U.S. Structured Finance Newsletter

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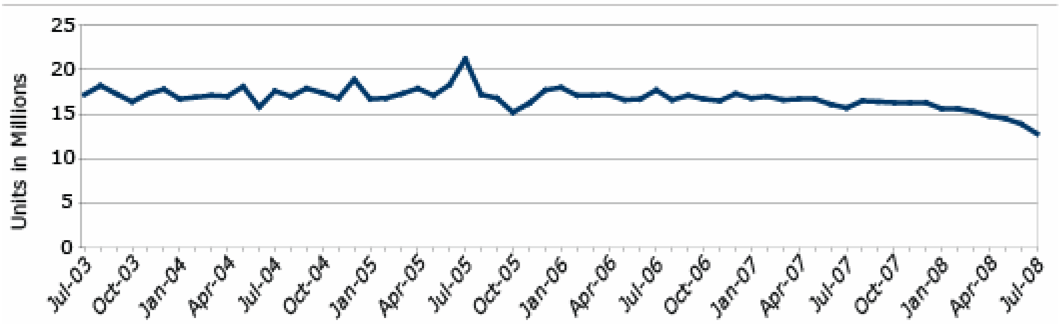
RED FLAG FOR WHOLESALE AUTO ABS

Wholesale automotive, or dealer floorplan, loans are structured as "pay-as-sold" loans. Therefore, dealers rely on consumers to purchase vehicles in order to pay down floorplan loans. However, as consumers in the United States are feeling the effects of an economic slowdown, they are buying fewer cars. As a result, auto dealers may begin to experience difficulty paying down floorplan loans. This bodes poorly not only for dealers, but for the finance companies that make the floorplan loans, the manufacturers whose cars need to be sold to repay the loans and the investors in asset-backed securities (ABS) supported by the loans.

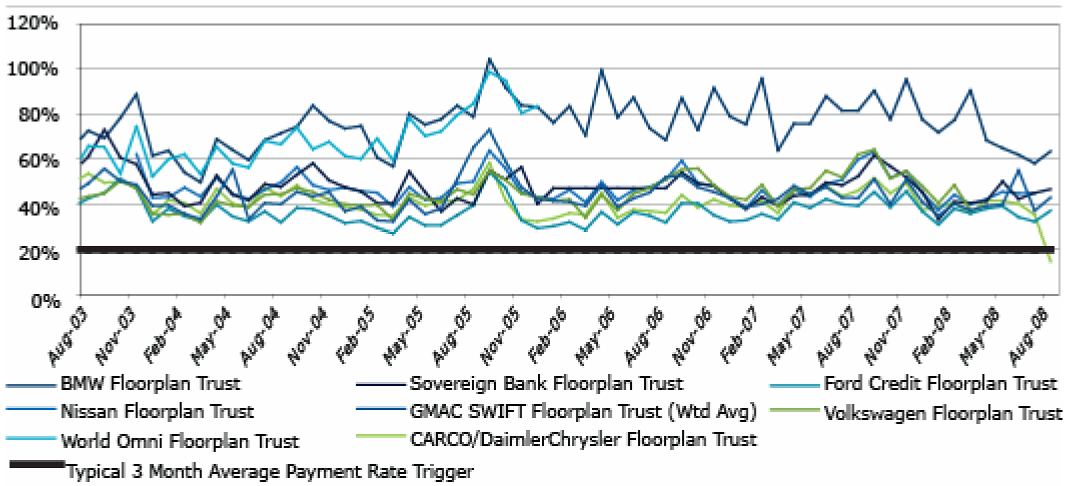
For investors in dealer floorplan ABS, fewer car sales and slower floorplan loan repayment means the increased risk of setting off an early amortization trigger tied to declining payment rates. Under such a circumstance, investors risk having their bonds paid out earlier than expected and face reinvestment risk and the possibility of missing desired return hurdles on the bonds.

U.S. Motor Vehicle Unit Retail Sales (Autos and Light Trucks)



Source: Bureau of Economic Analysis and U.S. Department of Commerce.

Monthly Payment Rate Statistics for Floorplan Trusts



Source: ABSNet.

Many dealer floorplan trusts include three-month payment rate triggers set at 20%. The duration of three months is used in order to mitigate volatility that stems from the highly seasonal nature of the retail automotive business. The data in the chart above is based on monthly payment rates and therefore indicates a more volatile payment rate scenario than what an investor in a dealer floorplan transaction would be exposed to. Nevertheless, given the recent trend in new vehicle sales, floorplan ABS investors should closely monitor floorplan payment rates over the coming months for declining payment rates. DBRS will continue to analyze these developments and provide future commentary as necessary.

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