increased debt loads. The ratio for seriously delinquent auto loans is already at its highest level outside of recessionary periods, according to the Federal Reserve Bank of New York/Equifax credit data. This is driven primarily by the subprime segment, which represents about one-seventh of the total outstanding auto loan balance.
- Employment in the temporary help services sector was down 7.0% in January 2024 from a year ago. A decline of this magnitude has been a harbinger of weaker future demand for permanent workers.
- Student loan payments resumed in October 2023 and are putting upward pressure on debt service ratios. This could lead to even higher consumer delinquencies and charge-offs.

We believe, based on past economic cycles, that consumers for whom the vehicle is essential for work, will continue to prioritize their auto loan and lease payments before their other consumer and student loan payments. Furthermore, in the auto market, as new vehicle supply imbalances continue to ease, inventory levels rebuild, and manufacturer incentives increase, we expect used vehicle values to continue to normalize to historical levels.

Table 3

U.S. economic factors

	Actual	Forecast			
	2023	2024	2025	2026	2027
Real GDP (% year-over-year growth)	2.5	2.4	1.5	1.6	1.8
Unemployment rate (% annual average)	3.6	3.9	4.2	4.3	4.2
Consumer Price Index (% annual average)	4.1	2.8	2.0	2.4	2.4

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, and S&P Global Ratings Economics' forecasts.

S&P Global Ratings' Stressed Losses

We determined our stressed credit and residual losses for the VALT 2024-A transaction by analyzing:

- The credit quality and collateral characteristics of the securitized pool of auto leases (see table 2);
- VW Credit's managed new lease portfolio performance (see table 4);
- VW Credit's origination static pool loss performance by various cross-segments;

- VW Credit's securitization credit and residual performance;
- Comparisons of collateral pool characteristics and securitization performance to peers;
- Our consideration of the derivation of the transaction's base residual value;
- The residual maturity profile and diversification of residual risk exposure relative to our benchmark pool; and
- The relative accuracy of ALG's residual value forecasts and used vehicle prices of the related vehicles in the securitized pool.

Managed portfolio

As of Dec. 31, 2023, VW Credit's total U.S. portfolio of retail lease contracts consisted of 435,427 contracts totaling approximately $15.29 billion, an approximate 9% increase from the same period in 2022. As of Dec. 31, 2023, total delinquencies increased to 1.20% from 1.10% a year earlier and are lower than total delinquencies of 1.34% as of Dec. 31, 2019. Repossessions have increased to 0.54% from 0.43%. Net losses as a percentage of average dollar amount of lease contract increased to 0.27% from 0.17%. While repossessions and net losses have increased year over year, both metrics are below pre-pandemic levels.

Table 4

Total managed portfolio

	For the year ended Dec. 31				
	2023	2022	2021	2020	2019
Lease contracts outstanding (bil. $)	15.286	13.981	17.932	17.552	18.269
Avg. dollar amount of leases outstanding (bil. $)	14.189	15.888	18.075	17.788	17.895
No. of contracts outstanding	435,427	448,447	567,498	581,029	620,912
30-plus-day delinquencies (%)(i)	1.20	1.10	0.89	1.08	1.34
Repossessions (%)(ii)	0.54	0.43	0.47	0.53	0.76
Net losses (%)(iii)	0.27	0.17	0.16	0.37	0.49
Vehicles returned to VW Credit (%)(iv)	41.93	39.00	51.30	59.40	58.80
Total gain (or loss) on ALG residuals on vehicles returned to VW Credit (%)(v)	12.23	16.27	23.82	13.14	0.11

(i)As a percentage of the number of contracts outstanding. (ii)As a percentage of the average number of lease contracts outstanding. (iii)As a percentage of the average dollar amount of leases outstanding. (iv)As a percentage of the number of vehicles scheduled to terminate. (v)As a percentage of ALG's residual value of returned vehicles sold by VW Credit Inc. ALG--Automotive Lease Guide. VW Credit--VW Credit Inc.

VW Credit's lease portfolio has experienced positive residual gains since 2019. For the year ended in Dec. 31, 2023, the portfolio saw gains on returned vehicles to the tune of 12.23% of the vehicles' ALG-forecasted residual value, down from 16.27% for 2022.

Securitization performance

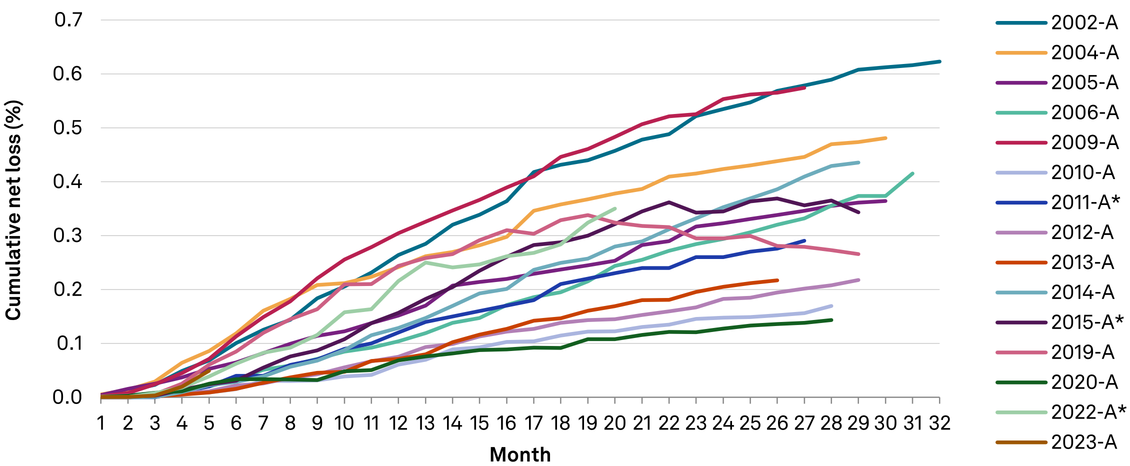
The currently outstanding VALT series are 2022-A (not rated by S&P Global Ratings) and 2023-A (see table 5 and charts 1 and 2). VALT 2023-A remains adequately enhanced, and we will continue to monitor its performance to determine if the assigned ratings are sufficient and take rating actions as we deem necessary.

The paid-off VALT transactions starting with 2011-A through 2020-A experienced losses ranging from 0.14% to 0.44%.

The VALT 2011-A, 2012-A, and 2013-A pools experienced cumulative net residual gains of 0.75% to 1.23%. VALT 2014-A and 2015-A experienced cumulative net residual losses of 0.25% and 3.37%, respectively. However, the more recent paid-off transactions (i.e., VALT 2019-A and VALT 2020-A) experienced residual gains of 5.50% and 2.70%, respectively.

Chart 1

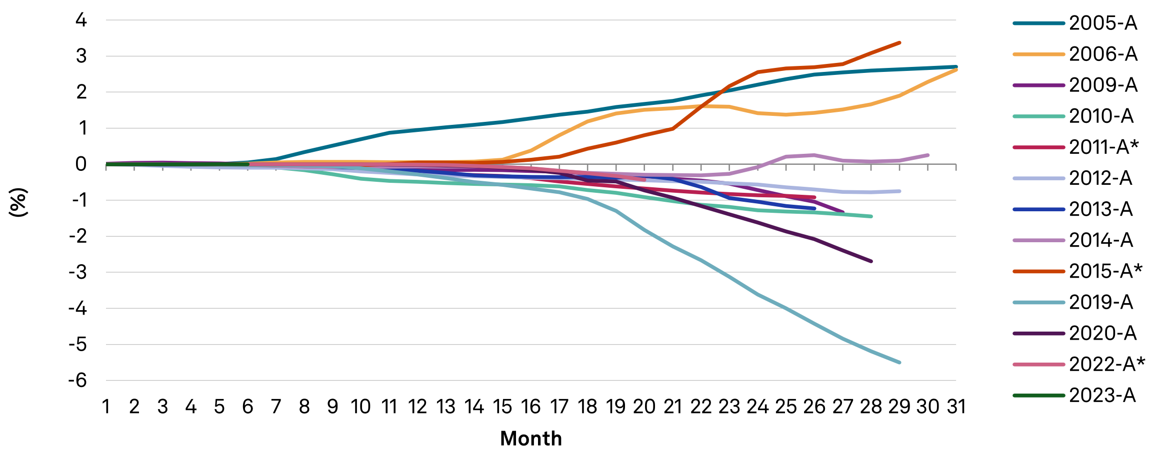
Volkswagen auto lease securitization cumulative net losses



*Not rated by S&P Global Ratings.

Chart 2

Volkswagen auto lease securitizations cumulative residual value (gain)/loss
Cumulative residual (gain)/loss (%) on vehicles returned and sold as a percentage of the initial securitization valu



*Not rated by S&P Global Ratings.

Table 5

Performance data for outstanding Volkswagen Auto Lease Trust transactions(i)

Transaction/series	Month	Pool factor (%)	Credit CNL (%)	Cumulative net residual (gains)/losses (% of aggregate initial securitization value)	Initial expected lifetime credit CNL (%)
2022-A(ii)	20	48.94	0.35	(0.44)	N/A
2023-A	5	89.71	0.05	0.00	0.85

(i)As of the February 2024 distribution date. (ii)Not rated by S&P Global Ratings. CNL--Cumulative net loss. N/A--Not applicable.

Series 2024-A credit loss

The obligor's credit profile determines the credit risk. To derive the base-case credit loss for the VALT 2024-A transaction, we used static pool credit loss data provided by VW Credit to project losses on its portfolio of lease originations segmented by lease term, vehicle make, and FICO score distribution. We then weighted the projections by the actual concentration of those various segments in the series 2024-A pool. We also looked at VW Credit's paid-off and outstanding lease securitizations' loss performance. We considered the series 2024-A pool's collateral credit quality, VW Credit's overall managed portfolio performance, collateral and performance comparisons with peers, and the current economic conditions. Based on this information, we expect the VALT 2024-A pool's cumulative net credit loss to be 0.85% of the pool's securitization value, unchanged from series VALT 2023-A.

Series 2024-A residual loss

In our analysis of the series 2024-A pool's residual risk, we considered the following factors:

- The stability of the Volkswagen and Audi brands' historical used vehicle values;
- The basis behind ALG's current forecast;
- The basis for the differences between the actual used vehicle values and ALG's forecasts;
- The 10 top Volkswagen and Audi vehicle models (Q5, Atlas, Tiguan, Q7, Taos, A5, Q8, Q3, Jetta, and A4), which make up approximately 91% of the series 2024-A pool's total base residual value;
- VW Credit's near-term plans, if any, to discontinue or update the vehicle series in question;
- Brand perception; and
- Our macroeconomic outlook.

The base residual value for VALT 2024-A incorporates a recent ALG mark-to-market value. The base residual value is defined as the lowest of the contract residual set by VW Credit, ALG's residual value estimate established at the lease contract's inception, and ALG's current residual value estimate as of January/February 2024. ALG's current mark-to-market residual value estimates resulted in a positive drift or increase in residual value for the VALT 2024-A lease pool; however, we do not give any credit to the positive drift, based on the definition of the base residual value.

We applied the following haircuts to the base residual value:

Base haircut

According to our auto lease criteria, we first applied an initial 26.00% rating-specific haircut to the series 2024-A pool's base residual value, which is commensurate with a 'AAA' rating scenario.

Excess concentration haircut

In addition to the aforementioned base haircut, we applied a haircut to the amount of nondefaulted lease residuals exceeding the concentration limits applicable to the benchmark pool ("excess concentrations"), as outlined in our auto lease criteria. The haircut to excess concentrations commensurate with a 'AAA' rating scenario is 13.00%.

Based on our calculations, the VALT 2024-A pool has a total excess concentration of 18.04% (18.05% if upsized) due to the pool's residual maturity distribution. No individual model exceeds 20.00% of the pool by base residual, and none of the other benchmark thresholds were breached, given the diversity of vehicles in the pool.

The total excess concentration is multiplied by the 13.00% haircut to arrive at the additional haircut percentage. This resulted in additional haircuts to the base residual value of approximately 2.35% under our 'AAA' rating scenario.

The VALT 2024-A pool's initial lease maturities begin in October 2024, with leases maturing each month until November 2027 (see charts 3a and 3b). There are 10 months where the expected base residual maturity level exceeds our 5.00% benchmark concentration limit. The highest monthly maturity, 7.47% (7.57% if upsized), is expected to occur in January 2027.

Chart 3a

Volkswagen Auto Lease Trust 2024-A lease maturity profile

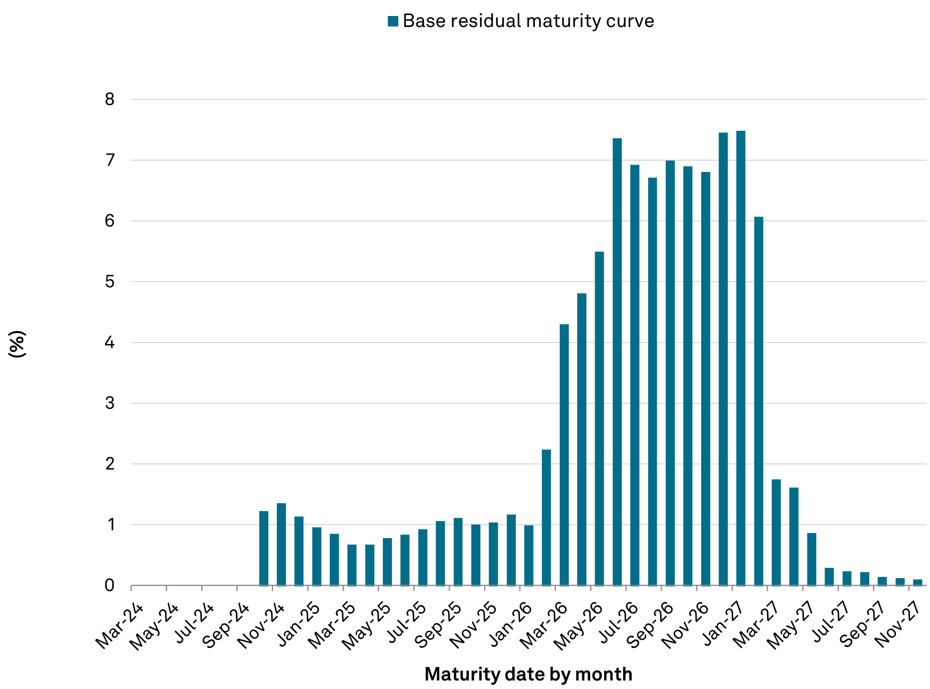
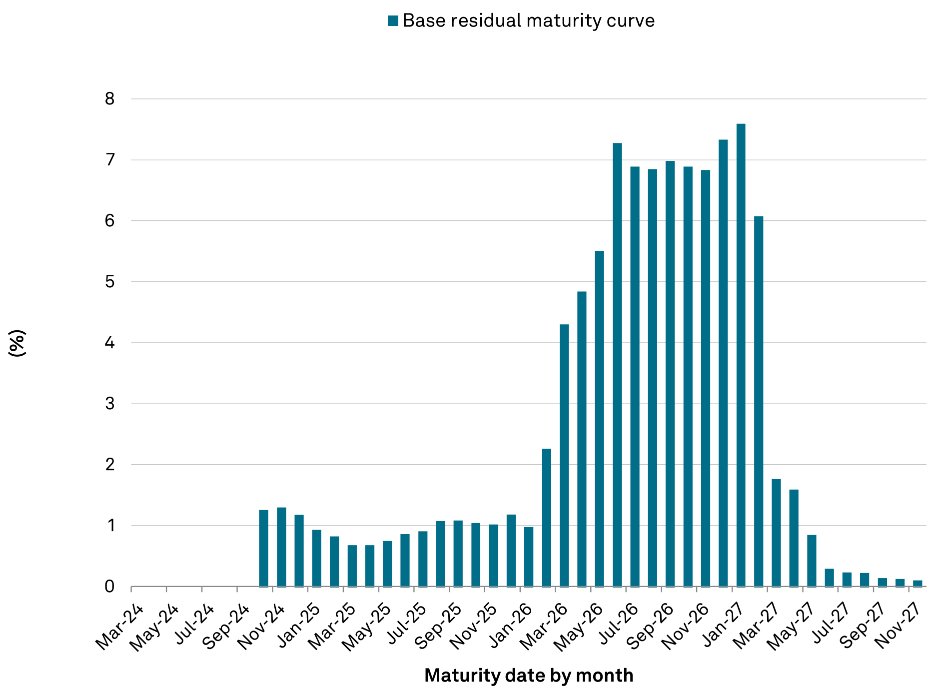


Chart 3b

Volkswagen Auto Lease Trust 2024-A lease maturity profile (upsized pool)



Speculative-grade manufacturer haircut

When determining the stress that applies to the adjusted base residual value, we look at the auto manufacturer's creditworthiness. Our auto lease criteria apply haircuts to the base residual value of the vehicles produced by manufacturers with speculative-grade issuer credit ratings (i.e., 'BB+' or lower).

Volkswagen AG manufactures the leased vehicles backing the VALT 2024-A pool. The current long-term issuer credit rating on Volkswagen AG is 'BBB+', and the short-term rating is 'A-2'. Because of the investment-grade rating, it is not necessary to apply a speculative-grade manufacturer haircut to the series 2024-A transaction under our current auto lease criteria.

Low diversification haircut

For pools with low diversification, as described in our global auto ABS criteria, residual-value haircuts are typically further adjusted by adding an additional component generally equal to 50% of the excess concentration haircut determined above. This additional haircut usually applies to lease pools that have one or more of the following characteristics:

- More than 20% of the residuals mature in any single month;
- More than 50% of the residuals mature in any three-month period;

- The pool contains three or fewer individual models;
- The pool contains more than 75% of large and full-size ICE SUVs, trucks, and vans;
- The pool contains more than 75% of small and compact ICE cars;
- The pool contains more than 20% of new models; and
- The pool contains more than 20% of discontinued models.

The VALT 2024-A pool does not meet any of these seven conditions; therefore, we did not apply the low diversification haircut.

Total stressed residual loss

After analyzing the VALT 2024-A lease pool, applying the relevant residual value haircuts, and assessing a stressed 100% return rate representing the loss frequency on nondefaulted leased vehicles (91.50%), our stressed residual loss under a 'AAA' scenario is approximately 28.35% of the undiscounted base residual value, or 17.52% (17.51% if upsized) of the securitization value (see table 6).

Table 6

Stressed residual loss

Scenario (preliminary rating)	AAA (sf)
Residual haircut (% of undiscounted base residual)	26.00
Additional excess concentration haircut (%)	2.35
Total residual haircut (% of base residual value)	28.35
Total residual haircut (% of securitization value)	17.52 (17.51 if upsized)

Legal Overview And Transaction Structure

Legal overview

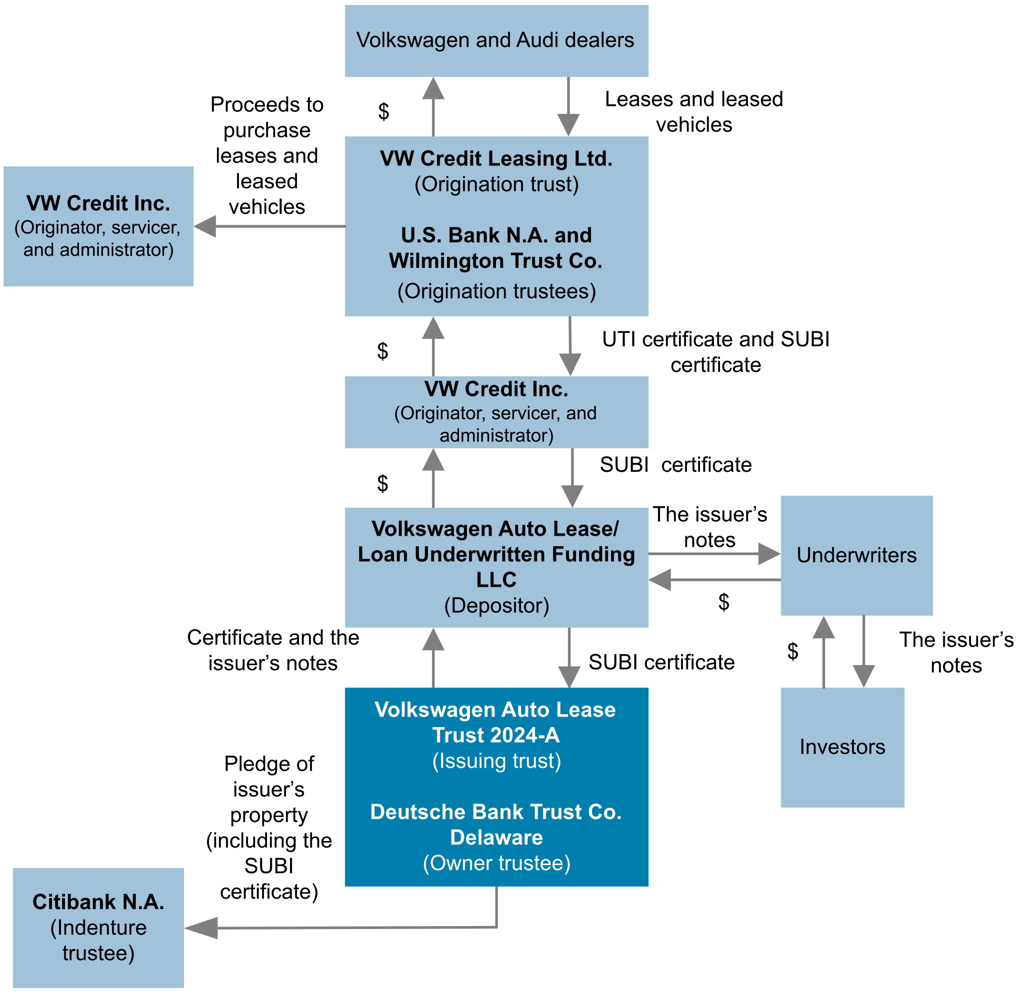
In rating this transaction, S&P Global Ratings will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

The receivables backing the VALT 2024-A notes will comprise monthly lease payments and base residual values of a pool of lease contracts originated by Volkswagen and Audi dealers and assigned to the origination trust. All of the leased vehicles included in the transaction will be titled in the origination trust's name, VW Credit Leasing Ltd., a Delaware statutory trust created in 1999. The origination trust will issue a special unit of beneficial interest (SUBI) certificate, which represents a beneficial interest in the origination trust relating solely to the specified auto lease receivables and the related residual values dedicated to the SUBI's repayment and, ultimately, the rated notes. The issuing entity will own the rights, title, and interest to the SUBI certificate and pledge the SUBI certificate to the indenture trustee for the noteholders' benefit.

On the closing date, VW Credit will sell, transfer, and assign the transaction's SUBI certificate to the depositor, Volkswagen Auto Lease/Loan Underwritten Funding LLC. The depositor will then transfer and assign the SUBI certificate to VALT 2024-A, the issuer and newly formed Delaware statutory trust. The issuer will then pledge the SUBI certificate to the indenture trustee as security for the series 2024-A notes and issue the rated notes.

Chart 4

Transaction structure



UTI--Undivided trust interest. SUBI--Special unit of beneficial interest.

The Pension Benefit Guaranty Corp. (PBGC) has the ability to file a lien against any Volkswagen Group of America Inc.'s (Volkswagen's) controlled group members' assets if the minimum contribution payments to Volkswagen's defined benefit pension plan are not paid as required by law, or if Volkswagen terminates an underfunded defined benefit pension plan. As a member of the controlled group, VW Credit's assets (including those leases and vehicles designated to the SUBI, which serve as the payment source to the issued notes) could be subject to a PBGC lien to the extent Volkswagen's minimum contribution payments are not made, or Volkswagen terminates an underfunded defined benefit plan. In our opinion, the risk of a PBGC lien on the leases and the residuals assigned to the SUBI pledged to the series 2024-A notes is mitigated by the pension plan's relatively small size compared to the origination trust's assets and the company's history of keeping the plan funded at the appropriate levels.

Transaction structure

VALT 2023-A is VW Credit's 16th auto lease transaction since 2002. The series is structured similarly to prior VW Credit auto lease securitizations, with nonamortizing target credit enhancement. The pool's structure incorporates a nonamortizing reserve amount equal to 0.25% of the initial securitization value and an overcollateralization amount of 14.00% of the initial securitization value, which builds to a target overcollateralization amount of 15.50% of the initial securitization value and does not amortize. The series 2024-A pool's estimated excess spread is 4.06% per year. The issuing trust will issue four class A notes. Note principal will be paid sequentially.

Payment Priority

On each payment date before the note acceleration following an event of default, the indenture trustee will make distributions from available funds according to the payment priority shown in table 7.

Table 7

Payment waterfall

Priority	Payment
1	Advance reimbursements to the servicer.
2	Pro rata, 1.00% servicing fee and the administration fee.
3	Pro rata, trustee and ARR fees and expenses, limited to $275,000 per annum in the aggregate.
4	Pro rata note interest to the noteholders.
5	First-priority principal payment (if the total class A notes' balance is greater than the securitization value).
6	Fund the reserve account until it is equal to the targeted reserve account balance.
7	The regular principal distribution amount to the noteholders(i).
8	Pro rata, any amounts not previously paid, pursuant to the transaction documents, to the ARR and trustees.
9	Any remaining funds to the certificateholder.

(i)The regular principal distribution amount is designed to build the initial overcollateralization to the target overcollateralization amount. All of the required payments on the notes will be due and payable on each payment date, beginning April 22, 2024. ARR--Asset representations reviewer.

On each payment date after the note acceleration following an event of default, the indenture trustee will distribute the available funds according to the payment priority shown in table 8.

Table 8

Payment waterfall

Priority	Payment
1	Pro rata to the indenture trustee, the SUBI trustee, and the owner trustee, any accrued and unpaid fees, expenses, and indemnity payments.
2	To the asset representations reviewer, any accrued and unpaid fees, expenses, and indemnity payments, limited to $250,000 per year.

Table 8

Payment waterfall (cont.)

Priority	Payment
3	To the servicer for reimbursement of all outstanding advances.
4	Pro rata, the servicing fees to the servicer and administration fees to the administrator.
5	Pro rata to the noteholders to pay due and unpaid interest.
6	Class A-1 principal outstanding.
7	Pro rata, principal to outstanding classes A-2 through A-4.
8	To the asset representations reviewer for any accrued and unpaid fees, expenses, and indemnity payments.
9	Any remaining amounts to the certificateholder.

SUBI--Special unit of beneficial interest.

VALT 2024-A events of default include failure to pay note interest; failure to pay note principal on the respective legal final maturity date; a material and adverse default in the observance or performance of any covenant, or a breach of the representations or warranties, to the extent declared an event of default; and the issuing entity's bankruptcy, insolvency, receivership, or liquidation.

Cash Flow Modeling Assumptions And Results

We tested VALT 2024-A's proposed structure using cash flow scenarios to determine if the credit enhancement level was sufficient to pay timely interest and principal in full by the notes' legal final maturity date under our 'AAA' stress scenarios.

Breakeven analysis

We modeled the transaction to simulate a stress scenario commensurate with the assigned preliminary ratings. We assumed a 100% turn-in rate on the nondefaulting leases (approximately 91.50%) and no prepayments. The results show that the preliminary rated notes are enhanced to the degree necessary to withstand stressed credit and residual loss levels that are consistent with the assigned preliminary ratings. The preliminary 'AAA (sf)' rated notes can withstand a cumulative net credit loss of approximately 4.25% (or approximately 5.0x our expected loss of 0.85%) and residual losses equal to 17.52% (17.51% if upsized) of the initial aggregate securitization value (see table 9).

Table 9

Cash flow assumptions and results

	Class A	
	Base	Upsize
Scenario (preliminary rating)	AAA (sf)	AAA (sf)
Cumulative net loss (%)	0.85	0.85
Cumulative net loss timing (mos.)	12/24/36	12/24/36
Cumulative net loss timing (%)	40/80/100	40/80/100
Voluntary prepayments (%)	0.00	0.00

Table 9

Cash flow assumptions and results (cont.)

	Class A	
	Base	Upsize
Recoveries (%)	50	50
Recovery lag (mos.)	4	4
Residual haircut		
Total residual haircut as a % of the MSRP	13.58	13.58
Total residual haircut as % of the securitization value	17.52	17.51
Total residual haircut as a % of the undiscounted base residual value	28.35	28.35
Vehicle return rate (%)	100.0	100.0
Residual realization lag (mos.)	2	2
Result		
S&P Global Ratings' stressed credit and residual loss as a % of the securitization value	21.77	21.76
Approximate credit enhancement in the transaction based on S&P Global Ratings' credit stress and break-even residual stress as a % of the securitization value	22.2	22.2

MSRP--Manufacturer's suggested retail price. Mos.--Months.

The class A-2 notes may consist of fixed-rate class A-2-A notes and floating-rate class A-2-B notes, which will accrue interest at a floating rate indexed to the compounded SOFR (a 30-day average SOFR calculated in advance by the calculation agent using the published rate on the Federal Reserve Bank of New York's website) plus a spread.

In addition, provisions have been incorporated into securitization documents that govern rate selection if SOFR becomes unavailable.

For the floating-rate tranche, we applied our stressed interest rates for one-month SOFR, as described in our criteria "Methodology To Derive Stressed Interest Rates In Structured Finance," published Oct. 18, 2019, using a SOFR curve starting at 5.50%. We also modeled the maximum potential size of the class A-2-B note balance, or $241.25 million ($289.50 million if upsized).

Sensitivity analysis

In addition to running stressed cash flows to analyze the amount of credit and residual losses that VALT 2024-A can withstand, we ran a sensitivity analysis to determine how the credit and residual losses could affect the preliminary ratings on the notes in a moderate stress scenario (a 'BBB' stress).

In our view, the preliminary ratings assigned to the class A notes are consistent with the credit stability limits specified by section A.4 of the appendix contained in "S&P Global Ratings Definitions," published June 9, 2023 (see table 10 and charts 5a and 5b). This indicates that we would not assign a 'AAA' rating if, under moderate stress conditions, the rating would be lowered by more than one category within the first year.

Table 10

Credit stability as a limiting factor on ratings

	Maximum projected deterioration associated with rating levels for one- and three-year horizons under moderate stress conditions(i)					
Horizon	AAA	AA	A	BBB	BB	B
One year	AA	A	BB	B	CCC	D
Three years	BBB	BB	B	CCC	D	D

(i)These credit quality transitions do not reflect our view of the expected degree of deterioration that rated issuers or obligations could experience over the specified time horizons. Nor do they reflect the typical historical levels of deterioration among rated issuers and securities.

Chart 5a

Volkswagen Auto Lease Trust 2024-A sensitivity (base)

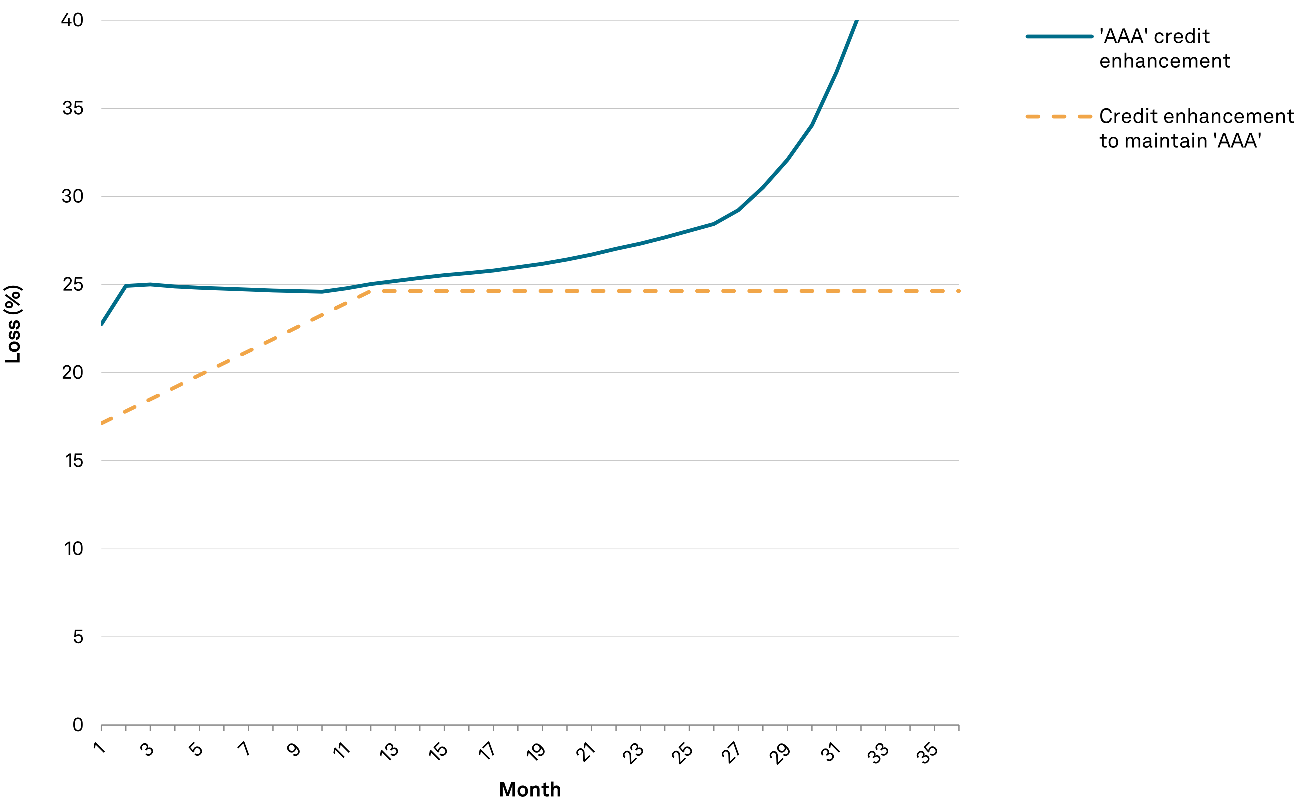
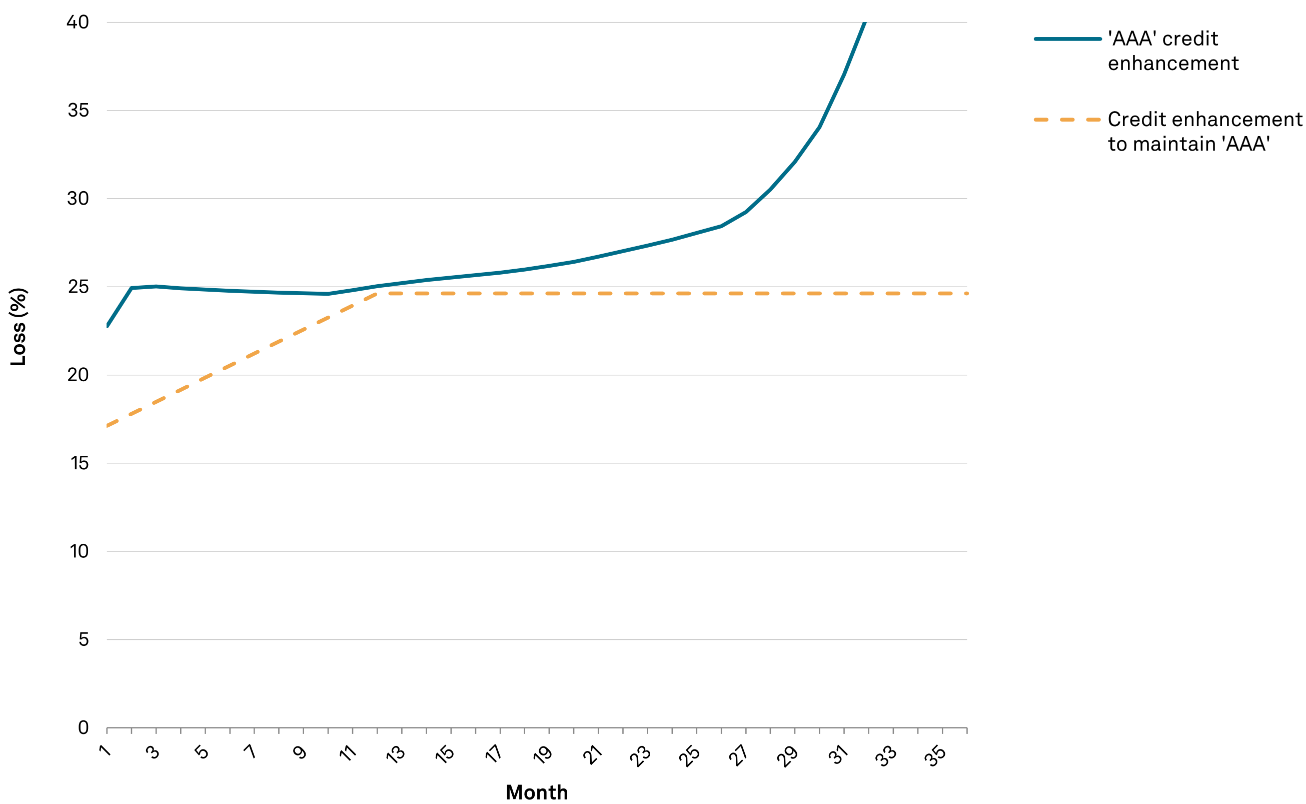


Chart 5b

Volkswagen Auto Lease Trust 2024-A sensitivity (upsized)



Money market tranche sizing

The proposed money market tranche (the class A-1 notes) has a legal final maturity date of March 20, 2025. To test whether the money market tranche can be fully repaid one month prior, we ran cash flows using assumptions to delay the principal collections during this length of time. In our cash flow run, we assumed zero defaults and a zero absolute prepayment speed on all leases. We also stressed the recognition of the monthly lease payments and base residual amounts by applying a lag of one and two months, respectively. Based on our stressed cash flow runs, approximately nine months of collections would be sufficient to pay off the money market tranche.

Legal final maturity

To test the legal final maturity dates set for the longer-dated tranches (classes A-2 through A-3), we determined when the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario, and then added six months to the result. We also looked to see when these notes would pay off in our stressed cash flow scenarios.

In our cash flows for the longest-dated security (class A-4), we added at least six months to the tenor of the last-maturing receivable in the pool to accommodate extensions and residual realization on the receivables. In all of our cash flow scenarios, we confirmed that there is sufficient credit enhancement both to cover losses and to repay the related notes in full by their legal final maturity dates.

Counterparty And Operational Risks

On or before the closing date, the series bank accounts will be established in the name of the account bank, Citibank N.A. The bank account provider is consistent with our counterparty criteria for a 'AAA'-supported transaction (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

As servicer, VW Credit has an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. VW Credit satisfies our requirements for commingling risk by requiring that all collections are deposited into the series' collections accounts within two business days of collection. Our operational risk assessment of VW Credit as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

VW Credit And Volkswagen AG

VW Credit was incorporated in April 1981 and is a wholly owned direct subsidiary of Volkswagen of America Inc., which is a wholly owned direct subsidiary of Volkswagen AG. VW Credit is Volkswagen of America Inc.'s financing arm, and its purpose includes purchasing retail installment sales contracts and leases from Volkswagen and Audi dealers.

In September 2015, Volkswagen AG received a notice of violation from the Environmental Protection Agency alleging that undisclosed engine management software in certain diesel engines were installed to circumvent emissions tests in the U.S. Since then, tens of billions of dollars in settlements, fines, and buyback costs have occurred or were agreed to. Although other legal actions and investigations may be continuing, we considered the current legal and regulatory developments in our analysis, and we do not to expect them to have an adverse material impact on this transaction. Volkswagen AG's status as a leading global automotive manufacturer with an investment-grade rating is a mitigating factor.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In

Structured Finance, Oct. 18, 2019

- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
- Criteria | Structured Finance | ABS: Assessing The Risk Of Pension Plan Terminations On U.S. Auto Lease Securitizations, Aug. 17, 2004

Related Research

- U.S. Economic Forecast Update: A Sturdy Job Market Keeps Growth Going, Feb. 21, 2024
- Volkswagen AG, Feb. 20, 2024
- Credit Conditions North America Q1 2024: A Cluster Of Stresses, Nov. 28, 2023
- Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking, Nov. 27, 2023