

U.S. Structured Finance Newsletter

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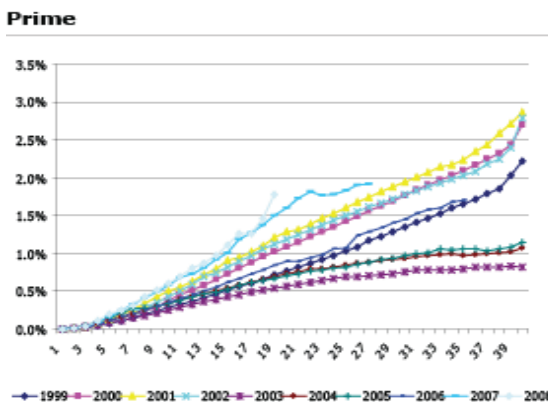
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U.S. AUTO LOAN ABS PERFORMANCE IN THE FACE OF RISING UNEMPLOYMENT

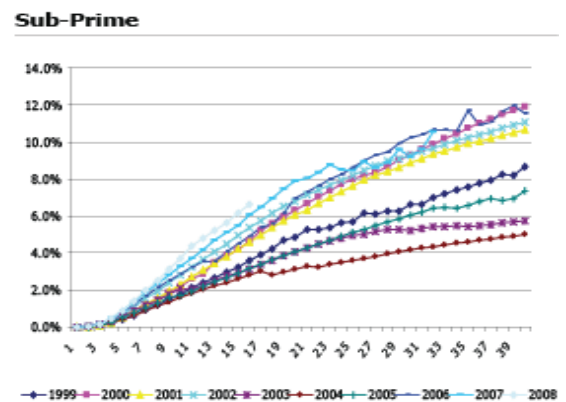
The U.S. Auto Loan ABS sector has performed relatively well in 2009 compared to other ABS asset classes despite the increase in unemployment, bankruptcies of GM and Chrysler and the volatility in the used car market. Late 2008 and 2009 vintages in particular are performing better than 2006 through early 2008 vintages as shown in the graphs below. This is primarily due to the tightening of underwriting standards and credit by originators during 2008 and 2009 in response to performance trends and the overall economic environment. It is also due in part to higher credit enhancement levels in deals as loss expectations reflected weaker performance in the 2006 through early 2008 vintages.

Prime Auto Loan ABS – Cumulative Net Loss Rates by Vintage



Source: ABSNet, DBRS.

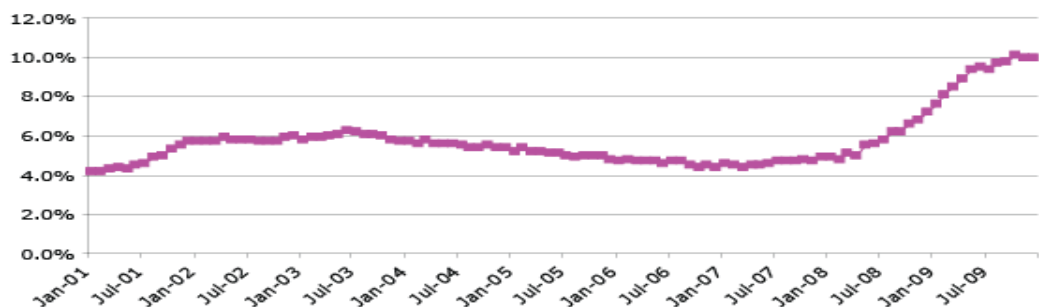
Sub-Prime Auto Loan ABS – Cumulative Net Loss Rates by Vintage



Source: ABSNet, DBRS.

The graph below depicts the unemployment rate since 2001. Unemployment rates for December 2009 remained steady at 10% and are expected to remain high throughout 2010. This is due in part to the fact that there are additional 5.9 million people as of December 2009 who currently want a job but are not included in the labor force. This includes people who have given up looking for work and are no longer receiving any unemployment benefits. As the economy improves, these people are expected to rejoin the labor force and start looking for work again which will maintain upward pressure on unemployment rates.

Unemployment Rate



Source: Bureau of Labor Statistics

In 2010, we expect unemployment to continue to pressure gross losses on auto loan transactions. Unemployment has proven to be historically correlated to credit performance and this relationship has continued in this economic recession. However, we expect that the performance of the 2010 vintages will be in line with that of the 2009 vintages as issuers maintain their tighter underwriting standards. Many auto loan originators, particularly independent finance companies, have reduced originations over the past few years in part to manage liquidity as access to the capital markets has been limited. In the sub-prime sector, several lenders have exited the market in 2008 and early 2009. Those remaining have reduced origination volumes and tightened credit underwriting standards.

Despite the continued pressure on gross losses, recoveries are expected to be more stable in 2010. The used car market is expected to be less volatile as auto manufacturers have aligned vehicle production more closely with demand. However, concerns over individual manufacturers or brands may result in increased volatility to the values on those vehicles.

Credit enhancement levels in transactions are expected to continue at higher levels as the data used to develop loss expectations reflects the higher loss levels experienced in the 2006 through early 2008 vintages. In addition, uncertainty with respect to the timing and strength of economic recovery, unemployment levels and individual auto manufacturers continues to exist. DBRS will continue to monitor the trends in employment statistics and report on the impact of those trends on auto loan performance.

For questions or comments, please contact Rosemary Kelley at rkelley@dbrs.com.

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