S&P Global
Ratings

Research

Presale:

GLS Auto Receivables Issuer Trust 2023-2

May 4, 2023

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Preliminary amount (mil. $)(i)	Legal final maturity date
A-1	A-1+ (sf)	Senior	Fixed	31.50	May 15, 2024
A-2	AAA (sf)	Senior	Fixed	120.54	Jan. 15, 2027
B	AA (sf)	Subordinate	Fixed	46.80	Nov. 15, 2027
C	A (sf)	Subordinate	Fixed	42.86	March 15, 2029
D	BBB- (sf)	Subordinate	Fixed	44.82	March 15, 2029
E	BB- (sf)	Subordinate	Fixed	24.80	Jan. 15, 2030

Note: This presale report is based on information as of May 4, 2023. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities (i)The interest rates and actual sizes of these tranches will be determined on the pricing date.

Profile

Expected closing date	May 16, 2023.
Collateral	Subprime auto loan receivables.
Originator, sponsor, servicer, custodian, and seller	Global Lending Services LLC.
Additional sellers	GLS Flow Intermediary Trust, GLS Flow Intermediary Trust-6, and GLS Flow Intermediary Trust-7.
Depositor	GLS Auto Receivables LLC.
Issuer	GLS Auto Receivables Issuer Trust 2023-2.
Underlying trust	GLS Auto Receivables Trust 2023-2.
Indenture trustee, backup servicer, and bank account provider	Wilmington Trust N. A. (A-/Stable/A-2).
Owner trustee and underlying trustee	Wilmington Trust N.A. (A-/Stable/A-2).

Rationale

The preliminary ratings assigned to GLS Auto Receivables Issuer Trust 2023-2's (GCAR 2023-2) automobile receivables-backed notes reflect:

- The availability of approximately 56.17%, 47.42%, 36.91%, 27.30%, and 22.49% of credit support (hard credit enhancement and haircut to excess spread) for the class A (A-1 and A-2), B, C, D and E notes, respectively, based on stressed cash flow scenarios (including excess spread). These credit support levels provide at least 3.20x, 2.70x, 2.10x, 1.55x, and 1.27x our 17.50% expected cumulative net loss (ECNL) 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 (1.60x 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 subprime automobile loans, including the representation in the transaction documents that all contracts in the pool have made at least one payment, 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 Wilmington Trust N.A., which do not constrain the preliminary ratings.
- Our operational risk assessment of Global Lending Services LLC (GLS), as servicer, and our view of the company's underwriting and backup servicing arrangement with Wilmington Trust N.A.
- 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 GCAR 2023-2 is 17.50%, which is unchanged from GCAR 2023-1. It reflects:

- GCAR's more recent outstanding series, which are showing signs of performance deterioration with higher losses and delinquencies and lower recovery rates compared with the more seasoned transactions;
- Our view that the GCAR 2023-2 collateral characteristics are slightly stronger than those of GCAR 2023-1; and
- Our forward-looking view of the auto finance sector, including our outlook for a shallow recession for the first half of 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 consists of vehicles with internal combustion engines (ICEs), which emit pollutants that contribute to climate transition risk. While the adoption of electric vehicles and future regulation could 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 did not identify this as a separate material ESG credit factor in our analysis.

The transaction has relatively higher exposure to social credit factors than our sector benchmark because it has a pool of subprime obligors while the benchmark has a pool of prime obligors. Given the elevated interest rate and affordability considerations for these subprime borrowers, legal and regulatory risks could increase if the contracts' validity or the servicer's collection practices are challenged. We believe this risk is mitigated by representations by 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.

Credit Enhancement And Collateral

Structural changes from GCAR 2023-1

The structural changes between the GCAR 2023-2 and GCAR 2023-1 transactions include the following:

- Total initial hard credit enhancement for the class A, B, C, D, and E notes decreased to 54.70%, 40.45%, 27.40%, 13.75% and 6.20%, respectively, from 55.60%, 41.95%, 28.90%, 15.95%, and 7.80% (see table 1).
- Subordination increased for classes A, B, and C to 48.50%, 34.25%, and 21.20%, respectively, from 47.80%, 34.15% and 21.09%; and decreased for class D to 7.55% from 8.15%.
- The initial overcollateralization decreased to 5.20% (from 6.80%) of the initial collateral pool balance and will grow to a target of 9.05% (from 12.60%) of the current pool balance plus 1.50% of the initial pool balance.
- The estimated excess spread (pre-pricing) increased to 11.06% from 10.31% (post-pricing).

The change in the initial hard credit enhancement for some classes reflects the higher estimated excess spread for GCAR 2023-2. Our stressed cash flow results indicate that each class in the 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 (%)

	GCAR				
	2023-2	2023-1	2022-3	2022-2	2022-1
Subordination(i)					
Class A	48.50	47.80	45.45	43.70	43.85
Class B	34.25	34.15	33.30	32.05	32.00

Table 1

Credit enhancement summary (%) (cont.)

	GCAR				
	2023-2	2023-1	2022-3	2022-2	2022-1
Class C	21.20	21.10	21.20	20.55	19.50
Class D	7.55	8.15	7.90	7.25	6.85
Class E	0.00	0.00	0.00	0.00	0.00
Overcollateralization					
Initial(i)	5.20	6.80	6.40	8.95	7.75
Target(ii)	9.05 + 1.50	12.60 + 1.50	10.30 + 1.50	12.50 + 1.50	12.75 + 1.50
Floor(i)	1.50	1.50	1.50	1.50	1.50
Reserve fund					
Initial(i)	1.00	1.00	1.00	1.00	1.00
Target(i)	1.00	1.00	1.00	1.00	1.00
Floor(i)	1.00	1.00	1.00	1.00	1.00
Total initial hard credit enhancement(i)					
Class A	54.70	55.60	52.85	53.65	52.60
Class B	40.45	41.95	40.70	42.00	40.75
Class C	27.40	28.90	28.60	30.50	28.25
Class D	13.75	15.95	15.30	17.20	15.60
Class E	6.20	7.80	7.40	9.95	8.75
Estimated excess spread per year(iii)	11.06	10.31	9.14	7.66	8.85

Note: Class A represents classes A-1 and A-2, collectively. (i)Percentage of the initial collateral pool balance. (ii)The overcollateralization target amount equals the stated percentage of the current pool balance plus 1.50% of the initial pool balance. (iii)Includes the 3.00% servicing fee. GCAR--GLS Auto Receivables Trust and GLS Auto Receivables Issuer Trust.

Collateral changes from GCAR 2023-1

The significant collateral changes in the GCAR 2023-2 statistical pool (as of March 31, 2023) from the GCAR 2023-1 closing pool include:

- The percentage of the pool balance that has ever been extended decreased to 1.86% from 8.64% due to a decrease in called collateral.
- The weighted average non-zero FICO score increased to 574 from 572.
- The weighted average proprietary score (e-score) increased to 657 from 649.
- The weighted average annual percentage rate (APR) increased to 20.96% from 20.77%.
- Loans with an original term of 67-72 months increased to 82.65% from 78.42%
- The weighted average seasoning decreased to 1.00 months from 6.06 months due to a decrease in called collateral.
- The percentage of collateral originated through the Core and Ally platforms increased to 51.77% from 50.72% and to 23.58% from 23.30%, respectively. According to GLS, the Ally

originated loans perform better than the Core loans (with a 10%-15% loss expectation versus 16%-17% for Core).

The collateral characteristics for the GCAR 2023-2 statistical pool are slightly stronger, in our view, than those for GCAR 2023-1 pool (see table 2), mainly due to the increase in the proprietary score. The final collateral pool of $328.40 million as of the April 30, 2023, cutoff date, is not expected to be materially different from the statistical pool. We have factored this into our expected loss for GCAR 2023-2 (see the S&P Global Ratings' Expected Loss section below).

Table 2

Collateral comparison(i)

	GCAR				
	2023-2	**2023-1**	**2022-3**	**2022-2**	**2022-1**
Pool balance (mil. $)	331.28	318.58	338.81	762.61	524.54
No. of receivables	15,178	17,162	14,691	32,308	24,843
Avg. principal balance ($)	21,826	19,095	23,062	23,604	21,114
WA APR (%)	20.96	20.77	18.46	15.75	15.24
WA original term (mos.)	70.34	69.77	69.39	69.87	69.90
WA remaining term (mos.)	69.35	63.71	67.03	67.56	65.27
WA seasoning (mos.)	1.00	6.06	2.36	2.31	4.63
Loans with original term of 61-66 mos. (%)	9.96	10.93	17.68	14.35	11.04
Loans with original term of 67-72 mos. (%)	82.65	78.42	71.80	76.79	79.42
New vehicles (%)	6.25	7.49	9.50	12.18	13.67
Used vehicles (%)	93.75	92.51	90.50	87.82	86.34
WA mileage	62,373	61,422	60,434	55,189	52,252
WA LTV ratio (%)	118.88	118.18	117.54	117.62	118.57
WA PTI ratio (%)	11.92	11.75	11.92	12.20	12.06
WA non-zero FICO score	574	572	577	576	575
FICO score (%)					
No score	6.11	6.68	6.42	5.82	5.70
375-499	9.40	9.87	8.04	8.04	6.60
500-524	9.78	10.21	8.99	8.66	8.46
525-549	13.41	13.55	13.64	12.79	12.97
550-574	14.85	14.92	15.07	15.41	16.83
575-599	15.16	14.84	15.85	16.74	18.30
600-624	16.19	15.58	16.49	16.94	16.77
625-649	7.38	6.93	7.45	8.66	9.39
650 and greater	7.71	7.44	8.06	6.92	4.99
WA proprietary credit score	657	649	649	642	642
Proprietary score (%)					
500 and lower	1.17	1.88	2.17	2.77	2.44

Table 2

Collateral comparison(i) (cont.)

	GCAR				
	2023-2	2023-1	2022-3	2022-2	2022-1
501-550	4.68	6.67	7.54	7.93	8.01
551-600	14.88	17.19	15.90	17.87	19.02
601-650	25.97	25.50	24.76	25.07	25.73
651-700	26.90	24.04	24.60	25.13	24.13
701 and greater	26.40	24.72	25.04	21.24	20.67
Ever extended (%)	1.86	8.64	1.46	1.00	4.11
Top three origination channel (%)					
CORE	51.77	50.72	53.41	51.92	51.45
Ally	23.58	23.30	23.70	25.08	25.34
Nissan	8.95	8.98	9.31	11.21	11.46
Other	15.71	17.00	13.59	11.79	11.51
Top five state concentrations (%)					
	TX=13.48	TX=13.85	TX=14.09	TX=14.87	TX=14.38
	CA=11.76	CA=10.93	CA=11.14	FL=8.87	CA=9.19
	FL=9.20	FL=9.31	FL=9.10	CA=8.57	FL=8.08
	GA=5.30	GA=6.03	GA=5.54	GA=5.66	GA=6.05
	OH=3.88	OH=3.86	NC=3.80	OH=4.15	NC=4.08

(i)All percentages are of the principal balance. WA--Weighted average. GCAR--GLS Auto Receivables Trust and GLS Auto Receivables Issuer Trust. APR--Annual percentage rate. LTV--Loan-to-value. PTI--Payment-to-income. CNL--Cumulative net loss. N/A--Not applicable.

Macroeconomic And Auto Finance Sector Outlook

Changes to the unemployment rate are a key determinant of charge-offs in the auto finance industry, in our view. 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 aggressive tightening of interest rates increases borrowing costs, we expect the U.S. economy to fall into a shallow recession later this year. We forecast slightly negative growth in the second and third quarters, with GDP growth averaging 0.70% 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 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 5.40% in second-quarter 2024 and then decline in late 2025.

Inflation remains a concern because it is eroding the wage gains and the savings cushion that was built during the COVID-19 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	2.0
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. Sources: 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: 17.50%

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

- The series' collateral characteristics relative to those of other outstanding GCAR series, including the representation in the transaction documents that all contracts in the pool have made at least one payment (see table 2);
- The managed portfolio performance, the origination static pool data, and their relative performances (see table 4); and
- The outstanding series' performance (see table 5 and charts 1-2).

When determining the expected loss for GCAR 2023-2, we placed more emphasis on recent origination static pool analysis (particularly from 2022) and the outstanding series' performance. 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 GCAR 2023-2 to experience lifetime CNLs of 17.50%, unchanged from series 2023-1.

Managed portfolio

GLS' managed portfolio decreased approximately 2.90% to $4.19 billion as of March 31, 2023, from $4.32 billion a year earlier (see table 4). As of March 31, 2023, total delinquencies as a percentage of the portfolio were 15.74%, up from 11.91% a year earlier. Delinquencies in the 31- to 60-days bucket and 61– to 90-days bucket were also slightly higher over the same period, and annualized net losses as a percentage of the average amount outstanding increased to 7.60% from 4.07%. The performance can be attributed to normalization, given the expiration of government stimulus programs, weaker recovery rates, and competitive conditions in the subprime auto sector in 2021 and 2022.

Table 4

Managed portfolio(i)

	As of March 31		As of Dec. 31				
	2023	2022	2022	2021	2020	2019	2018
Principal amount outstanding end of period (mil. $)	4,199.63	4,324.86	4,168.31	3,993.54	2,781.06	2,539.38	1,543.85
Delinquencies (%)							
31-60 days(ii)	11.07	8.45	12.44	9.88	11.16	12.20	10.97
61-90 days	2.88	2.02	4.26	2.82	3.45	4.01	3.57
90-plus days	1.79	1.43	2.14	1.69	2.09	2.05	2.03
Total delinquencies as a % of principal amount outstanding(iii)	15.74	11.91	18.83	14.40	16.69	18.27	16.56
Net charge-offs							
Average principal amount outstanding during the period (mil. $)	4,158.32	4,179.61	4,282.38	3,434.44	2,758.76	2,137.13	1,169.17
Net charge-offs as a % of average principal outstanding	7.60	4.07	5.44	2.60	5.13	5.92	5.62

(i)All amounts and percentages are based on the principal balances of the automobile loan contracts and may not add up to the total due to rounding. (ii)The amounts shown do not include automobile loan contracts that are less than 31 days delinquent. (iii)Does not include repossessed assets.

Origination static pool analysis

We received static pool loss performance data, segmented by gross loss and net loss on the aggregate portfolio, and by GLS' proprietary custom score, FICO score, and loan-to-value (LTV) ratio. We used 2013 through 2016 static pools to derive a loss timing curve to project lifetime losses on the more recent 2016 through 2021 origination vintages with at least 12 months of performance. We then weighted these projections, based on the GCAR 2023-2 pool composition by the cohorts described above, to derive a weighted average cumulative loss.

GLS transaction performance

GLS has 17 outstanding securitizations. In August 2022, we upgraded four classes of notes from GCAR 2021-1 (see "Four Ratings Raised From GLS Auto Receivables Issuer Trust 2021-1," published Aug. 12, 2022). In October 2022, we upgraded 25 classes and affirmed 11 from GCAR 2018-2 through 2021-3 (except 2021-1) (see "Twenty-Five Ratings Raised And 11 Affirmed On 12 GLS Auto Receivables Issuer Trust Transactions," published Oct. 14, 2022). In April 2023, we upgraded seven classes and affirmed two from GCAR 2021-4 and 2022-1, (see "Seven Ratings Raised And Three Affirmed On Two GLS Auto Receivables Issuer Trust Transactions," published April 14, 2023).

The rating actions reflect our views regarding these transactions' collateral performance at the time of the reviews, their future performance, structure, credit enhancement, and remaining cumulative net loss expectations, among other factors (see table 5).

Table 5

GCAR collateral performance and CNL expectations(i)

Series	Month	Pool factor (%)	Total delinq. (%	60+ days delinq. (%)	CNL (%)	Initial expected CNL (%)	Previous revised expected CNL (%)(ii)	Revised expected CNL (%)(iii)
2018-3	54	10.47	31.17	10.61	11.98	19.50-20.50	12.75-13.25	Up to 12.50
2019-1	50	12.53	30.69	11.26	12.29	19.50-20.50	13.00-13.50	Up to 13.00
2019-2	47	15.07	28.37	9.12	10.77	19.25-20.25	12.75-13.25	12.50
2019-3	44	18.38	26.51	8.28	9.63	19.25-20.25	12.50-13.00	12.00
2019-4	41	20.68	24.01	7.09	8.13	19.25-20.25	12.00-13.00	11.75
2020-1	38	23.14	23.60	6.73	7.87	18.50-19.50	12.00-13.00	11.75
2020-2	34	27.02	22.23	6.94	7.35	18.50-19.50	12.00-13.00	11.75
2020-3	32	28.79	20.67	5.84	5.89	21.50-22.50	12.00-13.00	11.75
2020-4	28	34.86	19.94	5.36	5.29	21.50-22.50	12.00-13.00	11.75
2021-1	25	37.77	20.80	6.26	5.71	21.25-22.25	N/A	12.75
2021-2	22	46.77	18.87	5.75	5.81	19.50-20.50	N/A	13.50
2021-3	19	52.98	17.22	4.72	5.95	19.00-20.00	N/A	14.50
2021-4	16	61.21	15.27	4.29	5.48	16.75-17.75	N/A	16.00
2022-1	13	66.85	15.82	4.35	5.28	16.25-17.25	N/A	17.50
2022-2	10	77.68	14.23	3.45	4.44	16.25-17.25	N/A	N/A
2022-3	7	85.69	11.86	3.46	2.59	16.25-17.25	N/A	N/A
2023-1	1	98.27%	6.58	0.24	0.00	17.00-18.00	N/A	N/A

(i)As of the April 2023 distribution date. (ii)GCAR 2018-3 through 2020-3 revised in February 2022. (iii)GCAR 2021-4 and 2022-1 revised in April 2023. GCAR 2018-2 through 2020-4, 2022-2, and 2022-3 revised in October 2022. GCAR 2021-1 revised in August 2022. GCAR--GLS Auto Receivables Trust and GLS Auto Receivables Issuer Trust. Delinq.--Delinquent. CNL--Cumulative net loss. N/A--Not applicable.

Chart 1

GLS Auto Receivables Trust's cumulative net loss by securitization

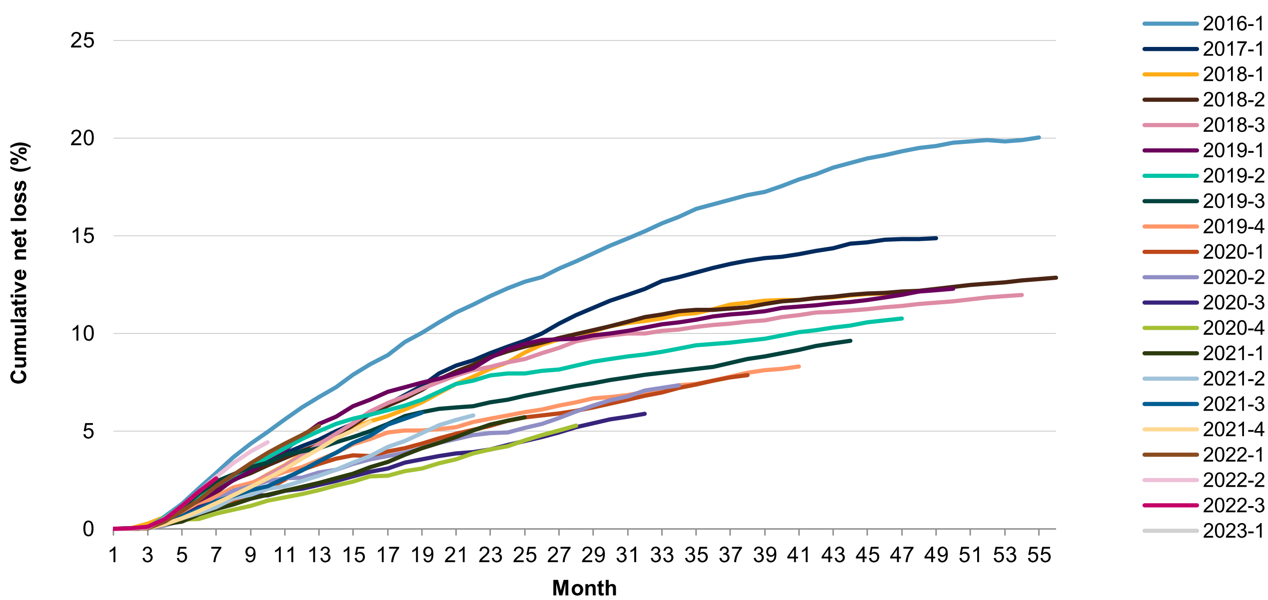
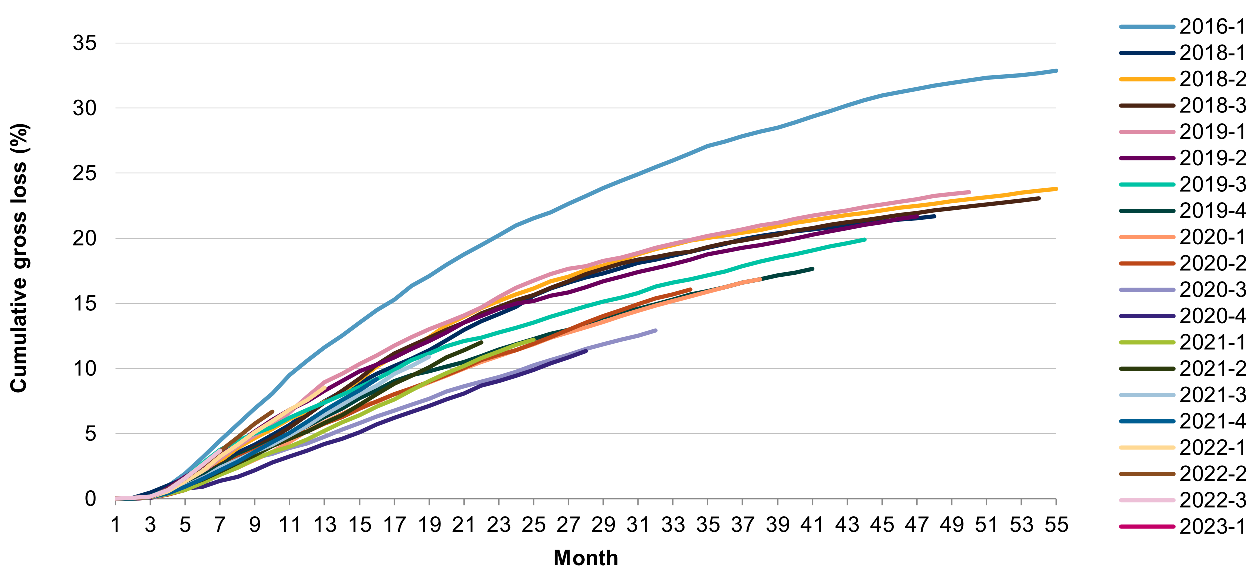


Chart 2

GLS Auto Receivables Trust's cumulative gross loss by securitization



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 GLS to GLS Auto Receivables LLC (the depositor) and from GLS Flow Intermediary Trust, GLS Flow Intermediary Trust-6, and GLS Flow Intermediary Trust-7 (the sellers) to the depositor. The depositor will then transfer the receivables to GLS Auto Receivables Trust 2023-2, the underlying trust. As the underlying trust, GLS Auto Receivables Trust 2023-2 will issue an underlying certificate representing beneficial ownership of the underlying trust property, the receivables, and related property to the depositor.

The issuing entity, GCAR 2023-2, a newly formed special-purpose Delaware statutory trust, will issue the notes and the certificate to the depositor in exchange for the transfer of the underlying certificate. The certificate represents the residual interest in the issuing entity and the asset, which includes the underlying certificate. The issuing entity and the underlying trust will pledge their interest in the receivables and their security interest in the vehicles to the indenture trustee for the noteholders' benefit (see chart 3).

Transaction structure

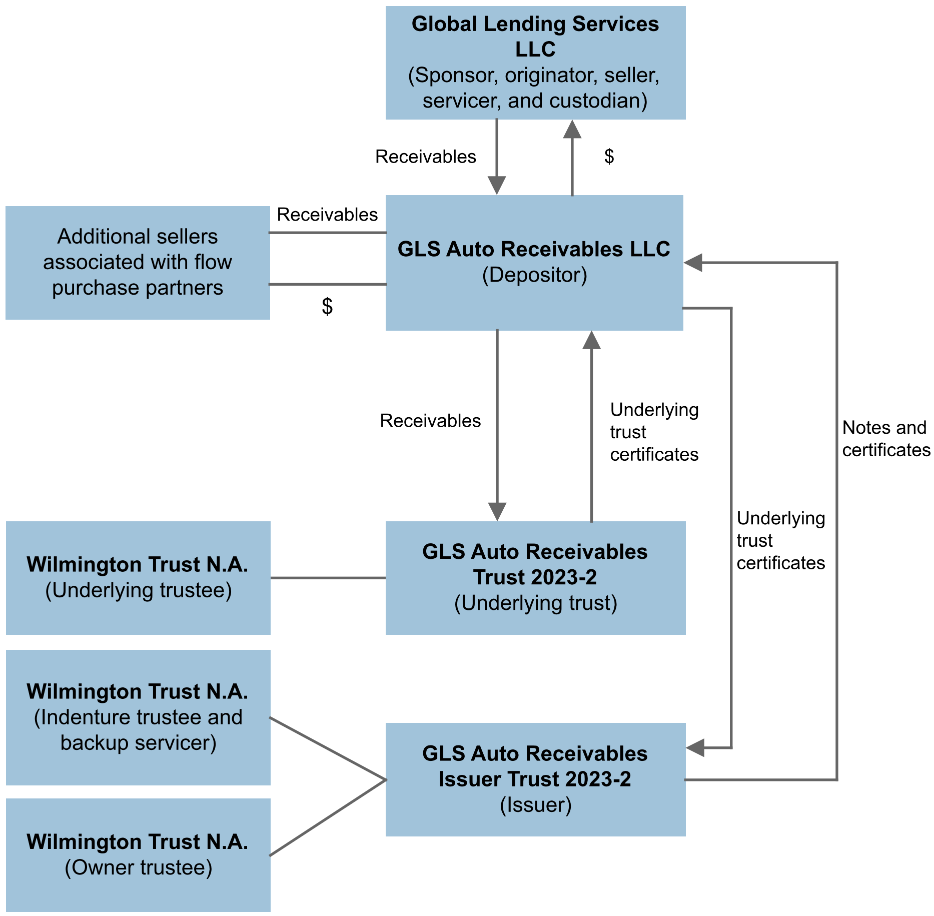
GCAR 2023-2 incorporates the following structural features:

- A senior-subordinated sequential-pay structure in which the senior-most notes outstanding are paid first.
- Initial overcollateralization of 5.20% of the initial pool balance that will build to a target of 9.05% of the current pool balance plus 1.50% of the initial pool balance by using any excess spread available after covering net losses to pay principal on the outstanding notes. The overcollateralization floor is set at 1.50% of the initial pool balance.
- A nonamortizing reserve account amount that will equal 1.00% of the initial collateral balance.
- Excess spread (to the extent available after covering net losses) to pay principal on the outstanding notes.

Chart 3 shows the transaction structure.

Chart 3

Transaction structure



Payment Priority

Payment distribution before an event of default

Before an event of default, distributions will be made from available funds, according to a specific payment priority on each payment date, starting on June 15, 2023 (see table 6).

Table 6

Payment waterfall

Priority	Payment
1	To the servicer, the servicing fee (3.00%), any supplemental servicing fees, any reimbursements for mistaken deposits, and any other related amounts. To any successor servicer, the transition fees up to the specified cap of $50,000.
2	To the indenture trustee, custodian, owner trustee, underlying trustee, and backup servicer, any accrued and unpaid fees, expenses, and indemnities: capped at $200,000 annually for the indenture trustee and backup servicer, 50,000 annually for the owner trustee and underlying trustee, and $25,000 annually for the custodian.
3	Class A note interest, pro rata.
4	Principal to reduce the class A principal balance by the make-whole amount, if any; then to the extent necessary to reduce the class A principal balance to the pool balance (the class A principal parity amount); and then to pay the remaining class A principal amount on its final scheduled distribution date.
5	Class B note interest.
6	After paying item 4 above, principal to the extent necessary to reduce the combined class A and B principal balance to the pool balance (the class B principal parity amount); and then to pay the remaining class B principal amount on its final scheduled distribution date.
7	Class C note interest.
8	After paying items 4 and 6 above, principal to the extent necessary to reduce the combined class A, B, and C principal balance to the pool balance (the class C principal parity amount); and then to pay the remaining class C principal amount on its final scheduled distribution date.
9	Class D note interest.
10	After paying items 4, 6, and 8 above, principal to the extent necessary to reduce the combined class A, B, C, and D principal balance to the pool balance (the class D principal parity amount); and then to pay the remaining class D principal amount on its final scheduled distribution date.
11	Class E note interest.
12	After paying items 4, 6, 8, and 10 above, principal to the extent necessary to reduce the combined class A, B, C, D, and E principal balance to the pool balance (the class E principal parity amount); and then to pay the remaining class E principal amount on its final scheduled distribution date.
13	To the reserve account, the amount necessary to achieve the specified reserve account amount.
14	Principal sequentially to achieve the specified overcollateralization amount (the principal payment amount).
15	To the indenture trustee, owner trustee, underlying trustee, custodian, backup servicer, and any successor servicer, any fees, expenses, and indemnities that exceed the related cap or annual limitation.
16	To the sponsor, any administrative expenses, up to the specified cap of $25,000, annually.
17	All remaining amounts to the certificateholders.

Events of default

Each of the following will constitute an event of default:

- A default in the interest payment on the senior-most class of notes that remains uncured for five days.
- A default in the principal payment on any class' final scheduled distribution date.
- The issuer failing to observe or perform any of its material covenants or agreements, or its representations or warranties being materially incorrect and not cured for 45 days (up to 90 days in certain cases). This requires notice by the indenture trustee or holders of more than 50.0% of the senior-most class.

- The issuer becoming insolvent.

Payment distribution 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, available funds will be distributed as outlined in table 7. However, the payment in item 14 will include all available funds until the total note balance has been reduced to zero, and the fees, expenses, and indemnities in items 1 and 2 will not be limited.

On each payment date, if an event of default (except when solely from a covenant, agreement, representation, or warranty breach), the acceleration of the notes, or the trust assets' liquidation has occurred, available funds will instead be distributed in the priority shown in table 7.

Table 7

Payment waterfall following an event of default other than covenant, agreement, or representation and warranty breaches

Priority	Payment
1	To the servicer, custodian, owner trustee, underlying trustee, indenture trustee, and backup servicer, certain amounts due and owing to those entities without caps.
2	Class A note interest.
3	Class A note principal sequentially between classes A-1 and A-2 until paid in full.
4	Class B note interest.
5	Class B note principal until paid in full.
6	Class C note interest.
7	Class C note principal until paid in full.
8	Class D note interest.
9	Class D note principal until paid in full.
10	Class E note interest.
11	Class E note principal until paid in full.
12	To the sponsor, any administrative expenses, up to the specified cap of $25,000, annually.
13	All remaining amounts to the certificateholders.

Servicer termination events

The occurrence of any of the following will constitute a servicing termination:

- The servicer fails to deliver any required payment to the indenture trustee and it remained unremedied for two business days.
- The servicer fails to deliver the servicer's certificate by the first business day before the distribution date; or, if the failure was caused by an unforeseen event, on or before the fifth business day after the related distribution date.

- The servicer fails to observe or perform any covenant or agreement materially, which adversely affects the noteholders' rights, and it remains unremedied for 45 days.
- The servicer becomes insolvent.
- Any materially incorrect servicer representation, warranty, or statement remains unremedied for 45 days.

If a servicer termination occurs, the indenture trustee or a majority of the noteholders holding the senior-most class can terminate the servicer's rights and obligations.

Cash Flow Modeling Assumptions And Results

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

The cash flow modeling scenarios were performed on the cutoff collateral pool of $328.40 million as of April 30, 2023, which is not expected to be materially different from the March 31, 2023, statistical pool of $331.28 million (as shown in the Collateral section above and table 2).

Break-even analysis

For the GCAR 2023-2 transaction structure, we applied the assumptions outlined in table 8 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.

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 9).

Table 8

Break-even cash flow assumptions

Voluntary ABS (%)	0.95
Servicing fee (%)	3.0
Recovery rate ('AAA' & 'AA'/'A' to 'BB-') (%)	37.5/40.0
Charge-off and recovery lag (mos.)	4
CNL timing mos. (12/24/36/48/60) (%)	
Front-loaded loss curve	35/65/90/100
Back-loaded loss curve	25/55/80/95/100

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

Table 9

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	75/100	42/78/100	35/65/90/100	35/65/90/100	35/65/90/100
Back-loaded loss curve	72/100	36//79/100	28/61/88 /100	25/55/80/95/100	25/55/80/95/100
Approx. break-even CNL levels (%)(i)					
Required	56.0	47.3	36.8	27.1	22.2
Available: front-loaded loss curve	56.2	47.4	36.9	27.3	23.0
Available: back-loaded loss curve	56.2	47.5	38.3	28.2	22.5

(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 outlined in table 9 above. We believe that under a moderate ('BBB') stress scenario (1.60x of 17.50% 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 in "S&P Global Ratings Definitions," published Nov. 10, 2021 (see also table 10 and charts 4-5).

Table 10

Credit stability as a limiting factor on ratings

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

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

Chart 4

'BBB' sensitivity loss coverage multiples (front-loaded loss curve)

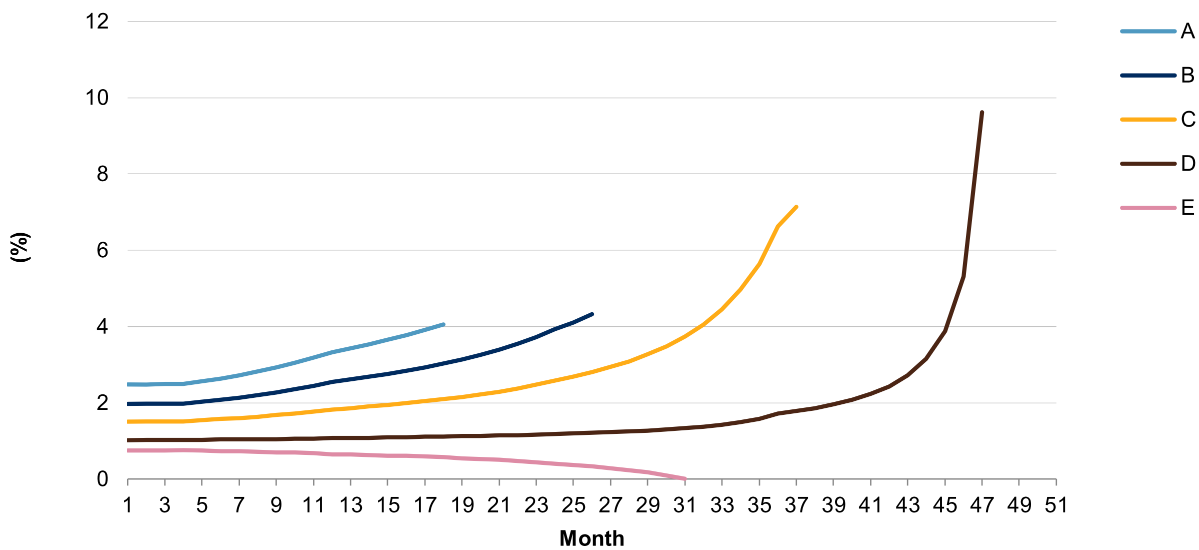
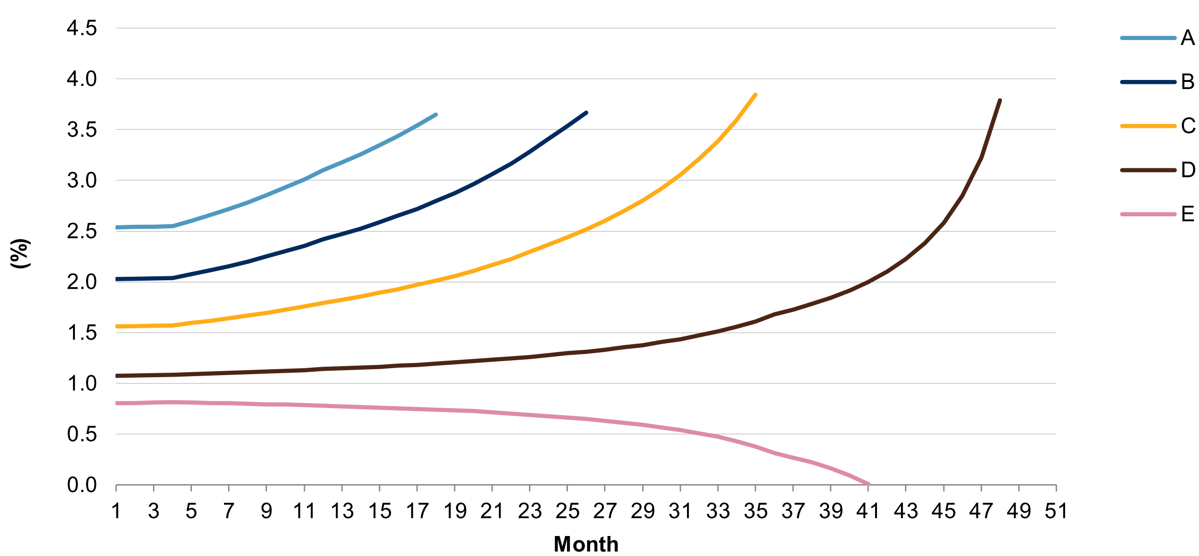


Chart 5

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



Money market tranche sizing

The proposed money market tranche's (class A-1) legal final maturity date is May 15, 2024. To test whether the money market tranche can be repaid by its maturity date, we ran cash flows using assumptions to delay the principal collections. We assumed zero defaults and a 0.25% absolute prepayment speed for our cash flow analysis, and we checked that approximately 11 months of principal collections would be sufficient to pay off the money market tranche.

Legal final maturity

To test the legal final maturity dates set for classes A-2, B, C, and D, we determined the date when the respective notes would be fully amortized in a zero-loss, zero-prepayment scenario and then added three months to that date. For the longest-dated security (class E), we added nine 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

Bank account provider

On or before the closing date, the GCAR 2023-2 bank accounts will be established in the name of the indenture trustee, Wilmington Trust N.A., as segregated trust accounts. 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).

GLS has a long history in the subprime auto finance business. As servicer, GLS has an experienced management team that oversees origination, underwriting, servicing, collections, and general operational practices. A backup servicer, Wilmington Trust N.A., is engaged for the outstanding series, which along with the loan file subcustodians, Wells Fargo Bank N.A. and DealerTrack, would enable servicing transition if necessary. Commingling risk is addressed in this transaction by the requirement that all payments are deposited to a lockbox account to which the servicer's access is limited. Payments are then transferred to a deposit account in the name of the special-purpose entity and held with an eligible counterparty. Our operational risk assessment of GLS as servicer does not constrain the ratings (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014).

GLS will act as custodian of the loan contracts and the related loan files. The transaction documents contain provisions for transition of the custodian to the indenture trustee under certain events.

Regulatory

GLS and the key transaction parties are may be subject to various regulatory investigation and/or legal proceedings that may arise in their ordinary course of business. We are not aware of any proceedings at this time that may constraint our counterparty and operational risk assessment.

GLS

GLS is a Delaware limited liability company that was formed on Oct. 28, 2011. GLS is an independent auto finance company that buys auto retail installment sales contracts secured by new and used vehicles from automobile dealers. It is headquartered in Greenville, S.C., where most of its operations are located. It also has a servicing center in Tempe, Ariz.

GLS primarily offers financing to consumers who are unable to obtain financing from traditional financing sources such as banks, credit unions, and captive automobile finance companies. GLS' typical customer has experienced prior credit difficulties, has a limited credit history, and generally has a FICO score ranging from 470 to 620 (though some customers do not have a FICO score).

GLS funds its contract originations through its warehouse lines of credit and an arrangement with its flow purchase partners.

As of March 31, 2023, GLS had 982 full-time employees operating in 48 states, and it maintains a dealer network of over 13,500 automobile dealerships. The company also had total assets of approximately $4.84 billion and loss absorbing capital of approximately $448.35 million.

GLS has been operating in the automobile finance business since August 2012. The company acquired Resurgent Auto Finance LLC (RAF) in 2012 with equity from Doug Duncan and BlueMountain Capital Management LLC, a diversified alternative asset manager. Since its founding, GLS has steadily grown its business, with a focus on building out the company's infrastructure, validating its scorecards, and optimizing its business platform. The company's managed portfolio decreased slightly to $4.19 billion as of March 31, 2023, from $4.32 billion a year earlier.

Related Criteria

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

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

Related Research

- Seven Ratings Raised And Three Affirmed On Two GLS Auto Receivables Issuer Trust Transactions, April 14, 2023)
- U.S. Auto Loan ABS Tracker: February 2023 Performance, April 11, 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
- Twenty-Five Ratings Raised And 11 Affirmed On 12 GLS Auto Receivables Issuer Trust Transactions, Oct. 14, 2022
- Four Ratings Raised From GLS Auto Receivables Issuer Trust 2021-1, Aug. 12, 2022