Canadian Structured Finance Newsletter

Volume 1, Issue 4, May 21, 2009

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CANADIAN AUTO ABS MARKET UPDATE: UNDERSTANDING THE IMPACT OF BANKRUPTCIES AND ECONOMIC TRENDS

Impact of Chrysler Bankruptcy on Canadian Securitization Transactions

On April 30, 2009, Chrysler LLC (Chrysler) filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Due to the close link to the manufacturer inherent in auto floorplan transactions (see Table 1), the bankruptcy filing in the United States by Chrysler resulted in an amortization event for the Chrysler Financial Services Canada floorplan transactions. No such event occurred for Chrysler-related Canadian retail auto lease and loan transactions, as their performance is less dependent on the status of the manufacturer.

It is important to note that DBRS's initial ratings are intended to rate through the economic cycle by incorporating stressed scenarios that include an evaluation of the potential impact of auto manufacturer and/or finance company bankruptcy filings on auto loan, auto lease and auto floorplan transactions. In light of this rating approach and based on a review of the performance of all DBRS-rated Chrysler securitization transactions in Canada, DBRS announced on May 1, 2009, that its current ratings would remain unchanged for all outstanding retail lease and retail loan auto-backed securitization transactions originated by Chrysler Financial Services Canada.

In addition, consistent with DBRS's recently released Canadian Wholesale Floorplan Methodology, the ratings of the Chrysler Financial Services Canada auto floorplan transactions funded through Canadian Revolving Auto Floorplan Trust (CRAFT) were placed Under Review with Developing Implications in response to the early amortization event triggered by Chrysler's filing. Although the initial rating incorporated stress scenarios that included manufacturer bankruptcy, it is too early in the process to reasonably determine the outcome of the restructuring, based on the limited information currently available publicly. The ratings will remain under review until DBRS can develop an understanding of how the filing will affect continued availability of funding to the dealers and the impact on the Canadian dealer network, including the performance of the underlying loans financed through CRAFT. DBRS is preparing a similar review of all General Motors-related transactions, in anticipation of a potential bankruptcy filing by GM at the end of the month.

Recent Market Performance and Trends

Despite the negative impact of the current recession on consumer credit, Canadian retail lease and retail loan auto-backed securitization transactions continue to perform within historical norms. As expected, the past year has seen increases in delinquencies and defaults; however, these levels have not exceeded DBRS's base level projections, and the transactions continue to build enhancement, providing investors with increased protection. At this time, DBRS does not expect any significant increase in defaults caused by consumers deciding not to meet their payment obligations to a company under bankruptcy protection.

The impact of economic indicators on the resale value of Canadian vehicles is one of the critical risks that must be assessed in any evaluation of auto lease securitization transactions. In the second half of 2008, DBRS noted a decline in the resale value of certain models (trucks and luxury vehicles, in particular), largely due to the effects of the rapid increase in oil prices (which peaked in July 2008), the continued strength of the Canadian dollar relative to its U.S. counterpart, and higher-than-expected auto lease customer turn-in rates. Year-to-date, DBRS has observed an upward shift in residual values in the Canadian market. One of the reasons for this shift is an increase in demand for used vehicles, as many consumers have exhibited cost-conscious behaviour, purchasing used rather than new vehicles in the face of a prolonged economic downturn. This will benefit auto lease transactions, as lower losses will be expected at the lessor level from differences in residual value and market value when lessees exercise their option to return the vehicle.

Canadian floorplan securitization transactions also continue to perform within DBRS's expectations. Default rates remain low and other parameters remain within acceptable ranges. However, performance needs to be closely monitored and rating action may be required pending the outcome of bankruptcy proceedings.

Table 1: Auto Transaction Risk Matrix

	Daily Auto Rental Fleets	**Retail Auto Lease**	**Retail Auto Loan**	**Wholesale Floorplan**
Concentration Risk (No. of Obligors)	High One	Low 20,000-60,000	Low 20,000-60,000	High 250-500
Credit Risk	Low (0-25 BPS)	Low – Medium (10-125 BPS)	Low – Medium (10-125 BPS)	Low (0-25 BPS)
Residual Value Risk	Medium to High 25%-100% of pool balance	Medium to High 40%-60% of pool balance	N/A	N/A
Manufacturer Risk	Medium (Higher on Program Vehicles)	Medium (End of Term Considerations)	Low No reliance	High Linked closely to the Manufacturer
Maturity Features	Revolving	Amortizing	Amortizing	Revolving
Enhancement	Cash (Min 50-100 BPS) Overcollateralization Subordinated Notes Excess Spread Letters of Credit	Cash (Min 50-100 BPS) Cash (Embedded Loss) Overcollateralization Subordinated Notes Excess Spread	Cash (Min 50-100 BPS) Overcollateralization Subordinated Notes Excess Spread	Cash (Min 50-100 BPS) Overcollateralization Subordinated Notes Excess Spread

DBRS has recently published rating methodologies for Canadian auto loan, auto lease and wholesale floorplan transactions. For more information regarding DBRS's rating approaches, please refer to these methodologies, available www.dbrs.com under Methodologies.

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