Presale:

Lendbuzz Securitization Trust 2024-1

January 16, 2024

PRIMARY CREDIT ANALYST

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Preliminary ratings

Class	Preliminary rating	Type	Interest rate(i)	Amount (mil. $)	Legal final maturity date
A-1	NR	Senior	Fixed	39.22	Jan. 15, 2025
A-2	AA- (sf)	Senior	Fixed	138.64	Aug. 15, 2029
B	A- (sf)	Subordinate	Fixed	17.89	Sept. 17, 2029
C	NR	Subordinate	Fixed	22.98	Sept. 16, 2030

Note: This presale report is based on information as of Jan. 16, 2024. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i)The interest rate for each class will be determined on the pricing date. NR--Not rated.

Profile

Collateral	Mix of nonprime and subprime auto loan receivables.
Issuer	Lendbuzz Securitization Trust 2024-1.
Sponsor, servicer, seller, and originator	Lendbuzz Funding LLC.
Depositor	Lendbuzz Depositor II LLC.
Indenture trustee and bank account provider	Wilmington Trust N.A. (A-/Stable/A-2).
Owner trustee and custodian	Wilmington Savings Fund Society FSB.
Backup servicer	Vervent Inc.

Rationale

The preliminary ratings assigned to Lendbuzz Securitization Trust 2024-1's (LBZZ 2024-1) automobile receivables-backed notes reflect:

- The availability of approximately 24.70% and 17.63% credit support (hard credit enhancement and haircut to excess spread) for the class A-2 and B notes, respectively, based on stressed cash flows. These credit support levels provide at least 2.88x and 2.19x coverage of our expected cumulative gross loss (ECGL) of 17.50% for the class A-2 and B notes, respectively, taking into account a cumulative recovery rate of 51.00% and 54.00% for the class A-2 and B notes, respectively. (See the Credit Enhancement And Collateral and the Cash Flow Modeling

Assumptions And Results sections).

- The expectation that under a moderate ('BBB') stress scenario (1.78x our expected gross loss level), all else being equal, our preliminary 'AA- (sf)' and 'A- (sf)' ratings on the class A-2 and B notes, respectively, are within our credit stability limits (see the Cash Flow Modeling Assumptions And Results section).
- The timely payment of interest and principal by the designated legal final maturity dates under our stressed cash flow modeling scenarios, which we believe are appropriate for the assigned preliminary ratings.
- The collateral characteristics and credit risk of the series' automobile loans, modest credit to the servicer's right to pursue dealer recourse payments on certain auto loans in the pool in the event of obligor default, 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).
- Our operational risk assessment of Lendbuzz Funding LLC (Lendbuzz) as servicer, and our view of the company's underwriting and backup servicing arrangement with Vervent. The operational risk assessment constrains the rating at 'AA (sf)'.
- The series' bank accounts at Wilmington Trust N.A., which do not constrain the preliminary ratings.
- Our assessment of the transaction's potential exposure to environmental, social, and governance credit factors that are in line with our sector benchmark.
- The transaction's payment and legal structures.

Environmental, Social, And Governance

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

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

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

Key Rating Considerations

LBZZ 2024-1 is Lendbuzz's sixth auto ABS transaction and the first rated by S&P Global Ratings. Based on our assessment of Lendbuzz's operations and review of its performance history, our preliminary ratings assigned to LBZZ 2024-1 are capped at 'AA (sf)'. The transaction's credit support further limits our rating on class A-2 to 'AA- (sf)'.

We considered the following strengths in rating this transaction:

- The company has an established record of profitability and capital fund raising. Lendbuzz has been profitable since 2021, reporting audited GAAP net income of $6 million and $15 million in 2021 and 2022, respectively. For the 11 months ended Nov. 30, 2023, net income was $9.2 million (after noncash stock compensation). Despite the lower net income, equity increased to $200.2 million from $158.1 million (as of Dec. 31, 2022) due to additional paid-in capital. Its funding sources include three separate secured warehouse lines that have multi-year commitments. In addition, it maintains forward flow arrangements with several financial institutions. The company also maintains an unsecured corporate working capital line.
- The company has a unique and generally successful approach to underwriting auto loans to underserved populations, namely those with limited or no credit file. Its credit decisions, while based on a multitude of factors, include an evaluation of the applicant's banking history and activity (up to 12-18 months). This robust bank-provided data set is analyzed in its Artificial Intelligence Risk Analysis (AIRA) platform, which uses custom machine learning algorithms to assess credit risk, verify obligor identity, and check for fraud. The AIRA platform also uses the cash flow-related bank data to verify the applicant's income and assess their income stability and ability to pay as measured by the payment-to-income ratio (PTI). Further, approximately 90% of its borrowers set up their auto payments as recurring automated payments through their banks. In addition, approximately 40% of its auto loans are originated at independent dealerships that have dealer agreements with Lendbuzz that stipulate that the dealer is obligated to buy back loans funded by Lendbuzz if the borrower defaults at any time during the term of the loan. Lendbuzz's successful pursuit of these recourse payments have contributed to its historically high recovery rates. For purposes of our analysis, we applied a considerable haircut to the historical recourse recovery rates and assumed a high percentage of these dealers defaulted on these obligations.
- Lendbuzz's auditors, Deloitte & Touche LLP, have been in place since at least 2021. Deloitte & Touche provided a clean audit opinion with respect to Lendbuzz's 2022 and 2021 financials, which included assessing the company's ability to continue as a going concern for at least the next 12 months. It also provided an external audit in December 2023 affirming Lendbuzz's compliance with the servicing criteria on its servicing platform during the period of Oct. 1, 2022, through Sept. 30, 2023. The criteria included general servicing and collections, lender and investor remittances and reporting, pool asset administration, and cash management.
- Lendbuzz has diverse funding sources. It maintains three retail auto loan committed warehouse facilities (across four banks) totaling $797.5 million. These facilities have staggered maturities beginning in April 2025. As of Dec. 31, 2023, approximately half of the committed amount was undrawn, and approximately $25.0 million was available based on the borrowing bases. The bank credit facilities contain certain performance covenants with respect to loan delinquencies, charge-offs, and deferrals and financial covenants, including maintaining certain levels of liquidity, leverage, and tangible net worth. As of Dec. 31, 2023, Lendbuzz was in compliance with all applicable covenants in the agreements. Lendbuzz also has access to the debt capital market and has completed five ABS transactions totaling $800.0 million (LBZZ

2021-1 through LBZZ 2023-3). It also has a $20 million corporate working capital line of credit and maintains forward-flow programs with a number of institutions that buy certain of its auto loan originations.

Despite the strengths outlined, we believe that risks and limitations, taken as a whole, weigh against assigning a preliminary rating higher than 'AA (sf)' to a Lendbuzz transaction at this time. Our highest rating for LBZZ 2024-1 transaction is lower at 'AA- (sf)' due to credit enhancement, in our view, being commensurate with only a 'AA-' stress scenario.

We considered the following risks and limitations in rating this transaction:

- Limited performance data, with much of it being favorably impacted by COVID-19-related excess savings and stimulus payments. While the company started originating loans in 2016, the first year in which it originated a significant amount ($100 million or more) wasn't until 2019. Given that performance on its 2019-2021 originations benefited from the above-mentioned unusual economic circumstances, we believe that these vintages' low default and loss levels are not reflective of future performance on its more recent originations. Indeed, performance has weakened considerably for its 2022- and 2023-originated loans.
- Rapid portfolio growth. In less than three years, Lendbuzz's portfolio has increased to nearly $1.5 billion as of Nov. 30, 2023, from only $148.6 million as of Dec. 31, 2020. In our view, changing economic conditions (including the negative effects of inflation on its customer base) and slowness in building out its infrastructure have led to higher delinquencies and charge-offs in its managed portfolio and securitizations. To better manage its expanding portfolio, the company has nearly tripled its servicing team since last fall, hired an experienced head of collections manager (March 2023) and new head of remarketing (November 2023), engaged third-party collections firms to assist with inbound and early-stage outbound calls (November 2023), and increased its minimum custom score cut-off in January 2023 and again in November.
- The Israel-Hamas conflict could pose additional risks to this transaction and the operations of the company. Certain members of the company's management (including one of its co-founders, who is also Lendbuzz's Chief Technology Officer) and IT teams are located in Tel Aviv, and some of its staff have been called up for active duty. This could place additional burden on the company's existing staff.
- Many of Lendbuzz's customers are immigrants and may not be U.S. citizens. Changes in immigration policies or enforcement could cause some of these customers to emigrate from the U.S., leading to higher delinquency and loss levels. Lendbuzz seeks to mitigate this risk by examining the stability of the applicant's income (via bank activity) and requiring certain of its dealers to maintain recourse provisions in their dealer agreements that require them to reimburse Lendbuzz in the event of obligor default.
- Most of Lendbuzz's underwriting and collection staff work virtually. The majority of the auto finance companies for which we provide ABS ratings have had a sizeable portion of their staff return to the office. Given the company's short history and rapid growth, we believe its work-from-home policy poses additional oversight and training burdens and makes it more difficult to create a cohesive culture focused on continuous improvement. We believe time will tell if its approach remains successful. According to management, its staff turnover rates have been low.

Credit Enhancement And Collateral

Structural changes from LBZZ 2023-3

Notable changes to credit enhancement compared to LBZZ 2023-3, which S&P Global Ratings did not rate, include:

- Total initial hard credit enhancement for class A-2 and B increased to 22.45% and 14.55%, respectively, from 14.40% and 10.75% (see table 1).
- Subordination for class A-2 and B increased to 18.05% and 10.15%, respectively, from 9.40% and 5.75%.
- Initial overcollateralization is 3.40%, down from 4.00%, of the initial collateral pool balance. It will grow to a target of 7.50%, up from 5.50%, of the initial collateral pool balance.
- The estimated excess spread (pre-pricing) increased to 6.44% from 2.85% (post-pricing).

Our stressed cash flow results indicate that class A-2 and B in the LBZZ 2024-1 transaction is enhanced to a degree consistent with the assigned 'AA- (sf)' and 'A- (sf)' preliminary ratings, respectively (see the Cash Flow Modeling Assumptions And Results section below).

Table 1

Credit enhancement summary (%)

	LBZZ	
	2024-1	2023-3(iv)
Subordination(i)		
Class A	18.05	9.40
Class B	10.15	5.75
Class C	-	-
Overcollateralization		
Initial(i)	3.40	4.00
Target(ii)	7.50	5.50
Floor(i)	0.50	0.50
Reserve fund(i)		
Initial	1.00	1.00
Target	1.00	1.00
Floor	1.00	1.00
Total initial hard credit enhancement(i)		
Class A	22.45	14.40
Class B	14.55	10.75
Class C	4.40	5.00
Estimated excess spread per year (%)(iii)	6.44	2.85

(i)Percentage of the initial collateral pool balance. (ii)The overcollateralization target amount equals the stated percentage of the current pool balance. (iii)Excess spread is post-pricing for series 2023-3. (iv)Not rated by S&P Global Ratings. LBZZ--Lendbuzz Securitization Trust.

Collateral changes from LBZZ 2023-3 and prior transactions

Notable changes to collateral compared to LBZZ 2023-3 and prior Lendbuzz transactions, which S&P Global Ratings did not rate, include:

- The weighted average non-zero FICO score increased to 704 from 703, with prior LBZZ transactions ranging from 671 (2021-1) to 703 (2023-3).
- The percentage of loans without a FICO score increased to 49.62% from 47.83%, with prior LBZZ transactions ranging from 47.83% (2023-3) to 55.75% (2022-1).
- The weighted average AIRA score increased to 675 from 662; prior LBZZ transactions had AIRA scores ranging from 613 (2021-1) to 662 (2023-3).
- The weighted average original term decreased to 64.14 months from 64.84 months, with prior LBZZ transactions ranging from 55.55 months (2021-1) to 64.84 months (LBZZ 2023-3).
- The weighted average principal balance decreased to $26,823 from $28,631; prior LBZZ transactions ranged from $17,745 (2021-1) to $28,631 (2023-3).
- The weighted average retail loan-to-value (LTV) increased to 99.56% from 98.77%; prior LBZZ transactions had LTVs ranging from 90.00% (2021-1) to 98.77% (2023-3).
- The weighted average APR increased to 15.23% from 13.14%, with prior LBZZ transactions ranging from 11.68% (2022-1) to 14.01% (2023-2).
- The percentage of loans with original terms of 67-72 months decreased to 44.82% from 49.30%; prior LBZZ transactions ranged from 0.40% (2021-1) to 49.30% (2023-3).
- The percentage of loans with recourse decreased to 40.68% from 42.21%, with prior LBZZ transactions ranging from 42.21% (2023-3) to 55.07% (2022-1).

Overall, we believe the collateral statistics from Lendbuzz's 2021-1 through 2023-3 transactions indicate that the company has generally improved its mix of collateral, as demonstrated by its weighted average AIRA score increasing to 667 for 2024-1 from 613 for 2021-1, and the weighted average non-zero FICO score increasing 704 for 2024-1 from 671 for 2021-1. However, the performance has not borne that out (see the LBZZ Series Performance section and charts 2-4). In our opinion, the company's performance had been negatively affected by the same factors that has led to higher losses for other subprime lenders: persistent inflation (including higher auto insurance premiums and housing costs), which has had a disproportionate impact on this customer base; the lender's rapid growth in lending to this segment, which may have come at the expense of credit quality; consumers starting to take out more debt having spent their COVID-19-related savings; and lower used vehicle values.

Approximately 40% of the pool is concentrated in Florida. Within the Florida mix, the top four concentrations are in the following metropolitan statistical areas (MSAs): Miami (50.0%), Orlando (28.9%), other (5.5%), and Tampa (5.3%). This poses additional risk to the transaction should be there be natural disasters or regional economic downturns. The company seeks to address some of these risks by requiring that its obligors have collateral insurance coverage at the time that the loan is made, and additionally, it maintains vendor single insurance (VSI) to further protect it against collateral loss.

Lendbuzz's first securitization, 2021-1--which is experiencing the lowest losses of its ABS--had significant seasoning (nine months) and included a different mix of collateral than what it has been securitizing since 2022-1; its performance may not be reflective of subsequent transactions.

We have factored this into our expected loss for LBZZ 2024-1 (see the S&P Global Ratings' Expected Loss section below).

Tables 2 and 3 show the LBZZ pool collateral characteristics and the LBZZ 2024-1 collateral compared to peers, respectively.

Table 2

Collateral comparison(i)

	LBZZ 2024-1	LBZZ 2023-3(ii)	LBZZ 2023-2(ii)	LBZZ 2023-1(ii)	LBZZ 2022-1(ii)	LBZZ 2021-1(ii)
Pool balance (mil. $)	226.438	234.777	169.954	206.206	207.180	211.747
No. of receivables	8,442	8,200	6,269	7,336	8,416	11,933
Avg. principal balance ($)	26,823	28,631	27,110	27,994	24,617	17,745
WA APR (%)	15.23	13.14	14.01	13.93	11.68	13.28
WA original term (mos.)	64.14	64.84	64.49	63.15	58.89	55.55
WA remaining term (mos.)	61.73	61.97	62.34	60.04	55.51	45.57
WA seasoning (mos.)	2.41	2.87	2.15	3.11	3.38	9.98
Original term <= 60 mos. (%)	54.18	49.85	54.76	61.85	85.46	97.67
Original term of 61-66 mos. (%)	1.00	0.85	0.39	0.32	1.59	1.93
Original term of 67-72 mos. (%)	44.82	49.30	44.85	37.84	12.95	0.40
New vehicles (%)	14.05	13.67	15.43	11.65	10.29	8.14
Used vehicles (%)	85.95	86.33	84.57	88.35	89.71	91.86
WA mileage	47,897	47,491	54,680	46,084	54,680	47,944
WA LTV ratio (%)	99.56	98.77	98.50	95.28	91.81	90.00
WA PTI ratio (%)	11.34	11.45	11.34	12.13	11.74	12.76
WA non-zero FICO score	704	703	697	700	678	671
FICO score (%)						
Minimum FICO score	500	500	500	500	500	500
Non-FICO	49.62	47.83	55.49	51.68	55.75	51.84
<620	3.20	3.61	3.77	4.13	9.72	11.97
620-680	11.52	12.34	11.63	13.28	10.20	11.13
>680	35.66	36.22	29.11	30.93	24.33	25.07
AIRA score (%)						
Minimum	400	400	400	400	386	300
WA proprietary credit score	675	662	663	647	640	613
386-450	1.32	5.07	4.31	5.33	8.54	17.70
451-575	19.03	20.10	23.35	27.11	25.09	23.20
576-699	36.21	31.80	27.59	30.33	29.29	25.32
>=700	43.43	43.03	44.75	37.23	37.08	33.80

Table 2

Collateral comparison(i) (cont.)

	LBZZ 2024-1	LBZZ 2023-3(ii)	LBZZ 2023-2(ii)	LBZZ 2023-1(ii)	LBZZ 2022-1(ii)	LBZZ 2021-1(ii)
Dealer channel (%)						
Independent recourse	40.68	42.21	42.93	51.07	55.07	46.45
Independent non-recourse	24.68	24.55	26.55	25.40	26.74	41.81
Franchise non-recourse	34.64	33.24	30.52	23.54	18.19	11.74
Top three state concentrations (%)						
	FL=40.21	FL=41.07	FL=45.26	FL=39.47	FL=44.08	FL=33.93
	MA=12.63	MA=13.59	MA=14.29	MA=19.74	MA=18.84	MA=23.06
	NY=11.35	NY=11.81	TX=10.46	NY=12.38	NY=11.30	CA=15.59

(i)All percentages are of the principal balance. (ii)Not rated by S&P Global Ratings. LBZZ--Lendbuzz Securitization Trust. WA--Weighted average. APR--Annual percentage rate. LTV--Loan-to-value. PTI--Payment-to-income. AIRA-- Artificial Intelligence Risk Analysis. N/A--Not applicable.

The company tends to originate and securitize loans with shorter terms than many of its peers. This allows for more rapid amortization of the loan balance, and thus has contributed to historically higher recovery rates. Approximately 50% or more of its securitized loans have an original term of 60 months or less (see tables 2 and 3 for collateral characteristics).

Table 3

Collateral peer comparison

	LBZZ 2024-1	GSAR 2024-1	FCRT 2023-2
Principal balance (mil. $)	226	164	178
No. of contracts	8,442	6,023	7,942
Avg. loan balance	26,823	27,166	22,466
WA APR (%)	15.23	16.45	15.93
WA LTV ratio (%)(i)	99.56	120	111
Contracts with no FICO score (%)	49.62	0.00	0.88
WA non-zero FICO score (%)	704	688	645
WA original term (mos.)	64.14	73.26	72.10
WA remaining term (mos.)	61.73	72.49	64.80
Seasoning	2.41	0.77	7.40
Contracts of 61-72 months (%)	45.82	31.23	63.59
Contracts of 73-75 months (%)	0	67.73	31.58
New vehicles (%)	14.05	16.87	7.38
Used vehicles (%)	85.95	83.13	92.62
Top three state concentrations (%)			
	FL=40.21	CA=15.08	TX=12.85

Table 3

Collateral peer comparison (cont.)

	LBZZ 2024-1	GSAR 2024-1	FCRT 2023-2
	MA=12.63	TX=14.72	GA=7.26
	NY=11.35	FL=11.98	MO=6.37
Original lifetime CNL exp. (%)(ii)	6.50	9.00	9.25
Original lifetime CGL exp./implied CGL exp. (%)(i)	17.50	16.36	18.50

(i)Retail LTV for LBZZ, wholesale LTV for other issuers. (ii)CNL expectation is implied for LBZZ; CGL expectation implied for GSAR and FCRT. LBZZ--Lendbuzz Securitization Trust. GSAR--GLS Auto Select Receivables Trust. FCRT--Foursight Capital Automobile Receivables Trust. WA--Weighted average. APR--Annual percentage rate. LTV--Loan-to-value. CNL exp.--Cumulative net loss expectations. CGL--Cumulative gross loss.

Macroeconomic And Auto Finance Sector Outlook

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

The U.S. economy has continued to outperform expectations. Better-than-expected growth has led us to revise our 2024 U.S. GDP forecast upward by 0.2 percentage points to 1.5%. However, this is down from 2023's forecasted GDP growth of 2.4% because the market's resiliency will be tested going forward as real interest rates stay relatively high in the coming year and the lags of tightened monetary policy feed through the economy. Other reasons for caution include that: real disposable income has declined four months in a row, with the savings rate falling to a very low 3.4% in September (well below the pre-COVID-19 pandemic average) from the 5.1% average in the second quarter of 2023; consumers are showing signs of strain due to increased debt loads, and, according to the Federal Reserve Bank of New York/Equifax credit data, the ratio for seriously delinquent auto loans is already at its highest level outside of recessionary periods (driven primarily by the subprime segment, which is about one-seventh of the total outstanding auto loan balances); and student-loan payments have resumed, which will put upward pressure on debt service ratios and could negatively affect consumer spending.

It is estimated that 24 million borrowers whose student loan payments were suspended at the onset of the pandemic resumed payments in October 2023 with an average payment of approximately $300 per month. According to TransUnion, approximately one-third of those consumers with student loan debt took on new auto loan debt during the pandemic. The added student debt payment will be burdensome for those consumers who are financially stressed, which could negatively affect auto loan ABS performance. We believe, based on past economic cycles, that consumers for whom the vehicle is essential for work will continue to prioritize their auto loan/lease payments before their other consumer and student loan payments.

Weaker economic growth will cause demand for labor to decrease further and the unemployment rate to rise in the next two years--to 4.6% in 2025 from 3.9% in October 2023 (see "Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking," published Nov. 28, 2023). We're already seeing unemployment benefit claims continue to rise above the 2019 average, suggesting it has become more difficult to find jobs for people when they're laid off, and employment in the temporary help services sector was down 6.1% from a year ago, a decline of a magnitude that has been a harbinger of a recession in the past.

Table 4

U.S. economic factors (%)

	Actual	Forecast			
	2022	2023	2024	2025	2026
Real GDP (% year-over-year growth)	2.1	2.4	1.5	1.4	1.8
Unemployment rate (% annual average)	3.6	3.7	4.3	4.6	4.5
Consumer Price Index (% annual average)	8.0	4.1	2.4	2.1	2.1

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 Gross Loss: 17.50%

Given the degree to which recourse recoveries have reduced Lendbuzz's historical cumulative net loss levels and our inability to give full credit to these, our analysis was one based primarily on an expected gross loss (EGL) level, and then we applied our stressed recovery rates depending upon the stress scenario. For purposes of this analysis, we examined the following for the LBZZ 2024-1 transaction:

- Origination gross loss data, generally from 2018 through most of 2023, both in aggregate (see chart 1) and segmented by the three dealer channels, AIRA score, and FICO score.
- Origination recovery data provided by the company for its three dealer channels, which indicated that recourse defaults since 2022 that have aged at least six months have had an all-in weighted average recovery rate of approximately 87%. On a similar basis, the recovery rates for non-recourse independent dealers and franchise dealers were approximately 56% and 83%, respectively.
- The outstanding LBZZ series performance (see table 6 and charts 3-5).
- The company's managed portfolio data (see table 5).
- The transaction's collateral characteristics relative to those of the outstanding series and Lendbuzz's peers (see tables 2 and 3).

Given the company's limited performance history, with most of it being favorably impacted by COVID-19 and the deterioration in its recent securitization performance, for our gross loss proxy, we placed more emphasis on its recent ABS performance than on its historical origination data. Also, given that the company hasn't yet had a paid-off securitization and loss timing has likely been impacted by changing economic conditions, our projected default levels by deal varied significantly depending upon whether we used an aggregate origination default curve (based on the company's 2018-2019 originations) or a straight-line projection. Overall, we believe that a base cumulative gross default level of 17.50% takes into account the company's recent deterioration in performance and does not account for its recent tightening of credit standards. Our ECGL is before any recoveries.

As noted above, we analyzed Lendbuzz's historical recovery rates by dealer channel. An incremental haircut was then applied to the historical recovery rates, increasing in tandem with ratings. Particular attention was paid to the recourse loans due to the dealer default risk. For these loans, we applied our dealer default/repurchase criteria as documented in "Criteria: Global

Auto ABS Methodology And Assumptions," published March 31, 2022 (table 4 therein), which led to our assumption that an increasing percentage of the dealers would default on this obligation as the stress scenario increased to 'AA' from 'B'. In addition, the recoveries we assumed on both the performing recourse dealers and the nonperforming ones were slightly lower than historical levels provided by the company. We also assumed lower-than-historical recovery rates on the nonrecourse independent and franchise programs given that we do not expect recovery rates to remain as robust going forward as they have been. All-in our stressed recovery rates at the 'AA-' and 'A-' levels were 51% and 54%, respectively.

Managed portfolio

Lendbuzz's managed portfolio grew approximately 82.8% to $1.49 billion as of Nov. 30, 2023, from $817.15 million a year earlier (see table 5). Total delinquencies as of Nov. 30, 2023, increased to 3.65% from 2.37% as of Nov. 30, 2022. Gross defaults annualized as a percentage of average month-end principal outstanding increased to 6.77% for the 11 months ended Nov. 30, 2023, compared to 4.46% for the same period ended Nov. 30, 2022, reflecting normalization of losses to pre-pandemic levels and changing economic conditions. Persistent inflation, especially for lower-income obligors, is affecting vehicle affordability and borrowers' ability to meet their monthly payment obligations. Additionally, many live in states wherein auto loan insurance premiums have increased in one year by double digits. We believe the company's substantial growth over the last three years and the lag in hiring appropriate personnel may also have contributed to higher gross losses.

The company's recoveries include liquidation proceeds on liquidated collateral, dealer recourse payments (for the contracts that defaulted under their independent recourse program), dealer reserve, rebates on ancillary products (due to early default or early termination of loan), and VSI insurance claims.

Table 5

Managed portfolio

	As of November 30		Year end			
	2023	**2022**	**2022**	**2021**	**2020**	**2019**
Portfolio at end of period (mil. $)	1,493.93	817.15	731.72	375.38	148.64	103.91
Avg. month-end amount outstanding during the period (mil. $)	967.95	518.23	536.02	139.92	122.37	67.08
Delinquency (%)						
31-60 days	2.38	1.63	1.55	1.08	0.47	0.54
61-90 days	0.88	0.59	0.33	0.21	0.01	0.00
91 days or more	0.39	0.15	0.35	0.29	0.24	0.19
Total	3.65	2.37	2.24	1.58	0.72	0.74
Gross defaults (mil. $)	60.05	21.17	24.49	8.51	5.09	1.93
Gross defaults (% of the avg. amount outstanding)(i)	6.77	4.46	4.57	6.08	4.16	2.94
Recoveries (mil. $)	35.58	13.85	15.55	5.85	3.91	1.31
Recovery as % of gross defaults	59.25	65.41	63.48	68.72	76.81	67.88
Net loss (mil. $)	24.47	7.32	8.94	2.66	1.18	0.62
Net loss (% of avg. amount outstanding)(i)	2.76	1.54	1.67	1.90	0.96	0.92

(i)Annualized for Nov. 30, 2023, and 2022.

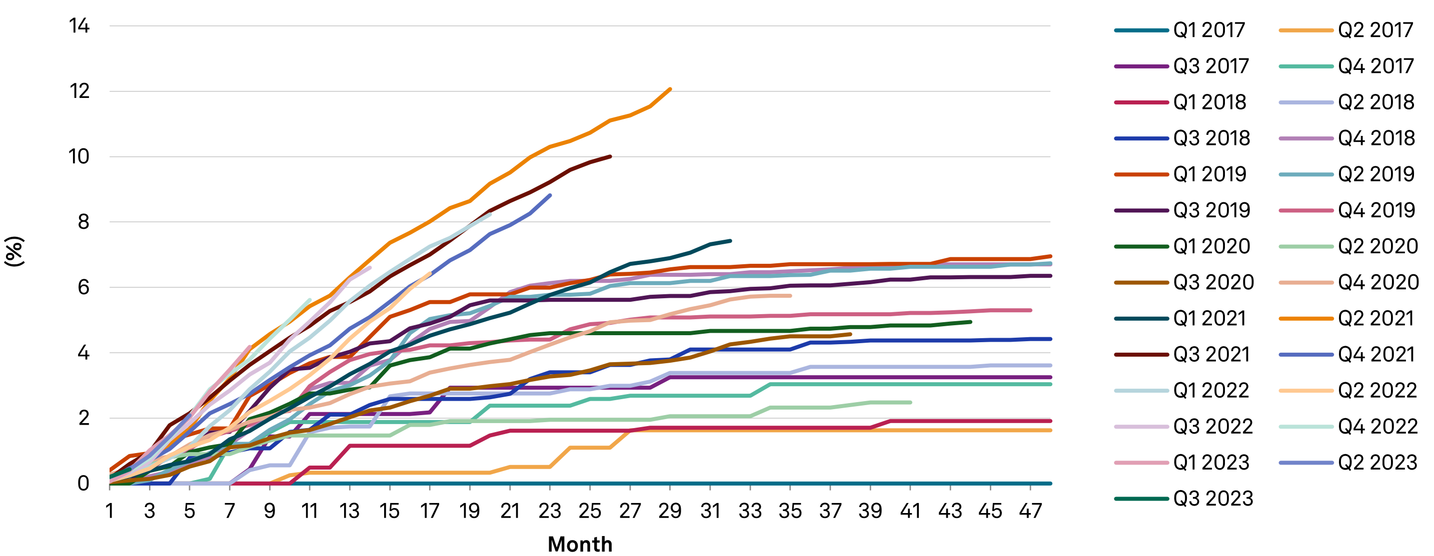
Origination static pool analysis

Our analysis is based on over six years (2017-2023) of static pool data on the company's programs. Lendbuzz provided static pool performance data by quarterly origination, segmented by FICO, AIRA, and origination channel, as well as on an aggregate basis.

In our analysis, we used the quarterly origination static pool data in all segmentations provided: aggregate, FICO, AIRA, and channel. We used Lendbuzz's paid-off static pool vintage loss curves to project losses for the outstanding quarterly vintages through fourth-quarter 2022. We then calculated weighted average projected loss proxies for each segment by weighting each outstanding vintage's projected loss by the origination dollar amount for the respective vintage. Finally, we computed a weighted average projected loss for the pool by weighting the loss proxies for each sub-category in the respective segments by its respective percentage of the current pool.

Chart 1

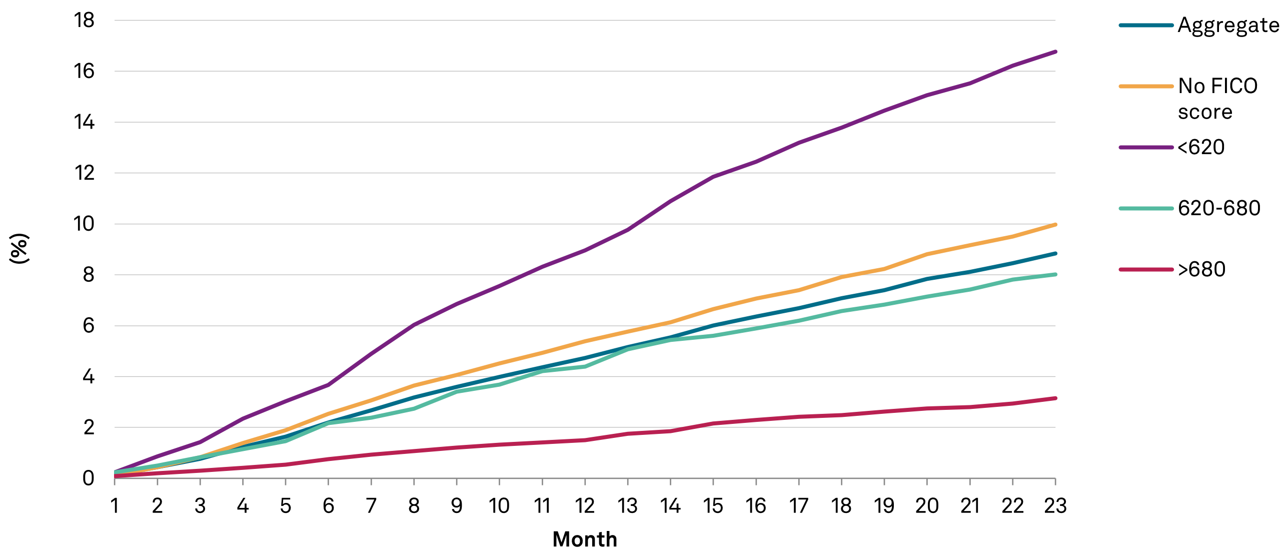
Lendbuzz cumulative defaults by vintage



Lendbuzz transactions have historically included a large percentage of loans without a FICO score (49.62% in LBZZ 2024-1). This doesn't necessarily indicate higher risk as Lendbuzz's vintage data indicates that its non-FICO-score loans have generally performed better than the sub-620 FICO score loans.

Chart 2

Lendbuzz cumulative defaults by FICO score--2021 vintage



LBZZ's series performance

Lendbuzz has five outstanding securitized deals. The performance on the outstanding Lendbuzz securitizations has become successively worse with each deal despite improving collateral composition (see table 6 and charts 3-5). The securitizations are showing weakness on both a cumulative gross loss and CNL basis, and management attributes recent performance deterioration to macroeconomic and inflationary pressures.

Table 6

Lendbuzz collateral performance(i)

Series	Month	Pool factor (%)	Current CGL (%)	Current CRR (%)	Current CNL (%)	60-plus-day delinquency (%)
LBZZ 2021-1(ii)	25	24.54	6.40	67.89	2.06	1.76
LBZZ 2022-1(ii)	19	48.00	7.87	64.84	2.77	1.53
LBZZ 2023-1(ii)	9	77.03	4.56	46.48	2.44	1.31
LBZZ 2023-2(ii)	6	86.80	3.43	32.94	2.30	1.25
LBZZ 2023-3(ii)	2	94.58	0.64	0.80	0.63	0.54

(i)As of the Dec. 15, 2023, distribution date. (ii)Not rated by S&P Global Ratings. LBZZ--Lendbuzz Securitization Trust. CGL--Cumulative gross loss. CRR--Cumulative recovery rate. CNL--Cumulative net loss.

Chart 3

Lendbuzz cumulative defaults by series

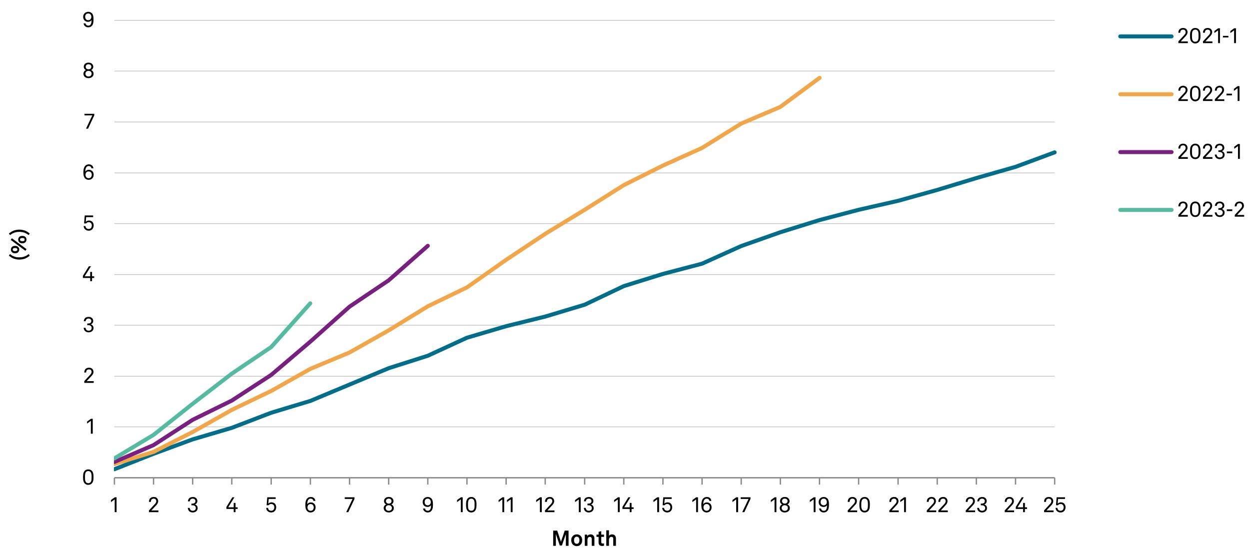


Chart 4

Lendbuzz cumulative recovery rate by series

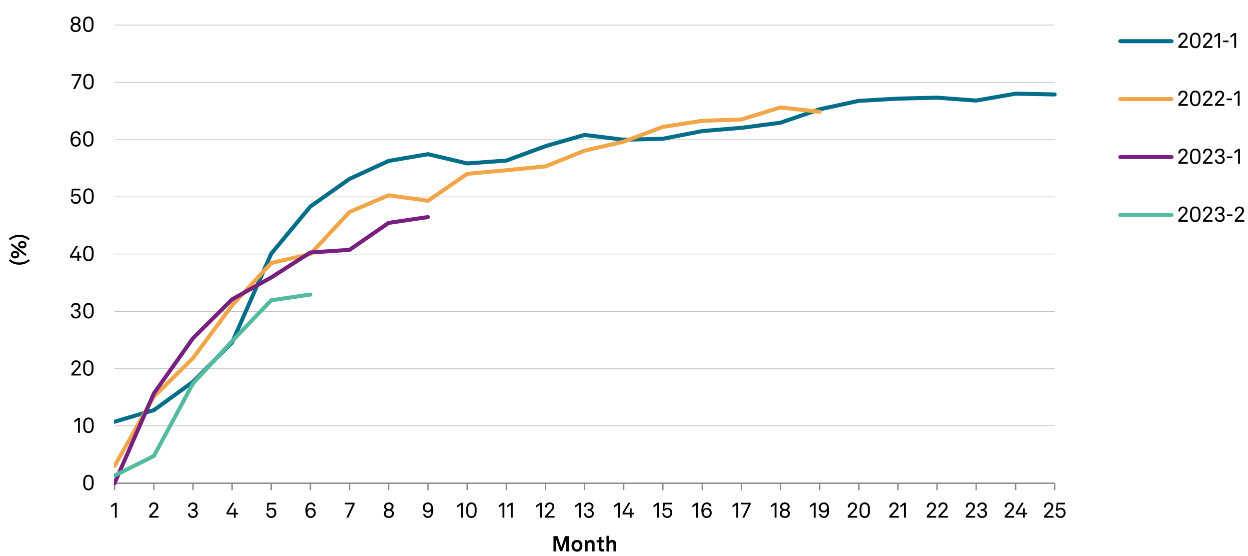
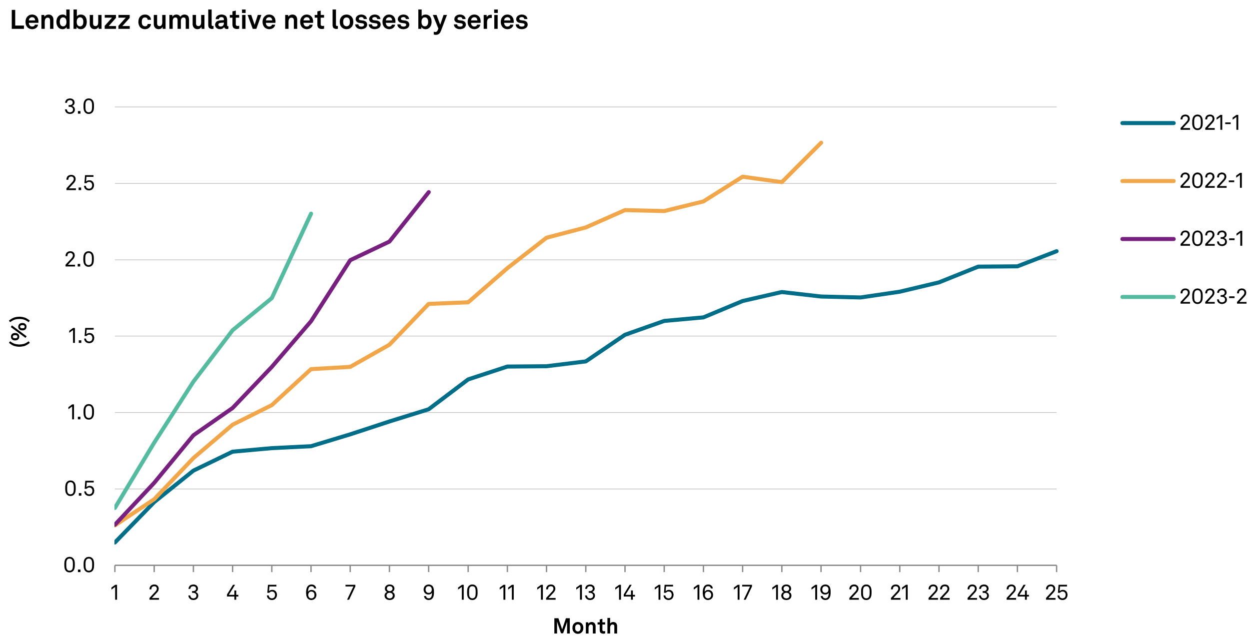


Chart 5



Legal Overview And Transaction Structure

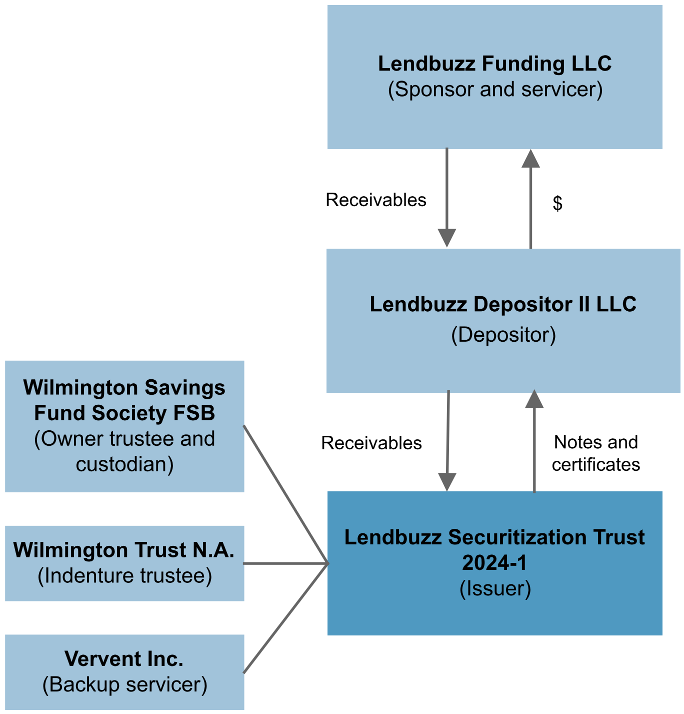
Legal overview

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 Lendbuzz Funding LLC to Lendbuzz Depositor II LLC, the depositor. The depositor will then sell those receivables to the issuing entity, LBZZ 2024-1, a newly formed Delaware statutory trust, the issuer of the notes. The depositor will transfer all of its interest in the receivables pool to the issuing entity. Lendbuzz Securitization Trust 2024-1 will pledge its interest in the receivables and its security interest in the vehicles to the indenture trustee for the benefit of the noteholders (see chart 6).

Chart 6

Transaction structure



Transaction structure

LBZZ 2024-1 incorporates certain structural features:

- A senior-subordinated sequential-pay structure in which the senior-most notes outstanding are paid first.
- Initial overcollateralization of 3.40% of the initial pool balance that will build to the greater of 7.50% of the pool balance as of the last day of the related collection period and 0.50% of the initial pool balance, by using any excess spread available after covering net losses to pay principal on the outstanding notes.
- A nonamortizing reserve account amount that will equal 1.00% of the cutoff date pool balance as of the closing date.
- Excess spread (to the extent available after covering net losses) to pay principal on the outstanding notes. Excess spread is estimated to be 6.44% (pre-pricing) per year.
- An optional clean-up call of 5.00% of the initial pool balance.

Payment Priority

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

Table 7

Payment waterfall

Priority	Payment
1	To the servicer, the servicing fee (2.0%), 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 $100,000.
2	To the indenture trustee, custodian, owner trustee, and backup servicer, any accrued and unpaid fees, expenses, and indemnities, capped at $150,000 annually.
3	Class A note interest, pro rata.
4	Principal 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	To the reserve account, the amount necessary to achieve the specified reserve account amount.
10	Principal sequentially to achieve the specified overcollateralization amount (the principal payment amount).
11	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.
12	All remaining amounts to the certificateholders.

Events of default

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

- 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, holders of more than 25.0% of the outstanding notes, or the sponsor.
- The issuer becoming insolvent.

Payment distributions after an event of default

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

Table 8

Payment waterfall

Priority	Payment
1	To the servicer, the servicing fee (2.0%), any supplemental servicing fees, any reimbursements for mistaken deposits, and any other related amounts. To any successor servicer, the transition fees without cap.
2	To the indenture trustee, custodian, owner trustee, and backup servicer, any accrued and unpaid fees, expenses, and indemnities without cap.
3	Class A note interest, pro rata.
4	Principal 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	To the reserve account, the amount necessary to achieve the specified reserve account amount.
10	Principal sequentially until each outstanding class is paid in full.
11	All remaining amounts to the certificateholders.

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

Table 9

Payment waterfall 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, 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	All remaining amounts to the certificateholders.

Servicer termination events

A servicing termination will occur upon any of the following:

- The servicer fails to deliver any required payment to the indenture trustee and it remained unremedied for two business days.
- 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.

Backup servicer

Vervent Inc. will act as a backup servicer and could become the successor servicer in the event of a servicing termination event. According to the transaction documents, upon termination of the servicer, the responsibilities of the servicer shall automatically pass to and become obligations and responsibilities of the backup servicer (or such other successor servicer appointed by the majority noteholders), and the backup servicer (or such other successor servicer so appointed) shall complete the transition of such servicing responsibilities to itself within 45 days.

Each month, the servicer will deliver to the backup servicer the monthly data file containing the information necessary to prepare the investor report, and the backup servicer will confirm there are no discrepancies. However, to the extent inconsistencies are identified by the backup servicer, it is not required to notify the servicer and the indenture trustee until the fifth day following the related distribution date. This time delay is unusual.

Prior to the closing date, the backup servicer shall have completed all data mapping, and once per year, it shall update/amend data mapping to the extent the monthly tape from the servicer includes new fields.

We believe the presence of a backup servicer arrangement could help facilitate a smoother servicing transfer in the event of a servicer termination event, especially to the extent such servicer has the willingness and expertise to not only collect auto loan payments and liquidate the collateral, but also to pursue dealer recourse obligations. The transaction documents explicitly indicate that the conveyed property from Lendbuzz to the depositor, and in turn to the trust, include rights of recourse against any dealer (as applicable under the dealer agreements). Further, the documents indicate that the servicer is authorized to pursue legal proceedings related to a dealer and that the servicer will use commercially reasonable efforts to realize any available rights of recourse against any dealer (as applicable).

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 LBZZ 2024-1 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 it to be equal to or greater than the rating stressed scenario break-even requirement.

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

Table 10

Break-even cash flow assumptions

	AA-	A-
Voluntary ABS (%)	1.40	1.40
Servicing fee (%)	2.00	2.00
Recovery rate (%)	51.00	54.00
Charge-off and recovery lag (mos.)	4	4
CNL timing mos. (12/24/36/48/100)(%)		
Front-loaded loss curve	50/85/95/100	50/85/95/100
Back-loaded loss curve	20/50/70/90/100	20/50/70/90/100

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

Table 11

Break-even cash flow results

	Class	
	A-2	B
Preliminary rating	AA- (sf)	A- (sf)
CNL timing mos. (12/24/36/48/100) (%)		
Front-loaded loss curve	50/85/95/100	50/85/95/100
Back-loaded loss curve	26/65/91/100	23/57/80/99/100
Approx. break-even CGL levels (%)(i)		
Required	50.40	38.33
Available: front-loaded loss curve	51.49	38.91
Available: back-loaded loss curve	53.42	42.02
Approx. break-even CNL levels (%)(i)		
Required	24.70	17.63
Available: front-loaded loss curve	25.23	17.90

Table 11

Break-even cash flow results (cont.)

	Class	
	A-2	B
Available: back-loaded loss curve	26.17	19.33

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

Sensitivity analysis

In addition to running break-even cash flows, we undertook sensitivity analysis using the assumptions outlined in table 9. We believe that under a moderate ('BBB') stress scenario (1.78x of 17.50% expected gross loss level) and with 90.0% credit to any excess spread, all else being equal, our preliminary ratings will be within the credit stability limits specified by section A.4 of the Appendix of "S&P Global Ratings Definitions," published June 9, 2023 (see table 12).

Table 12

Credit stability as a limiting factor on ratings

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

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

Chart 7

Sensitivity analysis (front-loaded loss curve)

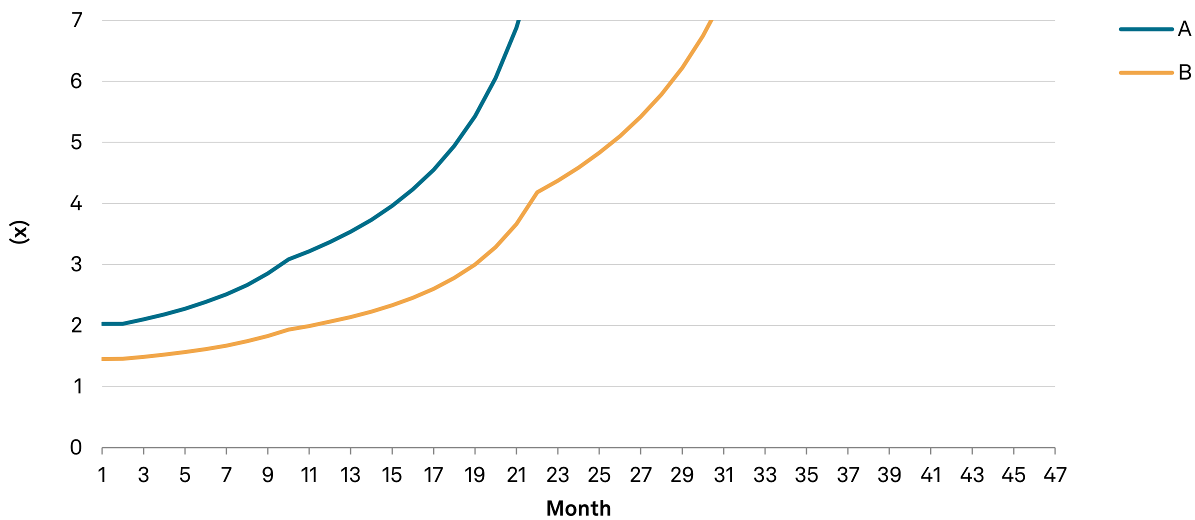
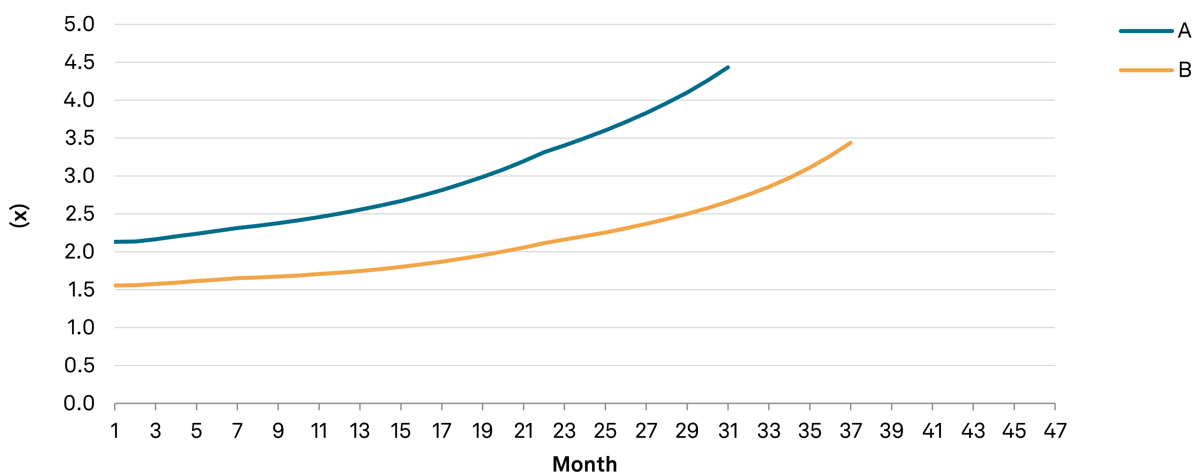


Chart 8

Sensitivity analysis (back-loaded loss curve)



Legal final maturity

To test the legal final maturity dates set for classes A-2 and B, we determined when the respective notes would be fully amortized in a zero-loss and zero-prepayment scenario, and then added three months to that date. Further, in the break-even scenario for each respective rating level, we confirmed that the credit enhancement was sufficient to both cover losses and repay the related notes in full by the legal final maturity date.

Counterparty And Operational Risks

On or before the closing date, the LBZZ 2024-1 bank accounts will be established in the name of the indenture trustee, Wilmington Trust N.A., as segregated trusts accounts and will initially be established with the bank account provider, Wilmington Trust N.A. The bank account provider is consistent with our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019) and do not constrain the preliminary ratings.

Lendbuzz is not rated by S&P Global Ratings, and commingling risk is addressed by the requirement that all collections are deposited into the series collection account within two business days of being deposited into the servicer account, which is an account that will be governed under a depository account control agreement in favor of the indenture trustee. Obligors are directed to make their payments directly to the servicer account. Other collections that Lendbuzz receives on behalf of these accounts (such as recoveries, recourse payments, and payoffs) are required to be deposited to the servicer account with in two days.

Our operational risk assessment of Lendbuzz as servicer constrains the ratings at 'AA (sf)'; however, the credit enhancement in LBZZ 2024-1 only supports ratings of up to 'AA- (sf)' (see Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014). The capped rating reflects the operational risks related primarily to its limited performance history and the recent volatility thereof. See Key Rating Considerations above.

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

Lendbuzz

Lendbuzz Inc. was founded as an auto finance company in Boston in 2015 by two Israeli immigrants who studied at Massachusetts Institute of Technology (MIT) and who couldn't obtain auto credit due to their lack of credit history in the U.S. Originally, the company financed similarly situated international students and expatriates. Today, its wholly-owned subsidiary Lendbuzz Funding LLC (Lendbuzz) focuses on making and servicing auto loans to underserved populations that have bank accounts. The company focuses on collecting more data from its customers during the credit application stage, including the applicant's bank account activity, to make better credit decisions using its internally-built AI credit scoring platform, AIRA.

Loan applications are directed to Lendbuzz by dealers through its software portal or DealerTrack and RouteOne, as appropriate. While at the dealership, those applicants who have been conditionally approved (based on soft credit pull, stated income, and vehicle info sourced directly Manheim, Carfax, and NADA), are alerted via a text message to link his/her bank account and statements (generally 12 months of data is reviewed). This rich data, which feeds into the company's proprietary AIRA platform, not only allows for robust verification of the customer but provides detailed financial information that is used to assess his/her ability and willingness to repay the loan. If the loan is approved, the customer receives a text with a link to Docusign to sign their documents (all of the loans are originated as electronic contracts). At the same time, customers can sign up to make their payments on a recurring ACH basis, and the majority do.

Lendbuzz currently focuses on four retail consumer segments:

- No credit file/No FICO score: customers without a credit file but who have sufficient verifiable income within a U.S. bank account to support auto loan payments (approximately 50% of its originations);
- Thin file: customers with thin credit bureaus but who have sufficient verifiable income within a U.S. bank account to support auto loan payments;
- Near prime and prime: customers with a full credit file who have sufficient verifiable income within a U.S. bank account to support auto loan payments; and
- Subprime: customers with a full credit file whose credit scores are depressed due to tradelines that according to Lendbuzz do not have a high correlation with auto performance and who have sufficient verifiable income within a U.S. bank account to support auto loan payments.

Management team

During our operations review meeting with the company in September 2023, we met with four senior executives (the two cofounders, the CFO, and the vice president [VP] of data science). In subsequent virtual meetings, we met with the VP of operations and director of underwriting. While most had limited auto finance experience before joining Lendbuzz, all of them have been with the company since at least 2019. Abbreviated biographies for certain of the senior management team are listed below.

Amitay Kalmar--CEO and cofounder: Prior to co-founding Lendbuzz, Mr. Kalmar was a Vice President at Deutsche Bank's Technology Investment Banking practice where he worked with technology companies to successfully complete IPOs, debt financing, and M&A transactions. He holds an MBA from MIT Sloan School of Management, M.Sc. in Computer Science from the Interdisciplinary Center Herzliya, and B.Sc. in Computer Science and Mathematics from Tel-Aviv University.

Dan Raviv--CTO and cofounder: Prior to co-founding Lendbuzz, Mr. Raviv was a post-doctoral researcher at MIT, conducting research in Machine Learning and Computer Vision. During his 10 years in academia, he lead research and scientific projects across an array of machine learning and computer science topics. He received his Ph.D. and M.Sc. in Computer Science from the Technion--Israel Institute of Technology. In addition to his academic experience, he worked at HP labs in the research and development division and spent eight years in the Israeli Air Force managing professional teams, where he was an active pilot and ranked major.

George Sclavos--CFO: Prior to joining Lendbuzz in 2019, Mr. Sclavos served as CFO for Laurel Road, a FinTech company and FDIC-insured bank offering online lending and digital deposit products to super prime millennials. He ran its ABS program and left in 2019 when the company was sold to Key Bank. Prior to Laurel Road, he held finance, analytics, and risk management positions within the small business lending and credit card industries at CAN Capital, 1st Financial Funding & Investments, and Capital One. Mr. Sclavos holds an MS from Columbia University.

VP of data science--The VP of data science joined the company in 2018. Prior to that, he held various IT-related positions, including research assistant at MIT's Media Lab, software engineer at Google, software developer at LinkedIn, and infrastructure developer at Tower Research Capital LLC. He obtained his PhD in Machine Learning from MIT in 2018.

VP of operations--The VP of operations joined Lendbuzz in 2019. Prior to that, she served as an executive in business operations at Baker Hughes (a GE company), where she led a large team across multiple countries that executed sourcing strategies for over $1 billion in global products and services. Prior to that, she held similar executive business operation positions in strategic sourcing or strategy at GE, which followed her time in the company's corporate audit staff and financial management program (GE Aviation), which is a two-year leadership development program. She obtained her MBA from the Wharton School.

Ownership

Management owns a significant portion of the company (greater than 20%), with no individual or investor owning more than approximately 20%.

Dealer channel

Lendbuzz's initial dealer base was primarily independents, with the majority being on a full recourse program whereby the dealer agreement stipulates that the dealer is obligated to buy back the loans at the outstanding loan amount at any time over the course of the loan if the borrower defaults. The company has successfully pursued these recourse payments upon borrower default, and as such, this channel has the highest recovery rate of the three dealer programs. Even in situations where the dealers have gone out of business, recoveries have been strong. Our rating approach gave varying credit to this arrangement based on the stress scenario run (see Expected Loss Scenario).

Since 2020, the company has rapidly expanded its dealer base from approximately 228 to 1,000 by the second quarter of 2023. Beginning in 2020, the company started providing retail financing at franchise dealers, and this line of business has grown rapidly, representing more than one-third of its origination volume by third-quarter 2023 (see table 13). Across all three programs, Lendbuzz takes a portion of the financed loan amount to fund the dealer's reserve, which the company uses to offset losses stemming from the respective dealer's loans. While these are included in Lendbuzz's recovery data, we gave little to no credit to these.

Table 13

Composition of originations by dealer channel (third-quarter 2023)

Dealer channel	Percentage (%)
Independent dealers recourse	43
Independent dealers non-recourse	21
Franchise	36

Credit scoring/AIRA

An AIRA score is calculated for all applications, with scores ranging from 300 to 850. AIRA utilizes a number of data points, with the majority of the score coming from bank account statistics, which provides in-depth insights into the applicant's cash flow (income and expenses), and the trend and stability thereof. It also allows the company to more accurately measure PTI and gauge the applicant's willingness to pay their obligations in a timely fashion based on their history of late fees and not sufficient funds/overdrafts. Other information used in the AIRA score include credit bureau information, education information, and employment information.

Based on data we reviewed, the AIRA score seems to rank order risk appropriately, with the lower scoring bands having higher losses than the higher scoring bands. We also observed that over most time periods, the company's no-FICO-score loans performed better than its lowest FICO score band (less than or equal to 620).

Underwriting

Lendbuzz's AIRA platform is intended to automate credit decisioning but often the system identifies flags, which must be reviewed and cleared by an underwriter. Items that are often flagged for manual review are: income, PTI, proof of ownership, name mismatch, structure of loan including inadequate downpayment, derogatory credit, or AIRA score below a certain level. According to the company, AIRA exceptions are rare, and only the director of operations and a senior loan officer can make the exception, which are logged. Overall, the company approved 21.5% of the applications that it had conditionally approved (these occur before downloading the applicant's bank information) from October 2022 through October 2023.

Lendbuzz's underwriting team works remotely across several states, including California, Massachusetts, and Florida. It has sufficient staff such that it has coverage seven days a week from 10 a.m. to 10:30 p.m. Eastern Standard Time. The director of underwriting has been with the company since 2018, when she joined as an underwriting associate. Most of the underwriters that hired have come credit unions or auto finance companies where they've underwritten home loans, credit cards, or auto loans.

Servicing/collections

Lendbuzz's auto loans are serviced using the servicer's custom developed loan servicing platform. Lendbuzz has a 47-person servicing team, with 10 members supporting customer service and 37 supporting collections. Certain members of the team support the company's online chat bot. Collections are divided into three groups: outbound/early stage, mid-stage, and late stage. These collection activities generally take place virtually in the collectors' homes (mostly in California, Massachusetts, and Florida). Lendbuzz monitors their daily activities, including service levels, abandonment rates, dollars collected, and time logged in and spent on calls. According to management, their turnover has been less than 10%. In addition to Lendbuzz's in-house servicing team, Lendbuzz works with third-party collections firms. The third-party collections firms take inbound calls and make outbound calls with resources dedicated solely to Lendbuzz.

The company recently hired (March 2023) a new head of collections who had previous managerial experience in loan servicing and collections at Exeter and Ally.

A high percentage (90%) of its customers sign up to make their loan payments via recurring ACH. This is easy to do given that the portal they've used to link their bank account is the same one where this option can be clicked. Deferrals are offered for hardship for a maximum of three months over the life of the loan. The company installs an anti-theft/GPS unit on most of the financed vehicles to assist in locating the vehicles for repossession, if necessary. They can also be used by the customer to locate their vehicle if it has been stolen. The company does not use starter-interrupt devices.

Repossessions generally take place between 45 and 60 days' delinquent by licensed third-party agents. Those vehicles that were financed under the dealer recourse program are generally returned back to the originating dealers. The other vehicles are generally sold through wholesale auctions.

The company records a default as a repossession, voluntary surrender, or account that is 120 days past due, regardless of repossession or surrender status. Its charge-off definition is slightly different, and we believe it is unique. The company records a charge-off when: monthly payment is 120 days past due, provided that in the event a financed vehicle has been repossessed or surrendered and subsequently liquidated before 120 days past due and the amount collected from such disposition is sufficient to make the obligor technically current on his loan (even though he is not in possession of the vehicle), such loan will not be 120 days past due (the number of days delinquent would reset to zero on the date such payment is applied) and will not constitute a "charged-off receivable" until 120 days following such date; or an insolvency event relating to the related obligor of such receivable has occurred or such obligor is deceased. If a vehicle has been repossessed or surrendered and subsequently dispositioned before 120 days past due, the charge-off amount will be net of the disposition amount. Because a portion of the company's charge-offs are net of disposition proceeds, we focused on default data provided by the company, which it asserted was prior to any reduction due to recovery proceeds (be they recourse recoveries or liquidation proceeds).

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
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Related Research

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