

Methodology
*Rating Canadian
Auto Lease Transactions*

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Appendix summarizing methodology added April 2011



Insight beyond the rating.

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Introduction

Leasing continues to be a popular alternative for consumers who wish to drive a newer vehicle without the commitment of ownership. The principal benefit is that the consumer is able to drive a new vehicle with a lower monthly payment than would be required on a loan to purchase the same vehicle. Additionally, contract terms are generally shorter for leases than for loans, facilitating a more rapid turnover of vehicles for the average consumer. Although the popularity of leasing remains high, the availability of leasing provided by lessors has recently declined due to economic developments in the market.

Most issuers of auto lease securities are captive finance subsidiaries of automobile manufacturers. Other financial institutions have also issued auto lease transactions, but on a limited basis. The willingness of lessors to provide lease financing to their customers ebbs and flows with the general economy and the demand for used cars in the marketplace. For example, a rapid appreciation of the Canadian dollar can lead to a softening of prices in the Canadian used car market in two key ways. First, a strong Canadian dollar can force widescale price reductions in the new car market to eliminate potential pricing arbitrages temporarily available in the U.S. market. Pricing decreases on new vehicles result in a significant decrease in the number of customers opting to buy out their lease. Second, the increased turn-in rate results in an oversupply of used cars, which can further depress the price of used cars in Canada. As a result, lessor loss experience on residual values is likely to increase beyond original expectations as lessors attempt to sell an increasing number of vehicles through the auctions at lower prices than planned. This market dynamic was seen in early 2000, when aggressive residual value-setting policies and increasingly long lease terms resulted in a rise in losses to lessors and, ultimately, led to more conservative leasing policies. It was seen again in late 2007 and 2008, which led a number of lessors to suspend their lease programs indefinitely.

Pressure on the retail auto lease securitization market has grown as a result of the continued deterioration in the financial health of certain vehicle manufacturers and the related captive finance companies underwriting the loans. Although all auto finance securitizations are somewhat linked to the health of the captive finance company (as it generally performs the servicing role), auto finance transactions are less reliant on the related auto manufacturer. Of the various forms of auto securitizations (retail lease, retail loan, floorplan and rental vehicle fleets), retail lease transactions are more closely linked to the risks associated with the financial health of the related auto manufacturer than are retail loan securitizations (see Table 4 on page 19).

Within this setting, the key risks in auto lease transactions are found in the residual value portion of the pools. Consequently, DBRS conducts the majority of its risk assessment on residual analysis to examine an auto lease securitization.

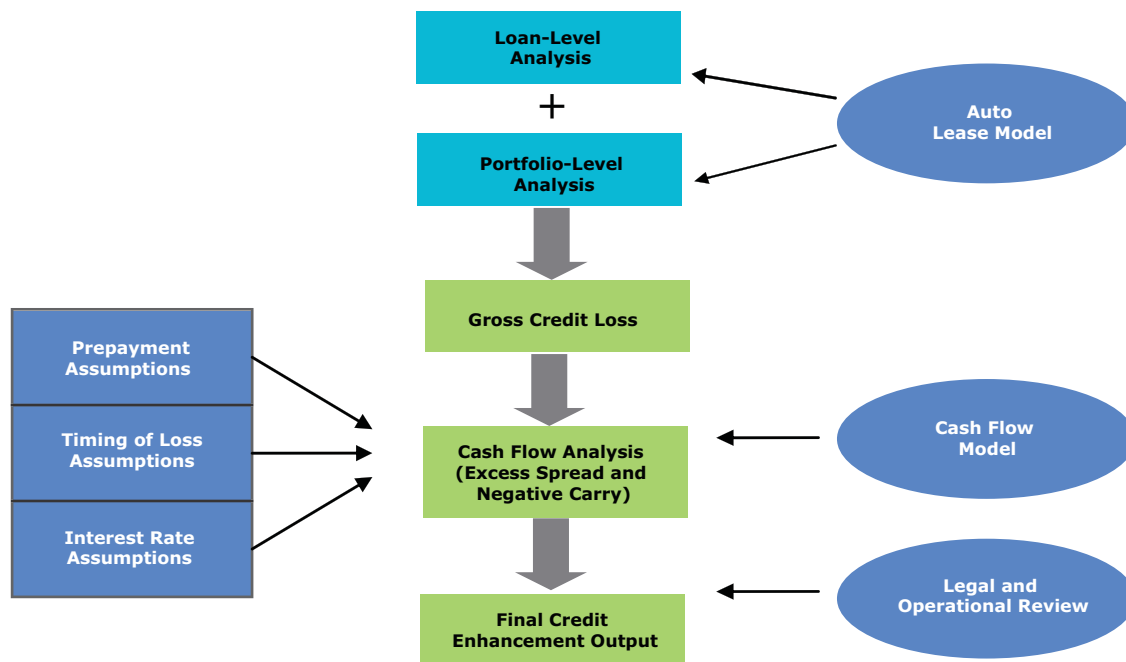


APPLICATION OF CANADIAN AUTO LEASE METHODOLOGY

The following diagram describes the overall process used by DBRS to analyze a Canadian auto lease transaction.

- (1) DBRS conducts loan-level and portfolio-level analysis using the model. The resulting output of the model is the expected gross credit loss.
- (2) DBRS performs a cash flow analysis based on the output from the model by incorporating assumptions regarding prepayment, timing of loss and interest rates in order to estimate the excess spread available over the life of the transaction and the required credit support for each rating level.
- (3) The legal and operational aspects of the transaction are also reviewed with the understanding that the credit enhancement is subject to adjustment if necessary.

DBRS Rating Process for Canadian Auto Lease Transactions



Background Information

WHAT IS AN AUTOMOBILE LEASE?

A closed-end lease is a contract between two parties, a lessor and a lessee, in which the lessee agrees and is obligated to make periodic payments (referred to here as monthly lease payments) to the lessor in exchange for the right to use a vehicle for a specified term and mileage. This contract also grants the lessee the right to purchase the vehicle at the end of the lease term for a predetermined price, typically known as the *contracted residual value*. In exchange for granting the lessee use of the vehicle, the lessor receives a series of periodic payments over the term of the lease in its capacity as lender/owner and, at the end of the term, the lessor receives one of two assets – either cash equal to the contracted residual value or the vehicle itself, depending on the lessee’s choice to exercise the purchase option. Open-ended leases are also available in the Canadian market and are generally seen in the fleet leasing market. An open-ended lease is one in which the contracted residual value is guaranteed by the lessee. From a risk perspective, open-ended leases transfer the residual value risk at the end of the lease from the lessor to the lessee. Notwithstanding the differences in residual value risk, the DBRS methodology for rating auto lease portfolios can be applied to a portfolio of closed-end leases or a portfolio of open-ended leases.

BENEFITS OF LEASING

Since the mid-1990s, leasing has become an accepted financing alternative for consumers interested in acquiring the enjoyment rights to an automobile without the requirement of ownership. Leasing has also provided attractive financing for businesses and corporations interested in acquiring the use of a larger number of vehicles (referred to as fleet leasing) for use by their employees. As noted above, fleet leases are generally confined to open-ended contract terms. Several characteristics unique to leasing have contributed to the acceptance of this alternative form of automobile ownership, such as:

(1) **Affordability:** Monthly lease payments usually compare favourably with loan payments (assuming similar underlying variables including length of contract, vehicle value and financing costs), when considering the fact that the lease payment is structured in such a way that the customer is only paying for the value of the vehicle during the contracted time that they will be using it.

(2) **Optionality:** The lower contracted monthly payments also provide optionality to the consumer with respect to the unfinanced portion of the car since a lease also grants the lessee the option to purchase the vehicle at the end of the lease term. The end of lease purchase price or contracted residual value is set at the inception of the lease based on estimations of the vehicle’s future value. At the end of the contract period, the consumer has the choice to exercise this purchase option or return the vehicle to the lessor without penalty or obligation beyond the terms of the agreement (which typically include costs associated with excess wear and tear as well as excess mileage). This option is preferred by many consumers, particularly those who prefer access to a newer vehicle on a more frequent basis.

(3) **Tax Advantages (Business):** In Canada, businesses that lease vehicles can sometimes receive greater tax deductions than they otherwise would from the Capital Cost Allowance (CCA) deduction that comes with vehicle purchases. This is simply due to the fact that the monthly payment is greater than the CCA allowable limit, which is based on a useful life of the vehicle that is typically longer than the lease contract.

(4) **Tax Deferral – Canada:** In Canada, sales taxes, including the Provincial Sales Tax (PST) and the Goods & Services Tax (GST), are only applied to the down payment and monthly payments. As such, the taxes paid over the life of a lease are considerably less than for an identical vehicle purchase. This is due to the lower payments associated with leases (i.e., the contracted residual is not taxed unless the purchase option is exercised; the costs of financing the contracted residual value, however, are taxed but only paid on a monthly basis rather than upfront). Accordingly, all consumers are effectively able to defer sales taxes on the contracted residual value indefinitely.

Lease Mechanics and Inherent Risks

HOW DOES A LEASE WORK?

Within the above-described framework, it is important to understand the determinants of the lease payment, which depend on the same four factors used as a basis for any financing: (1) interest costs, (2) term or duration of loan, (3) initial principal, and (4) ending principal. The lease payment, however, is best thought of as a sum of payments on two distinct principal amounts: the amortizing portion of the lease and the contracted residual value.

The first principal amount, the amortizing portion, is the total value financed (i.e., total cost of vehicle less any down payment) over and above the contracted residual value. This portion of the lease behaves like a loan, as its payments are structured to amortize this value to zero by the end of the lease term.

The second of these principal amounts, the contracted residual value of the lease, is constant (i.e., non-amortizing) over the term of the lease. Each period, the lessor receives a payment representing interest on this principal amount. The principal itself is essentially a bullet obligation that the consumer has the option of “paying” in full at the end of term, either in the form of cash or by returning the vehicle.

Accordingly, the monthly lease payment is the sum of the required payments on these two principal amounts, as calculated based on the characteristics of the lease. Additionally, at any point in time, the net book value of the lease is the sum of the contracted residual value and the outstanding principal on the amortizing portion of the lease. Since the contracted residual value does not amortize throughout the lease, there is a floor on the book value of the lease.

HOW DOES A LEASE COMPARE TO A LOAN?

It is important to outline the calculations for the lease-versus-loan decision that most consumers face and highlight the benefits and drawbacks of each option. This can be achieved by considering a hypothetical vehicle purchased in Ontario with the following characteristics:

Pre-tax price	\$30,000
Term	48 months
Finance Rate	5.75%
Contracted Residual Value	40% or \$12,000
Taxes (Ontario PST plus GST)	13%
Down Payment	\$0 for Lease and Loan Option

For the loan, the required monthly payment is \$792.26, which over 48 months will amortize \$33,900 of principal (\$30,000 + 13% taxes), and also cover \$4,128.61 of interest charges at the assumed rate of 5.75%. In exchange for these cumulative payments, the consumer who chose the loan option would have full ownership of the vehicle at the end of term.

With the lease option, pre-tax monthly payments of \$540.33 are sufficient to amortize \$18,000 of principal, pay for \$2,983.78 of taxes, and cover \$4,952.18 of interest costs for both the amortizing portion of the loan and the interest costs of carrying the remaining \$12,000 of contracted residual value. In exchange for these cumulative payments, the consumer who chose the lease option would have the option to purchase the vehicle outright for an additional \$12,000 plus \$1,560 of applicable taxes.

Based on these calculations, some important conclusions can be drawn:

(1) For two identical vehicles, assuming that they are financed over the same term, the lease option will always require a lower monthly payment than the loan option.

(2) If a consumer's end goal is to own the vehicle, the lease option will almost always require a greater total outlay of cash than the loan option. The exception to this is when the financing rate is zero. It is important to note that the higher cost of ownership through a lease stems from financing costs and the slightly higher tax payments that must be made if the option to purchase is exercised. Accordingly, the difference in the aggregate cost of ownership between loans and leases approaches zero as rates are increasingly subvented.

(3) The purchase with loan financing requires the consumer to pay all applicable taxes at the outset of the transaction. For the lease, the customer only pays taxation charges on the value of each monthly payment and defers the remaining tax liability on the final payment required if the option to purchase is exercised.

RISKS TO THE LESSOR

Credit Risk

Since a vehicle lease is simply a credit obligation supported by physical collateral, the lessor's exposure is the difference between the book value of the outstanding obligation and the net market value of the vehicle supporting the obligation. From the lessor's perspective, key characteristics of leases compared with loans are:

(1) **Loan – Outstanding Principal:** At the outset of a loan transaction, the total cost of the vehicle (including taxes) must be assessed. In keeping with the previous example, this cost is \$33,900. Since there is no down payment in this example, the loan principal must also be \$33,900. Over the course of 48 months, the loan is scheduled to fully amortize the principal.

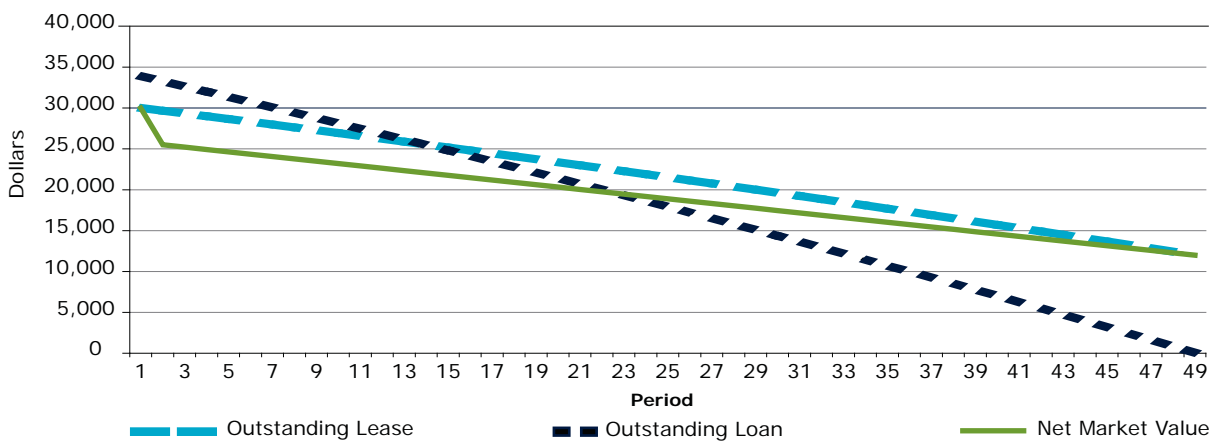
(2) **Lease – Outstanding Principal:** A lease transaction is different in that taxes are only applied to payments being rendered. If there is no down payment, as in this example, then there are no tax costs upfront. Accordingly, the initial lease principal is \$30,000 compared with \$33,900 for the loan. Over the course of 48 months, the lease is scheduled to amortize the principal to the contracted residual value (\$12,000).

While the loan begins with a higher principal balance than the lease, the loan fully amortizes, implying that there must be a point at which a "crossover" occurs. At this crossover point, the outstanding lease principal is greater than the outstanding loan principal. In the example used above, that point occurs in month 15. Therefore, in this example, it can be said that from month 15 onward, the lessor has greater exposure to loss on a leased vehicle than on a vehicle financed through a loan.

The final element of this analysis is the net market value of the asset, which supports either obligation. Since the market value of the vehicle is independent of how it is financed, it can be inferred that each obligation is supported by an equally valued asset at any time during the term. Accordingly, the loan carries a higher potential loss severity during the first 14 months, while the potential loss severity is greater for the lease beginning in month 15 through to the end of the term.

Graph 1 illustrates how the three values (outstanding loan, outstanding lease and net market value) compare over time. To approximate the market value of the vehicle, DBRS assumes a 15% immediate decline in value (off-the-lot), and a constant rate of decline thereafter. For the purpose of this example, we can assume that the residual value set at \$12,000 is a correct approximation of the asset value after 48 months (although this scenario is often not the case).

Graph 1: Risk to Lessor – Gap in Value



Based on this graph, several conclusions can be drawn:

- (1) Initially, a loan exposes a lender to more risk than a lease (months 1-14 in this example).
- (2) For the majority of the term, a lessor faces the greater risk (crossover occurs at month 15).
- (3) Over the term, a loan is scheduled to provide the consumer with an equity position (i.e., market value of the car exceeds remaining principal on the loan) in the asset (in the current example, this occurs in month 25).

As defined previously, the mapping of the market value line in the graph assumes that the contracted residual value of the vehicle is set accurately. Essentially a forecast, the estimated market value at the end of the lease term is unlikely to be exact. However, as a starting point for the analysis, every finance company begins with an estimate of the asset's market value. From that point, there are several variables or strategic considerations that may influence how the contracted residual value is determined which can expose the lessor to incremental risks.

RESIDUAL VALUE SETTING AND RISK

When considering residual value risk and the end-of-lease decision process DBRS assumes that consumers are well informed of the market value of their vehicle and that they act rationally based on that knowledge. By assuming rational behaviour, DBRS expects that a consumer who has the option to purchase a vehicle at less than its market value will do so. Conversely, a consumer who knows that the contracted residual value is higher than the market value of that vehicle is likely to return the vehicle to the lessor, in effect transferring that loss to the lessor. This assumption is supported by historical data on consumer choice with respect to lease purchase options.

Lessors have three alternatives when setting the residual value at the inception of a lease contract:

- (1) **Contracted Residual Value < Estimate of Market Value:** Selecting a contracted residual value below what the lessor estimates the true market value of the vehicle will be at the end of the lease term has the effect of increasing the required monthly payment from the lessee. Over the term of the lease, however, the lessor will receive greater cumulative payments and, at the end of the term, the lessee would be more likely to exercise the purchase option as the required payment is lower than the expected market value.
 - While from a risk perspective this choice seems to be the most desirable one, it is not commonly chosen by the finance companies due to the higher required monthly payments and their impact on volumes and competitiveness with other makes and models (which may have more aggressive residual value settings). Some smaller finance and leasing companies do, however, employ this method of residual setting.



(2) **Contracted Residual Value > Estimate of Market Value:** Selecting a contracted residual value higher than what the estimated true market value of the vehicle will be at the end of the lease term has the effect of decreasing the required monthly payment from the lessee. Over the term of the lease, however, the lessor will receive lower cumulative payments and, at the end of the term, the lessee would be less likely to exercise the purchase option as the required payment is greater than the expected market value.

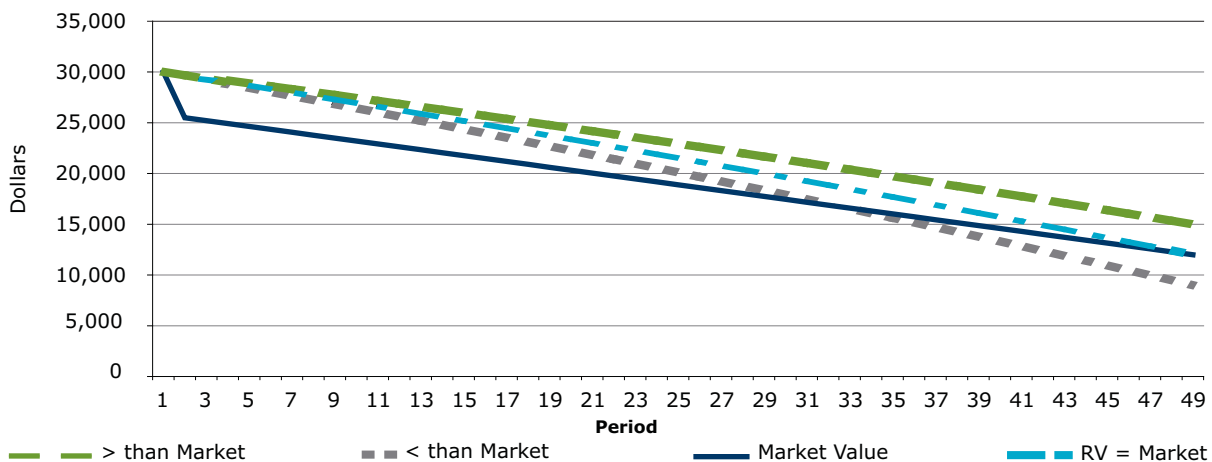
– This choice is the least desirable from a risk perspective, yet it is common practice among most automobile manufacturer captive finance companies due to the lower required monthly payments and their impact on quantity demanded by consumers. Practised on a large scale, this method results in a high concentration of losses to the lessor as most customers will choose to return the vehicle that has a market value that is lower than the contracted residual value.

(3) **Contracted Residual Value = Estimate of Market Value:** Selecting a contracted residual value that is equal to the estimate of the true market value of the vehicle at the end of the lease term results in the intrinsically correct required monthly payment from the lessee. Over the term of the lease, the lessor will receive cumulative payments commensurate with the value of the vehicle and, at the end of the term, the lessee would be indifferent to exercising the purchase option as the required payment is equal to the expected market value.

– This is the theoretically correct approach; however, as a matter of practice, this often signifies a lower bound with respect to residual value-setting by captive finance companies.

Graph 2 illustrates how these three residual value-setting options compare with each other over time in the context of the lease example stated above. The case where residual value is equal to expected market value (RV = MV) is the base case for this example, where residual value is set to 40% of initial value (\$12,000). For the case where residual value is greater than expected market value, the residual value is set to 50% of initial value (\$15,000), while for the case where the residual value is less than expected market value, the residual is set to 30% (\$9,000).

Graph 2: Risk to Lessor – Residual Setting



Lease contracts can be separated into three distinct periods as they relate to residuals, each with their own risks:

(1) For all three scenarios, the starting point is the same (i.e., market value), regardless of where the residual value is set at the outset of the transaction or contract.

(2) During the term of the lease, it is evident that for the leases with lower residuals, there is more rapid amortization, which affects the “equity” interest that the lessee has in the vehicle. For residual examples (2) and (3) above, the lessee has a negative equity position throughout the entire term of the lease, which would lead to a loss on disposition by the lessor. For residual example (1), the lessee is in a positive equity

position beginning in month 33. Should a lessee default on their obligation after month 32, the lessor can expect the market value of the asset to recover any outstanding obligations in the contract and dispose of the vehicle without taking a loss (assuming no costs are recovered). In looking at a vehicle with a cross-section of three different residual values, we can see that leases with higher residuals carry more risk throughout the term of the lease due to the wider gap between principal outstanding and market value. Additionally, it is not very common for a lessee to be in a positive equity position. An exception to this rule is open-ended leases, where it is much more common for the lessee to build an equity position in the vehicle, since this class of lessee is obligated to purchase the vehicle at the end of term or pay for any shortfall on disposition.

(3) At the end of term, the lease has amortized to the contracted residual value, which will either be greater than, less than or equal to market value of the vehicle. In this sense, the finance company (or lessor) faces a potential loss with each lease, regardless of the credit quality of the lessee, in that the lessor may be faced with disposing of an asset that may or may not be worth book value. A lessor does not usually get to realize gains on the sale of the vehicles as consumers will typically buy those booked for less than market value. As such, the residual value component of the risk is typically one-sided for the lessor, as it tends to receive vehicles that are leased with a residual value set at greater-than-market value.

EXCESS WEAR AND TEAR

Additional costs that may impact the marketability of the vehicle at the end of term, including excess mileage or damages, can also influence the lessee's purchase decision. Essentially, costs to cover excess wear and tear are levied solely if the lessee returns the vehicle. A simple example illustrates this point. A lessee whose term is expiring has a vehicle with a contracted residual amount of \$12,000 and a market value of \$11,000. All else equal, the lessee may choose to return their vehicle and purchase one on the market for \$1,000 less. If the same consumer, however, has accrued \$2,000 in charges of excess wear and tear, they may choose to forego those costs by purchasing the vehicle for the \$12,000 contracted residual value.

BENEFITS TO THE LESSOR

In determining the benefit that the lessor accrues from a transaction, a distinction must be made between the two main categories of lessors: (1) independent finance companies that typically have no affiliation to manufacturers, and (2) captive finance companies owned by or affiliated with manufacturers, a relationship that can help to augment a group sales and production strategy. Creating a distinction between these two types of lessors is important because the two types can have different characteristics with respect to size, business mix, scope and strategic objectives.

An automobile manufacturer's captive finance company typically tries to align its goals with the strategic objectives of the overall group (i.e., maximization of sales and profitability). Accordingly, strategies to increase sales and profitability for the group as a whole can include helping to increase sales volumes of specific low-margin models by introducing the use of financing incentives such as subvented interest rates or by subventing contracted residual values at rates that are greater than anticipated market values. These strategies have the effect of lowering the monthly payment required by the customer with the ultimate goal of increasing sales volume for the group. The costs of such incentives are traditionally borne by the manufacturer and sometimes shared by the finance company. Nevertheless, they are critical for the purpose of assessing the risk of any pool because they influence consumer behaviour.

Independent finance companies are typically small, local operators that rely on the performance of their portfolio of leases for profitability. As such, they typically do not compete with the larger captives and instead focus on niche segments, including vehicles for which no manufacturer incentives exist; small fleets; customers who do not want fixed lease terms; specific trades; or other specialized segments. These operators commonly set residual values below expected market value in their contracts.

Assessing the Risk Profile of a Pool of Automobile Leases

With an understanding of the various interrelated factors inherent in the automobile leasing industry, the main objective of the following discussion is to aggregate the principles outlined thus far, including credit and residual risks faced by the lessor, the benefits the lessor enjoys and the objectives pursued and, in turn, identify how these affect the calculation of credit enhancement, the evolution of the securitization structure and ratings considerations. To assess the risks in a pool of leases, DBRS uses a comprehensive financial model that considers the risks present in leases as discussed above, on a lease-by-lease basis in Canada.

The financial model is proprietary to DBRS and evaluates the various risks inherent in each lease within the context of a pool of what are often tens of thousands of leased vehicles.

CREDIT RISK – THE RISK THAT THE LESSEE FAILS TO MAKE A MONTHLY PAYMENT

In assessing credit risks inherent in lease and loan portfolios, there are risk factors present in lease portfolios that do not exist in loan portfolios, including:

(1) As evidenced in Graph 1, under a lease transaction, lessors face the risk of greater losses beginning in month 15 (as compared with a loan transaction). The importance of this inflection point (i.e., risk of loss shifting to the lessor) becomes evident when reviewing historical statistics on the actual performance of lease and loan portfolios.

(2) Additionally, captive finance companies risk increased losses to their portfolios in highly competitive markets that can lead to aggressive residual value setting, downward pricing pressure in the used car market caused by higher turn-in rates, and lower pricing on new vehicles. These factors also influence the magnitude of losses on repossession, when such action is necessary.

Conversely, there are factors that can have a positive impact on overall credit risk, including:

(1) Leases have lower initial loan-to-value (LTV) ratios, as taxes do not factor into the principal amount.

(2) Leases tend to be written on newer vehicles, which typically outperform used collateral from a credit and collection viewpoint.

(3) Leases generally attract customers with credit scores that are as good and often better than loan obligors.

Historically, most captive finance company data indicate that static lease pools do not have credit loss performance that is materially different from the performance seen in loan portfolios, suggesting that, from a credit perspective, the above factors can offset each other.

ANALYSIS OF CREDIT RISK IN A LEASE PORTFOLIO

DBRS's analysis of credit risk begins with the historical information on the rate of delinquencies, defaults, gross losses, net losses and repossession rates that a particular finance company has experienced in its lease portfolios. Consideration is also given to the composition of the pool in terms of make, model, and term of the lease contract. DBRS also reviews the concentration of vehicle type within the portfolio. For example, in the event of a significant increase in gasoline prices, smaller, fuel-efficient vehicles would have significantly different loss statistics than their larger counterparts, including trucks, sport utility vehicles (SUVs) and minivans.



In a cash flow simulation of a lease portfolio, the most accurate representation of any stress to the portfolio requires a repossession rate as a base for assessment of losses. The use of a repossession rate allows for the approximation of a corresponding number of vehicles for which all future cash flows are removed from the cash flow schedule. In most cases, the repossession rate does not exceed 1% of the total owned and managed portfolio.

After assessing the outstanding book value of the repossessed vehicles, DBRS applies a loss rate to the amount. This rate is based on historical gross and net loss figures against corresponding historical repossession rates. For example, if historical repossessions run at 1.0% of outstanding principal per annum (8.3 basis points (bps) monthly), and loss rates are 0.4% of outstanding principal, DBRS will apply a loss of 40% (0.4% / 1.0%) to the 8.3 bps of monthly repossessions. The remaining 60% of the value of the repossessed vehicles will be credited as a recovery; however, in the DBRS modelling approach, the recovery receipts are delayed by several periods (e.g., three to five months for AAA or R-1 (high) rated pools).

STRESSED CREDIT LOSSES

For each lease portfolio that will be securitized, DBRS applies a multiple to the expected cumulative loss base commensurate with the desired rating (see the table below). The cumulative loss base is determined with reference to the historical performance of the owned and managed pool for the specific originator of leases providing the pool of leases to be securitized. The loss base is then applied to the specific exposures in the actual lease pool to be securitized. With the preceding methodology providing a base from which credit losses can be assessed, DBRS applies stress multiples to the base loss rate which then determines the range of enhancement required to achieve the desired rating.

Table 1: Credit Loss Multiple Range

Rating Level	Sub-Prime	Prime	Super Prime
AAA	2.5x to 4.0x	4.0x to 6.0x	5.0x to 10.0x
AA	2.25x to 3.5x	3.0x to 5.0x	4.0x to 8.0x
A	2.0x to 3.0x	2.5x to 3.5x	4.0x to 6.0x
BBB	1.5x to 2.25x	2.25x to 3.0x	3.0x to 4.0x

Multiples can vary in accordance with the credit quality of the pools being analyzed because the volatility of the pools that experience high absolute losses is greater than the volatility of pools that experience very low losses. In addition, enhancement must also protect against event risk (such as the failure of a brand or insolvency of the servicer) that may cause obligor behaviour to change. Because enhancements provided to cover residual value losses can also be used to cover credit losses, typically, multiples for super-prime leased assets tend to be lower than those that would apply for comparable loan portfolios.

TURN-IN RATES AND SURVIVORSHIP

The turn-in rate refers to the proportion of all vehicles returned to the lessor at the end of term – essentially, the vehicles for which the lessor will face the possibility of a loss. This feature, unique to lease pools, makes the turn-in rate one of the most important factors in the residual value loss analysis.

The starting point for determining a turn-in rate is the result of the comparison of the contracted residual values and the relevant Automotive Leasing Guide (ALG) values (stressed or otherwise, depending on the scenario). This is the total number of vehicles in the pool that can be considered “scheduled turn-ins” (due to the expected negative equity position of lessee at the end of the term) during the term of the transaction. Under a AAA ALG stress, this number will typically be very close to (but not equal to) 100% of leases, with those not scheduled to be turned in having no impact on potential losses (or generating a gain), since we assume that those will be kept by the lessee.

Accordingly, the turn-in rate is applied to all leases for which $ALG_{ss} < \text{contracted residual value}$, where ss denotes the relevant stress scenario.



Of those vehicles scheduled to be turned in, there is an upper bound of 100% with respect to the turn-in rate. It is DBRS's position that, particularly under a stressed scenario, a turn-in rate of 100% can never be realized due to the fact that not all vehicles will make it to the end of term. Even in an unstressed environment, this would never be the case as there will always be some early terminations (arising from default-triggered repossessions, for example), while other vehicles will inevitably be stolen, written off due to accident, or see their lessees move abroad or otherwise experience lifestyle changes (new families, children) that may affect their need for a replacement vehicle. In these cases, the lease will expire prior to its scheduled termination and is unlikely to generate a meaningful loss.

Of the many factors leading to early termination, the repossession rate has the largest influence on turn-ins or survivorship, particularly in a stress scenario where that rate is assumed to be several multiples of the historical level.

Survivorship essentially refers to the proportion of all leases on which all scheduled payments are successfully made to the end of term and where the point arrives that the lessee must choose to turn in the vehicle or exercise their purchase option. Under stressed scenarios, DBRS uses a maximum of 90% of leases that will actually survive their full term. The following table illustrates the turn-in rate applied to survivors and what that rate implies on an aggregate basis.

Table 2: Turn-In Rates

Rating Level	Survival Rate (A)	Turn-In Rate on Survivors (B)	Aggregate Turn-In Rate (AxB)	Turn-In Rate Used
AAA	90%	100.0%	90.0%	85.0% to 90.0%
AA	90%	95.0%	85.5%	85.0% to 90.0%
A	90%	90.0%	81.0%	80.0% to 85.0%
BBB	90%	85.0%	76.5%	70.0% to 85.0%

Although relatively infrequent in current pools of leased vehicles, it is important to note that discussion of turn-ins does not apply to vehicles for which the relevant ALG versus contracted residual value comparison determined that the vehicle would be retained by the lessee. Additionally, while historical turn-in rates can be interpreted as a good indication of how well residuals are being set by lessors, assumed stressed turn-in rates do not incorporate a "multiples" analysis, which is common in the credit component of the analysis. Limited consideration is given to portfolios that have experienced very low (<20%) turn-in rates historically. However, this is not the norm nor do we anticipate that this trend will rise in the current economic environment.

RESIDUAL VALUE RISK

As highlighted in the preceding sections, closed-end leases bear some residual value risk and, in evaluating a pool of vehicles, it is clear that residual value risk represents the largest single component of overall risk. DBRS assesses residual value risk for each vehicle by comparing the vehicle's contracted residual value with recognized sources for third-party estimates of market value at the end of term.

In order to ensure that an unbiased estimate is in use, the predicted market values by ALG are employed. DBRS believes that ALG provides the most reliable and unbiased estimates of market value for each vehicle, as it is solely in the business of assessing these values with consideration to industry trends, economic conditions, production pipelines and other factors to assess the demand for and supply of various vehicles in the resale market.

Certain vehicle portfolios may not be well represented in the ALG databases and, as a result, DBRS will consider using data provided by other credible parties with comprehensive, model-by-model estimates of market value.



ALG typically provides an expected market value for each vehicle if it is returned in “clean” condition and “average” condition. The average value is less than the clean value, and is considered a more appropriate indicator of value as it is representative of the bulk of vehicles in use, accounting for reasonable mileage levels, some wear on the vehicle, nicks and scratches, and other indications that the vehicle has in fact been used regularly over the lease contract period.

Fluctuations in fundamental economic indicators can also have significant impacts on the resale value of vehicles in Canada. For example, a rapid appreciation of the Canadian dollar can result in an arbitrage opportunity whereby the same vehicle in the United States is temporarily less expensive than its Canadian counterpart. This pricing arbitrage effectively suppresses the value of used vehicles in Canada until the market stabilizes with price adjustments. Similarly, a rapid increase in the price of oil has the effect of reducing the resale value of large trucks and SUVs relative to the original end of lease value assumed prior to the increase in the price of oil. As a result, economic fluctuations can lead to a decline in the price of used vehicles, which in turn leads to greater losses as more and more lessees exercise their option to return the vehicle to the lessor. As previously noted, this has the effect of concentrating the losses at the lessor level. It is precisely this type of scenario that DBRS is most concerned about when examining lease pools and applying stress factors to the critical variables in the methodology, including the residual value-setting process and the assumptions on turn-in rates.

EMBEDDED RESIDUAL VALUE LOSSES

The ALG “average” value is often lower than the contracted residual value, indicating that ALG expects the vehicle in question to be worth less than the contracted residual amount. In such a case, it is assumed that the lessee is likely to return the vehicle at the end of term (as they would be “out of the money”), leaving the lessor facing a loss on the sale of the asset. Conversely, there will be some vehicles where the opposite is true; however, no netting of gains and losses is assumed by DBRS since it is assumed that lessees would exercise the option, leaving only losses in the hands of the lessor.

This difference between the two values for leases that are out of the money is referred to as embedded losses, that is, expected losses at the outset of the transaction. From a modelling perspective, embedded losses represent the contracted residual value less the ALG average value on a lease-by-lease basis for a specific pool of leased assets. DBRS’s methodology requires that the securitization structure include enhancement in the form of cash for 100% of the embedded losses in a particular lease pool at the outset of the transaction.

STRESSED RESIDUAL VALUE LOSSES

To determine adequate protection for noteholders, DBRS assumes volatility in the underlying market value of the vehicles caused by unanticipated market developments, leading to a systematic overestimation of market values. One example of such an event is automobile manufacturer insolvency, impairing the resale value of the manufacturer’s own vehicles while contributing to an oversupply of vehicles in the resale market, thus reducing the resale value of similar vehicles. Other examples include severe economic conditions, a change in tax regimes, drastic changes in fuel prices, or the impact on resale values had by future new vehicle pricing decisions.

The DBRS methodology is based on the assumption that the ALG estimates do not reflect all of the potential factors that could result in a systemic devaluation of the vehicles at the end of the lease term. To reserve for these types of possibilities, DBRS applies a “haircut” to the ALG values on a lease-by-lease basis. The severity of the haircut or stress depends on the desired rating of the notes – the following table indicates the stress levels DBRS applies to the ALG estimate for a series of desired rating levels, assuming the portfolio is reasonably diversified.



Table 3: ALG Stress Severity

Stress Range	Desired Rating Level			
	AAA	AA	A	BBB
Maximum	30.0%	25.0%	20.0%	17.5%
Minimum	22.5%	20.0%	15.0%	12.5%

The methodology is best explained through the use of an example: assuming a vehicle with a contracted residual value of \$12,000 and an ALG expected value of \$11,000, creating an embedded loss of \$1,000. In applying a AAA stress, DBRS reduces the ALG value by 22.5% - 30.0%. For example, a stress factor of 25% would result in a stressed ALG estimate of \$8,250 [$\$11,000 \times (1 - 25\%)$].

The stress is realistic for a AAA risk assessment, in this case, creating a gap in value of \$3,750 or 31.25% of the contracted residual value ($\$12,000 - \$8,250$), which DBRS refers to as the stressed residual value loss.

Determining Amount and Forms of Enhancement

Due to the known existence of identifiable losses on an unstressed basis in the form of embedded residual value losses, there exists a required level for providing a minimum level of cash as the first form of enhancement in the structuring of securitized lease portfolios. DBRS would expect that total enhancement to a AAA level will include 100% of the embedded residual value loss in the form of cash.

The principal reason for this discrepancy lies in the fact that the concept of embedded losses is based solely on the scheduled cash flows (i.e., no credit losses). The idea is best illustrated within the context of a hypothetical lease pool with very common characteristics. With a yield of 5.75%, the pool is expected to cover cost of funds of 3.50% to 3.75%, implying gross spread of 200 bps to 225 bps annually. Providing for a 100 bp annual servicer fee, there remains 100 bps to 125 bps of excess spread annually. In a typical waterfall, this spread would be used to offset some of the residual losses on a monthly basis before requiring a draw on any enhancements. To the extent that the leases in a pool come to term in a fairly even monthly schedule, most or all spread will be captured.

To the extent that scheduled cash flows are stressed and excess spread is reduced or completely eliminated, there is a reduction in the portion of embedded residual value losses that are actually realized. The combination of the two scenarios (scheduled and stressed) allows DBRS to determine a level of additional credit enhancement, if any, that, in conjunction with adequate excess spread (when available), makes it possible to cover known losses (i.e., embedded residual value losses) with a level of cash that may be lower than the known loss amount. Additionally, since residual value loss protection is non-amortizing or has a high floor, the full amount of the enhancement is available to offset residual losses for the entire term of the transaction. This means that as the pool of vehicles amortizes in line with the run-off rate of the portfolio, any vehicles that are not sold at a loss in the early stages cause the structure to benefit from more enhancement on a per unit basis than at the outset of the transaction.

FORMS OF ENHANCEMENT

Once the expected credit losses and embedded residual value losses are calculated for a pool of lease vehicles, the amount of enhancement is determined by applying the multiple ranges that correspond to the desired rating. A typical lease portfolio will require approximately 18% to 30% of the outstanding notes as enhancement at the outset of the transaction, depending on the composition of the pool and the amount of embedded loss included in the funding (or advance rate). Because significant portions of the enhancement do not amortize (whereas the leased assets do), the enhancement will usually increase as a percentage of the notes outstanding. DBRS has established minimum thresholds for the amount of cash that must form part of the enhancement and these are applied on a pool-by-pool basis. At the outset of the transaction, the seller is required to deposit in cash 100% of the calculated embedded loss to be invested by the Trust in Permitted Investments.¹ Additionally, a second deposit of cash is required as part of the enhancement required to cover a portion of stressed residual losses beyond the calculated embedded loss, as well as to cover a portion of expected credit losses. Typically, the second deposit of cash ranges from 3% to 7% of the total enhancement required. The balance of the enhancement generally comprises a combination of overcollateralization and subordinated notes. Overcollateralization simply refers to the deposit of additional lease contracts to which the holder of the note has the right to collections from. Depending on the prevailing market conditions, subordinated notes may be sold to investors and form part of the enhancement by taking on additional risk in exchange for a higher rate of return. However, should losses break through the stressed levels for that subordinated note, the holder of the subordinated note will experience a loss prior to the holder of a senior note. To a lesser degree, excess spread in a transaction provides some level of enhancement to a structure but is not relied on by DBRS to form part of the required total of enhancement for a particular rating.

1. Permitted Investments are defined in each transaction document and are generally restricted to risk free investments such as government of Canada bonds. Concentration limits apply where less than 100% of the Permitted Investments are invested in non government of Canada bonds.



VALUING THE CAPTURE OF EXCESS SPREAD

While excess spread can be instrumental in helping offset scheduled losses, it is often the case that a spread account cannot be given much credit in the overall enhancement structure. The reason for this is due to the combination of residual value losses, credit losses and prepayments realized throughout the life of the pool.

Eligibility criteria typically exclude leases scheduled to come to term in less than six months. It is often the case, however, that once leases are scheduled to end and the structure has to begin covering embedded and stressed residual value losses, very little or no spread can accumulate. Accordingly, the structure has five months to build spread, during which it must also compensate for stressed credit losses. Continuing with the preceding example, if there is annual spread (above cost of funds and servicer fee) of 100 bps to 125 bps, only around 40 bps to 50 bps of spread would actually accumulate. Realization of credit losses in the stressed scenario would drive this number even lower.

In summary, the amount of spread available is an important determinant of overall enhancement levels and the forms of enhancement used, mainly due to the fact that monthly residual value losses will effectively soak up most or all available spread, thereby preventing the return of any excess cash to the seller. It is also due to this very dynamic that the build of a spread account is typically not meaningful in lease securitizations.

Legal Issues

VICARIOUS TORT LIABILITY

Vicarious liability is a legal doctrine that allows an exception to the rule that those suffering damages due to the negligence of another can look only to the negligent party for compensation. Under the doctrine of vicarious liability, the negligent party is held to be an agent of a principal, and those suffering loss may also look to the principal for damages.

Vicarious liability is relevant to claims for damages arising from a motor vehicle accident. Owners of motor vehicles can be held liable for damages caused by the negligent operation of the vehicle if the operator of the vehicle possessed the vehicle with the consent of the owner.

A number of recent court decisions have seen auto lessors held liable as the owner of a vehicle operated negligently by a lessee. As the holder of a securitized lease, a special-purpose vehicle (SPV) could be held to be the ultimate owner of vehicle and therefore liable for damages. This could pose a significant liability risk for automobile loan/lease SPVs.

In response to concerns expressed by the Canadian leasing industry, a number of provincial governments have enacted statutory provisions to address this issue. In Ontario, amendments to legislation have limited the liability of the leasing company with respect to damages for bodily injury to a maximum of the greatest of the following:

- (1) \$1 million.
- (2) the amount of third-party liability insurance required by law.
- (3) any amount determined by regulations.

This maximum amount is reduced by any amounts that are recovered under the third-party liability provisions of any motor vehicle policies issued to the customer/lessee or any other persons with respect to the same accident.

In summary, lessors may be held liable for personal injury damages of up to \$1 million in three provinces and for property damages in six provinces. This level of exposure is manageable and can be mitigated by terms of the lease contact requiring lessees to maintain a minimum of \$1 million in insurance coverage.



Additional Considerations

Although closed-end leases are among the most prevalent type of lease and most complex to assess, open-ended leases are also used and evaluated by DBRS. The main difference between these two types of leases is that in the case of an open-ended lease, the lessee has a contractual obligation to purchase the vehicle at the end of term at the contracted residual value or to pay for any shortfall if the vehicle is remarketed to a third party. For pools of such leases, the main drivers of enhancement levels include lessee concentrations with respect to individual obligors and historical performance.

In addition, it is sometimes the case that finance companies purchase residual value insurance to cover potential losses with closed-end leases. With this coverage, the finance company can expect to recover any losses suffered on the disposal of vehicles returned by lessees. For this type of pool, the main drivers of enhancements will be the credit quality of the insurance provider, the potential exclusions under the policy, and historical performance.

Conclusion

Lease portfolios represent a convergence of several different elements of risk, the assessment of which is critical in determining appropriate levels of enhancement. The dynamic interplay between credit losses, embedded residual value losses, stressed residual value losses, turn-in rates, the subvention of interest rates and residual values, adds several layers of complexity to the analysis. The approach used by DBRS to quantify these risks and the protection required to survive stressed environments has evolved alongside the growing use of this financing method and will continue to do so. Most importantly, DBRS reviews these risks, monitors their development and ensures appropriate levels of conservatism are applied to manage the uncertainties that abound during the life of a securitized lease structure.

Auto Transaction Risk Matrix

	Retail Auto Loan	Retail Auto Lease	Daily Auto Rental Fleets	Wholesale Floorplan
Concentration Risk	Low 20-60k Obligor	Low 20-60k Obligor	High Only One Obligor	High 250-500 Obligor
Credit Risk	Low – Medium (10-125 bps)	Low – Medium (10-125 bps)	Low (0-25 bps)	Low (0-25 bps)
Residual Value Risk	n/a	Medium to High 40%-60% of pool balance	Medium to High 25%-100% of pool balance	n/a
Manufacturer Risk	Low No reliance	Medium (End of Term Considerations)	Medium (Higher on Program Vehicles)	High Linked closely to the Manufacturer
Maturity Features	Amortizing	Amortizing	Revolving	Revolving
Enhancement	Cash (Min 50-100 bps) Overcollateralization Subordinated Notes Excess Spread	Cash (Min 50-100 bps) Cash (Embedded Loss) Overcollateralization Subordinated Notes Excess Spread	Cash (Min 50-100 bps) Overcollateralization Subordinated Notes Excess Spread Letters of Credit	Cash (Min 50-100 bps) Overcollateralization Subordinated Notes Excess Spread

bps = basis points. n/a = not applicable.

Appendix: Rating Canadian Auto Lease Transactions Summary

LIMITATIONS

- Future performance may deviate significantly from past performance.
- Recoveries may fall below DBRS-stressed performance assumptions and model results are highly dependent on expected credit losses and future residual values for lease transactions.
- The methodology considers the current legal and regulatory framework (including consumer protection regulations) and its impact on the structure of transactions as at the date of publication of this summary.

APPLICATION OF QUALITATIVE AND QUANTITATIVE METHODOLOGY CONCEPTS

Summary of Risk Analysis Process Applied to Auto Lease Transactions

Input	Detail	Key Variables
Portfolio-Level Analysis – Historical Performance	A minimum of three to five years of static loss data, with tracking of key variables on the securitized pools.	<ul style="list-style-type: none"> • Originator's historical loss analysis, turn-in rates, residual value losses. • Pools are analyzed based on stratification of static pools, including make, model, model year, weighted-average original term, weighted-average remaining term, monthly portfolio runoff. • Distribution by contract term, province, make, model, new, used, truck, sports-utility vehicle (SUV), passenger car, captive or non-captive finance company, aggregate embedded residual value loss, weightedaverage annual percentage rate (APR).
Residual Value Analysis	Automotive Lease Guide (ALG) or another acceptable alternative pricing guide.	Embedded Losses <ul style="list-style-type: none"> • Contracted residual value (at scheduled lease termination date) is compared with a third-party pricing guide to establish the embedded loss inherent in each lease contract.
Servicer Analysis	Periodic review of the servicer by DBRS.	<ul style="list-style-type: none"> • Assessment of originator's servicing capabilities, including credit and collection policy, originations, servicing, collections, asset recovery (e.g., time frame for recovery), static loss performance and management experience.
Economic Analysis	Through an economic or credit cycle.	<ul style="list-style-type: none"> • Review of economic cycles and potential impact on auto lease transaction performance, with an emphasis on the used-vehicle market, including factors such as the relative strength of the Canadian dollar and consumer bankruptcies.



Summary of Risk Analysis Process Applied to Auto Lease Transactions

Input	Detail	Key Variables
Legal Review	DBRS review of transaction structure and underlying legal documents.	<ul style="list-style-type: none"> • Review of all legal documents, including true sale opinions, priority of cash distributions and bankruptcy remoteness of structure. • In Canada, specific emphasis is placed on the additional risks associated with the potential resiliation of lease contracts. • Legal document analysis also includes review, consideration and assessment of early amortization events and events of default, such as residual value loss triggers and manufacturing and seller bankruptcies. • Review of transaction representations, warranties and covenants for consistency with <i>Legal Criteria for Canadian Structured Finance</i>.
Loan-Level Analysis – Proposed Pool Composition	Cash flow analysis of the proposed enhancement for the securitized pool.	<ul style="list-style-type: none"> • Base-case expected credit loss and residual value loss assumption is determined from a review of the portfolio-level analysis, economic analysis and legal document analysis. • Note the loan-level analysis for the proposed pool to be securitized may be analyzed on either a loan-by-loan basis or a stratified pool basis, but it should include a third-party estimate (e.g., the Automotive Lease Guide (ALG)) or an acceptable alternative pricing guide.
Output	Detail	Application
Credit Loss Assumption	Estimate base-case loss assumption.	<ul style="list-style-type: none"> • The base-case cumulative loss assumption is estimated based on review of the key variables identified at the loan-level, portfolio-level, economic and legal structure reviews. • The credit loss assumption is stressed based on a multiple in line with the rating levels detailed in Table 1 below. • Enhancement is evaluated based on the expected stressed credit loss.
Residual Value Loss Assumption		<ul style="list-style-type: none"> • The residual value loss assumption is determined based on the loan-level and portfolio-level analysis. • The residual value loss assumption is stressed based on the rating level ranges detailed in Table 2 and Table 3 below and includes a calculation of a total embedded loss. • The embedded loss is calculated on a loan-by-loan basis as the shortfall between the contracted residual value and the estimated ALG residual value. • Embedded losses are aggregated without netting of contracts that may have an embedded gain.



Summary of Process to Evaluate Amount of Enhancement Proposed in Auto Lease Transactions

Input	Process
Evaluating Amount of Enhancement	<p>(1) Apply relevant stress multiple range in Table 1 to credit loss to derive an estimated cumulative credit loss assumption. Apply the residual value stress range in Table 2 and Table 3 to the lower of ALG (or another acceptable third-party pricing guide) and contract residual value to the proposed pool of lease contracts to be securitized. Add the total cumulative embedded loss (calculated as described) above for a cumulative stressed expected residual value loss. Replacement servicer fees are included in estimated cost contingencies.</p> <p>(2) A cash flow model is used to determine whether the proposed level of enhancement is sufficient to warrant the requested rating.</p>
Output	Appropriate rating level based on the proposed enhancement.

Summary of Process to Evaluate Form of Enhancement in Auto Lease Transactions

Input	Assessment
Proposed Form of Enhancement	<p>(1) A minimum level of cash is expected to cover 100% of embedded losses and to provide short-term liquidity to the transaction, if needed, to address spikes in credit losses or excess spread declines.</p> <p>(2) The remainder of the total enhancement may be provided through a combination of subordination, overcollateralization and excess interest rate spread or acceptably rated third-party forms of enhancement. Floor levels may be included to ensure that a minimum level of enhancement is available throughout the life of the transaction and to protect against losses that can occur in the later stages of the transaction (i.e., tail risk). Subordination considerations include an analysis of the priority of payments and the rate of interest to be paid on the subordinated notes.</p> <p>(3) Excess interest rate spread is evaluated based on the structure of the transaction as the excess spread may be created by way of an interest rate hedge or other structural mechanism or the excess interest rate spread may be exposed to volatility on a monthly basis as a result of pool delinquencies, defaults or losses. Unless there is a structural feature included to guarantee the monthly excess spread, a maximum of one year's credit is applied to DBRS's analysis.</p>
Output	<p>A proposed level of enhancement that includes a cash reserve account¹ that is funded up front to cover 100% of embedded losses (on a contract-by-contract basis) and additional enhancement to cover remaining stressed residual value losses and stressed credit losses, including the following:</p> <ul style="list-style-type: none"> • Subordination. • Overcollateralization. • Excess spread.

1. Excess cash is subject to deposit and investment restrictions as outlined in DBRS's *Legal Criteria for Canadian Structured Finance*.



Summary of Additional Transaction Risks Addressed through Related DBRS Methodologies

Risk	Description	Methodology¹
Interest Rate Mismatch	Arises when the interest on the securitized contract is calculated on a different term basis than the notes issued. For example, floating-rate asset-backed commercial paper (ABCP) notes are issued by a conduit secured by a portfolio of fixed-rate auto lease contracts.	<i>Swap Criteria for Canadian Structured Finance Transactions</i>
Basis Rate Mismatch	Arises when the basis for calculating interest charged on the securitized contract is different from the basis for paying interest on the notes issued. For example, an interest rate hedge indexed to banker's acceptance (BA) rates not fully offset by ABCP notes indexed to commercial paper (CP) rates (referred to as BA/CP risk).	<i>Swap Criteria for Canadian Structured Finance Transactions</i>
Foreign Currency Mismatch	Arises when the proceeds received on the securitized contracts is in a different currency than the principal and interest payments due under the note issuance.	<i>Swap Criteria for Canadian Structured Finance Transactions</i>
Cash Commingling	Cash commingling risk refers to the risk inherent in transactions where the seller of the assets collects funds owed from the securitized contracts and manages the funds within its daily operations between monthly remittance dates.	<i>Legal Criteria for Canadian Structured Finance</i>
Bankruptcy Risk: Originator, Financial Servicer or Seller	In order to obtain ratings that are above that of the seller, transactions should be structured to ensure that the assets of the transaction are separate and remote from any claim that secured creditors may have if the originator or seller of the securitized assets files for bankruptcy. Among others, true-sale and substantive non-consolidation opinions are expected and reviewed on a transaction-by-transaction basis.	<i>Legal Criteria for Canadian Structured Finance</i>
Conduit Liquidity Risk	The funding of long-term assets by ABCP has inherent asset-liability duration mismatch and risk for ABCP investors. To address the risk that market demand for ABCP may not be sufficient or the ABCP fails to roll over due to unforeseen events, all conduit sponsors should comply with DBRS conduit liquidity criteria, including Global Liquidity Standard (GLS) liquidity backup lines, in support of outstanding conduit notes.	<i>Rating Canadian ABCP and Legal Criteria for Canadian Structured Finance</i>

1. Available at www.dbrs.com.

SUMMARY OF TRANSACTION MONITORING

Summary of Surveillance Procedures for Auto Lease Transactions

Offering	Information Reported	Frequency	Source ¹
Asset-Backed Commercial Paper (ABCP)	Asset class, seller industry, seller/ servicer rating, funded amount, initial credit enhancement, current credit enhancement, loss coverage, delinquency rate, performance ratios, deal rating.	Monthly	<i>Monthly Canadian ABCP Report</i>
Asset-Backed Securities (ABS)	Originator, collateral description, types of credit enhancement available, program size, lead underwriter, original balance, current balance, coupon, expected maturity, legal maturity, current rating, reporting month, pool balance, collections, loss rate, delinquency rate, reserve ratio, overcollateralization (O/C) ratio, debt class name.	Monthly	<i>Monthly Canadian ABS Report</i>
Private Term Transaction	Originator, collateral description, types of credit enhancement available, program size, lead underwriter, original balance, current balance, coupon, expected maturity, legal maturity, current rating, reporting month, pool balance, collections, loss rate, delinquency rate, reserve ratio, O/C ratio, debt class name.	Monthly	Not public

1. Available at www.dbrs.com.

SUMMARY OF APPLIED RATINGS THRESHOLDS FOR AUTO LEASE TRANSACTIONS

Table 1: Summary of Multiple Ranges Applied to Credit Losses for Auto Lease Transactions

Rating Level	Sub-Prime Portfolio	Prime Portfolio	Super-Prime Portfolio
AAA	2.5x to 4.0x	4.0x to 6.0x	5.0x to 10.0x
AA	2.25x to 3.50x	3.0x to 5.0x	4.0x to 8.0x
A	2.0x to 3.0x	2.5x to 3.5x	4.0x to 6.0x
BBB	1.50x to 2.25x	2.25x to 3.00x	3.0x to 4.0x

Table 2: Summary of Turn-In Rate Assumptions Applied to Lease Transactions

Rating Level	Reach End of Term	Turn-In Rate	Aggregate Turn-In Rate	Applied Turn-In Rate
AAA	90.0%	100.0%	90.0%	85.0% to 95.0%
AA	90.0%	95.0%	85.5%	80.0% to 90.0%
A	90.0%	90.0%	81.0%	75.0% to 85.0%
BBB	90.0%	85.0%	76.5%	70.0% to 85.0%

Table 3: Summary of Stress Applied to ALG-Estimated Residual Values in Lease Transactions

Rating Level	Minimum Stress	Maximum Stress
AAA	22.5%	30.0%
AA	20.0%	25.0%
A	15.0%	20.0%
BBB	12.5%	17.5%

Note: All figures are in Canadian dollars unless otherwise noted.

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