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**Presale:**

**BMW Vehicle Lease Trust 2016-2**

This presale report is based on information as of Sept. 29, 2016. 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.

**Preliminary Ratings Assigned As Of Sept. 29, 2016**

Class	Preliminary rating(i)	Type	Interest rate(ii)	Preliminary amount (mil. \$)	Expected legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	120.00	Oct. 20, 2017
A-2a/A-2b(iii)	AAA (sf)	Senior	Fixed/floating	440.00	Jan. 22, 2019
A-3	AAA (sf)	Senior	Fixed	350.00	Sept. 20, 2019
A-4	AAA (sf)	Senior	Fixed	90.00	Feb. 20, 2020

(i)The rating on each class of securities is preliminary and subject to change at any time. (ii)The actual coupons of these tranches will be determined on the pricing date. (iii)The class A-2a notes will be issued as fixed-rate notes, and the class A-2b notes will be issued as floating-rate notes. The principal amount allocation between the class A-2a and A-2b notes will be determined on the day of note pricing. The initial principal amount of the class A-2b notes is not expected to exceed \$140 million.

**Profile**

Expected closing date	Oct. 13, 2016.
Collateral	Prime auto lease receivables.
Sponsor, servicer, and administrator	BMW Financial Services NA, LLC
Origination trust	Financial Services Vehicle Trust.
Vehicle trustee	BNY Mellon Trust of Delaware.
UTI beneficiary	BMW Manufacturing L.P.
Depositor	BMW Auto Leasing LLC
Indenture trustee	Citibank, N.A.
Owner trustee	Wilmington Trust N.A.

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## Profile (cont.)

Underwriters Credit Suisse Securities (USA) LLC, Mizuho Securities USA Inc., SG Americas Securities LLC

## Credit Enhancement Summary(i)

	BMWLT	
	2016-2	2016-1(iii)
Overcollateralization (%)		
Initial	15.90	16.80
Target (as long as the class A-2 notes are outstanding)	18.05	18.95
Target (after the class A-2 notes are paid in full)	17.25	18.95
Reserve account (%)		
Initial	0.25	0.25
Target	0.25	0.25
Total initial hard credit enhancement (%)	16.15	17.05
Total target hard credit enhancement (as long as the class A-2 notes are outstanding) (%)	18.30	19.20
Total target hard credit enhancement (after the class A-2 notes are paid in full) (%)	17.50	19.20
Estimated excess spread per year %(ii)	4.80	4.82
Discount rate (%)	7.35	7.50
Initial aggregate securitization value (\$)	1,189,061,630	1,201,923,080
Total securities issued (\$)	1,000,000,000	1,000,000,000

(i)All percentages are based on the initial aggregate securitization value. (ii)Reflects estimated annual excess spread at preliminary ratings and not reflect final pricing. (iii)Not rated by S&P Global Ratings. BMWLT--BMW Vehicle Lease Trust.

## Rationale

The preliminary ratings assigned to BMW Vehicle Lease Trust 2016-2's (BMWLT 2016-2's) asset-backed notes series 2016-2 reflect:

- The availability of approximately 24.1% credit enhancement in the form of 15.90% overcollateralization, which will build to a target of 18.05% of the initial securitization value and remain at this level while the class A-2 notes are outstanding, then decline to 17.25% of the initial securitization value after the class A-2 notes are paid in full; a 0.25% nonamortizing reserve account; and excess spread (all percentages are expressed as a percentage of the pool's initial securitization value).
- Our expectation that under a moderate ('BBB') stress scenario, all else being equal, the ratings on the class A notes will not decline by more than one rating category over a one-year period. This is consistent with our rating stability criteria, which describe the outer bounds of credit deterioration within one year as one rating category in the case of 'AAA' rated securities (see "Methodology: Credit Stability Criteria," published on May 3, 2010).
- The credit quality of the underlying collateral, which consists of prime auto lease receivables that have a weighted average FICO of 778.
- The diversified mix of vehicle models in the pool.
- The expected timing of the residuals' maturities.
- The historical retention values of the vehicles in the pool.
- Automotive Lease Guide's (ALG's) forecast of each vehicle's residual value at lease inception and of current

residuals.

- The timely interest and full principal payments by the notes' legal final maturity dates made under cash flow scenarios that we stressed for credit and residual losses that are consistent with the preliminary ratings assigned to the notes.
- The transaction's payment and legal structures.

Our expected credit loss for the BMWLT 2016-2 pool is 0.4%-0.5% of the securitization value, which reflects our static pool loss projections for BMWFS's lease originations, the credit loss performance of earlier BMWLT securitizations, peer collateral comparisons, and our macroeconomic outlook. Our 'AAA' stress scenario for credit loss is 2.0%-2.5% of the securitization value.

Our 'AAA' residual stress for the BMWLT 2016-2 pool is approximately 28.1% of the pool's aggregate undiscounted base residual value. In deriving our residual stress, we considered the BMWLT 2016-2 base residual values by model series, historical residual gains/losses over ALG by model series, the pool's residual maturity profile, the vehicle model concentration, the vehicle segment concentration, the consistency of the ALG's residual forecasts in relation to the BMW vehicles' historical retention values, the ALG's current forecast for the residual values of the vehicles included in the BMWLT 2016-2 pool, and our outlook on both the industry and the economy (see Expected Loss section for more information).

Overall, our stressed 'AAA' credit and residual loss level is 21.6% of the securitization value. The credit enhancement outlined above (and in the Cash Flow Modeling section) provides more than adequate support for our assigned preliminary ratings.

## Transaction Overview

BMWLT 2016-2 is BMW Financial Services NA, LLC's (BMW FS) second publicly placed auto lease term securitization in 2016 and the 11th auto lease term transaction from its BMW Vehicle Lease Trust platform since 2007.

The BMWLT 2016-2 transaction will include an overcollateralization step-down feature whereby the target overcollateralization level will decline to 17.25% from 18.05% on or after the payment date on which the class A-2 notes are paid in full. The additional available enhancement while the class A-2 notes are outstanding provides protection from any risks related to the issuance of an unhedged, floating-rate class of notes (class A-2b). Once the class A-2 notes are fully repaid, the additional enhancement is not needed.

Similar to BMW FS' previous auto lease securitizations, the transaction includes a nonamortizing reserve account amount and initial overcollateralization with target levels that are nonamortizing and will step down only after the class A-2 notes are paid in full. Note principal will be paid sequentially.

The receivables backing the BMWLT 2016-2 pool will consist of the monthly lease payments and base residual values (as defined in the Residual Value section) of a pool of lease contracts originated by BMW dealers. The leased vehicles will consist of new BMW-brand passenger cars and sport utility vehicles (SUVs).

The issuing trust will issue four classes of A notes. The class A-2 notes will be issued as two tranches. The class A-2a

notes will be issued as fixed-rate notes, and the class A-2b as floating-rate notes. The principal amount allocation between the two tranches will be determined on the pricing date. The class A-2a notes will rank pari passu with the class A-2b notes, which will not benefit from an interest-rate hedge. In our cash flow analysis, we applied appropriate stresses for a possible floating-rate note issuance, assuming a maximum size of \$140 million.

## Changes From The Series 2016-1 Transaction

The changes in credit enhancement from the series 2016-1 transaction (not rated by S&P Global Ratings) include:

- The initial overcollateralization, as a percentage of the initial aggregate securitization value, decreased to 15.90% from 16.80%.
- The target overcollateralization, as a percentage of the initial aggregate securitization value, decreased to 18.05% from 18.95%, and will further decrease to 17.25% once the class A-2 notes are fully repaid.

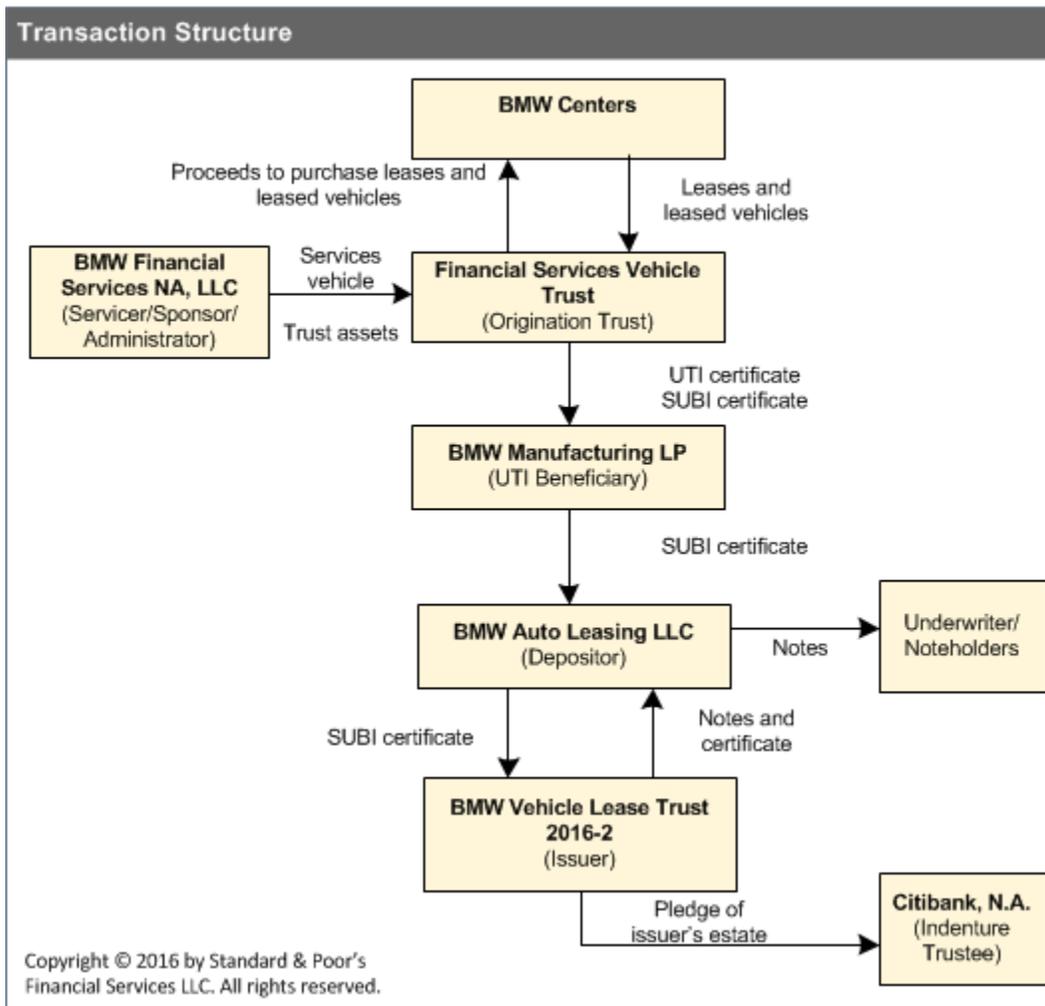
The changes in the collateral composition from the BWMLT 2016-1 transaction include:

- The weighted-average seasoning decreased to 9.6 months from 11.0 months.
- The top three model concentration by vehicles series (3 Series, 4 Series, and 5 Series), as a percentage of the initial aggregate securitization value, decreased to approximately 58% from 61%.
- The inclusion of a new vehicle model, X4, which represents 2.7% of the initial aggregate securitization value.

## Legal Structure

The receivables backing the BWMLT 2016-2 notes will comprise monthly lease payments and base residual values of a pool of lease contracts originated by BMW 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, Financial Services Vehicle Trust (the origination trust), a Delaware statutory trust. The origination trust will issue a special unit of beneficial interest (SUBI) certificate to BMW Manufacturing L.P., which will sell, transfer, and assign its interest in the 2016-2 SUBI to BMW Auto Leasing LLC (the depositor). The depositor will, in turn, transfer and assign the certificate representing its interest in the 2016-2 SUBI to BMW Vehicle Lease Trust 2016-2 (the issuer). The issuer will issue four classes of A asset-backed notes in an aggregate principal amount of \$1,000,000,000. It will also issue one class of asset-backed certificates, which represent the residual interest in the issuer. The issuer will pledge the SUBI certificate to the indenture trustee as security for the notes.

Chart 1



In rating this transaction, we will review the legal matters that we believe are relevant to our analysis, as outlined in our criteria.

### Pension Benefit Guaranty Corp. (PBGC) risk

The PBGC could impose a lien against the assets of any member of BMW AG's controlled group if the minimum contribution payments to a defined benefit pension plan required by law are unpaid or if an underfunded defined benefit pension plan is terminated. As a member of the controlled group, BMW FS' assets (including those leases and leased vehicles designated to the 2016-2 SUBI, which serves as the payment source to the issued series 2016-2 asset-backed notes) could be subject to a PBGC lien if the minimum contribution payments are not made or if there is a termination of an underfunded defined benefit plan. In our opinion, the risk of a PBGC lien on the leases and the residuals assigned to the 2016-2 SUBI, which is pledged to the series 2016-2 asset-backed notes, is mitigated by the pension plan's small size relative to the titling trust's assets and the company's history of keeping the plan funded at the appropriate levels.

## Payment Structure

On each payment date before the notes have been accelerated following an event of default, the indenture trustee will make distributions from available funds according to the payment priority shown in table 1. Principal on the notes will be paid sequentially.

**Table 1**

Payment Waterfall (Before Acceleration Following An Event Of Default)	
Priority	Payment
1	To the servicer, servicer advance reimbursement.
2	To the servicer, the servicing fee (1.00%) and any unpaid servicing fees from prior periods.
3	To the indenture trustee, owner trustee, and asset representations reviewer, pro rata, any fees, expenses, or indemnification amounts due and not paid, subject to a maximum of \$250,000 per year.
4	To the noteholders, interest on the notes, pro rata.
5	To the noteholders, the first priority principal distribution amount equal to the excess, if any, of the notes' outstanding amount over the securitization value.
6	To the reserve fund, the amount, if any, necessary to cause the amount on deposit in the reserve fund to equal the required reserve amount.
7	To the noteholders, the regular principal distribution amount sequentially(i).
8	To the indenture trustee, owner trustee, and asset representation reviewer, pro rata, any amounts due and not paid in item 3 in this payment waterfall.
9	To the certificateholders, any remaining amounts.

(i)The regular principal distribution amount is designed to build the initial overcollateralization level of 15.90% to the target level of 18.05% of the initial securitization value while the class A-2 notes remain outstanding. After the class A-2 notes are fully repaid, the target overcollateralization level will decrease to 17.25% of the initial securitization value. All of the required payments on the notes will be due and payable on each payment date (the 20th of each month or the next business day if the 20th is not a business day), beginning Nov. 21, 2016.

The occurrence and continuation of any of the following events will constitute an event of default for series 2016-2:

- Nonpayment of note interest for five days or more;
- Nonpayment of note principal on the respective legal final maturity date;
- A material default in the observance or performance of a covenant or agreement of the issuer or a breach of any representation or warranty of the issuer that is material and is not cured or eliminated within the specified time period; or
- The issuer becomes bankrupt or insolvent.

On each payment date after the notes have been accelerated following an event of default, the indenture trustee will distribute the available funds according to the payment priority shown in table 2.

**Table 2**

Payment Waterfall (After Acceleration Following An Event Of Default)	
Priority	Payment
1	To the indenture trustee, owner trustee, and asset representations reviewer, pro rata, any fees, expenses or indemnification amounts due and not paid.
2	To the servicer, servicer advance reimbursement.
3	To the servicer, the servicing fee (1.00%) and any unpaid servicing fees from prior periods.
4	To the noteholders, interest on the notes, pro rata.

**Table 2**

<b>Payment Waterfall (After Acceleration Following An Event Of Default) (cont.)</b>	
<b>Priority</b>	<b>Payment</b>
5	To the class A-1 noteholders, principal until the class A-1 notes are paid in full.
6	To the class A-2a, A-2b, A-3, and A-4 noteholders, principal, pro rata, until all classes of notes are paid in full.
7	To the certificateholders, any remaining amounts.

## Managed Portfolio

As of June 30, 2016, BMW FS' managed new lease portfolio outstanding comprised 477,588 contracts totaling \$20.75 billion. Total delinquencies increased to 0.61% as of June 30, 2016, up from 0.49% year-on-year. While the number of repossessions sold as a percentage of the average number of lease contracts outstanding is relatively steady at approximately 0.57% as of June 30, 2016, compared to 0.55% year-on-year, net losses as a percentage of the average dollar amount of lease contracts outstanding increased slightly to 0.19% for the six months ended June 30, 2016 from 0.15% for the six months ended June 30, 2015 (see table 3).

**Table 3**

	<b>For the six months ended June. 30</b>		<b>For the year ended Dec. 31</b>				
	2016	2015	2015	2014	2013	2012	2011
Leases outstanding (mil. \$)	20,753.38	18,924.41	20,296.35	17,689.37	15,346.40	13,069.42	11,900.97
Avg. leases outstanding (mil. \$)	20,524.87	18,306.89	18,992.86	16,517.89	14,207.91	12,485.20	11,5898.67
No. of leases outstanding	477,588	432,619	468,710	402,816	346,892	300,860	281,610
Delinquent leases(%) <sup>(i)</sup>							
31-60 days	0.47	0.40	0.54	0.51	0.59	0.66	0.53
61-90 days	0.10	0.08	0.10	0.10	0.12	0.12	0.10
91-120 days	0.02	0.01	0.02	0.03	0.03	0.03	0.02
121-150 days	0.01	0.00	0.01	0.01	0.01	0.01	0.01
Over 150 days	0.01	0.01	0.01	0.01	0.01	0.00	0.01
Total	0.61	0.49	0.69	0.65	0.76	0.83	0.69
Repossessions Sold(%) <sup>(ii)</sup>	0.57	0.55	0.54	0.55	0.56	0.72	0.90
Net losses (%) <sup>(iii)</sup>	0.19	0.15	0.16	0.16	0.12	0.14	0.17
Vehicles returned to BMW FS(%) <sup>(iv)</sup>	72	108	94	81	82	83	86
Total gain/(loss) on ALG residuals on vehicles returned to BMW FS(%) <sup>(v)</sup>	(3.4)	11.8	8.4	4.2	0.4	11.6	7.8

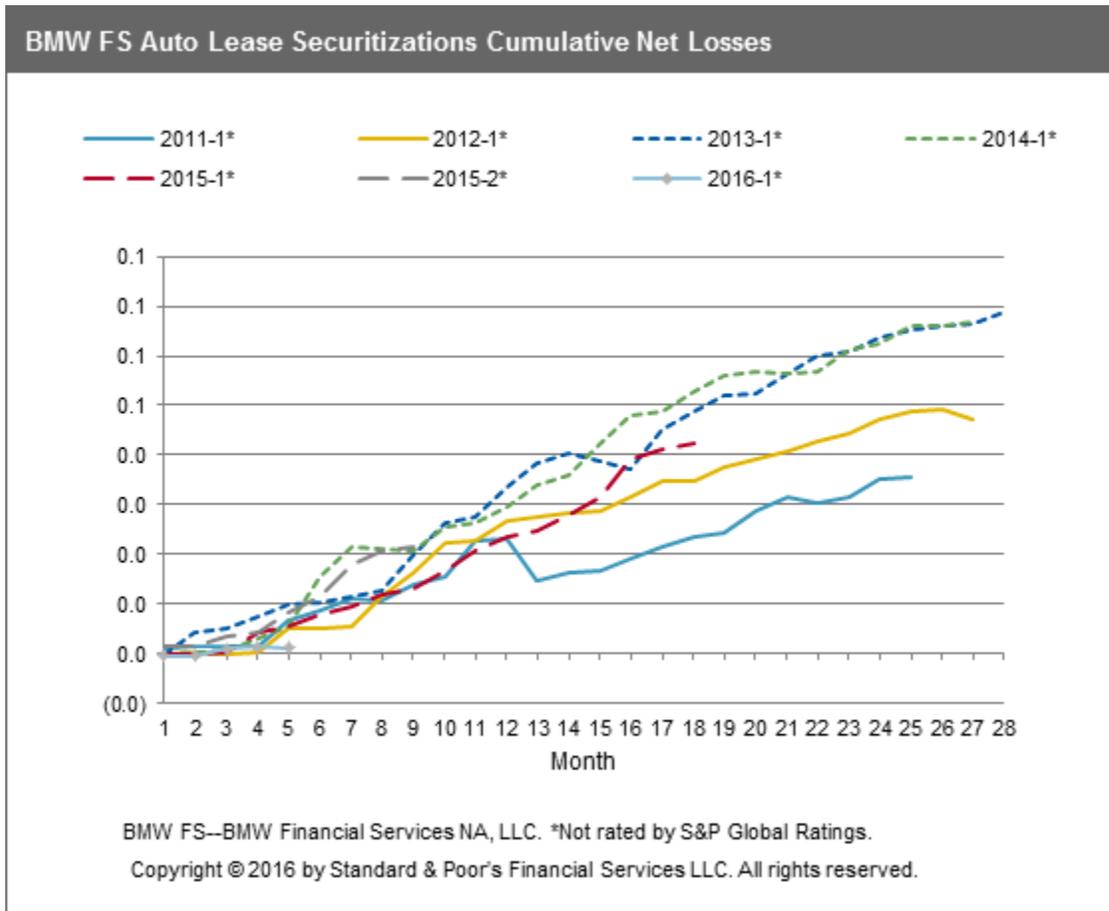
(i)As a percent of the lease balance outstanding. (ii)As a percent of the average number of leases outstanding. (iii)As a percent of the average dollar amount of leases outstanding. (iv)As a percent of the number of vehicles terminated. (v)As a percent of the ALG's residual value of returned vehicles sold by BMW FS. BMW FS--BMW Financial Services NA, LLC. ALG--Automotive Lease Guide.

For the six months ended June 30, 2016, BMW FS experienced total loss of 3.4% on ALG residuals on returned vehicles as a percentage of ALG residuals of returned vehicles sold by BMW FS. From 2011 through 2015, BMW FS experienced gains over ALG residuals on returned vehicles.

## Securitization Performance

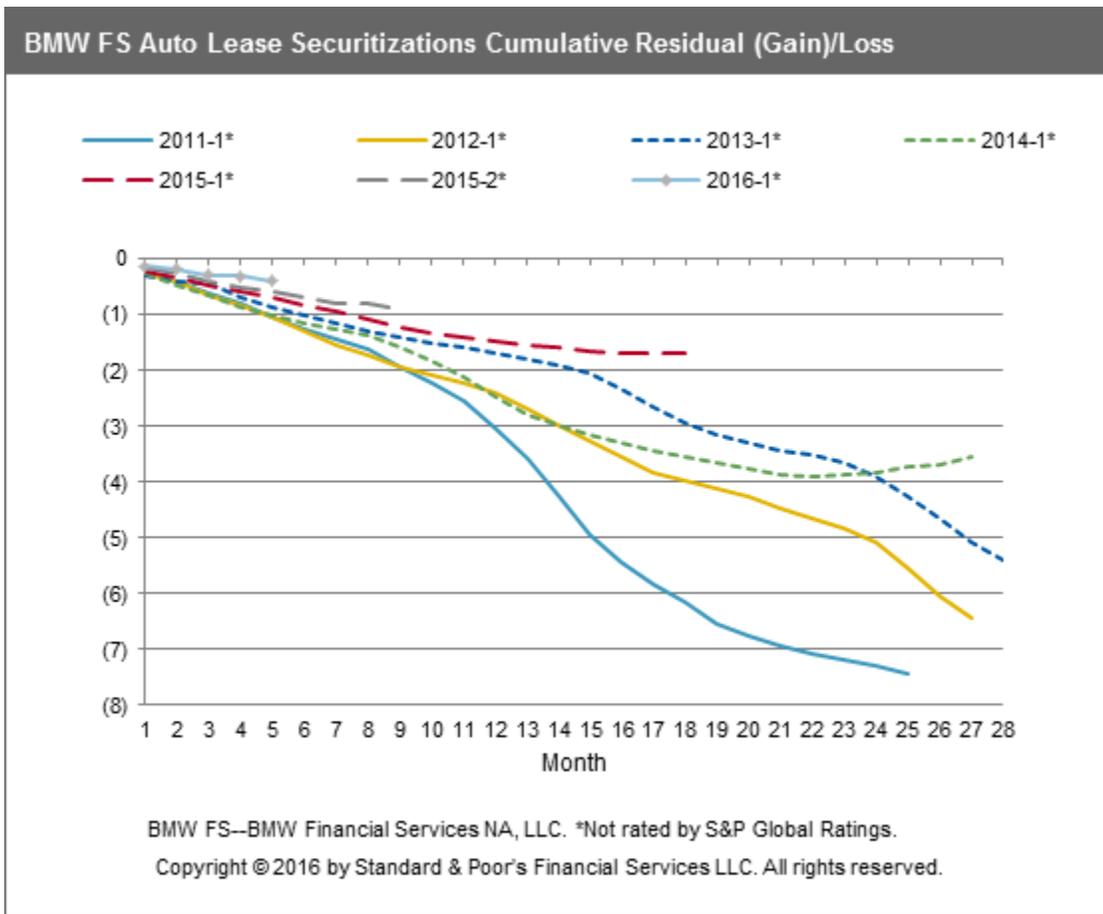
BMW FS' paid-off transactions, series 2011-1, 2012-1, 2013-1, and 2014-1, experienced very low cumulative net losses of 0.04%-0.07%. The outstanding transactions, series 2015-1, 2015-2, and 2016-1, are experiencing loss levels similar to the paid-off transactions (see chart 2).

**Chart 2**



BMW FS' paid-off securitizations, series 2011-1, 2012-1, 2013-1, and 2014-1, experienced cumulative residual gains of 3.55%-7.44%. The outstanding securitizations continue to experience residual gains, though, at a declining rate (see chart 3).

Chart 3



## Collateral Analysis

The BMWLT 2016-2 securitized pool comprises 31,919 prime auto lease receivables with a weighted-average FICO score of 778. The top five vehicle series—3 Series, 5 Series, 4 Series, X5, and X3—account for approximately 77% of the securitization value. The maximum lease term in the pool is 36 months. Passenger cars and crossover utility vehicles account for approximately 85% of the pool, while mid-size SUVs make up approximately 15%.

Table 4

	BMWLT 2016-2	BMWLT 2016-1(i)	BMWLT 2015-2(i)	BMWLT 2015-1(i)	BMWLT 2014-1(i)	BMWLT 2013-1(i)	BMWLT 2012-1(i)	BMWLT 2011-1(i)
Number of leases	31,919	32,198	31,258	31,256	30,052	30,900	32,429	32,636
Aggregate securitization value (\$)	1,189,061,630	1,201,923,080	1,201,944,688	1,203,373,850	1,194,030,113	1,201,201,826	1,208,459,568	1,230,778,011
Avg. securitization value (\$)	37,252	37,329	38,452	38,501	39,732	38,874	37,265	37,712

Table 4

Original Pool Characteristics (cont.)								
	BMWLT 2016-2	BMWLT 2016-1(i)	BMWLT 2015-2(i)	BMWLT 2015-1(i)	BMWLT 2014-1(i)	BMWLT 2013-1(i)	BMWLT 2012-1(i)	BMWLT 2011-1(i)
Weighted avg. FICO score	778	778	776	772	765	764	763	763
New vehicles (%)	100	100	100	100	100	100	100	100
Top five by vehicle series (%)								
3 Series	24.02	22.89	22.75	28.22	26.28	38.68	44.23	47.20
5 Series	18.98	24.71	21.79	25.07	27.88	27.17	25.44	27.17
4 Series	14.67	13.45	14.92	9.53				
X5	11.46	11.27	12.02	10.03	10.26	10.23	10.59	10.30
X3	8.06	8.99	8.67	8.30	8.46	7.84	5.74	
6 Series					9.23	6.09		2.99
7 Series							5.30	5.73
Total	77.19	81.31	80.15	81.15	82.11	90.01	91.30	93.39
Weighted avg. original term (mos.)	36	36	36	36	36	35	35	36
Weighted average remaining term (mos.)	26	25	25	27	26	26	25	25
Weighted avg. seasoning (mos.)	10	11	11	9	10	9	10	11
Original lease term (%)								
13-24 months	1.77	2.17	1.35	0.63	0.65	1.63	3.03	1.55
25-36 months	98.23	97.83	98.65	99.37	99.35	98.37	96.67	98.45
Top four state concentrations (%)								
	CA=14.79	CA=14.99	CA=14.48	CA=19.46	CA=19.53	CA=19.70	CA=19.66	CA=20.04
	FL=14.34	FL=14.06	FL=14.37	FL=13.56	FL=14.04	FL=13.31	FL=13.14	NJ=13.98
	NJ=12.62	NJ=12.44	NJ=12.45	NJ=11.90	NY=10.22	NY=11.79	NY=12.37	FL=13.45
	NY=10.38	NY=10.71	NY=10.99	NY=10.92	NJ=9.24	NJ=10.15	NJ=11.27	NY=11.81
Base residual value (\$)	847,938,683	878,782,310	884,879,982	878,050,422	860,902,985	854,322,877	894,295,680	872,931,378
Avg. base residual value (\$)	26,565	27,293	28,309	28,092	28,647	27,648	27,577	26,747
Base residual as a % of the aggregate securitization value	71.31	73.11	73.62	72.97	72.10	71.12	74.00	70.93

(i)Not rated by S&amp;P Global Ratings. BMWLT—BMW Vehicle Lease Trust.

## Residual Value

The notes that BMWLT 2016-2 will issue to finance the series 2016-2 pool are backed by a pool of leases, and the related leased vehicles, whose aggregate securitization value equals \$1,189,061,630. The leases' securitization value is the sum of the present value of each lease's remaining monthly lease payment and the related leased vehicle's base residual value (both discounted at the higher of 7.35% or the contract annual percentage rate. Each leased vehicle's base residual value is equal to the lower of the ALG's residual value estimate at the time of lease inception and the ALG's current residual value estimate as of August 2016. The base residual value provides a more conservative estimate of the vehicle's future value, which helps mitigate the noteholders' exposure to the losses associated with the contract residual values that are set higher than the expected residual values (a process called lease subvention). The BMWLT 2016-2 pool's undiscounted base residual value is \$847,938,683 or 71.31% of the pool's securitization value.

## Collateral Residual Timing

The leases in the BMWLT 2016-2 pool are scheduled to mature as shown in table 5.

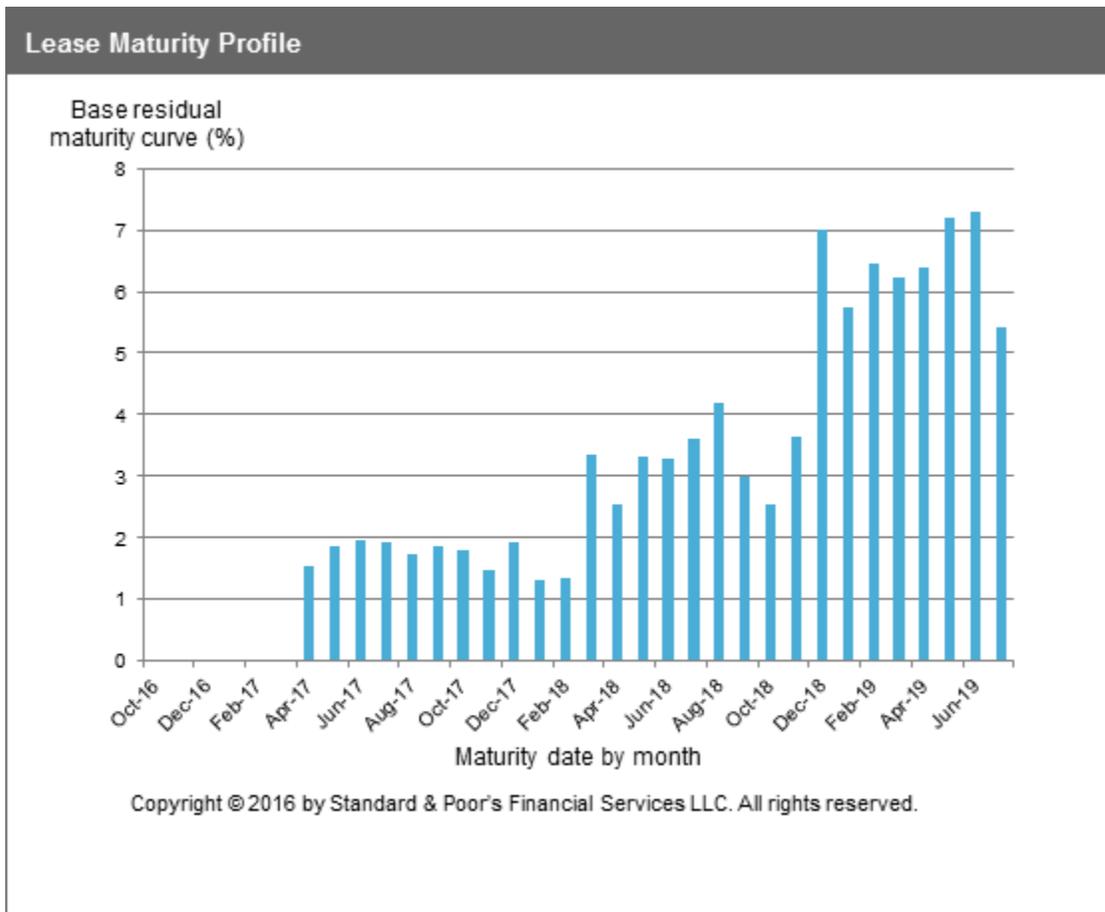
**Table 5**

BMWLT 2016-2 Lease Maturity Profile By Year(i)	
Year	%
2016	0.00
2017	16.14
2018	39.16
2019	44.70

(i)Percentage of the aggregate undiscounted base residual value. BMWLT--BMW Vehicle Lease Trust.

The BMWLT 2016-2 pool's initial lease maturities begin in April 2017 (see chart 4). Thereafter, there will be leases maturing each month until July 2019. There are eight months where the expected base residual maturity level exceeds our 5.0% benchmark concentration limit, all occurring during the tail-end of the transaction. The highest monthly maturity is 7.30% and is expected to occur in June 2019. If the used-car market becomes distressed in 2018-2019, the realized residual values could be lower than the base residual. This back-end risk is mitigated by the transaction's sequential payment structure, whereby the overcollateralization target (after step-down upon full payment of the class A-2 notes) and reserve account target amounts will not amortize until all of the notes are paid in full. The target credit enhancement will grow as the pool amortizes.

**Chart 4**



## Expected Loss

The BMWLT 2016-2 transaction has two principal risk components: credit and residual risks.

### Credit risk

The obligor's credit profile determines the credit risk. To derive the base-case credit loss for the series 2016-2 transaction, we used static pool credit loss data provided by BMW FS to project losses on its portfolio of lease originations segmented by lease term, FICO band, and new/used vehicle. We then weighted the projections by the actual concentration of those various segments in the series 2016-2 pool. We also looked at the loss performance of BMW FS' outstanding lease securitizations, as well as paid-off securitizations. We considered the BMWLT 2016-2 pool's collateral credit quality, BMW FS' overall managed portfolio performance, collateral and performance comparisons with peers, and the current economic conditions. Based on this information, we expect the BMWLT 2016-2 pool's cumulative net credit loss to be 0.40%-0.50% of the pool's securitization value.

### Residual risk

We examined and assessed residual risk on the BMWLT 2016-2 pool according to our auto lease criteria, "Revised General Methodology And Assumptions For Rating U.S. ABS Auto Lease Securitizations," published Nov. 29, 2011.

In our analysis of the series 2016-2 pool's base residual value, we considered the following factors:

- The stability of the historical used-vehicle values of the BMW vehicles;
- The basis behind ALG's current forecast;
- The basis for the differences between the actual values and the forecasts;
- The consistency of the manufacturers' suggested retail price;
- The top five BMW vehicle series (3 Series, 5 Series, 4 Series, X5, and X3), which make up approximately 77% of the series 2016-2 pool's initial aggregate base residual;
- BMW's near-term plans, if any, to discontinue or update the vehicle series in question;
- Brand perception; and
- Our macroeconomic outlook.

Based on these factors, we did not adjust the base residual value. The haircuts that we applied to the base residual value are as follows.

### **Base haircut**

According to our auto lease criteria, we first applied an initial 26.0% rating-specific haircut to the series 2016-2 pool's base residual value; this 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 percentage of the series 2016-2 pool's base residual to which we applied an excess concentration haircut is 16.35%, consisting of:

- Eight months (December 2018 to July 2019) in which the monthly residual value maturity exceeds our benchmark pool concentration limit of 5.00% per month. The total excess amount over our benchmark is 11.72%.
- The percentage of the 3 Series (24.63% of the base residual) included in the pool exceeds our benchmark pool concentration limit of 20.00%. The excess amount over our benchmark is 4.63%.

The pool is diversified by vehicle segment concentration; therefore, an additional haircut on this was not necessary.

### **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 corporate credit ratings (i.e., 'BB+' or lower).

BMW AG is the manufacturer of the leased vehicles backing the BMWLT 2016-2 pool. The current long-term corporate credit rating on BMW AG is 'A+', and the short-term rating is 'A-1'. Based on the corporate credit rating on BMW AG, it is not necessary to apply a speculative-grade manufacturer haircut to the series 2016-2 transaction under our current auto lease criteria.

### **Low diversification haircut**

For pools with low diversification, as described in our auto lease criteria, we will apply a low diversification haircut in addition to the aforementioned haircuts. Our auto lease criteria describe the six conditions for which, if met by the securitized lease pool, we will apply a low diversification haircut factor of 1.25 to increase the residual haircut. The six

conditions are summarized below:

- More than 20% of the residuals maturing in any one month;
- More than 50% of the residuals maturing in any three months;
- The pool contains three or fewer individual models;
- The pool contains more than 75% combined full-size and mid-size SUVs, full-size pickups, and full-size vans;
- The pool contains more than 75% combined compact and hybrid cars; and
- The pool contains more than 20% combined new and discontinued models.

The BMWLT 2016-2 pool does not meet any of these six conditions; therefore, we did not apply the low diversification haircut.

After analyzing the BMWLT 2016-2 lease pool, applying the relevant residual value haircuts, and assessing a stressed return rate of 100.0%, which represents the loss frequency on nondefaulted leased vehicles (95.0%), our stressed residual loss under an 'AAA' scenario is approximately 28.13% of undiscounted base residual value or 19.05% of the securitization value.

## Cash Flow Modeling

We tested the BMWLT 2016-2 transaction'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 dates under our 'AAA' stress scenarios.

We modeled the transaction to simulate a stress scenario commensurate with the assigned preliminary ratings. We assumed a 100.0% turn-in rate on the nondefaulting leases (approximately 95.0%) and no prepayments. The results show that the preliminary rated notes are enhanced to the degree necessary to withstand a level of stressed credit and residual losses that is consistent with the assigned preliminary ratings. The preliminary 'AAA (sf)' rated notes can withstand a cumulative net credit loss of 2.00%-2.50% of the securitization value (or approximately 5x our expected loss range) and residual losses of 19.05% of the securitization value (see table 6).

**Table 6**

Cash Flow Assumptions And Results	
Class	A
Scenario (preliminary rating)	AAA (sf)
Cumulative net loss percent (%)	0.40-0.50
Cumulative net loss timing (mos.)	12/24/36
Cumulative net loss (%)	40/80/100
Voluntary prepayments (%)	0.00
Recoveries (%)	50.00
Recovery lag (mos.)	4
Residual haircut	
Total residual haircut as a percent of the MSRP	13.00
Total residual haircut as a percent of the securitization value	19.05
Total residual haircut as a percent of the undiscounted base residual value	28.13

**Table 6**

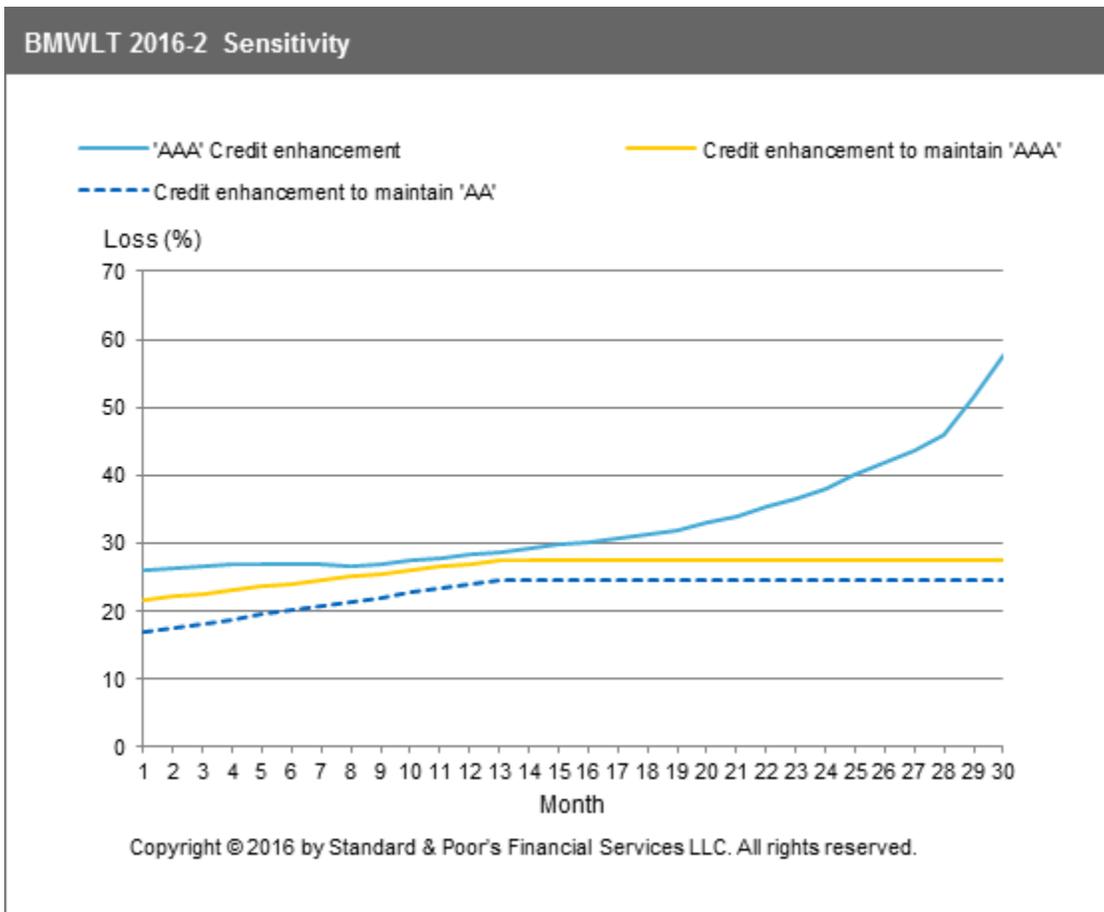
<b>Cash Flow Assumptions And Results (cont.)</b>	
Vehicle return rate (%)	100.00
Residual realization lag (mos.)	2
Result	
S&P Global Ratings' stressed credit and residual loss as a percent of the securitization value (%)	21.6
Approximate credit enhancement in the transaction based on Standard & Poor's credit stress and break-even residual stress as a percent of the securitization value (%)	24.1
MSRP--Manufacturer's suggested retail price.	

## Sensitivity Analysis

In addition to running stressed cash flows to analyze the amount of credit and residual losses the BMWLT 2016-2 transaction can withstand, we ran a sensitivity analysis to determine how credit and residual losses, which are in line with a moderate stress scenario, or a 'BBB' rating stress, could affect our ratings on the notes. According to our ratings stability criteria, we will not assign a preliminary 'AAA (sf)' rating if we believe that the rating would decline more than one rating category in the first year during a moderate stress scenario. We will also not assign a preliminary 'AAA (sf)' rating if we anticipate that the rating would decline by more than three rating categories in a three-year horizon under moderate stress conditions.

In our view, under the 'BBB' moderate stress scenario, all else being equal, we would expect our ratings on the class A notes to remain within one rating category of the assigned preliminary ratings in the first year and within three rating categories of the assigned preliminary ratings over a three-year horizon (see chart 5).

Chart 5



## Money Market Tranche Sizing

The proposed money market tranche (the class A-1 notes) has a 12-month legal final maturity date (Oct. 20, 2017). To test whether the money market tranche can be repaid by month 11, we ran cash flows using assumptions to delay the principal collections during the 12-month period. In our cash flow run, we assumed zero defaults and a 0.0 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 intermediate tranches (i.e., classes A-2 through A-3), we determined the date on which the respective notes were fully amortized in a zero-loss, zero-prepayment scenario and then added six months to the result. For the longest-dated security, class A-4, at least six months was added to the tenor of the pool's latest-maturing receivable to accommodate extensions and residual realization on the receivables.

In addition, we looked to see when the notes paid off in our stress cash flow scenarios. In each cash flow scenario, we confirmed there is sufficient credit enhancement to both cover losses and repay the related notes in full by their legal final maturity date.

## BMW Financial Services NA, LLC

BMW FS is a wholly owned subsidiary of BMW of North America, LLC, which itself is a wholly owned, indirect subsidiary of BMW AG, a German corporation and global premium automotive manufacturer. BMW FS supports the U.S. sales and marketing efforts of BMW of North America, LLC by offering a wide range of retail, leasing, and wholesale financing services to BMW dealers and their customers. Its headquarters is located at Woodcliff Lake, New Jersey.

## Related Criteria And Research

### Related Criteria

- Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- U.S. Interest Rate Assumptions Revised for May 2012 And Thereafter, April 30, 2012
- Revised General Methodology And Assumptions For Rating U.S. ABS Auto Lease Securitizations, Nov. 29, 2011
- General Methodology And Assumptions For Rating U.S. Auto Loan Securitizations, Jan. 11, 2011
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
- Legal Criteria For U.S. Structured Finance Transactions: Criteria Related To Asset-Backed Securities, Oct. 1, 2006
- Legal Criteria For U.S. Structured Finance Transactions: Appendix III: Revised UCC Article 9 Criteria, Oct. 1, 2006
- Legal Criteria For U.S. Structured Finance Transactions: Securitizations By Code Transferors, Oct. 1, 2006
- Legal Criteria For U.S. Structured Finance Transactions: Select Issues Criteria, Oct. 1, 2006
- Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006
- Assessing the Risk of Pension Plan Terminations on U.S. Auto Lease Securitizations, Aug. 17, 2004

### Related Research

- BMW AG, Jan. 8, 2016
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?", March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC-', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

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