

U.S. Structured Finance Newsletter

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DEALER FLOORPLAN ABS STRUCTURES HOLD THE ROAD

The performance of auto dealer floorplan asset-backed securities has proven resilient through the recent recession and its near catastrophic affect on the U.S. domestic auto manufacturers. The pressure weighing against transaction performance came to its apex immediately following the bankruptcy filings of Chrysler, LLC and General Motors Corporation (GM) in April and June, respectively.

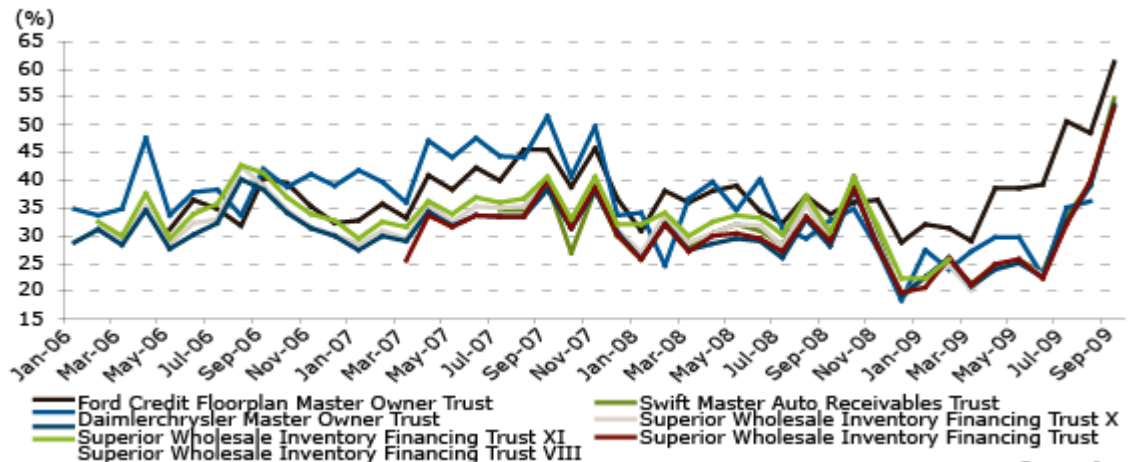
The immediate expectation from many market participants was for auto dealers to be decimated by the potential disruption in new vehicle production and consumer aversion to purchasing vehicles from bankrupt manufacturers and for these circumstances to cause a dramatic slowing of payment rates on floorplan ABS collateral and spur rating downgrades. Thus far, this situation has not materialized, in part due to the robustness of dealer floorplan transaction structures that seek to protect investors through the rapid amortization of the ABS notes.

For example, at the time of the GM filing, DBRS placed the outstanding ratings of the Superior Wholesale Inventory Financing Trust XI (SWIFT XI) 'Under Review with Developing Implications' due to the occurrence of a rapid amortization event triggered by the bankruptcy filing and its potentially negative impact on the performance of the collateral backing the floorplan transaction. At the time of the rating action, although cautious about the ability of the dealership network to survive the bankruptcy, DBRS believed the filing would not cause the trust's payment rate to slow at a speed and to a degree to result in a ratings downgrade. Rather, DBRS believed that in the SWIFT XI transaction, similar to most other dealer floorplan transactions, the rapid amortization event triggered by the filing combined with the historically consistent payment rate on the underlying wholesale loans, would result in a pay down of the transaction notes before credit enhancement would be extinguished. In fact, the SWIFT XI transaction paid down in full on September 14, 2009, which is nearly 2.5 years ahead of schedule.

In another example, the DaimlerChrysler Master Owner Trust 2006-1 (DCMOT 06-1) dealer floorplan transaction paid down the Class A notes in full on their most recent distribution date, which came five months after Chrysler LLC's bankruptcy triggered early amortization and two months prior to the original expected maturity.

Although not initially factored into our initial analysis for the bankruptcy of GM and Chrysler, through July and August, the "Cash for Clunkers" program has provided even more support for the historical strength of payment rates in dealer floorplan trusts by causing extraordinarily high dealer sales volumes and payment rates. Despite the program being discontinued, its benefits to the dealer floorplan sector have been evident. Not only have payment rates increased, but the levels of previously financed inventory remaining on dealer lots are at all-time lows.

Principal Payment Rate



Source: Intex

For questions or comments, please contact David Hartung at dhartung@dbrs.com.

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