Presale:

Volkswagen Auto Loan Enhanced Trust 2023-1

June 1, 2023

PRIMARY CREDIT ANALYST

Kelly R Luo
New York
+ 1 (212) 438 2535
kelly.luo
@spglobal.com

SECONDARY CONTACT

Jennie P Lam
New York
+ 1 (212) 438 2524
jennie.lam
@spglobal.com

RESEARCH CONTRIBUTOR

Udayan Bedekar
CRISIL Global Analytical Center, an S&P affiliate, Mumbai
Udayan.Bedekar
@spglobal.com

Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Base amount (mil.$)	Upsized amount (mil. $)	Expected legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	245	294	June 20, 2024
A-2-A/A-2-B(ii)	AAA (sf)	Senior	Fixed/floating	520	624	Dec. 21, 2026
A-3	AAA (sf)	Senior	Fixed	410	492	June 20, 2028
A-4	AAA (sf)	Senior	Fixed	75	90	Jan. 22, 2030

Note: This presale report is based on information as of June 1, 2023. 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 interest rate and size of each class will be determined on the pricing date. (ii)The class A-2 interest rate will be a fixed interest rate or a combination of fixed and floating interest rates if both fixed- and floating-rate tranches are issued. If a floating-rate tranche is issued, the floating rate will be indexed to compounded SOFR plus a margin. 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 depositor does not expect the initial principal balance of the class A-2-B notes to exceed $260 million ($312 million if upsized). SOFR--Secured overnight financing rate.

Profile

Collateral	Prime auto loan receivables.
Originator, sponsor, administrator, and servicer	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).
Depositor	Volkswagen Auto Lease/Loan Underwritten Funding LLC, a Delaware limited liability company and a wholly owned special-purpose subsidiary of VW Credit Inc.
Issuer	Volkswagen Auto Loan Enhanced Trust 2023-1.
Indenture trustee	U.S. Bank Trust Co. N.A.
Owner trustee	Citibank N.A.
Issuer Delaware trustee	Citicorp Trust Delaware N.A.
Bank account provider	U.S. Bank N.A. (A+/Stable/A-1).

Rationale

S&P Global Ratings' preliminary ratings assigned to Volkswagen Auto Loan Enhanced Trust 2023-1's (VALET 2023-1's) asset-backed notes reflect:

- The availability of approximately 8.1% credit support (hard credit enhancement and excess spread) for the class A-1, A-2, A-3, and A-4 notes (collectively, the class A notes), based on stressed cash flow scenarios. This credit support level provides coverage of approximately 8.5x of our expected cumulative net loss (ECNL) of 0.95% for the class A notes (see the Credit Enhancement and Collateral and the Cash Flow Modeling Assumptions and Results sections).
- The expectation that under a moderate ('BBB') stress scenario (2.0x our expected loss level), all else being equal, our preliminary 'AAA (sf)' ratings on the class A notes will be within the credit stability limits (see the Cash Flow Modeling Assumptions And Results section).
- The timely payment of interest each month and principal repayment by the respective legal final maturity dates under our stressed cash flow modeling scenarios for the assigned preliminary ratings.
- The collateral characteristics of the securitized pool of prime automobile loans, our view of the credit risk of the collateral, and 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 transaction's credit enhancement in the form of overcollateralization, yield supplement overcollateralization, a reserve account, and excess spread (see the Credit Enhancement and Collateral section).
- The series' bank account at U.S. Bank N.A (A+/Stable/A-1), which does not constrain the preliminary ratings.
- Our operational risk assessment of VW Credit Inc. (VCI) as servicer and our view of the company's underwriting and servicing.
- Our assessment of the transaction's potential exposure to environmental, social, and governance (ESG) credit factors, that are in line with our sector benchmark.
- Our view of the transaction's legal and payment structures.

ESG Factors

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).

The transaction's exposure to ESG credit factors is in line with our sector benchmark. We generally view environmental credit factors as above average because the collateral pool primarily consists of vehicles with internal combustion engines (ICEs), which emit pollutants that contribute to climate transition risk. Although the adoption of electric vehicles and future regulation could lower ICE vehicle values over time, we believe our current approach to evaluating recovery and residual values adequately account for vehicle values over the transaction's relatively short expected life. As a result, we did not identify this as a separate material ESG credit factor in our analysis.

Credit Enhancement and Collateral

Structural changes from VALET 2021-1

The structural changes from VALET 2021-1 include that:

- The yield supplement overcollateralization amount (YSOA) discount rate is 9.25%, compared to a YSOA discount rate of 4.00% for series 2021-1. The YSOA helps protect against liquidity risk associated with the low interest rate loans that are included in the securitized pool.
- The initial YSOA as a percentage of the initial adjusted pool balance increased to approximately 10.46% (10.45% if upsized) from 3.26%.
- Initial overcollateralization decreased to 3.00% of the adjusted pool balance from 4.00%.

Table 1

Credit enhancement summary

	VALET				
	2023-1 (base)	2023-1 (upsized)	2021-1	2020-1(i)	2018-2
Overcollateralization (% of the initial adjusted receivables balance)					
Initial	3.00	3.00	4.00	4.25	3.00
Target	3.00	3.00	4.00	4.25	3.00
Floor	3.00	3.00	4.00	4.25	3.00
Reserve account (% of the initial adjusted receivables balance)					
Initial	0.25	0.25	0.25	1.00	0.25
Target	0.25	0.25	0.25	1.00	0.25
Floor	0.25	0.25	0.25	1.00	0.25
Total hard credit enhancement (% of the initial adjusted receivables balance)					
Initial	3.25	3.25	4.25	5.25	3.25
Target	3.25	3.25	4.25	5.25	3.25
Floor	3.25	3.25	4.25	5.25	3.25
YSOA discount rate (initial %)	9.25	9.25	4.00	5.60	6.50
YSOA discount rate (after class A-2-B notes are fully repaid) (%)	9.25	9.25	4.00	5.10	6.50
YSOA (% of the initial adjusted pool balance)	10.46	10.45	3.26	3.46	6.32
Estimated annual excess spread (pre-pricing), including the YSOA(ii) (%)	2.98	2.98	2.61	3.01	2.17
Initial aggregate pool balance ($)	1,423,470,037	1,707,916,114	1,344,499,581	1,290,803,106	1,096,083,728
YSOA ($)	134,810,243	161,524,360	42,412,381	43,206,384	65,149,170
Initial adjusted pool balance ($)	1,288,659,795	1,546,391,755	1,302,087,200	1,247,596,721	1,030,934,558
Overcollateralization	38,659,795	46,391,755	52,087,200	53,026,721	30,934,558

Table 1

Credit enhancement summary (cont.)

	VALET				
	2023-1 (base)	2023-1 (upsized)	2021-1	2020-1(i)	2018-2
Total securities issued ($)	1,250,000,000	1,500,000,000	1,250,000,000	1,194,570,000	1,000,000,000

(i)Not rated by S&P Global Ratings. (ii)Includes the 1.00% servicing fee. Annual excess spread is adjusted for yield supplement overcollateralization. For comparison purposes, the estimated annual excess spreads shown here for VALET 2023-1, 2021-1 and 2018-2 are pre-pricing, while the estimated annual excess spread shown here for VALET 2020-1 is post-pricing. VALET--Volkswagen Auto Loan Enhanced Trust. YSOA--Yield supplement overcollateralization amount.

Collateral changes from VALET 2021-1

Notable collateral composition changes from VALET 2021-1 include that:

- The original term to maturity for loans in VALET 2023-1 will range from 12-75 months, compared to 12-72 months in previous VALET transactions. VALET 2023-1 will include approximately 3.0% of 75-month original term loans.
- The percentage of contracts with remaining term greater than 60 months increased to approximately 48.0% from 27.0%.
- The weighted average FICO score decreased to 768 from 777.
- The percentage of used vehicles decreased to approximately 30.8% from approximately 44.4%.
- The percentage of Audi vehicles increased to approximately 66.5% from approximately 50.0%.
- The weighted average seasoning decreased to 9.7 months from 10.3.

Overall, we believe the VALET 2023-1 collateral pool is marginally weaker than VALET 2021-1 (see table 2). The incrementally higher percentage of longer-term contracts and higher average loan amounts are credit negative, for which we have factored them into our expected loss for VALET 2023-1.

Table 2

Collateral comparison

	VALET					
	2023-1 (base)	2023-1 (upsized)	2021-1	2020-1(i)	2018-2	2018-1
Receivables balance (mil. $)	1,423.47	1,707.92	1882.30	1,290.80	1,096.08	1,444.93
No. of receivables	41,734	50,033	74,164	57,735	50,798	69,296
Avg. loan balance ($)	34,108	34,136	25,380	22,357	21,577	20,852
Weighted avg. contract rate/APR (%)	4.82	4.83	2.98	4.46	3.77	3.33
Weighted avg. original term (mos.)	66.8	66.8	64.7	64.5	64.5	63.9
Weighted avg. remaining term (mos.)	57.1	57.1	54.4	55.4	54.5	52.1
Weighted avg. seasoning (mos.)	9.74	9.74	10.31	9.1	10.1	11.8

Table 2

Collateral comparison (cont.)

	VALET					
	2023-1 (base)	2023-1 (upsized)	2021-1	2020-1(i)	2018-2	2018-1
Weighted avg. FICO score	768	768	777	772	774	774
Original term between 61-72 months (%)	60.93	61.09	51.53	51.95	52.25	46.72
Original term between 73-75 months (%)	3.00	2.98	-	-	-	-
New vehicles (%)	69.18	69.13	58.41	59.23	67.28	71.85
Used vehicles (%)	30.82	30.87	41.59	40.77	32.72	28.15
Volkswagen vehicles (%)	33.51	33.44	50.14	53.66	54.81	61.16
Audi vehicles (%)	66.49	66.56	49.86	46.34	45.19	38.84
Top five state concentrations (%)						
	CA=17.38	CA=17.24	CA=15.09	CA=17.23	CA=15.56	CA=16.56
	TX=13.38	TX=13.36	TX=11.25	TX=12.35	TX=8.19	FL=8.29
	FL=10.57	FL=10.57	FL=8.40	FL=7.70	FL=8.11	TX=8.06
	NJ=5.99	NJ=6.01	NY=5.60	IL=4.80	NY=5.70	NY=5.99
	NY=5.87	NY=5.90	IL=5.28	NY=4.75	IL=5.67	IL=5.81

(i)Not rated by S&P Global Ratings. (ii)All percentages are of the initial receivables balance. VALET--Volkswagen Auto Loan Enhanced Trust. APR--Annual percentage rate.

Macroeconomic And Auto Finance Sector Outlook

We believe changes in the unemployment rate are a key determinant of charge offs in the auto finance industry. We have also observed that recovery values tend to weaken during recessionary periods.

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.

Table 3

U.S. economic factors

	Actual	Forecast			
	2022	2023	2024	2025	2026
Real GDP (year-over-year growth, %)	2.1	0.7	1.2	1.8	2.0
Unemployment rate (annual average, %)	3.7	4.1	5.0	5.1	4.6
Consumer Price Index (annual average, %)	8.0	4.2	2.4	1.6	1.5

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

As the Fed's aggressive tightening of interest rates increases borrowing costs, we expect the economy to fall into a shallow recession later this year. We are forecasting slightly negative growth in the second and third quarters of this year, with GDP averaging 0.7% growth for the year (see

"Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023). With economic pressures worsening due to higher borrowing costs, businesses will be need to trim payrolls in interest rate-sensitive sectors. The recent banking sector disturbance may also lead to credit tightening and a softer jobs market. We expect the unemployment rate to rise and peak at 5.4% in second-quarter 2024 and then decline in late 2025.

Inflation remains a concern because it is eroding wage gains and the savings cushion that was built during the pandemic, particularly for those with lower incomes and smaller cushions.

In the auto market, as new vehicle supply imbalances continue to ease and borrowing rates continue to rise, we would expect used vehicle values to normalize to historical levels.

S&P Global Ratings' Expected Loss: 0.95%

We determined our expected loss for VALET 2023-1 by analyzing:

- The transaction's collateral characteristics relative to those of outstanding series (see table 2);
- The managed portfolio performance and origination static pool data (see table 4) and their relative performances;
- The outstanding series' performance (see table 5 and chart 1); and
- Our forward-looking view of the economy and the auto finance sector.

Given VCI's established performance track record as a consistent issuer, we placed more emphasis on origination static pool analysis and outstanding series performance when determining the expected loss for this series. We complemented this analysis with our forward-looking view of the economy and the auto finance sector (see the Macroeconomic And Auto Finance Sector Outlook section).

Based on our analysis of the VALET 2023-1 pool's credit quality and origination static pool, our comparison of similar pools with peer issuers and their securitization performance, and our views regarding current and future macroeconomic and industry-specific conditions, we expect the VALET 2023-1 pool to experience lifetime CNLs of 0.95%, increased from 0.85%-0.95% for VALET 2021-1.

Managed Portfolio

As of March 31, 2023:

- VCI's managed portfolio of retail instalment sales contracts declined approximately 6.0% to $12.6 billion from approximately $13.4 billion year over year (see table 4).
- Total delinquencies have increased to 1.48% as of the three months ended March 31, 2023, compared with 1.12% as of the same period in 2022.
- Net losses have increased to 0.82% (annualized for the three months ended March 31) from 0.33% as of the prior year.
- Repossessions increased to 0.77% from 0.60% year over year.

Table 4

Managed portfolio performance of retail installment contracts

	As of March. 31		Year ended Dec. 31				
	2023	2022	2022	2021	2020	2019	2018
Principal outstanding (mil. $)	12,605.43	13,396.98	12,797.90	14,064.53	13,267.23	10,114.29	10,405.54
No. of contracts outstanding	591,841	630,505	598,367	653,892	652,738	572,197	573,266
Delinquencies (%)(i)							
31-60 days	1.10	0.81	1.13	0.93	0.91	1.17	1.00
61-90 days	0.26	0.21	0.34	0.28	0.27	0.33	0.29
91 or more days	0.13	0.11	0.15	0.13	0.13	0.16	0.14
Total 30-plus-day delinquencies	1.48	1.12	1.61	1.33	1.31	1.66	1.43
Avg. principal outstanding (mil. $)	12,658.50	12,764.05	13,091.25	14,144.73	11,546.27	10,359.62	9,359.55
Avg. no. of contracts outstanding	593,857	638,602	609,444	665,797	608,860	577,415	541,130
No. of repossessions	1,142	955	3,676	4,337	4,456	5,771	4,697
Repossessions (% of avg. no. of contracts outstanding)(ii)	0.77	0.60	0.60	0.65	0.73	1.00	0.87
Net losses (mil. $)	25.89	10.50	58.58	47.40	73.96	93.59	66.17
Net losses (% of avg. principal outstanding)(ii)	0.82	0.33	0.45	0.34	0.64	0.90	0.69

(i)As a percentage of the number of delinquent contracts. (ii)Percentages have been annualized for the three months ended March 31.

Origination Static Pool Analysis

To derive our base-case loss for the VALET 2023-1 transaction, we analyzed static pool originations on loans VCI had originated since 2005. The data we received from VCI were segmented by new and used vehicle composition, original term, and FICO band. We determined net loss projections for each combination of these credit buckets using origination quarters that had at least 12 months of performance data. We focused more on recent quarterly vintages between 2017 and first-quarter 2020, and then weighted these projections based on the actual concentration of the various segments in the VALET 2023-1 pool. We also considered the early performance of the quarterly vintages we did not project. In addition, we examined the paid-off and outstanding VALET securitizations' CNL and cumulative gross loss performances.

VALET Transaction Performance

We have outstanding ratings on VALET 2021-1, which has exhibited performance better than our initial expectation (see "Ratings Affirmed On Three Classes From Volkswagen Auto Loan Enhanced Trust 2021-1," published May 8, 2023).

Table 5

VALET collateral performance and CNL expectations (%)

As of the May 2023 distribution date

Series	Month	Pool factor (%)	Current CNL (%)	60-plus-day delinquencies (%)	Initial lifetime expected CNL (%)	Revised lifetime expected CNL(%)
2020-1(i)	35	17.86	0.60	0.19	N/A	N/A
2021-1(ii)	18	49.49	0.41	0.15	0.85-0.95	0.70

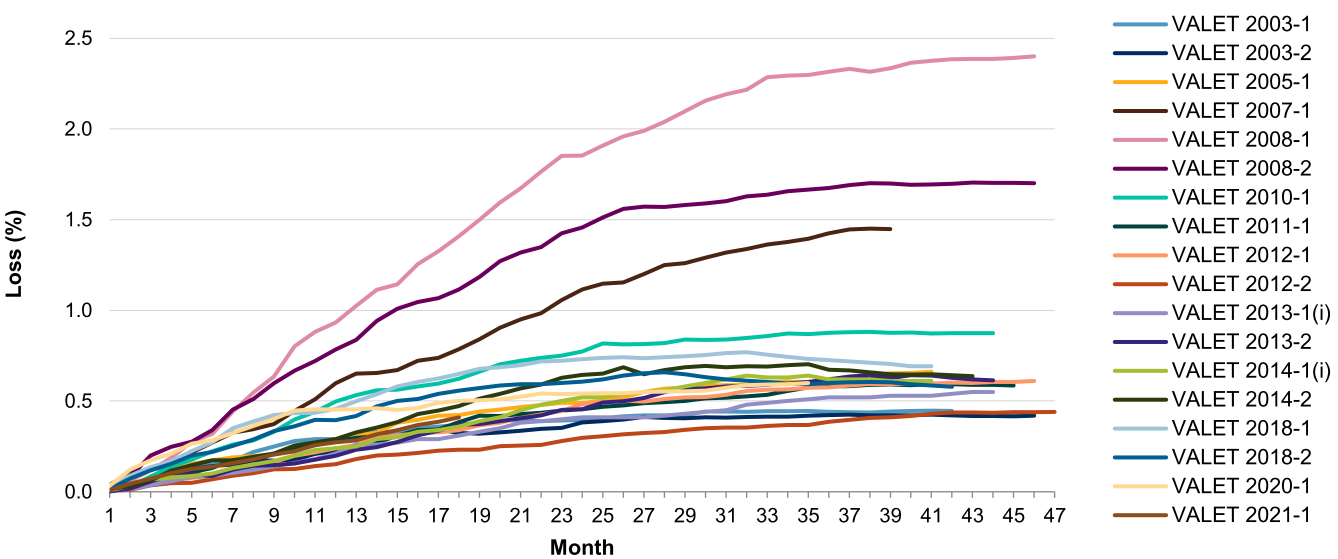
(i)Not rated by S&P Global Ratings (ii)Revised lifetime net losses in May 2023. CNL--Cumulative net loss. N/A-–Not applicable

For the paid-off securitizations (series 2003-1 through 2018-2), CNLs were 0.42%-2.40%, of which the higher end occurred during the 2007-2009 recession. After 2009, all of the securitizations have performed better than our original expectations. This is also due to better borrower credit profiles, higher FICO scores, and fewer used cars in the transactions after the recession.

For the post-recession transactions that have all paid off (series 2010-1 through 2018-2), lifetime net losses were in the range of 0.44% (2012-2) to 0.87% (2010-1). For the most recent paid-off transaction, 2018-2, lifetime net losses were 0.60%, near the middle of this range. The FICO range for these transactions were 750-774 and used vehicle percentages were in the 24%-33% range. The percentage of greater-than-60-month original term loans were in the 43%-60% range. In comparison, series 2023-1's weighted average FICO is 768, used vehicle percentage is approximately 31%, and greater-than-60-month original term loan percentage is approximately 64% with approximately 3% having original term greater than 72 months. From an overall pool composition perspective, in our view, series 2023-1 is marginally weaker than prior transactions. The incrementally higher percentage of longer-term contracts and inclusion of greater than 72-months loans are credit negative.

Chart 1

VALET securitization cumulative net losses



(i)Not rated by S&P Global Ratings. VALET--Volkswagen Auto Loan Enhanced Trust.

Legal Overview and Transaction Structure

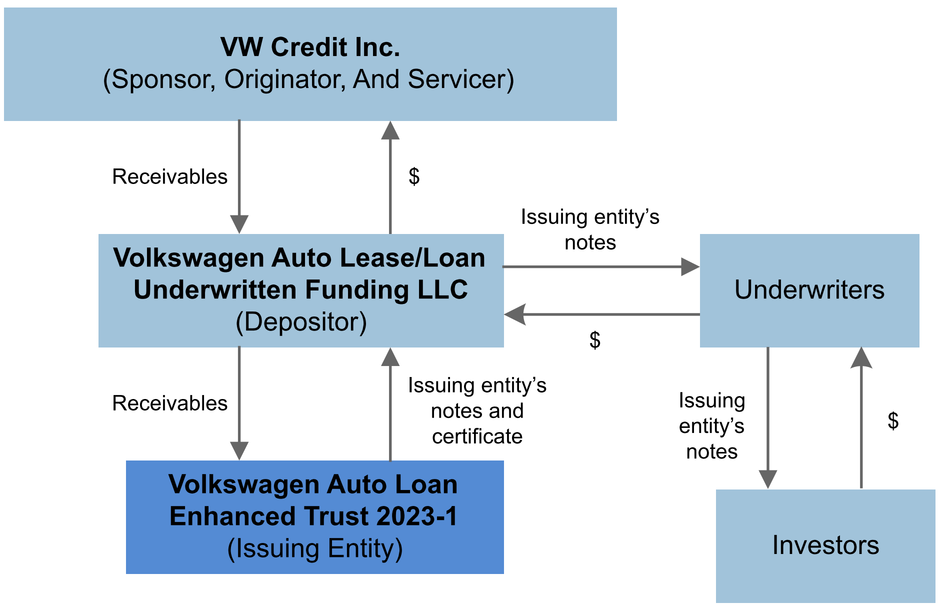
Legal overview

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

VALET 2023-1 is structured as a true sale of the receivables from VCI (the originator) to Volkswagen Auto Lease/Loan Underwritten Funding LLC (the depositor), a bankruptcy-remote, multiple-use, special-purpose entity. The depositor, in turn, will transfer and assign the receivables to VALET 2023-1, the issuing entity. The issuing entity will pledge its right, title, and interest in the receivables to the indenture trustee, which will have a first-priority perfected security interest in the receivables for the noteholders' benefit.

Chart 2

Transaction structure



Transaction Structure

VALET 2023-1 incorporates the following structural features:

- A sequential-pay mechanism in which principal will be paid to the notes in sequential order.
- Four tranches of class A notes. Class A-1 will be money market eligible. The class A-2 notes may consist of two tranches: the class A-2-A fixed-rate notes and the class A-2-B floating-rate notes. The class A-2-B notes are indexed to SOFR plus a spread and may constitute up to 50.00% of the class A-2 notes.
- An initial and target reserve account equal to 0.25% of the initial adjusted pool balance. The adjusted pool balance equals the collateral pool balance minus the YSOA. The reserve account target amount will remain at 0.25% of the initial adjusted pool for the transaction's life.
- An initial overcollateralization amount equal to 3.00% of the initial adjusted pool balance. Overcollateralization equals the excess of the adjusted pool balance minus the notes' outstanding principal amount. The overcollateralization target will remain at 3.00% of the initial adjusted pool for the transaction's life.
- A YSOA that initially will equal 10.46% (10.45% if upsized) of the initial adjusted pool balance

and will amortize based on a set schedule. The YSOA is sized so that the yield on the contracts with an APR below the YSOA discount rate is raised to the required rate, which is 9.25%. The YSOA is included to address the liquidity risk associated with the low interest rate loans in the securitized pool.

Payment Priority

Distributions will be made from available funds according to a certain priority (see table 6). The funds in the reserve account will be available to cover interest shortfalls and principal payment on the notes at final maturity.

Table 6

Payment waterfall

Priority	Payment
1	Reimburse outstanding advances to the servicer.
2	The 1.00% servicing fee to the servicer.
3	Fees and expenses, pro rata, to the trustees and asset representations reviewer, capped at $275,000 annually.
4	Interest to the class A noteholders.
5	Principal to the class A noteholders(i).
6	To the reserve account until the specified reserve account balance is achieved.
7	Unpaid fees and expenses, if any, pro rata, to the trustees and asset representations reviewer that were not paid in item 3 above.
8	Any remainder to the certificateholders.

(i)Principal will be paid to the class A notes in sequential order. After an event of default and an acceleration of the notes occur, principal will be paid to the class A-1 notes until paid in full, and then to the class A-2, A-2, A-3, and A-4 notes, pro rata.

Cash Flow Modeling Assumptions and Results

In our cash flow analysis, we assess the availability of asset cash flows to meet the transaction's promised obligations under a variety of stress assumptions, while considering the transaction structure and available credit support. We also use our cash flow analysis in other aspects of our ratings analysis, including the testing of credit stability (sensitivity analysis) and legal final analysis.

In a stressed scenario, liquidity risk could arise due to interest shortfalls from the yield on the loans being lower than the yield on the notes (negative carry risk). This could occur because the notes pay sequentially, leading to higher-coupon debt remaining outstanding at the tail end of the transaction. In this transaction, negative carry risk is being addressed through the YSOA.

Break-Even Analysis

For the VALET 2023-1 transaction structure, we used a bifurcated-pool method and applied the assumptions outlined in table 7 in our cash flow analysis to simulate stress scenarios that we believe are appropriate for the assigned preliminary ratings. To assign a rating to a class, we consider the class's lower break-even levels (the maximum net losses the class can withstand without defaulting) and generally expect it to be equal to or greater than the rating stressed scenario break-even requirement.

Under this approach, we bifurcated the pool between low-APR loans (those with an APR of 5% or less) and high-APR loans (those with an APR greater than 5%) and applied different prepayment and default assumptions between the two pools. For high-APR loans, we ran faster voluntary prepayments, disproportionately higher losses, and faster loss timing than for the underwater loans. Conversely, we ran a slower voluntary prepay speed, disproportionately lower losses, and slower loss timing on the low-APR loans.

These combined assumptions caused the weighted average APR of the pool to decrease faster over time, which increases the likelihood that the YSOA will be used for yield enhancement rather than credit enhancement, thus decreasing the break-even levels.

For the class A-2-B floating-rate tranche, we applied our stressed interest rates for one-month SOFR as described in our criteria and corresponding guidance "Methodology To Derive Stressed Interest Rates In Structured Finance," published Oct. 18, 2019. We modeled the maximum potential size of the class A-2-B note balance (up to 50% of the class A-2 notes) indexed to SOFR.

Table 7

Break-even cash flow assumptions

Servicing fee (%)	1.00
Recovery rate (%)	50
Charge-off and Recovery lag (mos.)	4
Bifurcated pool (%)	
Low APR	65
High APR	35
Loss allocation (% of total losses)	
Low APR	55
High APR	45
Voluntary ABS (%)	
Low APR	0.25
High APR	1.50
CNL timing mos.: 12/24/36/48/60 (%)	
Low APR	30/70/90/100
High APR	50/85/95/100

ABS--Absolute prepayment speed. APR--Annual percentage rate. CNL--Cumulative net loss. Mos.--Months.

Based on our cash flow runs, in which we applied the aforementioned stresses, the break-even results show that the class A notes are credit-enhanced to the degree appropriate for the assigned preliminary ratings (see table 8).

Table 8

Break-even cash flow results

Class	A-1/A-2/A-3/A-4
Preliminary rating	A-1+/AAA (sf)

Table 8

Break-even cash flow results (cont.)

CNL timing mos.: 12/24/36/48/60 (%)	
Aggregate	39/77/92/100
Low APR	31/72/92/100
High APR	50/85/95/100
Approximate break-even CNL levels (%)(i)	
Required	4.75
Available	8.10

(i)The maximum cumulative net losses, with 100% credit to any excess spread, the transaction can withstand without triggering a payment default on the relevant class of notes. CNL--Cumulative net loss. Mos.--Months.

Sensitivity Analysis

In addition to running break-even cash flows, we undertook sensitivity analyses using the assumptions in table 7. We believe that under a moderate ('BBB') stress scenario (2.00x of our 0.95% expected loss level) and with 100% credit to any excess spread, all else being equal, our preliminary ratings will be within the credit stability limits specified by section A.4 of the Appendix in "S&P Global Ratings Definitions," published Nov. 10, 2021 (see table 9 and chart 2).

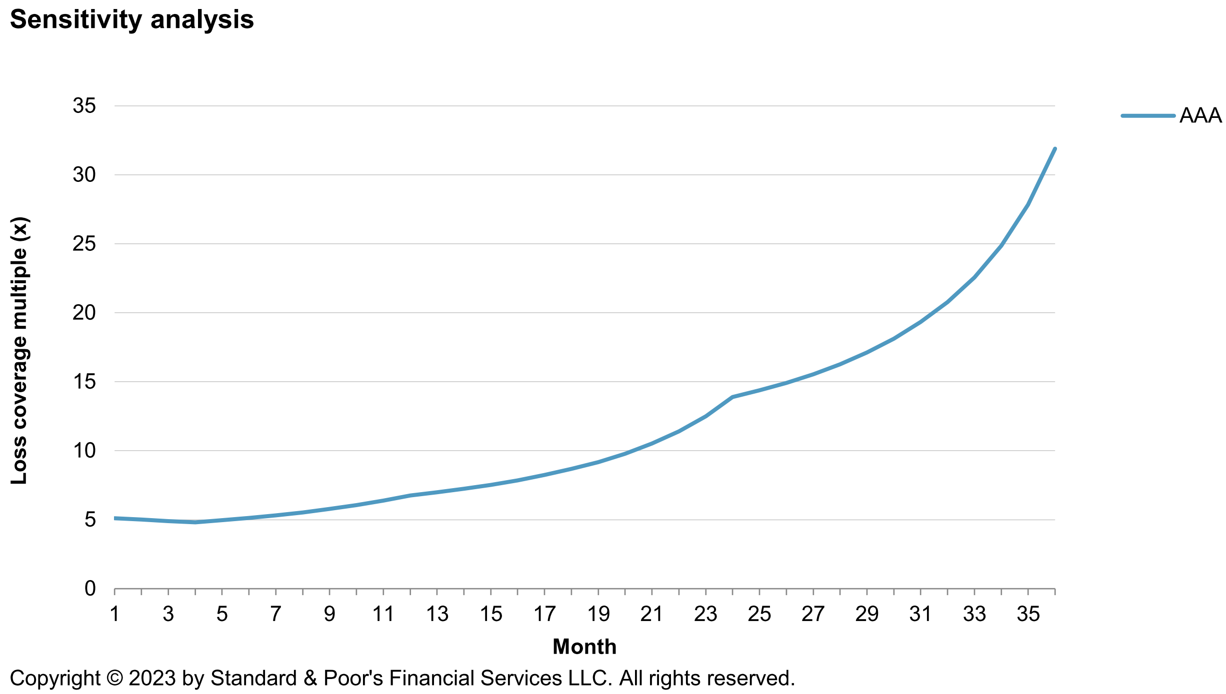
Table 9

Credit stability as a limiting factor on ratings

	Maximum projected deterioration(i) associated with rating levels for one-and three-year horizons under moderate stress conditions					
	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 3



Money Market Tranche Sizing

The proposed money market tranche (class A-1) has a 12-month legal final maturity date of June 20, 2024. To test whether the money market tranche can be repaid by its legal final maturity date, we ran cash flows using assumptions to delay the principal collections. In addition to zero defaults, we assumed a 0.5% absolute prepayment speed on high-APR loans and a 0.0% absolute prepayment speed on low-APR loans in our cash flow scenario. Based on our cash flow scenario, approximately 10 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 long-dated intermediate tranches (i.e., classes A-2 and A-3), we determined the date on which the respective notes were fully amortized in a zero-loss, zero-prepayment scenario and then added three months to the result. We also looked to see when these notes paid off in our 'AAA' stressed cash flow scenarios. For the longest-dated security (class A-4), we determined the latest maturing loan's distribution date and then added eight months to accommodate extensions. Further, in the break-even scenario for each respective rating level, we confirmed that there was sufficient credit enhancement to cover losses and repay the related notes in full by the legal final maturity date.

Counterparty And Operational Risks

Bank account provider

On or before the closing date, the series bank accounts will be established with U.S. Bank N.A. (in the name of the indenture trustee, for the benefit of the noteholders) as segregated trusts accounts. The bank account provider is expected to be consistent with our counterparty criteria for a 'AAA' supported transaction (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

Servicer

As servicer, VCI has a long and established history in the auto finance business as well as an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. VCI is not rated by S&P Global Ratings, and commingling risk is addressed by the requirement that all collections are deposited into the series' collections account within two business days of collection. Our operational risk assessment of VCI as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

Regulatory

VCI and the key transaction parties are subject to various regulatory investigation and/or legal proceedings that may arise in their ordinary course of business. These include, without limitation, judgments, settlements, fines, penalties, or other actions, which could be substantial and negatively affect the way servicing is conducted, and thus adversely affect the noteholders. We will assess these outcomes when available to determine any impact on our counterparty and operational risk assessments.

VCI

VCI was incorporated in April 1981 and is a wholly owned subsidiary of Volkswagen Group of America Inc., which is a wholly owned subsidiary of Volkswagen AG (BBB+/Stable/A-2). VCI is Volkswagen Group of America Inc.'s financing arm, and its purpose includes purchasing retail installment sales contracts and leases from Volkswagen and Audi dealers. VCI offers wholesale floorplan financing and retail auto loan and lease financing. VCI's underwriting, servicing, and collection activities are conducted primarily at its Libertyville, Ill., and Hillsboro, Ore. processing centers.

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

Related Research

- U.S. Auto Loan ABS Tracker: March 2023 Performance, May 18, 2023
- Ratings Affirmed On Three Classes From Volkswagen Auto Loan Enhanced Trust 2021-1, May 8, 2023
- Credit Conditions North America Q2 2023: Coalescing Stresses, March 28, 2023
- Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise, March 27, 2023
- Volkswagen AG, Feb. 21, 2023