S&P Global Ratings

Research

Presale:

Enterprise Fleet Financing 2023-3 LLC

October 12, 2023

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Preliminary amount (mil. $)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	210.00	Oct. 21, 2024
A-2	AAA (sf)	Senior	Fixed	605.80	March 20, 2030
A-3	AAA (sf)	Senior	Fixed	184.53	June 20, 2030

Note: This presale report is based on information as of Oct. 12, 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 tranche coupons will be determined on the pricing date.

Profile

Expected closing date	Oct. 25, 2023.
Collateral	A special unit of beneficial interest in lease contracts and underlying vehicles.
Titling trust	Enterprise FM Trust.
Grantor and UTI beneficiary	Enterprise Vehicle Management II LLC.
Issuer	Enterprise Fleet Financing 2023-3 LLC.
Servicer and administrator	Enterprise Fleet Management Inc.
Indenture trustee and securities intermediary	U.S. Bank Trust Co. N.A.
Delaware trustee	BNY Mellon Trust of Delaware.
Underwriter	SG Americas Securities LLC.

UTI--Undivided trust interest.

Credit enhancement summary for Enterprise Fleet Financing(%)(i)

	Series 2023-3			Series 2023-2			Series 2023-1		
	Initial	Target	Floor	Initial	Target	Floor	Initial	Target	Floor
Overcollateralization(ii)	6.26	7.75	2.09	6.29	7.79	2.10	6.30	7.80	2.10
Cash reserve(iii)	1.00	1.50	1.00	1.00	1.50	1.00	1.00	1.50	1.00

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Credit enhancement summary for Enterprise Fleet Financing(%)(i) (cont.)

	Series 2023-3			Series 2023-2			Series 2023-1		
	Initial	Target	Floor	Initial	Target	Floor	Initial	Target	Floor
Total	7.26	9.25	3.09	7.29	9.29	3.10	7.30	9.30	3.10

(i)Percentage of the initial pool balance. Excludes the excess spread credit enhancement estimated (on average and on an expected unstressed basis, including management fees) at 3.95% per annum (pre-pricing) for series 2023-3 and 4.04% and 5.17% (post-pricing) for series 2023-2 and 2023-1, respectively. (ii)The target O/C represents the weighted average enhancement, considering the 17.25% O/C (16.25% for 2023-2 and 2023-1) on the closed-end lease discounted residual values portion of the pool and the 7.25% O/C (6.25% for 2023-2 and 2023-1) on the remainder of the collateral pool. (iii)The cash reserve grows to a target level. If the cumulative charged-off lease ratio is less than 3.00% as of the April 2024 payment date for 2023-3, November 2023 payment date for series 2023-2, and as of the August 2023 payment date for series 2023-1, the cash reserves release to a floor level of 1.00% of the initial pool; otherwise, the floor remains at 1.50% for both series.
O/C--Overcollateralization.

Rationale

The preliminary ratings assigned to Enterprise Fleet Financing 2023-3's (EFF 2023-3) class A-1, A-2, and A-3 (collectively, class A) asset-backed notes reflect:

- The availability of 7.26% initial hard credit support for the notes, which consists of overcollateralization (O/C) and a cash reserve account of 6.26% and 1.00%, respectively, of the initial pool balance. The O/C builds to a target of 7.75% of the current pool balance and is subject to a floor of 2.09% of the initial pool balance. The 0.50% build in the reserve account does not provide additional credit enhancement in each of our cash flow scenarios because the cumulative charged-off lease ratio does not exceed 3.00%, and, as a result, the reserve account is released to the floor level of 1.00% of the initial pool.
- The availability of annual excess spread of approximately 3.95%, on average, estimated on an expected, unstressed basis, including management fees.
- The transaction's ability to withstand more than 5.0x our net loss range of 1.55%-1.75% under stressed cash flow modeling scenarios, which includes stresses on both excess spread and management fees.
- Our expectation that, under a moderate stress scenario of 2.0x our net loss range, all else being equal, our preliminary ratings on the class A notes will remain consistent with the credit stability limits specified by section A.4 of the Appendix contained in S&P Global Rating Definitions (see "S&P Global Ratings Definitions," published June 9, 2023).
- The pool's collateral characteristics, including the very high proportion (approximately 99.79%) of open-end lease contracts (which we view as a positive credit characteristic because our loss assumption for open-end leases is lower than for closed-end leases), the top five obligors account for 4.00% of the pool and none exceed our 1.50% threshold level (which is an additive factor in our stressed loss calculations), and the diversified nature of the pool (the top industry concentration is oil and gas at 12.29%).
- Enterprise Fleet Management Inc.'s (EFM; 'BBB+/Stable') servicing experience, as well as its financial strength.
- The transaction's legal structure.

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Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. In our view, the transaction has material exposure to environmental credit factors due to the collateral pool that primarily comprises vehicles with internal combustion engines (ICEs), which emit pollutants that contribute to climate transition risks.

While the adoption of electric vehicles and future regulation could in time lower ICE vehicle values, we believe our current approach to evaluating recovery and residual values adequately accounts for vehicle wholesale values over the relatively short expected life of the transaction.

Changes From Series 2023-2

Credit enhancement

- The initial O/C decreased slightly to 6.26% from 6.29%, and the target O/C decreased slightly to 7.75% from 7.79%.
- Annual excess spread is estimated at 3.95% pre-pricing, compared with 4.04% for series 2023-2 (post-pricing).

Collateral

- The percentage of closed-end leases decreased to 0.21% from 0.83%, and, correspondingly, the percentage of open-end leases increased to 99.79% from 99.17%. We view this as a slight credit positive because our loss assumption for open-end leases is lower than that for closed-end leases.
- The single top obligor concentration increased slightly to 1.07% from 0.93% and the top five obligors comprised approximately 4.00%, an increase from 3.60%. Since no individual obligor exceeds the 1.50% threshold, we did not incorporate this as an additive factor in our stressed loss scenarios.
- Light- and medium-duty trucks increased to 96.93% from 94.05%, and cars decreased to 2.67% from 5.78%.
- The top five industries increased to 35.58% of the pool from 28.95%. Oil and gas, the top industry, increased to 12.29% from 9.04%, while construction increased to 8.28% from 7.47%.
- The weighted average remaining term and average life are longer but did not materially affect our stressed loss level.

Accounting for these and other incremental changes, our 'AAA' stressed loss level for series 2023-3 increased to 8.50% compared to 8.40% for series 2023-2 (see the Net Loss Range section below for more details).

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Transaction Overview

This is EFM's 33rd term securitization rated by S&P Global Ratings. As in EFM's previous securitizations, the series 2023-3 notes are backed by a diversified pool of vehicle fleet leases to small businesses. The transaction will total $1.00 billion and allocate collections pro rata between the class A notes (93.74%) and the seller's interest (as represented by the 6.26% O/C) once the O/C has built to the target percentage (7.75% of the current pool balance) and until the O/C floor (2.09%) is reached. Before and after such period, all principal collections will be paid to the noteholders.

Each month from closing through April 2024 and on any payment date thereafter, excess spread and management fees not used to cover losses will be deposited in the cash reserve until it reaches its target level of 1.50% of the initial pool balance. If the cumulative charged-off lease ratio is less than 3.00% on the April 2024 payment date, the reserve account will release to a floor level of 1.00% of the initial pool; otherwise, the floor will remain at 1.50% of the initial pool balance.

If a delinquency trigger is breached, amounts attributable to lease payment amortization (not including excess spread and management fees) will be maintained in the transaction structure until the class A notes are fully repaid.

Legal structure

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

The vehicles in the series 2023-3 pool will be titled in the name of, and therefore, owned by the titling trust, Enterprise FM Trust (FM Trust; see chart 1 for the transaction structure). Enterprise Vehicle Management II LLC (EVM; FM Trust's beneficiary) holds the undivided trust interest in all of FM Trust's assets. We analyzed both FM Trust and EVM for consistency with our special-purpose entity criteria.

The series 2023-3 special unit of beneficial interest (SUBI) represents the economic interest in the transaction's vehicles and lease receivables. As FM Trust's beneficiary, EVM holds the series 2023-3 SUBI. The issuer will make a loan to EVM secured by the series 2023-3 SUBI and related assets. EFF 2023-3 will issue the series 2023-3 notes to investors for cash and grant a security interest in the loan to the indenture trustee for the noteholders' benefit. EFM will perform all servicing for the series 2023-3 transaction.

The issuer will use the cash flows it receives from its interest in the series 2023-3 SUBI to pay principal on the notes.

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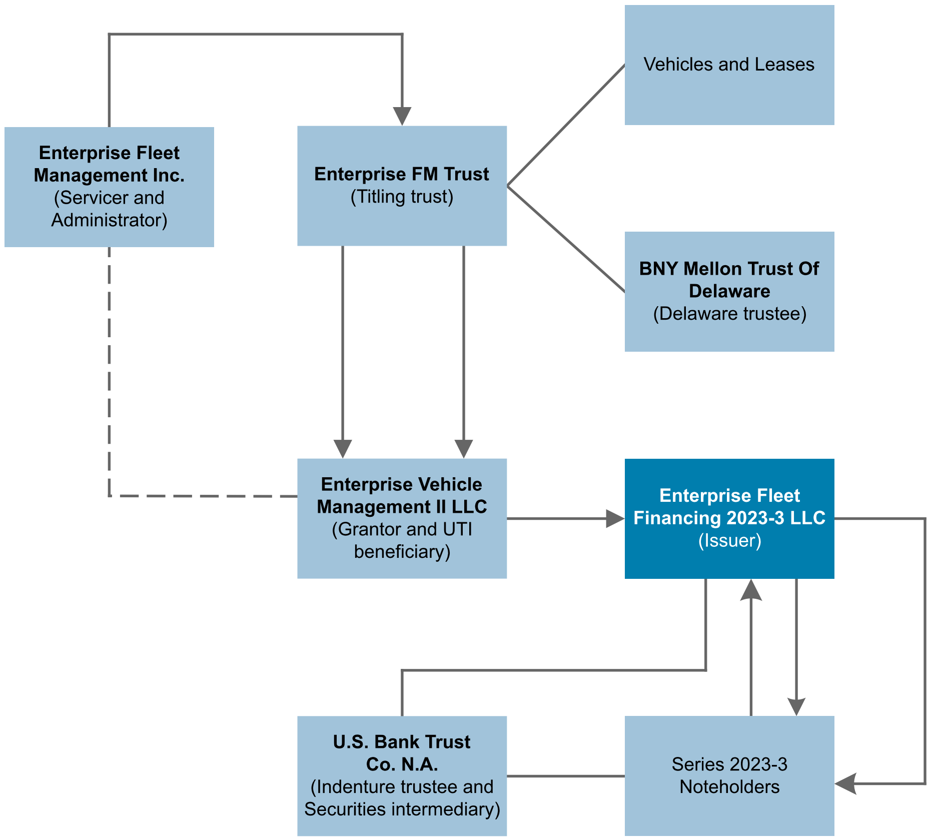
Chart 1

Transaction structure



UTI—Undivided trust interest.

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Transaction Structure

The series 2023-3 transaction incorporates the following key structural features:

- The O/C at closing will equal 6.26% of the initial pool balance. The target O/C is 7.75% of the current pool balance and will amortize to a floor equal to 2.09% of the initial pool balance.
- Liquid credit enhancement will be in the form of a cash reserve account initially funded at 1.00% of the initial pool balance. The reserve account will increase to a target equal to 1.50% of the initial pool balance and then release to a floor of 1.00% of the initial pool balance if the cumulative charged-off lease ratio is less than 3.00% as of the April 2024 payment date. In each of our cash flow scenarios, we assumed that the cumulative charge-off lease ratio is below the 3.00% threshold; therefore, the reserve account releases to a floor of 1.00% of the initial pool balance.
- A delinquency trigger will lock out the seller from receiving future amounts related to lease payment amortization if breached.

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Payment Structure

Under the proposed payment structure, the lease payments, vehicle sale proceeds, management and other fees, and related available funds will be used to make payments in a specified priority (see table 1). In addition, the funds in the reserve account will be available to cover interest and principal shortfalls. Interest payments are made on each monthly distribution date, and principal is passed through monthly as received.

Table 1

Payment waterfall

Priority	Payment
1	To the servicer for any liability insurance charges (borrowers who elect to pay the lessor for liability coverage).
2	To the servicer for any physical damage waiver (borrowers who elect to pay the lessor for physical damage waiver).
3	Pro rata, to the (a) indenture trustee and securities intermediary for any accrued and unpaid fees, expenses, and indemnities (together capped at $400,000 per year) and (b) Enterprise FM Trust trustee for any accrued and unpaid fees, expenses, and indemnities (capped at $100,000 per year).
4	Pro rata, administrator fee ($18,000 per year) and servicer fee (0.65% per year).
5	Interest payment amounts (class A-1, A-2, and A-3 interest paid pari passu).
6	Priority principal payment amount (the excess, if any, of the note balance over the securitization value)(i).
7	To the reserve account up to the required amount.
8	Additional payment amount (the excess, if any, of the principal payment amount over the priority principal payment amount)(ii).
9	Fees and expenses over the limit in item 3 above.
10	Any remaining amounts at the issuer's discretion.

(i)Only requires a payment if the total note balance exceeds the aggregate securitization value, which would likely only occur if losses for a particular month exceed the total available hard credit support. (ii)The principal payment amount due under item 8 above is the amount needed to reduce the note balance to the required overcollateralization adjusted amount, which is the targeted overcollateralization amount minus any excess amounts on deposit in the reserve account. However, for any payment date on or after the occurrence of a trigger event, the principal payment amount will be the lesser of an amount necessary to pay off the aggregate note balance and the decline in the pool balance for such payment date.

Managed Portfolio

Low gross and net losses

Similar to other fleet lessors, EFM's lease portfolio has maintained low losses--even during the 2008-2009 recession. However, unlike other fleet lessors, EFM's customer base is not concentrated among investment-grade companies (those rated 'BBB-' or higher), which would typically exhibit low loss rates. Therefore, the strong performance of EFM's pools reflect other factors such as the conservative underwriting and depreciation policies on vehicles. EFM's high depreciation rates have remained conservative, enabling EFM to achieve a positive equity position in a relatively short time period, contributing to low loss levels.

The gross loss rates shown in table 2 are net of the proceeds received from the sale of leased vehicles. However, S&P Global Ratings' loss analysis utilizes historical gross loss performance

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dating back to the Great Recession which does not include proceeds from vehicle sales. This approach addresses the masking of defaults that could result from analyzing only net loss performance. Then, we apply stressed recovery rates below historical levels to reflect servicer stress commensurate with our highest rating category (see the Net Loss Range section for more information).

Table 2

Enterprise Fleet Management Inc. managed portfolio

	Fiscal year ended July 31				
	2023	2022	2021	2020	2019
% of lease-related billing delinquency					
30-59 days	1.34	1.23	1.29	1.53	1.16
60-89 days	0.38	0.32	0.40	0.42	0.30
90–119 days	0.18	0.17	0.19	0.19	0.15
120-plus days	0.58	0.51	0.53	0.53	0.31
Total delinquencies	2.48	2.22	2.41	2.67	1.92
Ending leases (mil. $)	11,198	8,646	7,511	7,109	6,923
Gross losses as a % of ending aggregate lease balance(i)	0.02	0.01	0.02	0.03	0.02
Net losses as a % of ending dollar amount of ending aggregate lease balance	0.02	0.01	0.02	0.02	0.02

(i)Gross losses are reported after the sale of any repossessed vehicles.

Delinquency

Delinquencies are reported on a different basis from losses. Delinquencies are reported as a percentage of monthly billings, which is a common metric for the fleet leasing industry. The delinquency amounts across all past due cohorts remained overall stable for the fiscal year ended July 31, 2023, when compared year over year.

EFF Series' Performance

We currently have ratings on 11 EFF transactions issued between 2020 and 2023. The transactions' cumulative net losses (CNLs) have been low and stable, and each transaction is exhibiting lower CNLs than our initial CNL range at the time of issuance (see table 3). On June 30, 2023, we affirmed our ratings on 13 classes from seven EFF transactions: series 2020-1, 2020-2, 2021-1, 2021-2, 2021-3, 2022-1 and 2022-2 (see "Ratings Affirmed On 13 Classes From Seven Enterprise Fleet Financing LLC Transactions," published June 30, 2023). Each transaction was performing better than our prior CNL expectation, and as such, we lowered our loss expectation on each series included in the review.

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Table 3

Enterprise Fleet Financing LLC securitization performance(i)

Series	Month	Pool factor (%)	CNL (%)	Original CNL range	Revised CNL range(ii)
2020-1	42	11.92	0.11	1.55-1.75	Up to 0.30
2020-2	35	23.12	0.10	1.55-1.75	0.45-0.65
2021-1	30	30.61	0.12	1.55-1.75	0.50-0.70
2021-2	24	42.66	0.12	1.55-1.75	0.60-0.80
2021-3	22	45.17	0.14	1.55-1.75	0.70-0.90
2022-1	17	54.37	0.09	1.55-1.75	0.90-1.10
2022-2	14	65.36	0.09	1.55-1.75	1.10-1.30
2022-3	12	73.14	0.07	1.55-1.75	N/A
2022-4	9	79.52	0.06	1.55-1.75	N/A
2023-1	6	85.49	0.02	1.55-1.75	N/A
2023-2	3	93.68	0.00	1.55-1.75	N/A

(i)As of the July 2023 distribution date. (ii)As of June 2023. CNL--Cumulative net loss. N/A--Not applicable.

EFM's customer base and their buying patterns differ from those of consumer pools. EFM finances vehicles for its fleet customers progressively over time as the customer replaces vehicles in its fleet. Therefore, single obligors could be included in multiple vintages, depending on when the financing occurs. And because vintages may include the same obligors (unlike consumer pools, where each vintage generally represents a distinct set of obligors), it is more difficult to identify and isolate vintage-specific patterns.

Pool Analysis

Discounting methodology

As of the Aug. 31, 2023, cutoff date, the collateral pool consisted of approximately $1,067 million in vehicle leases and residuals on EFM-originated leases (see table 4). Under the transaction documents, the collateral value is determined by discounting each lease receivable and closed-end lease residual at the greater of a pool discount rate (equal to the debt cost plus the servicing fee) and its respective finance charge rate, resulting in a collateral balance equal to the contracts' (and the residuals') outstanding net book values.

Table 4

Enterprise Fleet Financing LLC collateral characteristics(i)

	Series 2023-3	Series 2023-2	Series 2023-1	Series 2022-4	Series 2022-3	Series 2022-2
Aggregate lease securitization value (mil. $)	1,067.12	1,601.17	1387.77	1,402.93	957.68	1,294.32
No. of vehicles/units	21,202	40,072	52,017	47,488	28,328	45,005

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Table 4

Enterprise Fleet Financing LLC collateral characteristics(i) (cont.)

	Series 2023-3	Series 2023-2	Series 2023-1	Series 2022-4	Series 2022-3	Series 2022-2
Avg. securitization value ($)	50,331	39,957	26,679	29,543	33,807	28,760
Weighted avg. lease rate (yield including management fees) (%)	10.98	10.25	11.30	10.72	9.29	8.26
Weighted avg. lease rate (base finance charge) (%)	9.52	8.82	9.46	9.07	7.83	6.66
Weighted avg. original term (mos.)	49	47	47	46	46	45
Weighted avg. remaining (mos.)	47	46	44	43	44	42
Seasoning (mos.)	2	1	3	3	2	3
Top five industries (%)						
1	12.29 (Oil and gas)	9.04 (Oil and gas)	8.84 (Oil and gas)	9.97 (Oil and gas)	9.87 (Oil and gas)	9.71 (Oil and gas)
2	8.28 (Construction)	7.47 (Construction)	7.38 (Construction)	7.83 (Construction)	8.12 (Construction)	8.28 (Construction)
3	5.53 (HVAC contractor)	4.93 (Government/city)	4.62 (Government/city)	4.20 (Government/city)	4.49 (Government/city)	4.60 (Manufacturer)
4	4.75 (Government/city)	3.88 (Manufacturer)	3.74 (HVAC contractor)	4.03 (Electrical contractor)	4.21 (Manufacturer)	4.14 (Government/city)
5	4.72 (Electrical contractor)	3.63 (Engineer)	3.65 (Manufacturer)	3.63 (Engineer)	3.80 (HVAC contractor)	3.26 (HVAC contractor)
Total top five industries	35.58	28.95	28.24	29.65	30.48	29.99
Vehicle type (%)						
Cars	2.67	5.78	7.78	8.08	6.89	9.09
Light-duty trucks and vans	90.25	89.45	87.53	87.41	88.12	85.50
Medium-duty trucks	6.68	4.60	4.17	4.09	4.92	5.04
Heavy-duty trucks	0.25	0.00	0.44	0.28	0.00	0.35
Equipment and other	0.15	0.17	0.08	0.13	0.06	0.02
Top five obligors (primary industry) (%)						
1	1.07 (Oil/gas services)	0.93 (Retail)	0.94 (Manufacturer)	0.99 (Electrical contractor)	0.84 (Manufacturer)	1.10 (Manufacturer)

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Table 4

Enterprise Fleet Financing LLC collateral characteristics(i) (cont.)

	Series 2023-3	Series 2023-2	Series 2023-1	Series 2022-4	Series 2022-3	Series 2022-2
2	1.00 (Electrical contractor)	0.86 (Manufacturer)	0.63 (General contractor) (	0.57 (Distributor)	0.79 (Pest control)	0.82 (Pest control)
3	0.86 (Repair facility)	0.67 (Electrical contractor)	0.44 (Oil/gas services)	0.47 (Manufacturer)	0.76 (Electrical contractor)	0.75 (Oil/gas services)
4	0.61 (Manufacturer)	0.57 (Construction)	0.35 (Industrial machinery)	0.43 (Pest control)	0.68 (Oil and gas)	0.68 (Repair facility)
5	0.47 (Oil/gas services)	0.57 (Rent-to-own)	0.31 (Landscape)	0.43 (Landscape)	0.60 (Repair facility)	0.53 (Landscape)
Total	4.00	3.66	2.68	2.88	3.66	3.87
Top five state concentrations (%)						
1	Texas=16.78	Texas=13.57	Texas=15.49	Texas=16.03	Texas=15.16	Texas=14.44
2	Calif.=8.56	Calif.=9.12	Calif.=9.96	Calif.=9.64	Calif.=9.92	Calif.=10.66
3	Fla.=7.08	Fla.=8.08	Fla.=7.54	Fla.=7.66	Fla.=7.21	Fla.=7.64
4	N.C.=4.47	N.C.=4.15	N.C.=3.90	N.C.=4.42	N.C.=4.36	Pa.=4.13
5	Pa.=3.75	Ohio=3.58	Mich.=3.60	Ohio=3.66	Mich.=3.78	Ohio=3.57

(i)All percentages are of the leases' aggregate securitization value. HVAC--Heating, ventilation, and air conditioning.

Diversified pool characteristics

The series 2023-3 pool is diversified by obligor, industry, and geographic concentration. There are 4,682 obligors in the pool, and the largest individual obligor concentration is 1.07%.

Obligor profile

Although each small- to medium-size fleet obligor in EFM's securitizations is not as strong financially as an investment-grade obligor (typical in large-fleet lease ABS transactions), the series 2023-3 pool's diversification generally offsets the difference in the aggregate obligor credit profiles. In addition, EFM targets more seasoned small-business customers with generally stronger credit quality, which contributes to stronger loss performance. Given the small-business profile of EFM's customer base, the series 2023-3 pool has a weighted average annual percentage rate of 9.52% (or 10.98%, including management fees), which is higher than the typical yields in the fleet lease market's large corporate client segment. However, this rate is much lower than the typical yields for small businesses in small-ticket leasing, which reflects the credit quality of EFM's obligor base, in our view.

High concentration of open-end leases

Consistent with other EFF transactions, almost all (approximately 99.79%) of the contracts in the series 2023-3 pool are open-end leases.

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Vehicle types and manufacturers

Similar to collateral supporting other fleet lease ABS transactions, EFM finances mainly light-duty trucks, which account for 90.25% of the pool, which is slightly higher from series 2023-2.

Light- and medium-duty trucks, as a percentage of the 2023-3 pool, increased to 96.93% from 94.05% in 2023-2, while cars deceased to 2.67% from 5.78%. The top three vehicle manufacturers (Ford Motor Co., RAM, and Chevrolet) increased to 86.03% from 77.71%, while Nissan Motors Co. and Toyota Motors Co. decreased to 1.99% from 7.69%. Shifts in the pool composition are due to the supply constraints affecting the auto market and the availability of vehicles for delivery. We view these changes as transitory until market supply constraints are resolved.

The light-duty trucks are multipurpose and widely used in various industries such as plumbing, heating, air conditioning, concrete block, hotel and motel shuttle vehicles, and oil and gas. A large portion of the trucks in the pool receive some sort of upfitting, including add-ons such as roof racks. Overall, 50.01% of the pool consists of leases less than $50,000 by unit balance.

Net Loss Range: 1.55%-1.75%; Stressed Net Loss: 8.50%

Our net loss range for the series 2023-3 pool accounts for a weighted average of the different proxies associated with two different risk buckets: open-end and closed-end leases. We determine our blended 'AAA' default assumption by combining our 'AAA' default assumption (flow-type losses) with our 'AAA' large obligor default assumption for any obligor having a concentration of more than 1.50% of the pool. None of the top obligors in the series 2023-3 pool has exceeded the 1.50% threshold level needed to be an additive factor in our stressed loss calculations.

Managed portfolio loss analysis

To derive the net losses for each of the risk buckets, we evaluated annual managed portfolio net loss data (for 2005 through 2023), fiscal year loss data showing the book value of leases at the time of default (for 2005 through 2023), historical delinquency data, and gain or loss disposition data by vehicle category (for 2005 through 2023). We used data for fiscal 2009-2012 to determine a base-case loss default frequency and a base-case recovery rate. Although the period comprises only a few years, we consider it relevant because it captured a moderately stressful macroeconomic environment.

Securitization performance analysis

We also considered the low net charge-offs in the previous securitizations, which we believe are due to EFM's strong underwriting, the absence of a prolonged stressful economic period, and the company's high recovery rates, which approach 100% when security deposits are included. Our net loss analysis also considers potentially higher net losses if recovery rates are lower than historical rates in a stress scenario.

Recovery rate analysis

As part of our recovery rate analysis, we examined managed pool recovery rates dating back to 2009. We also received data on historical deviations around average vehicle disposition rates for

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thousands of vehicle sales since 2004, segmented by vehicle type. Disposition rates represent vehicle sales proceeds as a function of the depreciated book value of those vehicles. However, unlike with other fleet lease ABS transactions, we did not receive gain or loss data by months in service for vehicle dispositions.

When we are provided with data segmented by months in service, we can see the point at which the lender's equity position rises to a level where the disposition proceeds will exceed the exposure amount on the financed vehicle. If we can observe this timing, we can generally assume higher stressed recovery rates based on the mix of vehicles in the pool and their seasoning. Our stressed recovery rate considers this factor. We derived a base-case recovery rate using both the managed pool and the disposition data and then applied reductions, consistent with the preliminary 'AAA (sf)' ratings, to calculate a stressed recovery rate.

To derive our net loss proxy for the open- and closed-end lease scheduled payments, we adjusted the expected net loss proxy upward, using a stressed recovery rate, to determine a net loss rate accounting for potential deterioration in the pool's recovery performance if EFM is no longer the servicer or if other factors affect the recovery rates. We do not ascribe 100% credit to the company's historical recovery rate, but we apply stresses consistent with our equipment leasing criteria.

Obligor and industry diversification

Unlike many other fleet lease ABS transactions that we rate, EFF's pools do not typically contain significant obligor concentrations. For series 2023-3, no single obligor exceeded the pool's 1.50% concentration threshold. Therefore, consistent with our equipment ABS criteria, the large obligor default assumption under our blended approach is not applicable. Similarly, as a result of the overall low obligor concentrations, the supplemental largest obligor test in our equipment ABS criteria does not affect our calculation of the ratings level CNL.

We also reviewed the obligor industry mix for any additional concentration risk. The largest concentration is in the oil and gas sector (12.29%), followed by the construction sector (8.28%). When assessing exposure to the oil and gas sector, we considered EFM's long history of underwriting in the oil and gas industry, including its strong collateral position. In addition, EFF's pools do not typically experience significant losses in the oil and gas sector because leases are often affirmed, and the obligors continued to make payments or the recovery proceeds are sufficient to cover defaulted amounts. There are no other significant industry concentrations in the series 2023-3 pool, reflecting low industry concentration risk, in our view.

Open-end lease analysis

A significant portion of the series 2023-3 pool contains open-ended leases with final payments exceeding 16.40% of the capitalized cost. This lease structure effectively converts residual risk into credit risk. Under a 'AAA' stress scenario, this could result in some incremental default risk associated with high final payments. However, we consider this risk minimal, given the total credit enhancement available.

Closed-end lease analysis

We continue to use our equipment lease criteria to establish our stress for the closed-end portion of the series 2023-3 pool (0.21% of the undiscounted pool balance). In our analysis, we apply a 25.00% residual realization haircut to the residual portion of the closed-end contracts to account

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for market value and servicer risk. The resulting value is the residual loss on the closed-end lease portion of the pool, which is then added to our net loss assumption to establish the overall stressed loss.

Our residual analysis relies on the extensive realization data (over 15 years) on the closed-end portion of EFM's managed pool. We observed that EFM generally sets booked residual values conservatively. As a result, sales proceeds from vehicle dispositions upon lease expiration are often well-above the booked residual values. We apply a 25.00% stress to the contracted residual values to account for most of EFM's vehicles being liquidated through their own networks, since residual realization rates may be lower if a backup servicer were to take over. In determining our stressed losses on the pool's closed-end residual portion, we also considered the vehicle manufacturer diversification and EFM's conservative policy for setting residual values.

Net loss range and stressed net loss

Considering these factors and weighting our loss assumptions for the percentage of open- and closed-end leases in the series 2023-3 pool, our net loss range for the pool is 1.55%-1.75%. This range is well-above the historical net loss performance of EFM's managed pool primarily due to the stress we apply to EFM's historically high recovery rates. Given this net loss range, our stressed loss level for the series 2023-3 pool is 8.50% for the preliminary 'AAA (sf)' rated notes.

Cash Flow Modeling Assumptions And Results

We modeled the series 2023-3 transaction to simulate an 'AAA' rating stress scenario (see table 5). We used both front- and back-loaded loss curves in the break-even analysis. We assumed an absolute prepayment speed of 1.6, which represents a significant stress to what we view as expected prepayments. We expect prepayment rates to occur in a curved pattern, ramping up over time throughout the transaction's life. Therefore, applying even a 1.0 absolute prepayment speed straight-line assumption represents a stress to expected prepayments. We further stress the expected prepayments to an absolute prepayment speed assumption of 1.6, which is in line with an 'AAA' stress. Although we considered various loss curves in our analysis, the loss timing had little effect on the break-even levels (see table 5 below).

Based on our cash flow analysis, the break-even results show that the class A notes enhancement is consistent with our assigned preliminary ratings.

Table 5

Enterprise Fleet Financing 2023-3 LLC cash flow analysis summary

Preliminary rating	AAA (sf)
Recovery rate (%)	50
Charge-off and recovery lag (mos.)	7
Stressed prepayment rate (ABS)	1.60
Loss curve 1	
% of loss per year(i)	50/40/10
Break-even loss rate (%)	11.11
Loss curve 2	
% of loss per year(i)	20/40/40

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Table 5

Enterprise Fleet Financing 2023-3 LLC cash flow analysis summary (cont.)

Break-even loss rate (%)	11.16

(i)Net losses as a percent of the initial pool balance. ABS--Absolute prepayment speed.

Servicing fee rate

EFM and its predecessor corporations have been servicing its fleet lease portfolio since 1993 through its branch office network. The proposed servicing fee in the series 2023-3 transaction is 0.65% of the aggregate securitization value per year. We ran our break-even cash flow and sensitivity models using a 1.00% per year servicing fee, which we believe reflects a market rate for servicing by a third-party replacement servicer.

Management fees as a source of credit enhancement

Management fees are common in the fleet lease industry and represent contractual payments in constant dollar amounts that EFM levies monthly on any cars under lease. As a customer's lease balance amortizes over time, the constant dollar management fee (if not diminished due to full or partial voluntary prepayments) increases as a percentage of the remaining lease balance of each contract. On a percentage yield basis, unlike traditional excess spread, this provides additional loss protection later in the transaction's life. In our cash flow analysis, we applied a 40.00% haircut to the management fee.

Class A assumptions

In evaluating the size of the class A-1 notes, we reviewed cash flows that considered only principal payments during the transaction's first 11 months, assuming zero losses and a zero prepayment rate. In our analysis, the class A-1 notes pay off before their final maturity date of Oct. 21, 2024.

To test the legal final maturity dates set for the class A-2 notes, we determined the date when the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario and then added nine months to the result. For the longest-dated class (class A-3), nine months was added to the tenor of the longest receivable in the pool. Furthermore, in our break-even cash flow scenario for each respective preliminary rating level, we confirmed that there was sufficient credit enhancement to cover losses and repay the related notes in full by the legal final maturity date.

Sensitivity Analysis

In addition to analyzing break-even cash flows, we conducted a sensitivity analysis that included running a moderate stress scenario of approximately 3.40% (approximately 2.0x the net loss of 1.70% derived by applying a moderate stressed recovery rate) to determine the level of loss coverage and potential rating migration that could occur for the class A notes (see chart 2). Under this scenario, we found that our preliminary 'AAA (sf)' rating is consistent with the tolerances outlined in our credit stability criteria ("S&P Global Ratings Definitions," published June 9, 2023).

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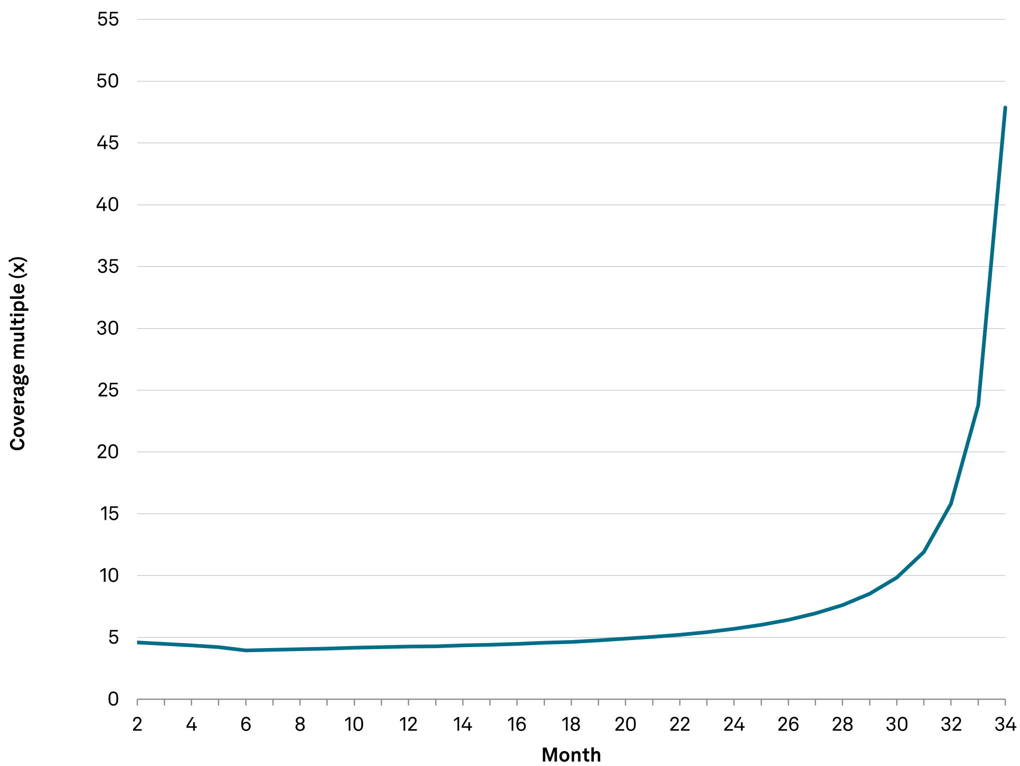
Chart 2

Enterprise Fleet Financing 2023-3 LLC 'AAA' coverage



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EFM

EFM is one of the leading fleet lessors in the U.S. In the small- to medium-size fleet market, the company generally competes with local car and truck dealers, but it does not have any sizable competitors with the same scale or similar business model. The company's branches are often co-located with its parent company's rental car locations. EFM also offers fleet services, but it earns a significant portion of its income through a financing spread on its leases.

EFM was incorporated as a separate entity in 1994, and the predecessor company had been involved in the fleet leasing business since 1957. EFM historically has served the small- to medium-size fleet market. The company is a wholly owned subsidiary of The Crawford Group, which also owns Enterprise Holdings Inc. (EHI), the nation's largest rental car company. EFM uses EHI for shared services, including vehicle remarketing, treasury, and corporate tax.

The company's outstanding lease portfolio has grown significantly to approximately $11.2 billion as of fiscal-year end 2023 from $2.2 billion as of fiscal-year end 2011. Based on the continued strong performance in both losses and recoveries, growth has been achieved while maintaining conservative underwriting standards and depreciation rates. In our view, this shows EFM's unique competitive position as it benefits from co-locations with its parent company's existing rental car branch network, as well as other synergies.

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Originations, Underwriting, And Servicing

Decentralized branch office network

Because of its small-business focus, EFM is organized on a decentralized basis through approximately 37 wholly owned subsidiaries in the U.S., with originations, credit, and collections handled at the local level in its nationwide branch office network. The company is active in regional and national trade organizations that represent contractors in various industries.

Our comfort with the decentralized nature of the branch office network is also based on S&P Global Ratings' investment-grade issuer credit rating on EFM. While EFM's credit underwriting is managed autonomously in each geographical market, there are checks and balances at the corporate level, and systemic checks and balances within EFM's credit checking process, called Enterprise Drive for Growth and Excellence (EDGE). EDGE is a computer system developed within EHI to manage EFM, and it plays a key role within the credit and collections departments.

Underwriting

EFM's credit adjudication process involves an annual manual credit review of each lessee's business at lease inception. Because fleet lease customers typically replace a portion of their fleet annually, EFM has regular customer contact and opportunities to assess any changes to the customers' financial strength and underlying business. However, EFM does not perform a full credit re-underwriting for every customer with a new vehicle request, which is customary in the fleet leasing industry.

Key factors that EFM reviews in its underwriting process include:

- Type and intended use of fleet vehicles;
- Bank and credit references;
- Payment history;
- Time in business;
- Tangible net worth (relative to fleet lease exposure);
- Ownership structure;
- Lease term;
- Residual size; and
- Minimum depreciation rates.

When determining any residuals for closed-end leases, EFM often uses Black Book values. (Black Book is a reference guide used to estimate a vehicle's wholesale value.) EFM often sets the residual values for the closed-end leases more conservatively than Black Book-estimated vehicle values. Although underwriting is handled for most fleet sizes at the branch level, EFM uses credit review staff at its St. Louis headquarters to monitor the quality and consistency of these decisions.

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Down payments

Over the past two years, approximately 50% of lease originations in the managed pool have had either a down payment or a gain from the vehicle sale on a previous open-end lease in which the lessee chose to roll into the new lease, which strengthen the contracts' credit quality. Over the same period, the down payments or sale gains have averaged approximately $10,000 per lease. This equity position in the lease's vehicle helps encourage stronger lessee payment behavior, in our view, but it must be discounted when considering loss given default (in our recovery-rate analysis).

Services offered together with lease

Like other fleet lessors, EFM also offers ancillary services to its customers, such as maintenance management, fuel cards, and insurance. The company's value proposition to its customers include one-stop shopping for leasing and related services with consolidated billing. In our view, EFM's service offering is more extensive than those of other fleet lessors that compete in the large corporate customer market within the Fortune 500 customer base. This is partly because of EFM's small average fleet size (less than 300 units) and typical customer business size. For this segment of the market where companies generally do not have fleet managers, EFM aims to operate as the customer's fleet manager and capture additional value beyond vehicle financing. To that end, EFM provides some services that are unique in the fleet leasing industry, including the option for the lessee to pay EFM a fee in exchange for a physical damage waiver, insurance liability coverage, and maintenance management. These services are available individually or combined.

One risk that can arise under these combined billing arrangements and lease/service offerings is the potential for offset risk, where lessees may be more willing to withhold amounts due under their leases if their services are disrupted (due to the lessor's nonperformance). We believe this risk is consistent with the preliminary ratings on the series 2023-3 notes due to the following factors:

- The services and lease payment obligations are not bundled under the same contract.
- Provisions in the open-end lease contracts state that the lessee's obligations to make payments under the leases are absolute and unconditional without set-off.
- The lessor may cancel these services with 10 days' notice.
- For maintenance services, the invoice states that the consolidated billing arrangement is purely for convenience (lease and maintenance obligations are separate), and this maintenance arrangement may be canceled by the lessor with 60 days' notice.
- Collections are received into a centralized account in the titling trust's name. Once lease payment and service amounts are identified, they are allocated across separate SUBIs. The servicer then pays the service amounts to the third parties from the related transaction account as needed.

Related Criteria

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Related Research

- Credit Conditions North America Q4 2023: Shift To Low Gear, Sept. 26, 2023
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- Enterprise Fleet Management Inc., Dec. 6, 2022

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