S&P Global Ratings

Research

Presale:

Octane Receivables Trust 2023-2

May 11, 2023

Preliminary ratings

Class	Preliminary rating	Type	Interest rate	Amount ($ mil.)	Final maturity
A1	A-1+ (sf)	Senior	Fixed	37.00	May 20, 2024
A2	AAA (sf)	Senior	Fixed	154.88	June 20, 2031
B	AA (sf)	Subordinate	Fixed	32.13	June 20, 2031
C	A (sf)	Subordinate	Fixed	38.83	June 20, 2031
D	BBB (sf)	Subordinate	Fixed	19.04	June 20, 2031
E	BB (sf)	Subordinate	Fixed	18.12	June 20, 2031

Note: This presale report is based on information as of May 11, 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.

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Profile

Expected closing date	May 24, 2023.
Collateral	Consumer powersport receivables.
Originator	Roadrunner Financial Inc.
Servicer	Roadrunner Account Services LLC.
Sponsor	Octane Lending Inc.
Depositor	Octane Receivables LLC.
Issuer	Octane Receivables Trust 2023-2.
Indenture trustee	Wilmington Trust N.A.
Backup servicer	Wilmington Trust N.A., with Systems & Services Technologies Inc. as successor.
Owner trustee	U.S. Bank Trust N.A.
Structuring lead manager	ATLAS SP.

Credit enhancement summary

	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2	OCTL 2022-1	OCTL 2021-2
Subordination(i)					
Class A	35.50	27.65	23.20	24.75	15.75
Class B	24.95	19.40	14.40	16.45	6.50
Class C	12.20	11.20	8.70	9.85	0.00
Class D	5.95	3.80	0.00	2.95	0.00
Class E	0.00	0.00	--	0.00	--
Overcollateralization(i)					
Initial	1.50	2.35	5.35	1.45	0.00
Target	3.50	3.50	6.40	2.75	3.00
Floor	3.50	3.50	6.40	2.75	3.00
Reserve fund(i)					
Initial	1.00	1.00	1.00	1.00	1.00
Target	1.00	1.00	1.00	1.00	1.00
Floor	1.00	1.00	1.00	1.00	1.00
Total initial hard credit enhancement(i)					
Class A	38.00	31.00	29.55	27.20	16.75
Class B	27.45	22.75	20.75	18.90	7.50
Class C	14.70	14.55	15.05	12.30	1.00
Class D	8.45	7.15	6.35	5.40	--
Class E	2.50	3.35	--	2.45	--
Estimated excess spread per year (%)(ii)	5.62	4.54	4.60	5.39	8.56

(i)Percentage of the initial receivables balance. (ii)Estimated annual excess spread is pre-pricing for OCTL 2023-2 and post-pricing for the other series. OCTL--Octane Receivables Trust.

Rationale

The preliminary ratings assigned to Octane Receivables Trust 2023-2's (OCTL 2023-2) asset-backed notes reflect:

- The availability of approximately 40.71%, 31.02%, 20.30%, 14.35%, and 10.25% in credit support, including excess spread, for the class A (A1 and A2), B, C, D, and E notes, respectively, based on stressed cash flow scenarios. These credit support levels provide at least 5.00x, 4.00x, 3.00x, 2.00x, and 1.60x coverage of our stressed net loss levels for the class A, B, C, D, and E notes, respectively (see the Cash Flow Modeling 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 expectation that under a moderate ('BBB') stress scenario (2.00x our expected loss level), all else being equal, our ratings will be within the credit stability limits specified by section A.4

of the Appendix contained in "S&P Global Ratings Definitions," published Nov. 10, 2021.

- The collateral characteristics of the consumer powersport amortizing receivables securitized, including a weighted average nonzero FICO score of approximately 697 and an average monthly payment of approximately $293.
- The transaction's credit enhancement in the form of subordination, overcollateralization (O/C) that builds to a target level of 3.50% of the initial receivables balance, a nonamortizing reserve account, and excess spread (see the Credit Enhancement Summary table).
- The transaction's sequential-pay structure, which builds credit enhancement (on a percentage-of-receivables basis) as the pool amortizes.
- The transaction's payment and legal structure.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. In our view, the transaction has material exposure to environmental credit factors due to the collateral pool that 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 values adequately accounts for vehicle values over the relatively short expected life of the transaction.

Structural Changes From OCTL 2023-1

- Total initial hard credit support increased for the class A, B, C, and D notes to 38.00%, 27.45%, 14.70%, and 8.45%, respectively, from 31.00%, 22.75%, 14.55%, and 7.15%, while it decreased for the class E notes to 2.50% from 3.35%.
- Initial O/C as a percent of initial decreased to 1.50% from 2.35%. The target and floor O/C as a percent of initial remain unchanged at 3.50% each.
- Subordination for the class A, B, C, and D notes increased to 35.50%, 24.95%, 12.20%, and 5.95%, from 27.65%, 19.40%, 11.20%, and 3.80%, respectively.
- Excess spread increased to 5.62% (pre-pricing) from 4.54% (post-pricing).

Collateral Changes From OCTL 2023-1

- The weighted average loan-to-value (LTV) ratio decreased to 112.58% from 116.22%.
- Contracts with original terms greater than 60 months decreased to 63.38% from 66.04%, and contracts with original terms greater than 72 months decreased to 20.49% from 24.03%.
- The average outstanding loan balance decreased to $12,735 from $13,437.
- The average monthly payment decreased to $293 from $305.
- The concentration of pontoon hybrids, which have a larger average ticket size and less loss performance history, decreased to 0.41% from 0.62%.
- The weighted average FICO score decreased to 697 from 705, and the concentration of prime

receivables decreased to 47.44% from 56.25% (defined as risk tiers 1, 2, and 2.1 for static pool projection purposes. See the S&P Global Ratings' Expected Loss section).

- The weighted average seasoning decreased to 1.19 months from 3.72 months.

Overall, we believe the characteristics of the OCTL 2023-2 collateral pool are weaker than those of OCTL 2023-1's pool. We believe the improved pool characteristics such as lower LTVs, shorter contract terms, and the lower loan balance and monthly payments are offset by the lower weighted average FICO score and the lower concentration of prime contracts. Given recent weaker performance trends, including an increase in losses and delinquencies, as well as our view that the discretionary nature of the receivables backing the pool are sensitive to economic headwinds, we increased our base-case gross loss to 8.50%-9.00% from 7.25%-7.75%. For more information on the collateral composition, see the OCTL 2023-2 Pool section, and for more information on the loss expectations, see the S&P Global Ratings' Expected Loss section.

Obligor Base And The Powersport Segment

Octane Lending Inc. (Octane) considers its customer base to be stronger than the typical automobile borrower. The company's typical prime borrower is a homeowner with high income and a long job tenure. The top three industries that Octane's obligors are employed in are construction, manufacturing, and health care. As of March 31, 2023, 53% of Octane's customers were homeowners with a weighted average individual borrower income of approximately $86,000 and a weighted average borrower FICO score of 698. The average monthly payment was $281, as the cost of powersports equipment is less than the typical automobile (see table 1). According to the company, a significant percentage of its customers did not qualify for economic stimulus during the COVID-19 pandemic, given their high incomes.

Table 1

Managed portfolio borrower overview

	Prime	Nonprime	Total
Weighted avg. FICO score	732	645	698
Homeownership rate (%)	62	43	53
Avg. job tenure (years)	8	6	7
Avg. gross income ($000)	95	78	86
Avg. monthly payment ($)	307	255	281

Transaction And Legal Overview

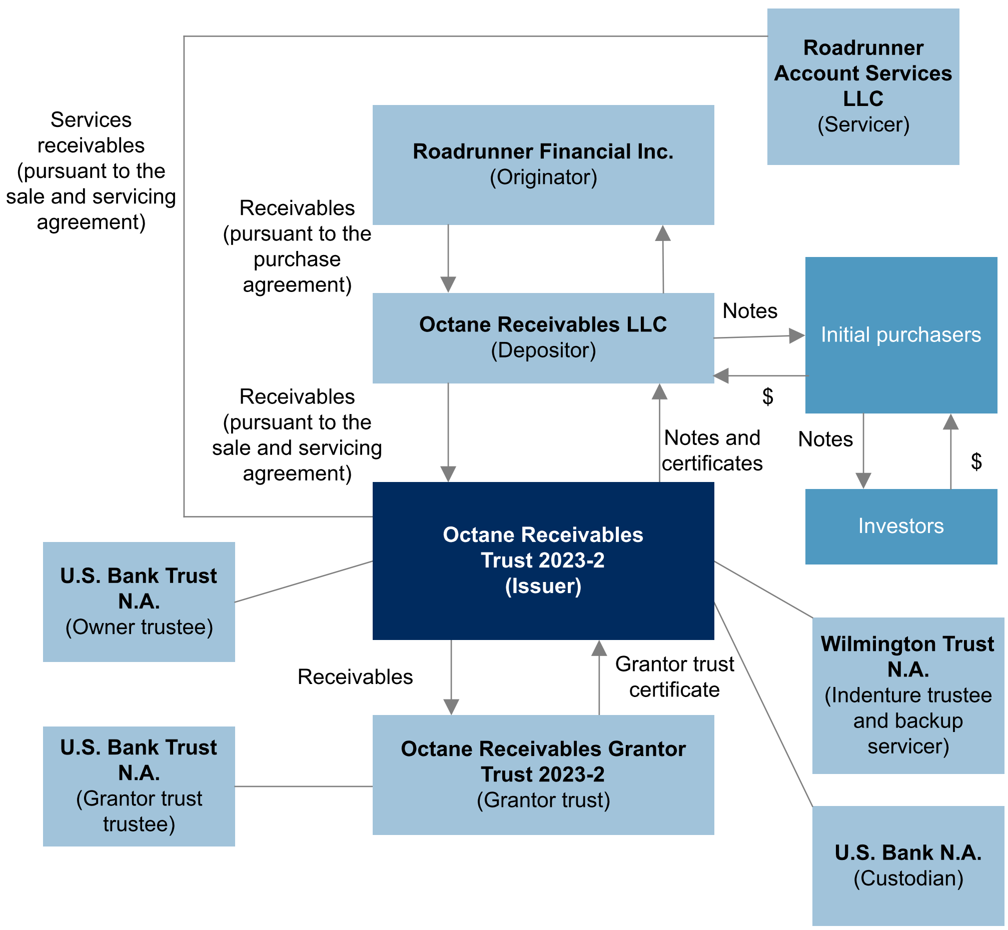
OCTL 2023-2 is Octane's eighth transaction since 2019 and the sixth rated by S&P Global Ratings.

This transaction is structured as a true sale of receivables from the originator (Roadrunner Financial Inc.) to the depositor (Octane Receivables LLC), and then as a transfer of the receivables to the issuer (OCTL 2023-2). The issuer will then transfer the receivables to the grantor trust (Octane Receivables Grantor Trust 2023-2) in exchange for a 100% beneficial interest in the grantor trust. The issuer will then transfer to the depositor the notes and certificates created by the grantor trust, which represent the entire beneficial interest in the issuer to be sold to the initial investors. The issuer and the grantor trust will pledge the collateral to the indenture trustee (Wilmington Trust N.A.) for the benefit of the noteholders (see chart 1).

Roadrunner Account Services (RAS) is the servicer for OCTL 2023-2, while Wilmington Trust N.A. is the backup servicer.

Chart 1

Transaction Structure



OCTL 2023-2 incorporates certain structural features:

- A senior-subordinated sequential-pay structure in which the senior-most notes outstanding are paid first.
- Hard credit enhancement in the form of subordination, O/C, and a reserve account.
- O/C that can build to a target of 3.50% of the original pool balance from 1.50% of the initial pool balance through excess spread.
- A non-amortizing reserve account that will equal 1.00% of the pool balance as of the closing date.

Payment Structure

Payment distributions before an event of default

Before an event of default, distributions will be made from available funds according to the priority shown in table 2.

Table 2

Payment waterfall before an event of default

Priority	Payment
1	The servicing fee to the servicer for the collection period and all unpaid servicing fees from prior collection periods. To the successor servicer, if applicable, any accrued and unpaid fees, reasonable expenses, and indemnification amounts, capped at $100,000 per year.
2	Pro rata to the backup servicer, indenture trustee, calculation agent, paying agent, note registrar, certificate paying agent, certificate registrar, grantor trust trustee, owner trustee, and custodian. Capped at $350,000 per year if RAS is the servicer and $300,000 if RAS is not the servicer. Transition costs are capped at $150,000.
3	The class A note interest to the class A noteholders.
4	First allocation of principal. Any amount by which the class A note balance (before giving effect to principal payments made on the class A notes) exceeds the pool balance as of the end of the related collection period; and, on and after the final scheduled distribution date, any amount necessary to reduce the class A note balance to zero.
5	The class B note interest to the class B noteholders.
6	Second allocation of principal. Any amount by which the sum of the class A and B note balance (before giving effect to principal payments made on the class A and B notes) exceeds the pool balance as of the end of the related collection period; and, on and after the final scheduled distribution date, any amount necessary to reduce the class B note balance to zero.
7	The class C note interest to the class C noteholders.
8	Third allocation of principal. Any amount by which the sum of the class A, B, and C note balance (before giving effect to principal payments made on the class A, B, and C notes) exceeds the pool balance as of the end of the related collection period; and, on and after the final scheduled distribution date, any amount necessary to reduce the class C note balance to zero.
9	The class D note interest to the class D noteholders.
10	Fourth allocation of principal. Any amount by which the sum of the class A, B, C, and D note balance (before giving effect to principal payments made on the class A, B, C, and D notes) exceeds the pool balance as of the end of the related collection period; and, on and after the final scheduled distribution date, any amount necessary to reduce the class D note balance to zero.
11	The class E note interest to the class E noteholders.
12	Fifth allocation of principal. Any amount by which the sum of the class A, B, C, D, and E note balance (before giving effect to principal payments made on the class A, B, C, D, and E notes) exceeds the pool balance as of the end of the related collection period; and, on and after the final scheduled distribution date, any amount necessary to reduce the class E note balance to zero.
13	To the reserve account, any amounts required to reach the specified reserve account balance.
14	The regular allocation of principle to the noteholders.
15	Pro rata any amounts payable under items one and two above to the successor servicer, backup servicer, indenture trustee, calculation agent, paying agent, note registrar, certificate paying agent, certificate registrar, grantor trust trustee, owner trustee, and custodian that are due but not paid because of any cap.

Table 2

Payment waterfall before an event of default (cont.)

Priority	Payment
16	Any remaining funds to the certificate holders.

RAS--Roadrunner Account Services.

On each payment date, principal distributions will be made sequentially to the class A, B, C, D, and E notes until each class is paid in full.

Events of default

The events that constitute an event of default are:

- A failure to pay timely interest on the senior-most outstanding class of notes;
- A failure to pay principal on any note on its final scheduled payment date or a redemption date;
- An uncured failure by the issuing entity to observe or perform any of its covenants or agreements in the indenture;
- An uncured material breach of a representation or warranty made by the issuing entity in the indenture; and
- A default of the issuing entity.

If an event of default occurs due to the first, second, or fifth point in the list above, the payment priority will change to the waterfall shown in table 3. If an event of default occurs due to the third or fourth point in the list above, the payment priority will shift to the waterfall shown in table 4.

Table 3

Payment waterfall after an event of default (monetary event of default and issuer bankruptcy)

Priority	Payment
1	To the servicer, the servicing fee for the collection period and all unpaid servicing fees from prior collection periods. To the successor servicer, if applicable, any accrued and unpaid fees, reasonable expenses, and indemnification amounts, uncapped.
2	Pro rata to the backup servicer, indenture trustee, calculation agent, paying agent, note registrar, certificate paying agent, certificate registrar, grantor trust trustee, owner trustee, and custodian, uncapped.
3	Class A notes interest (including accrued amounts).
4a(1)	Class A notes principal until paid in full.
4a(2)	Class B notes interest (including accrued amounts).
4a(3)	Class B notes principal until paid in full.
4a(4)	Class C notes interest (including accrued amounts).
4a(5)	Class C notes principal until paid in full.
4a(6)	Class D notes interest (including accrued amounts).
4a(7)	Class D notes principal until paid in full.
4a(8)	Class E notes interest (including accrued amounts).

Table 3

Payment waterfall after an event of default (monetary event of default and issuer bankruptcy) (cont.)

Priority	Payment
4a(9)	Class E notes principal until paid in full.
5	Pro rata, any remaining funds to the certificateholders.

Table 4

Payment waterfall after an event of default (other non-monetary event of default)

Priority	Payment
1	The servicing fee to the servicer for the collection period and all unpaid servicing fees from prior collection periods. To the successor servicer, if applicable, any accrued and unpaid fees, reasonable expenses, and indemnification amounts uncapped.
2	Pro rata to the backup servicer, indenture trustee, calculation agent, paying agent, note registrar, certificate paying agent, certificate registrar, grantor trust trustee, owner trustee, and custodian uncapped.
3	Class A notes interest (including accrued amounts).
4a	Class B through E interest sequentially (including accrued amounts).
4b	Class A through E note balances sequentially until paid in full.
5	Any remaining funds to the certificateholders, pro rata.

OCTL Transaction Performance

Octane has seven outstanding securitizations--two of which (OCTL 2019-1 and OCTL 2020-1) were not rated by S&P Global Ratings (see table 5).

On June 24, 2022, we raised our ratings on two classes and affirmed our ratings on one class from Octane Receivables Trust 2021-1 (see "Octane Receivables Trust 2021-1 Ratings Raised On Two Classes; One Affirmed"), and on Jan. 25, 2023, we raised our rating on one class and affirmed our ratings on two classes from OCTL 2021-1 (see "One Rating Raised And Two Affirmed From Octane Receivables Trust 2021-1"). The rating actions reflected the transaction's historical collateral performance and our expectations regarding future collateral performance. The actions also accounted for our view of the transaction's structure and its credit enhancement levels.

Given the short time since issuance, the 2021-2, 2022-1, 2022-2, and 2023-1 transactions have limited performance history and, as such, were excluded from our most recent review. However, it should be noted that some of the more recent series do appear to be showing an increase in the rate of net losses and delinquencies, which is likely attributable to a combination of seasonality, economic headwinds, and recovery challenges. We will continue to monitor the transactions' performance to ensure that the credit enhancement remains consistent with the assigned ratings.

Table 5

Distribution as of April 2023

Series	Month	Pool factor (%)	Current CNL (%)	Current CRR (%)	Current CGL (%)	60-plus-day delinq. (%)	Active extension rate (%)	Initial expected CNL (%)	Initial expected CGL (%)(i)	Revised expected CGL (%)(ii)
2019-1	40	13.51	3.29	44.85	5.97	1.22	0.24	N/A	N/A	N/A
2020-1	30	27.39	2.80	39.53	4.63	1.12	0.44	N/A	N/A	N/A
2021-1	23	42.48	2.81	32.94	4.19	1.10	0.46	5.50-6.50	N/A	6.75-7.25
2021-2	17	55.83	2.81	27.41	3.88	0.89	0.46	5.25-6.00	N/A	N/A
2022-1	11	71.06	2.21	24.13	2.92	0.82	0.47	N/A	7.00-7.50	N/A
2022-2	8	79.74	1.51	21.27	1.92	0.78	0.49	N/A	7.10-7.60	N/A
2023-1	2	94.92	0.11	2.28	0.11	0.20	0.03	N/A	7.25-7.75	N/A

(i)As a result of the updated Global ABS Consumer criteria, we analyzed gross losses and recovery rates separately, whereas for prior OCTL transactions we rated. Net loss performance was the primary consideration. (ii)As of January 2023. CNL--Cumulative net loss. CRR--Cumulative recovery rate. CGL--Cumulative gross loss. Delinq.--Delinquency. N/A--Not applicable.

Managed Portfolio

Octane originates a mix of prime and nonprime point-of-sale retail installment contracts and loans backed by new and used powersport equipment. The company grew its portfolio rapidly to $873 million at year-end 2021 and $1.6 billion at year-end 2022 from $25 million at year-end 2017. The continued growth in new originations increased the size of the managed portfolio to approximately $1.7 billion as of March 31, 2023, from $1.0 billion a year earlier.

Losses and delinquencies for the managed portfolio have performed well over the most recent three year period from 2020 thru 2022. However, delinquencies and losses have recently increased, reflecting a number of potential factors, including the normalization of economic conditions since the COVID-19 pandemic, recent economic headwinds including inflationary pressures, and seasonality due to the discretionary nature of the collateral. As of March 31, 2023, total 31-plus-day delinquencies were 1.84%, up from 1.05% a year earlier. Similarly, net charge-offs as a percent of the average month-end amount outstanding came in at an annualized 3.17%, up from 1.33% a year earlier (see table 6).

Table 6

Managed portfolio

	As of March 31		As of Dec. 31				
	2023	2022	2022	2021	2020	2019	2018
Delinquency experience							
Portfolio at end of period (mil. $)	1,686.470	1,011.328	1,575.169	873.028	477.628	259.910	72.604
Total 31-plus-day delinquencies (% of the portfolio)	1.84	1.05	2.13	1.27	1.48	2.62	5.01
Loan loss experience							
Average month-end amount outstanding during the period (mil. $)	1,630.819	942.178	1,224.098	675.328	368.769	166.248	48.937
Net charge-offs (% of average month-end amount outstanding)	3.17	1.33	2.00	1.57	2.03	3.00	4.09

Origination Static Pool Performance

In our analysis, we reviewed Octane's origination static pool performance for its prime and nonprime segments (see chart 2). Octane began originating loans in the non-prime segment in second-quarter 2016 and the prime segment in second-quarter 2017. Origination volume for more recent vintages is significantly higher than the more seasoned vintages, and the portfolio composition has shifted in recent years to an increasing percentage of prime from nonprime. The company expects these trends to continue. S&P Global Ratings considers risk tiers 2.3 and 2.4 as nonprime (as opposed to Octane), and the breakout shown in chart 2 reflects S&P Global Ratings' classification.

Octane automatically assigns applicants to one of its risk tiers, which currently range from risk tier 1 to risk tier 8. Octane considers its risk tiers 1 and 2 (including risk tiers 2.1 through 2.4) to be prime, and 3 through 8 to be nonprime. Cumulative net losses on vintage static pools for both the prime and nonprime segments continue to perform in line with expectations (see charts 3 and 4).

Chart 2

Managed book originations

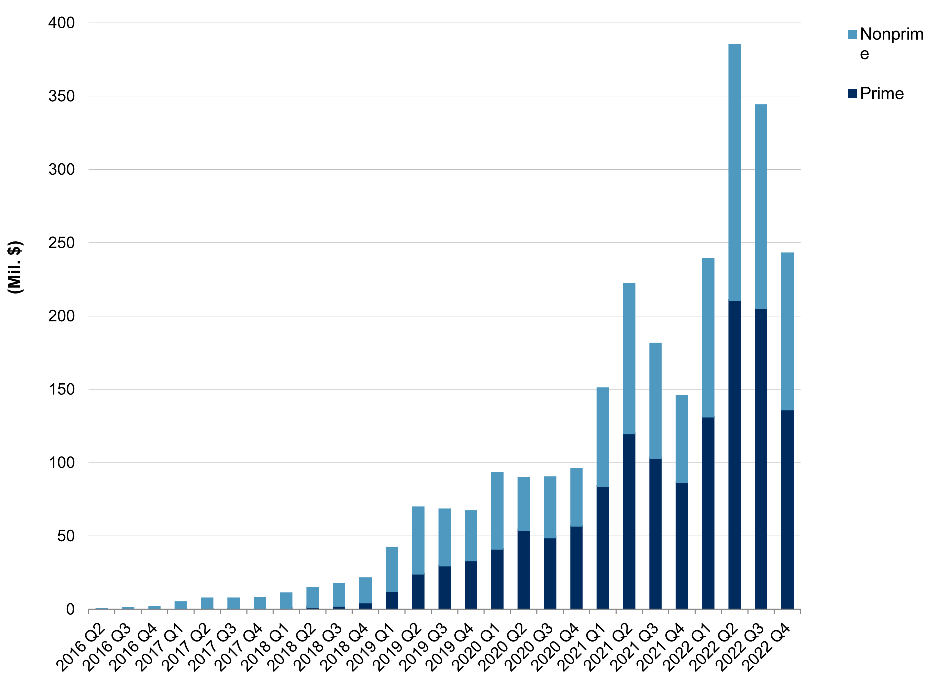


Chart 3

Prime net loss

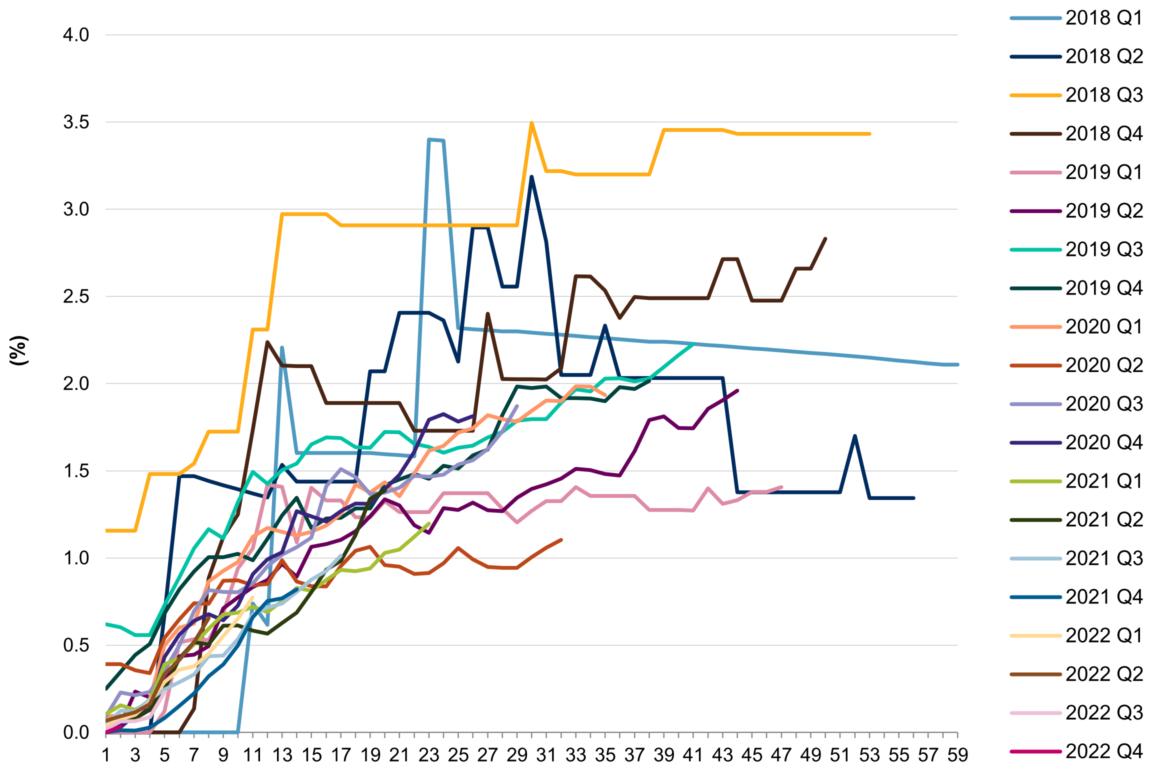
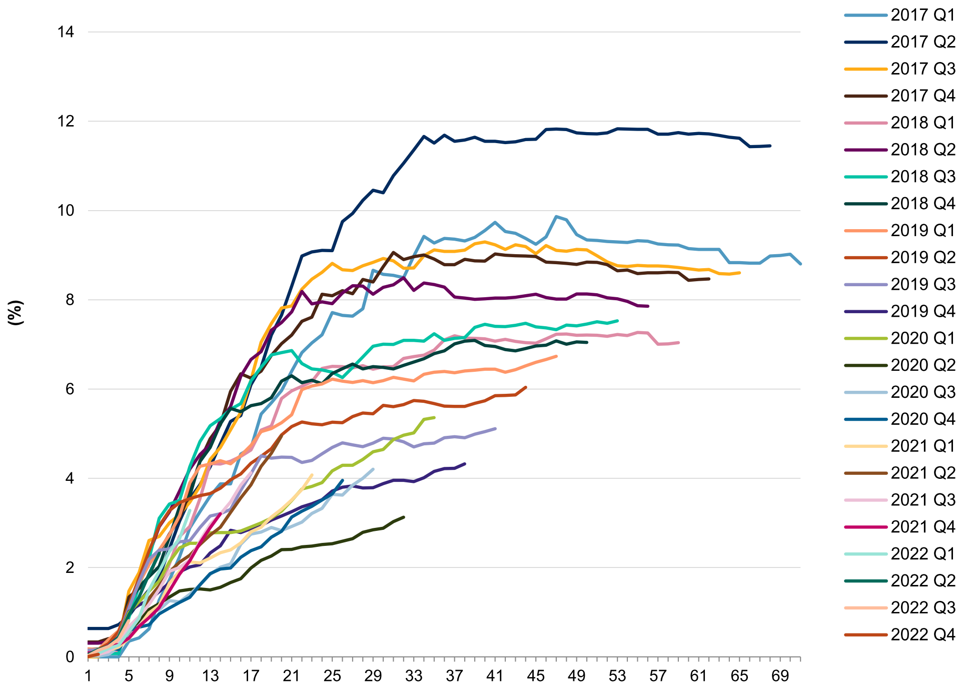


Chart 4

Nonprime net loss



OCTL 2023-2 Pool

As of the March 31, 2023, cutoff date, the OCTL 2023-2 collateral pool comprised approximately $274.85 million in powersport receivables. The pool had a weighted average FICO score of 697 and a weighted average LTV ratio of 112.58%. The overall ratio of prime (risk tiers 1, 2, and 2.1 as defined for static pool projection purposes) versus nonprime contracts in the pool has decreased to 47.44%. Contracts with original terms greater than 60 months decreased to 63.38%, and contracts with original terms greater than 72 months decreased to 20.34%. Receivables backed by pontoon hybrids in the 2023-2 pool decreased to 0.41%, a level to which we do not consider as significant in our analysis. Overall, however, we believe the characteristics of the OCTL 2023-2 collateral pool are weaker than OCTL 2023-1's pool, due to the lower weighted average FICO score and the lower concentration of prime contracts.

Table 7

Collateral

	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2	OCTL 2022-1	OCTL 2021-2
Closing date	May 24, 2023	Feb. 16, 2023	Aug. 11, 2022	May 5, 2022	Nov. 5, 2021
Aggregate principal balance ($)	274,845,111	312,524,026	396,196,530	380,644,079	340,002,057

Table 7

Collateral (cont.)

	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2	OCTL 2022-1	OCTL 2021-2
Contracts (no.)	21,582	23,380	30,230	30,290	28,832
Avg. current principal balance ($)	12,735	13,367	13,106	12,567	11,793
Average monthly payment ($)	293	301	290	269	270
WA APR (%)	14.49	12.96	12.38	12.25	12.13
WA LTV ratio (%)	112.58	115.57	117.80	113.98	110.22
WA FICO score	697	705	700	698	698
WA original term (mos.)	67.79	68.25	67.38	66.88	66.09
WA remaining term (mos.)	66.50	65.51	65.86	64.49	62.97
Seasoning	1.19	2.74	1.52	2.39	3.12
Original term distribution (%)					
<= 60 mos.	36.62	35.79	38.00	41.23	44.49
61-72 mos.	42.88	41.02	42.49	39.21	38.75
73-84 mos.	20.49	23.19	19.64	19.56	16.77
Contracts with original terms > 60 mos. (%)	63.38	64.21	62.13	58.77	55.51
Remaining term distribution (%)					
<= 60 mos.	37.00	36.30	38.34	41.66	45.02
61-72 mos.	42.65	40.75	42.17	38.99	38.33
73-84 mos.	20.34	22.94	19.50	19.34	16.65
Contracts with remaining terms > 60 mos. (%)	63.00	63.70	61.67	58.34	54.98
Contracts with remaining terms > 72 mos. (%)	20.34	22.94	19.50	19.34	16.65
New (%)	73.26	73.26	68.26	68.76	72.53
Used (%)	26.74	26.74	31.74	31.24	27.47
FICO score distribution					
>= 700	43.65	48.12	46.13	45.32	45.83
650-699	29.13	29.58	30.55	30.33	30.93
600-649	23.88	19.79	19.95	19.81	18.18
< 600	3.33	2.14	3.05	4.05	4.60
N.A.	0.00	0.37	0.30	0.50	0.46
< 700	56.53	51.50	53.55	54.18	53.71
Credit tiers (%)					
1	20.60	25.06	21.79	21.18	21.44
2	13.43	14.40	15.67	16.01	16.28
2.1	13.41	17.63	18.60	18.36	18.36
2.2	9.55	7.74	7.36	7.64	7.44
2.3	3.22	3.21	4.41	2.92	0.00

Table 7

Collateral (cont.)

	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2	OCTL 2022-1	OCTL 2021-2
2.4	0.96	0.81	0.65	0.40	0.00
3	9.28	7.92	7.75	6.93	7.14
4	16.36	12.08	11.45	11.95	13.95
5	8.46	7.76	8.12	8.86	9.08
6	3.19	2.12	2.41	3.45	3.49
7	0.60	0.80	0.71	0.91	0.81
8	0.94	0.47	1.09	1.39	2.02
Prime (risk tiers 1, 2, and 2.1)	47.44	57.09	56.06	55.55	56.08
Nonprime (risk tiers 2.2 through 8)	52.56	42.91	43.95	44.45	43.92
Top five state concentrations (%)					
	TX=13.85	CA=14.77	CA=14.28	CA=15.55	CA=13.76
	FL=11.67	TX=14.11	TX=12.89	TX=12.95	TX=13.16
	CA=10.82	FL=10.13	FL=8.91	FL=10.81	FL=9.76
	NC=5.82	GA=5.30	GA=5.69	GA=6.16	GA=5.59
	GA=5.52	NC=5.08	NC=5.30	NC=5.87	NC=5.35
Initial 'AA' enhancement requirement (%)	27.04	23.18	22.87	22.71	23.52

OCTL--Octane Receivables Trust. WA--Weighted average. APR--Annual percentage rate. LTV--Loan to value. N.A.--Not available.

S&P Global Ratings' Expected Loss

To derive the expected loss for the OCTL 2023-2 pool, we relied on Octane's origination static pool data, broken out by risk tier dating back to fourth-quarter 2016. We combined the portfolio's risk tiers by aggregating them into prime (risk tiers 1, 2, and 2.1) and nonprime (risk tiers 2.2 through 8) segments and then projected losses for each segment, based on the first-quarter 2018 through first-quarter 2022 outstanding vintages for the prime segment and the fourth-quarter 2016 through first-quarter 2022 outstanding vintages for the nonprime segment. Note that our prime and nonprime tiers differ from the company's (see the Originations And Underwriting section). We then weighted our projections for the prime and non-prime segments by the concentration of each segment in the pool to arrive at an overall estimated loss for OCTL 2023-2.

In addition to static pool performance, we also considered Octane's managed portfolio annual loss performance, the performance of its outstanding ABS transactions, and comparable prime and nonprime motorcycle and auto loan ABS issuers. We also considered qualitative factors, including the company's short operating history, the limited quantity of fully amortized static pools, and the actions taken to mitigate losses during the COVID-19 pandemic, as well as our forward-looking view of the economy, our base line forecast for U.S. GDP growth, unemployment, and the powersports segment.

We increased our base-case gross loss to 8.50%-9.00% from 7.25%-7.75% due to the weaker pool mix, weaker recent performance trends, including an increase in losses and delinquencies, as well as our view that the discretionary nature of receivables backing the pool are sensitive to seasonality and economic headwinds.

To derive our base-case recovery rate for the transaction, we reviewed the company's managed portfolio, static pool, and outstanding ABS recovery rate data. On average, Octane has historically realized recovery rates over 40%, primarily through the sale of collateral at national auction houses with a specialty in powersports equipment. While recent trends show a decline in recovery values, we believe part of this trend may be due to seasonality. As a result, our base-case recovery rate assumption remains at 35%.

Because the powersports collateral are recreational vehicles, we consider the payment obligations on the loans to be more discretionary than automobile loans. In our view, this could result in seasonality during winter months and more volatility in secondary market values. To account for this, we use stressed recovery rate haircuts, which resulted in higher expected cumulative net losses than what might be typical for an auto loan issuer.

Using our base-case gross loss assumption, for each rating scenario considered, we applied the rating level haircut to our base-case recovery rate and then derived rating-specific stressed net losses (see table 8 for actual recovery rates). As a result, our total rating level enhancement is 34.56% for 'AAA (sf)', 27.04% for 'AA (sf)', 19.82% for 'A (sf)', 12.91% for 'BBB (sf)', and 10.08% for 'BB (sf)'.

Cash Flow Modeling Assumptions And Results

We modeled OCTL 2023-2 to simulate stress scenarios that we believe are appropriate for the assigned preliminary ratings under front- and back-loaded loss curves (see table 8). We included a five-year backloaded loss curve, given the significant concentration in longer-term contracts and relatively little seasoning to stress the transaction's later stages. We also applied a constant 1.50% absolute prepayment speed across rating categories.

The break-even results show that each class is enhanced to the degree necessary to withstand a stressed net loss level that is consistent with our assigned preliminary ratings.

Table 8

Cash flow assumptions and results

	Class				
	A	B	C	D	E
Front-loaded loss curve					
Stress scenario (preliminary rating)	AAA	AA	A	BBB	BB
CNL timing by mos. outstanding (12/24/36/48) (%)	40/35/20/5	40/35/20/5	40/35/20/5	40/35/20/5	40/35/20/5
ABS voluntary prepayments (%)	1.50	1.50	1.50	1.50	1.50
Recoveries (%)	21.00	22.75	24.50	26.25	28.00
Charge-off and recovery lag (mos.)	4	4	4	4	4
Servicing fee (% per year)	2.00	2.00	2.00	2.00	2.00
Haircut to excess spread (%)	10	10	10	10	10

Table 8

Cash flow assumptions and results (cont.)

	Class				
	A	B	C	D	E
Ratings multiples	5.00	4.00	3.00	2.00	1.60
Approximate break-even CNL levels (%)(i)	40.71	31.02	20.30	14.35	10.25
Back-loaded loss curve					
CNL timing by mos. outstanding (12/24/36/48/60) (%)	25/30/20/15/10	25/30/20/15/10	25/30/20/15/10	25/30/20/15/10	25/30/20/15/10
ABS voluntary prepayments (%)	1.50	1.50	1.50	1.50	1.50
Recoveries (%)	21.00	22.75	24.50	26.25	28.00
Charge-off and recovery lag (mos.)	4	4	4	4	4
Servicing fee (% per year)	2.00	2.00	2.00	2.00	2.00
Haircut to excess spread (%)	10	10	10	10	10
Ratings multiples	5.00	4.00	3.00	2.00	1.60
Approximate break-even CNL levels (%)(i)	41.71	32.17	20.73	14.99	10.70

(i)Assumes 10% haircut to excess spread. CNL--Cumulative net loss.

Sensitivity Analysis

In addition to running break-even cash flows, we undertook sensitivity analyses to determine whether under a moderate ('BBB') stress scenario, all else being equal, our preliminary ratings will be within the credit stability limits specified by section A.4 of the Appendix contained in "S&P Global Ratings Definitions," published Nov. 10, 2021 (see table 9 and charts 5 and 6).

Table 9

Scenario analysis summary

Loss level (%)	12.91
Cumulative loss timing (12/24/36/48/60 mos.)	
Front-loaded loss curve (%)	45/35/20/5/0
Back-loaded loss curve (%)	25/30/20/15/10
Voluntary ABS (%)	1.50
Recoveries (%)	26.25
Charge-off and recovery lag (mos.)	4
Servicing fee (% per year)	2.00
Haircut to excess spread (%)	10

ABS--Absolute prepayment speed.

Chart 5

2.00x Sensitivity run coverage multiples (front-loaded)

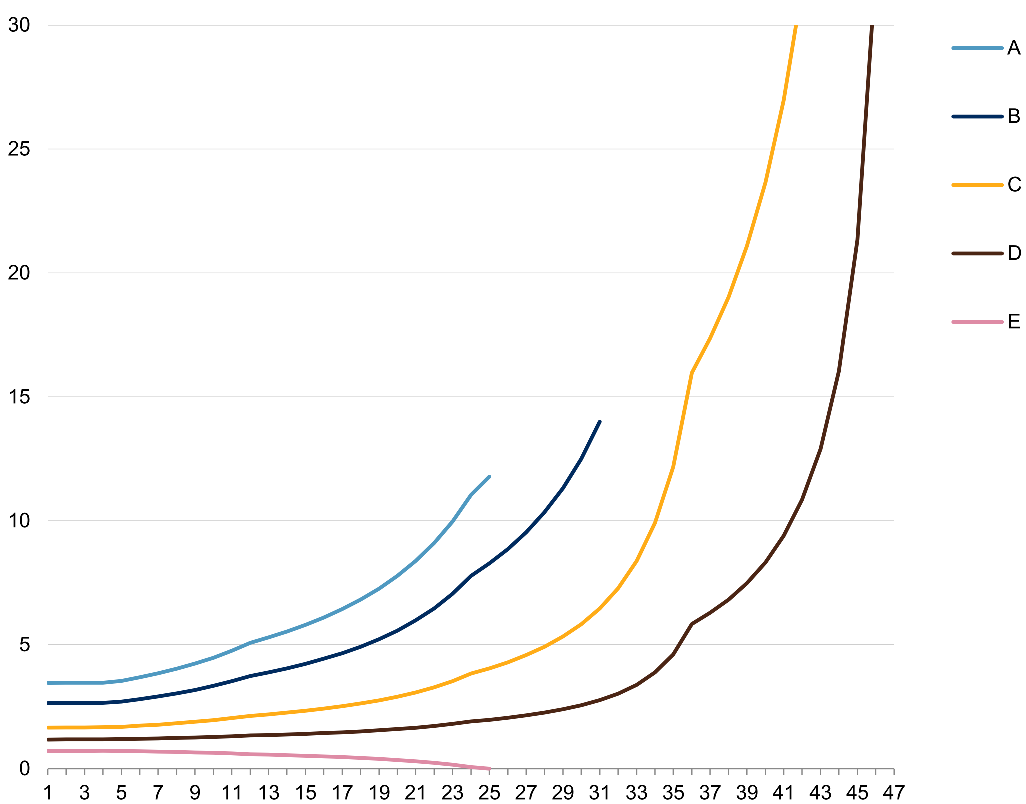
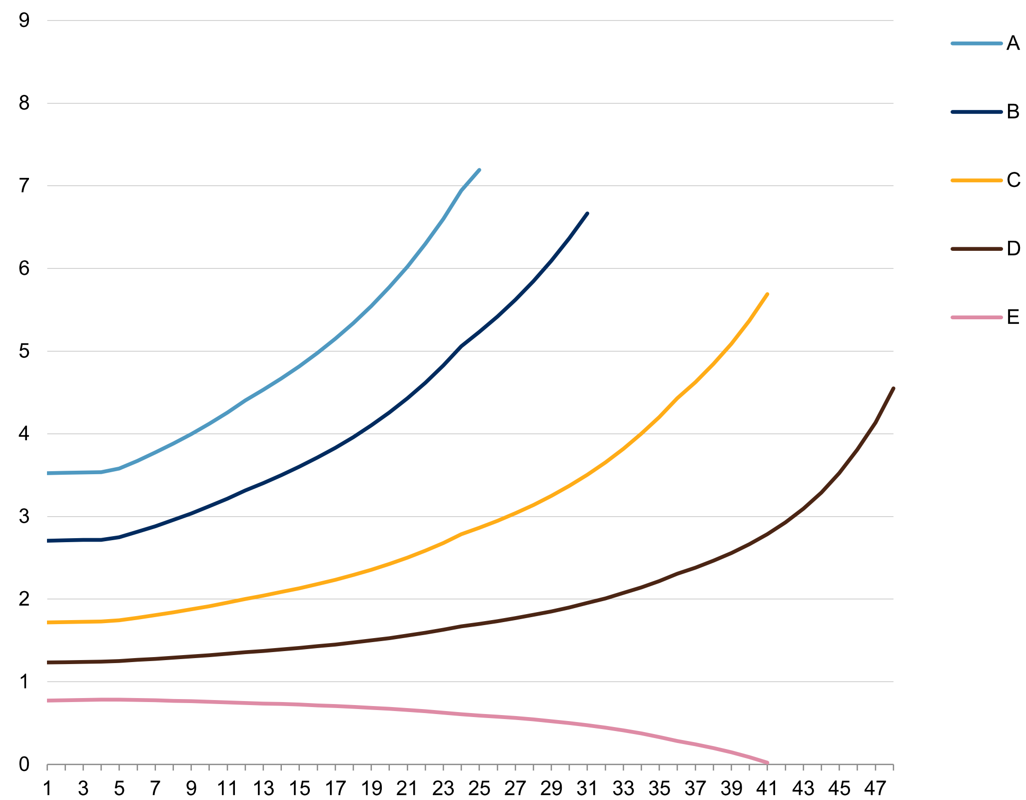


Chart 6

2.00x Sensitivity run coverage multiples (back-loaded)



Legal Final Maturity

To test the legal final maturity dates set for the class A, B, C, and D notes, we determined the date when the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario, and then added three months to the result. To test the legal final maturity date for class E, which is the longest-dated security, we determined the latest maturing loan's distribution date and then added six months to that for extensions. In the break-even scenario for each respective rating level, we also confirmed that there was sufficient credit enhancement to cover losses and repay the related notes in full by the legal final maturity date.

Money market tranche sizing

The proposed money market tranche's (class A1) legal final maturity date is May 20, 2024. To test whether the money market tranche can be repaid by its maturity date, we ran cash flows using assumptions to delay the principal collections. We assumed zero defaults as well as a 0.0%

voluntary absolute prepayment speed in our cash flow run, and we checked that 12 months or less of principal collections would be sufficient to pay off the money market tranche.

Octane

Headquartered in New York, with servicing and collections located in Irving, Texas, Octane is a full-spectrum lender that finances point-of-sale retail installment sale contracts and installment loans backed by one or more new and used powersport assets. These assets include utility task vehicles, all-terrain vehicles, cruisers, sports bikes, personal watercraft, mowers, dirt bikes, golf carts, tractors, classic bikes, trikes, scooters, trailers, and snowmobiles.

Octane was founded in 2014 and began lending in 2016. The company initially focused on the nonprime sector and then expanded into the prime segment starting in second-quarter 2017. As of fourth-quarter 2022, Octane's total originated volume since inception exceeded $2.62 billion.

Octane's senior management team has extensive experience in the finance sector, many with 20 to 30 years of industry experience in risk management, underwiring, and servicing. Several have worked together at the same companies earlier in their careers.

Originations And Underwriting

Octane originates directly and indirectly by partnering with original equipment manufacturers (OEMs) and powersport dealers in the multibillion dollar powersports market. Octane's lending program allows authorized dealers to submit loans through its financing portal and receive an automated underwriting decision.

Octane uses a multistep automated underwriting process that takes the loan application and applies a credit model that blends conventional underwriting criteria with bespoke credit scoring. The system then determines eligibility and gives an instant approve or decline decision. Octane's underwriting system automatically assigns an application to one of its risk tiers. The company considers risk tiers 1, 2, and 2.1 through 2.4 to be prime and tiers 3 through 8 to be nonprime. Risk tier 7 is reserved for thin-file applicants. If an application is deemed high risk by Octane's proprietary "Octane Fraud Score" scoring tool, additional information or manual underwriting is required for approval.

Servicing And Collections

Octane's subsidiary, RAS, has been responsible for all servicing and collections since December 2018, including coordinating repossession and remarketing of the vehicles. As of Dec. 31, 2022, Octane had 172 employees in servicing roles and 137 in operation roles. Before December 2018, servicing was handled by Systems & Services Technologies Inc., which serves as the sub-backup servicer in the transaction.

Related Criteria

- Criteria | Structured Finance | ABS: Global Consumer 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
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- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions , Jan. 30, 2019
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- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment , May 28, 2009

Related Research

- One Rating Raised And Two Affirmed From Octane Receivables Trust 2021-1, Jan. 25, 2023
- Credit Conditions North America Q4 2022: Credit Strains Tighten, Sept. 27, 2022
- Economic Outlook U.S. Q4 2022: Teeter Totter, Sept. 26, 2022
- Octane Receivables Trust 2021-1 Ratings Raised On Two Classes; One Affirmed, June 24, 2022