

Structured Finance Newsletter

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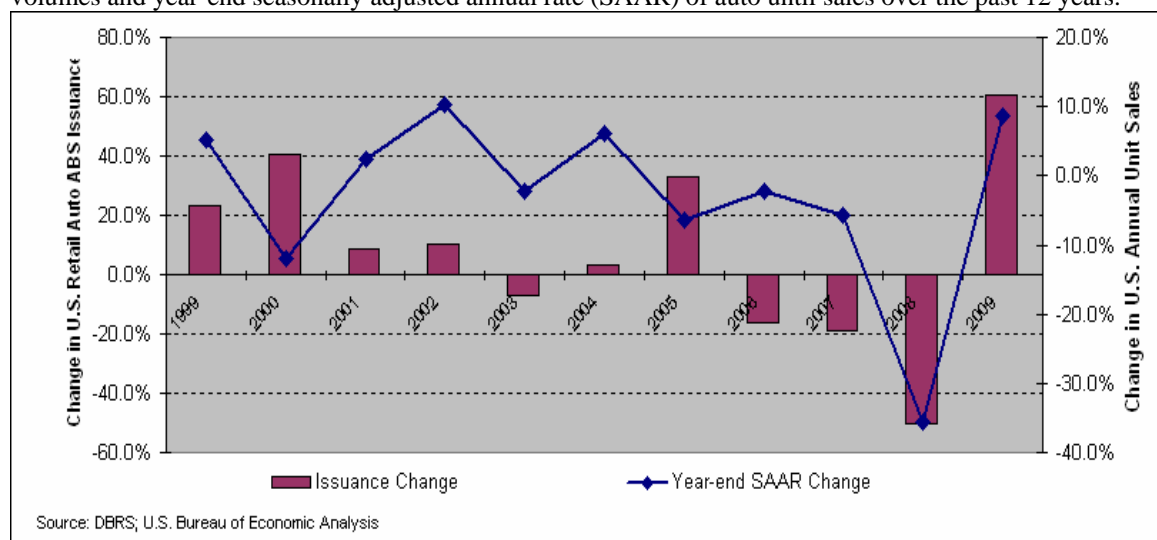
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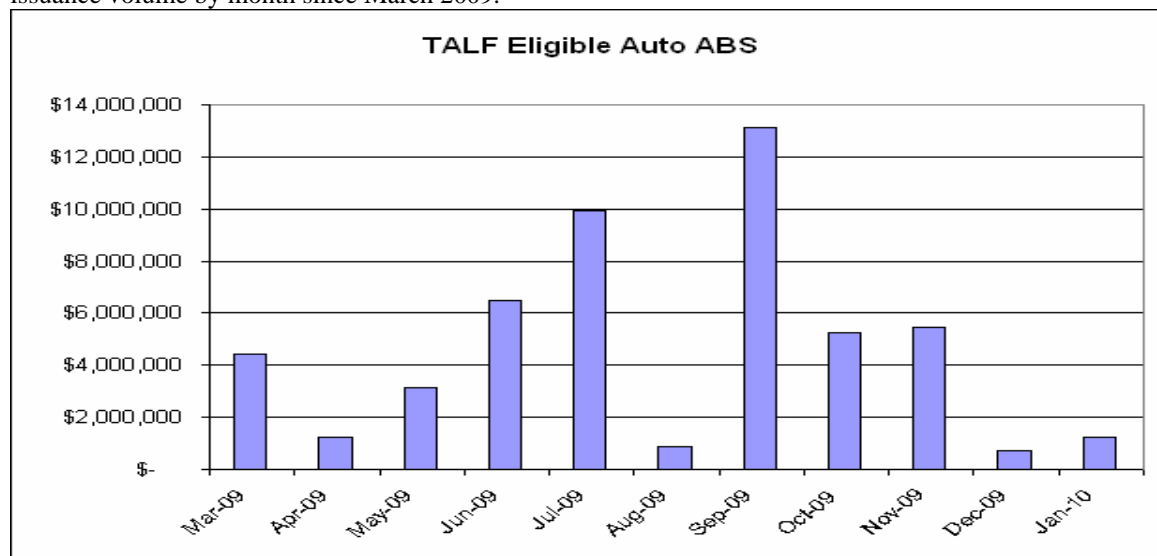
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AUTO ABS

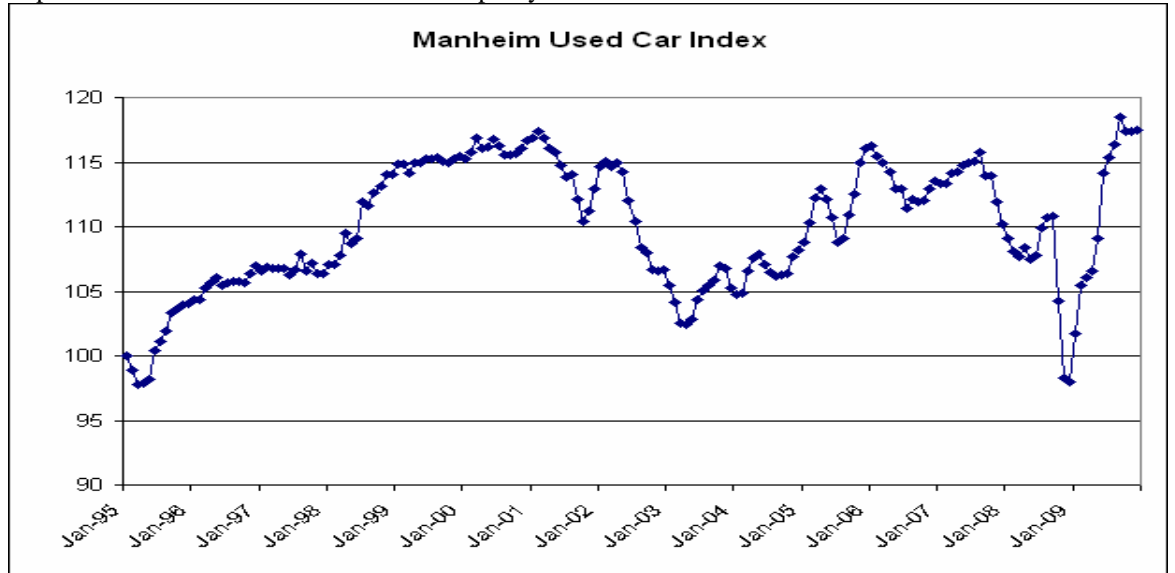
The auto sector is expected to experience an increase in new issuance in 2010 versus 2009. Improvements in the corporate condition of Ford, the government-lead support of GM and Chrysler plus stability of the major foreign automakers should help drive improved vehicle production efficiency and sales volume versus 2009, albeit marginally. Also, purchase volumes may be higher than last year as many consumers may have postponed new car purchases until signs of improvement in the economy and job market, which are expected in 2010. One factor that may impact the potential increase in purchase volumes is how long and how deep the current Toyota gas pedal and braking issues will run. Already, the expectation is that this problem will result in a shift in sales of vehicles to the U.S. manufacturers from Toyota. But the net effect may be negligible to overall industry sales volumes. The graphs below depict the U.S. auto issuance volumes and year-end seasonally adjusted annual rate (SAAR) of auto until sales over the past 12 years.



Despite increases in vehicle sales, the biggest driver of increased auto ABS issuance volume is expected to be the funding constraints of captive and independent finance companies. Relatively low interest rates still make securitization an attractive funding alternative, especially for auto finance companies with below investment grade corporate ratings. Bank-sponsored auto finance programs are not expected to expand meaningfully in the near term and some may continue to shrink. The captives and independent finance companies should continue to be viable, ideally with a diversified set of funding alternatives including securitization. The boost that the TALF program provided for auto ABS in the second half of 2009 should provide momentum for more issuance. The graph below summarizes the total TALF eligible auto ABS issuance volume by month since March 2009.



In 2009, used vehicle values rebounded from a severe decline in late-2008. Despite an increase in collateral defaults through 2009, sharp improvement in used vehicle prices helped improve the performance of both lease- and loan-backed transactions by tempering severity rates associated with residual values on end-of-lease turn-ins and recoveries on defaulted auto loans. In 2010, used vehicle values are expected to stabilize at higher levels given the expected slow economic recovery and improvement in the health of the automobile manufacturing sector. The stability of the used car market should help performance on existing ABS deals by giving a boost to residual values that effect future recoveries in retail loan transactions and comprise a significant portion of monetized value in lease transactions. The graph below illustrates the improvement in the used car index over the past year.



Ratings performance on auto ABS is expected to be stable in 2010. Over the past two years, much of the ratings volatility that occurred in the auto ABS space was attributable to the downgrade of the monoline insurers (affecting mainly the subprime sector) and the corporate struggles of General Motors Company/GMAC and Chrysler LLC/Chrysler Financial. In 2010, auto ABS ratings should be tied more closely to consumer behavior than in the past as the monoline insurer downgrades have already been taken into account and the U.S. auto manufacturers appear to be on more solid footing.

For questions or comments, please contact Chris O'Connell at coconnell@dbrs.com.

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