

U.S. Structured Finance Newsletter

Volume 6, Issue 22, June 14, 2010



Claire Mezzanotte

Managing Director, ABS/RMBS
U.S. Structured Finance,
+1 212 806 3272
cmezzanotte@dbrs.com

Jan Buckler

Senior Vice President,
Research and Modeling
U.S. Structured Finance
+1 212 806 3925
jbuckler@dbrs.com

Rosemary Kelley

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3250
rkelly@dbrs.com

Chris O'Connell

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3253
coconnell@dbrs.com

Quincy Tang

Senior Vice President, RMBS
U.S. Structured Finance
+1 212 806 3256
qtang@dbrs.com

Kathleen Tillwitz

Senior Vice President,
Operational Risk, ABS/RMBS
U.S. Structured Finance
+1 212 806 3265
ktillwitz@dbrs.com

Chuck Weilmann

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3226
cweilmann@dbrs.com

New York

140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

Chicago

101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

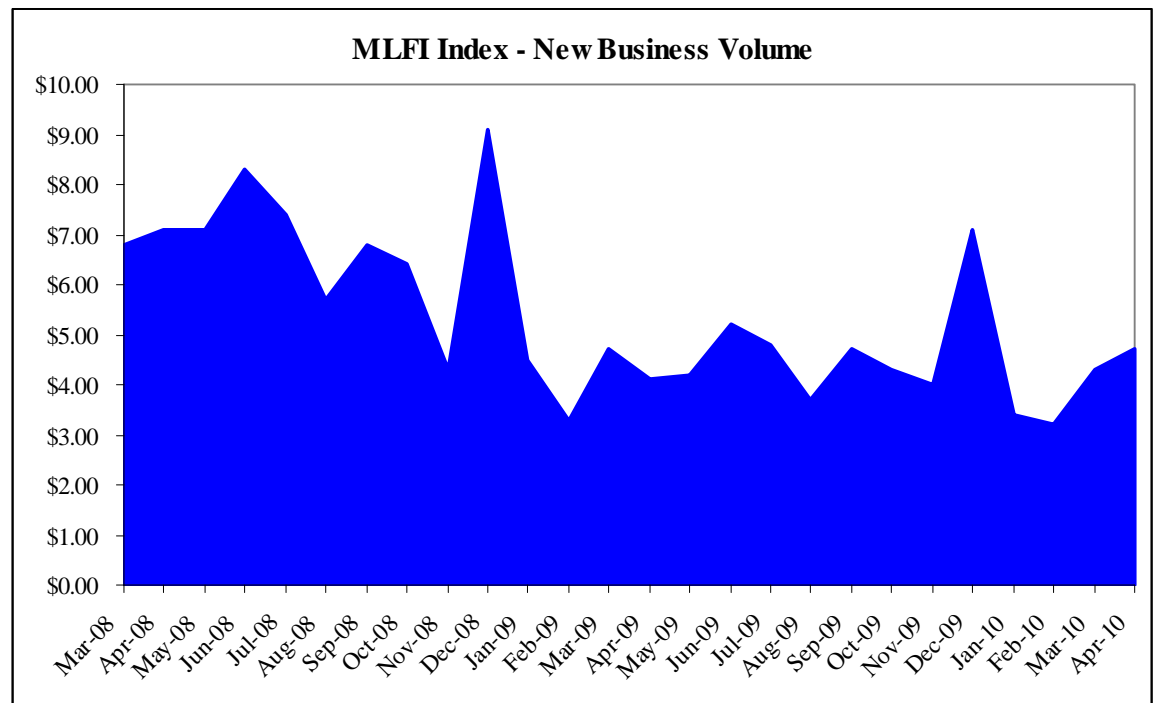
Toronto

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

THE STATE OF THE EQUIPMENT LEASE MARKET

The composition of lessors in the equipment sector was fundamentally re-shaped in the 1998-2001 era with smaller and weaker participants either consolidated into bigger organizations, or becoming insolvent. The market contractions that began in early 2008 have affected the equipment sector as it has all other components of the structured markets. The companies remaining in the post-2001 environment have proven to be stronger and more diversified than their predecessors, and thus better equipped to withstand the market turbulence. While some opportunities to access the capital markets have existed for equipment ABS issuers since early 2008, liquidity continues to be priced at a premium and the industry participants continue to scale operations accordingly.

One means of monitoring overall industry performance and confidence are the periodically published statistics from the Equipment Leasing and Finance Association which represent a compilation of statistics from member firms. The Monthly Leasing and Finance Index (MLFI Index) reports macro level primary performance data for 25 major lessors in the industry. In April 2010, overall new business volume grew 15.0% when compared to the same period in 2009. New business volume increased by 9.0%, to \$4.7 billion from March 2010.

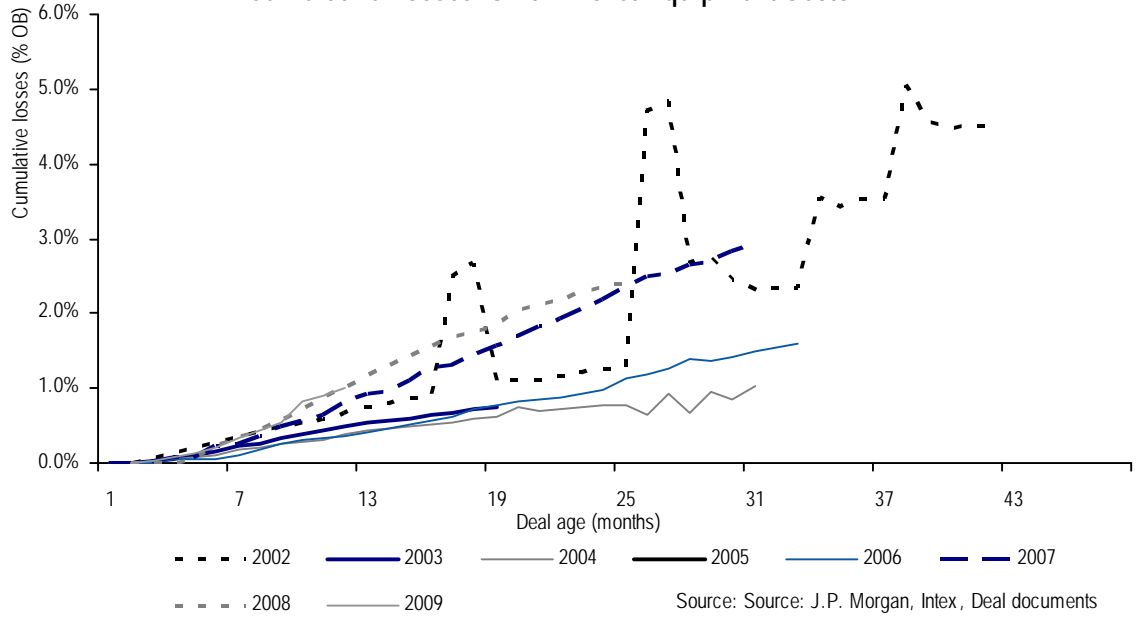


In addition to stabilized business volume, delinquencies and charge-offs in the MLFI Index have also either improved or stabilized. Uncollected receivables over 30 days declined to 3.70% in April, from 4.20% in the prior month and 4.0% in the year-earlier period. While charge-offs increased slightly in April at 1.60%, up from 1.50% in the prior month, the result is still significantly below typical consumer credit card charge-off rates (in the 7-9% range depending on the issuer), and an improvement over the year-earlier period.

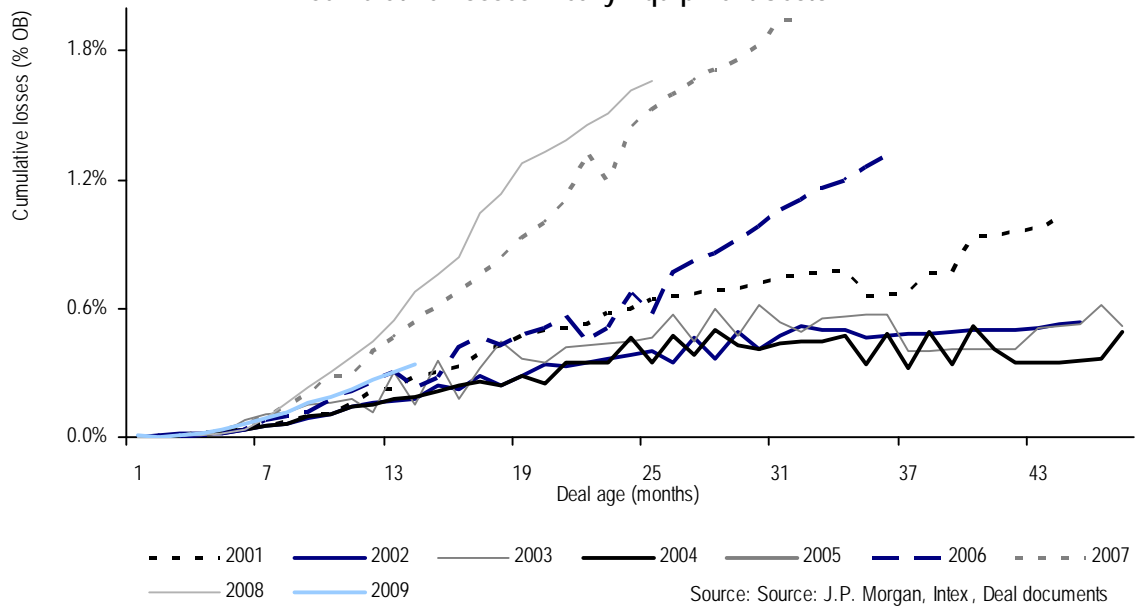
A related index, the Monthly Confidence Index, maintained by the Equipment Leasing and Finance Association for May was at 67.38, the highest to date, up from the April 2010 index of 65.4.

A closer look at performance in the ABS equipment leasing market indicates the superior expected performance of the post-2001 era lessors. The charts below demonstrate Cumulative Losses from ABS issuers in the small ticket sector and the heavy equipment sector. In each case, the vintage performance data was worse in 2000, 2001 and 2002 than it is in 2007, 2008 and 2009.

Cumulative Losses: Small Ticket Equipment Sector



Cumulative Losses: Heavy Equipment Sector



The losses in the early vintages were often driven by aggressive residual valuations on the equipment and advance rates on the related transactions. However, for those lessors who have recently accessed the ABS market, performance is expected to be better. Two empirical factors remain that could impact these expectations: (1) that overall business activity remains viable and end-user lessees remain profitable, and (2) that the pay down of the pool factors representing these earlier vintages are completed with no exceptional tail-risk. Once the respective vintages are fully paid down DBRS expects the 2007, 2008 and 2009 vintages to perform closer to original expectations than the 2000, 2001 and 2002 vintages.

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