# The Erosion of Prime:

## Systemic Data Obfuscation and Structural Risk in Carvana P-Series Auto ABS

*Formal Complaint regarding Carvana Auto Receivables Trust (CVNA)*
*Regulatory Compliance and Risk Disclosure*

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# 1 Executive Summary

This submission provides evidence that the issuer of the Carvana P-Series Asset-Backed Securities (ABS) is utilizing a "Prime" designation to market a portfolio that has structurally migrated to subprime risk levels. Through quantitative analysis of Regulation AB II loan-level data, we identify a persistent pattern of **Data Integrity Failures**, **Collateral Deterioration**, and **Trigger Avoidance**.

Central to this complaint is the revelation that the issuer maintains a 100% "No-Doc" (Verification Code 3) profile across the pool, while simultaneously utilizing 73-month term extensions to mask a burgeoning collateral crisis where 36.1% of the loans are now "underwater." This confluence of unverified income and negative equity creates a systemic "Tail Risk" that remains inadequately disclosed to the investment community.

# 2 Argument 1: Systemic Failure of Income Verification (Code 3)

The foundational metric for any Prime ABS is the Payment-to-Income (PTI) ratio. In the P-Series, the issuer reports an attractive average PTI of **7.2%**. However, this figure is a statistical vanity metric due to the underlying data quality.

- **Stated Income vs. Verified Reality:** 100% of the loans in the pool utilize **Income Verification Code 3 (Stated, Not Verified)**.
- **Understatement of Default Probability:** By failing to verify income, the issuer effectively bypasses the primary guardrail against "Liar Loans." If actual borrower income is lower than stated, the true PTI is significantly higher, rendering the "Prime" affordability narrative materially misleading.

# 3 Argument 2: Predictive Failure and Model Decoupling

Regression analysis of the Credit Score vs. Interest Rate relationship reveals a fundamental breakdown in the issuer's risk-based pricing model.

Table 1: Regression Analysis: Evidence of Pricing Decoupling

| Trust | Slope | Intercept | $R^2$ | Correlation |
|---|---|---|---|---|
| 2021-P1 | -0.000363 | 0.3391 | 0.5387 | -0.7339 |
| 2022-P1 | -0.000361 | 0.3309 | 0.6073 | -0.7793 |
| 2024-P4 | -0.000275 | 0.3272 | **0.2480** | -0.4980 |
| 2025-P4 | -0.000363 | 0.3706 | 0.4640 | -0.6812 |

**Statistical Analysis:** A Prime pool should maintain high predictability ($R^2 > 0.50$). The crash to **0.2480** in 2024-P4 indicates that "Hidden Variables"—unrelated to borrower creditworthiness—are driving the pricing. While the issuer may cite Fed rate hikes as the cause, the data suggests the Fed hikes were used as cover for **Risk Layering** (extending terms to 73 months to maintain loan volume).

# 4 Argument 3: The Collateral Crisis (LTV and Negative Equity)

The issuer has leveraged extended loan terms to manage monthly affordability at the direct expense of the underlying collateral security.

- **The Underwater Threshold:** The percentage of loans with a Loan-to-Value (LTV) ratio > 100% exploded from **0.9% to 36.1%** in 18 months.
- **Structural Default Trap:** With an average term of **73 months**, the principal pay-down is too slow to outpace vehicle depreciation. This shift converts the security from an "Asset-Backed" instrument to a "Deficit-Backed" instrument, significantly increasing the Loss Given Default (LGD).

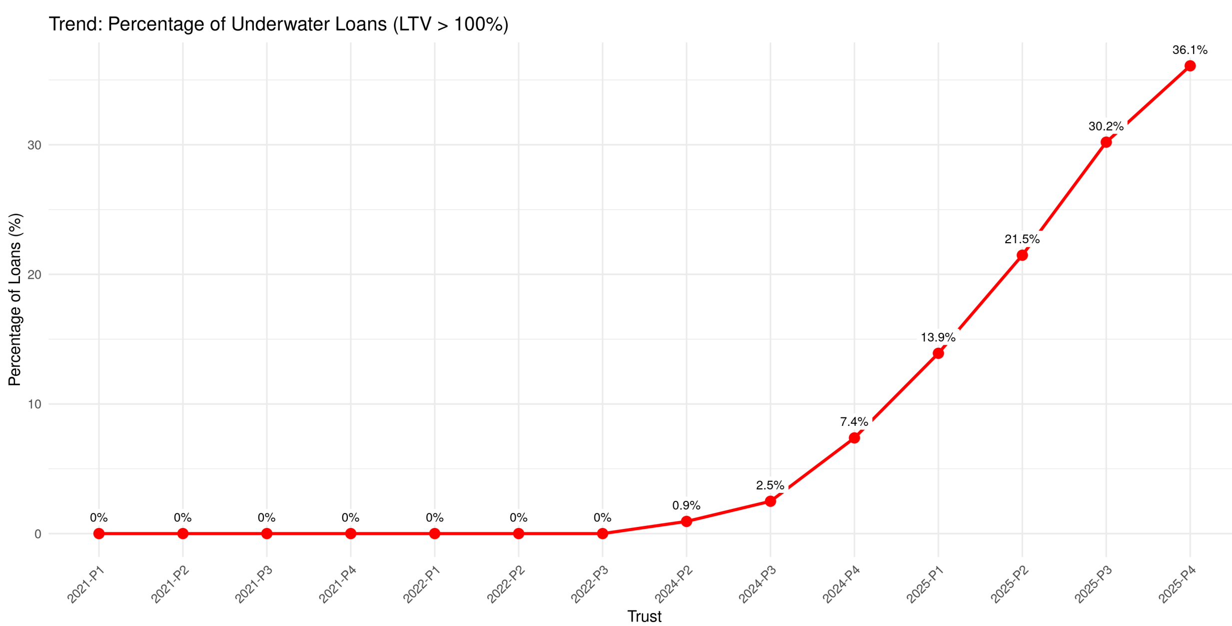


Figure 1: Trend: Percentage of Underwater Loans (LTV > 100%)

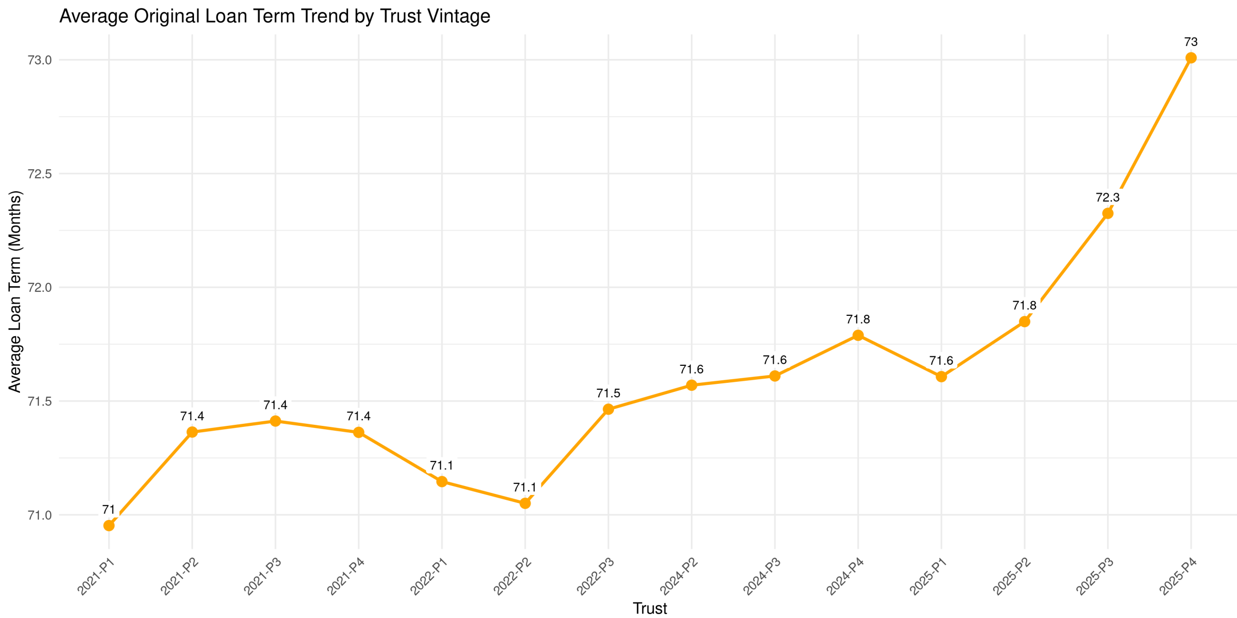


Figure 2: Trend: Average Original Loan Term (Months)

## 5 Argument 4: Performance Obfuscation and Trigger Manipulation

The most egregious evidence of risk concealment is found in the manipulation of delinquency triggers through aggressive loan extensions.

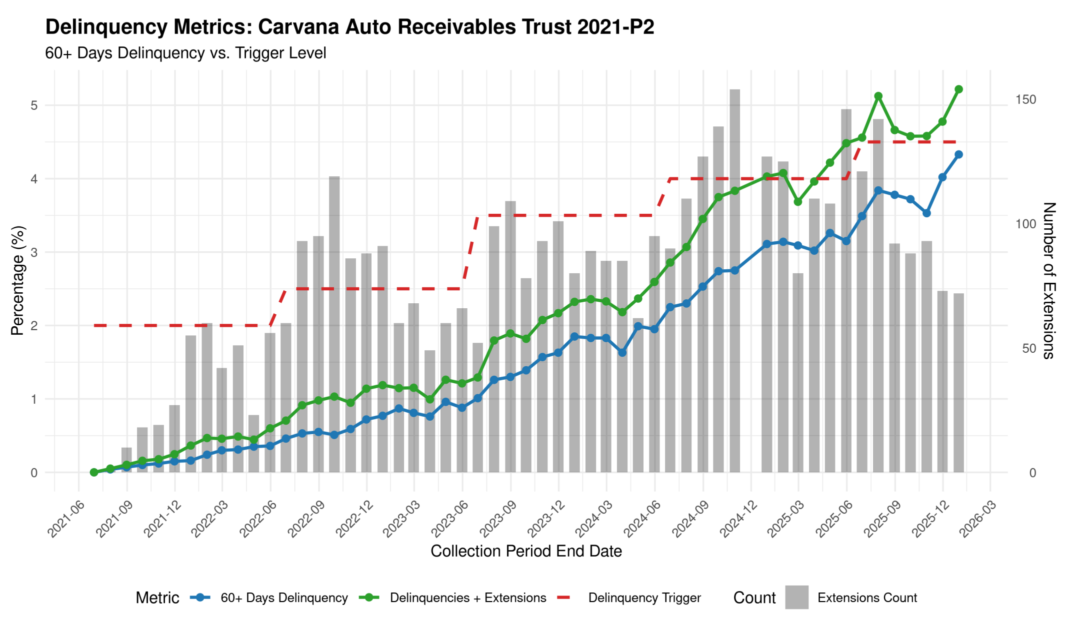


Figure 3: Delinquency vs. Extensions: 60+ Day Delinquency Breach Analysis

**The Deferral Mechanism:** As of late 2025, the reported 60+ Day Delinquency rate is **4.3%**. However, when including the volume of **Loan Extensions**—which effectively "reset" the delinquency clock—the adjusted delinquency rate spikes to **5.2%**. This is a clear breach of the **4.5% Delinquency Trigger**. By granting extensions specifically when the blue line approaches the red trigger line, the issuer is avoiding mandatory protective diversions of cash flow to bondholders.

## 6 Conclusion and SEC Action Requested

The Carvana P-Series exhibits a structural risk profile that is no longer consistent with a "Prime" classification. The combination of **Zero-Doc Lending**, **36% Negative Equity**, and **Active Trigger Avoidance** constitutes a failure of disclosure under Regulation AB II.

**We respectfully request:**

1. A formal investigation into the validity of "Code 3" income entries.
2. An audit of the "Extension" policy to determine if deferrals are being used to circumvent contractual performance triggers.
3. A mandatory restatement of risk-weighting to account for the 73-month term extension's impact on collateral recovery values.