S&P Global
Ratings

Research

Presale:

ARI Fleet Lease Trust 2024-A

February 8, 2024

PRIMARY CREDIT ANALYST

Travis Erb
Englewood
+ 1 (303) 721 4829
travis.erb
@spglobal.com

SECONDARY CONTACTS

Jason L Mccauley
Englewood
+ 1 (303) 721 4336
jason.mccauley
@spglobal.com

Janani Thiagarajan
New York
janani.thiagarajan
@spglobal.com

Preliminary ratings

Class	Rating	Type	Interest rate	Amount (mil. $)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	196.70	March 17, 2025
A-2	AAA (sf)	Senior	Fixed	318.18	Nov. 15, 2032
A-3	AAA (sf)	Senior	Fixed	87.85	Nov. 15, 2032
B	AA+ (sf)	Subordinate	Fixed	13.50	Nov. 15, 2032
C	AA (sf)	Subordinate	Fixed	13.50	Nov. 15, 2032

Note: This presale report is based on information as of Feb. 8, 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. 21, 2024.
Collateral	Special unit of beneficial interest in lease contracts and underlying vehicles.
Origination trust	ARI Fleet LT.
Grantor and UTI beneficiary	ARI OT.
Transferor	ARI Fleet Funding 17 LLC.
Issuer	ARI Fleet Lease Trust 2024-A.
Servicer and administrator	Automotive Rentals Inc.
Origination trust trustee and UTI beneficiary trustee	Wilmington Trust Co.
Owner trustee	Wilmington Trust N.A.
Indenture trustee	U.S. Bank Trust Co. N.A.
Lead underwriter	Mizuho Securities USA LLC.

UTI--Undivided trust interest.

ARI Fleet Lease Trust credit enhancement summary (%)(i)

	Series 2024-A			Series 2023-B			Series 2023-A		
	Initial(ii)	Target(iii)	Floor(ii)	Initial(ii)	Target(iii)	Floor(ii)	Initial(ii)	Target(iii)	Floor(ii)
Class A									
Subordination	4.00	4.00	4.00	N/A	N/A	N/A	4.25	4.25	4.25
Overcollateralization(iv)	6.75	13.50	1.50	11.25	17.75	1.94	9.00	14.50	1.10
Cash reserve	0.50	1.25	1.00	0.50	1.25	1.00	0.50	1.25	1.00
Total	11.25	18.75	6.50	11.76	19.00	2.94	13.75	20.00	6.35
Class B									
Subordination	2.00	2.00	2.00	--	--	--	2.50	2.50	2.50
Overcollateralization(iv)	6.75	13.50	1.50	--	--	--	9.00	14.50	1.10
Cash reserve	0.50	1.25	1.00	--	--	--	0.50	1.25	1.00
Total	9.25	16.75	4.50	--	--	--	12.00	18.25	4.60
Class C									
Overcollateralization(iv)	6.75	13.50	1.50	--	--	--	9.00	14.50	1.10
Cash reserve	0.50	1.25	1.00	--	--	--	0.50	1.25	1.00
Total	7.25	14.75	2.50	--	--	--	9.50	15.75	2.10

(i)Excludes the excess spread credit enhancement (including additional yield from management and other fees), estimated (on an expected, unstressed basis) of -0.65% and -1.28% (post-pricing) per year, respectively, for series 2023-B and 2023-A. For series 2024-A, it is estimated that at closing the excess spread will be -0.46% per year (pre-pricing). Also excludes the yield supplement account. (ii)Percentage of the initial aggregate securitization value. (iii)Percentage of the current aggregate securitization value except the cash reserve, which is a percentage of the initial aggregate securitization value. (iv)The lesser of the target percentage multiplied by the current securitization value and the initial overcollateralization amount. N/A--Not applicable.

Rationale

The preliminary ratings assigned to ARI Fleet Lease Trust 2024-A's asset-backed notes reflect:

- The availability of approximately 11.25%, 9.25%, and 7.25% initial hard credit support for the class A, B, and C notes, respectively. The hard credit support consists of subordination for the class A and B notes, overcollateralization, and a cash reserve account (not including the yield supplement account [YSA]).
- Our expectation that, under a zero-loss and zero-prepayment assumption, the reserve fund will reach its target level of 1.25% of the initial pool balance by the first payment date.
- A floor level of credit enhancement equal to 2.50% of the initial pool balance, comprising the 1.00% floor of the reserve fund and the 1.50% floor for the overcollateralization. The combination of the overcollateralization and reserve floor, along with the subordination for the class A and B notes, is sufficient to cover the net amount of top obligor concentrations throughout the transaction's life, assuming amortization of obligor balances under a zero-loss and zero-prepayment scenario.
- The transaction's ability to withstand losses consistent with our 'AAA' and 'AA' rating category cumulative net loss assumption range of 9.00%-9.50% and 7.00%-7.50%, respectively, under stressed cash flow modeling scenarios (including stresses on both the excess spread and administration fees).

- Our expectation that under a moderate stress scenario, which includes top obligors defaulting, along with our moderate stress recovery assumption, 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 transaction's negative estimated annual excess spread at closing. (Only the spread above the term SOFR rate is considered for the floating-rate leases in this calculation for excess spread.) In our cash flow analysis, we conservatively apply stressed SOFR interest rate down curves on the floating-rate leases and we do not give credit to the YSA, which is intended to mitigate negative carry risk.
- Our expectation of the timely payments of periodic interest and principal by the final maturity date according to the transaction documents based on stressed cash flow modeling scenarios, using assumptions commensurate with the assigned preliminary ratings.
- The characteristics of the amortizing pool being securitized, notably the relatively short weighted average remaining terms (approximately 48 months), the weighted average seasoning of approximately 12 months, that many of the top obligor concentrations exceed 1.50% each, the high concentration of high-credit-quality corporate and public entities, and that it consists entirely of open-end lease contracts.
- Automotive Rental Inc.'s (ARI) lengthy servicing experience (over 70 years in business), including for the 16 prior transactions.
- The transaction's legal structure.

Changes From Series 2023-B

Structure

- Series 2024-A will issue class A, B, and C notes, whereas series 2023-B issued only class A notes.
- The initial hard credit enhancement for class A decreased to 11.25% from 11.76%.
- The initial and target overcollateralization decreased to 6.75% and 13.50% from 11.25% and 17.75%, respectively.
- Floor overcollateralization decreased to 1.50% from 1.94%.
- Unstressed excess spread is estimated at -0.46% per annum (pre-pricing), compared with -0.65% per annum for 2023-B post-pricing (see the Credit Enhancement Summary table). Excess spread is calculated as the weighted average lease rate less the weighted average coupon less the management and servicing fees. Only the spread above the term SOFR rate is considered for the floating rate leases in this calculation. (See the YSA section for additional information on YSA features included in this transaction.)

Collateral composition

- The top 10 obligor concentrations increased to 26.5% from 22.5%. We accounted for the obligor concentrations in our stressed loss levels by considering the notes' rating category, as well as the obligor's credit profile.

- The concentrations of the top five industries increased to 23.37% from 18.01%. The top industry concentration is support activities for mining, at 8.57%.
- The average obligor credit quality for the top 25 lessees in the pool is weaker than the prior transaction, as the percentage of leases with investment-grade-rated obligors per S&P Global Ratings decreased (in some cases we do not rate the top lessees but rate their parent companies). Per ARI's internal rating scale, for the total pool, the concentration in their top credit grade remained nearly unchanged, while the concentration in their credit tier C decreased slightly.
- Fixed-rate leases decreased to 80.02% from 84.67%, resulting in the remaining 19.98% of the pool comprising floating-rate leases. In March 2023, ARI transitioned its floating-rate leases from LIBOR to term SOFR, and the floating-rate leases in the pool are based on term SOFR. We account for floating-rate interest on the assets in our cash flow analysis.
- The weighted average lease rate (including administrative fees) decreased to 5.38% from 5.59%.

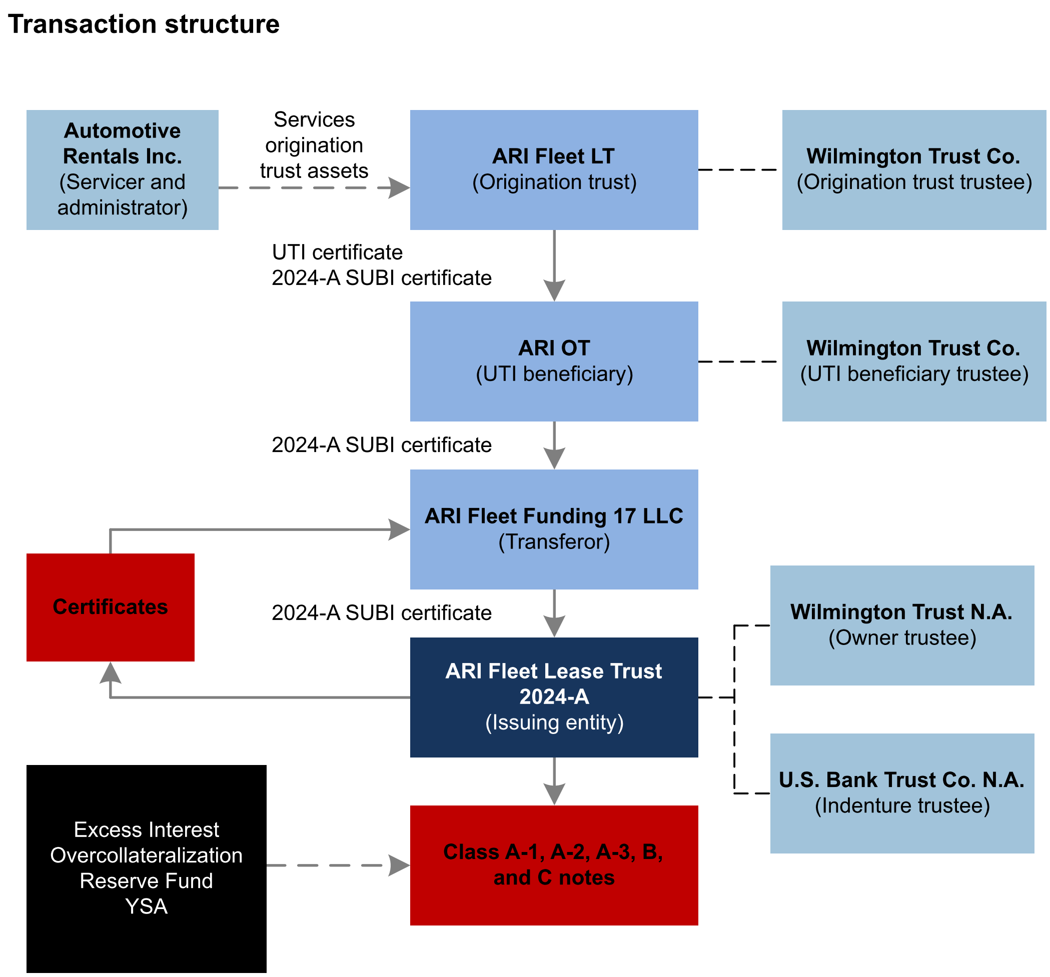
Transaction Overview

This is ARI's 17th amortizing term securitization rated by S&P Global Ratings. The series 2024-A notes are backed by a diversified pool of vehicle fleet leases to large corporations. All of the leases in the series 2024-A pool will be open-end contracts in which lessees (the obligors in this transaction) are contractually responsible for any shortfalls (the amount less than the outstanding lease balance) that result from selling the leased vehicles upon lease expiration.

Legal structure

The vehicles in the series 2024-A pool will be titled in the name of the origination trust, ARI Fleet LT, a special-purpose entity (SPE) that is consistent with our SPE criteria. ARI OT, ARI Fleet LT's beneficiary, holds the undivided trust interest in all of ARI Fleet LT's assets (see chart 1).

Chart 1



SUBI--Special unit of beneficial interest. UTI--Undivided trust interest. YSA--Yield supplement account.

The series 2024-A special unit of beneficial interest (SUBI) is the economic interest in the transaction's vehicles and lease receivables. ARI OT, as the beneficiary of ARI Fleet LT, holds the series 2024-A SUBI. ARI OT will sell the series 2024-A SUBI to the transferor, ARI Fleet Funding 17 LLC, for cash. ARI Fleet Funding 17 LLC will then sell the series 2024-A SUBI to ARI Fleet Lease Trust 2024-A, the issuer, for cash and certificates. This entitles ARI Fleet Funding 17 LLC to any residual cash flows. ARI Fleet Lease Trust 2024-A will issue the notes to investors for cash and grant a security interest in the series 2024-A SUBI to the indenture trustee for the noteholders' benefit. ARI will perform all servicing for the series 2024-A transaction.

The issuer will use the cash flows it receives from its interest in the series 2024-A SUBI to pay principal on the notes. The first payment date is April 15, 2024.

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

Pension Benefit Guaranty Corp. risk

The series 2024-A leases and leased vehicles are subject to a risk relating to Pension Benefit Guaranty Corp. (PBGC). PBGC could file a lien against the assets of any member of ARI's controlled group if the minimum contribution payments to a defined benefit pension plan are not paid as required by law or an underfunded defined benefit pension plan is terminated. We believe that the small size of the pension plan relative to the origination trust's assets and the company's historical ability to keep the plan funded at the appropriate levels protect ARI from a PBGC lien.

Transaction Structure

Structural features of the series 2024-A transaction include the following:

- Overcollateralization will be 6.75% of the initial aggregate securitization value, with a target that is the lesser of 13.50% of the current aggregate securitization value and 6.75% of the initial aggregate securitization value. The required overcollateralization target will eventually amortize once the lesser of the target applies (which occurs on the 21st payment date after closing in a zero-loss and zero-prepayment scenario). There is also an overcollateralization floor of 1.50% of the initial pool balance that limits the overcollateralization's total amortization.
- A cash reserve account that will equal not less than 0.50% of the initial aggregate securitization value. The cash reserve immediately builds to its target of not less than 1.25% of the initial aggregate securitization value by the first payment date and remains there until it reduces (as long as cumulative net losses are less than 2.25%) to 1.00% in September 2024.
- The YSA for negative carry (when the costs exceed the yield earned) is funded at closing and will be further funded through available funds in item 11 of the payment waterfall (see table 1) if the sum of the note coupons and servicing fee exceeds the lease rate on the contract pool.

Floor level of enhancement

The combined floor level of enhancement from overcollateralization and the reserve account is 2.50% of the initial aggregate securitization value. The combination of this floor level, along with the subordination for the class A and B notes, is sufficient to cover the net amount of top obligor concentrations throughout the transaction's life, assuming amortization of obligor balances under a zero-loss and zero-prepayment scenario. In our view, the number of obligor defaults covered is consistent with the preliminary ratings on the notes.

Payment Structure

The transaction documents require that the lease payments, the proceeds from vehicle sales, and related available funds will be used to make the distributions shown in table 1. In addition, the funds in the reserve account will be available to cover interest shortfalls. Interest and principal are scheduled to be paid to the notes on each monthly distribution date.

Table 1

Payment waterfall

Priority	Payment
1	Servicer advance reimbursement.
2	Trustee fees (capped at $300,000 per year for the indenture trustee and the owner trustee, and $150,000 per year for the origination trust trustee).
3	Servicing fee (0.25% annualized).
4	Class A note interest to the class A noteholders, paid pro rata.
5	First-priority principal distributable amount (if the class A notes' outstanding amount exceeds the securitization value pool balance), paid sequentially.
6	Class B note interest to the class B noteholders.
7	Second-priority principal distributable amount (if the class A and B notes' outstanding amount exceeds the securitization value pool balance) minus any amount allocated to pay item 5 above, paid sequentially.
8	Class C note interest to the class C noteholders.
9	Third-priority principal distributable amount (if the class A, B, and C notes' outstanding amount exceeds the securitization value pool balance) minus any amount allocated to pay item 7 above, paid sequentially.
10	To the reserve account until the required amount is reached.
11	To the yield supplement account until the required amount is reached.
12	Apply regular principal distributable amount, paid sequentially, which will equal the change in the pool balance until the overcollateralization target is met or the floor is reached.
13	Trustee fees not paid in item 2 above.
14	Any other amounts due under the transaction documents.
15	Any remainder to the certificateholders.

YSA

The transaction has a YSA, which the servicer established in the name of the indenture trustee to mitigate any negative carry associated with the leases. The indenture trustee must make deposits, to the extent funds are available for such deposits, into the YSA for any 2024-A lease when its respective lease rate is below the sum of the servicing fee rate, the product of the weighted average coupons for series 2024-A notes, 100% minus the quotient of the overcollateralization amount over the aggregate securitization amount, and 5.35% in the case of the floating-rate leases. The YSA is funded at closing to cover the amount of the deficiency as well as on each applicable distribution date, to the extent funds are available, per payment priority 11 in the payment waterfall (see table 1).

Managed Portfolio

Similar to other major fleet lessors, ARI's open-end lease portfolio has maintained near-zero gross and net losses even during the 2008-2009 recession. We believe that this results from certain key factors:

- Experienced management;
- Conservative underwriting guidelines;

- Proactive measures for deteriorating customer creditworthiness;
- A high concentration of high-credit-quality corporate and public entities consistent with the open-end nature of leases;
- The critical-use nature of fleet assets;
- Vehicle depreciation that is matched to expected vehicle use;
- Favorable bankruptcy treatment of fleet-lease assets; and
- The servicer's financial strength.

Thirty-plus-day delinquencies were relatively consistent from 2010-2017 but have increased somewhat since year-end 2018. According to ARI, most of these delinquencies have historically been administrative rather than credit-related, as the managed portfolio's near-zero gross and net loss rates over long periods of time demonstrate (i.e., delinquencies do not turn into credit losses). (See table 2.)

Table 2

Automotive Rentals Inc. managed portfolio

	Nine months ended		Year ended						
	2023	**2022**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Ending leases (mil. $)	6,936	5,297	5,561	4,560	4,454	4,657	4,295	3,662	3,624
Lease-related billing delinquency (leases and services) (%)									
31-60 days	4.5	2.3	2.4	2.0	2.4	2.2	2.5	1.7	1.6
61-plus days	3.1	1.9	1.9	1.9	1.7	1.9	1.3	0.8	0.8
Total delinquencies	7.5	4.2	4.3	3.9	4.1	4.1	3.8	2.5	2.4
Gross losses (% of the ending dollar amount of leases)(i)(ii)	0.01	0.01	0.01	0.04	0.01	0.01	0.01	0.00	0.00
Net losses (% of ending dollar amount of leases)(ii)	0.01	0.01	0.00	0.04	0.01	0.01	0.01	0.00	0.00

(i)Gross losses include losses from both lease-related billings and billings for fleet management services. (ii)Annualized.

Surveillance Update

There are four outstanding ARI Fleet Lease Trust transactions rated by S&P Global Ratings. On Aug. 2, 2023, we raised four ratings and affirmed seven from ARI Fleet Lease Trust's series 2019-A, 2020-A, 2021-A, and 2022-A transactions. At the time of the review, we raised two ratings in the 2021-A transaction to 'AAA (sf)' and 'AA (sf)' from 'AA+ (sf)' and 'AA- (sf)', raised two ratings in the 2022-A transaction to 'AA+ (sf)' and 'AA (sf)' from 'AA (sf)' and 'A (sf)', and affirmed the 'AAA (sf)' ratings for the seven other tranches under review (see "Four Ratings Raised, Seven Affirmed From Four ARI Fleet Lease Trust Transactions"). The outstanding 2021-A, 2022-A, 2023-A, and 2023-B transactions continue to experience near-zero losses due to the critical-use nature and favorable bankruptcy treatment of fleet assets.

Pool Analysis

We compared some of the key features of the series 2024-A pool with the series 2020-A, 2021-A, 2022-A, 2023-A, and 2023-B pools (see table 3).

Table 3

ARI Fleet Lease Trust collateral characteristics(i)

	Series					
	2024-A	**2023-B**	**2023-A**	**2022-A**	**2021-A**	**2020-A**
Cutoff date	Dec. 31, 2023	Aug. 31, 2023	Jan. 31, 2023	Jan. 31, 2022	March 31, 2021	Dec. 31, 2019
Aggregate lease securitization value (mil. $)	675.32	743.05	961.114	642.690	667.407	588.273
No. of vehicles/leases	17,082	27,622	29,446	22,060	28,913	20,976
Average securitization value ($)	39,534	26,901	32,640	29,134	23,083	28,045
Weighted average lease rate (% per year)	5.38	5.59	4.42	3.12	3.40	4.06
Weighted average original term (months)	60	59	61	59	59	55
Weighted average remaining term (months)	48	44	47	42	42	42
Seasoning (months)	12	15	14	17	17	12
Total top five industries (%)	23.4	18.0	22.0	24.5	24.3	18.0
Total top five lessees (%)	14.0	13.1	14.0	14.5	13.5	8.9
Total top 10 lessees (%)	26.5	22.5	27.3	28.4	26.6	16.8
Total top 25 lessees (%)	50.0	40.7	54.4	54.5	56.2	36.1
Vehicle type (%)						
Light-duty trucks and vans	69.9	76.3	71.3	67.6	68.6	74.3
Cars	3.3	2.8	1.9	5.5	4.8	5.9
Heavy-duty trucks	9.4	7.1	9.0	7.7	7.8	5.9
Medium-duty trucks	13.9	11.5	15.2	17.3	15.2	11.1
Equipment	3.5	2.2	2.6	2.0	3.7	2.8
Top five state concentrations (%)(ii)						
	TX=19.4 CA=7.4 FL=6.7 LA=4.6 PA=3.5	TX=17.3 CA=10.0 FL=6.0 GA=3.8 IL=3.2	TX=15.9 CA=9.2 FL=5.6 GA=4.0 OH=3.7	TX=15.6 CA=10.3 FL=6.0 PA=3.7 NC=3.6	TX=13.5 CA=9.1 FL=6.2 GA=5.6 PA=4.5	TX=21.4 CA=9.1 PA=4.7 FL=4.7 LA=3.0

(i)All percentages, other than the weighted average lease rate, are of the leases' aggregate securitization value. (ii)Where the vehicles are garaged.

S&P Global Ratings' Cumulative Net Loss Assumptions

Our cumulative net loss assumptions represent the greater of our blended default assumption and the supplemental largest obligor test, reduced by our recovery assumptions. For the 2024-A pool, the supplemental largest obligor test assumption is higher and therefore drives our default assumptions at each rating category.

Our blended assumptions for the pool consider ARI's exceptional historical loss performance, but they also account for event risk associated with obligor and industry concentrations in the pool, as well as the ongoing services provided by fleet leasing companies. Performance could differ from a near-zero loss scenario if, under a stress scenario, an obligor or servicer goes bankrupt, leading to either nonpayment or delayed payments from obligors that were no longer receiving the agreed-upon services for their fleets.

Blended default assumption

We arrived at our blended default assumption for each rating category by combining our large-obligor default assumption for individual obligors that have concentrations of more than 1.50% of the pool with our default assumption (flow-type losses). For ARI, we derive our flow loss expectation using a combination of managed portfolio loss performance and obligor bankruptcy data from the managed pool.

Bankruptcy data for the flow-type loss indicator

The bankruptcy data--the number of accounts that filed for Chapter 7 or Chapter 11 bankruptcy (even if those leases were ultimately affirmed) and the leases' related book values at the time of bankruptcy--show that the 2001-2003 recessionary period was more stressful for ARI's portfolio (and for other portfolios in the large corporate fleet lease sector) than the 2008-2009 recessionary period. In our view, this is because the 2001-2003 recessionary period had broader effects on the nonfinancial sector than the 2008-2009 recession.

Stressed recovery rate

ARI has low historical loss rates; therefore, we have limited data on its recovery rates. As a result, we approximated ARI's historical recovery rates by analyzing the company's vintage vehicle disposition data from 2002 through 2023 and comparing the vehicles' proceeds with their book value in the second and third years. Although vehicles are typically put on four- to five-year leases, most vehicles are returned to the lessor before the leases expire, in years two and three. This results in lower overall fleet maintenance expenses for the lessees. Accordingly, for our stress analysis, we focused on historical data for two- and three-year-old vehicles that are returned to the lessor. We believe this approach provides a suitable proxy of the loss severity that would occur if obligors defaulted during the same period. We segmented the disposition data by year of vehicle sales, vehicle type, and sales proceeds as a percentage of the vehicles' book value by disposition month. Using these data, we then developed base- and stress-case recovery rates.

Our stressed recovery rates considered:

- Seasoning (approximately 12 months as of the Dec. 31, 2023, cut-off date) in the series 2024-A pool. This degree of seasoning suggests that the leased vehicles' market values are closer to their book values than those of new vehicles, which likely reduces loss severity following obligor defaults.

- The mix of vehicle types in the pool, differences in expected recoveries, and volatility of recovery rates by vehicle type. In particular, heavy-duty trucks exhibit generally higher but also more volatile disposition proceeds than other vehicle types.
- Our forward-looking views on auto and light truck recovery values when determining our stressed recovery rates.

Our stressed recovery rates of 62.5% for 'AAA' and 65.0% for 'AA' reflect a significant haircut to the derived base-case recovery rate.

Qualitative adjustments incorporated into default assumption

In addition to historical data on bankruptcies and managed portfolio losses and assumptions regarding large-obligor defaults, we also considered in our default assumption the overall credit quality of the entire pool through underwriting, servicing, a peer comparison of industry mix, remaining terms, depreciation, and other key pool-level attributes. We accounted for ARI's historical underwriting performance, the pool's overall credit quality, the overall level of industry and obligor diversification and concentrations, and our outlook for corporate credit quality.

Cumulative net loss assumptions

Table 4 shows our cumulative net loss assumptions for the long-term ratings on the preliminary rated classes. The primary driver of the higher 'AAA (sf)' cumulative net loss range for series 2024-A relative to 2023-B's range of 7.50-8.00% is the larger top obligor concentrations in the pool (see table 3).

Table 4

Cumulative net loss ranges

Preliminary rating category	(%)
AAA	9.00-9.50
AA	7.00-7.50

Cash Flow Modeling Assumptions And Results

Various loss-timing curves

We reviewed cash flow scenarios subject to stressed assumptions that we view as commensurate with the assigned preliminary ratings on the notes. Because historical losses are near zero, it is difficult to determine the timing of losses based on the historical performance of ARI Fleet Lease Trust's transactions; therefore, we considered various loss curves. When considering back-loaded loss curve assumptions, we also considered the seasoning (12 months) and weighted average remaining term of the series 2024-A pool. Loss curve timing is adjusted based on seasoning for the most back-loaded loss curves. For pools with less seasoning than the series 2024-A pool, we might consider curves with a more back-loaded loss timing. Our breakeven cash flow analysis incorporates a variety of hypothetical loss timing patterns to test the amount of excess spread (including administrative fees) that could be realized and available to absorb credit losses. In addition, our breakeven cash flow analysis tests whether credit enhancement will be released back to the originator under various loss timing curves (front-loaded versus back-loaded).

Floating-rate asset and fixed-coupon assumptions

In this transaction, floating-rate assets tied to term SOFR are unhedged to the fixed-rate liabilities of the notes. However, we have conservatively applied stressed SOFR interest rate down curves on the floating-rate assets throughout the entirety of the transaction's life for cash flow modeling purposes that are appropriate for the requisite rating levels.

Breakeven results

Based on our stressed cash flows, the breakeven net loss results show that the class A, B, and C notes are credit-enhanced to the degree appropriate for the assigned preliminary ratings (see table 5).

Table 5

Cash flow assumptions and results

Class	A	A	B	B	C	C
Preliminary rating	AAA (sf)	AAA (sf)	AA+ (sf)	AA+ (sf)	AA (sf)	AA (sf)
Floating-rate asset assumption	Down path	Down path	Down path	Down path	Down path	Down path
Recoveries (%)	62.5	62.5	65	65	65	65
Recovery lag (months)	3	3	3	3	3	3
Voluntary prepayments (ABS %)	1.5x prepayment assumption curve(i)	1.4 in all months	1.5x prepayment assumption curve(i)	1.4 in all months	1.5x prepayment assumption curve(i)	1.4 in all months
Loss curve 1						
% of loss per year(ii)	40/40/20	40/40/20	40/40/20	40/40/20	40/40/20	40/40/20
Breakeven loss rate (%)	10.83	10.99	9.07	9.20	7.63	7.67
Loss curve 2						
% of loss per year(ii)	30/30/40	30/30/40	30/30/40	30/30/40	30/30/40	30/30/40
Breakeven loss rate (%)	10.93	11.09	9.18	9.31	7.74	7.77

(i)Prepayment assumption curve: 0.10% in months 1-6; 0.20% in months 7-12; 0.35% in months 13-18; 0.50% in months 19-24; 0.80% in months 25-36; and 0.60% in month 37 and beyond. (ii)Net losses as a percent of our cumulative net loss assumption. ABS--Absolute prepayment speed.

Excess spread including management fees

Our cash flow scenarios take into consideration excess spread that is generated through excess finance charges and monthly administration fees. Administration fees are common in the fleet-lease industry and are typically charged at a constant dollar rate per vehicle. Therefore, we stress the administration fee by assuming it declines at the same rate as the pool, as opposed to assuming the pool receives the entirety of the administration fee until the lease is fully paid off.

Class A-1 assumptions

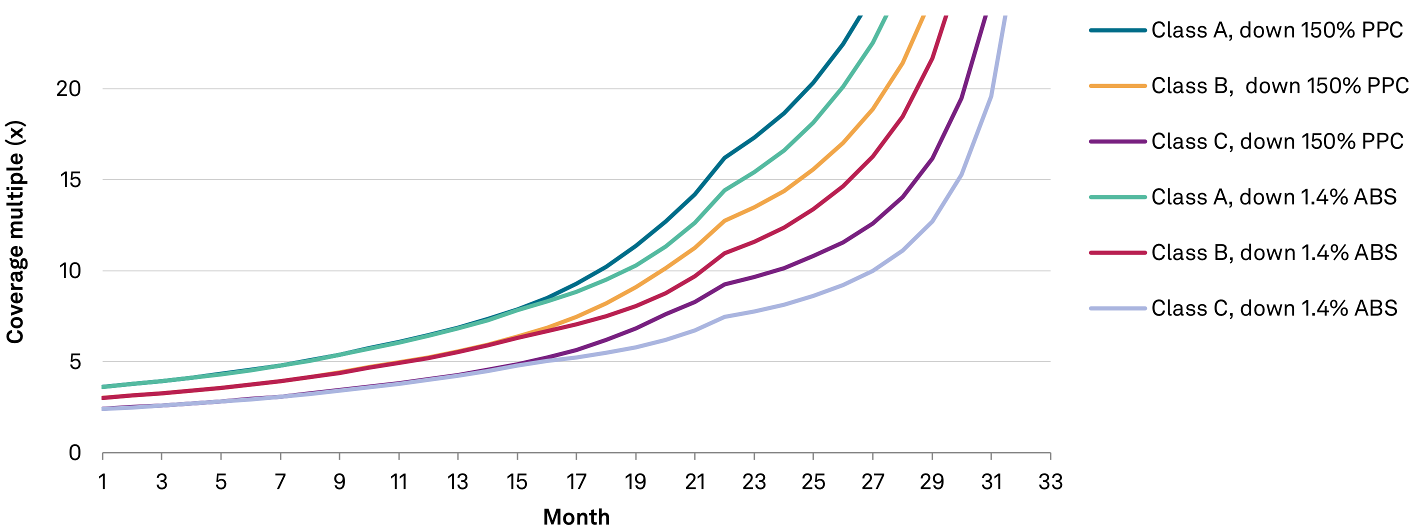
In evaluating the class A-1 notes' size, we reviewed cash flows that considered only the principal payments during the transaction's first 11 payment periods, assuming zero losses and a zero-prepayment rate. The class A-1 notes have a March 17, 2025, final maturity date.

Sensitivity Analysis

In addition to analyzing breakeven cash flows, we conducted a sensitivity analysis that included running a moderate stress scenario to determine the level of loss coverage and potential rating migration that could occur for the series 2024-A notes (see chart 2).

Chart 2

ARI Fleet Lease Trust 2024-A
Sensitivity coverage



PPC--Prepayment curve. ABS--Absolute prepayment speed.

Scenario: 3.32% cumulative net loss results

In addition to running breakeven cash flows, we undertook sensitivity analysis using the assumptions in table 5. We believe that under a moderate ('BBB') stress scenario (3.32% cumulative net loss), 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.

Environmental, Social, And Governance Factors

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 (ICE), which create emissions of pollutants including greenhouse gases.

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.

ARI

ARI is a privately owned corporate fleet lessor and service provider that has operated since 1948. It is one of the largest fleet lessors in the U.S. based on total vehicles under management. In addition to its core fleet operations, ARI also owns Auto Truck Group LLC, a specialized car and truck upfitting company. ARI's target customer base consists of Fortune 1,000 and smaller clients, with an emphasis on complex vehicle fleets utilizing light-, medium-, and heavy-duty trucks. Many of ARI's largest customers are companies, or subsidiaries, with an investment-grade or near-investment-grade credit profile. In addition to fleet leasing, ARI offers its clients ancillary services, such as vehicle purchasing and sales, garage management, maintenance management, fuel card services, and accident management. ARI is also active in medium- and heavy-duty trucks, which have grown as a portion of the total vehicles under lease over the past several years. Most of its key vehicle operations, including origination and underwriting, are located in Mount Laurel, N.J. The company also has an office in Grapevine, Texas, that handles customer service and client support.

Originations, Underwriting, And Servicing

ARI tends to have stable client relationships, resulting in low client turnover. Nonetheless, its sales force remains in contact with its existing and prospective customer base regarding changes in leased vehicle acquisition or usage patterns and, increasingly, for fleet services.

ARI's credit approval process involves a manual credit review of each lease customer at each lease's inception and periodically throughout the lease's term for fleet additions. Because many of its customers exhibit investment-grade risk, ARI primarily underwrites customers from an unsecured credit perspective. The company determines each customer's financial ability and willingness to pay based on the customer's cash flow, leverage, vehicle usage, ownership structure, business model, and years in business, as well as industry trends. The company evaluates each lessee's overall credit risk by reviewing the customer's financial statements, management meetings, bank and trade references, company analyses, and credit rating reports.

ARI has been servicing its lease pools, which have been funded through bank securitization markets, including asset-backed commercial paper conduits, for over 20 years. The company also provides various ancillary fleet services to its lease clients, such as consolidated vehicle purchasing and sales, accident management, fuel cards, and maintenance management.

Although S&P Global Ratings has not assigned an issuer credit rating to ARI, its stable financial profile, experienced management, market position, and sustained profitability indicate to us that its servicing capabilities are sufficient for the preliminary ratings assigned to series 2024-A.

Related Criteria

- 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 | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | ABS: Global Equipment ABS Methodology And Assumptions, May 31, 2019
- 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
- Criteria | Structured Finance | ABS: Assessing The Risk Of Pension Plan Terminations On U.S. Auto Lease Securitizations, Aug. 17, 2004

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, Seven Affirmed From Four ARI Fleet Lease Trust Transactions, Aug. 2, 2023