Presale:

# American Credit Acceptance Receivables Trust 2023-2

**April 18, 2023**

PRIMARY CREDIT ANALYST

**Kelly R Luo**
New York
+ 1 (212) 438 2535
kelly.luo
@spglobal.com

SECONDARY CONTACT

**Sanjay Narine, CFA**
Toronto
+ 1 (416) 507 2548
sanjay.narine
@spglobal.com

## Preliminary ratings

| Class | Preliminary rating | Type | Interest rate(i) | Amount (mil. $) | Legal final maturity date |
|---|---|---|---|---|---|
| A | AAA (sf) | Senior | Fixed | 148.40 | Oct. 13, 2026 |
| B | AA (sf) | Subordinate | Fixed | 33.60 | June 14, 2027 |
| C | A (sf) | Subordinate | Fixed | 61.40 | Aug. 13, 2029 |
| D | BBB (sf) | Subordinate | Fixed | 54.99 | Aug. 13, 2029 |
| E | BB- (sf) | Subordinate | Fixed | 36.40 | Feb. 12, 2030 |

Note: This presale report is based on information as of April 18, 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 | American Credit Acceptance Receivables Trust 2023-2. |
| Originator, sponsor, servicer, and custodian | American Credit Acceptance LLC. |
| Depositor | American Credit Acceptance Receivables LLC. |
| Indenture trustee and backup servicer | Computershare Trust Co. N.A. (BBB/Stable/--). |
| Owner trustee | Wilmington Trust N.A. (A-/Stable/A-2). |
| Bank account provider | Wells Fargo Bank N.A. (A+/Stable/A-1). |

## Rationale

The preliminary ratings assigned to American Credit Acceptance Receivables Trust 2023-2's (ACAR 2023-2) automobile receivables-backed notes reflect:

- The availability of approximately 64.4%, 57.8%, 46.9%, 37.6%, and 32.9% credit support (hard credit enhancement and haircut to excess spread) for the class A, B, C, D, and E notes, respectively, based on stressed cash flow scenarios. These credit support levels provide at least 2.35x, 2.10x, 1.70x, 1.37x, and 1.20x coverage of our expected cumulative net loss (ECNL) of 27.25% for the class A, B, C, D, and E 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 (1.37x our expected loss level), all else being equal, our preliminary 'AAA (sf)', 'AA (sf)', 'A (sf)', 'BBB (sf)', and 'BB- (sf)' ratings on the class A, B, C, D, and E 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).
- The series' bank accounts at Wells Fargo Bank N.A. (Wells Fargo), which do not constrain the preliminary ratings.
- Our operational risk assessment of American Credit Acceptance LLC as servicer, and our view of the company's underwriting and the backup servicing arrangement with Computershare Trust Co. N.A. (Computershare).
- Our assessment of the transaction's potential exposure to environmental, social, and governance (ESG) credit factors, which are in line with our sector benchmark.
- The transaction's payment and legal structures.

Our ECNL for ACAR 2023-2 is 27.25%, which is unchanged from ACAR 2023-1. It reflects:

- Our view that the series 2023-2 collateral characteristics are generally comparable to those for series 2023-1.
- The weaker performance of ACAR 2022-1, 2022-2, and 2022-3, which is trending worse than our original cumulative net loss (CNL) expectations and a key consideration for the higher ECNLs for ACAR 2023-2, 2023-1, and 2022-4.
- Our forward-looking view of the auto finance sector, including our forecast for a shallow recession later in 2023 and lower recovery rates.

## 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 credit factors are in line with our sector benchmark. Exposure to environmental credit factors is generally viewed as above average, given that the collateral pool primarily comprises vehicles with internal combustion engines (ICEs), which emit pollutants that contribute to climate transition risks. While the adoption of electric vehicles and future regulation could, in time, lower ICE vehicle values, we believe our current approach to evaluating recovery and residual values adequately accounts for vehicle values over the transaction's relatively short expected life. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

The transaction has relatively higher exposure to social credit factors than our sector benchmark because the pool consists 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 also believe this risk is mitigated by representations made by the issuer that each loan when originated complied with all laws. The issuer also has a compliance department that manages its adherence to all applicable laws.

The transaction has relatively higher exposure to governance credit factors than our sector benchmark, given that 22% of the collateral pool is prefunded and the originator has a more active role during the prefunding period. This exposes investors to the risk of loosening underwriting standards or potential adverse selection. We account for this risk by assuming that the pool composition will migrate to the lowest credit quality that the pool composition tests allow (see S&P Global Ratings' Expected Loss section).

## Credit Enhancement And Collateral

Structural changes from ACAR 2023-1

- Total initial hard credit enhancement increased for classes A, B, C, and D to 63.90%, 55.50%, 40.15%, and 26.40% from 62.85%, 54.10%, 38.10%, and 23.65%, respectively; and decreased for class E to 17.30% from 18.00%.
- Subordination for classes A, B, C, and D increased to 46.60%, 38.20%, 22.85%, and 9.10%, respectively, from 44.85%, 36.10%, 20.10%, and 5.65%.
- Initial overcollateralization decreased to 16.30% (from 17.00%) of the initial collateral pool balance plus the amount on deposit in the prefunding account.
- Target overcollateralization decreased to the greater of 20.00% (from 22.50%) of the current collateral pool balance and 2.50% of the initial collateral balance plus the aggregate principal balance of all subsequent receivables purchased as of the related subsequent receivables' cutoff date.
- Pre-pricing excess spread decreased to an estimated 13.10%, compared to 14.16% (post-pricing), mostly due to a higher weighted average cost of debt.

Our stressed cash flow results indicate that each class in the ACAR 2023-2 transaction is enhanced to a degree consistent with the assigned preliminary ratings (see the Cash Flow Modeling Assumptions And Results section below).

Table 1

### Credit enhancement summary (%)

| | ACAR | | | | | |
|---|---|---|---|---|---|---|
| | 2023-2 | 2023-1 | 2022-4 | 2022-3 | 2022-2 | 2022-1 |
| **Subordination(i)** | | | | | | |
| Class A | 46.60 | 44.85 | 48.15 | 49.00 | 50.00 | 50.50 |
| Class B | 38.20 | 36.10 | 43.25 | 40.00 | 40.75 | 38.00 |

Table 1

## Credit enhancement summary (%) (cont.)

| | ACAR | | | | | |
|---|---|---|---|---|---|---|
| | 2023-2 | 2023-1 | 2022-4 | 2022-3 | 2022-2 | 2022-1 |
| Class C | 22.85 | 20.10 | 23.35 | 26.00 | 24.25 | 25.10 |
| Class D | 9.10 | 5.65 | 10.15 | 11.75 | 12.40 | 13.20 |
| Class E | N/A | N/A | N/A | 5.75 | 3.20 | 3.85 |
| Class F | N/A | N/A | N/A | N/A | N/A | N/A |
| **Overcollateralization** | | | | | | |
| Initial(i) | 16.30 | 17.00 | 16.60 | 9.50 | 6.50 | 5.50 |
| Target(ii) | 20.00 | 22.50 | 21.20 | 15.50 | 12.50 | 10.50 |
| Floor(i) | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| **Reserve fund(i)** | | | | | | |
| 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(i)** | | | | | | |
| Class A | 63.90 | 62.85 | 65.75 | 59.50 | 57.50 | 57.00 |
| Class B | 55.50 | 54.10 | 60.85 | 50.50 | 48.25 | 44.50 |
| Class C | 40.15 | 38.10 | 40.95 | 36.50 | 31.75 | 31.60 |
| Class D | 26.40 | 23.65 | 27.75 | 22.25 | 19.90 | 19.70 |
| Class E | 17.30 | 18.00 | 17.60 | 16.25 | 10.70 | 10.35 |
| Class F | N/A | N/A | N/A | 10.50 | 7.50 | 6.50 |
| Estimated excess spread per year(iii) | 13.10 | 14.16 | 12.39 | 14.39 | 15.54 | 17.70 |

(i)Percentage of initial collateral pool balance and subsequent receivables. (ii)Percentage of the current collateral pool balance. (iii)Excess spread pre-pricing for ACAR 2023-2 and post pricing for ACAR 2023-1 through 2022-1. ACAR--American Credit Acceptance Receivables Trust. N/A--Not applicable.

## Collateral changes from ACAR 2023-1

The significant collateral changes in the ACAR 2023-2 statistical pool (as of March 22, 2023, before prefunding) from ACAR 2023-1 statistical pool are that:

- The called collateral from various series after prefunding is expected to increase to 10.00% from 6.50%.
- The average loan balance decreased to $17,593 from $18,869, and the weighted average mileage decreased to 67,809 from 69,767.
- The weighted average loan-to-value ratio decreased to 111.48% from 114.08%.
- The Tier 1 CarMax origination concentration increased to 59.00% from 58.00%.
- The weighted average seasoning increased to 4.86 months from 3.42 months due to the increase in called collateral.

- The weighted average debt-to-income ratio decreased to 37.13% from 37.38%, whereas payment-to-income ratio increased to 14.84% from 14.72%.

Overall, we believe the ACAR 2023-2 collateral pool is generally comparable with that of ACAR 2023-1 (see table 2). The incrementally higher Tier 1 collateral and higher percentage of called collateral (both of which has historically experienced lower losses), lower average loan amounts, and lower weighted average mileage are credit positive. We also considered the subsequent receivables that will be added during the prefunding period based on the prefunding guidelines and factored this into our expected loss for ACAR 2023-2 (see the S&P Global Ratings' Expected Loss section below).

Table 2

## Collateral comparison(i)

| | ACAR | | | | | |
|---|---|---|---|---|---|---|
| | 2023-2 | 2023-1 | 2022-4 | 2022-3 | 2022-2 | 2022-1 |
| Pool balance (mil. $) | 235.1 | 231.8 | 281.75 | 241.80 | 378.14 | 400.00 |
| No. of loans | 13,363 | 12,286 | 14,291 | 12,962 | 18,396 | 18,633 |
| Avg. loan balance ($) | 17,593 | 18,869 | 19,715 | 18,655 | 20,556 | 21,467 |
| Tier 1 (%) | 59.00 | 58.00 | 56.00 | 58.00 | 54.00 | 52.00 |
| Tier 2 (%) | 41.00 | 42.00 | 44.00 | 42.00 | 46.00 | 48.00 |
| Called collateral (%) | 10.00 | 6.50 | 7.50 | 12.00 | 3.80 | 1.00 |
| **Weighted avg.** | | | | | | |
| APR (%) | 24.75 | 24.62 | 24.59 | 24.57 | 24.72 | 24.26 |
| LTV ratio (%) | 111.48 | 114.08 | 114.53 | 114.72 | 114.14 | 115.47 |
| Non-zero FICO score | 535 | 542 | 541 | 543 | 537 | 547 |
| DTI ratio (%) | 37.13 | 37.38 | 41.11 | 42.17 | 40.12 | 40.10 |
| PTI ratio (%) | 14.84 | 14.72 | 15.21 | 15.84 | 16.91 | 16.85 |
| Original term (mos.) | 71.13 | 71.13 | 71.21 | 71.28 | 71.36 | 71.31 |
| Remaining term (mos.) | 66.27 | 67.72 | 67.42 | 65.41 | 69.07 | 70.15 |
| Seasoning (mos.) | 4.86 | 3.42 | 3.79 | 5.87 | 2.28 | 1.16 |
| Loans with 67-72 mos. original term (%) | 94.90 | 94.24 | 94.02 | 94.09 | 95.13 | 94.81 |
| Mileage | 67,809 | 69,767 | 71,170 | 67,795 | 66,099 | 63,304 |
| **FICO distribution (%)** | | | | | | |
| Greater than 601 | 12.51 | 15.44 | 14.95 | 14.34 | 13.06 | 15.47 |
| 501-600 | 43.00 | 41.79 | 42.67 | 42.43 | 44.71 | 45.93 |
| 0-500 | 26.04 | 23.78 | 23.29 | 21.25 | 24.62 | 19.69 |
| No score | 18.45 | 18.99 | 19.09 | 21.98 | 17.61 | 18.91 |
| **Top three state concentrations (%)** | | | | | | |
| Texas | 16.61 | 18.19 | 18.87 | 20.02 | 17.92 | 19.10 |
| Florida | 10.17 | 10.21 | 9.71 | 10.92 | 11.29 | 12.22 |
| California | 8.02 | 8.26 | 7.89 | 9.12 | 9.28 | 9.53 |

Table 2

### Collateral comparison(i) (cont.)

| | ACAR | | | | | |
|---|---|---|---|---|---|---|
| | 2023-2 | 2023-1 | 2022-4 | 2022-3 | 2022-2 | 2022-1 |
| S&P Global Ratings' original exp. CNL (%) | 27.25 | 27.25 | 27.25 | 26.00-27.00 | 25.50-26.50 | 25.50-26.50 |

(i)As of the statistical collateral pool balance. APR--Annual percentage rate. LTV--Loan-to-value. DTI—Debt-to-income. PTI—Payment-to-income. CNL--Cumulative net loss. ECNL--Expected cumulative net loss.

## Macroeconomic And Auto Finance Sector Outlook

We believe 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.

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 | 2.0 |
| Unemployment rate (annual average, %) | 3.7 | 4.1 | 5.0 | 5.1 | 4.6 |
| Consumer Price Index (CPI) (annual average, %) | 8.0 | 4.2 | 2.4 | 1.6 | 1.5 |

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

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 second-quarter 2024 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.

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: 27.25%

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

- The transaction's collateral characteristics relative to those of outstanding series (see table 2);
- The managed portfolio performance and origination static pool data and their relative performances (see table 4 and charts 1 and 2);
- The outstanding series' performance (see table 5 and charts 3 and 4); and
- Our forward-looking view of the economy and the auto finance sector.

Given ACAR's established performance track record as a quarterly issuer, we placed more emphasis on origination static pool analysis and outstanding series performance when determining the expected loss for this series. To derive the expected loss for ACAR 2023-2, we analyzed the CNL performance through the two different channels of origination. Based on the pool's prefunding guidelines (see the Prefunding section below), we constructed a worst-case portfolio mix across the Tier 1 and Tier 2 channels. We considered ACAR 2023-2's collateral composition (see table 2), including the expected amount of called collateral in the pool and our expected losses for that portion of the pool. We complemented this analysis with our forward-looking view of the U.S. economy and the auto finance sector (see the Macroeconomic And Auto Finance Sector Outlook section above).

Overall, we expect ACAR 2023-2 to experience lifetime CNLs of 27.25%, the same as that for ACAR 2023-1.

## Managed portfolio

The portfolio declined to $4.3 billion as of March 31, 2023, from $4.7 billion a year earlier (see table 4). Total delinquencies increased to 24.6% from 23.9%, and net losses increased to 13.37% from 10.56%. We attribute this performance to ongoing normalization to pre-pandemic levels. Vehicle recovery rates, while still strong relative to historical standards, are normalizing, which, together with rising inflation, is putting increasing pressure on vehicle affordability and borrowers' ability to meet their monthly payment obligations.

Table 4

### Managed portfolio

| | As of March 31 | | As of Dec. 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2022 | 2021 | 2020 | 2019 | 2018 |
| **Delinquency experience** | | | | | | | |
| Amount of receivables outstanding (mil. $) | 4,318.29 | 4,721.00 | 4,414.33 | 4,716.91 | 3,969.88 | 3,184.56 | 2,399.09 |
| Total delinquencies (% of principal amount of receivables outstanding) | 24.57 | 23.85 | 29.22 | 25.90 | 20.94 | 21.74 | 20.86 |
| **Net loss experience** | | | | | | | |
| Avg. month-end amount outstanding (mil. $) | 4,322.92 | 4,694.21 | 4,630.35 | 4,498.45 | 3,639.06 | 2,892.65 | 2,216.99 |
| Net losses (% of the avg. month-end amount outstanding) | 13.37 | 10.56 | 11.77 | 6.84 | 9.09 | 11.57 | 13.15 |

## Origination static pool analysis

In our analysis, we reviewed American Credit Acceptance LLC's (ACA) origination static pool CNL performance for its lines of business.

ACA purchases contracts through two different channels: Tier 1 and Tier 2. The Tier 1 channel focuses on purchasing contracts from CarMax through an application sourcing arrangement. The Tier 2 channel focuses on purchasing contracts from the largest nationwide automotive dealership groups, franchised dealers, and, to a lesser extent, independent dealerships.

Table 5 shows the underwriting characteristics for each program as of fourth-quarter 2022. Over the recent years, there has been a shift toward originating a greater percentage of loans through the Tier 1 channel, which historically has performed better than Tier 2 originations. Recently, however, due to the inclusion of established dealerships, the programs' performance differential is narrowing.

Table 5

### Underwriting characteristics

As of first-quarter 2023

| | Tier 1 loans | Tier 2 loans |
|---|---|---|
| Weighted avg. amount financed ($) | 20,654 | 18,829 |
| Weighted avg. PTI ratio (%) | 15.4 | 13.9 |
| Weighted avg. original term (mos.) | 72 | 70 |
| Weighted avg. FICO score(i) | 536 | 540 |
| Weighted avg. LTV ratio (%) | 103.9 | 120.6 |

(i)Non-zero FICO. PTI--Payment to income. LTV--Loan to value.

## Tier 1 channel (CarMax)

The origination static pool data show, in our view, that Tier 1 loans have generally performed better than Tier 2 loans, although Tier 1 performance has been worsening of late (see charts 1a and 1b).

Chart 1a

**Tier 1 (CarMax) quarterly vintage cumulative net losses (Q1 2012-Q4 2016)**

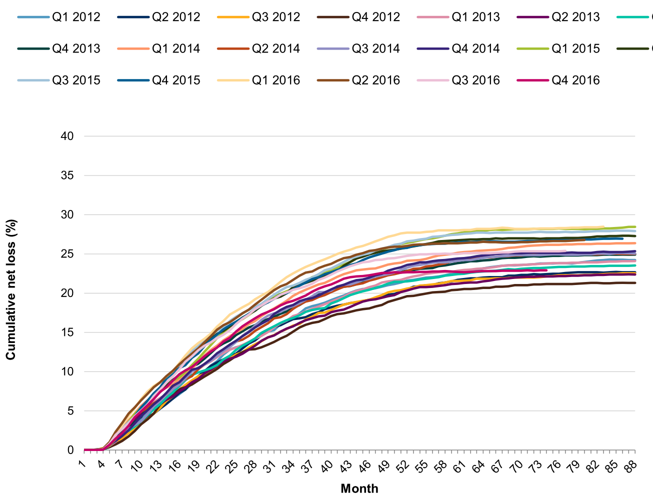
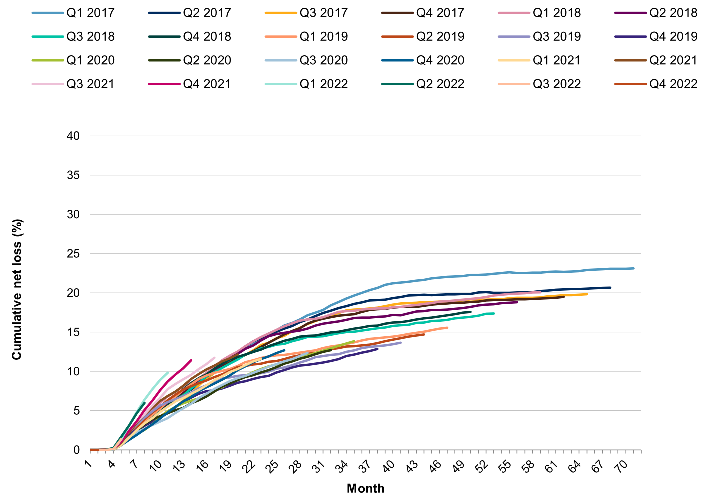





Chart 1b

**Tier 1 (CarMax) quarterly vintage cumulative net losses (Q1 2017-Q4 2022)**






## Tier 2 channel (non-CarMax)

Origination volume for the Tier 2 channel has grown over the past few years, and the company has purchased loans from approximately 4,000 dealerships across 50 U.S. states. The origination static pool data show that Tier 2 loans have historically performed worse than Tier 1 loans. However, recent vintages have been trending better (see charts 2a and 2b).

Chart 2a

**Tier 2 (non-CarMax) quarterly vintage cumulative net losses (Q2 2013-Q4 2016)**

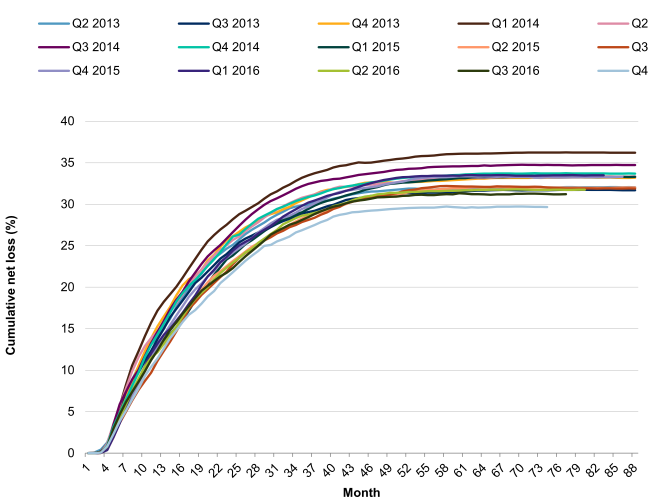
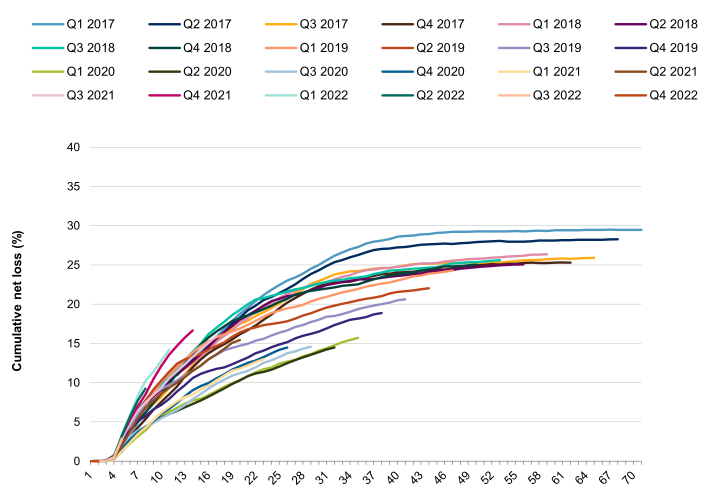





Chart 2b

**Tier 2 (non-CarMax) quarterly vintage cumulative net losses (Q1 2017-Q4 2022)**






In our analyses, we used loss curves from the paid-off ACAR 2010-2015 transactions to project losses for the outstanding collateral for ACAR 2016-2021, by program. We then calculated weighted average projected loss proxies for each loan program by weighting each outstanding vintage month's projected loss by the origination dollar volume for the respective vintage. Then we computed a weighted average projected loss for the pool by weighting the loss proxies for each program by the respective percentage of the current pool balance for each program and constructed a worst-case pool mix based on the prefunding guidelines.

## ACAR Transaction Performance

We have outstanding ratings on 16 ACAR transactions that were issued between 2019 and 2023. ACAR's outstanding series generally continue to perform in line with or better than our initial expectations (see "Thirty-Nine Ratings Raised And Seven Affirmed On 12 American Credit Acceptance Receivables Trust Deals," published Aug. 16, 2022), except ACAR 2022-1, 2022-2, and 2022-3, which are trending worse than our original CNL expectations (see table 6 and charts 3 and 4). On Oct. 25, 2022, we placed our ratings on the class E and F notes from ACAR 2022-1 and 2022-2 on CreditWatch with negative implications, following the continued declines in each series' overcollateralization when they should be building toward their required targets. We extended our placement on Jan. 20, 2023 (see "American Credit Acceptance Receivables Trust 2022-1 And 2022-2 Class E And F Ratings Placed On CreditWatch Negative," published Oct. 25, 2022, and "American Credit Acceptance Receivables Trust 2022-1 and 2022-2 Class E and F Ratings Remain On CreditWatch Negative," published Jan. 20, 2023).

Table 6

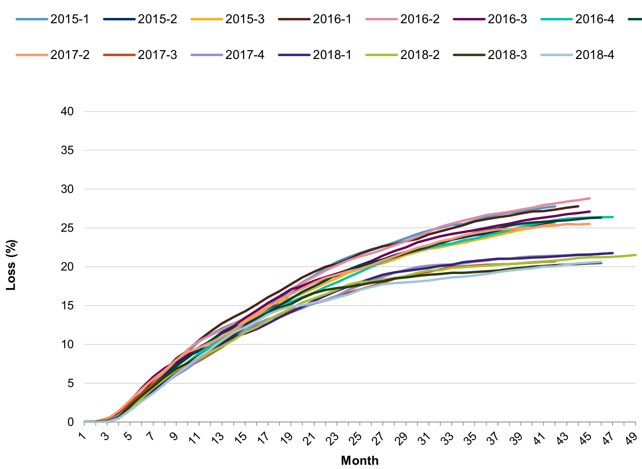
### ACAR collateral performance and CNL expectations(i)

| Series | Mo. | Pool factor (%) | 60+ day delinq. (%) | Extensions (%) | Current CNL (%) | Original lifetime CNL expectation (%) | Revised lifetime CNL expectation (%)(ii) |
|---|---|---|---|---|---|---|---|
| 2019-2 | 47 | 15.85 | 6.85 | 2.41 | 18.48 | 27.00-28.00 | 18.50-19.50 |
| 2019-3 | 44 | 18.56 | 7.70 | 2.94 | 17.27 | 27.75-28.75 | 18.50-19.50 |
| 2019-4 | 41 | 20.37 | 7.87 | 3.07 | 15.97 | 27.25-28.25 | 18.00-19.00 |
| 2020-1 | 38 | 23.33 | 7.80 | 2.82 | 14.88 | 27.25-28.25 | 18.00-19.00 |
| 2020-2 | 35 | 26.55 | 8.09 | 2.41 | 15.25 | 32.00-33.00 | 18.50-19.50 |
| 2020-3 | 32 | 29.74 | 7.96 | 2.70 | 13.42 | 31.50-32.50 | 18.00-19.00 |
| 2020-4 | 29 | 32.11 | 7.66 | 2.81 | 13.61 | 31.50-32.50 | 20.50-21.50 |
| 2021-1 | 26 | 34.93 | 7.54 | 2.66 | 13.03 | 30.50-31.50 | 20.50-21.50 |
| 2021-2 | 23 | 39.51 | 8.01 | 3.12 | 13.35 | 27.75-28.75 | 24.50-25.50 |
| 2021-3 | 20 | 44.02 | 9.40 | 3.29 | 15.80 | 26.50-27.50 | 26.50-27.50 |
| 2021-4 | 17 | 48.54 | 9.58 | 3.41 | 15.06 | 25.50-26.50 | N/A |
| 2022-1 | 14 | 56.77 | 10.33 | 2.78 | 15.22 | 25.50-26.50 | N/A |
| 2022-2 | 11 | 63.71 | 9.42 | 2.56 | 13.91 | 25.50-26.50 | N/A |
| 2022-3 | 8 | 76.28 | 6.83 | 3.14 | 7.58 | 26.00-27.00 | N/A |
| 2022-4 | 5 | 88.48 | 6.55 | 1.69 | 2.93 | 27.25 | N/A |
| 2023-1 | 2 | 97.23 | 1.79 | 0.14 | 0.02 | 27.25 | N/A |

(i)As of the April 2023 distribution date. (ii)Revised in August 2022. Mo—Month. CNL--Cumulative net losses. N/A--Not applicable.

Chart 3a

**ACAR series cumulative net losses (2015-2018)**




Note: These series have been paid off.



Chart 3b

**ACAR series cumulative net losses (2019-2023)**

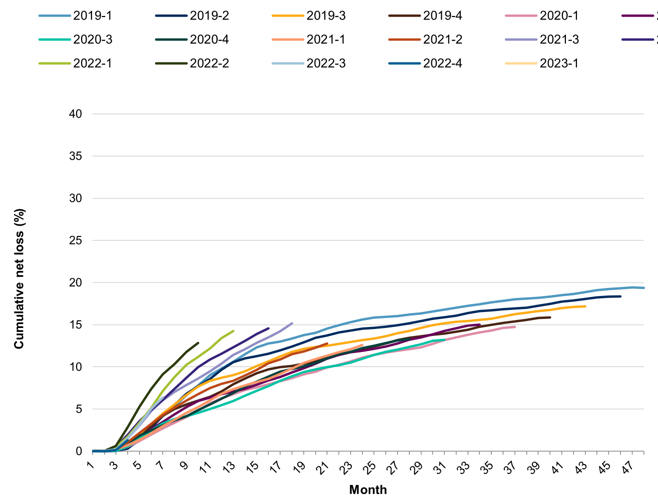
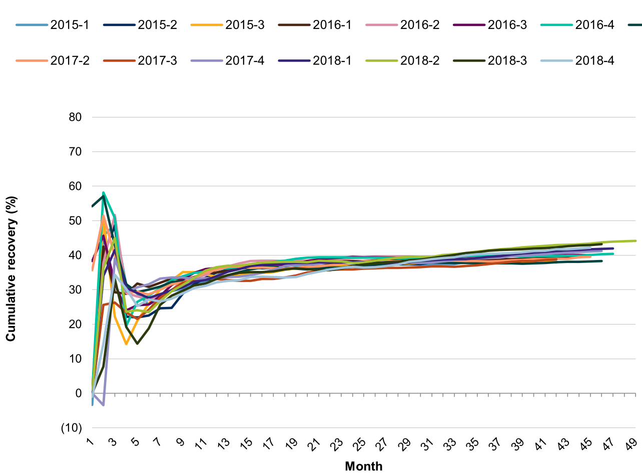





Chart 4a

**ACAR series cumulative recoveries (2015-2018)**

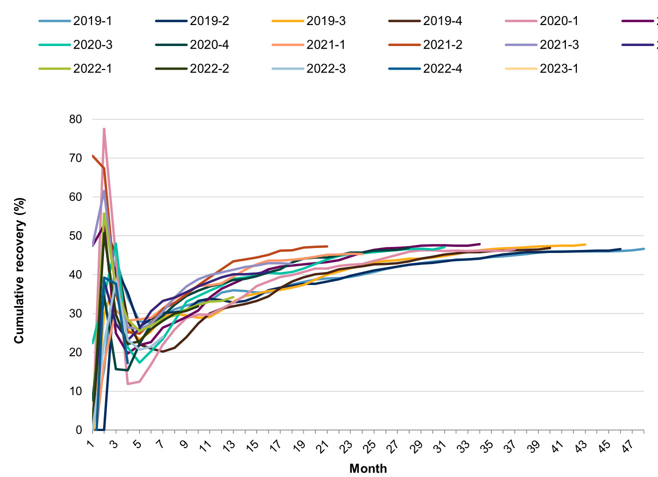



Note: The series have been paid off.



Chart 4b

**ACAR series cumulative recoveries (2019-2023)**






# 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.

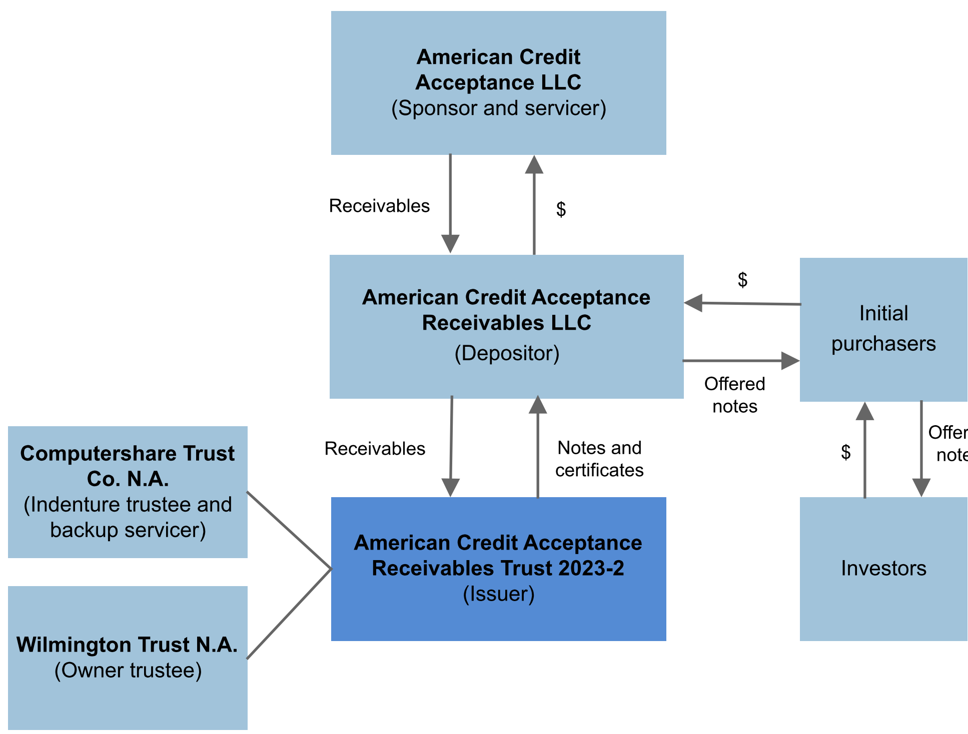
The transaction is structured as a true sale of the receivables to American Credit Acceptance

Receivables LLC (ACA Receivables; the depositor) from ACA. ACA Receivables is a multiuse, special-purpose Delaware limited liability company and a wholly owned, limited-purpose subsidiary of ACA.

ACA Receivables will transfer the receivables to ACAR 2023-2, the issuer, a newly formed special-purpose Delaware statutory trust. The issuer will pledge its interest in the receivables and its security interests in the financed vehicles to the trustee on the noteholders' behalf. Computershare will be the backup servicer and indenture trustee for the transaction (see chart 5).

Chart 5

**Transaction structure**






## Transaction structure

ACAR 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 16.30% of the initial collateral pool balance and the amount on deposit in the prefunding account, which can build to a target of 20.00% of the current collateral pool balance by using any excess spread that is available after covering net losses to pay principal on the outstanding notes. The target overcollateralization amount is subject to a floor of 2.50% of the initial collateral balance and principal balance of the related subsequent receivables being purchased as of the related subsequent receivables' cutoff date.

- A nonamortizing reserve account amount that will equal 1.00% of the cutoff date pool balance as of the closing date. On each subsequent receivables purchase date, the depositor will deposit an amount equal to 1.00% of the principal balance of the related subsequent receivables being purchased as of the related subsequent receivables' cutoff date.
- Excess spread of approximately 13.10% (pre-pricing) per year.

## Prefunding

ACAR 2023-2 has a prefunding period that will end on July 31, 2023. On the closing date, the issuer will deposit approximately $73.65 million of the proceeds from the sale of the notes into the prefunding account. This amount will be used to purchase the prefunding collateral, which represents approximately 22.0% of the sum of the closing date pool balance and the subsequent receivables' expected aggregate initial principal balance.

During the prefunding period, the issuer may use the funds, if any, on deposit in the prefunding account to acquire additional receivables from the depositor. On each transfer day, the acquired amount will be equal to the product of 83.7% and the subsequent receivables' aggregate principal balances, as of the related subsequent cutoff date on each transfer date, and will occur no more than once a week.

No subsequent receivables added during the prefunding period may cause:

- The aggregate principal balance of the receivables originated through the Tier 1 strategic loans (CarMax) program to account for less than 59.0% of the aggregate principal balance of all receivables.
- The weighted average FICO score of all subsequent receivables to be less than 530.
- The weighted average original maturity of all receivables to be greater than 72 months.
- The weighted average remaining maturity of all receivables to be greater than 70 months.
- The weighted average annual percentage rate of all subsequent receivables to be less than 24.4%.

# Payment Priority

## Payment distributions before an event of default

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 before an event of default

| Priority | Payment |
|---|---|
| 1 | A 4.00% annual servicing fee to the servicer. To the successor servicer, if any, the transition expenses incurred from it becoming the successor servicer, to the extent not previously paid by the predecessor servicer and capped at $200,000. |
| 2 | The backup servicing and trustee fees, capped at $100,000 annually for the owner trustee and $200,000 annually for the indenture trustee and the backup servicer. |

Table 7

## Payment waterfall before an event of default (cont.)

| Priority | Payment |
|---|---|
| 3 | The class A note interest to the class A noteholders. |
| 4 | The class A notes' parity deficit amount to the principal distribution account (the amount, if any, by which the class A note balance is greater than the collateral balance's sum, and, during the prefunding period, the amount on deposit in the prefunding account). On and after the final scheduled distribution date, the amount necessary to reduce the note balance to zero. |
| 5 | The class B note interest to the class B noteholders. |
| 6 | The class B notes' parity deficit amount to the principal distribution account (the amount, if any, by which the class A and B notes' aggregate balances are greater than the collateral balance's sum, and, during the prefunding period, the amount on deposit in the prefunding account). On and after the final scheduled distribution date, the amount necessary to reduce the note balance to zero. |
| 7 | The class C note interest to the class C noteholders. |
| 8 | The class C notes' parity deficit amount to the principal distribution account (the amount, if any, by which the class A, B, and C notes' aggregate balances are greater than the collateral balance's sum, and, during the prefunding period, the amount on deposit in the prefunding account). On and after the final scheduled distribution date, the amount necessary to reduce the note balance to zero. |
| 9 | The class D note interest to the class D noteholders. |
| 10 | The class D notes' parity deficit amount to the principal distribution account (the amount, if any, by which the class A, B, C, and D notes' aggregate balances are greater than the collateral balance's sum, and, during the prefunding period, the amount on deposit in the prefunding account). On and after the final scheduled distribution date, the amount necessary to reduce the note balance to zero. |
| 11 | The class E note interest to the class E noteholders. |
| 12 | The class E notes' parity deficit amount to the principal distribution account (the amount, if any by which the class A, B, C, D, and E notes' aggregate balances are greater than the collateral balance's sum, and, during the prefunding period, the amount on deposit in the prefunding account). On and after the final scheduled distribution date, the amount necessary to reduce the note balance to zero. |
| 13 | The amounts needed to achieve the required reserve account amount. |
| 14 | The aggregate principal distributable amount up to the target overcollateralization amount to class A to E notes sequentially, until each class is paid in full. |
| 15 | Any amounts owed to the backup servicer, trustee, and owner trustee to the extent not previously paid. |
| 16 | Any remaining funds to the residual noteholders. |

The principal amounts paid in item 14 of the payment waterfall is designed to use all principal collections and available excess spread to reduce the notes' outstanding principal balances to the requisite overcollateralization target level. In addition, excess spread will not be released from the transaction unless the overcollateralization target level has been reached and if the excess spread is not used to cover losses.

On each payment date, the amounts deposited into the principal distribution account will be distributed to the noteholders in the priority outlined in table 8.

Table 8

## Principal waterfall

| Priority | Payment |
|---|---|
| 1 | The class A noteholders' principal distributable amount to the class A noteholders until the notes' outstanding principal balance has been reduced to zero. |

Table 8

### Principal waterfall (cont.)

| Priority | Payment |
| --- | --- |
| 2 | The class B noteholders' principal distributable amount to the class B noteholders until the notes' outstanding principal balance has been reduced to zero. |
| 3 | The class C noteholders' principal distributable amount to the class C noteholders until the notes' outstanding principal balance has been reduced to zero. |
| 4 | The class D noteholders' principal distributable amount to the class D noteholders until the notes' outstanding principal balance has been reduced to zero. |
| 5 | The class E noteholders' principal distributable amount to the class E noteholders until the notes' outstanding principal balance has been reduced to zero. |

## Events of default

Events that constitute an event of default are:

- An interest payment default on the controlling class of notes that remains uncured for five days.
- A principal payment default on any note on its final scheduled distribution date.
- The issuer failing to observe or perform any material covenant or agreement, and not cured for 45 days (up to 90 days in certain cases).
- Any issuer representation or warranty being materially incorrect and not cured for 45 days (up to 90 days in certain cases).
- The issuer becoming insolvent.

The third and fourth items require that the indenture trustee, on behalf of the holders of at least 25% of the controlling class's note balance, give written notice specifying the default and requiring it to be remedied.

## Payment distributions after an event of default

On each payment date following an event of default related to a breach of a covenant, agreement, representation, or warranty, and the acceleration of the notes, the available funds will be distributed as outlined in table 7 above. However, the payment in item 14 in the table will include all available funds until the total note balance has been reduced to zero, and there will be no limitation on fees, expenses, and indemnities in item 2.

On each payment date following an event of default (other than an event of default related solely to a covenant, agreement, representation, or warranty breach) and the acceleration of the notes, or upon the trust assets' liquidation, the available funds will instead be distributed according to the priority shown in table 9.

Table 9

## Payment waterfall after an event of default

| Priority | Payment |
|---|---|
| 1 | The amounts due, pro rata, to the servicer, the trustees, and the backup servicer, disregarding the caps and limitations. |
| 2 | The class A note interest to the class A noteholders. |
| 3 | The class A note principal to the class A noteholders until the class A note balance has been reduced to zero. |
| 4 | The class B note interest to the class B noteholders. |
| 5 | The class B note principal to the class B noteholders until the class B note balance has been reduced to zero. |
| 6 | The class C note interest to the class C noteholders. |
| 7 | The class C note principal to the class C noteholders until the class C note balance has been reduced to zero. |
| 8 | The class D note interest to the class D noteholders. |
| 9 | The class D note principal to the class D noteholders until the class D note balance has been reduced to zero. |
| 10 | The class E note interest to the class E noteholders. |
| 11 | The class E note principal to the class E noteholders until the class E note balance has been reduced to zero. |
| 12 | Any remaining funds to the residual noteholders. |

## Servicer termination events

Events that constitute a servicer termination are:

- The servicer's failure to make any required payment or deposit that remains unremedied beyond the earlier of five business days following the due date and the distribution or deposit dates.
- The servicer's failure to deliver the investor report for any collection period to the indenture trustee, which remains unremedied beyond the earlier of two business days after the investor report was required to be delivered and the related distribution date.
- Any servicer representation or warranty proving to be materially incorrect and not being eliminated or otherwise cured within 45 days.
- The servicer's failure to observe or perform in any material respect any other covenant or agreement under the sale and servicing agreement, which failure that materially and adversely affects the noteholders' rights and continues unremedied for 45 days.
- The servicer's insolvency.

The first four servicer termination events also require that notice is given to the servicer by holders of at least 25.00% of the controlling class's note balance. Replacing the servicer requires consent from holders of at least 51.00% of the controlling class's note balance.

## 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.

### Break-even analysis

For the ACAR 2023-2 transaction structure, we applied the assumptions outlined in table 10 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 them to be equal to or greater than the rating stressed scenario break-even requirement.

Table 10

#### Break-even cash flow assumptions

| | |
|---|---|
| Voluntary ABS (%) | 0.8 |
| Servicing fee (%) | 4.0 |
| Recovery rate ('AAA'/'AA' to 'BB-') (%) | 30.0/35.0 |
| Charge-off and recovery lag (mos.) | 4 |
| **CNL timing mos. (12/24/36/48/60) (%)** | |
| Front-loaded loss curve | 45/80/95/100 |
| Back-loaded loss curve | 30/60/80/90/100 |

ABS--Absolute prepayment speed. Mos.--Months. CNL--Cumulative net loss.

For prefunding, we modeled those receivables as added on the last day of the prefunding period. This maximized the negative interest carry expense associated with the over-issuance of bonds relative to the initial collateral amount.

Based on our stressed cash flows, the break-even results show that the class A, B, C, D, and E notes are credit-enhanced to the degree necessary to withstand a stressed net loss level that is consistent with the assigned preliminary ratings (see table 11).

Table 11

#### Break-even cash flow results

| | Class | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| Preliminary rating | AAA (sf) | AA (sf) | A (sf) | BBB (sf) | BB- (sf) |
| CNL timing mos. (12/24/36/48/60) (%) | | | | | |
| Front-loaded loss curve | 74/100 | 60/100 | 42/80/95/100 | 41/80/95/100 | 41/80/95/100 |
| Back-loaded loss curve | 72/100 | 57/100 | 33/71/94/100 | 28/61/80/91/100 | 28/61/81/91/100 |

Table 11

### Break-even cash flow results (cont.)

| | Class | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| Approx. break-even CNL levels (%)(i) | | | | | |
| Required | 64.0 | 57.2 | 46.3 | 37.3 | 32.7 |
| Available: front-loaded loss curve | 64.4 | 57.8 | 46.9 | 37.6 | 32.9 |
| Available: back-loaded loss curve | 64.5 | 58.0 | 48.7 | 39.9 | 33.3 |

(i)The maximum cumulative net losses, with 90% credit to any excess spread, that 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 a sensitivity analysis using the assumptions in table 10 above but with a base case loss curve of 40/75/95/100. We believe that under a moderate ('BBB') stress scenario (1.37x of 27.25% 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 in section A.4 of the Appendix of "S&P Global Ratings Definitions," published Nov. 10, 2021, as shown in table 12.

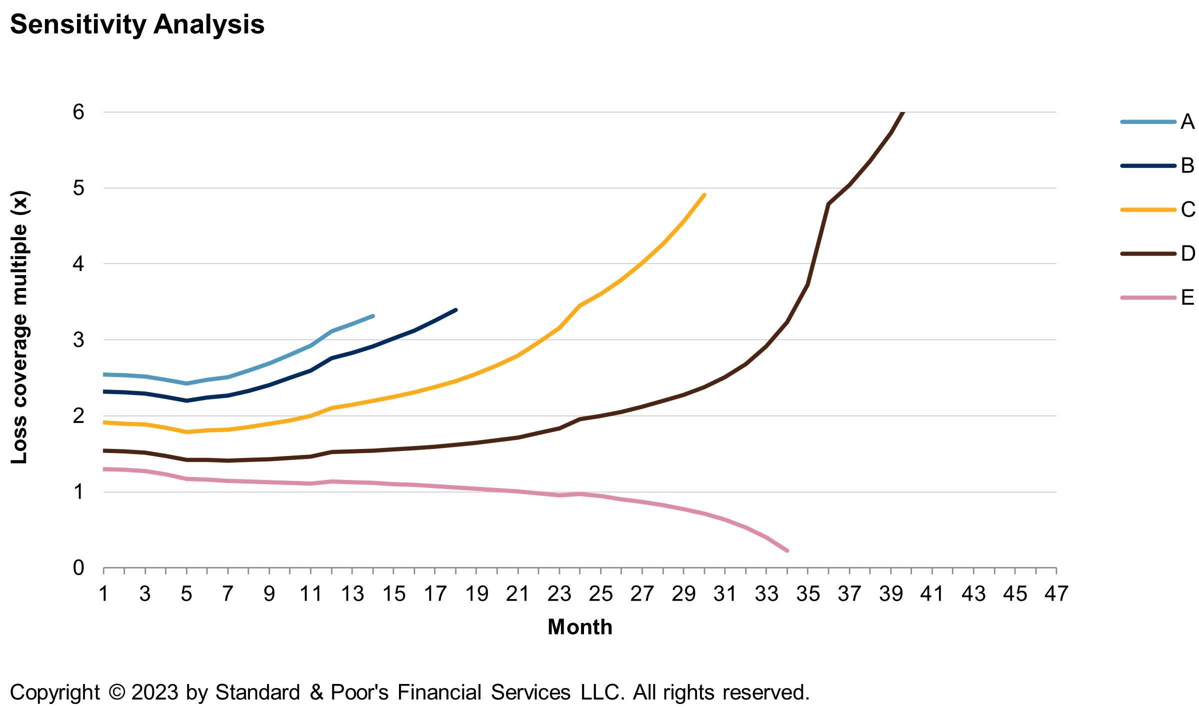
Table 12

### Credit stability as a limiting factor on ratings

| | Maximum projected deterioration(i) associated with rating levels for one-and three-year horizons under moderate stress conditions | | | | | |
|---|---|---|---|---|---|---|
| | 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 5




## Legal final maturity

To test the legal final maturity dates set for classes A through D, we determined the date at which the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario and added three months to the result. To test the legal final maturity date for class E, which is the longest-dated class, we determined the latest maturing loan's distribution date, assuming all the prefunded loans are originated on the last day of the prefunding period (three months) plus six months to accommodate extensions. Further, in the break-even scenario for each respective rating level, we confirmed that there was sufficient credit enhancement to cover losses and repay the related notes in full by the legal final maturity date.

## Counterparty And Operational Risks

The ACAR 2023-2 bank accounts will be established in the name of the indenture trustee, Computershare Trust Co. N.A., as segregated trusts accounts, and they will initially be established with the bank account provider, Wells Fargo Bank N.A. The bank account provider is consistent with our counterparty criteria for a 'AAA' supported transaction (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

ACA has a long and established history in the subprime auto finance business. As servicer, ACA has a tenured and experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. A back-up servicer, Computershare Trust Co. N.A., is engaged for outstanding series. ACA 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 ACA as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

ACA and the key transaction parties are subject to various regulatory investigation and/or legal proceedings that may arise in their ordinary course of business. These include, without limitation, judgments, settlements, fines, penalties, or other actions, which could be substantial and negatively affect the way servicing is conducted, and thus adversely affect the noteholders. We will assess these outcomes when available to determine any impact on our counterparty and operational risk assessments.

## ACA

ACA is a subprime auto finance company headquartered in Spartanburg, S.C. It was established in 2007 with its purchase of Sonic Automotive's in-house finance company, formerly known as Cornerstone Acceptance. ACA is 79.4% owned by nine trusts whose beneficiaries are George D. Johnson Jr., Susanna J. Shannon, and George D. Johnson III. The remaining ownership is divided among other investors (14.2%) and ACA management (6.4%).

The company has been consistently profitable since 2009. Based on its audited Dec. 31, 2022, financial statements, it had approximately $4.49 billion in assets, $554.3 million in equity, and $164.9 million in subordinated debt provided by the Johnson family and a mix of other associated shareholders. ACA has a diversified funding platform, including a $350.0 million syndicated working capital facility and several committed revolving warehouse facilities from established financial institutions for approximately $1.9 billion.

The company has been servicing loans on its own centralized collection system since 2010. In addition to functioning offshore collection and servicing sites, ACA conducts its collection operations out of its Spartanburg, Atlanta, and Boise, Idaho, servicing centers. As of March 31, 2023, there were approximately 582 fully dedicated employees (domestic and offshore) on the servicing and collection teams.

## 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

- 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
- U.S. Auto Loan ABS Tracker: January 2023 Performance, March 13, 2023
- American Credit Acceptance Receivables Trust 2022-1 And 2022-2 Class E And F Ratings Remain On CreditWatch Negative, Jan. 20, 2023
- American Credit Acceptance Receivables Trust 2022-1 And 2022-2 Class E And F Ratings Placed On CreditWatch Negative, Oct. 25, 2022
- Thirty-Nine Ratings Raised And Seven Affirmed On 12 American Credit Acceptance Receivables Trust Deals, Aug. 16, 2022