

# U.S. Structured Finance Newsletter

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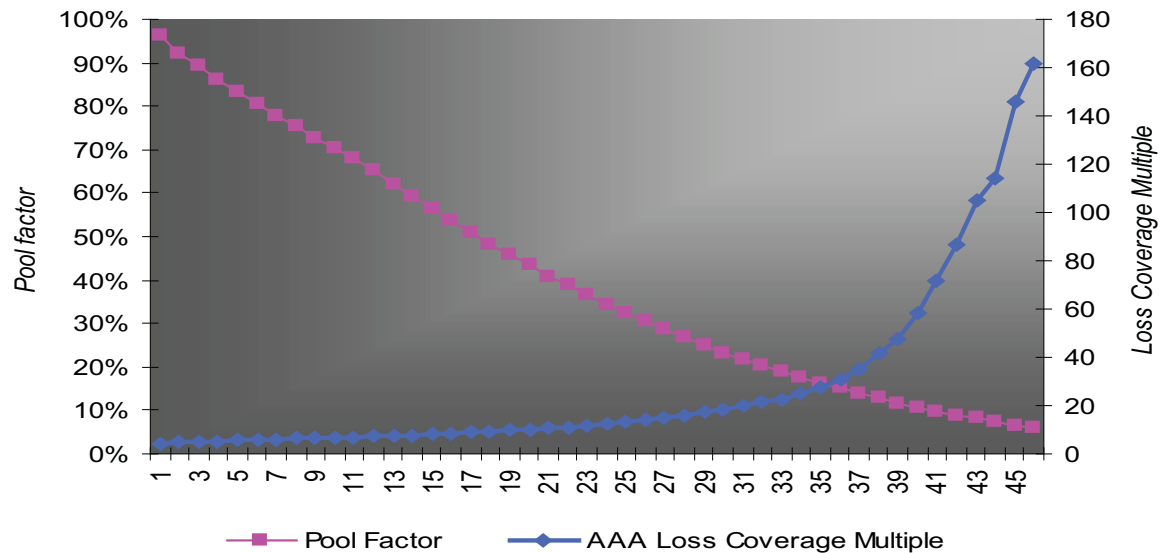
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## CREDIT ENHANCEMENT BUILD-UP IN AUTO LOAN SECURITIZATIONS

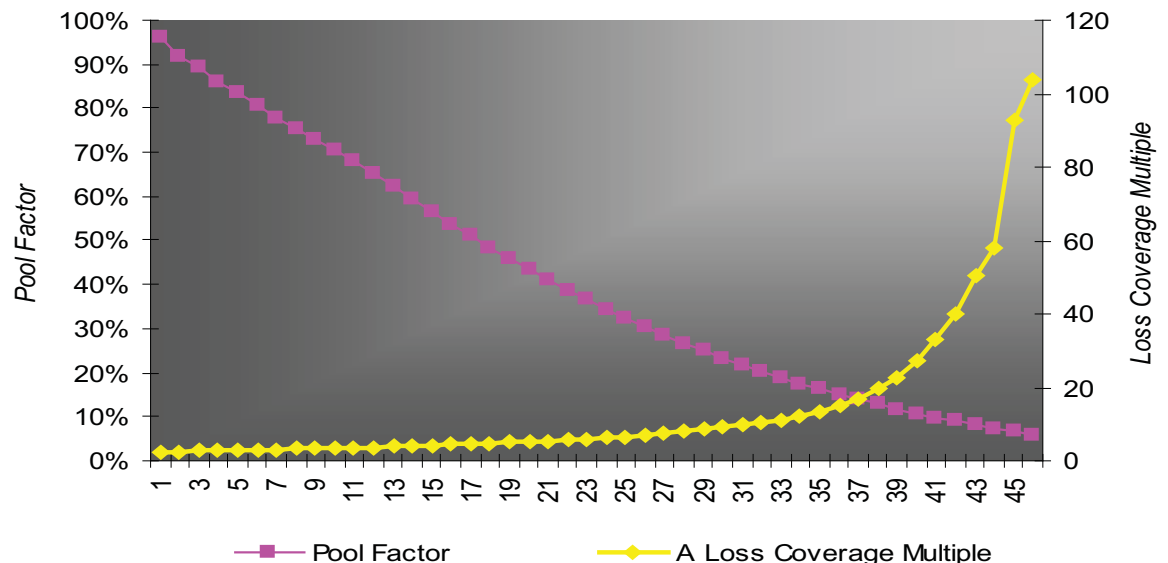
Auto securitizations often have a senior subordinated structure with a fixed level of cash reserves. Understanding the dynamics of these de-leveraging structures can help investors develop various strategies in realizing their investment goals. One important facet is the behavior of credit enhancement over time, or specifically, the potential for credit enhancement to increase over time. In this newsletter, we provide a brief discussion of this aspect of auto loan asset-backed securities structures.

As mentioned earlier, a typical structure involves credit enhancement comprised of subordination and fixed dollar cash reserves. With a sequential pay waterfall, this allows credit enhancement to build over time by holding credit enhancement levels at the same dollar value while the amount of debt supported by that credit enhancement declines. The graphs below illustrate the average build up of credit enhancement in a group of auto loan securitizations employing this type of structure. Credit loss coverage is measured by dividing the available credit enhancement (excluding excess spread) by the future level of credit losses expected. These graphs represent the average pool factors and credit loss coverage multiples at each point of seasoning for the group of transactions studied.

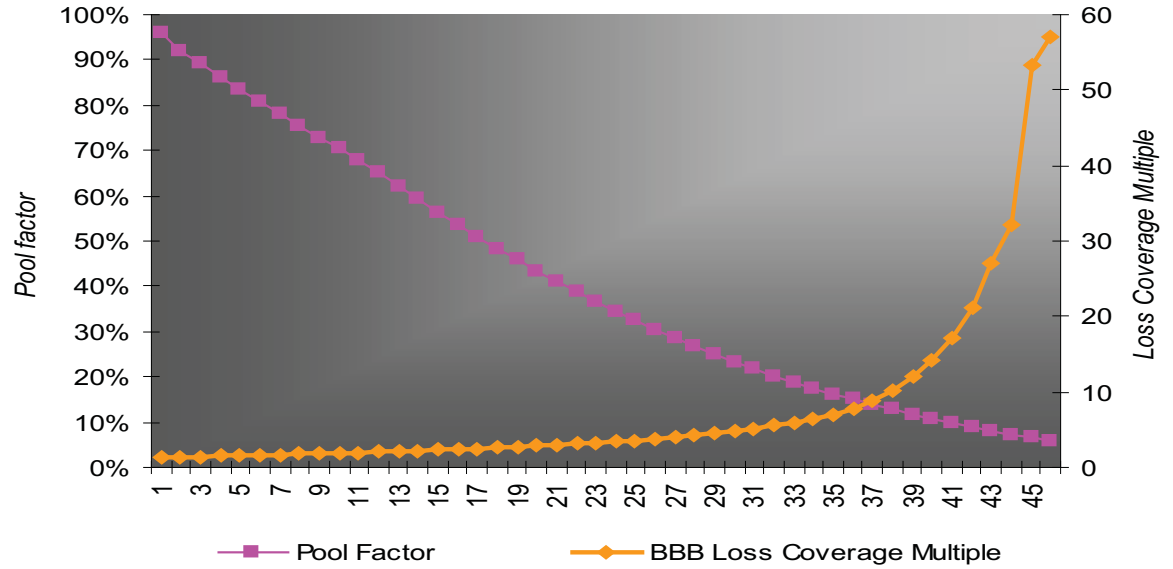
### AAA-Rated Loss Coverage Multiple



### A-Rated Loss Coverage Multiple



### BBB-Rated Loss Coverage Multiple



As illustrated above, credit enhancement available for each class of rated securities increased significantly as pool factors declined, thus insulating investors further from losses and increasing the possibility that a security's rating could be upgraded (except, of course, in the case of the AAA rated security in which an upgrade is not possible).

It should be noted, however, that in these transactions, losses experienced by the asset pool were within original expectations. Losses dramatically in excess of normal expectations would have inhibited the growth of credit enhancement and thus, lessened the probability of a positive rating change.

For questions or comments contact Jayce Fox at [jfox@dbrs.com](mailto:jfox@dbrs.com).

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