S&P Global
Ratings

Research

Presale:

VStrong Auto Receivables Trust 2023-A

October 5, 2023

Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Preliminary amount (mil. $)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	28.90	Oct. 15, 2024
A-2	AAA (sf)	Senior	Fixed	100.00	Feb. 15, 2027
A-3	AAA (sf)	Senior	Fixed	31.59	Nov. 15, 2027
B	NR	Subordinate	Fixed	86.62	Feb. 15, 2030
C	NR	Subordinate	Fixed	14.18	Feb. 15, 2030
D	NR	Subordinate	Fixed	20.47	Feb. 15, 2030
E	NR	Subordinate	Fixed	24.10	Dec. 16, 2030

Note: This presale report is based on information as of Oct. 5, 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 for each class will be determined on the pricing date. NR--Not rated.

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Profile

Collateral	Subprime auto loan receivables.
Issuing entity	VStrong Auto Receivables Trust 2023-A.
Originator, servicer, and custodian	Exeter Finance LLC, a wholly owned subsidiary of Cobra Equity Holdco LLC (B-/Stable/--).
Sponsor, seller, and administrator	Valley Strong Credit Union.
Depositor	VStrong Depositor LLC.
Indenture trustee, backup servicer, and bank account provider	Citibank N.A. (A+/Stable/A-1).
Owner trustee	Wilmington Trust N.A. (A-/Stable/A-2).

Rationale

The preliminary ratings assigned to VStrong Auto Receivables Trust 2023-A's (VSTRG 2023-A's) automobile receivables-backed notes reflect:

- The availability of approximately 49.96% credit support--hard credit enhancement and haircut to excess spread, if available--for the class A (collectively, classes A-1, A-2, and A-3) notes based on our stressed cash flow scenarios. This credit support level provides at least 3.50x coverage of our expected cumulative net loss (ECNL) of 14.25% for the class A notes (see the Credit Enhancement And Collateral and Cash Flow Modeling Assumptions And Results sections).
- The expectation that under a moderate ('BBB') stress scenario (1.75x our expected loss level), all else being equal, our preliminary 'A-1+ (sf)' and 'AAA (sf)' ratings on the class A-1 and A-2/A-3 notes, respectively, are within our credit stability limits (see the Cash Flow Modeling Assumptions And Results section).
- The timely payment of interest and principal by the designated legal final maturity dates under our stressed cash flow modeling scenarios for the assigned preliminary ratings.
- The collateral characteristics of the series' subprime automobile loans, our assessment 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 Macroeconomic And Auto Finance Sector Outlook sections).
- The series' bank accounts at Citibank N.A. (A+/Stable/A-1), which do not constrain the preliminary ratings.
- Our operational risk assessment of Exeter Finance LLC (Exeter) as servicer, along with our view of the company's underwriting, and the backup servicing arrangement with Citibank.
- Our assessment of the transaction's potential exposure to environmental, social, and governance credit factors that are in line with our sector benchmark.
- The transaction's payment and legal structures.

Our ECNL for VSTRG 2023-A is 14.25%. It reflects:

- The performance of Exeter's historical static origination data with collateral characteristics in-line with those of the Exeter-Valley Strong origination program.
- The transaction's collateral characteristics relative to those of its peers (see tables 2a and 2b).
- Our forward-looking view of the auto finance sector, including our outlook for persistent inflation and slower economic growth.

Environmental, Social, And Governance (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. While the adoption of electric vehicles and future regulation could lower ICE vehicle values, we believe our current approach to evaluating recovery values adequately accounts 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.

The transaction has higher exposure to social credit factors than our sector benchmark, in our view, because the transaction has a pool of subprime obligors versus the benchmark's pool of prime obligors. Given the elevated interest rate and affordability considerations for these subprime borrowers, legal and regulatory risks could increase if the validity of the contracts or the servicer's collection practices are challenged. We believe this risk is mitigated by representations made by the originator in the representations and warranties agreement that each loan complied with all applicable federal, state and local laws, and regulations when it was originated. The issuer also has a compliance department that manages its adherence to all applicable laws.

Key Rating Considerations

VSTRG 2023-A is Valley Strong Credit Union's (VSCU's) first 144A auto ABS transaction. Based on our review of VSCU's and Exeter's origination agreement, Exeter's roles in the transaction, Exeter's and VSCU's operations and history, and the collateral pool's characteristics, we considered certain strengths in rating this transaction:

- The auto receivables backing VSTRG 2023-A were originated and underwritten by Exeter in accordance with VSCU's criteria under the origination agreement between VSCU and Exeter. Exeter utilizes its proprietary credit score model in the credit scoring and pricing of the loans. Exeter, as originator, sells the receivables on various sale dates to VSCU (the sponsor), who in turn sells them to VStrong Depositor LLC, the depositor in this transaction. Exeter is the servicer of the originated auto loans for which it is compensated (see the Legal Overview And Transaction Structure section). VSCU's underwriting requirements result in stronger credit characteristics of the auto loans than those Exeter typically originates under its core subprime auto loan business model (see table 2a). In the underwriting process, VSCU has the right of first offer on applications, and, in practice, the program is automated so that any loan that meets the criteria of VSCU is automatically flagged to be funded by VSCU, mitigating concerns of adverse selection. Exeter makes certain representations to VSCU as to the characteristics of the originations under a representations and warranties agreement, and, as a result, most breaches of representations and warranties related to the VSTRG 2023-A receivables would require a repurchase from Exeter as originator instead of VSCU. To date, however, there have been no such breaches.
- Exeter as originator and servicer is a key party to this transaction since these roles are central to informing our credit expectations. Exeter is an auto finance company with extensive experience in the subprime auto finance industry. The company has an experienced management team and a long history of underwriting, originating, and servicing subprime auto loans. To date, Exeter has sponsored 41 Exeter Automobile Receivables Trust transactions since it started securitizing its originations in 2012. Exeter's servicing and collections team makes no distinction between servicing its own loans and third-party originations and employs the same policies and procedures in the servicing of the loans. As an established auto finance company, Exeter's extensive origination and servicing expertise across the country provides a strong advantage over credit unions' in-house servicing of third-party originations, especially with respect to originations that are geographically diversified. Exeter is licensed to operate in all states in which it is required to be licensed and, as of July 31, 2023, services a portfolio with an aggregate outstanding balance of approximately $9.6 billion. The company continues to have a diversified funding platform. At year-end 2022, Exeter had three warehouse facilities totaling nearly $3.0 billion with staggered maturities with a low overall utilization rate.
- VSCU is a California state-chartered and federally insured credit union regulated primarily by the California Department of Financial Protection and Innovation and is also subject to federal regulations and regular examinations by the National Credit Union Administration (NCUA),

which establishes, along with other regulations, capital and liquidity rules that VSCU is required to follow. VSCU has experienced management team and senior management has many leaders with decades of experience operating in the financial services industry. As of second-quarter 2023, VSCU had total assets of $4.08 billion and was well-capitalized, with a net worth ratio 8.29.

- The collateral characteristics of the series' automobile loans, and our assessment of the credit risk of the collateral and relative to peers (see tables 2a & 2b).
- Citibank as backup servicer is experienced in assuming the role for many ABS transaction. We believe this, as well as the servicing arrangement with Exeter, will enable a smoother servicing transition to Citibank if necessary.

In addition to the transaction's strengths, we considered certain risks:

- VSCU's role in this transaction is limited to sponsor and administrator, whereas in other credit union transactions we rated, the credit union's responsibilities are all-encompassing, including origination, underwriting, and servicing auto loans. Nevertheless, under the origination agreement with Exeter, loans are originated and underwritten by Exeter in accordance with VSCU's criteria. That is, VSCU determines the credit profile of the loan it finances. Also, essential to the loan funding by VSCU is the requirement that the obligor becomes a VSCU member, which is consistent with other credit unions' indirect origination programs. VSCU grows its membership base but within the credit risk tolerance determined by its underwriting criteria. Additionally, as sponsor of the transaction, VSCU will retain at least 5% regulatory interest in each class of notes and in the certificates. As such, notwithstanding the uniqueness of its business model, VSCU does have vested interest, like other credit unions, in the transaction's success. Additionally, under the VSCU-Exeter agreement, Exeter is responsible for curing any deficiency of the originated loan under the representation and warranties agreement, which ensures that Exeter, in addition to receiving a servicing fee, has a vested interest in maintaining underwriting, under the origination agreement, consistent with its core business.
- Exeter started originating loans for VSCU in October 2022, which is a short period of origination and performance. We believe this risk is mitigated, however, by Exeter's 10 years of static origination performance data with credit characteristics that are consistent with VSCU's underwriting criteria. We factored this performance in our ECNL for this transaction.
- Longer-term loans, with original terms of 75-78 months, comprise approximately 89% of the series collateral pool. Exeter's origination of 75- and 78-month loans, which fit the VSCU program, started in late 2021. In our view, longer-term loans have a greater potential for back-ended losses with higher loss severity. While the performance to date for these long-term loans is limited, recent vintage static pool loss data suggests that these loans are performing similarly to Exeter's shorter-term originations at this time. This risk was a key consideration in deriving our expect loss for the series.

Valley Strong Credit Union

VSCU is a California state-chartered credit union regulated by the NCUA and the California Department of Financial Protection and Innovation, which is primarily focused on serving the central valley of California. VSCU traces its roots to Bakersfield High School, where in 1938 a group of teachers formed a financial cooperative to serve the school employees and their families. In 1940, they were granted a federal charter, and Kern County School Employees Federal Credit

Union was formed. In 1969, the credit union name was shortened to Kern Schools Federal Credit Union. In 2020, Kern Schools Federal Credit Union converted from a federal to a state charter, renamed itself Valley Strong Credit Union, and opened its first two branches outside of Kern County in Tulare County. In 2021, VSCU merged with Solano First Credit Union, adding three branch locations, and in 2022, the company merged with Financial Center Credit Union, adding six branch locations. From 2020 through 2022, the company increased its total assets from $2.2 billion to 4.2 billion, with nearly $1 billion of the growth attributable to the two mergers. VSCU has an experienced and tenured management team.

VSCU has an in-house direct and indirect auto loan program and, since converting to a state charter in 2020, has been originating loans with third-party partners, the latest of which is Exeter. As of June 30, 2023, VSCU's managed portfolio of in-house auto loans totaled $291.75 million, and the loans acquired from third parties, including Exeter, totaled $192.32 million. While VSCU is an experienced originator and servicer of auto loans in central California, VSCU will not be contributing any of its own originations to this transaction, nor will it service any of the receivables.

Exeter Finance LLC

Exeter is the originator and servicer for VSTRG 2023-A. Exeter, a Delaware limited liability company, is a subprime auto finance company that was founded in April 2006. Exeter is currently owned by an investor group led by Warburg Pincus and is now a wholly owned subsidiary of Cobra Equity Holdco LLC (B-/Stable/--). Cobra Equity Holdco LLC was established after the acquisition and is the parent entity of its only subsidiary, Cobra Acquisition Co. LLC, which is an indirect holding company for Exeter. The holding company has no operations outside of the acquisition company. On Jan. 26, 2023, Cobra Equity Holdco LLC was downgraded to 'B-' from 'B' as a result of higher leverage (see "Cobra Equity Holdco LLC Downgraded To 'B-' From 'B' On Higher Leverage; Outlook Stable").

As of July 31, 2023, Exeter had approximately 1,700 employees and a dealer network of approximately 12,000 automobile dealerships. The company is licensed to operate in all states in which it is required to be licensed and services a portfolio of approximately 562,000 auto loans, with an aggregate outstanding balance of approximately $9.6 billion. The company continues to have a diversified funding platform. At year-end 2022, Exeter had three warehouse facilities totaling nearly $3.0 billion with staggered maturities with a low overall utilization rate.

Origination and underwriting

Exeter purchases auto loans primarily from franchise dealers and large independent used car dealerships, which the company refers to as its core originations. It also purchases indirect loans from its strategic partners and acquires a small percentage of loans originated by direct lenders (primarily refinance loans). Exeter originates loans in one centralized buying center in Irving, Texas.

Exeter utilizes a fully automated scorecard-based credit underwriting process. Upon receiving applications from dealers and direct lenders, Exeter assigns a proprietary credit score to the application, which takes into consideration the applicant's delinquency history, revolving credit utilization, and bureau scores, among other features. The proprietary credit (custom) score, which is designed to predict the probability of default, is used for credit decisioning, credit policy limits and pricing. If an application is approved, before Exeter purchases the loan from the dealer or direct lender, it verifies that the information included in the related application is correct, verifies the applicant's employment status and residency with their employer, and has a welcome call with the applicant to confirm the terms of the loan. After loan verification and funding, Exeter will assign a post-funding score to the loan, which, in addition to incorporating features from the custom score model, utilizes the final deal structure and additional credit variables not available at time of decision. Exeter uses its post-funding score to forecast losses.

Under the origination agreement between Exeter and VSCU, any loan that meets VSCU's criteria is automatically flagged as a VSCU-eligible loan for funding. As part of the approval process, the applicant must agree to becoming a VSCU member (if not already a member). For qualified loans under the origination agreement, Exeter purchases the loan from its network of dealers (or from a direct lender) and, on the same day or the following day, VSCU purchases the loan from Exeter. While VSCU has the right of first offer, in practice the funding process is completely automated, where any loan that meets the criteria of the VSCU's program is automatically funded by VSCU. VSCU pays Exeter an origination fee in exchange for Exeter's underwriting services. During Exeter's welcome call, the customer is directed to make all payments to Exeter and not VSCU. The customer is also welcomed as a member of VSCU.

Servicing and collections

Exeter's servicing operations are centralized and based in Irving. For delinquent accounts, the collection process generally begins at five days past due. Delinquent accounts are segmented as early-stage and late-stage delinquencies based on Exeter's proprietary risk-based behavior score. Early-stage delinquent accounts are contacted using a predictive dialer, and late-stage delinquent accounts are contacted with a mix of manual call attempts and predictive dialing.

Extensions

Exeter offers extensions to customers who have fallen behind on their payments as long as long as the customer has made a minimum of six payments since the loan was originated or a minimum of six payments since the most recent extension, and they have capacity to continue making payments in the future. Additionally, extensions typically cannot exceed 12 months over the life of a loan, and payment reductions cannot exceed six months.

Repossessions and charge-offs

Exeter will charge-off a loan and begin the repossession process if more than 10% of any scheduled loan contract payment remains unpaid for 120 days, the vehicle has been repossessed and liquidated or held in inventory for more than 60 days, or if an account is deemed uncollectable by Exeter.

Credit Enhancement And Collateral Peer Comparison

Credit enhancement

- Total initial hard credit enhancement for the class A, B, C, D, and E notes is 50.05%, 22.55%, 18.05%, 11.55%, and 3.90%, respectively (see table 1).
- Subordination for class A, B, C, and D is 46.15%, 18.65%, 14.15%, and 7.65%, respectively.

- Initial overcollateralization is 2.90% of the initial collateral pool balance and will grow to a target of 10.90% of the current pool balance, subject to a floor of 0.75% of the initial collateral pool balance.
- The estimated excess spread (pre-pricing) is 6.21%.

Table 1

Credit enhancement summary (%)(i)

VStrong Auto Receivables Trust 2023-A

	Initial	Target	Floor
Class A			
Subordination	46.15	46.15	46.15
Reserve account	1.00	1.00	1.00
Overcollateralization(ii)	2.90	10.90	0.75
Total	50.05	58.05	47.90
Class B			
Subordination	18.65	18.65	18.65
Reserve account	1.00	1.00	1.00
Overcollateralization(ii)	2.90	10.90	0.75
Total	22.55	30.55	20.40
Class C			
Subordination	14.15	14.15	14.15
Reserve account	1.00	1.00	1.00
Overcollateralization(ii)	2.90	10.90	0.75
Total	18.05	26.05	15.90
Class D			
Subordination	7.65	7.65	7.65
Reserve account	1.00	1.00	1.00
Overcollateralization(ii)	2.90	10.90	0.75
Total	11.55	19.55	9.40
Class E			
Subordination	0.00	0.00	0.00
Reserve account	1.00	1.00	1.00
Overcollateralization(ii)	2.90	10.90	0.75
Total	3.90	11.90	1.75
Estimated excess spread per year (%)(iii)	6.21	N/A	N/A

(i)Percentage of the initial collateral balance. (ii)Initial and floor overcollateralization are as a percent of the initial collateral pool balance. The target overcollateralization is a percent of the current pool balance. (iii)Estimated annual excess spread before note pricing. The estimates include the 2.00% servicing fee. N/A--Not applicable.

Collateral characteristics

As of the Aug. 31, 2023, statistical cutoff date, the VSTRG 2023-A pool consisted of $248.95 million indirect subprime retail auto loans. Table 2a shows the series' collateral characteristics relative to the most recent subprime Exeter transaction, given that Exeter is the originator for this transaction. The VSTRG 2023-A collateral pool has substantially stronger credit characteristics than EART 2023-4's. The pool is backed by lower-mileage vehicles and has lower annual percentage rates. The series' collateral, however, has higher original and remaining terms, as well as higher average monthly payments and average loan balances.

Table 2b is a comparison to selected peers in the subprime auto loan sector with similar collateral characteristics and ECNLs to VSTRG 2023-A. Also included is a comparison with two recent credit union transactions. We note that the VSTRG 2023-A transaction has a substantial portion of its pool concentrated in the greater-than-72-month-term bucket and has a higher average outstanding principal balance, similar to prime credit union transactions. The notable difference between VSTRG 2023-A and other credit union-sponsored transactions, however, is that the credit quality of the pools backing those prime credit union transactions are substantially stronger. VSTRG 2023-A collateral pool, however, is significantly more geographically diversified than typical credit union transactions.

Table 2a

Pool summary(i)

	VSTRG 2023-A	EART 2023-4
Balance (mil. $)	248.95	675.83
No. of receivables	8,665	34,161
Average principal balance ($)	28,730	19,784
WA non-zero FICO score	629	577
WA non-zero credit bureau score(ii)	657	596
WA proprietary credit score(iii)	279	249
WA post-funding score(iv)	238	222
WA APR (%)	16.13	21.77
WA LTV ratio (%)	120.00	113.41
WA DTI ratio (%)	41.16	41.58
WA PTI ratio (%)	12.16	12.06
WA original term (mos.)	76.76	72.83
WA remaining term (mos.)	75.21	69.04
WA seasoning (mos.)	1.55	3.79
WA mileage	42,279	65,751
WA monthly payment ($)	660.64	590.69
Original term (% of pool)		
<=60	0.66	2.47
61-72 mos.	10.49	57.53
73-78 mos.	88.86	40.00

Table 2a

Pool summary(i) (cont.)

	VSTRG 2023-A	EART 2023-4
Remaining term (% of pool)		
<=60	0.66	7.01
61-72 mos.	14.38	53.88
73-78 mos.	84.95	39.11
Vehicle condition (% of pool)		
New vehicles	5.73	2.70
Used vehicles	94.27	97.30
FICO score (% of pool)		
No FICO score	6.29	8.67
Less than 540	2.26	22.52
540–564	4.55	14.24
565–599	18.34	23.64
600–659	46.82	24.77
660 and greater	21.74	6.17
Credit bureau score(ii) (% of pool)		
No credit bureau score	-	0.36
Less than 540	0.01	10.29
540–564	0.06	13.76
565–599	0.72	28.57
600–659	59.98	39.31
660 and greater	39.23	7.71
Proprietary credit score(iii) (% of pool)		
Less than 201	-	3.79
201–214	-	7.02
215–224	0.26	7.44
225–244	2.41	22.66
245 and greater	97.33	59.09
Post-funding score(iv) (% of pool)		
1–179	-	0.37
180-199	0.18	8.75
200-219	7.28	38.26
220-239	47.36	35.76
240 and greater	45.18	16.87
Top state concentrations (% of pool)		
	TX=23.89	TX=15.76
	FL=13.32	FL=9.73

Table 2a

Pool summary(i) (cont.)

	VSTRG 2023-A	EART 2023-4
	GA=6.17	CA=9.20
Initial expected loss (%)	14.25	22.00

(i)All percentages are of the principal balance. (ii)This non-zero WA score is based primarily on VantageScore. (iii)The WA proprietary credit score is derived before loan funding. (iv)Post-funding scores are assigned by Exeter to loans after funding. The scale of the post-funding score is not comparable to a credit bureau score. VSTRG--VStrong Auto Receivables Trust. EART--Exeter Automobile Receivables Trust. WA--Weighted average. APR--Annual percentage rate. LTV--Loan-to-value. DTI--Debt-to-income. PTI--Payment-to-income.

Table 2b

Collateral comparison(i)

	VSTRG 2023-A	Ent 2023-1	GECU 2023-1	FCAT 2023-3	WLAKE 2023-3	SDART 2023-3	GCAR 2023-3
Sponsor	Valley Strong	Ent	GE	Flagship	Westlake	Santander	GLS
Receivable balance (mil. $)	248.95	253.17	320.62	304.37	1,800.00	1,702.00	485.90
Receivables (no.)	8,665	8,124	10,272	11,773	118,157	67,975	21,440
Average loan balance ($)	28,730	32,571	32,601	27,295	15,234	27,297	22,663
WA contract rate (%)	16.13	8.75	8.19	20.73	20.19	17.55	20.74
WA original term (mos.)	77	79	81	71	61	72	70
WA remaining term (mos.)	75	75	77	69	57	67	69
WA seasoning (mos.)	2	4	4	2	4	4	1
WA FICO score	629	733	743	588	616(ii)	605	582(iii)
Original term > 60 months	99.34	94.16	95.25	94.55	49.45	94.56	92.84
Original term > 72 months	88.86	75.31	84.7	0.20	N/A	19.15	N/A
New vehicles (%)	5.73	24.78	33.32	18.51	2.78	28.78	7.27
Used vehicles (%)	94.27	75.22	66.68	81.49	97.22	71.22	92.73
Initial ECNL (%)	14.25	2.35	2.90	12.50	12.50	15.50	17.50
Top three state concentration							
State 1	TX=23.89	CO=97.42	OH=59.74	TX=19.23	TX=19.01	TX=18.11	TX=13.51
State 2	FL=13.32	WY=0.50	KY=34.32	FL=8.07	CA=13.58	FL=13.23	CA=12.73
State 3	GA=6.17	NM=0.33	IN=5.61	CA=6.53	FL=12.22	CA=7.52	FL=9.32

(i)All percentages are of the initial receivables balance and reflect the presale cutoff pool for each peer transaction. (ii)Represents a blended credit score incorporating both FICO and Vantage Score. (iii)The originator may use a VantageScore for certain obligors where a FICO score is unavailable. VSTRG--VStrong Auto Receivables Trust. Ent--Ent Auto Receivables Trust. GECU--GECU Auto Receivables Trust. FCAT--Flagship Credit Auto Trust. WLAKE--Westlake Automobile Receivables Trust. SDART--Santander Drive Auto Receivables Trust. GCAR--GLS Auto Receivables Issuer Trust. WA--Weighted average. Mos.--months. N/A--Not applicable. ECNL--Expected cumulative net loss.

Macroeconomic And Auto Finance Sector Outlook

In our analysis, we considered the economic data and forecasts outlined in table 3 and their baseline effect on collateral credit quality in determining our base-case expected loss level. Historically, changes in the unemployment rate have been a key determinant of charge-offs in the auto finance industry.

U.S. economic data has been stronger than expected, thus suggesting that a soft landing is still possible. Better-than-expected growth has led us to revise our U.S. GDP forecast for 2023 upward by 0.5 percentage points to 2.3%. However, in our opinion, the current momentum is unsustainable as interest rates on the 10-year Treasury note and 30-year mortgages have recently risen to rates not seen since before the Great Recession, and COVID-19 pandemic-related excess savings have been largely depleted. With higher interest rates, increases in house prices, and higher prices for new and used automobiles, recent and new debt origination, coupled with the resumption of student-loan payments, will put upward pressure on debt service ratios and negatively affect consumer spending. As such, we see growth slowing to 1.3% in 2024 and 1.4% in 2025 before converging to trend-like growth of 1.8% in 2026 (after multiple rate cuts in 2025 and 2026).

Given the usual lags between GDP growth and unemployment levels, we don't expect a significant deterioration in labor markets until 2024. With growth expected to slow below trend after 2023, we project the unemployment rate to rise to an average of 4.1% in 2024 and 4.8% for the fourth quarter of 2025 (see "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 26, 2023).

Separately, inflation and the expected--albeit slow--increase in the broader consumer financial obligations' payment ratio as a percent of disposable income, with the resumption of student loan payments in October, are potential headwinds. While the Consumer Price Index has declined significantly from last year, energy prices have jumped recently and have a disproportion impact on those with lower incomes. It is estimated that 24 million borrowers whose student loan payments were suspended at the onset of the pandemic will resume payments in October, with an average payment of approximately $300 per month. According to TransUnion, approximately one-third of those consumers with student loan debt took on new auto loan debt during the pandemic. The added student debt payment will be burdensome for those consumers that are financially stressed, which could negatively impact auto loan ABS performance. We believe, based on past economic cycles, that consumers for whom the vehicle is essential for work will continue to prioritize their auto loan/lease payments before their other consumer and student loan payments.

Table 3

U.S. economic factors

	Actual				
	2022	2023	2024	2025	2026
Real GDP (year-over-year growth, %)	2.1	2.3	1.3	1.4	1.8
Unemployment rate (annual average, %)	3.6	3.6	4.1	4.7	4.8
Consumer Price Index (annual average, %)	8.0	4.1	2.4	1.9	2.3

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

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: 14.25%

We determined our expected loss for VSTRG 2023-A by analyzing:

- The performance of Exeter's historical origination static pool data, which satisfy VSCU's underwriting eligibility requirements (see charts 1 and 2);
- The transaction's collateral characteristics relative to those of its peers (see tables 2a and 2b);
- Our forward-looking view of the auto finance sector (see the Macroeconomic And Auto Finance Sector Outlook section).

Given that this is VSCU's first 144A auto receivables-backed transaction, we placed more emphasis on recent origination static pool analysis, particularly from 2021 and 2022, and comparison to peers 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. Overall, we expect the collateral pool of VSTRG 2023-A to experience lifetime CNLs of 14.25%.

Managed portfolio

Origination under VSCU and Exeter's agreement commenced in October 2022. These loans in VSCU's managed portfolio as of June 30, 2023, totaled $139.66 million and had a 31-plus-day delinquency rate of 1.64% (see table 4a). In comparing VSCU's managed portfolio of Exeter originations to Exeter Finance's managed portfolio (see table 4b), we see higher losses and delinquencies associated with Exeter's portfolio, as the credit quality of the originations under the VSCU program are generally stronger than those originated by Exeter for its core subprime auto loan business.

Table 4a

VSCU's managed portfolio of Exeter originations

	As of June 30, 2023	As of Dec. 31, 2022
Principal amount (mil. $)	139.66	9.69
Delinquencies (%)		
31-60 days	0.80	0.68
61-90 days	0.26	0.00
91-plus days	0.58	0.00
Total delinquencies (% of principal amount outstanding)	1.64	0.68
Net charge-offs		
Average principal amount (mil. $)	98.87	5.67
Net charge-offs (% of period-end principal outstanding)	0.34(i)	0.00

(i)Annualized.

Table 4b

Exeter managed portfolio

	As of June 30		As of Dec. 31				
	2023	2022	2022	2021	2020	2019	2018
Principal amount outstanding at end of period (mil. $)	9,194.46	8,814.24	8,782.98	7,840.42	6,302.96	5,604.44	4,258.45
Delinquencies (%)							
31-60 days	10.07	9.88	11.27	9.26	9.13	10.59	10.43
61-90 days	4.76	4.59	5.58	4.28	4.22	5.15	5.01
91-plus days	2.04	1.63	2.83	1.68	1.79	2.42	2.22
Total delinquencies (% of principal amount outstanding)	16.87	16.09	19.68	15.23	15.15	18.17	17.66
Net charge-offs							
Average principal amount outstanding during the period (mil. $)	8,965.73	8,450.97	8,624.44	7,237.94	6,023.72	5,060.86	3,845.85
Net charge-offs (% of period-end principal outstanding)	8.86(i)	5.14(i)	8.13	4.29	6.56	7.78	7.77

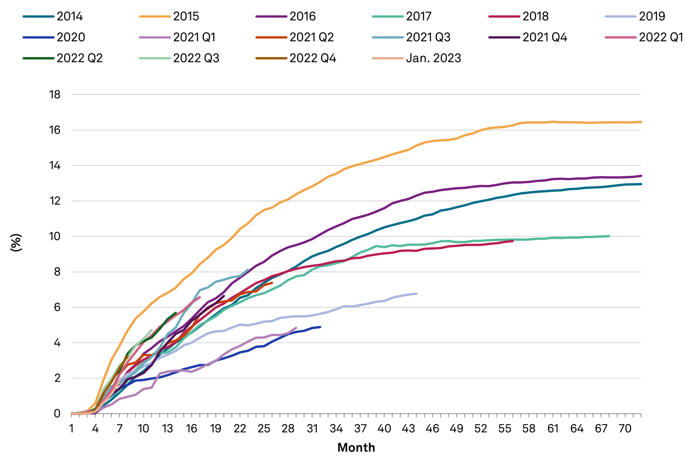
(i)Annualized.

Origination static pool analysis

Our analysis is based on approximately 10 years of static pool loss performance data provided by Exeter that generally reflect the loan and obligor characteristics of the origination agreement and the VSTRG 2023-A collateral (see charts 1 and 2). We analyzed performance data on the origination static pools in aggregate, as well as by cohorts, including original term buckets (less than or equal to 72 months, 72-75 months, and 76-plus months), by custom score, and by post-funding score. For this transaction, we focused primarily on the origination performance from 2021 and forward. We projected losses on these newer vintages using a loss curve derived from the 2014 Q1 through 2016 Q4 vintages, with a minimum of 78 months of performance. We weighted these projections based on the concentration of the various credit tiers in the series 2023-A pool to determine various base-case loss proxies.

Chart 1

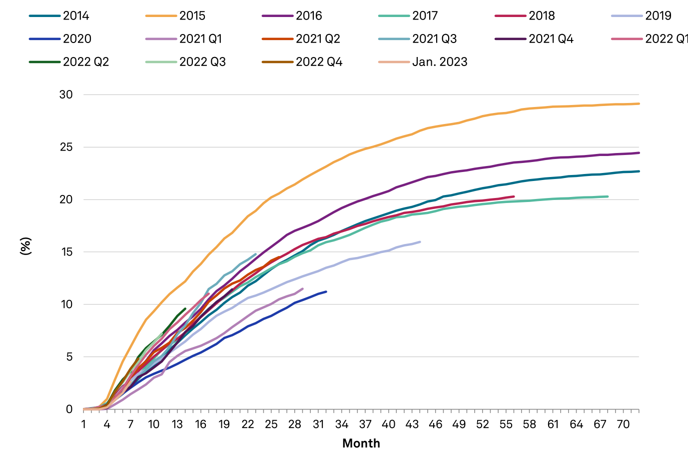
Aggregate net loss performance for the historic Exeter originations eligible for the VSCU program



VSCU--Valley Strong Credit Union.

Chart 2

Aggregate gross loss performance for the historic Exeter originations eligible for the VSCU program



VSCU--Valley Strong Credit Union.

Legal Overview And Transaction Structure

Legal overview

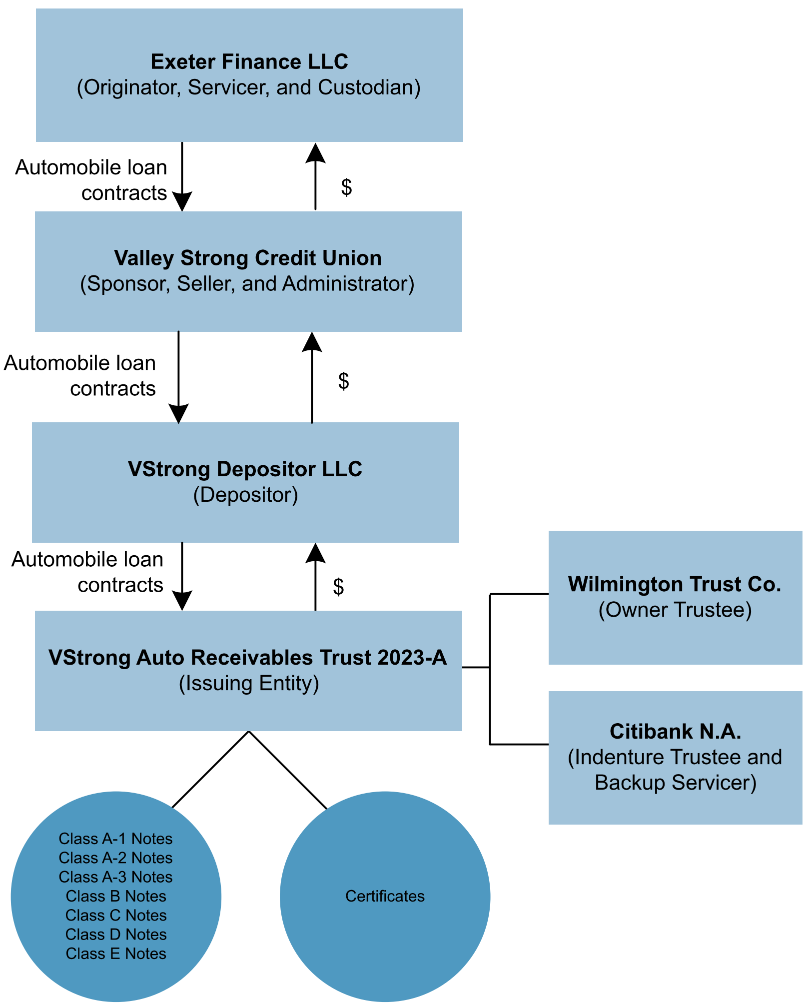
In rating this transaction, S&P Global Ratings will review the legal matters it believes are relevant to its analysis, as outlined in its criteria.

The sale of receivables originated by Exeter to VSCU is generally consistent with an open market transfer.

The transaction is structured as a sale of the receivables from Valley Strong Credit Union, the sponsor, to VStrong Depositor LLC, the depositor. The depositor will sell the receivables to VSTRONG Auto Receivables Trust 2023-A, the issuing entity (the trust). The trust will then pledge its interest in the receivables to the indenture trustee for the benefit of the noteholders (see chart 3).

Chart 3

Transaction structure



Transaction structure

The VSTRG 2023-A transaction incorporates certain structural features:

- A senior-subordinated sequential-pay structure in which the senior-most notes outstanding are paid first that should result in increased credit enhancement for the senior notes as the pool amortizes.
- Initial overcollateralization of 2.90% of the initial collateral pool balance, which will build to a target of 10.90% of the current collateral pool balance by using excess spread after net losses to pay principal on the outstanding notes. The overcollateralization will be subject to a floor of 0.75% of the initial collateral pool balance.
- A non-amortizing reserve fund that will equal 1.00% of the initial collateral pool balance and

will be fully funded at closing.

- Excess spread of approximately 6.21% (pre-pricing) per year.
- An optional clean-up call of 5.00% of the initial pool balance.

Payment Priority

Payment distribution before an event of default

Before an event of default, distributions will be made from available collections according to the payment priority shown in table 5.

Table 5

Payment waterfall

Priority	Payment
1	To the servicer, the servicing fee of 2.00% and any supplemental servicing fees, reimbursements, and other related amounts. To the backup servicer, a one-time transition fee of $2.00 per receivable in the event that the backup servicer becomes the servicer.
2	First, to the indenture trustee, the backup servicer, the custodian, the administrator, and the owner trustee the fees due to each party. Second, to the indenture trustee, backup servicer, custodian, administrator, and owner trustee any accrued and unpaid expenses and indemnities, subject to an annual expense cap.
3	Class A(i) notes interest, pro rata
4	Principal to the extent necessary to reduce the class A notes' aggregate principal balance to the pool balance (the class A principal parity amount).
5	The class A notes' remaining principal balance on the final scheduled distribution date.
6	Class B note interest.
7	Principal to the extent necessary to reduce the class A and B notes' combined principal balance to the pool balance (the class B principal parity amount).
8	The class B notes' remaining principal balance on the final scheduled distribution date.
9	Class C note interest.
10	Principal to the extent necessary to reduce the class A, B, and C notes' combined principal balance to the pool balance (the class C principal parity amount).
11	The class C notes' remaining principal balance on the final scheduled distribution date.
12	Class D note interest.
13	Principal to the extent necessary to reduce the class A, B, C, and D notes' combined principal balance to the pool balance (the class D principal parity amount).
14	The class D notes' remaining principal balance on the final scheduled distribution date.
15	Class E note interest.
16	Principal to the extent necessary to reduce the class A, B, C, D, and E notes' combined principal balance to the pool balance (the class E principal parity amount).
17	The class E notes' remaining principal balance on the final scheduled distribution date.
18	To the reserve account, the amount necessary to achieve the specified reserve account balance.
19	Principal to achieve the target overcollateralization amount (the principal payment amount).
20	To the indenture trustee, backup servicer, custodian, administrator, and owner trustee, pro rata, any fees, expenses, and indemnities that exceed the annual expense cap

Table 5

Payment waterfall (cont.)

Priority	Payment
21	All remaining amounts to the certificateholders.

(i)Class A refers collectively to the class A-1, A-2, and A-3 notes.

Events of default

The occurrence of any of certain events will constitute an event of default under the indenture:

- A default in the payment of interest due on any note of the controlling class that continues for five business days or more.
- A default in the payment of the principal of any note on its final scheduled payment date or redemption date.
- Any failure by the issuing entity to duly observe or perform any of its covenants or agreements, or a breach of any of its representations or warranties, which has a material adverse effect on the noteholders and which continues unremedied for a period of 60 days after notice.
- The occurrence of certain events (which, if involuntary, remain unstayed for a period of 60 consecutive days), including bankruptcy, insolvency, receivership, or liquidation of the issuing entity.

Payment distribution after an event of default

On each payment date following an event of default related to a breach of a covenant, agreement, representation, or warranty and the acceleration of the notes, available funds will be distributed as described in table 5. However, the fees in item 2 will be uncapped, and item 19 will pay class A-1 notes until paid in full, then the class A-2 and A-3 notes pro rata until paid in full, then sequential full turbo payments to the class B, C, D, and E notes until the total note balance has been reduced to zero.

On each payment date following an event of default (other than an event of default solely from a covenant, agreement, representation, or warranty breach) and the acceleration of the notes, or upon the trust assets' liquidation, available funds will instead be distributed in the priority shown in table 6.

Table 6

Payment waterfall following an event of default

Priority	Payment
1	To the servicer the servicing fee of 2.00%, any supplemental servicing fees, reimbursements, and other related amounts. To the backup servicer a one-time transition fee of $2.00 per receivable in the event that the backup servicer becomes the servicer.
2	To the indenture trustee, the backup servicer, the custodian, the administrator, and the owner trustee the fees (uncapped) due to each party
3	Class A(i) note interest.

Table 6

Payment waterfall following an event of default (cont.)

Priority	Payment
4	Class A note principal to the class A-1 notes until paid in full, and then to the class A-2 and A-3 notes, pro rata, until each class paid in full.
5	Class B note interest.
6	Class B note principal until paid in full.
7	Class C note interest.
8	Class C note principal until paid in full.
9	Class D note interest.
10	Class D notes until paid in full.
11	Class E note interest.
12	Class E notes until paid in full.
13	All remaining amounts to the certificateholders.

(i)Class A refers to the class A-1, A-2, and A-3 notes, collectively.

Servicer termination events

Any of certain events will constitute a servicer termination:

- The servicer's failure to deliver any required payment to the indenture trustee that remains unremedied for two business days (an additional 60-day grace period will apply if the delay is caused by force majeure);
- The servicer's failure to observe or perform any covenant or agreement materially and adversely affecting the noteholders' rights that remains unremedied for 45 days (an additional 60-day grace period will apply if the delay is caused by force majeure);
- The servicer's becoming insolvent (involuntarily or voluntarily);
- Any materially incorrect servicer representation, warranty, or statement remaining unremedied for 45 days (an additional 60-day grace period will apply if the delay is caused by force majeure).

If a servicer termination occurs, the indenture trustee or a majority of the noteholders holding the senior-most class can terminate the servicer's rights and obligations and within 30 days will be replaced by the backup servicer.

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. In addition, we use our cash flow analysis in other aspects of our ratings analysis, including the testing of credit stability (sensitivity analysis) and legal final analysis.

Break-even analysis

For the VSTRG 2023-A transaction structure, we applied the assumptions outlined in table 7 to 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 level (the maximum net losses the class can withstand without defaulting) and generally expect it to be equal to or greater than the stressed scenario break-even requirement for the rating.

Based on our stressed cash flows, the break-even net loss results show that the class A notes are credit-enhanced to the degree appropriate for the assigned preliminary ratings (see table 8).

Table 7

Break-even cash flow assumptions

Voluntary ABS (%)	1.20
Servicing fee (%)	2.00
Recovery rate (%)	40.00
Charge-off and recovery lag (mos.)	4
CNL timing by month (12/24/36/48/60)(%)	
Front-loaded loss curve	35/65/85/95/100
Back-loaded loss curve	20/50/75/90/100

ABS--Absolute prepayment speed. CNL--cumulative net loss.

Table 8

Cash flow assumptions and results

	Class A
Scenario (preliminary rating)	AAA (sf)
CNL by month (12/24/36/48/60) (%)	
Front-loaded loss curve	58/100
Back-loaded loss curve	51/100
Approximate break-even net loss levels (%)(i)	
Required	49.88
Available: front-loaded loss curve	49.96
Available: back-loaded loss curve	50.23

(i)The maximum cumulative net losses the transaction can withstand, with no credit to excess spread, which was negative under this rating scenario, without triggering a payment default on the relevant class of notes. CNL--Cumulative net loss.

Sensitivity analysis

In addition to running break-even cash flows, we undertook sensitivity analysis using the assumptions outlined in table 7. We believe that under a moderate ('BBB') stress scenario (1.75x of 14.25% expected loss level) and with 90% 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 of "S&P Global Ratings Definitions," published June 9, 2023 (see table 9).

Table 9

Credit stability as a limiting factor on ratings

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

Horizon	AAA	AA	A	BBB	BB	B
One year	AA	A	BB	B	CCC	D
Three years	BBB	BB	B	CCC	D	D

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

Chart 4

Sensitivity analysis--coverage multiple (front-loaded loss curve)

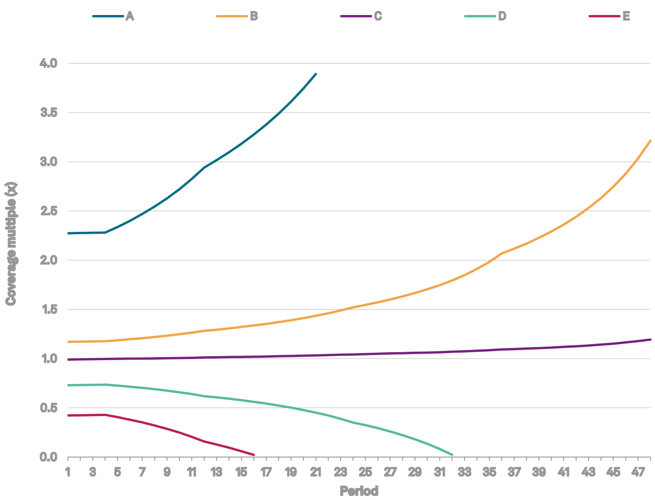
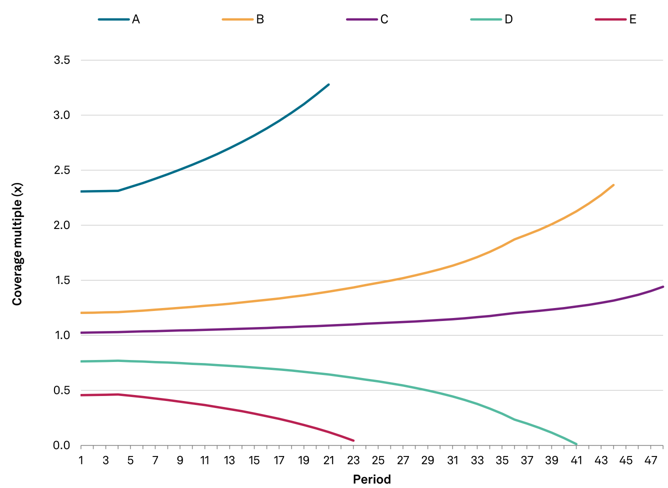


Chart 5

Sensitivity analysis--coverage multiple (back-loaded loss curve)



Money market tranche

The proposed money market tranche (class A-1) has a legal final maturity date of Oct. 15, 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 and zero prepayments for our cash flow analysis, and we observed that the money market tranche would be paid off prior to the legal final maturity date.

Legal final maturity

To test the legal final maturity dates for classes A-2 and A-3, we determined the date on which the respective notes would fully amortize in a zero-loss, zero-prepayment scenario, then added three months to the result. In the break-even scenario for each class, we confirmed that credit enhancement was sufficient to both to cover losses and to repay the related notes in full by their legal final maturity date.

Counterparty And Operational Risks

Bank account provider

On or before the closing date, the series 2023-A bank accounts will be established in the name of the indenture trustee, Citibank, as segregated trusts accounts. The bank account provider is consistent with our counterparty criteria for a 'AAA'-supported transaction (see "Counterparty Risk Framework: Methodology and Assumptions," published March 8, 2019).

Servicer

Exeter has a long history in the subprime auto finance business. As the servicer, Exeter has an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. A back-up servicer, Citibank, is engaged for the outstanding series, which, along with the loan file sub-custodians, would enable servicing transition if necessary. Commingling risk is addressed in this transaction by the requirement that all collections are deposited to the respective series' collections account within two business days. Our operational risk assessment of Exeter as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

Exeter will act as custodian of the loan contracts and the related loan files. With respect to tangible chattel paper, it will hold such contracts in a secure, fire-resistant facility. With respect to electronic chattel paper (the majority of the loans in the pool are in this form), Exeter will maintain the contracts in specially designed computer systems maintained by one or more e-contracting vendors to establish control by Exeter under the Uniform Commercial Code. Exeter may engage one or more sub-custodians to maintain such loan contracts and related files.

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 | 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

- Credit Conditions: Credit Conditions North America Q4 2023: Shift To Low Gear, Sept. 26, 2023
- Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted, Sept. 25 2023
- U.S. Auto Loan ABS Tracker: July 2023 Performance, Sept. 11, 2023
- Research Update: Cobra Equity Holdco LLC Downgraded To 'B-' From 'B' On Higher Leverage; Outlook Stable, Jan. 26, 2023
- Cobra Equity Holdco LLC, Dec. 14, 2022