S&P Global Ratings

Research

Presale:

Honda Auto Receivables 2024-2 Owner Trust

May 8, 2024

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate	Base amount (mil. $)	Medium amount (mil. $)	Large amount (mil. $)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	361.80	439.80	517.20	May 19,2025
A-2	AAA (sf)	Senior	Fixed	459.80	569.20	678.20	Nov. 18, 2026
A-3	AAA (sf)	Senior	Fixed	559.80	669.20	778.20	Nov. 20, 2028
A-4	AAA (sf)	Senior	Fixed	92.29	111.28	131.67	July 18, 2030
Certificates	NR	Subordinate	N/A	37.79	45.89	53.99	N/A

Note: This presale report is based on information as of May 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. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date	May 21, 2024
Collateral	Prime auto loan receivables.
Originator, sponsor, servicer, and administrator	American Honda Finance Corp. (A-/Stable/A-2).
Depositor	American Honda Receivables LLC.
Issuer	Honda Auto Receivables 2024-2 Owner Trust.
Indenture trustee	U.S. Bank Trust Co. N.A. (A+/Stable/A-1).
Owner trustee	The Bank of New York Mellon.
Delaware trustee	BNY Mellon Trust of Delaware.
Bank account provider	U.S. Bank N.A. (A+/Stable/A-1).

Rationale

The preliminary ratings assigned to Honda Auto Receivables 2024-2 Owner Trust's (HAROT 2024-2's) asset-backed notes reflect:

- The availability of approximately 7.2% credit support (hard credit enhancement and excess spread) for the class A (collectively, classes A-1, A-2, A-3, and A-4) notes, based on stressed cash flow scenarios. This credit support level provides coverage of at least 5.0x of our expected cumulative net loss (ECNL) of 0.55% for the class A notes (see the Credit Enhancement and Collateral and the Cash Flow Modeling Assumptions and Results sections).

- The expectation that under a moderate ('BBB') stress scenario (2.0x our expected loss level), all else being equal, our preliminary 'AAA (sf)' ratings on the class A notes will be within the credit stability limits specified in our criteria (see the Cash Flow Modeling Assumptions And Results section).
- The timely payment of interest and principal by the designated legal final maturity dates under our stressed cash flow modeling scenarios, which we believe are appropriate for the assigned preliminary ratings.
- The collateral characteristics of the securitized pool of prime automobile loans, and our updated macroeconomic forecast and forward-looking view of the auto finance sector (see the Credit Enhancement And Collateral and the Macroeconomic And Auto Finance Sector Outlook sections).
- The series' bank account at U.S. Bank N.A. (A+/Stable/A-1), which does not constrain the preliminary ratings.
- Our operational risk assessment of American Honda Finance Corp. (AHFC) as servicer and our view of the company's underwriting.
- Our assessment of the transaction's potential exposure to environmental, social, and governance credit factors that is in line with our sector benchmark.
- The transaction's legal and payment structures.

Our ECNL for HAROT 2024-2 is 0.55%, unchanged from HAROT 2024-1. It reflects:

- Our view that HAROT 2024-2's collateral characteristics are generally consistent with those of HAROT 2024-1;
- AHFC's outstanding series, which continue to perform in line with or better than our initial expectations; and
- Our forward-looking view of the macroeconomy and auto finance sector.

Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For the auto asset-backed securities (ABS) sector, we view the exposure to environmental credit factors as above average, to social credit factors as average, and to governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published March 31, 2021).

The exposure to ESG credit factors in this transaction is in line with our sector benchmark. Exposure to environmental credit factors is generally viewed as above average, given that the collateral pool 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 and residual values adequately accounts for vehicle values over the transaction's relatively short expected life. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

Credit Enhancement And Collateral

Structural changes from HAROT 2024-1

The notable structural changes from HAROT 2024-1 include that the yield supplement account (YSA) required rate increased to 8.65% from 8.45% due to higher expected cost of debt.

Table 1 shows the credit enhancement changes from recent transactions.

Table 1

Credit enhancement summary (%)(i)

	HAROT 2024-2		HAROT 2024-1		HAROT 2023-4(ii)		HAROT 2023-3	
	Initial	Floor	Initial	Floor	Initial	Floor	Initial	Floor
Class A								
Subordination	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Reserve account	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Total	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Estimated annual excess spread (with YSA)(iii)	2.23	--	2.25	--	2.25	--	2.25	--

(i)Percentage of the initial receivables balance. (ii)S&P Global Ratings did not rate this transaction. (iii)Estimated excess spread before pricing. Includes the 1% servicing fee. HAROT--Honda Auto Receivables Owner Trust. YSA--Yield supplement account.

Collateral changes from HAROT 2024-1

The notable changes in the collateral composition from HAROT 2024-1 include that:

- The weighted average annual percentage rate (APR) increased to 4.73% from 4.59%.
- The percentage of loans with an original term of 61-72 months increased to 49.71% (49.70% and 49.78% if upsized to the medium and large pool, respectively) from 39.79%.
- The percentage of loans with a remaining term of 61-72 months increased to 28.87% (28.79% and 28.91% if upsized to the medium and large pool, respectively) from 18.79%.
- The weighted average seasoning increased to 12.2 months from 11.1 months.

The HAROT 2024-2 pool is generally comparable to the series 2024-1 pool, in our view (see table 2).

Table 2

Collateral comparison(i)

	Honda Auto Receivables Owner Trust							
	2024-2 (small)	2024-2 (medium)	2024-2 (large)	2024-1	2023-4(ii)	2023-3	2023-2	2023-1(ii)
Receivables balance (bil. $)	1.51	1.84	2.16	2.16	1.89	1.89	1.62	1.62

Table 2

Collateral comparison(i) (cont.)

	Honda Auto Receivables Owner Trust							
	2024-2 (small)	**2024-2 (medium)**	**2024-2 (large)**	**2024-1**	**2023-4(ii)**	**2023-3**	**2023-2**	**2023-1(ii)**
No. of receivables	64,602	78,563	92,372	92,413	84,999	84,946	69,210	72,684
Avg. loan balance ($)	23,397	23,362	23,376	23,365	22,228	22,242	23,399	22,280
Weighted avg. APR, excluding the YSA (%)	4.73	4.73	4.74	4.59	4.36	4.00	3.78	3.06
Weighted avg. original term (mos.)	63.16	63.15	63.17	62.13	62.34	61.62	63.16	62.62
Weighted avg. remaining term (mos.)	50.94	50.91	50.94	50.99	50.09	49.25	51.61	49.64
Weighted avg. seasoning (mos.)	12.22	12.23	12.23	11.14	12.25	12.36	11.55	12.98
Weighted avg. FICO score	769	769	769	768	768	769	766	766
Original term 61-72 mos. (%)	49.71	49.70	49.78	39.79	38.77	39.12	39.15	35.46
Original term greater than 72 mos. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
New vehicles (%)	86.00	85.99	85.95	86.08	86.12	85.71	88.86	91.60
Used vehicles (%)	14.00	14.01	14.05	13.92	13.88	14.29	11.14	8.40
Honda vehicles (%)	88.59	88.69	88.63	88.67	85.31	82.77	88.20	91.21
Acura vehicles (%)	11.41	11.31	11.37	11.33	14.69	17.23	11.80	8.79
Top five state concentrations (%)								
	CA=16.68	CA=16.56	CA=16.61	CA=18.70	CA=19.14	CA=17.29	CA=17.96	CA=17.59
	TX= 9.95	TX= 9.93	TX= 9.90	TX= 9.96	TX=9.68	TX=9.88	TX=9.89	IL=6.45
	MD= 6.25	MD= 6.21	MD= 6.14	FL= 5.85	OH=5.40	PA=7.44	OH=6.32	TX=6.17
	FL=5.36	FL=5.37	FL=5.43	IL=5.20	IL=5.38	OH=5.57	MD=5.01	FL=6.07
	IL=4.71	IL=4.72	IL=4.74	OH=4.93	FL=5.25	IL=4.94	IL=4.93	NC=5.70
Credit grade composition (%)								
A	76.37	76.30	76.24	77.39	77.08	77.00	77.52	76.45
B	12.81	12.95	13.01	13.38	13.37	13.00	13.06	13.70
C	9.18	9.11	9.11	7.60	8.02	8.46	7.91	8.14
D	1.65	1.64	1.65	1.63	1.54	1.54	1.52	1.71

(i)All percentages are of the initial receivables balance. (ii)Not rated by S&P Global Ratings. APR--Annual percentage rate. YSA--Yield supplement account. N/A--Not applicable.

The receivables pool excludes any receivable for which AHFC's records indicate that the related obligor is currently in an extension period as of the cutoff date.

Macroeconomic And Auto Finance Sector Outlook

In our analysis, we considered the economic data and forecasts outlined in table 4 and their baseline effect on collateral credit quality in determining our base-case expected loss level. Historically, changes in the unemployment rate have been a key determinant of charge-offs in the auto finance industry.

The U.S. economy continues to outperform expectations. Better-than-expected growth in 2023 and a sturdy labor market have led us to raise our 2024 U.S. GDP forecast to 2.5% from 2.4%. However, the robust 3.1% annual growth in fourth-quarter 2023 masks the forecast gradual slowdown to 1.8% by fourth-quarter 2024. The weaker growth will cause demand for labor to slacken further, which will likely lead to the unemployment rate steadily increasing to 4.3% by year-end 2025 (see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024).

We are also closely watching the following developments:

- Consumers are showing signs of strain due to increased debt loads. The ratio for seriously delinquent auto loans is already at its highest level outside of recessionary periods, according to the Federal Reserve Bank of New York/Equifax credit data. This is driven primarily by the subprime segment, which represents about one-seventh of the total outstanding auto loan balance.
- Employment in the temporary help services sector was down 7.0% in January 2024 from a year earlier. A decline of this magnitude has been a harbinger of weaker demand for permanent workers.
- Student loan payments resumed in October 2023, which is putting upward pressure on debt service ratios. This could lead to even higher consumer delinquencies and charge-offs in 2024.

We believe, based on past economic cycles, that consumers for whom the vehicle is essential for work will continue to prioritize their auto loan and lease payments over their other consumer and student loan payments. Furthermore, in the auto market, as new vehicle supply imbalances continue to ease, inventory levels rebuild, and manufacturer incentives increase, we expect used vehicle values to continue to normalize to historical levels.

Table 3

U.S. economic factors

	Actual	Forecast			
	2023	2024	2025	2026	2027
Real GDP (% year-over-year growth)	2.5	2.5	1.5	1.7	1.9
Unemployment rate (% annual average)	3.6	3.9	4.2	4.2	3.9
Consumer Price Index (% annual average)	4.1	2.8	2.0	2.4	2.1

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

S&P Global Ratings' Expected Loss: 0.55%

We determined our expected loss for HAROT 2024-2 by analyzing:

- The transaction's collateral characteristics relative to those of outstanding series (see table 2);
- The managed portfolio performance and origination static pool data and their relative performances (see table 4); and,
- The outstanding series' performance (see table 5 and chart 3).

Given Honda's established performance track record as a consistent issuer, we placed more emphasis on the outstanding series' performance when determining the expected loss for this series, while also adjusting for potential incremental risk due to the inclusion of longer-term loans. We complemented this analysis with our forward-looking view of the economy and the auto finance sector (see the Macroeconomic And Auto Finance Sector Outlook section). In our analysis, we reviewed all three pools: small, medium, and large. Overall, the collateral changes between the pools were not material. The sponsor will determine the initial principal pool amount based on, among other factors, market conditions at the time of pricing.

Overall, we expect HAROT 2024-2 to experience lifetime CNLs of 0.55%, unchanged from HAROT 2024-1.

Managed Portfolio

As of Dec. 31, 2023, AHFC's serviced portfolio consisted of contracts totaling $34.4 billion (see table 4), up approximately 27% from a year earlier. As of Dec. 31, 2023, total delinquencies and repossessions increased to 1.64% from 1.59% for the same prior period but remain below pre-COVID-19 levels (i.e., total delinquencies and repossessions as of Dec 31, 2019, and Dec. 31, 2018, were 1.72% and 16.2%, respectively). For the nine months ending Dec. 31, 2023, annualized net losses as a percentage of the average principal were 0.34%, up from 0.22% a year earlier. However, note that losses still remain lower than pre-COVID-19 levels (i.e., the nine months ended December 2019 and 2018 experienced net credit losses of 0.48% and 0.44%, respectively).

Table 4

Managed portfolio(i)

	Nine months ended Dec. 31		Year ended March 31			
	2023	2022	2023	2022	2021	2020
Period-end loan balance outstanding (bil. $)(ii)	36.453	28.717	30.095	30.678	32.646	29.791
Avg. loan balance outstanding (bil. $)	33.603	29.958	29.129	32.845	31.066	30.423
Repossessions (mil. $)(iii)	50.531	26.700	31.799	24.097	36.007	56.417
Repossessions (% of period-end loan balance outstanding)	0.14	0.09	0.11	0.08	0.11	0.19
Total delinquencies and repossessions (% of the period-end receivables outstanding)	1.64	1.59	1.34	1.14	0.81	1.39
Recoveries (mil. $)	60.342	55.377	77.252	74.953	101.690	84.813
Net loss (mil. $)	85.165	47.476	64.406	33.724	88.472	152.949
Net loss (% of the avg. amount outstanding)(iv)	0.34	0.22	0.22	0.10	0.28	0.50

(i)Includes contracts that American Honda Finance Corp. has sold but is still servicing. (ii)The remaining principal balance and unearned finance charges for all outstanding contracts. (iii)The outstanding principal amount of contracts for which the related vehicles were repossessed but haven't been liquidated. (iv)Annualized.

Origination Static Pool Analysis

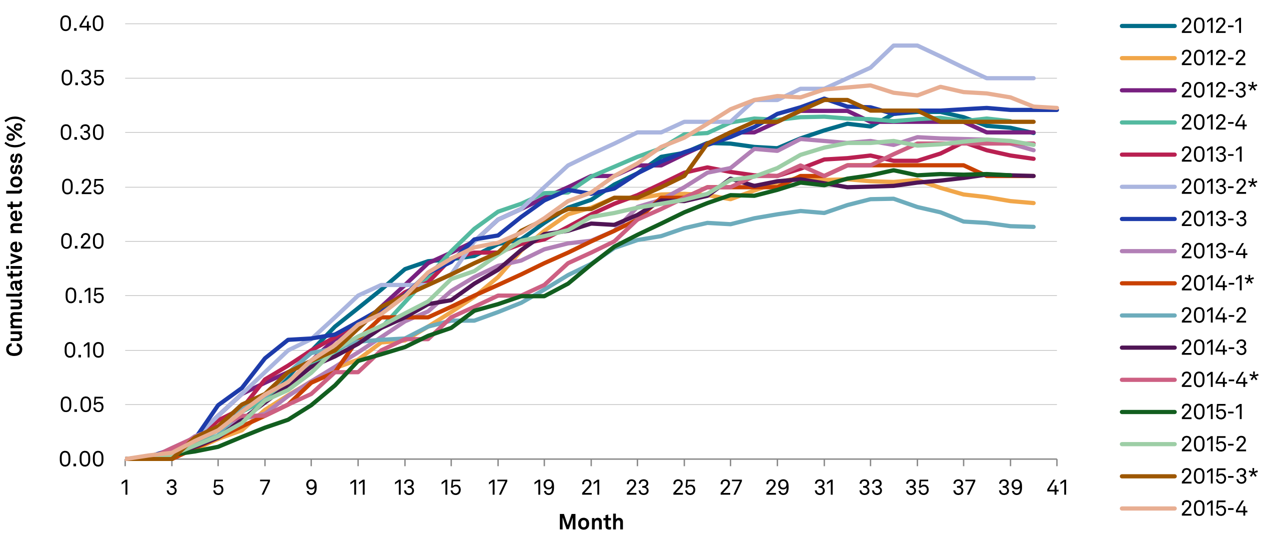
To derive the transaction's base-case loss, we analyzed the cumulative loss performance for AHFC's paid-off securitized pools from 2000 to 2019 and the outstanding securitizations' more-recent loss performance from 2020 to 2022. We used the data from the paid-off pools to create loss-timing curves to project the outstanding transactions' net losses. We also looked at the cumulative recovery rates and delinquencies by vintage and considered other issuers' securitizations that are similar to AHFC's.

HAROT Transaction Performance

We currently rate six outstanding HAROT transactions. In July 2023, we lowered our lifetime ECNLs for HAROT 2021-2, 2021-3, 2022-1, and 2022-2 based on continued strong performance. Each transaction remains adequately enhanced at this time. We will continue to monitor the performance of the outstanding transactions to ensure that the credit enhancement remains sufficient, in our view, to cover our ECNL under our stress scenarios for each of the rated classes (see charts 1-3 and table 5).

Chart 1

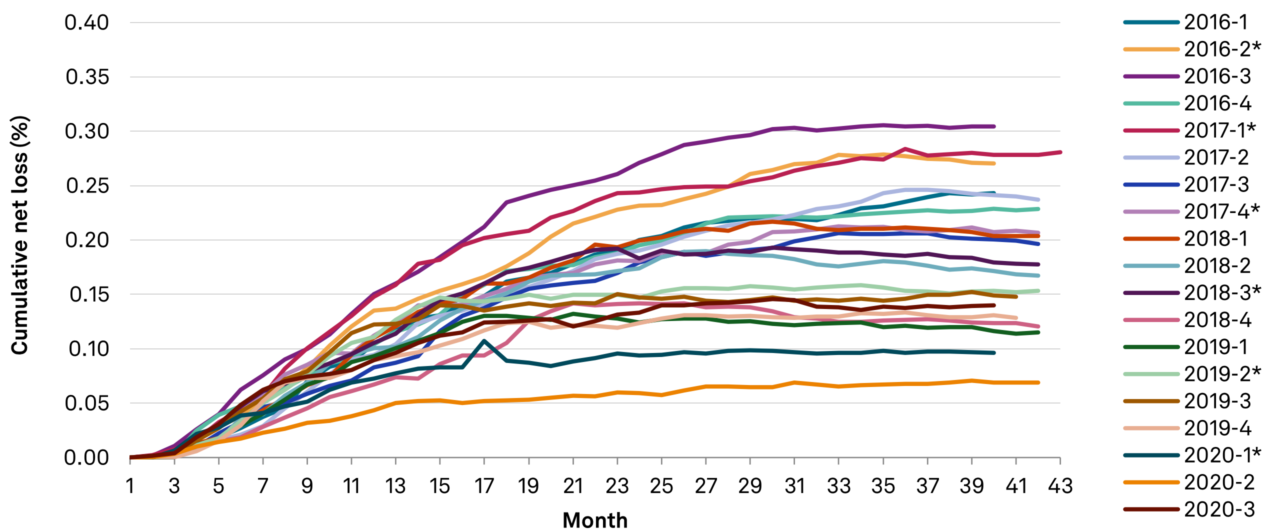
Paid-off securitizations--cumulative net loss (2012-2015)



*Not rated by S&P Global Ratings.

Chart 2

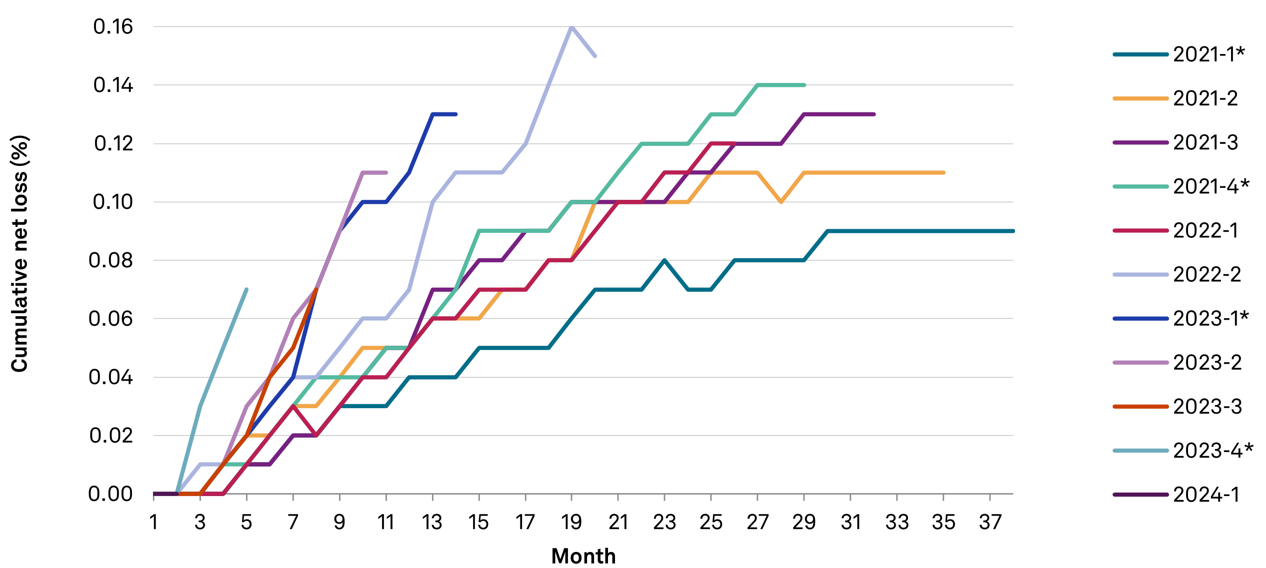
Paid-off securitizations--cumulative net loss (2016-2020)



*Not rated by S&P Global Ratings.

Chart 3

Outstanding securitizations--cumulative net loss



*Not rated by S&P Global Ratings.

Table 5

Performance data for outstanding HAROT transactions rated by S&P Global Ratings(i)

Transaction/series	Month	Pool factor (%)	CNL (%)	60+ day delinquency (%)	Initial lifetime expected CNL (%)	Revised lifetime expected CNL (%)(ii)
2021-2	35	17.38	0.11	0.21	0.65-0.75	0.20
2021-3	32	22.10	0.13	0.15	0.55-0.65	0.25
2022-1	26	34.40	0.12	0.12	0.50-0.60	0.40
2022-2	20	46.00	0.15	0.12	0.50-0.60	0.45
2023-2	11	68.30	0.11	0.14	0.55	N/A
2023-3	8	75.33	0.07	0.13	0.55	N/A
2024-1	2	90.52	0.00	0.05	0.55	N/A

(i)As of the April 2024 distribution. (ii)Revised in July 2023. HAROT--Honda Auto Receivables Owner Trust. CNL--Cumulative net loss. N/A--Not applicable.

Legal Overview And Transaction Structure

Legal overview

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

HAROT 2024-2 is structured as a true sale of the receivables from AHFC (the sponsor and seller) to American Honda Receivables LLC (the depositor). The depositor will sell the acquired assets to HAROT 2024-2 (the issuer), a bankruptcy-remote special-purpose entity, which will then pledge its interest in the receivables to the indenture trustee on the noteholders' behalf (see chart 4).

Transaction structure

HAROT 2024-2 incorporates the following structural features:

- A sequential-pay mechanism that will increase credit enhancement for the senior notes as the pool amortizes.
- A money market tranche that will receive principal payments senior in the waterfall.
- Noninterest-bearing, nonamortizing subordinate certificates, equal to 2.50% of the initial collateral balance, that will not receive principal payments until the class A notes are paid in full.
- A nonamortizing reserve fund that will equal 0.25% of the initial collateral balance.
- A cash YSA funded by the note proceeds, which will increase the yield on the pool to at least 8.65% and generate additional excess spread to support the transaction.

HAROT 2024-2 is AHFC's second auto loan securitization in 2024. AHFC will issue $1.5 billion ($1.8 billion medium pool and $2.1 billion large pool, if upsized) class A sequential-pay notes and $38 million subordinate certificates ($46 million medium and $54 million large pool, if upsized). The depositor will initially retain the certificates, which will have a 0% interest rate.

Interest and principal on the notes are scheduled to be paid on the 18th of each month, or the next business day, starting June 18, 2024. The notes will have a fixed interest rate and be paid principal sequentially.

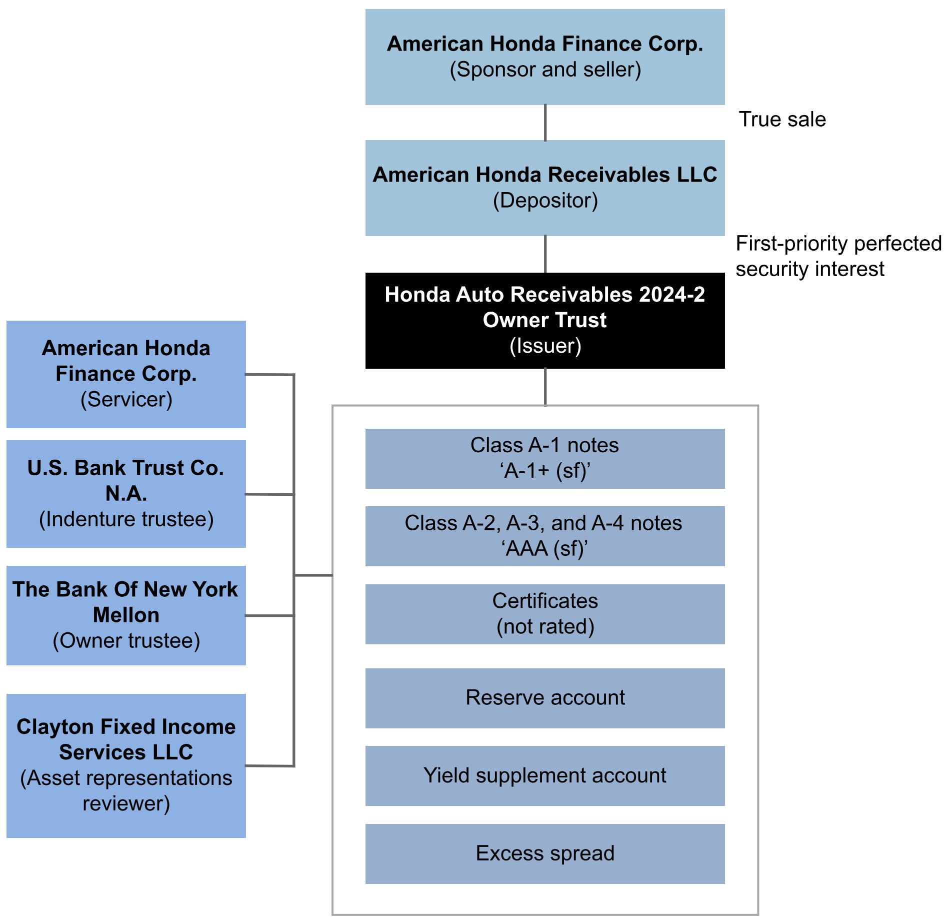
YSA

On the closing date, the seller will fund the YSA with an initial deposit of $124.10 million for the base pool, $150.59 million if upsized to the medium pool, or $177.06 million if upsized to the large pool, subject to an upward revision, which will be at least 8.20% of the initial pool balance. The YSA is designed primarily to supplement the interest collections on the receivables that have APRs less than the required rate (discount receivables).

On each payment date, funds will be withdrawn from the YSA in an amount necessary to increase the interest rate on the discount receivables to the required rate. These funds will be deposited into the collection account monthly to make distributions to the noteholders. On each payment date, the YSA will decline to the present value of the sum of all yield supplement amounts for future payment dates, assuming the loan payments are made as scheduled. Any excess funds in the YSA will be released to the collection account and will be available, if necessary, to cover net losses.

Chart 4

Transaction structure



Payment Priority

Distributions will be made from available funds according to the priority shown in table 6.

Table 6

Payment waterfall

Priority	Payment
1	Servicing fee of 1%, including any unpaid servicing fees and nonrecoverable advances.
2	Indenture trustee, owner trustee, and asset representations reviewer fees, capped at $250,000 per year.
3	Class A note interest, paid pro rata to the class A noteholders.
4	Class A note principal, paid sequentially.
5	Certificate interest, if applicable(i).
6	Certificate principal (this amount will remain at zero until the class A notes are paid in full).

Table 6

Payment waterfall (cont.)

Priority	Payment
7	Replenish the reserve fund to the specified reserve fund balance.
8	Any unpaid indenture trustee, owner trustee, and asset representations reviewer fees.
9	Any remainder to the depositor.

(i)The certificate interest is 0.00%.

Cash Flow Modeling Assumptions And Results

In our cash flow analysis, we assess the availability of asset cash flows to meet the transaction's promised obligations under a variety of stress assumptions, while considering the transaction structure and available credit support. We also use our cash flow analysis in other aspects of our ratings analysis, including the testing of credit stability (sensitivity analysis) and legal final analysis.

In a stressed scenario, liquidity risk could arise due to interest shortfalls from the yield on the loans being lower than the yield on the bonds (negative carry risk). This could occur because the bonds pay sequentially, leading to higher-coupon debt remaining outstanding at the tail end of the transaction. In this transaction, negative carry risk is being addressed through the YSA.

Break-even analysis

For the HAROT 2024-2 transaction structure, we used a bifurcated-pool method and applied the assumptions outlined in table 7 in our cash flow analysis to simulate stress scenarios that we believe are appropriate for the assigned preliminary ratings. To assign a rating to a class, we consider the class's lower break-even (maximum net losses the class can withstand without defaulting) and generally expect it to be equal to or greater than the rating stressed scenario break-even requirement.

Under this approach, we bifurcated the pool between low-APR loans (underwater) and high-APR loans (above-water) using an APR of 5.00% and applied different prepayment and default assumptions between the two pools. For high-APR loans (with APRs greater than 5.00%), we ran faster voluntary prepayments, disproportionately higher losses, and faster loss timing than for the low-APR loans (with APRs of 5.00% or less).

These combined assumptions caused the weighted average APR of the pool to decrease faster over time and increases the likelihood that the YSOA will be used for yield enhancement rather than credit enhancement, thus decreasing the break-even levels.

Our criteria establish rating-specific minimum credit enhancement levels based on our view that there are limits on the predictability of auto receivable performance. For 'AAA' ratings, the minimum level is 4.0%, of which 2.5% must be in the form of hard credit support. In our stress cash flow scenarios for the transaction, we assessed the level of available credit enhancement relative to the minimum required.

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

Table 7

Break-even cash flow assumptions

Servicing fee (%)	1.00
Recovery rate (%)	50.00
Charge-off and recovery lag (mos.)	3
Bifurcated pool (%)	
Low APR(i)	67.00
High APR(i)	33.00
Loss allocation (% of total losses)	
Low APR	60.00
High APR	40.00
Voluntary ABS (%)	
Low APR	0.25
High APR	1.50
CNL timing: (mos. 12/24/36/48/60) (%)	
Front-loaded low APR	40/75/90/100
Front-loaded high APR	55/90/100
Back-loaded low APR	15/50/80/100
Back-loaded high APR	25/60/95/100

(i)For cash flow modeling purposes, we applied a subvened/nonsubvened cutoff APR of 5.00%. APR—Annual percentage rate. ABS--Absolute prepayment speed. CNL--Cumulative net loss.

Table 8

Break-even cash flow results

	Class A-1/A-2/A-3/A-4
Preliminary ratings	A-1+/AAA (sf)/AAA (sf)/AAA (sf)
CNL timing: (mos. 12/24/36/48/60) (%)	
Front-loaded aggregate	48/84/96/100
Front-loaded low APR	43/80/94/100
Front-loaded high APR	55/90/100
Back-loaded aggregate	21/59/90/100
Back-loaded low APR	17/58/87/100
Back-loaded high APR	26/61/95/100
Required credit enhancement	4.0
Available credit enhancement: front-loaded loss curve(i)	7.3
Available credit enhancement: back-loaded loss curve(i)	7.4

(i)The maximum cumulative net losses, with 100.0% credit to any excess spread, the transaction can withstand without triggering a payment default on the relevant class of notes. CNL--Cumulative net loss. Mos.--Months.

Sensitivity analysis

In addition to running break-even cash flows, we undertook sensitivity analyses using the assumptions in table 7. We believe that under a moderate ('BBB') stress scenario (2.0x our minimum 'B' credit enhancement level, based on 0.8% ECNL) and with 100.0% credit to any excess spread, all else being equal, our preliminary ratings will be within the credit stability limits specified by section A.4 of the Appendix of "S&P Global Ratings Definitions," published June 9, 2023 (see table 9 and chart 5). The 0.8% implied ECNL is based on our 4.0% minimum credit enhancement level for a 'AAA' rating, as outlined in our auto criteria.

Table 9

Credit stability as a limiting factor on ratings(i)

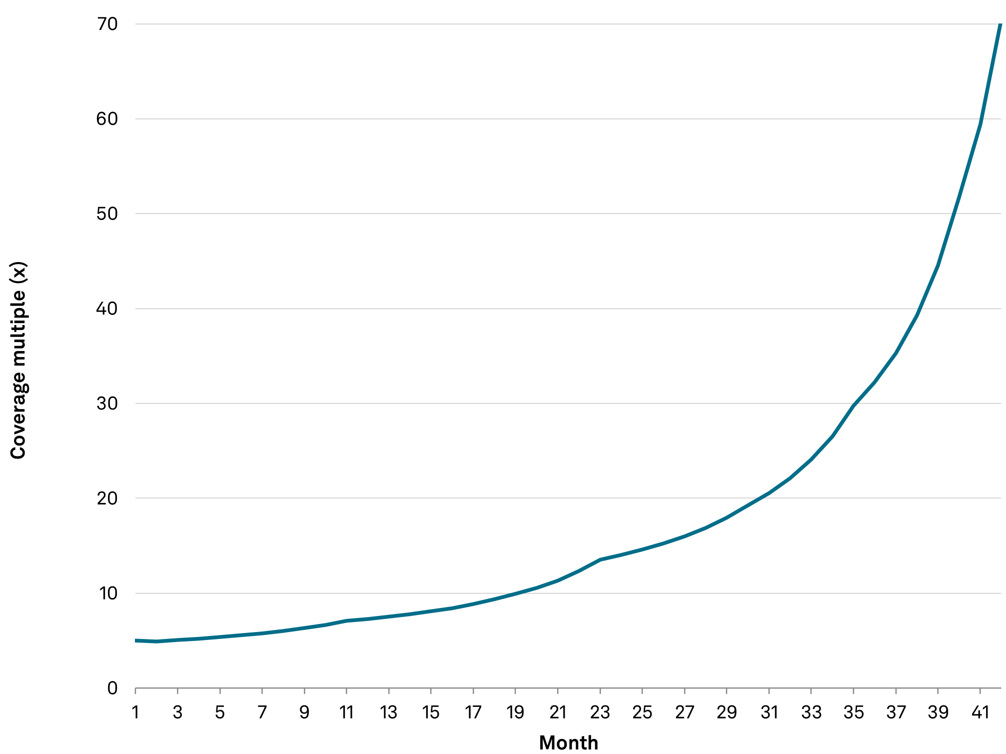
Maximum projected deterioration associated with rating levels for one-year and three-year horizons under moderate stress conditions

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

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

Chart 5

Sensitivity analysis



Money Market Tranche Sizing

The proposed legal final maturity date for the money market tranche (class A-1) is May 19, 2025. To test whether the money market tranche can be repaid by the proposed legal final date, we ran cash flows using assumptions to delay the principal collections during that time period. We assumed zero defaults, and we saw that the money market tranche would be paid off in full before the legal final maturity date, assuming a zero absolute prepayment speed for the subvened collateral and 0.5% absolute prepayment speed for the nonsubvened collateral.

Legal Final Maturity

To test the legal final maturity dates set for the long-dated tranches (classes A-2 and A-3), we determined the date that the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario and then added three months to the result. For the longest-dated security (class A-4), AHFC added at least six months to the tenor of the longest receivable in the pool to accommodate extensions on the receivables. Furthermore, in the break-even scenario for the preliminary rating level, we confirmed that there was sufficient credit enhancement to cover losses and fully repay the related notes by the legal final maturity dates.

Counterparty And Operational Risks

Bank account provider

On or before the closing date, the series' bank accounts will be established with the bank account provider, U.S. Bank N.A. The bank account provider is consistent with our counterparty criteria for a 'AAA' supported transaction (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

Servicer

As a servicer, AHFC has an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices, and it satisfies our requirements for commingling risk. If AHFC were to no longer satisfy our commingling requirement, collections would be required to be deposited into the series' collections account within two business days of collection. Our operational risk assessment of AHFC as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

AHFC

AHFC is a wholly owned subsidiary of American Honda Motor Co. Inc. ('A-2'), which is a wholly owned subsidiary of Honda Motor Co. Ltd. (A-/Stable/A-2). Honda Motor Co. Ltd. is a Japanese corporation and a worldwide manufacturer and distributor of motor vehicles, motorcycles, and power equipment.

AHFC is a California corporation that was incorporated in 1980. Its principal offices are in Torrance, Calif. The company provides wholesale financing to authorized dealers and acquires retail loans and leases that were made to retail customers, supporting the sale of Honda and Acura vehicles in the U.S.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- U.S. Auto Loan ABS Tracker: February 2024 Performance, April 10, 2024
- Credit Conditions North America Q2 2024: Soft Landing, Lurking Risks, March 27, 2024
- Economic Outlook U.S. Q2 2024: Heading For An Encore, March 26, 2024
- Honda Motor Co. Ltd., March 6, 2024
- Fourteen Ratings Affirmed On Six Honda Auto Receivables Owner Trust Transactions, July 5, 2023