S&P Global
Ratings

Research

Presale:

CCG Receivables Trust 2023-2

November 1, 2023

PRIMARY CREDIT ANALYST

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Preliminary Ratings

Class	Preliminary rating	Type	Interest rate	Preliminary amount (mil. $)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	94.600	Nov. 14, 2024
A-2	AAA (sf)	Senior	Fixed	277.047	April 14, 2032
B	AA (sf)	Subordinate	Fixed	21.822	April 14, 2032
C	A (sf)	Subordinate	Fixed	16.033	April 14, 2032
D	BBB+ (sf)	Subordinate	Fixed	18.036	April 14, 2032

This presale report is based on information as of Nov. 1, 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.

Profile

Expected closing date	Nov. 14, 2023
Collateral	Mid-ticket equipment loans and leases and associated equipment.
Originator, seller, sponsor, and servicer	Commercial Credit Group Inc.
Depositor	CCG Receivables IV LLC.
Indenture trustee	U.S. Bank Trust Co. N.A.
Owner trustee	Wilmington Trust N.A.
Custodian and backup servicer	Vervent Inc.
Issuer	CCG Receivables Trust 2023-2.
Underwriter	Wells Fargo Securities.

Table 1

Credit enhancement summary (%)

	CCG Receivables Trust 2023-2	CCG Receivables Trust 2023-1	CCG Receivables Trust 2022-1(i)	CCG Receivables Trust 2021-2	CCG Receivables Trust 2021-1(i)	CCG Receivables Trust 2020-1
Subordination(ii)						
Class A	12.55	9.99	10.25	9.50	9.50	12.35
Class B	7.65	5.49	5.25	4.50	4.50	7.20
Class C	4.05	0.00	2.00	0.00	0.00	2.50
Class D	0.00	--	0.00	--	--	0.00
Overcollateralization						
Initial(ii)	4.00	6.00	4.25	2.50	2.50	2.65
Target(iii)	7.50	8.50	7.50	7.50	7.50	8.00
Floor(ii)	1.50	1.50	1.50	1.50	1.50	1.50
Reserve(ii)						
Initial	1.00	1.00	1.00	1.00	1.00	1.00
Target	1.00	1.00	1.00	1.00	1.00	1.00
Floor	1.00	1.00	1.00	1.00	1.00	1.00
Total initial hard credit enhancement						
Class A	17.55	16.99	15.50	13.00	13.00	16.00
Class B	12.65	12.49	10.50	8.00	8.00	10.85
Class C	9.05	7.00	7.25	3.50	3.50	6.15
Class D	5.00	N/A	5.25	N/A	N/A	3.65
Estimated annual excess spread(iv)	3.76	4.24	--	9.05	--	8.61

(i)Not rated by S&P Global Ratings. (ii)As a percentage of the initial receivables balance. (iii)The lesser of the initial overcollateralization amount and the target percentage multiplied by the current pool balance. (iv)Excess spread is post-pricing for all series except 2023-2, and the calculation is based on an annual servicing fee of 0.75%. N/A--Not applicable.

Rationale

The preliminary ratings assigned to CCG Receivables Trust 2023-2's (CCG 2023-2) asset-backed notes reflect:

- The availability of approximately 16.44%, 12.39%, 9.19%, and 6.53% in credit support (based on stressed breakeven cash flow scenarios) for the class A, B, C, and D notes, respectively. The credit support provides coverage of more than 5.0x, 4.0x, 3.0x and 2.33x our 2.45%-3.25% 'BBB (sf)' to 'AAA (sf)' net loss range for the class A, B, C, and D notes, respectively. Our net loss range reflects a stressed recovery rate range of approximately 67.0%-75.0%, with higher recovery rates assumed for lower rating categories.
- Our expectation that under a moderate ('BBB') stress scenario, all else being equal, our ratings will be within the credit stability limits specified by section A.4 of the Appendix contained in "S&P Global Ratings Definitions," published June 9, 2023.

- Our expectation for the timely payment of periodic interest and principal by the final maturity date according to the transaction documents, based on stressed cash flow modeling scenarios using assumptions consistent with the assigned preliminary ratings.
- The pool's obligor diversification. Each individual obligor represents 1.49% or less of the pool, which is below our 1.50% threshold level to be considered an additive factor for obligor concentrations in our stressed loss calculations.
- The collateral characteristics of the securitized pool of equipment loans and leases, including the segment mix (construction, transportation, waste, and machine tools), which we utilize to derive our cumulative net loss (CNL) range.
- The continued strong performance of Commercial Credit Group Inc.'s (CCG) outstanding and paid off ABS transactions, which exhibit losses well below our CNL range at the time of issuance, as well as CCG's continued low and stable managed portfolio loss performance.
- CCG's high historical recoveries. In our view, the company's recovery rates are significantly higher and less volatile than those we observe for other commercial finance companies. We believe the higher rates are attributed to the relatively high percentage of used equipment in CCG's portfolio, which have already experienced their peak depreciation; conservative underwriting; management's expertise in valuing equipment and remarketing to CCG customers; and loan terms that are much shorter than the equipment's remaining useful life. However, we apply a stress to the base case recovery rate when determining our net loss range to reflect the potential for lower recovery rates in an industry downturn or if CCG is no longer servicing the portfolio.
- CCG's role as servicer of the portfolio and its experience servicing 14 prior 144a transactions.
- Vervent Inc.'s (Vervent) role as backup servicer and its significant experience servicing loans and leases backed by equipment similar to that in the series 2023-2 transaction. Vervent has acted as backup servicer for CCG on multiple credit facilities since 2005.
- The transaction's legal structure.

Structural changes from CCG Receivables Trust 2023-1

Structural and collateral composition changes from the CCG 2023-1 transaction include that:

- Whereas CCG 2023-1 issued class A through C notes, the 2023-2 transaction will issue class A through D notes.
- Total initial hard credit enhancement increased to 17.55%, 12.65%, and 9.05% for the class A, B, and C notes, respectively, from 16.99%, 12.49%, and 7.00%. Total initial hard credit enhancement will be equal to 5.00% for 2023-2's class D notes.
- Subordination increased for classes A, B, and C to 12.55%, 7.65%, and 4.05%, respectively, from 9.99%, 5.49%, and 0.00%.
- Overcollateralization (O/C), as a percentage of the initial collateral pool balance, decreased to 4.00% from 6.00%, and the target overcollateralization percentage decreased to 7.50% from 8.50%. The target overcollateralization amount is equal to the lesser of the initial overcollateralization amount and the target overcollateralization percentage multiplied by the current pool balance.
- The estimated excess spread (unstressed, pre-pricing) decreased to 3.76% from 4.24% (post-pricing).

The O/C floor and reserve account were unchanged at 1.50% and 1.00% of the initial collateral pool balance, respectively.

Collateral changes from CCG Receivables Trust 2023-1

- The transportation segment share of the pool, which typically experiences the highest losses, decreased to 32.87% from 42.27%.
- The construction segment, which we view as more stable than transportation but still experiences relatively high losses, increased to 44.37% from 40.10% of the collateral pool (see the Determining Expected Gross Loss section).
- Construction and transportation, collectively, comprise approximately 77.25% of the pool, down from approximately 82.37% for the prior transaction.
- The waste segment, which has exhibited lower losses than the construction and transportation segments, increased to 11.99% from 10.76%.
- The machine tool segment, which has generally been the best performing segment, increased to 10.45% from 6.47%.
- Seasoning for this pool decreased slightly to 7.06 months from 7.67 months.
- The top obligor concentration percent increased slightly to 1.49% from 1.46%. Consistent with prior transactions, all individual obligor concentrations remain below 1.50%.

We consider the 2023-2 collateral pool to be slightly stronger than series 2023-1's given the series stronger segment mix. In our analysis, we observed that static pool and managed portfolio performance for the non-transportation related segments of the pool continue to generally remain stable. While the transportation segment has exhibited weakness recently, we believe CCG has proven their ability to manage losses through multiple industry downturns. Additionally, the outstanding and paid off CCG transactions exhibit losses well below our initial CNL ranges.

In our analysis, we also factored in our forward-looking view of the economy. We forecast U.S. GDP grows by 2.3% in 2023 and then slows to 1.3% in 2024 and 1.4% in 2025, before converging to trend-like growth of 1.8% in 2026 (see "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023). Additionally, we also considered our forward-looking view of the industries in which CCG operates and our view of the transportation sector, which we believe may continue to encounter headwinds.

Environmental, Social, And Governance

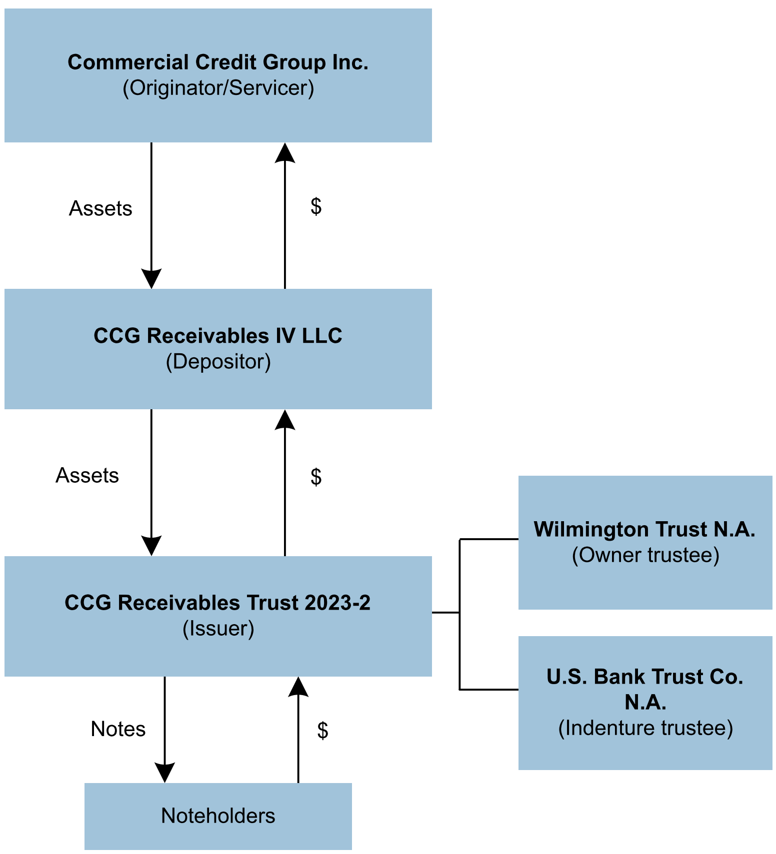
Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. In our view, the transaction has material exposure to environmental credit factors given that the collateral pool primarily comprises vehicles with diesel or internal combustion engines, which create emissions of pollutants including greenhouse gases (GHG). Increasing regulation around GHG could potentially lead to lower vehicle values in the future. We believe that our current approach to evaluating recovery values adequately accounts for vehicle values over the relatively short expected life of the transaction.

Transaction Overview

The series 2023-2 transaction is CCG's 15th 144a securitization, and the 13th rated by S&P Global Ratings. It is structured as a double-true sale of the assets from the originator, CCG, to the depositor, CCG Receivables IV LLC, and then from the depositor to the issuer, CCG Receivables Trust 2023-2. The issuer then pledges its right, title, and interest in the collateral to the indenture trustee on the noteholders' behalf (see chart 1). The series 2023-2 notes total $427.538 million, and the collateral includes scheduled payments on equipment loans and leases, as well as any recovery proceeds, on the associated equipment and 50% of booked residual values associated with leases. CCG 2023-2 will sequentially pay principal to the class A-1, A-2, B, C, and D notes.

Chart 1

Transaction diagram



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

Transaction Structure

The series 2023-2 transaction's structural features include:

- O/C equal to 4.00% of the pool balance at closing. The O/C target is equal to the lesser of 4.00% of the initial pool balance and 7.50% of the current pool balance. Based on this target level, the O/C will not begin amortizing until 7.50% of the current pool balance is less than the initial O/C amount, which does not occur until the 21st payment date in October 2025, under an assumption of zero losses and zero prepayments. There is also an O/C floor of 1.50% of the initial pool balance that limits the O/C's total amortization.
- Subordination of 12.55% to support the class A notes and 7.65% to support the class B notes and 4.05% to support class C notes.
- A nonamortizing reserve account that is funded at 1.00% of the pool balance at closing. This, along with the significant amount of excess spread, serves as a liquid source of credit support.
- A CNL trigger that, if breached, would cause all available funds--after paying senior fees and expenses, note interest, priority principal, and any amounts required to restore the reserve account to its target--to be paid as principal to the notes.
- A backup servicer, Vervent, which agrees to assume servicing if CCG isn't the servicer. Vervent is also the transaction's custodian.

Payment Structure

Before an event of default occurs, the series 2023-2 distributions will be made from available funds according to the payment priority shown in table 1. Principal is paid sequentially to the class A-1, A-2, B, C, and D notes, and the reserve account is non amortizing. O/C can amortize, but only after the target (7.50% of the current pool balance) is less than the initial O/C amount and only until it reaches the floor of 1.50% of the initial pool balance. The transaction also includes a curable CNL trigger (see item 14), which, if in effect, would cause the transaction to use all available funds (after paying items 1-12) to repay principal (a "turbo" payment structure).

Table 1

Payment waterfall

Priority	Payment
1	Reimburse servicer advances.
2	Transition costs and expenses if a successor servicer is appointed, capped at $50,000 over the transaction's life.
3	The servicing fee (0.75% per year) plus servicer expenses, capped at $50,000 over the transaction's life.
4	The indenture trustee fee ($9,000 per year, payable on each distribution date beginning with the 49th payment date), backup servicer fee ($36,000 per year), owner trustee fee ($4,600 per year), and custodian fee (base fee of $9,000 per year), plus these parties' expenses and indemnities. The total of the expenses and indemnities is capped at $300,000 per year as long as the back-up servicer and custodian are one party. If they were different parties, the fees would be capped at $400,000 per year.
5	Class A note interest, pro rata, to the class A noteholders.
6	Priority principal to the noteholders (the amount by which the class A note balance exceeds the pool balance, if any).

Table 1

Payment waterfall (cont.)

Priority	Payment
7	Class B note interest.
8	Priority principal to the noteholders (the amount by which the class A and B note balance exceeds the pool balance, if any).
9	Class C note interest.
10	Priority principal to the noteholders (the amount by which the class A, B, and C note balance exceeds the pool balance, if any).
11	Class D note interest
12	Priority principal to the noteholders (the amount by which the class A, B, C, and D note balance exceeds the pool balance, if any).
13	Restore the reserve account to the required amount (1.00% of the initial pool balance).
14	If a trigger event hasn't occurred, pay the scheduled investor principal amount(i) to the noteholders. If a trigger event has occurred, use all remaining amounts as principal to pay the noteholders.
15	All amounts due to the indenture trustee, backup servicer, owner trustee, and custodian that are not paid in item 4 above because of caps.
16	All remaining amounts to the residual interest holder.

(i)The scheduled investor principal amount is equal to the amount necessary to maintain or build overcollateralization to the target amount: the lesser of 4.00% of the initial pool balance and 7.50% of the current pool balance, subject to a floor of 1.50% of the initial pool balance.

Reprioritization Feature

Clauses 6, 8, 10, and 12 in the payment priority serve to reprioritize available funds to pay senior note balances ahead of subordinated interest if the sum of the senior notes' balance would exceed the pool balance. The risk of this provision delaying interest on the subordinated class B, C, and D notes is remote, in our opinion, and is consistent with the preliminary rating categories on the class B, C, and D notes because the servicer's charge-off policy includes estimating recovery values at the time of default (creating lower calculated net losses).

Impact Of CNL Trigger

The trigger event will be in effect if the CNL ratio exceeds the thresholds listed in table 2 or if a servicer default has occurred. If the CNL ratio is below the threshold noted in table 2 for three consecutive collection periods, the trigger event will no longer exist (i.e., it can be "cured"). The CNL ratio trigger levels for each time period are well above CCG's actual historical CNLs. We consider the impact of the trigger in our stressed cash flow scenarios, but the trigger does not currently show any benefit on our break-even cash flow results.

Table 2

Cumulative net loss ratios

Collection period (mos.)	Cumulative net loss ratio (%)
1-6	1.00
7-12	2.50

Table 2

Cumulative net loss ratios (cont.)

Collection period (mos.)	Cumulative net loss ratio (%)
13-18	3.50
19+	4.50

Pool Analysis

As of the Sept. 30, 2023, cutoff date, the series 2023-2 pool balance was $445.353 million (see table 3). The pool includes originations from CCG's construction, waste, transportation, and machine tools segments and is diversified by obligor and state. This composition generally reflects CCG's overall managed portfolio. The pool consists of 1,313 obligors and 1,902 contracts, resulting in an average net book value of $234,150 and an average obligor balance of $339,187. The weighted average remaining term is 46.97 months, and the weighted average seasoning is 7.06 months.

We view the sizable decrease of the transportation segment in the pool as a credit positive. Additionally, over the past several months we have observed industry contract and spot rates to have stabilized for the segment. Our transportation outlook generally tracks overall GDP growth. We forecast U.S. GDP to grow by 2.3% in 2023 and then to slow to 1.3% in 2024 and 1.4% in 2025, before converging to trend-like growth of 1.8% in 2026 (see "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25,2023).

For the cconstruction portion of the pool, we expect higher interest rates could lower housing starts further and lead to generally weaker performance in residential construction. However, increased activity in infrastructure may partially offset the slowdown.

Waste is one of CCG's best-performing segments as measured by CNL, and its share in the 2023-2 pool increased from series 2023-1. We view this as a credit positive and expect continued stable performance in this segment.

Our outlook for the machine tools segment remains stable. Machine tools, one of CCG's best-performing segments, continues to exhibit strong performance dating back to 2017. Because of the strong performance, we see the increase of this segment in the 2023-2 pool as credit positive.

Table 3

Collateral comparison(i)

CCG Receivables Trust

	2023-2	2023-1	2022-1(ii)	2021-2	2021-1(ii)	2020-1
Pool balance ($)(iii)	445,353,123	422,422,683	439,337,671	327,584,966	336,227,281	335,863,005
No. of pool receivables	1,902	1,939	2,190	1,672	1,603	1,529
Avg. net book value ($)	234,150	217,856	200,611	195,924	209,749	219,662
No. of obligors	1,313	1,242	1,451	1,195	1,096	1,116
Avg. obligor net book value ($)	339,187	340,115	302,783	274,130	306,777	300,953
Weighted avg. original term (mos.)	54.02	51.8	51.9	50.3	51.3	51.6

Table 3

Collateral comparison(i) (cont.)

CCG Receivables Trust

	2023-2	2023-1	2022-1(ii)	2021-2	2021-1(ii)	2020-1
Weighted avg. remaining term (mos.)	46.97	44.1	43.1	45.1	44.0	45.1
Weighted avg. seasoning (mos.)	7.06	7.7	8.7	5.2	7.3	6.5
Weighted avg. contract yield (%)	11.19	10.86	9.80	10.50	10.25	10.22
Customer industry (%)						
Construction	44.37	40.10	34.18	45.16	40.00	43.02
Transportation	32.87	42.27	44.80	38.97	44.72	35.61
Waste	11.99	10.76	12.15	6.05	7.00	8.71
Machine tools	10.45	6.47	8.70	9.69	8.09	12.09
Other	0.31	0.40	0.17	0.14	0.19	0.57
Top obligors (%)						
1	1.49	1.46	1.31	1.22	1.35	1.26
2	1.40	1.39	1.19	1.08	1.26	1.18
3	1.15	1.20	1.16	0.98	1.02	1.07
4	1.13	1.07	1.12	0.97	0.90	0.91
5	1.00	0.99	0.94	0.74	0.82	0.87
Top 5	6.17	6.10	5.72	4.99	5.35	5.29
State concentrations (%)						
	TX: 12.78	TX: 17.38	TX: 15.82	CA: 13.83	TX: 14.40	CA: 12.47
	CA: 11.74	CA: 10.22	CA: 10.21	TX: 10.67	CA: 12.19	TX: 12.10
	FL: 8.10	FL: 8.74	FL: 8.12	IL: 7.59	FL: 8.40	FL: 8.39
	IL: 6.65	IL: 5.40	IL: 5.81	GA: 6.79	GA: 6.69	IL: 7.20
	GA: 5.66	GA: 4.92	GA: 4.92	FL: 5.94	IL: 6.29	NC: 4.92

(i)All percentages except yield are of the pool balance. (ii)Not rated by S&P Global Ratings. (iii)The pool balance includes scheduled payments plus 50% of booked residual values associated with leases (less than 1% of the pool).

Portfolio Performance

Portfolio growth

Nearly all of CCG's portfolio growth comes from direct originations (as opposed to portfolio acquisitions). Since its inception, CCG has maintained a conservative business model, unlike many other commercial finance companies, that has led to stable and measured growth, as well as profitability, even during the economic downturn of 2007-2009. As of fiscal year-end March 31, 2023, the net book value of CCG's managed portfolio totaled $1.421 billion, from $1.339 billion a year earlier. As of Aug 31, 2023, CCG's managed portfolio totaled $1.468 billion.

Delinquencies and net loss

Table 4 shows the delinquency and net loss performance of CCG's managed portfolio. CCG's total delinquencies increased through year-end March 31, 2023, to 2.54% from 1.30% a year earlier. As of Aug. 31, 2023, they further increased to 3.46%, but remained in line with historical levels. CCG has an extensive history of strong recovery rates resulting in stable and low net losses. Net losses as a percentage of the average net book value came in at 0.30% as of year-end March 31, 2023, from 0.27% a year earlier. As of Aug. 31, 2023, they increased slightly to an annualized rate of 0.40%, which similar to delinquencies, was generally in line with historical levels.

Table 4

CCG total managed portfolio performance

	As of Aug 31	Year ended March 31							
	2023	2023	2022	2021	2020	2019	2018	2017	2016
Net book value (mil. $)	1,468.89	1,421.07	1,339.36	1,227.88	1,064.22	990.88	847.68	783.53	723.96
Delinquency period (%)									
61-90 days	1.37	1.29	0.31	1.26	1.72	1.12	1.42	1.12	1.43
91 days or greater	2.09	1.25	0.99	1.48	2.79	1.11	0.82	1.85	2.67
Total delinquencies as a % of net book value	3.46	2.54	1.30	2.74	4.51	2.23	2.25	2.97	4.10
Avg. net book value during the period (mil. $)	1,444.981	1,380.21	1.283.62	1,146.05	1,027.55	919.28	815.61	753.75	685.48
Net loss as a % of the avg. net book value	0.40	0.30	0.27	0.37	0.35	0.23	0.25	0.27	0.30

(i)Annualized. CCG--Commercial Credit Group Inc.

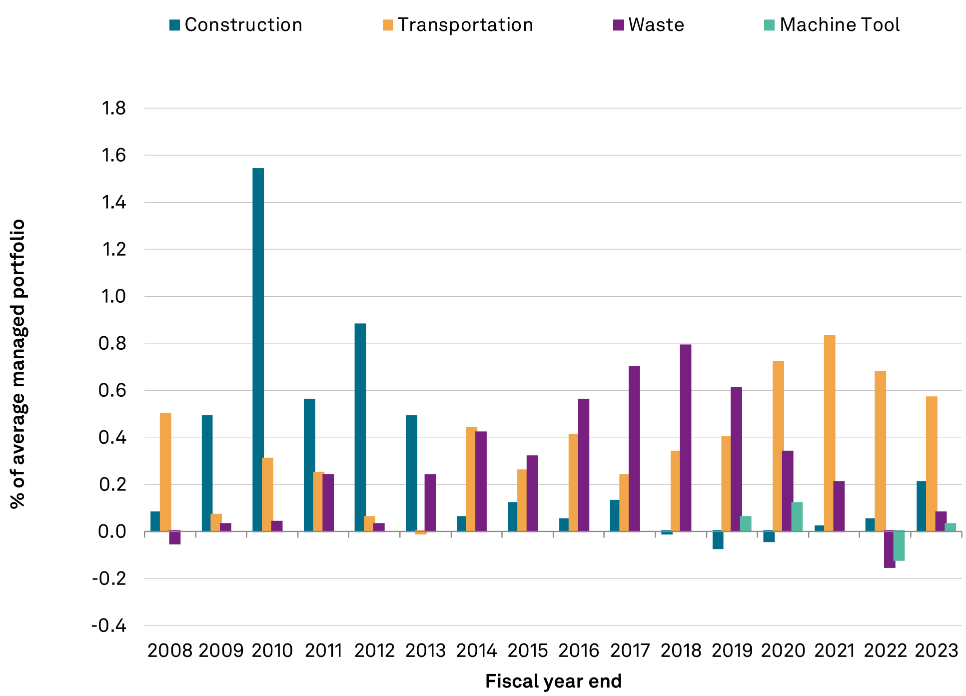
Static pool loss data tied to cyclical industry sectors

CCG has provided detailed static pool loss data on its equipment loan portfolio since 2005, including performance during the 2008-2009 recession. Data was provided on a total basis, as well as broken out by the waste, transportation, machine tool, and construction segments.

The data show that portfolio performance is cyclical in the construction and transportation sectors, with gross losses increasing significantly for 2007 through 2009 originations but then improving quickly and materially beginning in 2010. The waste sector showed considerably less volatility during the same period and didn't experience high volatility in gross losses until fiscal year 2016. Management attributes this to concentrated losses in a short period of time during the fiscal year, clustered among a small number of recycling industry obligors that were affected by falling commodity prices, especially for metals. In general, net losses in the construction and transportation sectors during 2008-2009 peaked at two to three times higher than those in the waste sector during the same period (see chart 2). Beginning in 2017, CCG began originating contracts in the machine tool segment. While performance data for this segment is somewhat limited, current losses are trending well below those of the other three segments. Along with these historical trends, our loss assumption also considers our forward-looking views on each segment and the more recent improved historical performance.

Chart 2

CCG annual net loss



CCG--Commercial Credit Group Inc.

Surveillance Update

We currently maintain ratings on three outstanding CCG transactions: series 2020-1, 2021-2 and 2023-1. Series 2013-1, 2014-1, 2015-1, 2016-1, 2017-1, 2018-1, 2019-1, and 2019-2 paid off with CNLs in the range of 0.09%-0.58%.

On Oct. 5, 2023, we raised our ratings on four classes of notes from CCG Receivables Trust 2020-1 and CCG Receivables Trust 2021-2. At the same time, we affirmed our ratings on three classes of notes from these transactions.

Table 5 shows the net loss performance as of the October 2023 distribution date for the outstanding transactions rated by S&P Global Ratings. Based on the pool performance to date, the projected net losses (using the pool factor) are well below our initial CNL range for each transaction. Our initial net losses are typically well above CCG's historical net loss levels because of the stresses we apply to the historical recovery rates, among other factors.

Table 5

CCG Receivables Trust's outstanding transaction pool information

As Of The October 2023 Distribution Date

Transaction	Months outstanding	Pool factor (%)	Current CNL (%)	61-day + delinq. rate (%)	Straight-line net loss projection (%)
2020-1	38	16.49	0.27	7.34	0.32
2021-2	24	38.66	0.28	4.74	0.45
2023-1	7	77.33	0.07	3.68	0.32

CNL--Cumulative net loss.

S&P Global Ratings' 'BBB' to 'AAA' CNL Range: 2.45%-3.25%

Similarly to our approach for prior CCG transactions, we derived our net loss range for the series 2023-2 transaction using gross loss annual static pool data from CCG's historical originations. Our CNL assessment represents our expected gross loss expectation given our rating level specific stressed recovery rates. We derived an expected gross loss by considering the total portfolio performance as well as the individual segment performance (construction, transportation, machine tools, and waste). Our analysis focuses on gross losses because in high recovery rate assets, like those in CCG's portfolio, gross losses provide a clearer picture of performance than net losses; high recovery rates can mask the extent of default frequency, which is relevant in high-stress scenarios.

Determining expected gross loss

To determine our expected gross loss, we consider the higher losses on CCG's originations during the stressed period of the 2008-2009 recession as well as post-recession pools. In addition to static pool performance, we also incorporate the performance of CCG's outstanding and paid-off ABS transactions.

The expected gross loss takes into account gross losses on fully and partly liquidated pools. We projected gross losses for partly liquidated pools using a loss curve based on the liquidated pools' average loss curve, which has a moderate degree of back-ended loss timing.

Stressed recovery rate calculation

CCG's recovery rates are significantly higher than those of commercial financing companies that have similar collateral due to several factors:

- A high percentage of used collateral, which is subject to slower depreciation than new equipment;
- Loan terms that are much shorter than the equipment's remaining useful life;
- Cross-collateralization across multiple pieces of equipment;
- A conservative underwriting process;
- Personal guarantees; and

- Consistent remarketing to CCG's existing customer base (resulting in CCG realizing higher retail prices instead of lower wholesale or auction prices).

To arrive at our CNL range, we applied a stressed recovery rate to the expected gross loss. We determine our stressed recovery rate assumption using CCG's historical recovery rate statistics. Using these statistics to project a future stressed recovery rate is appropriate, in our view, because CCG provided detailed recovery rate information for its managed portfolio from 2005 to 2023 (a period that includes a full business cycle) and because the company's underwriting and servicing standards are stable. We then developed stressed recovery rates for the series 2023-2 transaction to account for potential deterioration that could occur in recoveries if CCG were to no longer service the portfolio and to reflect potential downside risk given the current macroeconomic environment. Our CNL range reflects less stress (i.e., higher stressed recovery rates) for lower rating categories within an approximately 67%-75% recovery range rate.

It is important to note that CCG management has extensive experience in servicing its portfolio and in valuing mid-ticket commercial equipment. Historically, even when gross losses spike, recoveries have been maintained at extremely high levels, even through the stressed 2008-2009 period.

Modified net loss range

Based on our review of the data, the series 2023-2 collateral pool's characteristics, the expected gross loss, and our stressed recovery rate range (with higher stressed recovery rates for lower rating categories), our 'BBB' to 'AAA' CNL range for this pool is 2.45%-3.25%. This range encompasses lower CNLs for lower rating categories given the higher-stressed recovery rate assumptions, as well as higher CNLs for higher rating categories given lower-stressed recovery rate assumptions.

Our loss range considered each segment's gross and net loss performance in more recent vintages, our forward-looking outlook for each segment, and the concentration of each segment in the pool.

Cash Flow Modeling Assumptions And Results

Range of loss-timing patterns considered

We modeled the series 2023-2 transaction to simulate 'AAA', 'AA', 'A', and 'BBB' stress scenarios and applied two different loss-timing assumptions. When determining the loss-timing assumptions, we took into account the pool's 7.06 months of seasoning. The front-end loss-timing scenario, which reduces available excess spread early in the transaction, generally resulted in more stress on the notes.

Charge-off, recovery, and prepayment assumptions

We assumed a six-month charge-off/recovery lag, which contemplates the company's historical timing of charge-offs and repossessions, as well as a stressed recovery period. Consistent with our approach on other transactions we have rated, we considered the impact of the CNL trigger, but our stressed cash flows evidence no impact of the trigger on the notes' breakeven loss levels.

For the class A notes, we assumed a 22.00% constant prepayment rate (CPR) and a 67.00%

recovery rate. For the class B, C, and D notes, we assumed a 19.00% CPR and recovery rates of 69.00%, 71.00%, and 75.00%, respectively. These recovery rate assumptions reflect a significant stress from CCG's realized recovery levels. Although the contractual servicing fee rate is 0.75% per year, we modeled 1.00% per year to simulate a market-standard rate should CCG no longer be the servicer.

Stressed cash flow scenarios assume fees at capped levels

Each cash flow scenario assumes a 1.00% per year servicing fee (the transaction's servicing fee is 0.75% per year). Based on our cash flow analysis, the preliminary rated notes all paid timely interest and ultimate principal by the legal final maturity. They withstood a net loss level that we believe is consistent with the assigned preliminary rating categories (see table 6).

Table 6

Cash flow assumptions and results

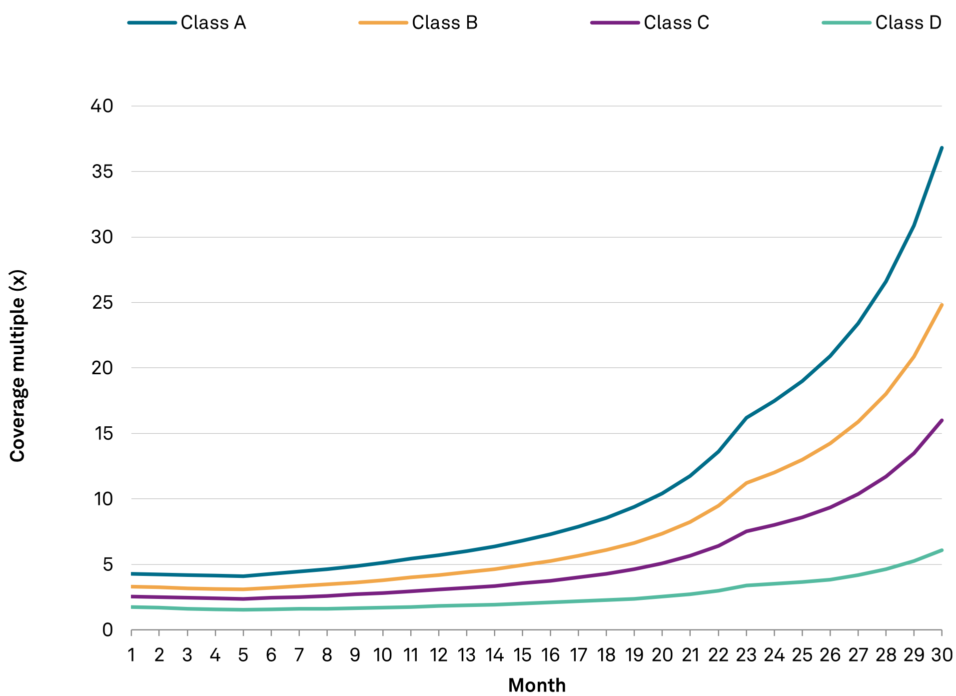
	Class			
	A	B	C	D
Scenario (preliminary rating)	AAA (sf)	AA (sf)	A (sf)	BBB+(sf)
Voluntary prepayments (%)	22	19	19	19
Recoveries (%)	67	69	71	75
Recovery lag (mos.)	6	6	6	6
Approximate break-even requirement (%)	16.17	12.15	8.53	5.72
Target cumulative net loss timing curve 1 (%)	60/30/10	60/30/10	60/30/10	60/30/10
Approximate break-even levels curve 1 (%)	16.44	12.39	9.19	6.53
Target cumulative net loss timing curve 2 (%)	30/50/20	30/50/20	30/50/20	30/50/20
Approximate break-even levels curve 2 (%)	16.74	12.46	9.28	6.57

Sensitivity Analysis

In addition to analyzing breakeven cash flows, we conducted a sensitivity analysis that included running a moderate stress scenario to determine the loss coverage level and potential rating migration that could occur for each class of notes (see chart 3).

Chart 3

Sensitivity multiples



Scenario: 4.90% (2x) CNL results

Assuming 4.90% CNLs (approximately two times our moderate stress scenario net loss assumption), the credit enhancement for the preliminary rated class A, B, C, and D notes begins at 4.29x, 3.29x, 2.56x, and 1.73x, respectively. The multiples decline through month five, start rising in month six, and continue to increase thereafter. All else being equal, our expectation is that under a moderate ('BBB') stress scenario, our ratings will be within the credit stability limits specified by section A.4 of the Appendix contained in "S&P Global Ratings Definitions," published June 9, 2023.

Money Market Sizing

The proposed money market tranche (the class A-1 notes) has a legal final maturity date of Nov. 14, 2024. To test whether the money market tranche can be repaid, we ran cash flows using assumptions to delay the principal collections. We assumed zero defaults and a 0.0% prepayment speed for our liquidity stress cash flow run, which showed that approximately 11 months of principal collections would be sufficient to pay off the money market tranche.

CCG Overview

CCG is a privately owned commercial finance company that specializes in the transportation, construction, and waste management sectors and recently began originating loans financing machine tools after acquiring Manufacturer's Capital in February 2017. In the machine tools segment, CCG finances machining centers, lathes, metal forming, and fabrication equipment that typically range from $25,000 to $750,000 in value.

Manufacturer's Capital now operates as a division of CCG and has a long history in the financing of machine tools. While CCG benefits from this experience via the acquisition, all of the loans from this division are originated under CCG credit policies. This new division is viewed by CCG management as a complement to the existing CCG segments because the obligor characteristics are generally similar, and the equipment, while different than the vehicles securing loans in the other segments, has similar characteristics (e.g., long useful lives and mission-critical status). An advantage of adding the machine tools segment to the portfolio is increased industry diversification, as machine tools can be used to create inputs for products used across a wide array of industries.

CCG changed ownership in February 2019. The majority owner is a private investor with a long-term strategy to hold investments for sustained growth. CCG, always a privately held company, has changed ownership a number of times. In each case, the ownership change created no disruption and resulted in a long-term investment.

Since its inception in 2004, the company has targeted the mid-ticket segment, in which borrowers typically finance equipment priced from $100,000 to $1 million and, in select cases, up to several million dollars. Although most equipment has multipurpose applications, there are some specialty pieces, such as large cranes. The vast majority of CCG's financial products involve fully amortizing loans, with original terms generally in the three- to five-year range, and a few larger credit exposures that have longer terms of up to seven years. The company competes against captive-finance companies, banks, and other independent finance firms.

CCG has originated more than $6.5 billion in equipment loans and leases since inception and has been profitable since fiscal year ended 2005, the company's first full year of operations. The company has, in our view, significant financial flexibility, as evidenced by meaningful equity capitalization and multiyear credit facilities with multiple lenders that were renewed during the 2008-2009 period, when many competitors' funding was cut off.

CCG's management is highly experienced in the mid-ticket commercial finance industry. When the company started in 2004, the members of its senior management team each had more than 15 years of direct lending experience. Most of the management team worked together at Financial Federal Credit Inc., a Houston-based independent equipment finance company with a major presence in many of the same segments in which CCG operates. With both the prior tenure at Financial Federal Credit Inc. and the more recent track record at CCG, current management has longstanding experience managing cyclical commercial finance assets during periods of both strong and weak economic growth.

CCG Originations, Underwriting, And Servicing

CCG operates nationally, with headquarters in Charlotte, N.C., where almost all of its underwriting and servicing operations are located. It also maintains smaller offices in Chicago and Buffalo, N.Y., with credit authority, subject to its delegation of authority policies. It maintains several regional sales offices, with a strong geographic presence in the South and Midwest. Unlike many equipment finance companies that have oriented their originations around vendors or manufacturers, CCG uses a direct sales model, where sales staff generate new business by directly calling prospective customers.

Manual credit underwriting process

The company's underwriting practices employ manual, rather than automated, processes to assess borrower credit risk or loss-given default. Manual credit underwriting is common among companies financing mid-ticket equipment in the commercial finance sector, whereas companies financing small-ticket items use automated credit scoring models. A seasoned credit officer, who has both regional and specific equipment expertise, manually underwrites each loan or lease. The company generally compiles an extensive credit and legal package for each new borrower or new credit request. CCG approves loans by assessing business variables, such as an obligor's cash flow and collateral value and the character of its principals. Prospective borrowers typically submit business or personal financial statements, tax returns, detailed equipment descriptions, transaction terms, and references. CCG also usually obtains credit reports and bank references from Dun & Bradstreet (D&B). It makes all credit decisions according to a specific credit policy governing the delegation of lending authority, where larger exposures require approval by more senior staff. Almost all obligors provide personal guarantees, which contributes to the company's high recovery rates.

In the machine tools segment, there is a small portion of automated processing under the scoring model. Scored transactions, applicable only in the machine tools segment, are approved by two credit officers after reviewing the obligor's credit information statistics, which include time in business, comparable credit, Paynet, D&B reports, and FICO scores. These procedures are applied to credit applications for purchasing machine tool equipment that is valued at less than $350,000, inclusive of any existing exposure.

Centralized and experienced servicing

CCG will act as the servicer for the transaction. The originating office performs all servicing activities for a contract, and obligors send all payments to a lockbox account maintained at Wells Fargo Bank N.A. CCG will actively communicate with a delinquent obligor in the first 90 days of nonpayment. After 90 days of delinquency, CCG will typically write down the account to its estimated realizable value and begin repossession activities, though it may agree to continue to work with the obligor in lieu of repossession. Once it repossesses the equipment, CCG often sells it to its existing customer base, though it may also conduct public sales by advertising in newspapers and trade journals. CCG handles all liquidation activity in-house.

Vervent, the backup servicer, will assume the role of servicer if the current servicer resigns or is terminated. To minimize interruptions in such a scenario, Vervent will receive servicer reports and portfolio files from CCG every month throughout the transaction.

Cross-Collateralization

In some instances, contracts in the series 2023-2 pool are subject to cross-collateralization and cross-default provisions in other contracts that have the same obligor but are not included in the series 2023-2 pool. Cross-collateralization is a common feature in commercial finance transactions. To address potential competing claims, the series 2023-2 transaction documents include an intercreditor agreement. In that agreement, the sponsor agrees to subordinate its rights to cross-collateralization relating to the equipment securing the series 2023-1 pool, and the issuer similarly agrees to subordinate its rights to cross-collateralization relating to the equipment outside of the series 2023-2 pool.

Related Criteria

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Four Ratings Raised And Three Affirmed From Two CCG Receivables Trust Transactions, Oct. 5, 2023
- Credit Conditions: Credit Conditions North America Q4 2023: Shift To Low Gear, Sept. 26, 2023
- Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted, Sept. 25, 2023