S&P Global
Ratings

Research

Presale:

ACM Auto Trust 2023-2

June 22, 2023

(***Editor's Note:*** *In the original version of this presale, published June 22, 2023, information in chart 2 was misstated. A corrected version follows.)*

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Preliminary Ratings

Class	Preliminary rating	Type	Interest rate(i)	Amount (mil. $)	Legal final maturity date
A	A (sf)	Senior	Fixed	271.64	June 20, 2030
B	BBB (sf)	Subordinate	Fixed	88.70	June 20, 2030

Note: This presale report is based on information as of June 22, 2023. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i)The interest rate for each class will be determined on the pricing date.

Profile

Collateral	Subprime auto loan receivables.
Issuer	ACM Auto Trust 2023-2.
Sponsor, servicer, and custodian	America's Car Mart Inc.
Originators	America's Car Mart Inc. and Texas Car-Mart Inc.
Seller	Colonial Auto Finance Inc.
Depositor	ACM Funding LLC.
Indenture trustee and backup servicer	Wilmington Trust N.A. (A-/Stable/A-2).
Owner trustee	BNY Mellon Trust of Delaware (AA-/Stable/A-1+).
Bank account provider	Wilmington Trust N.A. (A-/Stable/A-2).

Rationale

The preliminary ratings assigned to ACM Auto Trust 2023-2's (ACMAT 2023-2) automobile receivables-backed notes reflect:

- The availability of approximately 51.88% and 41.03% credit support (hard credit enhancement and haircut to excess spread) for the class A and B notes, respectively, based on stressed cash flow scenarios. These credit support levels provide at least 1.70x and 1.35x coverage of our

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expected cumulative net loss (ECNL) of 30.25% for the class A and B notes, respectively (see the Credit Enhancement And Collateral and the Cash Flow Modeling Assumptions And Results sections below).

- The expectation that under a moderate ('BBB') stress scenario (1.35x our expected loss level), all else being equal, our preliminary 'A (sf)' and 'BBB (sf)' ratings on the class A and B notes, respectively, are within our credit stability limits (see the Cash Flow Modeling Assumptions And Results section below).
- 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 series' subprime automobile loans, our view of the credit risk of the collateral, and our updated macroeconomic forecast and forward-looking view of the auto finance sector (see the Credit Enhancement And Collateral and the Macroeconomic And Auto Finance Sector Outlook sections below).
- Our operational risk assessment of America's Car Mart Inc. (ACM) as servicer, and our view of the company's underwriting and backup servicing arrangement with Wilmington Trust N.A. The operational risk assessment constrains the rating at 'A (sf)'.
- The series' bank accounts at Wilmington Trust N.A., which do not constrain the preliminary ratings.
- Our assessment of the transaction's potential exposure to environmental, social, and governance credit factors that are in line with our sector benchmark.
- The transaction's payment and legal structures.

Our ECNL for ACMAT 2023-2 is 30.25%, which is higher than our 30.00% for ACMAT 2023-1. It reflects:

- Our assessment that the collateral pool is marginally weaker than the ACMAT 2023-1 series.
- The managed portfolio's performance, origination static pool performance and the ACMAT 2023-1 and ACMAT 2022-1 series' performance, compared with ACM's peers.
- Our forward-looking view of the auto finance sector, including our outlook for a shallow recession this year and lower recovery rates.

Environmental, Social, And Governance (ESG) Factors

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

The transaction's environmental and governmental credit factors are in line with our sector benchmark. Environmental credit factors are 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 eventually lower ICE vehicle values, we believe our current approach to evaluating recovery values adequately accounts for vehicle values over the transaction's relatively short expected life. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

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

Key Rating Considerations

ACMAT 2023-2 is ACM's third auto ABS transaction and the second rated by S&P Global Ratings (also rated ACMAT 2023-1). Based on our assessment of ACM's operations and review of its performance history, our preliminary ratings assigned to ACMAT 2023-2 are capped at 'A (sf)'.

We considered the following strengths in rating this transaction:

- ACM has extensive operations history in the integrated auto sales and finance segment of the used car market business since 1981. The company has generally followed the same business model, which focuses on the acquisition, sale, and financing of used vehicles to subprime borrowers through its network of 156 company-owned dealerships in small cities across 12 states. Although ACM's locations are primarily in small communities (i.e., populations from 20,000 to 50,000) throughout the South/Central United States, it does operate a number of dealerships in larger cities. The company tends to originate loans with shorter terms, which are typically 18 to 54 months with original terms not exceeding 69 months. (See table 2 and the Counterparty And Operations and ACM sections below).
- America's Car-Mart Inc., a Texas corporation, is a publicly held company. It is the parent company of ACM, an Arkansas corporation, which is an originator and servicer for ACMAT 2023-2. America's Car-Mart Inc. has been listed on the NASDAQ since 1999 and is subject to the SEC's reporting and disclosure requirements. Additionally, as an integrated auto sales and finance company in the used car market, ACM, directly or through its subsidiaries, is subject to federal directives, examination, and supervision through the Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC). ACM is also subject to state and local directives in those jurisdictions the company operates. The company accounting is subjected to the directives of the Financial Accounting Standards Board (FASB) and its auditors, Grant Thornton LLP, in place since 1999. Grant Thornton LLP audits the company's financial statements and its internal control over financial reporting in accordance with industry standards.
- The company has a strong and established record of profitability and financial strength. It has successfully operated through various economic cycles including the Global Financial Crisis, and with the exception of 2002, the company has remained profitable since 1996. For its FY 2022, the company reported net income of $93.3 million, down from $104.1 million in FY 2021 driven by higher cost-of-sales and provisions for credit losses. Despite the lower net income, equity increased to $469.4 million from $406.5 million due to additional paid-in capital. For the first nine months of full-year 2023, the company reported net income of $18.3 million, down from $68.5 million year over year. The decline was largely due to higher provisions for credit losses and, to a lesser extent, higher cost of sales. The company's debt to equity ratio (revolving credit facilities and non-recourse notes payable divided by total equity on the consolidated balance sheet) was 1.24x for the first nine months of full-year 2023.

- ACM has a strong liquidity position. Since inception, the company has not paid cash dividends on its common stock, and instead uses retained earnings to finance its growth. Dividends and distributions to shareholders are subject to consent of ACM's lenders. The company supplements its internal resources with revolving credit facilities of $600 million provided by a lending group of nine banks. As of the first nine months of full-year 2023, the company had $148 million of availability under its revolving credit facilities. The revolving credit facilities, renewed with a maturity of September 2024, are collateralized primarily by finance receivables and inventory. The credit facilities contain various reporting and performance covenants including (i) maintenance of certain financial ratios and tests, (ii) limitations on borrowings from other sources, (iii) restrictions on certain operating activities, and (iv) restrictions on the payment of dividends or distributions. ACM also has access to the debt capital market and has completed two ABS transactions totaling $800.0 million through ACMAT 2022-1 and ACMAT 2023-1.

- The company's senior management team is experienced and tenured. The CEO and Chief Financial Officer (CFO) have been with the company for over 15 years and 10 years, respectively. The SVP of Field Operations has been at the company over 30 years, starting out at a dealership. Additionally, dealership managers average at least 10 years with the company. ACM hired a new President who was previously responsible for both acquisition of new and used vehicles and the vehicle disposal strategy at Avis Budget Group. Other recent additions to the senior management team over the last year include a Chief Digital Officer, Senior Vice-President of People, and Director of Acquisitions. A significant proportion of senior management's compensation includes a stock-based component, which aligns the interest of management with the financial performance of the company.

- Wilmington Trust N.A. will act as a back-up servicer, and Systems & Services Inc. (SST) is selected as the successor servicer in the event of a servicing transfer. Under the transaction documents, SST will begin servicing the receivables at the end of the 60-day period commencing with the transfer notice. In the interim, the backup servicer will perform certain other duties such as conducting due diligence of the servicer and providing certain verification duties. Each month, the servicer will deliver to the backup servicer the monthly data file containing the information necessary to prepare the investor report, and the back-up servicer will confirm there are no discrepancies. The presence of a back-up servicer arrangement will help facilitate a smoother servicing transfer in the event of a servicer termination event. See Servicer Replacement Event and Servicing sections below for more information.

Despite the strengths outlined above, we believe that the following limitations, taken as a whole, weigh against assigning a preliminary rating higher than 'A (sf)' to the ACMAT 2023-2 transaction:

- The company's dealerships operate on a decentralized basis. Each dealership is responsible for buying and selling vehicles, making final credit decisions, and servicing and collecting on the loans. Decentralized operations pose unique risks to the receivables sold to and securing the notes issued by ACMAT 2023-2. Differentiated underwriting and servicing standards across the dealership network could impact the performance of the receivables. Some of this risk is mitigated by ACM's corporate oversight and involvement through proprietary credit scoring models, underwriting and servicing policies, centralized financial controls, and internal compliance function. As a result, each dealership should be operating in a uniform manner. Additionally, the dealership manager and staff compensation is linked to the financial performance of the dealership, which, with corporate monitoring of dealerships' operations, financial performance, and site visits and audits, reduces the risk of behavior that is adverse to the securitized receivables.

- ACM's obligors, under its decentralized model, may make payments in-person at its branch locations. Approximately half of the obligors make payments in-person at individual dealerships. As of April 30, 2023, approximately 26% of payments made at the branches were made via cash or check in-person. The high in-person percentage introduces additional operational risk to the receivables sold to and securing the notes issued by ACMAT 2023-2. For example, in the event of servicing and/or financial difficulties at the branch or ACM, customers may not be able make their payments, which could temporarily lead to higher delinquencies and losses on the receivables. In addition, cash payments can increase the risk of cash commingling, mishandling of cash, and delays in remittance to the collection accounts for the investor in the ACMAT series. Generally, unrated companies entering the ABS market mitigate this risk through the establishment a lockbox account with a bank, to which all customers are directed to make all payments. Such payments are then deposited directly to the series collection account.

- In the case of ACM, the risks associated with decentralized cash payments and processing are mitigated by established cash management policies and audit and compliance requirements relating to the same. All non-cash payments are processed electronically directly to an ACM corporate account. Cash payments at dealerships are deposited at local ACM deposit-only accounts and swept daily to ACM's corporate account. All payments received in ACM's corporate account with respect to the securitized receivables are generally processed to the series collections account by the second business day. Additionally, the signing authority on the ACM corporate account is restricted to the CFO and controller. The company has internal controls around safeguarding, handling, and depositing, and reconciles all cash payments on a daily basis. These policies, followed by the cash management team, are audited by internal audit on a quarterly basis, and any material findings are escalated to the audit committee of the board of directors. Similarly, as part of its financial audit, the independent auditor conducts an audit of the company's internal controls over financial reporting. Moreover, in the event ACM is unable to originate or service receivables, the backup servicer and servicer centralization plan provide for a transition to a centralized lockbox operation within a stipulated timeframe of six months. See Servicer Replacement Event and Servicing sections below for more information.

The ability to transition from decentralized to centralized servicing could challenge obligors, and there could be the potential for an increase in delinquencies and losses during the transition. In addition, the high percentage of payments made in-person could also present issues as obligors adjust to using new payment methods. S&P acknowledges that the use of a backup servicer, successor servicer, and set centralization duties does mitigate some of this risk. However, we feel that these mitigants do not fully offset the operational risk, and a constraint to the rating is justified.

Credit Enhancement And Collateral

Structural changes from ACMAT 2023-1

- ACMAT 2023-2 has only two classes, A and B, compared to ACMAT 2023-1's four classes, A, B, C and D.
- Total initial hard credit enhancement decreased for classes A and B to 53.00% and 37.00%, respectively, from 63.60% and 55.80%.
- Subordination decreased for class A to 16.00% from 28.30%.

- Initial overcollateralization increased to 35.00% (from 33.30%) of the initial collateral pool balance and will grow to a target of 37.20% (from 37.00%) of the initial collateral pool balance.
- The reserve account of 2.00% of the initial collateral pool balance is unchanged.
- Pre-pricing excess spread is estimated to increase to 4.81% from 3.74% (post-pricing).

The decrease in the initial hard credit enhancement (see table 1) is coupled with higher indicative excess spread. Our stressed cash flow results indicate that each class A and B in the ACMAT 2023-2 transaction is enhanced to a degree consistent with the assigned 'A (sf)' and 'BBB (sf)' preliminary ratings, respectively (see the Cash Flow Modeling Assumptions And Results section below). Comparatively, ACMAT 2023-1's class A, B, C, and D notes, with different enhancement (see table 1), were assigned ratings of 'A (sf)', 'A- (sf)', 'BBB (sf)', and 'BB (sf)', respectively.

Table 1

Credit enhancement summary (%)

	ACMAT		
	2023-2	2023-1	2022-1(iii)
Subordination(i)			
Class A	16.00	28.30	28.70
Class B	N/A	20.50	19.60
Class C	N/A	8.15	6.55
Class D	N/A	N/A	N/A
Overcollateralization			
Initial(i)	35.00	33.30	30.00
Target(i)	37.20	37.00	35.00
Floor(i)	37.20	37.00	35.00
Reserve fund(i)			
Initial	2.00	2.00	2.00
Target	2.00	2.00	2.00
Floor	2.00	2.00	2.00
Total initial hard credit enhancement(i)			
Class A	53.00	63.60	60.70
Class B	37.00	55.80	51.60
Class C	N/A	43.45	38.55
Class D	N/A	35.30	32.00
Estimated excess spread per year (%)(ii)	4.81	3.74	7.23

(i)Percentage of the initial collateral pool balance. (ii)Excess spread is after pricing for series 2023-1. (iii)Not rated by S&P Global Ratings. ACMAT--ACM Auto Trust. N/A--Not applicable.

Collateral changes from ACMAT 2023-1

The significant collateral changes in ACMAT 2023-2's statistical pool (as of April 30, 2023) compared to ACMAT 2023-1's statistical collateral pool include:

- The percentage of loans in ACM's top customer score (6) decreased to 33.24% from 35.17%.
- The weighted average remaining term increased to 41.38 months from 38.65 months.
- The weighted average pool seasoning decreased to 3.88 months from 5.96 months.
- The average principal amount financed increased to $16,991 from $15,378 while the weighted average mileage of the vehicle decreased to 129,700 from 134,268.
- The weighted average loan-to-value (LTV) increased to 113.83% from 112.72%.
- The weighted average APR increased to 17.17% from 16.38%.
- The percentage of loans with original terms of 61-72 months increased slightly to 7.49% from 7.14%.
- The percentage of loans that have ever been 60 days past due decreased to 9.11% from 17.88%.
- The percentage of loans that were ever extended decreased to 19.64% from 22.75%.

We believe that the ACMAT 2023-2 collateral pool is marginally weaker than ACMAT 2023-1 (see table 2). We have factored this into our expected loss for ACMAT 2023-2 (see the S&P Global Ratings' Expected Loss section below).

Table 2

Collateral comparison(i)

	ACMAT		
	2023-2	**2023-1**	**2022-1(ii)**
Pool balance (mil. $)	554.37	599.99	571.44
No. of receivables	32,627	39,017	51,645
Average principal balance ($)	16,991	15,378	11,065
Used vehicles (%)	100	100	100
Weighted average			
APR (%)	17.17	16.38	16.39
LTV ratio (%)	113.83	112.72	111.10
Non-zero FICO	545	548	554
Original term (months)	45.34	44.58	41.17
Remaining term (months)	41.38	38.65	32.25
Seasoning (months)	3.88	5.96	8.40
Original term 0-60 months (%)	92.51	92.86	95.59
Original term 61-72 months (%)	7.49	7.14	4.41
Mileage	129,700	134,268	121,486
Paying weekly and biweekly (%)	81.56	81.29	79.46
ACM's customer score(iii)			
1	1.07	1.02	1.10
2	3.31	3.12	3.48
3	12.45	11.88	12.18
4	20.58	19.93	19.53

Table 2

Collateral comparison(i) (cont.)

	ACMAT		
	2023-2	2023-1	2022-1(ii)
5	29.35	28.88	27.82
6	33.24	35.17	35.88
Vehicle rype (%)			
Car	44.62	44.93	45.02
SUV	41.54	40.16	38.74
Truck	11.16	12.44	13.82
Van	2.68	2.46	2.41
Ever 60 days past due (%)	9.11	17.88	0.91
Ever extended (%)	19.64	22.75	36.23
Top five state concentrations (%)			
	AR=26.88	AR=26.64	AR=26.44
	OK=17.84	OK=18.00	OK=19.05
	MO=12.16	MO=12.20	MO=12.09
	TX=9.04	AL=9.28	AL=8.83
	AL=8.90	TX=8.76	TX=8.50
S&P Global Ratings' original expected CNL (%)	30.25	30.00	N/A

(i)As of the statistical collateral pool balance for ACMAT 2023-2 and closing collateral pool for other series. (ii)Not rated by S&P Global Ratings. (iii)The customer score is based on ACM's proprietary scoring model, which relies on the customer's credit history and certain application information to evaluate a customer's ability to pay. A score of 6 represents the highest grade. APR--Annual percentage rate. LTV--Loan-to-value. CNL--Cumulative net loss. N/A--Not applicable. ACM--America's Car Mart Inc.

Macroeconomic And Auto Finance Sector Outlook

In our view, changes in the unemployment rate are a key determinant of charge-offs in the auto finance industry. We have also observed that recovery values tend to weaken during recessionary periods.

In our analysis, we considered the economic data and forecasts outlined in table 3 and their baseline effect on collateral credit quality in determining our base case expected loss level.

As the Federal Reserve's (Fed) aggressive tightening of interest rates increases borrowing costs, we expect the economy to fall into a shallow recession later this year. We are forecasting slightly negative growth in the second and third quarters of this year with GDP averaging 0.7% growth for the year (see "Economic Outlook U.S. Q2 2023: Still Resilient, downside Risks Rise," published March 27, 2023). With economic pressures worsening due to higher borrowing costs, businesses will be need to trim payrolls in interest rate-sensitive sectors. The recent banking sector disturbance may also lead to credit tightening and a softer jobs market. We expect the unemployment rate to rise and peak at 5.4% in early 2025 and then decline in late 2025.

Inflation remains a concern because it is eroding wage gains and the savings cushion that was built during the pandemic, particularly for those with lower incomes and smaller cushions.

Table 3

U.S. economic factors (%)

	Actual	Forecast			
	2022	2023	2024	2025	2026
Real GDP (year-over-year growth)	2.1	0.7	1.2	1.8	2
Unemployment rate (% annual average)	3.7	4.1	5.0	5.1	4.6
Consumer Price Index (% annual average)	8.0	4.2	2.4	1.6	1.5

GDP--Gross domestic product. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and S&P Global Ratings Economics forecasts.

In the auto market, as new vehicle supply imbalances continue to ease and borrowing rates continue to rise, we would expect used vehicle values to normalize to historical levels.

S&P Global Ratings' Expected Loss: 30.25%

We determined our expected loss for ACMAT 2023-2 by analyzing:

- The managed portfolio's performance and origination static pool data and their relative performances (see table 4 and charts 1-3);
- The transaction's collateral characteristics relative to those of the outstanding series and ACM's peers (see tables 2 and 5); and
- The outstanding ACMAT 2022-1 and 2023-1 series performance (see table 6 and charts 4-6).

Given the limited securitization performance (ACM's first transaction was issued April 2022), we placed more emphasis on origination static pool analysis and managed portfolio trends. 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 above).

Overall, we expect ACMAT 2023-2 to experience lifetime CNLs of 30.25%, up from 30.00% for ACMAT 2023-1.

Managed portfolio

ACM's managed portfolio grew approximately 24.7% as of April 30, 2023, from a year earlier (see table 4). The average managed portfolio growth trend during full-year 2021-2022 of about 30% is significantly higher than the 9.2% annual average over 2017-2020. Quarterly origination averaged $130.4 million during 2017-2020 and increased to $236.3 million during 2021-2023. The management portfolio increased to $1.3 billion as of April 30, 2023m from $1.1 billion in full-year 2022. Increased origination was in part due to the demand for vehicles and higher used vehicle prices as a result of supply chain constraints. Total delinquencies as of April 30, 2023, increased to 3.24% from 2.90% as of April 30, 2022. Net charge-offs increased to 23.27% as of April 30, 2023, compared to 18.23% in April 30, 2022, reflecting normalization of losses, wholesale vehicle prices and recovery rates and are in line with pre-pandemic levels.

Table 4

Managed portfolio

	As of April 30					
	2023	2022	2021	2020	2019	2018
Portfolio at end of period (mil. $)(i)	1,373.37	1,101.49	809.54	621.18	543.33	501.43
Avg. month-end amount outstanding during the period (mil. $)	1,250.76	973.72	696.48	585.05	531.24	489.85
Delinquency (%)(i)						
31-60 days	2.34	1.96	1.56	3.99	2.05	2.12
61-90 days	0.61	0.67	0.69	1.63	0.63	0.66
91 days or more	0.29	0.27	0.26	0.50	0.22	0.32
Total	3.24	2.90	2.51	6.11	2.90	3.10
Net charge-offs (% of the avg. amount outstanding)(i)(ii)	23.27	18.23	17.99	21.51	23.85	28.77

(i)Net charge-offs do not include expenses associated with repossession and collection of the related vehicle because such costs are paid by the servicer and are not netted out of liquidation proceeds. Net charge-offs represent the net principal balance of receivables determined to be uncollectible in the period from dispositions of the related vehicles, net of any liquidation proceeds received from dispositions of the related vehicles. (ii)The charge-off dollar amounts and percentages reflected above for the year ended April 30, 2021, 2020, and 2019 have been re-stated. Previously, the charge-off dollar amounts and percentages were calculated by recognizing the amount of deferred revenue related to ancillary products for a customer account that is charged off as sales revenue at the time of charge-off. The charge-off dollar amounts and percentages reflected above for each respective year end are calculated by recognizing such ancillary product amounts as a reduction to customer accounts at the time of charge-off. America's Car Mart Inc. expects to recognize such amounts as a reduction to customer accounts at the time of charge-off going forward.

Origination static pool analysis

Our analysis is based on over six years (2016-2023) of static pool data on the company's programs. ACM provided static pool performance data by quarterly origination, segmented by original term, LTV, vehicle type, and customer and financial scores. In mid-2017, ACM began originating longer-term loans (60 months or more), which still only account for a fairly small percentage of their portfolio.

In our analysis, we used the quarterly origination static pool data in aggregate and based on two credit scores (customer score and financial score). The customer score is based on ACM's proprietary scoring model, which relies on the customer's credit history and certain application information to evaluate a customer's ability to pay. The financial score is largely based on the loan terms, vehicle, and customer's payment-to-income. We used a 2016-2017 paid-off loss curve to project losses for the outstanding quarterly vintages through Q3 2022. We then calculated weighted average projected loss proxies for each of the six credit tiers for each score by weighting each outstanding vintage month's projected loss by the origination dollar amount for the respective vintage. Finally, we computed a weighted average projected loss for the pool by weighting the loss proxies for each tier by its respective percentage of the current pool.

Chart 1

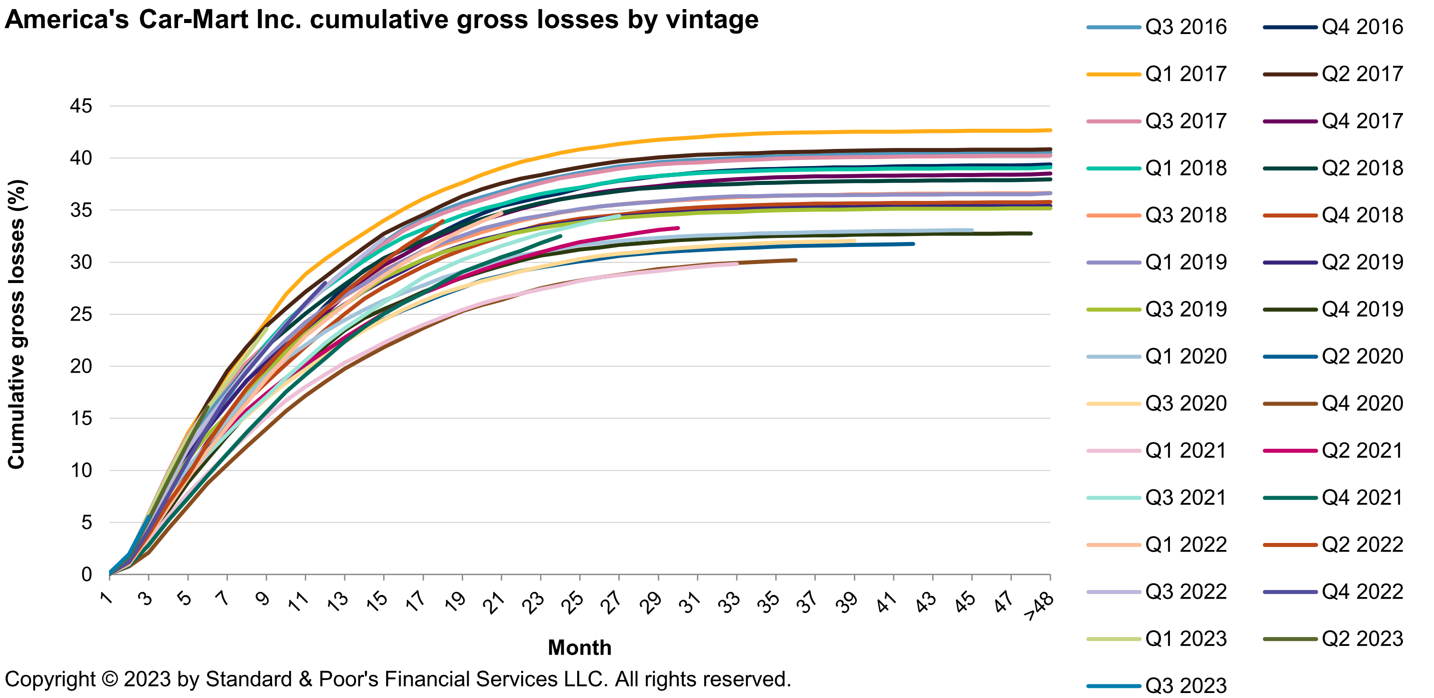


Chart 2

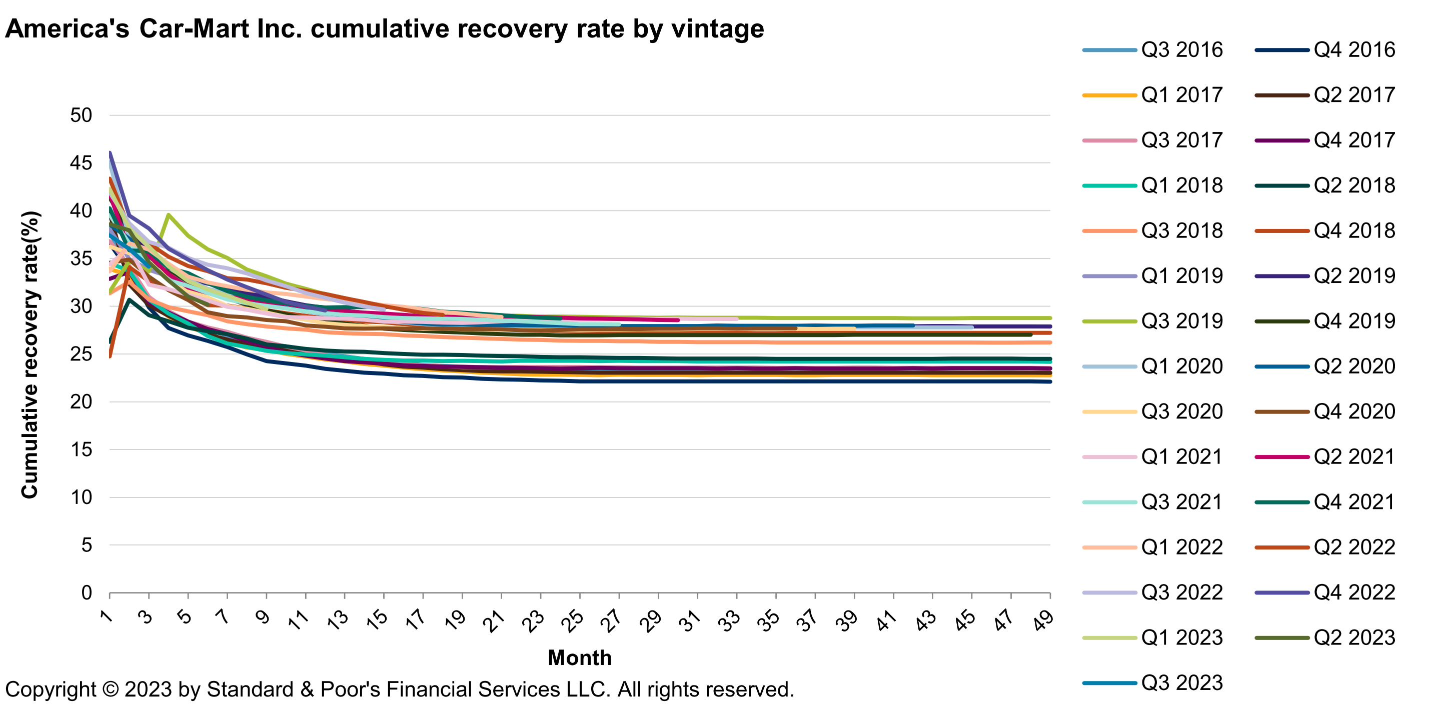
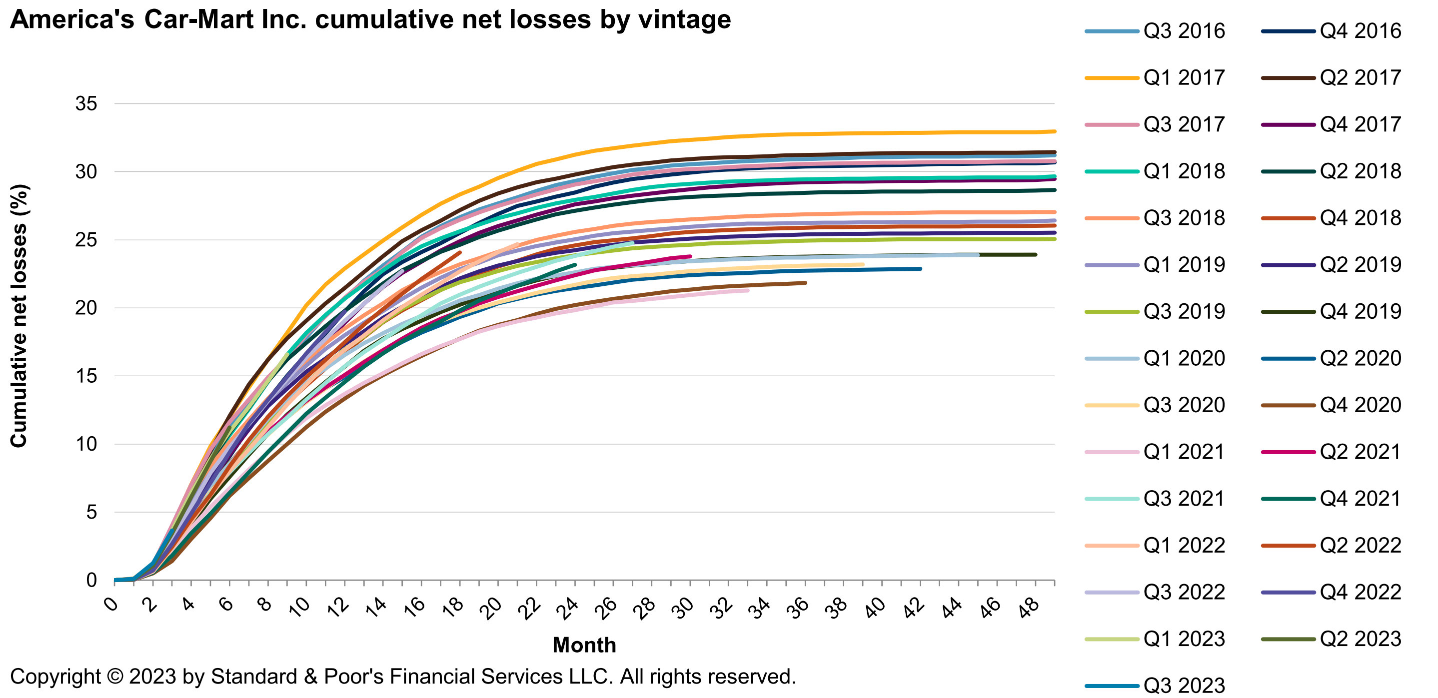


Chart 3



Peer analysis

We compared ACMAT 2023-2's collateral pool with peers in the subprime auto loan sector for which we have a similar expected CNL range (see table 5). There is not an exact peer to which we could compare ACMAT 2023-2 with its focus on relatively shorter-term loans and older vehicles to obligors with weaker or limited credit. Despite the programs' differences, we believe the two issuers in the table below are similar to ACMAT 2023-2.

Table 5

Collateral comparison(i)

	ACMAT 2023-2	ACMAT 2023-1	DT Auto Owner Trust 2023-2	American Credit Acceptance Receivables Trust 2023-2
Pool balance (mil. $)	554.37	600.00	629.31	312.00
Average Original principal balance ($)	18,737	17,974	23,146	19,007
Weighted average				
APR (%)	17.17	16.38	22.69	24.70
LTV ratio (%)	113.83	112.72	138.47	111.20
Original term (months)	45.34	44.58	70.49	71.14
Seasoning (months)	3.88	5.96	1.49	6.82
Original term 61-72 months (%)	7.49	7.14	99.85	96.07

Table 5

Collateral comparison(i) (cont.)

	ACMAT 2023-2	ACMAT 2023-1	DT Auto Owner Trust 2023-2	American Credit Acceptance Receivables Trust 2023-2
Weighted average FICO	545	548	552	536
New vehicles (%)	N/A	N/A	N/A	1.10
Used vehicles (%)	100.00	100.00	100.00	98.90
Top three state concentrations (%)				
	AR=26.88	AR=26.64	FL=14.95	TX=16.85
	OK=17.84	OK=18.00	TX=14.07	FL=10.22
	MO=12.16	MO=12.20	GA=10.09	CA=8.01
S&P Global Ratings' original expected CNL (%)	30.25	30.00	25.50	27.25

(i)As of the initial collateral pool balance APR--Annual percentage rate. LTV--Loan-to-value. CNL--Cumulative net loss. N/A--Not applicable.

ACMAT's series' performance

ACM has two outstanding securitized deals: ACMAT 2023-1 and ACMAT 2022-1. The ACMAT 2023-1, albeit early, is displaying early weakness on both a cumulative gross loss and CNL basis. The normalization and lower recovery rates are impacting CNLs. Delinquencies are also elevated. Management attributes recent performance deterioration to macroeconomic and inflationary pressures.

Table 6

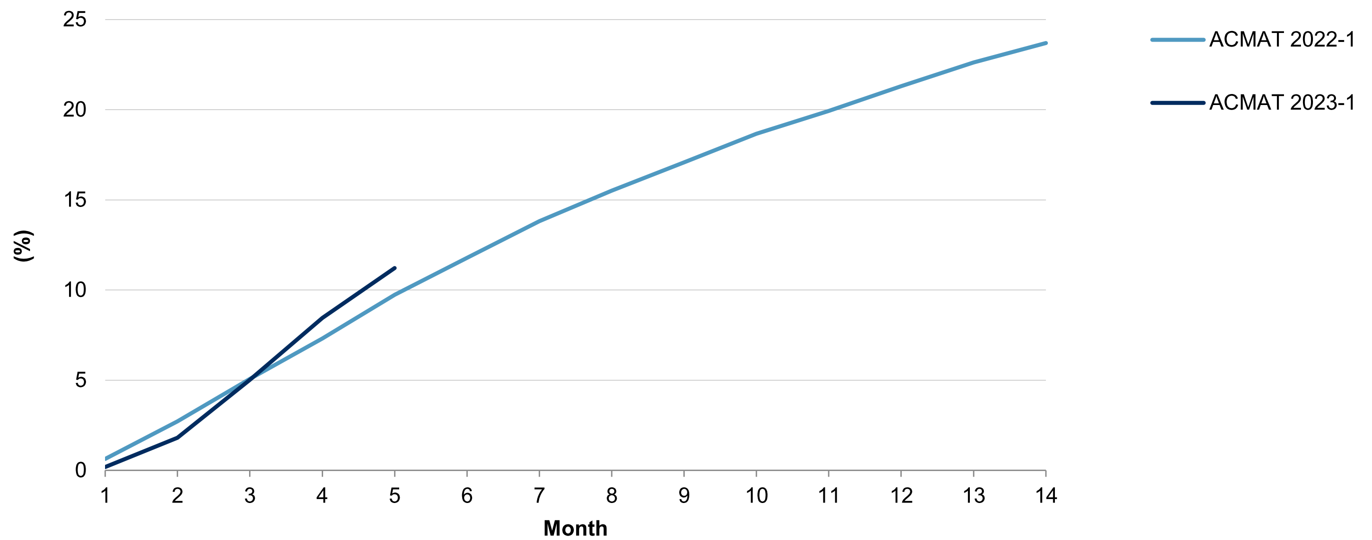
ACMAT collateral performance and CNL expectations(i)

Series	Month	Pool factor (%)	Current CGL (%)	Current CRR (%)	Current CNL (%)	60-plus-day delinquency (%)	Initial lifetime ECNL (%)
2022-1(ii)	14	37.33	23.70	26.19	17.49	0.92	N/A
2023-1	5	76.58	11.22	18.70	9.12	1.12	30.00

(i)As of the June 20, 2023, distribution date. (ii)Not rated by S&P Global Ratings. ACM--America's Car Mart Auto Trust. CGL--Cumulative gross loss. CRR--Cumulative recovery rate. CNL--Cumulative net loss. ECNL--Expected cumulative net loss. N/A--Not applicable.

Chart 4

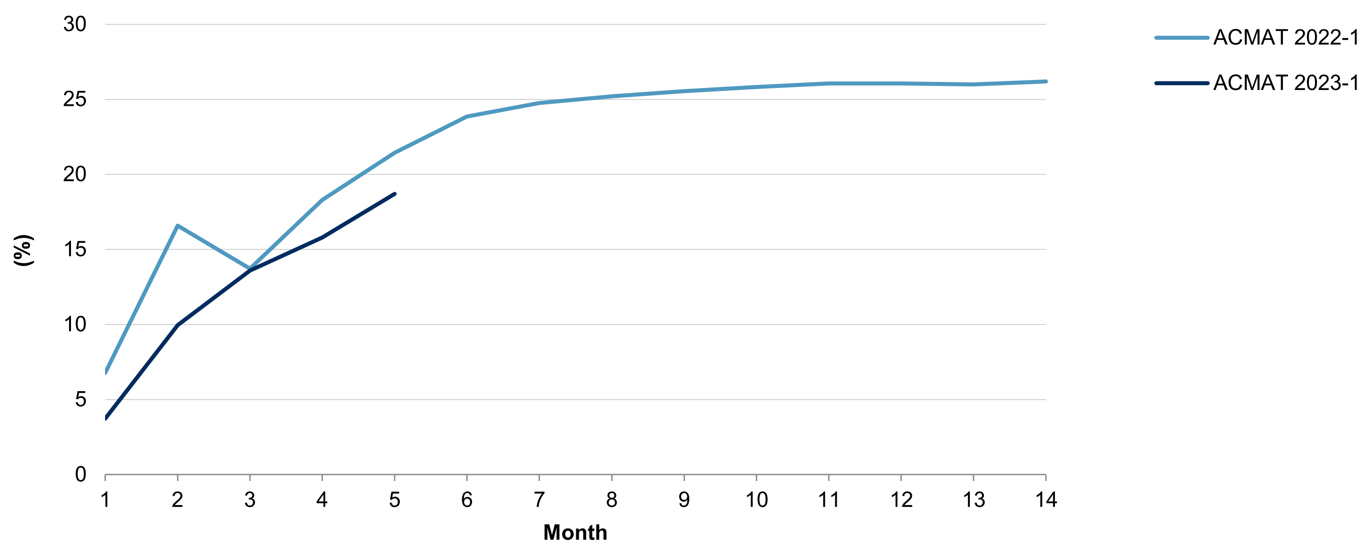
Cumulative gross losses by series



ACMAT--ACM Auto Trust.

Chart 5

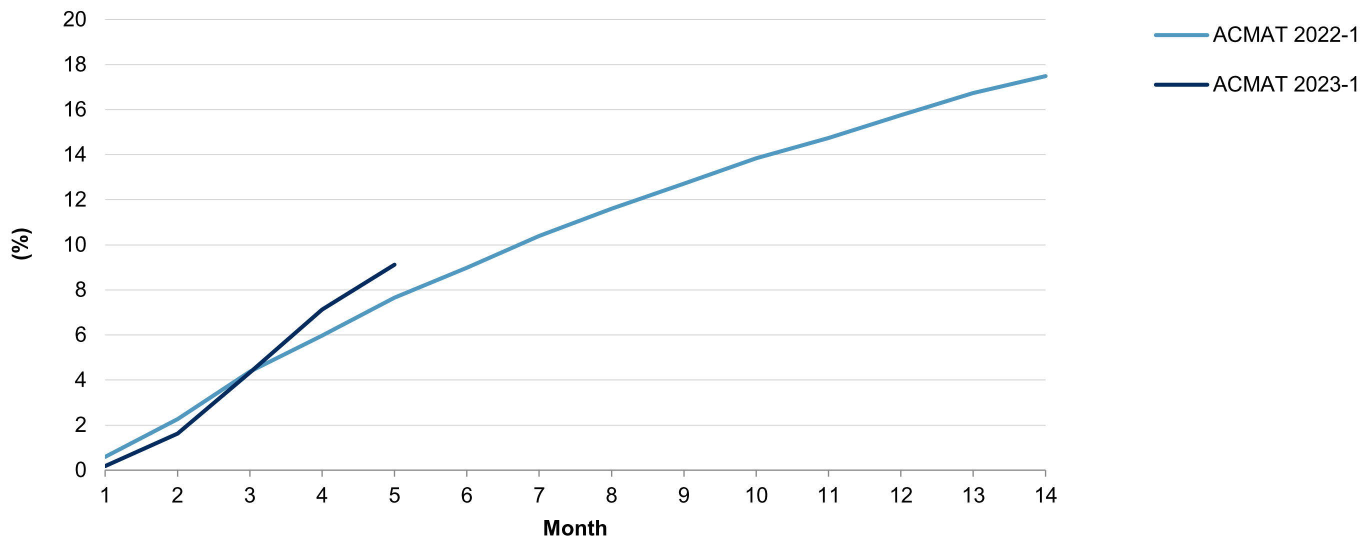
Cumulative recovery rate by series



ACMAT--ACM Auto Trust.

Chart 6

Cumulative net losses by series



ACMAT--ACM Auto Trust.

Legal Overview And Transaction Structure

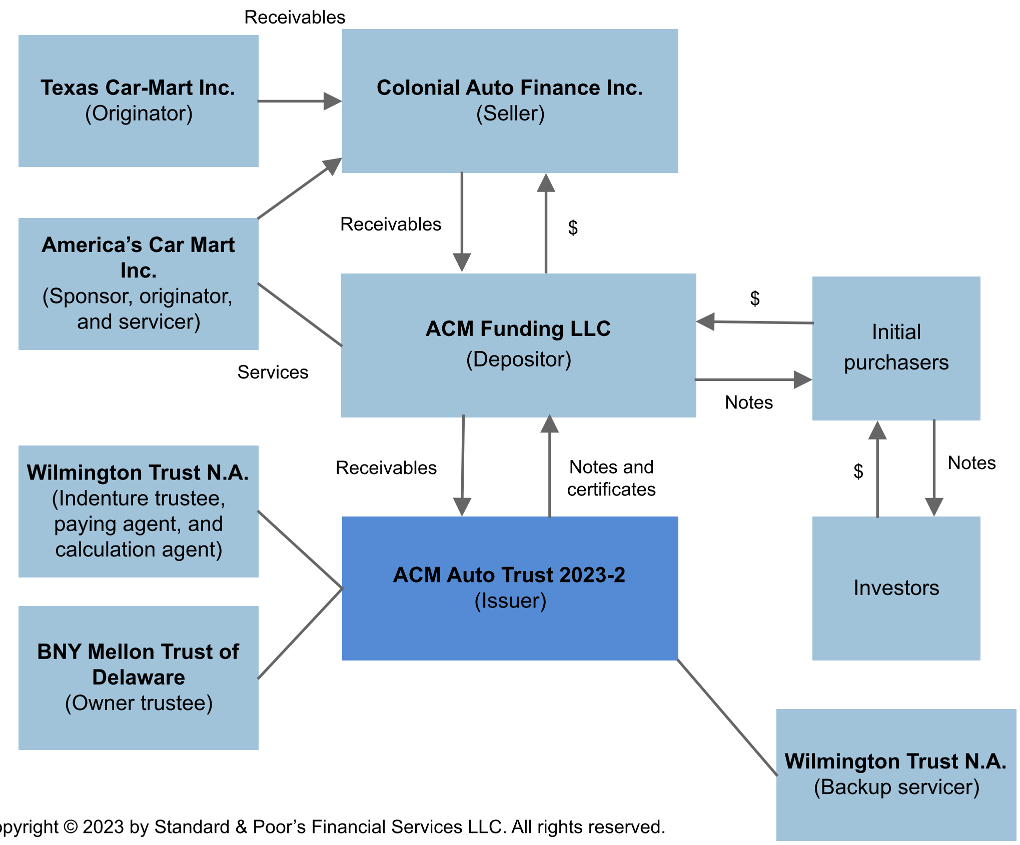
Legal overview

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

The transaction is structured as a true sale of the receivables from Texas Car-Mart Inc. and ACM to Colonial Auto Finance Inc., the seller, who will sell all of the receivables to be included in the receivables pool to ACM Funding LLC, the depositor. The depositor will then sell those receivables to the issuing entity, ACMAT 2023-2, a newly formed Delaware statutory trust, the issuer of the notes. The depositor will transfer all of its interest in the receivables pool to the issuing entity. ACM Auto Trust 2023-2 will pledge its interest in the receivables and its security interest in the vehicles to the indenture trustee for the benefit of the noteholders (see chart 7).

Chart 7

Transaction structure



Transaction structure

ACMAT 2023-2 incorporates the following structural features:

- A senior-subordinated sequential-pay structure in which the senior-most notes outstanding are paid first.
- Initial overcollateralization of 35.00% of the initial pool balance that will build to a target of 37.20% of the initial pool balance.
- A nonamortizing reserve account amount that will equal 2.00% of the cutoff date pool balance as of the closing date.
- Excess spread of approximately 4.81% (pre-pricing) per year.

Payment Priority

Before an event of default, distributions will be made from available funds on each payment date according to the priority shown in table 7.

Table 7

Payment waterfall

Priority	Payment
1	To the owner trustee, indenture trustee, and the backup servicer, any accrued and unpaid fees, expenses, and indemnities, subject to annual aggregate limits of $150,000 (the owner trustee), $200,000 (the indenture trustee), and $75,000 (the backup servicer during servicer centralization period).
2	To the servicer, any accrued and unpaid fees (4.00% annual servicing fee), expenses, indemnities, and to the backup servicer, the transition costs (up to $150,000).
3	Class A interest to the class A noteholders.
4	The first-priority principal payment to the class A noteholders.
5	Class B interest to the class B noteholders.
6	The second-priority principal payment to the senior-most class outstanding.
7	To the reserve account, the amount required to restore the reserve account to its required level.
8	The regular principal payment on the senior-most class outstanding, which builds overcollateralization to the target.
9	To the indenture trustee, owner trustee, and backup servicer, any fees and expenses that exceed the related cap or annual limit specified in item 1 above.
10	All remaining amounts to the certificateholders.

Events of default

Any of the following will constitute an event of default under the indenture:

- An interest payment default on any controlling class that continues for five or more business days;
- A principal payment default on any note on the final scheduled payment or redemption date;
- The issuer breaches certain representations, warranties, or covenants; or
- The issuer files for bankruptcy.

Payment distributions after an event of default

On each payment date after an event of default due to a breach of representations, warranties, and covenants, the payment priority will be distributed in the priority as shown in table 8.

Table 8

Payment waterfall after an event of default related to a breach in representations, warranties, and covenants

Priority	Payment
1	To the owner trustee, indenture trustee, and backup servicer, accrued and unpaid fees, expenses and indemnification amounts, not subject to any caps.
2	To the servicer, accrued and unpaid fees, expenses and indemnification amounts, not subject to any caps.
3	Class A interest to the class A noteholders.

Table 8

Payment waterfall after an event of default related to a breach in representations, warranties, and covenants (cont.)

Priority	Payment
4	Class B interest to the class B noteholders.
5	Class A principal to the class A noteholders until the notes have been reduced to zero.
6	Class B principal to the class B noteholders until the notes have been reduced to zero.
7	All remaining amounts to the certificateholders.

On each payment date after an event of default related to failure to pay interest or principal, or a bankruptcy event, the payment priority will be distributed in the priority as shown in table 9.

Table 9

Payment waterfall after an event of default(i)

Priority	Payment
1	To the owner trustee, indenture trustee, and backup servicer, accrued and unpaid fees, expenses and indemnification amounts, not subject to any caps.
2	To the servicer, accrued and unpaid fees, expenses and indemnification amounts, not subject to any caps.
3	Class A interest to the class A noteholders.
4	Class A principal to the class A noteholders until the notes have been reduced to zero.
5	Class B interest to the class B noteholders.
6	Class B principal to the class B noteholders until the notes have been reduced to zero.
7	All remaining amounts to the certificateholders.

(i)Excluding an event of default due to a breach in representations, warranties, and covenants.

Servicer replacement event

Any of the following will constitute a servicer replacement event:

- The servicer fails to make any required payment, and it remains unremedied beyond the earlier of five business days after discovery by a responsible officer of the servicer or receipt by the servicer of written notice from the indenture trustee or noteholders (evidencing at least 25% of note balance);
- The servicer fails to observe or perform any other covenant or agreement that materially and adversely affects the issuer's or noteholders' rights, and this continues unremedied for 90 days; or
- The servicer becomes insolvent.

If a servicer replacement event occurs and is continuing, the indenture trustee will give notice to the servicer, at the direction of at least the majority of the controlling class.

Backup servicer

In the event of a servicer termination, servicing will be transferred to the backup servicer. From closing to the date of a servicing transfer, Wilmington Trust N.A. will act as the backup servicer. Its responsibilities will include due diligence of the servicer, mapping of data from the servicer's system to the backup servicer's system, and the tie out of balances on settlement period reports.

In addition, the backup agreement specifies important "centralization" duties that will begin if ACM is no longer originating or servicing loans. This is to address the risks associated with the decentralized servicing of the receivables. The back-up servicer or successor servicer would need to perform the following:

- Establish a new lockbox.
- Within six months, send out written notices to all obligors instructing them to direct payments to a central lockbox or permitted payment location (operated with established electronic payment service).
- Within six months, implement new collection procedures: provide walk-in customers materials encouraging use of lockbox or permitted payment location, and discontinue accepting cash payments at dealerships.
- If payments are received by the servicer, it will promptly send collections to the central lockbox.

The backup agreement designates SST as the successor servicer, which it will automatically become upon delivery of a servicing transfer notice. Once the notice is provided, SST is deemed to have accepted the appointment and is to begin servicing the receivables. SST specializes in consumer loan servicing and was formed in 1995 to service a variety of consumer assets, with the initial focus on subprime auto loans.

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 addition to regular monthly payments, the majority of the loans have additional scheduled payments--seasonal payments (roughly 10% of amount financed) and supplemental payments (roughly 2% of the amount financed)--which can accelerate repayment. Our analysis showed that there was an immaterial difference between an amortization schedule that reflects additional cashflows compared to an amortization schedule that assumes fixed payments throughout the life of the loan. No special accommodations were made for these additional payments in the cashflow assumptions (see table 10).

Break-even analysis

For the ACMAT 2023-2 transaction structure, we applied the assumptions outlined in table 9 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 levels (the 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.

Based on our stressed cash flows, the break-even net loss results show that the class A and B notes are credit-enhanced to the degree appropriate for the assigned preliminary ratings (see table 11).

Table 10

Break-even cash flow assumptions

Voluntary ABS (%)	0.60
Servicing fee (%)	4.00
Recovery rate (%)	25.00
Charge-off and recovery lag (mos.)	4
CNL timing mos. (12/24/36/48) (%)	
Front-loaded loss curve	70/95/100
Back-loaded loss curve	45/70/90/100

ABS--Absolute prepayment speed. Mos.--Months.

Table 11

Break-even cash flow results

	Class	
	A	**B**
Preliminary rating	A (sf)	BBB (sf)
CNL timing mos. (12/24/36/48) (%)		
Front-loaded loss curve	71/96/100	71/96/100
Back-loaded loss curve	58/89/100	51/78/96/100
Approx. break-even CNL levels (%)(i)		
Required	51.43	40.84
Available: front-loaded loss curve	51.88	41.03
Available: back-loaded loss curve	54.18	42.37

(i)The maximum cumulative net losses, with 90% credit to any excess spread, the transaction can withstand without triggering a payment default on the relevant class of notes. CNL--Cumulative net loss.

Sensitivity analysis

In addition to running break-even cash flows, we undertook sensitivity analysis using the assumptions outlined in table 9. We believe that under a moderate ('BBB') stress scenario (1.35x of 30.25% expected loss level) and with 90.0% 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 Nov. 10, 2021 (see table 12).

Table 12

Credit stability as a limiting factor on ratings

	Maximum projected deterioration associated with rating levels for one-year and three-year horizons under moderate stress conditions					
Horizon	AAA	AA	A	BBB	BB	B
One year	AA	A	BB	B	CCC	D
Three years	BBB	BB	B	CCC	D	D

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

Chart 8

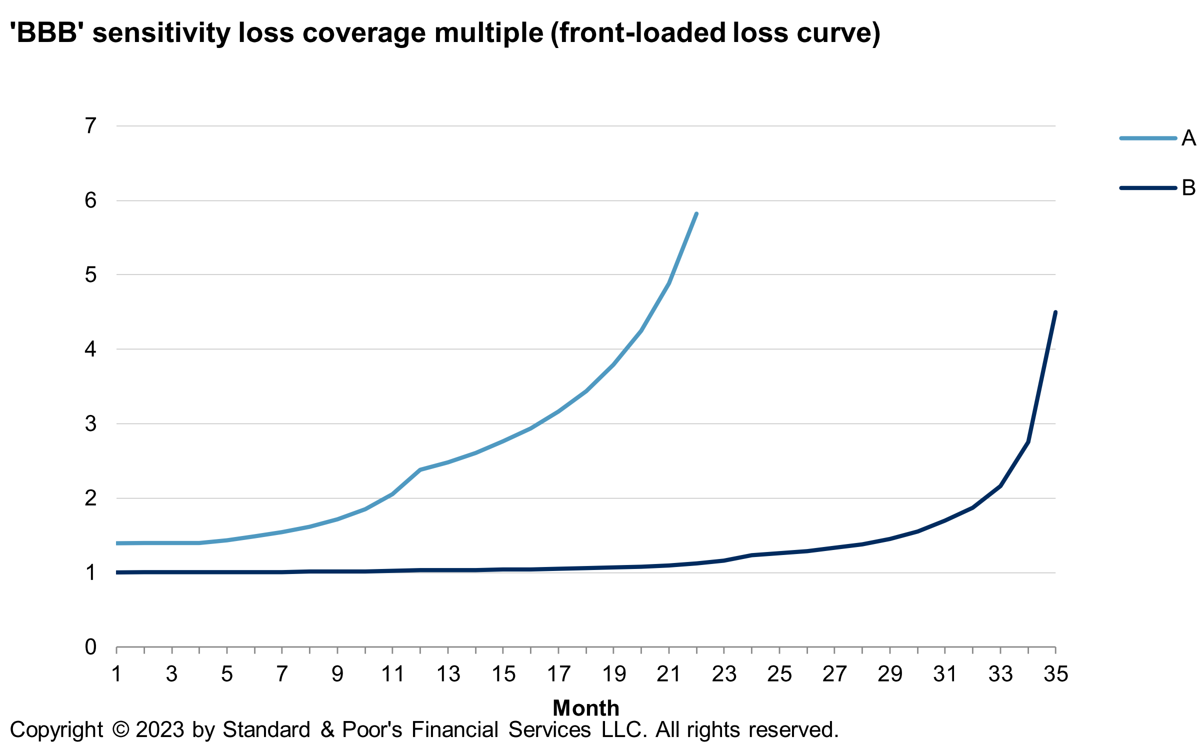
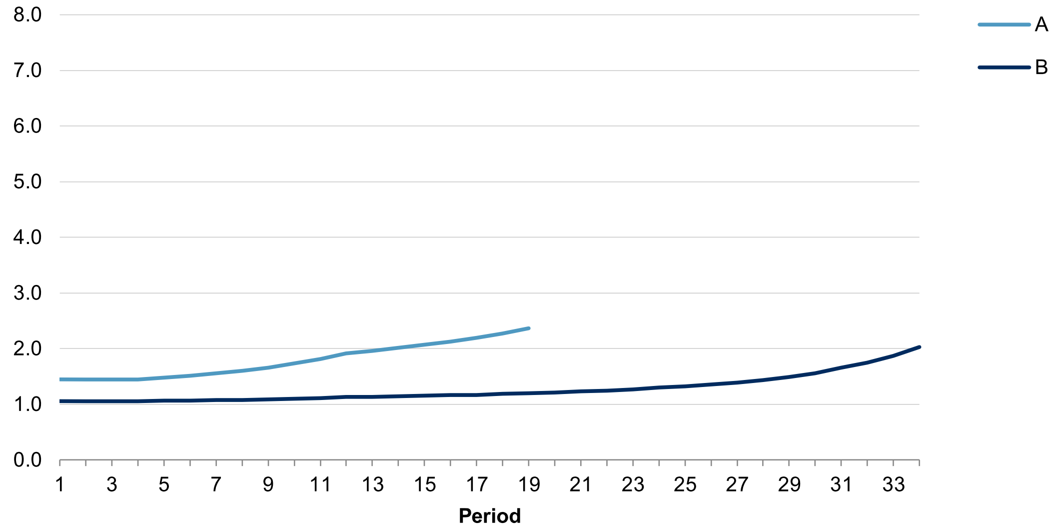


Chart 9

'BBB' sensitivity loss coverage multiple (back-loaded loss curve)



Legal final maturity

To test the legal final maturity dates set for class A, we determined when the respective notes would be fully amortized in a zero-loss and zero-prepayment scenario, and then added three months to that date. For the longest-dated security (class B), we added 12 months to the tenor of the longest-dated receivable in the pool to accommodate extensions on the receivables. Further, in the break-even scenario for each respective rating level, we confirmed that the credit enhancement was sufficient to both cover losses and repay the related notes in full by the legal final maturity date.

Counterparty And Operational Risks

On or before the closing date, the ACMAT 2023-2 bank accounts will be established in the name of the indenture trustee, Wilmington Trust N.A., as segregated trusts accounts and will initially be established with the bank account provider, Wilmington Trust N.A. The bank account provider is consistent with our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019) and supports the capped 'A (sf)' ratings of ACMAT 2023-2.

ACM has an over 40-year history in the subprime auto finance business. As servicer, ACM has an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. ACM is not rated by S&P Global Ratings, and commingling risk is addressed by the requirement that all collections are deposited into the series collections account within two business days of collection.

Our operational risk assessment of ACM as servicer constrains the ratings at 'A (sf)' (see Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014). The capped rating reflects the operational risks related to a decentralized company structure and the issues it could present in the event of a servicing transfer. See Key Rating Considerations above.

ACM and the key transaction parties could be subject to various regulatory investigation and/or legal proceedings that may arise in their ordinary course of business. We will assess any such events and outcomes when available to us to determine any impact on our counterparty and operational risk assessments.

ACM

ACM is a vertically integrated sales and finance auto retailer that focuses exclusively on the used car market through its network of 154 company-owned dealerships in small cities across 12 states. The company's operations are conducted principally through its two operating subsidiaries, ACM and Colonial Auto Finance Inc., an Arkansas corporation. The company primarily sells older model vehicles with higher mileage and provides 100% of the financing to its customers. The company does not provide any financing to non-customers. The customers are largely subprime, many with limited credit histories or past credit difficulties.

Target customers and vehicles

ACM focuses on providing more basic vehicles to its customers and does not sell sports cars or luxury cars. Below lists the typical attributes of the vehicles and loans:

- Older vehicles (five to 12 years old);
- Higher mileage (70,000-150,000 miles);
- More affordable vehicle price (average $16,000, up from $13,000 in full-year 2021);
- Wide range of down payments (0%-20%; average 6.4%);
- Shorter loan terms, which are typically 18 months to 54 months (42.9 weighted average; no loan greater than 69 months);
- No risk-based pricing. The company used a fixed annual interest rate of 18.0% in all states excluding Arkansas, which will stay at 16.5% due to a state limit, and Illinois; and
- Payments made on a weekly, bi-weekly, semi-monthly, or monthly basis. Just under 80% of the payments are due on either a weekly or bi-weekly basis.

Underwriting

The underwriting process is largely performed at the dealership level, and the manager ultimately makes the credit decision. However, the dealership managers are required to adhere to a set of strict underwriting procedures, internal scorecards, and proprietary scoring models.

Initially, the applicant submits the application online or at the dealership. Certain information including phone, residence, employment, and insurance is verified by the company. AMC also determines the customer's ability to afford the obligation through net income determination and a maximum payment-to-net income of 30%. ACM also relies on LexisNexis' Risk View software, which enables ACM to access non-traditional data. This service is particularly suited for customers that who may be creditworthy but lack sufficient credit history or are trying to rebuild their score. The RiskView attributes, along with the critical fields in the application, are inputted into the dealer management system, which automatically calculates a proprietary score. This score will be the sole basis of the customer score. The customer score uses a scale of 1-6 with the highest credit quality borrowers receiving a 6. After a vehicle is selected, the system can generate a financial score. The basis of this score includes certain loan terms, vehicle attributes, and payment-to-income. The financial score uses the same scale as the customer score (1-6).

With these two scores, the dealership manager will decide whether to accept, reject, or modify (i.e. obtain greater down payment or suggest lower priced vehicle) the proposed transaction. Although the ultimate decision lies with the dealership manager, the corporate office maintains strict oversight of underwriting and regularly monitors the overall projected loss rate of each dealership based on the loans underwritten. If the expected loss rate exceeds a certain threshold, corporate will take action and conduct site visits and work with the dealership until it is back in compliance. In addition, the corporate office may restrict certain approvals until there is improvement.

Servicing

Servicing and collections are decentralized and performed at the dealership level. Obligors have several payment options including mail, ACH auto draft, mobile and online payments, pay at money service centers through CheckFreePay, and in-person at dealership.

More than half of their customers make their payments in-person at the dealership where they purchased the vehicle. As of April 30, 2023, around 50% of payments are received at the dealerships with the following breakout: cash (approximately 16%), debit (approximately 23%), or checks/money orders (approximately 10%). In-person payments present risks as the company needs to ensure all payments are processed to the bank accounts. ACM policies and procedures are in place that help mitigate this risk:

- All payments received by dealerships are reconciled at the corporate office on a daily basis.
- Checks are deposited directly to a corporate account using a remote deposit terminal. Similarly, all other forms of non-cash payments are processed directly to ACM's corporate account.
- Cash payments are deposited directly to the local bank account on a daily basis, which is a deposit-only account. This deposit is then swept daily to ACM's corporate account.
- All collections related to receivables sold to the ACMAT series are deposited within two business days to the series collection account.
- The dealerships are required to follow cash handling policies and a daily deposit reconciliation process. These procedures are monitored by corporate treasury personnel on a daily basis.

Charge-off and extensions

If a customer is unable to make their payments, the company may amend the contract if it believes the modification will increase the likelihood that the loan will ultimately be paid off. Modifications are typically made for changes to the day wages are received, minor vehicle repairs, job changes, or medical reasons. The modifications are either an extension or modification of the payment terms. Upon modification, the company requires the customer to pay the amounts due including accrued interest for the period of delay. The company policy limits the time of the extension to a maximum of 12 months cumulative over the life of the contract.

ACM will charge off a delinquent contract upon the earlier of (a) the contract becoming 90 days past due, (b) the customer filing for bankruptcy protection, or (c) the servicer having repossessed and liquidated the vehicle. Post charge-off, ACM may seek to obtain repayment of a charged-off contract unless there is an agreement between parties or by court order. The company will repossess vehicles if the customer becomes delinquent in their payments and management believes there is a low likelihood of additional payments. ACM may either repossess the vehicle itself or refer it to a licensed repossession agency. In most cases, vehicles that are repossessed are returned by the customer on a voluntary basis. Once the vehicle is repossessed, the fair value of the vehicle is charged as a reduction of the gross finance receivable balance charged off. Repossessed vehicles are either sold on a retail basis or through auction.

Custodian

ACM, as the servicer, will also act as custodian of the receivable files. ACM maintains customer account files at the dealerships that originated such contracts. If servicing is transferred from one dealership to another, the account files relating to such contracts are generally transferred to the new dealership. If servicing is centralized, the account files will generally be transferred to the corporate office for review. ACM also keeps an electronic copy of each contract in its ALIS system. All paper certificates of title in ACM's possession are stored in secure fireproof filing cabinets, which are generally located at the dealerships that are servicing the related contracts. All paper and electronic certificates of title for such vehicles are stored in accordance with applicable UCC requirements to maintain Colonial's perfected security interest in such vehicles.

Additional payments

ACM structures loans with additional scheduled payments, in addition to regular monthly payments. These additional payments are subject to the same delinquency and charge-off policies. The purpose of the additional payments is to accelerate repayment and shorten loan terms. There are two types of additional payments: seasonal and supplemental. Seasonal payments are due from borrowers around tax time each year and are scheduled to be in line with borrower tax refund receipts. Approximately 60% of the loans will have a seasonal payment, and the average amount of the seasonal payments as a percentage of the amount financed is 10%. ACM does offer a tax preparation service whereby customers can file their taxes at their dealerships. The service is provided by a third-party provider. This is optional, and, according to ACM, only a small number of borrowers use this service. No third party holds any tax refund, and the IRS pays the obligor directly.

The second category, supplemental payments, are due from the date of loan origination up to 90 days into the life of the loan. Approximately 75% of loans will have supplemental payments in the first 90 days of the term. The average percentage of these payments are 2% of the amount financed.

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
- 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: April 2023 Performance, June 9, 2023
- Credit Conditions North America Q2 2023 Coalescing Stresses, March 28, 2023
- Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise, March 27, 2023