S&P Global Ratings

Research

Presale:

Octane Receivables Trust 2024-1

February 13, 2024

PRIMARY CREDIT ANALYST

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate	Amount ($ mil.)	Final maturity
A1	A-1+ (sf)	Senior	Fixed	41.304	Feb. 20, 2025
A2	AAA (sf)	Senior	Fixed	180.438	May 20, 2030
B	AA (sf)	Subordinate	Fixed	23.654	May 20, 2030
C	A (sf)	Subordinate	Fixed	22.077	May 20, 2030
D	BBB (sf)	Subordinate	Fixed	20.318	Oct. 21, 2030
E	BB (sf)	Subordinate	Fixed	12.434	Aug. 20, 2031

Note: This presale report is based on information as of Feb. 13, 2024. 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.

Profile

Expected closing date	Feb. 23, 2024.
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 2024-1.
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	Truist Securities Inc.

Credit enhancement summary

	OCTL 2024-1	OCTL 2023-3	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2
Subordination(i)					
Class A	25.88	28.20	35.50	27.65	23.20
Class B	18.08	20.30	24.95	19.40	14.40
Class C	10.80	12.65	12.20	11.20	8.70
Class D	4.10	5.35	5.95	3.80	--
Class E	--	--	--	--	--
Overcollateralization(i)					
Initial	1.00	2.00	1.50	2.35	5.35
Target	2.50	3.50	3.50	3.50	6.40
Floor	2.50	3.50	3.50	3.50	6.40
Reserve fund(i)					
Initial	0.75	1.00	1.00	1.00	1.00
Target	0.75	1.00	1.00	1.00	1.00
Floor	0.75	1.00	1.00	1.00	1.00
Total initial hard credit enhancement(i)					
Class A	27.63	31.20	38.00	31.00	29.55
Class B	19.83	23.30	27.45	22.75	20.75
Class C	12.55	15.65	14.70	14.55	15.05
Class D	5.85	8.35	8.45	7.15	6.35
Class E	1.75	3.00	2.50	3.35	--
Estimated excess spread per year (%)(ii)	4.99	4.72	5.73	4.54	4.60

(i)Percentage of the initial receivables balance. (ii)Estimated annual excess spread is pre-pricing for OCTL 2024-1 and post-pricing for the other series. OCTL--Octane Receivables Trust.

Rationale

The preliminary ratings assigned to Octane Receivables Trust 2024-1's (OCTL 2024-1) asset-backed notes reflect:

- The availability of approximately 31.23%, 24.19%, 17.57%, 11.75%, and 8.77% 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 June 9, 2023.

- The collateral characteristics of the amortizing pool of consumer powersports receivables, including the meaningful increase in the prime portion of the pool (see table 7).
- The transaction's credit enhancement in the form of subordination, overcollateralization (O/C) that builds to a target level of 2.50% of the initial receivables balance, a nonamortizing reserve account, and excess spread (see the Credit Enhancement Summary table above).
- 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

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (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 2023-3

- Total initial hard credit support decreased for the class A, B, C, D, and E notes to 27.63%, 19.83%, 12.55%, 5.85%, and 1.75%, respectively, from 31.20%, 23.30%, 15.65%, 8.35%, and 3.00%.
- Initial O/C as a percentage of the initial receivables pool balance decreased to 1.00% from 2.00%. The target and floor O/C also decreased as a percentage of the initial pool to 2.50% each from 3.50%.
- The reserve account decreased to 0.75% of the initial pool balance from 1.00%.
- Subordination for the class A, B, C, and D notes decreased to 25.88%, 18.08%, 10.80%, and 4.10%, respectively, from 28.20%, 20.30%, 12.65%, and 5.35%.
- The servicing fee was reduced to 1.50% per annum of the outstanding collateral balance from 2.00%.
- Excess spread increased to 4.99% (pre-pricing) from 4.72% (post-pricing).

The changes in initial hard credit enhancement primarily reflect the reduction in our assumed expected cumulative gross loss for OCTL 2024-1 relative to OCTL 2023-3. Our stressed cash flow analysis results indicate that the notes are credit enhanced to the degree appropriate for the assigned preliminary ratings (see the Cash Flow Modeling Assumptions And Results section below).

Collateral Changes From OCTL 2023-3

- The concentration of prime receivables increased significantly to 73.94% from 51.81% (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 FICO score increased to 732 from 709.
- The weighted average loan-to-value (LTV) ratio decreased to 111.12% from 112.25%.
- Contracts with original terms greater than 60 months decreased to 52.21% from 57.86%, and contracts with original terms greater than 72 months increased to 19.14% from 15.84%.
- The average outstanding loan balance increased to $13,405 from $11,413.
- The average monthly payment increased to $307 from $289.
- The weighted average seasoning decreased to 1.90 months from 4.66 months, as OCTL 2023-3 included called collateral from OCTL 2019-1.
- The concentration of pontoon hybrids, which have a larger average ticket size and shorter loss performance history, increased to 0.13% from 0.09%. Additionally, this pool will not include any RV contracts, and, for the first time, the pool will include loans backed by go-karts and electric bikes, which are expected to make up 0.40% of the pool. While performance data is limited for the go-karts and electric bikes, these assets tend to have shorter original terms (approximately 3 years) as well as lower original loan balances (approximately $3,000).

Overall, we believe the characteristics of OCTL 2024-1's collateral pool are much stronger than OCTL 2023-3's due to the significantly higher concentration of prime contracts. (For more information on the collateral composition, see the OCTL 2024-1 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 Jan. 31, 2024, 53% of Octane's customers were homeowners, with a weighted average individual borrower income of approximately $89,000 and a weighted average borrower FICO score of 701. The average monthly payment was $285, as the cost of powersports equipment is less than the typical automobile (see table 1).

Table 1

Managed portfolio borrower overview(i)

	Prime	Nonprime	Total
Weighted avg. FICO score	734	646	701
Homeownership rate (%)	63	43	53
Avg. job tenure (years)	8.3	5.6	7
Avg. gross income ($000)	98	79	89

Table 1

Managed portfolio borrower overview(i) (cont.)

	Prime	Nonprime	Total
Avg. monthly payment ($)	312	257	285

(i)Prime refers to risk tiers 1 to 2.4 and nonprime refers to risk tiers 3 through 9.

Transaction And Legal Overview

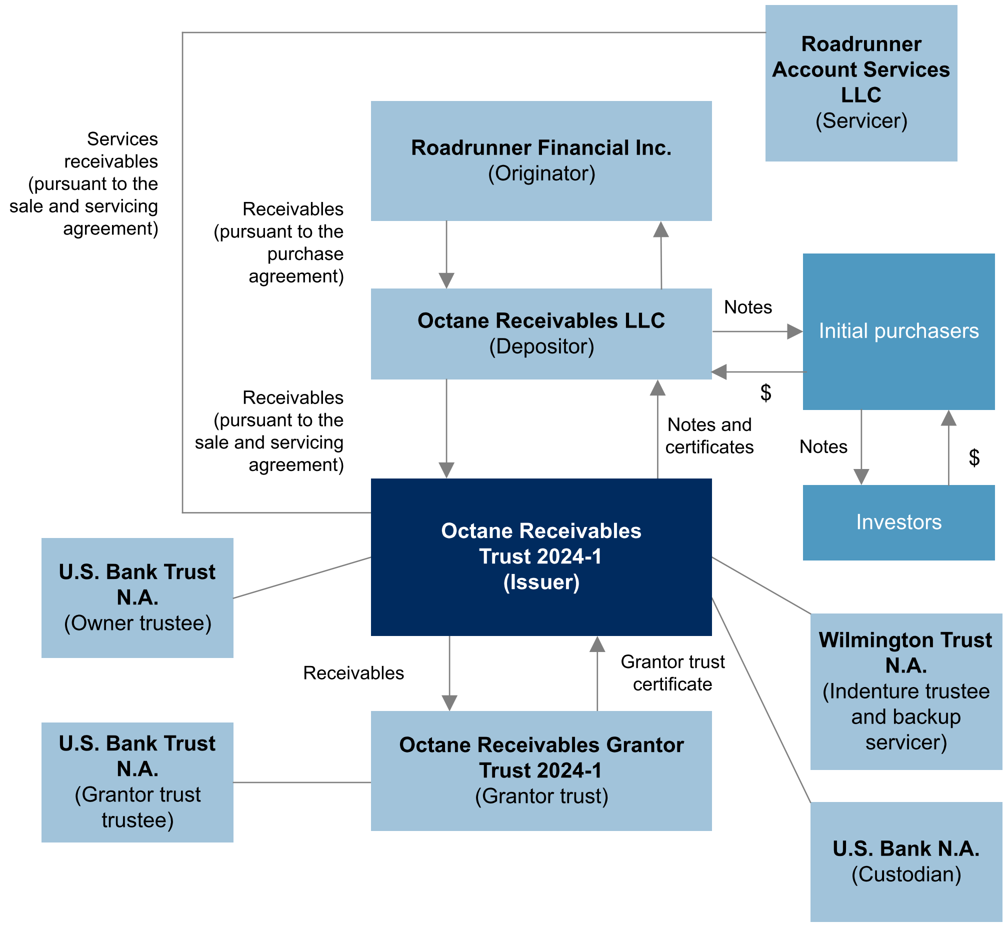
OCTL 2024-1 is Octane's tenth transaction since 2019 and the eighth rated by S&P Global Ratings.

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 2024-1). The issuer will then transfer the receivables to the grantor trust (Octane Receivables Grantor Trust 2024-1) 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 2024-1, while Wilmington Trust N.A. is the backup servicer.

Chart 1

Transaction structure



OCTL 2024-1 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 2.50% of the original pool balance from 1.00% of the initial pool balance through excess spread.
- A non-amortizing reserve account that will equal 0.75% 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	Pro rata, 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 1 and 2 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.

Class A notes: Collectively, class A1 and A2 notes. 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 note interest (including accrued amounts).
4a(1)	Class A1 note principal until paid in full.
4a(2)	Class A2 note principal until paid in full.
4a(3)	Class B note interest (including accrued amounts).
4a(4)	Class B note principal until paid in full.
4a(5)	Class C note interest (including accrued amounts).
4a(6)	Class C note principal until paid in full.
4a(7)	Class D note interest (including accrued amounts).
4a(8)	Class D note principal until paid in full.

Table 3

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

Priority	Payment
4a(9)	Class E note interest (including accrued amounts).
4a(10)	Class E note principal until paid in full.
5	Pro rata, any remaining funds to the certificateholders.

Class A notes: Collectively, class A1 and A2 notes.

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 note 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.

Class A notes: Collectively, class A1 and A2 notes.

OCTL Transaction Performance

Octane has eight outstanding securitizations--one of which (OCTL 2020-1) was not rated by S&P Global Ratings (see table 5).

OCTL 2022-1, 2022-2, and 2023-1 all built to their respective O/C targets; however, in recent performance months they have dropped below their O/C targets. As of the January 2024 distribution date, 2022-1, 2022-2, and 2023-1 are approximately $115,731, $241,350, and $103,913 below their O/C targets on a dollar basis, respectively. Enhancement has declined on a dollar basis but continues to grow as a percentage of the current collateral balance. At this time, each of the rated notes is consistent with the assigned ratings. We will continue to monitor the performance to ensure that credit enhancement remains consistent with the assigned ratings.

On July 11, 2023, we raised our ratings on eight classes and affirmed our ratings on three classes from OCTL 2021-1, 2021-2, and 2022-1. During the review, we observed that the cumulative gross losses (CGLs) to date for series 2021-1 and 2021-2 were trending in line with expectations, while the 2022-1 was performing worse than initial expectations, reflecting recent economic headwinds, changes in underwriting in 2021, and collateral recovery challenges experienced in early 2023. As such, we raised our expected CGL for the 2022-1 transaction (See "Eight Ratings Raised And Three Affirmed From Three Octane Receivables Trust Transactions," published July 11, 2023).

On Nov. 17, 2023, we reviewed the OCTL 2022-2 transaction. We observed that performance was weaker than our initial expectations and, as a result, we raised our expected CGL. Despite the higher loss assumption, credit enhancement continued to grow as the pool amortized down; as a result, we raised our ratings on four classes of notes (see "Eight Ratings Raised And Three Affirmed From Three Octane Receivables Trust Transactions," published Nov 17, 2023).

We will continue to monitor the transactions' performance to ensure that the credit enhancement remains consistent with the assigned ratings.

Table 5

Performance as of the January 2024 distribution date

OCTL Series	Month	Pool factor (%)	Current CNL (%)	Current CRR (%)	Current CGL (%)	61-plus-day delinq. (%)	Active extension rate (%)	Initial expected CNL (%)	Initial expected CGL (%)(i)	Revised expected CGL (%)(ii)
2020-1	39	16.53	3.29	40.35	5.52	1.51	0.22	N/A	N/A	N/A
2021-1	32	28.63	3.71	35.86	5.78	1.47	0.49	5.50-6.50	N/A	6.75-7.25
2021-2	26	39.42	4.14	30.96	5.99	1.55	0.54	5.25-6.00	N/A	8.00-8.50
2022-1	20	52.22	4.10	28.99	5.78	1.43	0.62	N/A	7.00-7.50	8.75-9.25
2022-2	17	60.29	3.62	27.43	4.98	1.28	0.57	N/A	7.10-7.60	9.25-9.75
2023-1	11	73.46	2.10	22.72	2.71	1.10	0.65	N/A	7.25-7.75	N/A
2023-2	8	82.44	1.39	19.11	1.71	0.95	0.56	N/A	8.50-9.00	N/A
2023-3	4	91.30	0.22	18.34	0.27	0.66	0.08	N/A	8.25-8.75	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 July 2023 for 2021-1, 2021-2, and 2022-1 and as of October 2023 for 2022-2. CNL--Cumulative net loss. OCTL--Octane Receivables Trust. 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 $2.08 billion at year-end 2023 from $72.60 million at year-end 2018. The continued growth in new originations increased the size of the managed portfolio approximately 31.47% from $1.35 billion a year earlier.

Losses and delinquencies for the managed portfolio have performed well over the three-year period from 2020 through 2022. Delinquencies and losses increased in late 2023, reflecting inflationary pressures and the normalization of economic conditions reflective of the period prior to onset of the COVID-19 pandemic. As of Dec. 31, 2023, total 31-plus-day delinquencies were 2.50%, up from 2.12% a year earlier, but down from 2.62% in 2019. Similarly, net charge-offs as a percentage of the average month-end amount outstanding came in at an annualized 3.06%, up from 1.99% a year earlier, and flat versus 3.00% in 2019 (see table 6).

Table 6

Managed portfolio

	As of Dec. 31					
	2023	2022	2021	2020	2019	2018
Delinquency experience						
Portfolio at end of period (mil. $)	2,082.23	1,583.76	873.028	477.628	259.910	72.604
Total 31-plus-day delinquencies (% of the portfolio)	2.50	2.12	1.27	1.48	2.62	5.01
Loan loss experience						
Average month-end amount outstanding during the period (mil. $)	1,833.00	1,228.40	675.328	368.769	166.248	48.937
Net charge-offs (% of average month-end amount outstanding)	3.06	1.99	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 nonprime 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.

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, whereas we classify risk tiers 2.3 and 2.4 as nonprime. The breakout shown in chart 2 reflects our classification. 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

Octane managed book originations

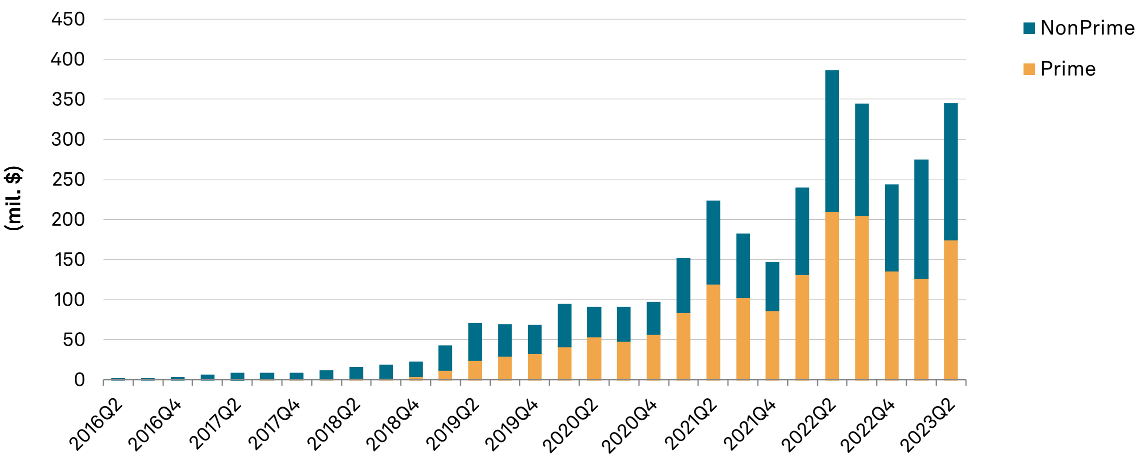


Chart 3

Static pool prime net loss

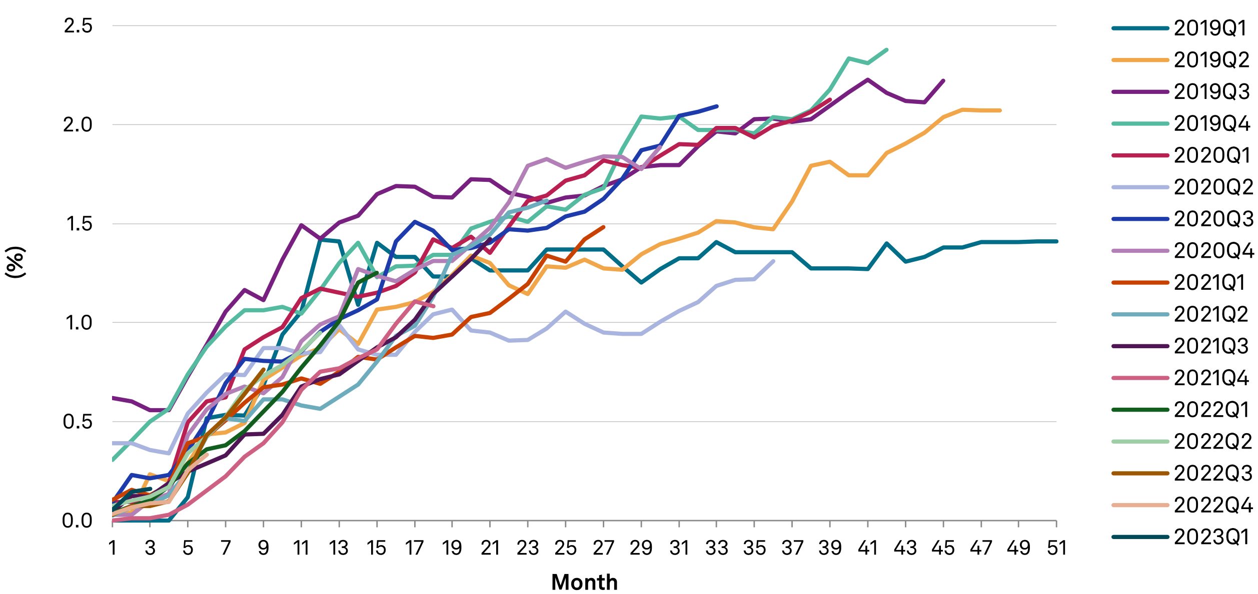
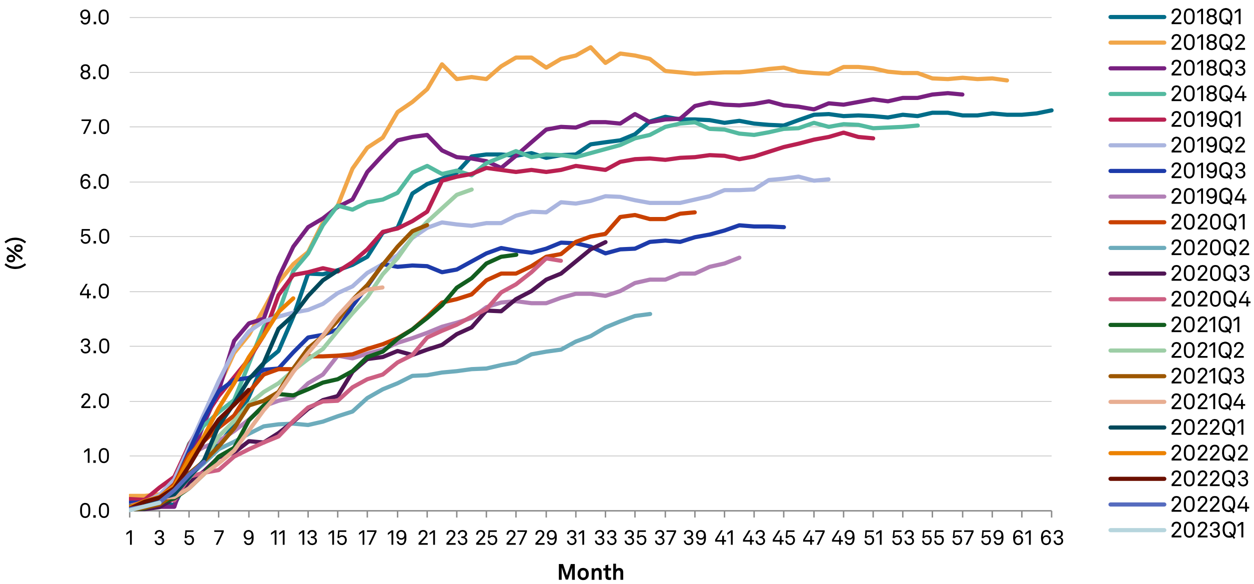


Chart 4

Static pool nonprime net loss



OCTL 2024-1 Pool

As of the Jan. 31, 2024, cutoff date, the OCTL 2024-1 statistical pool comprised approximately $249.68 million in powersport receivables. The pool had a weighted average FICO score of 732 and a weighted average LTV ratio of 111.12%. The overall concentration of prime contracts (risk tiers 1, 2, and 2.1, as defined for static pool projection purposes) in the pool was 73.94%, with nonprime contracts making up the remainder. Contracts with original terms greater than 60 and 72 months made up 52.21% and 19.14% of the pool, respectively. Approximately 0.13% of the pool's receivables were backed by pontoon hybrids, which have limited performance history, and weighted average (WA) original terms (72 months) that are higher than the aggregate pool's.

Additionally, there are no RV loans being included in this pool. New to this transaction are go-karts and electric bikes. These assets collectively comprise about 0.40% of the pool. Originations for go-karts and electric bikes began in Q4 2022, so data is somewhat limited. However, we believe that the risk is mitigated due to the low percentage in the pool, the relatively smaller original loan amount (approximately $3,000) and the relatively shorter original terms (approximately 36 months).

Overall, we believe the improved characteristics (the higher concentration of prime receivables, lower WA LTV ratio, WA original term, and higher WA FICO score) of the OCTL 2024-1 collateral pool are considerably stronger than pools from prior OCTL transactions (see table 7).

Table 7

Collateral

	OCTL 2024-1	OCTL 2023-3	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2
Closing date	Jan. 31, 2024	Sept. 27, 2023	May 24, 2023	Feb. 16, 2023	Aug. 11, 2022
Aggregate principal balance ($)	249,680,949	387,759,007	406,115,834	312,524,026	396,196,530
Contracts (no.)	18,626	33,976	31,813	23,380	30,230
Avg. current principal balance ($)	13,405	11,413	12,766	13,367	13,106
Average monthly payment ($)	307	289	295	301	290
WA APR (%)	11.97	13.93	14.51	12.96	12.38
WA LTV ratio (%)	111.12	112.25	113.23	115.57	117.80
WA FICO score	732	709	700	705	700
WA original term (mos.)	65.21	66.51	68.08	68.25	67.38
WA remaining term (mos.)	63.31	61.85	66.03	65.51	65.86
Seasoning	1.90	4.66	2.05	2.74	1.52
Original term distribution (%)					
<= 60 mos.	47.79	42.13	35.14	35.79	38.00
61-72 mos.	33.07	42.02	45.22	41.02	42.49
73-84 mos.	19.14	15.84	19.65	23.19	19.64
Contracts with original terms > 60 mos.	52.21	57.86	64.86	64.21	62.13
Remaining term distribution (%)					
<= 60 mos.	48.09	46.12	35.62	36.30	38.34
61-72 mos.	32.91	39.50	44.87	40.75	42.17
73-84 mos.	19.00	14.38	19.50	22.94	19.50
Contracts with remaining terms > 60 mos.	51.91	53.88	64.38	63.70	61.67
Contracts with remaining terms > 72 mos.	19.00	14.38	19.50	22.94	19.50
New	78.69	76.74	73.46	73.26	68.26
Used	21.31	23.26	26.54	26.74	31.74
FICO score distribution					
>= 700	70.09	51.23	45.13	48.12	46.13
650-699	14.84	27.59	30.18	29.58	30.55
600-649	11.23	18.97	22.34	19.79	19.95
< 600	3.83	2.20	2.35	2.14	3.05
N.A.	0.00	0.02	0.00	0.37	0.30
< 700	29.91	48.76	54.87	51.50	53.55
Credit tiers (%)					
1	45.88	25.38	20.82	25.06	21.79
2	21.42	13.90	13.63	14.40	15.67
2.1	6.63	12.53	12.75	17.63	18.60

Table 7

Collateral (cont.)

	OCTL 2024-1	OCTL 2023-3	OCTL 2023-2	OCTL 2023-1	OCTL 2022-2
2.2	4.40	9.06	11.11	7.74	7.36
2.3	0.77	2.12	3.24	3.21	4.41
2.4	0.20	0.59	0.99	0.81	0.65
3	3.79	11.67	10.21	7.92	7.75
4	5.53	13.78	16.56	12.08	11.45
5	4.24	7.62	7.39	7.76	8.12
6	3.68	1.82	2.13	2.12	2.41
7	2.50	0.87	0.52	0.80	0.71
8	0.96	0.64	0.65	0.47	1.09
Prime (risk tiers 1, 2, and 2.1)	73.94	51.81	47.20	57.09	56.06
Nonprime (risk tiers 2.2 through 8)	26.06	48.17	52.80	42.91	43.95
Top five state concentrations (%)					
	TX=16.46	TX=14.56	TX=13.62	CA=14.77	CA=14.28
	CA=15.78	CA=11.63	FL=11.12	TX=14.11	TX=12.89
	FL=11.22	FL=8.79	CA=10.48	FL=10.13	FL=8.91
	AZ=5.75	GA=5.43	NC=5.74	GA=5.30	GA=5.69
	GA=5.02	NC=4.42	GA=5.31	NC=5.08	NC=5.30
Initial ECGL (%)	7.25-7.75	8.25-8.75	8.50-9.00	7.25-7.75	7.10-7.60

OCTL--Octane Receivables Trust. WA--Weighted average. APR--Annual percentage rate. LTV--Loan to value. ECGL--Expected cumulative gross loss.

S&P Global Ratings' Expected Loss

To derive the expected loss for the OCTL 2024-1 pool, we relied on Octane's origination static pool data, broken out by risk tier, dating back to fourth-quarter 2016. In our analysis, we gave more consideration to the company's recent static pool performance. 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. We weighted prime and nonprime projections by the concentration of each segment in the pool to arrive at an overall estimated loss for OCTL 2024-1. Note that our prime and nonprime tiers differ from the company's (see the Originations And Underwriting section).

In addition to static pool performance, we also considered Octane's managed portfolio annual loss performance, and the performance of its asset-backed securities (ABS) transactions. We also considered qualitative factors, including the company's operating history, the limited quantity of fully amortized static pools, the actions taken to mitigate losses related to the COVID-19 pandemic, tighter underwriting standards beginning in 2022, and improved recovery conditions. We also considered our forward-looking view of the economy, our baseline forecast for U.S. GDP growth, unemployment, and the powersports segment.

In our analysis, we considered recent weaker performance trends, including an increase in losses in later vintages of the outstanding ABS transactions, as well as our view that the discretionary nature of the receivables backing the pool are sensitive to economic headwinds and seasonality. However, in our view, considering the significant increase in prime collateral, the much stronger pool for this series resulted in a lower base-case gross loss of 7.25%-7.75% versus prior OCTL transactions.

We reviewed the company's managed portfolio, static pool, and term ABS recovery rate data to derive our 35% base-case recovery rate for the transaction. In our analysis, we noted that Octane's recovery rates can fluctuate due to seasonality and have come down from the highs experienced since the onset of the COVID-19 pandemic to normalized to pre-pandemic levels.

Octane uses third parties to repossess collateral, which then sell the collateral at national auction houses with a specialty in powersports equipment.

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 more volatility in secondary market values and lower recoveries during winter months, given seasonal trends. 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 29.63% for 'AAA (sf)', 23.18% for 'AA (sf)', 16.99% for 'A (sf)', 11.06% for 'BBB (sf)', and 8.64% for 'BB (sf)'.

Cash Flow Modeling Assumptions And Results

We modeled OCTL 2024-1 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	Class B	Class C	Class D	Class 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

Table 8

Cash flow assumptions and results (cont.)

	Class A	Class B	Class C	Class D	Class E
Charge-off and recovery lag (mos.)	4	4	4	4	4
Servicing fee (% per year)	1.50	1.50	1.50	1.50	1.50
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)	31.23	24.19	17.57	11.75	8.77
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)	1.50	1.50	1.50	1.50	1.50
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)	31.95	24.74	18.05	12.20	9.10

(i)Assumes a 10% haircut to excess spread. CNL--Cumulative net loss. ABS--Absolute prepayment speed.

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 June 9, 2023 (see table 9 and charts 5 and 6).

Table 9

Scenario analysis summary

Loss level (%)	11.06
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

Table 9

Scenario analysis summary (cont.)

Servicing fee (% per year)	1.50
Haircut to excess spread (%)	10

ABS--Absolute prepayment speed.

Chart 5

Sensitivity--front loaded

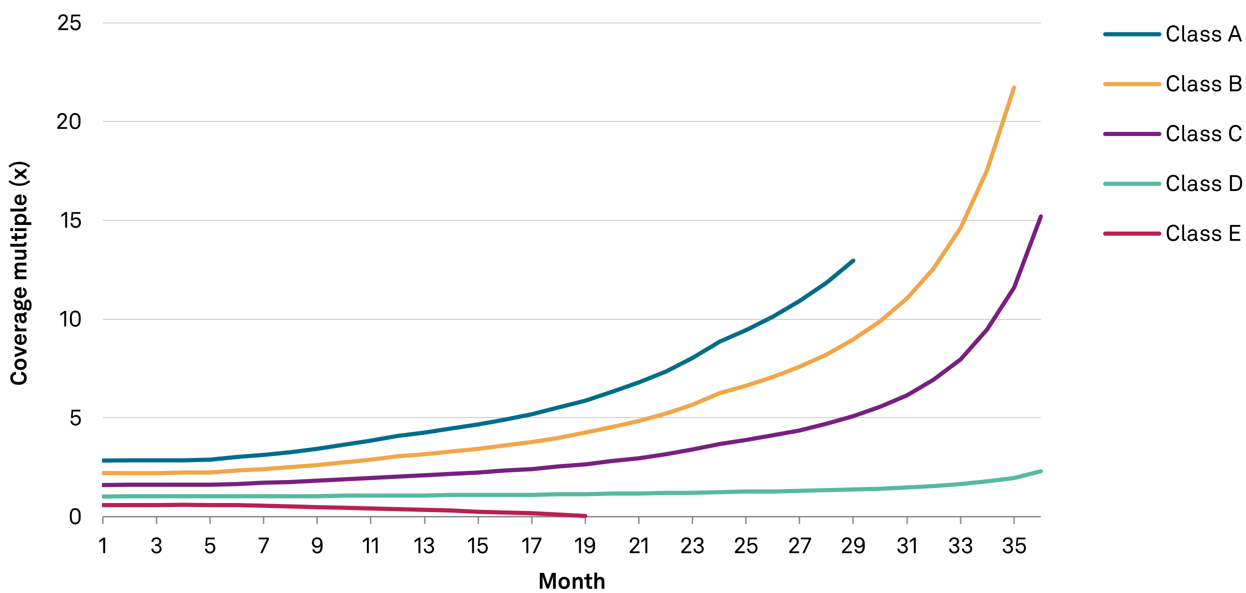
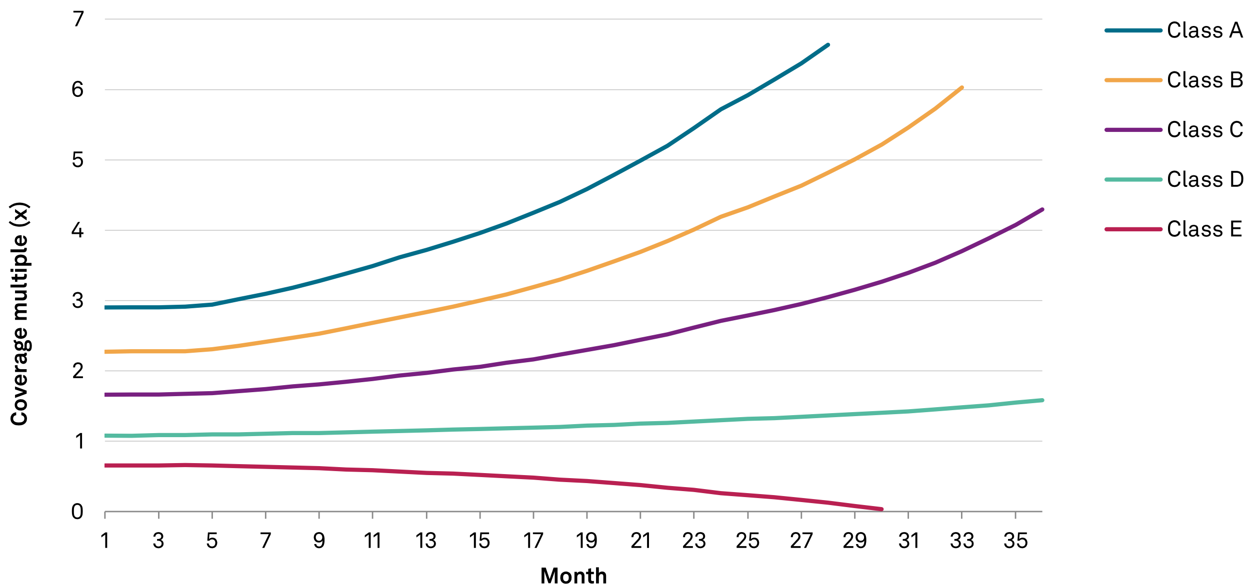


Chart 6

Sensitivity--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 legal final maturity date for the proposed money market tranche (class A1) is Feb. 20, 2025. 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 zero prepayments in our cash flow run and observed that 10 months 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 year-end 2023, Octane's total originated volume since inception exceeded $3.7 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, underwriting, 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 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, 2023, 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
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- 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
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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

- Credit Conditions North America Q1 2024: A Cluster Of Stresses, Nov. 28, 2023
- Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking, Nov. 27, 2023
- Four Ratings Raised on Octane Receivables Trust 2022-2, Nov. 17, 2023
- Eight Ratings Raised And Three Affirmed From Three Octane Receivables Trust Transactions, July 11, 2023
- One Rating Raised And Two Affirmed From Octane Receivables Trust 2021-1, Jan. 25, 2023