



Methodology  
*Rating Canadian Floorplan  
Securitizations*

MAY 2011



*Insight beyond the rating.*

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# Rating Canadian Floorplan Securitizations

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## Introduction

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Securitization has been an important source of liquidity for the manufacturers and finance companies of a wide range of consumer and industrial equipment, including automotive vehicles, agricultural equipment, construction equipment and other large commercial machinery. Finance companies (captive or otherwise) provide dealer or retailer networks with revolving loans (referred to as floorplan loans) that are used to finance the purchase of inventory at wholesale rates. In providing these loans to its retailers, the finance company establishes a credit and collections policy to administer the loans to the dealers. Once the program has been established for a number of years, the manufacturers may be able to access the securitization market as a form of funding to support the floorplan financing provided to their dealer networks.

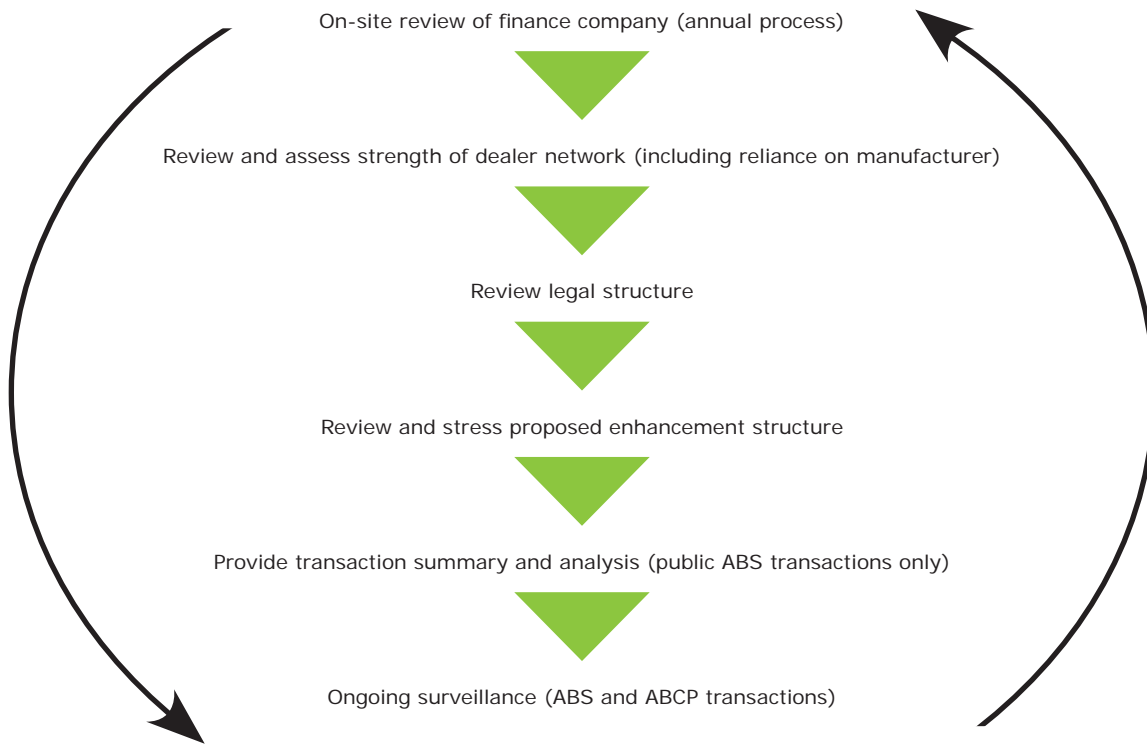
While the assets supporting floorplan financing vary from consumer products to commercial equipment, to date, the Canadian securitization market has focused on floorplan transactions where the inventory has consisted of automotive vehicles, agricultural machinery, construction equipment and their related parts. This is mainly due to the fact that a floorplan transaction requires a certain pool size and scope to attract public investor demand. Typically, for a transaction to be marketable, a diversified dealer network for a multinational manufacturer with significant market presence and a liquid market for the underlying vehicles or equipment are necessary. In providing a national dealer network with floorplan financing, the finance company will have a proven track record in establishing and monitoring credit and collection policies.

Floorplan securitization transactions have historically exhibited very low loss rates and, while payment rates and inventory levels fluctuate seasonally, the annual payment rate of floorplan loans has generally been consistent year over year. This excellent performance has benefited from the strong servicing capabilities of the finance companies; the liquid assets supporting the loans; large, solvent manufacturers; and a relatively healthy economy. Absent any of these components, DBRS expects the performance of floorplan financing to stray from historical ranges; however, because DBRS methodologies are designed to rate through the economic cycle, ratings should be stable during the revolving period. Ratings stability can, however, be affected if economic fluctuations are greater than in a normal economic cycle or if any of the transaction parties enters into bankruptcy or insolvency proceedings.

As part of its rating process, DBRS will review the structure of the transaction and various transaction triggers (i.e., amortization or termination events) related to the financial health of the relevant transaction parties. Among other things, DBRS will specifically consider the impact of a bankruptcy proceeding involving the relevant manufacturer(s) and the finance company (as well as their respective parent entities, when relevant) on the overall structure. Generally speaking, to ensure that there is no payment disruption to the noteholders, DBRS expects a floorplan transaction to go into early amortization upon commencement of any bankruptcy proceeding with respect to the relevant manufacturer(s) or the finance company (and/or their respective parent entities, when relevant). Exceptions will be considered on a case-by-case basis. For further discussion on this point, see “Floorplan Participants – Financial Health Considerations” in the Floorplan Financing Participants section below.



**Figure 1: Rating Agency Process**





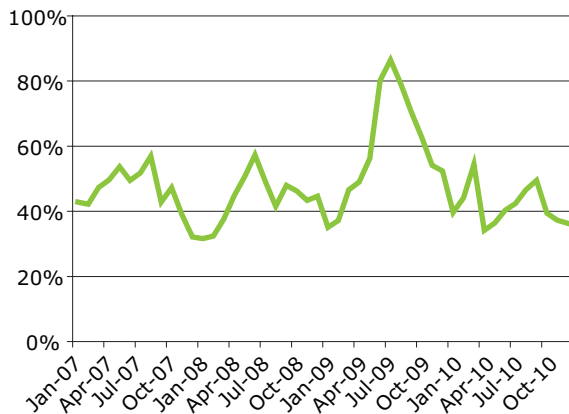
## Background Information

### REVOLVING NATURE OF FLOORPLAN LOANS

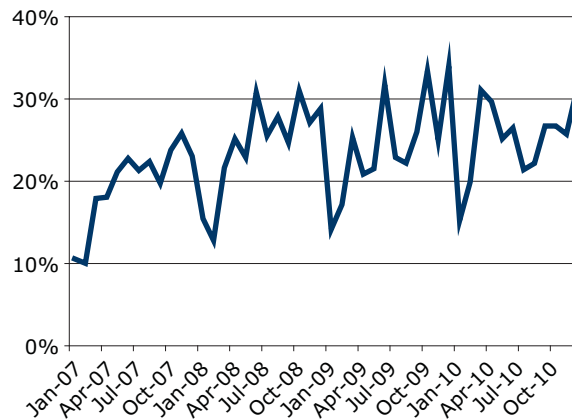
In establishing a methodology for floorplan securitization structures, DBRS takes into account the similarities that these structures share with other asset classes, as well as the unique characteristics specific to floorplan financing. Similar to those of other revolving asset classes (such as credit cards), floorplan loans are supported by short-term obligations that are repaid regularly, with the proceeds used to fund newly generated receivables. Specifically, as the inventory turns, the proceeds from sales are used to repay the loans, and new loans are advanced as the dealer purchases new inventory from the manufacturer. As is the case with credit card securitizations, floorplan transactions rely heavily on a consistent and stable monthly payment rate to ensure timely payment of interest and principal. Close inspection of payment rates in floorplan structures will generally reveal cyclical or seasonal payment rates that reflect underlying consumer demand within the specific industry to which the floorplan loans are linked. The tables below show an example of the seasonality in auto and equipment floorplan deals.

#### Asset Class Payment Rates

##### Asset Type: Auto



##### Asset Type: Equipment



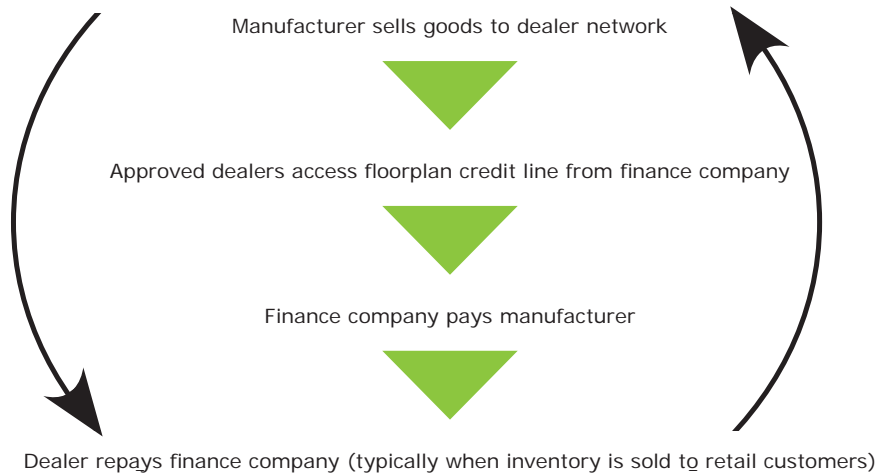
Source: DBRS.

While the monthly revolving nature of the assets is similar to a credit card securitization, floorplan securitizations differ from credit card transactions in that there is a tangible asset underlying the secured obligations. As a result, comprehensive knowledge of the expected valuation range of the specific assets involved – which may range from automotive assets to large industrial machinery – and their respective remarketing channels is acquired at the outset of the transaction. It is important to note that there are typically no residual value exposure considerations in floorplan transactions since the revolving loans require full repayment for the assets financed. In Canada, to determine its final rating, DBRS gains knowledge of the expected market value of the assets at the outset of the transaction, followed by the stress testing of the asset values in a modeling scenario that reflects a wholesale and rapid liquidation of the assets (discussed further under “Cash Flow Stress Scenarios” in the Evaluating Credit Enhancement section).

### *Participants and Outline of a Floorplan Transaction*

Floorplan financing can best be described as a tri-party relationship among the manufacturer, the finance company and the dealer. The graphic below illustrates the transaction flow.

**Figure 3: Revolving Floorplan Receivables – Key Steps**



As illustrated above, the dealer network provides a retail distribution channel for the manufacturer. The finance company provides the dealer network with the floorplan financing required pursuant to the finance company's credit and collection policy. Typically, the lines of credit are prime-based loans to qualified dealers, which allows for the purchase of specified inventory. The dealer network's main source of repayment arises from the sale of inventory to the retail consumer. A dealer's debt obligations are generally short term in nature as the inventory turns frequently.

The interest charged on floorplan loans is usually a floating rate benchmarked to the prime interest rate, which generally begins to accrue the day following the advance. Financing terms require full repayment of the advance after the retail sale of the inventory unit. Periodic payments may also be mandated by the finance company to curtail the loan value relative to depreciating or obsolete assets (please see Curtailment – Depreciating Nature of Assets under "The Finance Company (As Seller/Service)" in the Floorplan Financing Participants section below for a more detailed explanation).

### *Assessing the Risk Profile of a Floorplan Structure*

In evaluating the credit quality of the portfolio of loans, an understanding of the manufacturer, the operations of the finance company and the dealer network is necessary. This DBRS methodology will set out the review procedures applied to evaluate the manufacturer, the finance company and the dealer network in arriving at ratings. Important concepts to review in a floorplan securitization include the following:

- Manufacturer and finance company review.
- Dealer network review.
- Transaction structure and identification of risks.
- Enhancement structure and determination.
- Legal review.
- Post-closing surveillance.

## Floorplan Financing Participants

### MANUFACTURERS

Manufacturers tend to be multinational in both scope and scale and possess established retail distribution networks. The floorplan financing arrangements in the automotive and equipment manufacturing sectors have often been established through captive financing subsidiaries and operate in multiple jurisdictions, providing additional linkages to the manufacturer. The manufacturer plays a fundamental role in the process and is the key link that supplies the assets sold to the end consumer, making the ongoing financial health of the manufacturer a key consideration. Retail support to the dealers is often provided by the manufacturer at the front end of the sales process through sales incentives that include interest rate subvention and cash payments, as well as warranty programs on products and replacement parts.

Most manufacturers are also active in the back end of the sales process by creating online auctions for remarketing used equipment and by offering pull-ahead programs that encourage consumers to trade in prior to lease or loan maturity. This provides a more consistent and orderly inventory management process to the retailers dealing with customers at the end of the lease or loan. The established network provides an important foundation to effectively manage an orderly liquidation of larger numbers of assets should problems arise that affect the health of the manufacturer or the ability of a dealer to sell the assets. An orderly distribution channel also helps to reduce the volatility of used equipment or vehicle pricing. As noted in the table below, the performance of floorplan transactions is much more closely linked to the health of the manufacturer and, as such, an understanding of the ongoing viability of the manufacturer is required. A stable network of dealers, a viable and ongoing warranty program and a ready supply of replacement parts are critical assumptions in the evaluation of a floorplan securitization structure.

Manufacturers with a diversified model line-up and a national dealer network have greater brand franchise than a niche manufacturer, which has a more focused product line and narrow distribution channel. For a diversified manufacturer, the dealer network represents considerable value in terms of an ongoing distribution network for both itself and potentially a third party. As a result, a more conservative review of floorplan transactions for a niche market participant is warranted due to the impact on the dealer network of any difficulties at the manufacturer.

#### Auto Transaction Risk Matrix

	Daily Auto Rental Fleets	Retail Auto Leases	Retail Auto Loans	Floorplan
Concentration Risk (Number of Obligor)	High	Low (20,000+)	Low (20,000+)	High (250 to 500)
Historical Credit Risk	Low (0 bps to 25 bps)	Low to medium (10 bps to 125 bps)	Low to medium (10 bps to 125 bps)	Low (0 bps to 25 bps)
Residual Value Risk	Medium to high (25% to 100% of pool balance)	Medium to high (40% to 60% of pool balance)	n/a	n/a
Manufacturer Risk	Medium (higher on program vehicles)	Medium (end-of-term considerations)	Low	High (linked closely to the manufacturer)
Maturity Features	Revolving	Amortizing	Amortizing	Revolving
Typical Enhancement Type	<ul style="list-style-type: none"> <li>• Cash (minimum 50 bps to 100 bps)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Excess spread</li> <li>• Letters of credit</li> </ul>	<ul style="list-style-type: none"> <li>• Cash (minimum 50 bps to 100 bps)</li> <li>• Cash (embedded loss)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Excess Spread</li> </ul>	<ul style="list-style-type: none"> <li>• Cash (minimum 50 bps to 100 bps)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Excess spread</li> </ul>	<ul style="list-style-type: none"> <li>• Cash (minimum 50 bps to 100 bps)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Excess spread</li> </ul>



## FINANCE COMPANY (AS SELLER/SERVICER)

The finance company provides the financing to the dealer network to purchase the assets on a revolving basis. Traditionally, the finance company is established by the manufacturing entity as a subsidiary for the purpose of supporting the sale of products to both the licensed dealers and the end consumer. The subsidiary or captive finance company operates as an independent unit from the manufacturers and its main role in a floorplan securitization is as seller and servicer of pools of floorplan loans. A third-party finance company is a separate legal entity and is unrelated to the manufacturing entity. There are both favourable and unfavourable aspects to consider when reviewing the nature of the relationship the finance company has with the manufacturer of the underlying collateral.

A captive finance company has the benefit of a close relationship with the manufacturer, which can provide advantages with respect to understanding the product offering and production cycle and can help the finance company monitor collateral inventory and its dealers. The close ties with the manufacturer assist in the distribution of collateral through its dealer network and related online auction process, potentially enhancing recovery on collateral. However, a captive finance company has increased risks with respect to the impact of a bankruptcy of the manufacturer and a lack of dealer diversification compared to third-party finance companies.

Third-party finance companies operate more independently from manufacturers than captive finance companies and are much more arm's length in their dealings with the manufacturers. This de-links them from the manufacturer and provides them with more diversification in terms of the branding of the dealers with which they deal, reducing their exposure to bankruptcy action by a manufacturer. Third-party finance companies, however, do not benefit from the same access to a broad dealer network that captive finance companies do and generally must rely on their own re-marketing channels as they may not have the same access to the manufacturer's distribution network.

DBRS pays particular attention to the finance company's capabilities as servicer for a securitization transaction. Periodic operational reviews are conducted with the finance company to assess their servicing capabilities. In discussions with the company's management team, DBRS seeks to understand the operational aspects of originating and adjudicating credit, monitoring pool performance, collecting loans and reporting within the context of the securitization structure. An independent assessment may be conducted by DBRS's corporate analysts to assign a corporate rating to the finance company. This rating is then used as a trigger in the transaction with respect to the finance company's ability to commingle daily collections with its corporate funds (minimum rating of BBB (low)) and in measuring the finance company's ability to continue to operate in the absence of the manufacturer. Key areas of review for DBRS at an operational review session include origination and adjudication of credit and monitoring pool performance.

### *Origination and Adjudication of Credit*

The finance company conducts a review of each new applicant prior to approving it as a creditworthy dealer. During this process, it assesses an applicant's management experience, industry track record, financial wherewithal, operational controls, credit checks and bank references. Once approved, the applicant's credit profile is ranked pursuant to the finance company's credit and collection policy. The line of credit is determined based on the strength of the applicant's balance sheet, reliance on third-party lenders, supporting collateral and sales and inventory turnover volumes. As servicer, the finance company plays a pivotal role in adjudicating the established lines of credit used in the financing of inventory for the licensed dealers. The finance company supports the dealer network by actively monitoring and servicing the portfolio of floorplan loans. It is important to note that in some cases the finance company may include multi-branded dealers and even some off-brand dealers, which are not associated with the sponsor manufacturer. From a risk management perspective, DBRS views this favourably as it adds dealer, branding and manufacturer diversification to the floorplan portfolio.



### ***Monitoring Pool Performance***

As part of the monitoring process, the finance company reviews the activity of the dealer accounts on a daily basis, including daily remittances and reconciliation with invoices. Dealers are required to submit financial statements regularly, with the frequency of this submission dependent on the ranking assigned to the dealer by the finance company. A lower-tiered dealer would be expected to report to the finance company on a monthly basis, whereas a more established dealer with a stronger credit profile may report on a quarterly or (rarely) on a semi-annual basis. In addition to regular reviews, on an annual basis the finance company also reassesses each dealer's creditworthiness. The scope of this review includes a meeting with the dealership's management team, a review of financial records and reporting history and physical inventory audits on the dealer's premises. Typically, a securitization transaction will limit the number of dealers in the lower tiers of a finance company's credit score from participating in the securitization structure. The financing of physical assets introduces two additional risks unique to the revolving nature of the financing programs: curtailment and sold out of trust.

### **Curtailment – Depreciating Nature of Assets**

As part of their credit and collection policy, finance companies limit the loan advance rates on the basis of the nature of the inventory. Typically, two advance rates are used, one for new assets and one for used assets. For example, the advance rate on an automobile may be 100% for new units and only 75% of the black book or other acceptable market pricing entity value on a used unit. For slower-moving inventory and particularly for a used unit, a dealer would be required to make periodic payments to curtail the outstanding loan balance relative to the value of the unit that is financed. This helps protect the finance company against declining asset values should it need to liquidate the underlying vehicles or parts for repayment of its loans. Curtailment also motivates the dealer to sell the asset since the financing cost associated with that specific asset is higher.

### **Sold Out of Trust**

From time to time, circumstances will arise when the proceeds received by a dealer from the sale of a vehicle or piece of equipment are not remitted to the finance company to repay its credit line. These are known as sold out of trust (SOT) loans and may range from an oversight by the dealer's bookkeeping personnel to situations of outright fraud. As a preventive measure, the finance company monitors a dealer's sales records for paid-off inventory and payment rates. Representatives from regional offices communicate with headquarters on a frequent basis to share industry trends and their observance of any financial anomalies and payment patterns within the dealer network. Physical audits are also an important component in the monitoring process as this is the most effective method in preventing the occurrence of SOT loans. Auditors representing the finance company are assigned to a dealer's lot to conduct the audits, which may include a physical count of the inventory, reconciling invoices, tracking the remittance of cash and reviewing financial records. Audits are generally conducted at least on a quarterly basis for all dealers and as frequently as monthly for those dealers ranked at the lower end of the credit spectrum. Control by serial or vehicle identification number (VIN) is especially important in cases where a dealer has multiple locations to ensure that inventory from one location is not moved to another to cover up any inventory shortfalls. If SOT loans persist, additional action may be taken, including withdrawal of the floorplan line of credit.



## DEALER NETWORK REVIEW

Dealers vary in size, generally operating as licensed distributors for manufacturers. A dealer also provides parts and service on a manufacturer's warranty, which may enhance the value of a product. Dealers are generally small-business operators and rely on floorplan financing to fund inventory. In a securitization transaction, eligible dealer obligations come mostly from dealers ranked at the higher end of the credit spectrum, based on the finance company's credit and collection policy.

For national and multinational brands, structures exhibit a number of beneficial diversifications. With representation across the country, the finance company achieves a geographically diverse pool that can be buffered from regional differences in performance. Brand diversification is also achieved as some of the larger and stronger dealers own multiple retail locations with different brands. Finally, revenue diversification for dealers from parts and service work performed can be used to repay the floorplan financing.

The finance company further protects its interest by ensuring that the line of credit is secured by the inventory it finances and often also includes a security interest on the dealer's personal property. Additional security may also include a first charge on the dealership's real estate holdings.

The individual dealers within the dealer network are evaluated on an ongoing basis, by both the manufacturer and the finance company. DBRS also conducts periodic review of the health of the dealer network and at least annual onsite review of the seller and servicer.

## FLOORPLAN PARTICIPANTS – FINANCIAL HEALTH CONSIDERATIONS

As part of its rating process, DBRS will review the structure of the transaction and various transaction triggers (e.g., amortization or termination events) related to the financial health of the relevant transaction parties. Among other things, DBRS will specifically assess the impact of a bankruptcy proceeding involving any of the relevant entities on the overall structure. Given the nature of floorplan transactions, DBRS analyzes any event that could result in a decrease in the value of the underlying collateral for which the dealer loans were made or any extensions to the time frame to dispose of or liquidate such collateral (when necessary) very closely. In DBRS's view, the value of the collateral is primarily influenced by the following factors:

- Ongoing viability of the dealer network.
- Availability of spare parts.
- Ability of manufacturer to honour vehicle warranties.

Generally speaking, bankruptcy of a transaction party (the relevant manufacturer(s) or the finance company as well as any of their respective parent entities, when relevant) is considered to have a significant negative impact on these factors and the rated securities. Accordingly, to ensure that there is no payment disruption to the noteholders, DBRS expects a floorplan transaction to go into early amortization upon commencement of any bankruptcy proceeding with respect to a relevant transaction party.

To the extent all of the appropriate transaction triggers related to bankruptcy proceedings are not included in the structure, DBRS will take a more conservative approach with respect to dealer concentration levels, decreases in payment rates, increases in default rates and the time frame for recovery. The additional stresses will be determined, in part, by the nature of the composition of the pool (i.e., concentration of manufacturers) as well as other structural mitigants that may be incorporated (e.g., more stringent performance tests, higher enhancement based on performance of the assets, limitations on pool composition, dealer eligibility, funding levels and other noteholder rights and protections developed for a specific transaction). Exceptions will be considered on a case-by-case basis, depending on the particulars of each transaction, the nature of the relationship between various transaction parties and the legal framework for bankruptcy proceedings in the relevant jurisdiction(s).

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## Transaction Structure and the Identification of Risks

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As discussed above, this methodology assumes that a transaction will trigger an early amortization event upon commencement of any bankruptcy proceeding with respect to the finance company, manufacturer or their related parent companies.

### LEGAL

The first step in establishing a structure for all securitizations (including floorplan) is to ensure that the assets are transferred to a bankruptcy-remote entity. The assets in a floorplan securitization consist of all collections from an eligible pool of loan receivables, plus any recoveries from the disposition of the inventory or insurance claims relating to the vehicles for which the loans are made. With most floorplan structures, present and future loans from the finance company to the dealers are transferred to a bankruptcy-remote entity, which in turn can sell different series of notes to investors, all backed by an ownership interest in this common pool of receivables. Alternatively, a transaction can be funded in an asset-backed commercial paper (ABCP) conduit or assets may be sourced from a discrete pool of loans. Accounts of eligible dealers may be added or removed from a pool over the course of the transaction, subject to meeting the eligibility criteria. The pool of dealer loans that are sold to the bankruptcy-remote entity are backed by a first-priority security interest in the vehicles for which the loans were made and may also be supported by other security granted to secure the dealer's obligations such as parts inventory and dealer guarantees.

### REVOLVING NATURE OF STRUCTURES

Floorplan securitization structures have a revolving period during which principal collections are reinvested in new receivables on a daily basis. To the extent that there are insufficient receivables to support the outstanding notes with bullet maturities on a term transaction, the proceeds from principal collections are held in a principal collections accumulation account (separate from the cash collateral account for enhancement purposes) to support the outstanding notes funding the assets. Asset coverage tests are incorporated in a revolving structure to ensure that there are adequate floorplan receivables to support the repayment of bullet maturity notes. For a transaction funded in an ABCP conduit, where the commercial paper repayment obligations are significantly shorter, principal collections are applied on a regular basis to the repayment of the commercial paper to ensure that there is an adequate level of asset coverage.

### ACCUMULATION PERIOD

The accumulation periods in a revolving securitization structure are designed to ensure the repayment of principal and interest to the investor for scheduled maturing term notes. Principal collections during an accumulation period are deposited to an accumulation account to make a lump-sum payment to the investor on the expected maturity date.

The commencement of this period is subject to the unique payment rate within the specific floorplan transaction. The payment rate measures how fast principal collections are received from obligors of the pool of assets and can thus be accumulated to satisfy such note repayment obligations. The monthly payment rate is calculated as the sum of all collections remitted for a particular month as a percentage of the average or ending pool balance. A high payment rate would indicate robust demand for the manufacturer's product and the network of dealers' ability to turn over the inventory. A low payment rate may be due to seasonality or may be an early signal suggesting that the pool is at risk of experiencing potential defaults in the dealer networks as a result of weakening demand for the product. Moreover, the payment rate is a direct indicator of the creditworthiness of the assets as it gauges how quickly investors can be repaid before being affected by mounting losses in the pool of floorplan loans.



## AMORTIZATION PERIOD

During an amortization period, principal collections are deposited to an accumulation account and then applied toward the repayment of the notes on a monthly basis. This is referred to as a controlled amortization structure. Events or triggers leading to early amortization may be trust- or series-specific. For those transactions operating under a master trust structure, in which multiple series of notes are issued against a single master pool, there are trust-specific triggers to protect all series of noteholders against potential adverse performance of the pool of floorplan loans. Trust-specific amortization events typically lead to a pro rata repayment of all series of notes in accordance with their priority, regardless of their respective scheduled maturities. Amortization triggers can also be applicable to a specific series of notes; in the event that a series-specific amortization trigger is breached, the trust may continue purchasing new assets for the remaining series of notes.

Amortization periods are also triggered by certain performance tests on the pool of revolving floorplan loans or certain events related to the finance company or manufacturer. Due to the rapid turnover of floorplan loans, an early amortization period is designed to pay out the investor in a relatively short time before any significant losses affect the portfolio of floorplan loans. As noted above, the payment rate is critical to ensuring timely payment of interest and ultimate repayment of principal and for this reason is benchmarked and included as a performance trigger within the securitization structure.

Other performance triggers may include loss rates, used-vehicle limits, aging or default ratio limits, thresholds on draws of credit enhancement and a minimum test on the total number of receivables in the pool available to repay principal and interest. In certain transactions, the allocation of principal and interest collections from eligible and ineligible pools of receivables to repayment of outstanding notes gives the trust first access to these additional proceeds.

In addition to the performance tests, early amortization triggers also reference the manufacturer or the finance company. Triggers may be related to the finance company's credit rating, a breach of representations and warranties, the failure to remit collections on a timely basis or cross-default covenants. More importantly, events stemming from either the manufacturer's or the finance company's filing for bankruptcy should cause an early amortization of the revolving structure. As previously indicated, where supported by appropriate structural enhancements, DBRS may consider it acceptable on an exception basis if the appropriate transaction or transactions are not included. These additional triggers relating to the manufacturer or finance company should be included to help protect the issuer/purchaser of the loans against declining values should it need to liquidate the underlying vehicles or parts to repay the outstanding dealer loans and clearly indicate that floorplan transactions are more closely linked to the financial health of the manufacturer than other types of asset securitizations.

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## Structural Risks in Floorplan Financing

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### SOLD OUT OF TRUST

As discussed, SOT loans are one of the more salient risks in floorplan financing and can involve situations ranging from dealer fraud to a dealer's oversight in maintaining its financial records. Field audits are conducted regularly by the finance companies to mitigate the occurrence of SOT loans. The frequency of these audits may depend on the risk category of the dealer and its inventory turnover, payment behaviour, sales reporting pattern and vehicle registration records. Losses from SOT loans have been low but periodically lumpy in floorplan securitization transactions and, depending on the servicing capabilities of the servicer, SOT loans may escalate under a distressed scenario. The securitization transaction documents typically ensure that any SOT assets are considered ineligible and must be bought back by the finance company.

### CONCENTRATION RISK

Concentration limits on the type of collateral and maximum dealer exposures are incorporated in revolving structures to ensure that there is consistency and adequate diversification in the pool composition. Limits would also be imposed on inventory that tends to exhibit more volatile sales volumes and for assets such as rental equipment, fleet inventory and used vehicles, with higher depreciation rates.

Dealer composition in a pool of floorplan loans may be geographically diversified; however, there do tend to be concentrations of a few large dealers in most pools. Generally, a dealer that is deemed to be of higher credit quality, as determined by the finance company's credit assessment, is, based on its sales volumes and ability to turn over inventory, extended higher credit lines than its peers. The principal owners of the larger dealerships may be diversified through ownership of multi-branded dealerships. This does remove some of the exposure to a single manufacturer and consideration may be given when setting individual dealer concentration limits. Exposure to these larger dealers is limited relative to the enhancement levels in a securitization structure with minimum coverage levels required.

### DEALER DEFAULTS (CREDIT LOSSES)

When a dealer defaults, it is important for a field auditor to be immediately dispatched to the location of the defaulted dealership to monitor the inventory and to ensure that proceeds from the sale of such inventory are remitted to the finance company. The finance companies, as servicers, are broadly based geographically and maintain a presence in various regions, which enables them to dispatch field auditors relatively quickly to any location; this function may also be outsourced to independent third parties. Upon repossession of the inventory, the finance company would attempt to sell the new inventory to the remaining network of dealers or back to the manufacturer under any repurchase agreement that might exist. Depending on the nature of the repurchase agreement, the manufacturer may have the right but not the obligation to repurchase the repossessed new inventory. Used inventory, however, would generally be sold at wholesale auctions. Further recourse would include pursuing the dealer principal to realize any additional supporting collateral to recoup any losses net of the disposition of the inventory.

### DILUTIONS

Dilutions resulting from in-transit inventory, product warranty claims and promotional discounts are non-credit reduction items, which would reduce the pool of outstanding receivables supporting a securitization transaction. While not a credit loss risk, these are considered the responsibility of the seller as they result from an action taken by the finance company to alter the value of the receivable. A revolving structure can provide for this via an indemnity from a highly rated seller or by pledging additional loan receivables beyond the overcollateralization amount to the trust, also known as the seller's ownership interest.



## SERVICER RISK AND BACKUP SERVICER CONSIDERATIONS

Since the finance company plays an integral role in the servicing of a floorplan transaction, financial difficulties at the finance company level may affect its ability to service the portfolio, potentially affecting how the underlying assets perform. To help insulate the investor from servicer risk, triggers are incorporated to replace the finance company as the servicer in a securitization transaction. Some of these triggers usually include breach of representations and warranties by the finance company, failure to remit collections in a specified time frame, cross-defaults with other credit agreements, breach of financial covenants and bankruptcy filings of the manufacturer and/or the finance company itself.

### *Backup Servicer Considerations*

In some situations DBRS believes that a backup servicer needs to be included in the structure at closing. Factors that contribute to the evaluation process include the following:

- Nature of the services provided by the backup servicer.
- Amortization and event of default triggers.
- Proposed level and mix of enhancement.
- Rating of the sponsoring manufacturer (or manufacturers).
- Health of the dealer network.
- Rating of the sponsoring financial services entity.
- Degree of reliance and integration of the finance company and the manufacturer (i.e., captive finance company versus independent).

## COMMINGLING RISK

DBRS expects commingling risk to be addressed based on the corporate rating of the servicer (i.e., the entity that is collecting proceeds from the obligors in the structure). Servicers with an investment-grade rating of BBB (low) or higher are permitted to maintain custody of proceeds collected from the dealer networks in their general operating accounts between remittance dates. Funds owing to the trust are then remitted each month on the settlement date and distributed according to the specific transaction's priority of payments. Otherwise, collections should be remitted within a couple of business days from the date of collection, subject to the partial commingling conditions outlined below.

### *Partial Commingling*

If the servicer is rated below investment grade, DBRS's partial commingling requirements apply as they would to any revolving structure. Normal-course transaction documents require the proceeds collected by the servicer to be deposited in a separate account (typically in the name of the conduit/trust) within two business days of receipt in order to avoid the risk that the proceeds cannot be separated from the servicer's own funds in any bankruptcy proceedings. This is generally referred to as commingling risk. In a revolving structure, the servicer is permitted to commingle funds other than what is required to be remitted on the next remittance date subject to certain conditions. See DBRS's Legal Criteria for Canadian Structured Finance for more information on partial commingling conditions.

Since floorplan loans are short term in nature and payment rates are high, commingling risk associated with a non-investment-grade servicer is significant. Additional measures to mitigate commingling risk may include more frequent reporting, a standby replacement servicer, perfection of the security interest given over the collections account if the account is not in the name of the ABCP conduit/trust and a lock-box agreement or blocked-account agreement to enable the indenture trustee to assume control over the account when necessary. Overall, mitigating factors with respect to lower-rated servicers are considered on a case-by-case basis.



## **BANKRUPTCY RISK**

As noted previously, the structure of the transaction requires a true sale of the assets being securitized from a legal perspective in order to limit the reach of the court under a bankruptcy filing by either the servicer or the manufacturer. Stay risk is the risk that exists where a stay of proceedings may be instituted against the bankrupt entity and any related companies. Any collections that are in an account in the name of the party subject to the stay of proceedings may not be withdrawn or transferred until the stay is lifted or a court determines that the proceeds rightfully belong to the ABCP conduit/trust. In all transactions, DBRS reviews the form and substance of the structure and the legal opinions provided that indicate the transaction represents a true sale and that the assets are bankruptcy remote from the seller/servicer.

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## **Components of Credit Enhancement**

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### **EXCESS SPREAD**

Excess spread is the amount by which the weighted-average interest on the pool of floorplan loans exceeds the sum of the trust's funding costs, net losses, servicing fees (if applicable) and other trust fees. Excess spread absorbs the first level of losses incurred by the pool of assets. In Canada, floorplan loans are usually benchmarked to the floating prime rate, while the funding costs of the trust are typically based on Canadian Dealer Offered Rate (CDOR) plus a spread. The subordination of certain trust-related fees would be given credit in the determination of the level of excess spread available to support a transaction. In addition, an indemnity or hedging arrangement with an appropriately rated counterparty to mitigate potential spread compression may be taken into consideration.

### **OVERCOLLATERALIZATION**

Overcollateralization is most often the largest single component in the overall credit enhancement structure of a floorplan securitization transaction. Overcollateralization is created by the inclusion of eligible receivable loans in excess of the aggregate outstanding funded principal balance. Not only does overcollateralization provide credit support to the trust, the collections forming part of the trust's interest from the additional assets may assist in the rapid amortization of the outstanding notes in a revolving structure.

### **CASH RESERVE ACCOUNT**

Similar to other securitization transactions, a cash reserve account (CRA) is included in a revolving floorplan structure for credit enhancement purposes. The CRA is usually seeded up front and may increase through the trapping of excess spread and other non-principal collections (if available) subsequent to the occurrence of certain events such as a reduction in the reported payment rate of a transaction to below a specified trigger level. During an accumulation period, the CRA may increase from the original seeded amount and is designed to provide additional liquidity to the transaction during amortization. All accounts used in a transaction must be held at an eligible institution as defined in DBRS's Legal Criteria for Canadian Structured Finance.

### **SUBORDINATION**

Subordinated notes in certain transactions provide credit enhancement for the senior notes by absorbing losses (up to the subordinated principal amount) and allowing the senior notes preferential access to the cash flows. The level of enhancement for the subordinated notes, however, will be subject to cash flow stress levels in order to achieve their respective ratings and is subject to investor demand.



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## Evaluating Credit Enhancement

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The assets of floorplan securitization transactions are, primarily, the obligations of the eligible dealers secured by their financed inventory. The performance of such assets depends on a viable dealer network, supported by a healthy manufacturer and finance company. These assets may experience a high frequency of default and severity of losses resulting from the financial difficulty or bankruptcy filing of the manufacturer or the financing company. For each new transaction, DBRS evaluates the ensuing consequences with respect to the ability of the manufacturer to back product warranties and to provide inventory to the dealer network. DBRS assumes that a bankruptcy filing of the manufacturer or finance company would result in a decline in demand for the manufactured product, compression in inventory values and, ultimately, an impact on the survivability of the dealer network.

The credit enhancement should consist of a variety of forms of enhancement to mitigate the risks arising from SOT assets, dilutions, interest carry during stay proceedings caused by finance company or manufacturer bankruptcy filings and any credit loss assumptions derived from a review of the portfolio's historical performance and concentration levels.

### DEALER CONCENTRATION SCENARIO

DBRS's approach to evaluating the minimum credit enhancement for floorplan securitization transactions begins with a review of the dealer concentration levels. The minimum credit enhancement coverage for each respective rating level is shown in the table below.

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#### Minimum Dealer Concentration Coverage

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Rating Category	Dealer Concentration
AAA	Top 6 to 8 dealers
AA	Top 5 to 6 dealers
A	Top 4 to 5 dealers

In this scenario, total enhancement required for a AAA rating can be no less than the total percentage of assets that the top six dealers account for in the securitized pool of assets. Credit enhancement serves to mitigate a number of risks inherent in floorplan securitization structures:

- Dealer concentration levels tend to be larger in most floorplan portfolios; consequently, the seller typically pledges additional loans to the trust as additional overcollateralization to cover floorplan loans in excess of the concentration levels.
- Additional receivables may be pledged to the trust as the seller's interest to mitigate potential dilutionary and ineligible items if the seller is not an investment-grade-rated entity. However, DBRS will consider an indemnity from an investment-grade entity to the trust to be an acceptable form of mitigant as well. This buffer provides an extra layer of protection resulting from non-credit-related losses in the underlying portfolio of floorplan receivables.
- A replacement servicer reserve is typically required in the form of overcollateralization to provision for the cost of replacing the initial servicer. While replacement of the initial servicer is rare, the additional level of collateralization, usually estimated at 1% of the initially funded amount, ensures that the replacement costs of servicing the portfolio of floorplan receivables are captured in the transaction structure.
- In an amortization period, credit enhancement in the form of excess spread and cash is designed to provide liquidity to the program to cover the cost of funds on the outstanding obligations.



## CASH FLOW STRESS SCENARIOS

The adequacy of the amount of enhancement determined under the dealer concentration scenario is evaluated by applying a cash flow stress scenario whereby conservative assumptions are made with respect to the various model inputs. The objective is to get a view of how deterioration in the credit quality of the dealer obligors and the weakening of the manufacturer and brand may affect asset sales and the ability of the dealers to repay the floorplan loans.

Prior to determining base loss level expectations for modeling cash flows in a floorplan transaction, DBRS reviews the historical performance of the owned and managed pool to determine the expected and potential worst-case performance. Data capturing at least one economic cycle would be the preferred minimum time frame when assessing performance. Discussions with the finance company on its operational capabilities in servicing the pool, especially under a distress scenario, would be explored to determine additional risk inherent in the transaction. DBRS will also review the covenant package as it relates to insolvency and bankruptcy events affecting both the manufacturer and the finance company. Trigger levels relating to the performance of the underlying assets are an important component in the covenant package when reviewing stress levels. The triggers must be conservative enough to ensure that investors are repaid under a distressed scenario but flexible enough to allow for normal performance variations caused by seasonality.

DBRS's cash flow analysis incorporates the elements of the transaction structure, including any triggers or covenants that may affect cash flows and result in early amortization. The frequency of dealer defaults and the severity of losses are expected to increase under these scenarios. Although investors are entitled to the current and future cash flows in a revolving floorplan structure, DBRS models the performance on an amortization basis, resulting in an immediate decline in the pool balance.

To reflect a distressed scenario, stresses are applied to the monthly payment rate, defaults, recoveries and timing of recoveries in order to determine the robustness of the enhancement structure. The enhancement levels are initially determined based on the top dealer concentrations and the risk elements referred to above.

## PAYMENT RATES

In a revolving structure, the monthly payment rate determines how fast an investor can be repaid from the monthly cash flows before being affected by the adverse performance of the underlying assets. Payment rates on floorplan assets are generally much higher than the trigger levels established for each transaction. DBRS stress testing would assume the payment rate starts at the minimum payment rate trigger level and begins an immediate and steady decline to reflect waning demand for the manufacturer's product. Typically, for a AAA stress, this would decline to a monthly payment rate of 50% to 60% below the payment rate trigger. See the table below for thresholds for each ratings category.

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### Percentage Decline from Payment Rate Trigger

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Rating Category	Ranges
AAA	50% to 60%
AA	45% to 55%
A	40% to 50%
BBB	35% to 45%



## DEFAULTS AND RECOVERIES

Stressed defaults, recoveries and the timing of these recoveries are reviewed for each transaction. Generally, the financial performance of the manufacturer and the captive finance company are closely related to the dealer's survival. DBRS views a pool composed of multi-branded dealers with access to alternative financing and less exposure to any one manufacturer as more likely to experience lower levels of default than a pool of dealers with heavier reliance on a single manufacturer and its captive finance company. Annualized defaults and the velocity with which these defaults would occur immediately after an amortization event has been triggered would be partly dependent on the level of the dealers' diversification. Historical default rates are low for ongoing floorplan deals. Under a stressed scenario, it is assumed that the default levels will increase substantially month over month. Typically, DBRS would increase the default levels on the remaining pool balances in 2.5% to 5% increments, with a maximum level being achieved in the nine-to-12-month time frame if the program has not paid out by then. The table below shows the ranges of annualized stressed default rates applied to each month's outstanding pool balance under each rating category.

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### Maximum Monthly Defaults (Annualized Rates)

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Rating Category	Ranges
AAA	45% to 60%
AA	40% to 55%
A	35% to 50%
BBB	30% to 45%

In the absence of a solvent dealer, the extent and timing of recovery depends on the nature of the collateral. For example, recoveries on automotive vehicles should be realized one to three months after a dealer has defaulted. In contrast, agricultural equipment and heavy construction equipment are more susceptible to seasonality and would require a much longer time horizon to resell in the downstream market. Under normal conditions, the recovery value of the underlying collateral, when remarketed via retail channels, would provide a recovery value greater than the wholesale price. Under a distress scenario with waning demand for a product, the realized price is likely to fall below the wholesale price.

It is anticipated that the time frame for recoveries would also be extended. DBRS incorporates a lag of three to 12 months to the timing of recoveries to reflect the flood of inventory in the downstream markets and dampened demand under a liquidation scenario. Additional lags may also be incorporated to reflect the seasonality of the underpinning asset.

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### Recovery Rates

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Rating Category	Ranges
AAA	20% to 40%
AA	30% to 50%
A	40% to 60%
BBB	50% to 70%

Note: In addition, a timing lag of three to 12 months on the timing of the recovery will be incorporated.

## EXCESS SPREAD AND REPLACEMENT SERVICER FEES

The yield on the assets is stressed based on the review of the underlying pool of loans and with reference to any hedges in place to protect the spread. The adequacy of an appropriate indemnity, counterparty or subordination of certain administrative fees would be taken into consideration in the modeling of the underlying cash flows. However, replacement servicer fees are modeled at the top of the waterfall, regardless of whether or not the original servicer has been replaced under an early amortization event.



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## Post-Closing Surveillance

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DBRS's methodology assumes that if the manufacturer or finance company experienced severe financial distress, it would initiate a bankruptcy filing. A bankruptcy filing by the manufacturer or finance company (or their respective parent entities, when relevant) would prompt DBRS to initiate a transaction review. Specifically, due to the tri-party relationship of floorplan transactions referred to at the outset of this methodology, there are a number of entities that could file for bankruptcy and precipitate a DBRS rating action or review. Because the details of the bankruptcy filing may have a significant impact on the credit quality of the assets backing the outstanding notes, DBRS will need to understand the specific details of the bankruptcy filing.

This review would include understanding which entity has filed for bankruptcy protection, whether it is possible for other transaction parties to be included either voluntarily or involuntarily in the proceedings, the nature of the proceedings and any announcements regarding the intentions of the company going forward. Until such time as the details can be obtained and an informed decision made, it is possible that DBRS would place any affected notes Under Review with Developing Implications or Under Review with Negative Implications. Depending on the details of the bankruptcy filing and the potential outcome, recovery assumptions and the viability of the dealer network would have to be reassessed, which may ultimately affect the rating of the outstanding notes.

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## Conclusion

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Floorplan financing obligations ultimately belong to the dealers. These short-term obligations are supported by the inventory that is being financed and, in many cases, ancillary support from a security interest in the personal property of the dealership's principal and the dealership's assets. Even though the underlying assets backing the notes are bankruptcy remote, the ongoing performance of floorplan securitization structures depends on the general health of the manufacturer that provides the inventory, replacement parts, accessories, product warranty, marketing and dealer and after-sales incentives to support the product. Since the finance company plays a pivotal role between the manufacturer and the dealer network as seller and servicer in securitization transactions, DBRS focuses on its servicing capabilities, especially under a distress scenario, which may include some or all of the following pressures: weakening demand for the manufacturer's product, price compression on the underlying inventory, dealer defaults, dilutions, SOT loans and manufacturer and finance company bankruptcies. In conjunction with this, a review of the dealer concentrations relative to the credit enhancements available to the trust and the cash flow stress scenarios during an amortization event provides the basis for the rating analysis.



## Appendix: Canadian Auto Floorplan Methodology Summary

### LIMITATIONS

- Future performance may deviate significantly from past performance.
- Collections may fall below DBRS-stressed performance assumptions and model results are highly dependent on expected future performance.
- The methodology assumes no significant changes to legal or regulatory framework that could affect the structure of transactions as at the date of publication of this summary.

### APPLICATION OF QUALITATIVE AND QUANTITATIVE FLOORPLAN METHODOLOGY CONCEPTS

#### Summary of Risk Analysis Process Applied to Floorplan Transactions

Input	Detail	Key Variables
<b>Portfolio-Level Analysis – Historical Performance</b>	A minimum of three to five years of monthly portfolio data tracking of key variables.	<ul style="list-style-type: none"> <li>• Opening and closing balances, payment rates, outstanding balance aging (in 30-day increments), losses, recoveries, large obligor concentrations.</li> <li>• In addition, concentration by manufacturer will be considered.</li> <li>• Linkages between the finance company and the manufacturer are reviewed to determine the degree of finance company independence.</li> <li>• Key risk elements are the following: <ul style="list-style-type: none"> <li>– Vehicles and equipment sold out of trust.</li> <li>– Dealer concentration levels.</li> <li>– Dealer defaults.</li> <li>– Dealer network health.</li> </ul> </li> <li>• Portfolio variables are reviewed to develop an analytical calculation that incorporates the changing portfolio performance, including seasonality, over the life of the transaction.</li> <li>• Credit loss assumptions are stressed based on a multiple in line with the required ratings level detailed in Table 1 to Table 4 below.</li> </ul>
<b>Servicer Analysis</b>	DBRS generally has a credit rating on the seller/servicer.	<ul style="list-style-type: none"> <li>• Assessment of originator's servicing capabilities, including credit and collection policy, originations, servicing, collections, asset recovery (e.g., time frame for recovery), loss mitigation techniques, additional security interests taken, remarketing channels and management.</li> <li>• This assessment will also cover the use of field audits to monitor the dealer network and confirm related assets to mitigate risks such as sold out of trust assets from occurring.</li> <li>• Distinguish between captive finance companies and third-party finance companies when considering the impact of issues such as bankruptcy of the manufacturer (greater for captive finance companies) and access to remarketing channels (usually worse for third-party financiers).</li> <li>• If the servicer is less than investment grade, partial commingling tests and more frequent remittance of collections should be included.</li> <li>• Reference to financial covenants may be included.</li> </ul>




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## Summary of Risk Analysis Process Applied to Floorplan Transactions

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Input	Detail	Key Variables
Economic Analysis		<ul style="list-style-type: none"> <li>Review of economic cycles and potential impact on industry segments in which the seller operates, the obligors in the portfolio and the products provided by related manufacturers.</li> </ul>
Legal Document Analysis		<ul style="list-style-type: none"> <li>Review of all legal documents, including true-sale opinions, priority of cash distributions and bankruptcy remoteness of the structure for consistency with DBRS's <i>Legal Criteria for Canadian Structured Finance</i>.</li> <li>Legal document analysis also includes review, consideration and assessment of early amortization events and events of default, including triggers related to portfolio performance, seller bankruptcy, manufacturer bankruptcy and default analysis.</li> <li>Review of transaction representations, warranties and covenants.</li> </ul>

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## Summary Review Process for Credit Enhancement in Floorplan Transactions

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Input	Process
Evaluating Amount of Enhancement	<p>(1) Specific risk elements are identified, with stresses consistent with the rating requested applied to determine the minimum levels of enhancement. This includes dealer concentration, payment rates, default levels and recovery rates, with a timing lag for payments. Credit enhancement levels for floorplan transactions tend to be a static amount set at the outset of the deal.</p> <p>(2) Table 1 outlines the loss coverage minimum for dealer concentration. This is intended to ensure that sufficient diversification exists in the portfolio and that the largest dealers do not represent an inordinate exposure for the transaction.</p> <p>(3) Apply the stress multiple ranges in Table 2 to Table 4 to determine if a sufficient reserve for credit loss has been proposed with the transaction. This calculation is designed to provide a compression of the payment stream while increasing defaults of the overall dealer network.</p> <p>(4) A servicer reserve of 1.0% is assumed for most transactions and is intended to reflect the cost to have a replacement servicer manage the portfolio.</p>
Output	<p><b>Total Enhancement to Achieve the Proposed Rating</b></p> <ul style="list-style-type: none"> <li>Total enhancement will be compared to expected losses based on the following: <ul style="list-style-type: none"> <li>Declining payment rates in an environment of increasing dealer defaults.</li> <li>Dealer concentration levels.</li> </ul> </li> <li>It should be noted that DBRS assumes that floorplan transactions will terminate if any of the finance company, a significant manufacturer or the finance company parent were to file under any bankruptcy proceeding. If the transaction structure does not terminate until a significant manufacturer or its parent files for liquidation under a bankruptcy proceeding, then a more conservative review of the stresses and dealer concentration levels will be accepted.</li> <li>Cash commingling is no longer allowable for non-investment-grade sellers and more frequent reporting and or settlements may be indicated.</li> <li>In some instances, a backup servicer may be included in the structure</li> </ul>



## Summary of Process to Evaluate Form of Enhancement in Floorplan Transactions

Input	Assessment
<b>Proposed Form of Enhancement</b>	<p>(1) Excess spread, generated by the portfolio as the underpinning loans are charged interest (usually based on a floating rate), is available to absorb the first level of losses.</p> <p>(2) Credit enhancement is typically provided by way of overcollateralization, which is unfunded receivables contributed to the conduit by the seller. To the extent these are not necessary to repay the outstanding notes during amortization, they are returned to the seller</p> <p>(3) A cash reserve account is available and usually funded at inception. In certain circumstances, this may increase through the capture of excess spread if performance thresholds are breached. It is designed to provide additional liquidity to the transaction during amortization.</p> <p>(4) Subordinated notes may also be incorporated and provide enhancement to the senior notes by absorbing losses and allowing the senior notes preferential access to cash flows.</p>
<b>Output</b>	<ul style="list-style-type: none"> <li>• The credit enhancement available will be the sum of all enhancements, including the overcollateralization, cash reserve and subordinated notes (if any).</li> <li>• Credit enhancement is generally set at the outset of the transaction and may increase, usually by capturing cash or requiring additional overcollateralization, if certain performance thresholds are breached.</li> <li>• The credit enhancement is available to cover any of the risks imbedded in the portfolio and is not generally allocable solely to any one of them.</li> <li>• Some risks, such as dilution risk, may be covered through an indemnity from a highly rated seller or by pledging additional receivables. These are generally considered the responsibility of the seller.</li> </ul>

## Summary of Transaction Risks addressed through related DBRS Methodologies

Risk	Description	Methodology <sup>1</sup>
<b>Cash Commingling</b>	<ul style="list-style-type: none"> <li>• Cash commingling risk refers to the risk inherent in transactions where the seller, acting as servicer for the issuer of the notes, collects funds owed from the securitized contracts and mixes the funds within its daily operating funds between monthly remittance dates.</li> <li>• Cash commingling is generally restricted to investment-grade sellers unless acceptable mitigants, such as more frequent cash remittance or reporting, are incorporated into the transaction.</li> </ul>	<i>Legal Criteria for Canadian Structured Finance</i>
<b>Bankruptcy Risk: Manufacturer, Financial Servicer or Seller</b>	<ul style="list-style-type: none"> <li>• 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 seller, servicer or manufacturer of the securitized assets files for bankruptcy.</li> <li>• True-sale opinions are expected and reviewed on a transaction-by-transaction basis.</li> </ul>	<i>Legal Criteria for Canadian Structured Finance</i>
<b>Conduit Liquidity Risk</b>	<ul style="list-style-type: none"> <li>• To the extent that the transactions are entered into with an asset-backed commercial paper (ABCP) conduit, the funding of long-term contracts by ABCP results in liquidity risk ABCP investors.</li> <li>• To address the risk that demand for ABCP may not be sufficient or the ABCP fails to roll over due to unforeseen circumstances, all conduit sponsors should comply with DBRS conduit liquidity criteria, including Global Liquidity Standard (GLS) liquidity backup lines, in support of outstanding conduit notes.</li> </ul>	<i>Legal Criteria for Canadian Structured Finance and Rating Canadian ABCP</i>

1. Methodologies are available at [www.dbrs.com](http://www.dbrs.com).



## SUMMARY OF TRANSACTION MONITORING

### Surveillance Procedures Based on Funding Source for Floorplan Transactions

Debt Offering	Information Reported	Frequency	Source <sup>1</sup>
<b>ABCP</b>	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>
<b>ABS</b>	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 ratio, debt class name	Monthly	<i>Monthly Canadian ABS Report</i>
<b>Private Term Transaction</b>	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 ratio, debt class name	Monthly	Not Public

1. DBRS monthly surveillance reports are available at [www.dbrs.com](http://www.dbrs.com).



## SUMMARY OF APPLIED RATINGS THRESHOLDS FOR FLOORPLAN TRANSACTIONS

**Table 1: Minimum Dealer Concentration Coverage**

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Rating Category	Dealer Concentration
AAA	Top 6 to 8 dealers
AA	Top 5 to 6 dealers
A	Top 4 to 5 dealers

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**Table 2: Percentage Decline from Payment Rate Trigger**

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Rating Category	Ranges
AAA	50% to 60%
AA	45% to 55%
A	40% to 50%
BBB	35% to 45%

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**Table 3: Monthly Defaults Rates (Annualized)**

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Rating Category	Ranges
AAA	45% to 60%
AA	40% to 55%
A	35% to 50%
BBB	30% to 45%

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**Table 4: Recovery Rates**

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Rating Category	Ranges
AAA	20% to 40%
AA	30% to 50%
A	40% to 60%
BBB	50% to 70%

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Note: In addition, a timing lag of three to 12 months on the timing of the recovery will be incorporated.

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