

# U.S. Structured Finance Newsletter

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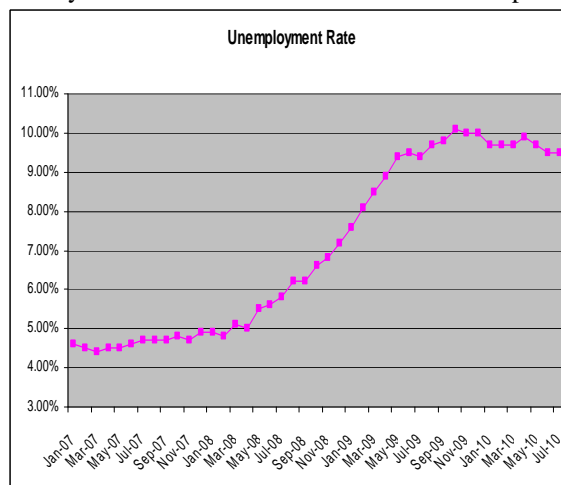
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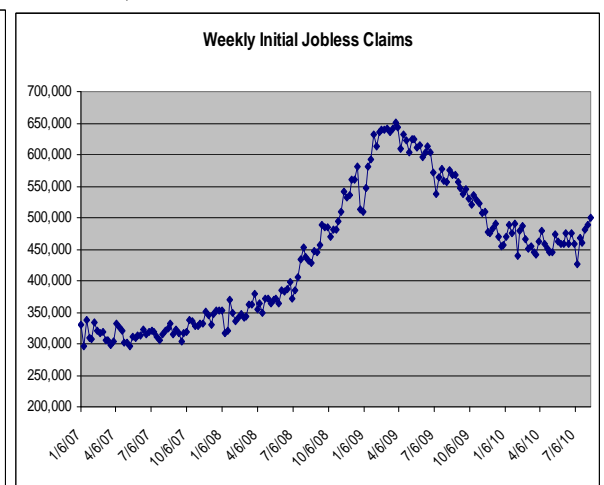
## PERSISTENT HIGH LEVEL OF UNEMPLOYMENT AND IMPACT ON U.S. AUTO LOAN PERFORMANCE

Recent economic news has focused on signs of a weakening recovery of the U.S. economy as well as a weak global recovery, which may impact the ability for the U.S. economy to grow as anticipated. The continued high levels of unemployment in the U.S. and low prospects for a quick recovery have increased concerns in many sectors. DBRS has reviewed the impact of the ongoing high levels of unemployment on the performance of auto loan receivables and related asset-backed securities (ABS) transactions.

The graph below to the left depicts the unemployment rate in the U.S. which has remained above 9.4 percent for the past 15 months (9.5 percent as of the July 2010 U.S. Bureau of Labor Statistics report). These figures do not include approximately 5.9 million<sup>1</sup> people, who currently want a job, but are not included in the labor force as of July 2010. Additionally, just last week, the initial claims for unemployment rose 12,000 to reach 500,000, which is the first time it reached that level since November 2009, as seen in the bottom right graph below. However, weekly initial claims still remain well below the peak level of 651,000 in March 2009.



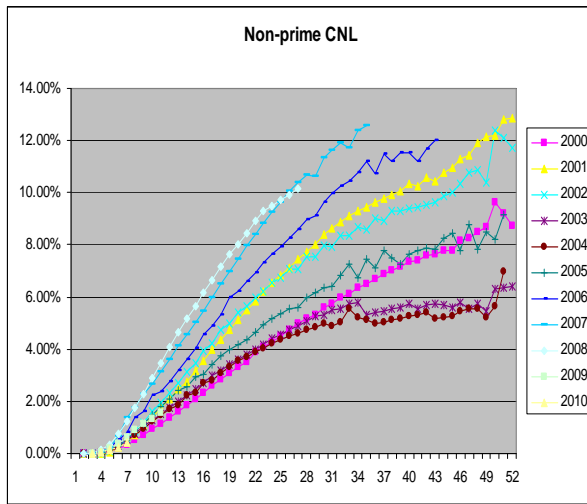
Source: Bureau of Labor Statistics



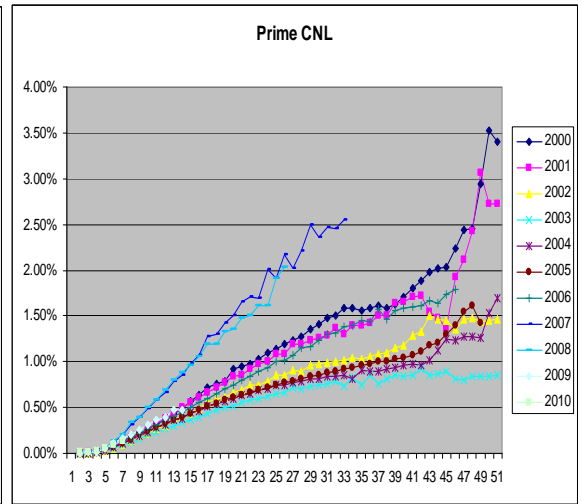
Source: Department of Labor

The impact of continued high unemployment levels can be seen in the 2007 and 2008 cumulative net loss curves for both prime and non-prime auto loan receivables. The 2009 and 2010 vintages are performing significantly better as most auto loan issuers tightened underwriting standards since 2008. Over the past 6 months, prime obligors are exhibiting much more late stage defaults, as the rate of change in monthly losses has increased to 8.5% in the 2002 through 2005 vintages. Historically, performance has shown the increase in losses during later stages to be declining. Prime borrowers have been potentially harder hit by this recession and may not have the liquidity available to them as in prior periods, as many have little in the way of cash reserves and may no longer have the benefit of refinancing their debt through their homes. Conversely, non-prime obligors are less likely to own a home and their employment situation may be just as variable in the current environment as it was previously, which was taken into account in the loan pricing and transaction credit enhancement levels. The monthly loss levels for non-prime obligors are affected more by seasonality throughout the life of the loans.

DBRS closely monitors the performance of auto loan ABS in aggregate, in addition to individual transactions that we have rated, to denote performance trends at the asset and transaction levels. For the remainder of 2010, we note that new origination volumes are expected to continue at relatively lower levels due to the application of tighter underwriting standards. We also expect continued high unemployment levels to continue to pressure gross losses across all vintages of auto loan ABS. As the correlation of unemployment rates to credit performance has been clearly established and has continued to be demonstrated throughout this recession, the extent to which initial weekly jobless claims and unemployment levels change from current levels is expected to significantly shape any future changes from current performance.



Source: J.P. Morgan Asset Performance Statistics



Source: J.P. Morgan Asset Performance Statistics

For questions or comments, please contact Rosemary Kelley at [rkelley@dbrs.com](mailto:rkelley@dbrs.com).

1. U.S. Bureau of Labor Statistics

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