

Methodology

*Rating Canadian Rental Car  
Securitizations*

MAY 2010

*Appendix summarizing methodology added May 2011*



*Insight beyond the rating.*

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All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, Web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.



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# Rating Canadian Rental Car Securitizations

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## Introduction

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This methodology builds on the framework provided by other auto-related methodologies developed by DBRS and outlines the unique structuring elements that are involved in the securitization of rental car fleets. The purpose of this publication is to provide greater transparency into the rating process by outlining the methodology that DBRS applies when rating Canadian rental car fleet securitizations. This methodology should be reviewed in conjunction with the recently published *Rating Canadian ABCP* methodology, which is available at [www.dbrs.com](http://www.dbrs.com).

The methodology outlined herein should not be seen as static. DBRS reviews market and legal developments on an ongoing basis to ensure that its policies and practices remain relevant. This publication should not be seen as prescribing a rigid template applicable in all circumstances. DBRS recognizes that each transaction is different and that mitigating factors may lead DBRS to modify some of its requirements.

There have been a number of rental car fleet transactions in the Canadian marketplace dating back as far as 1997. This transaction history has ensured that the methodology has been tested through the stresses of a volatile economic environment from a macroeconomic perspective and within the automotive and car rental industries specifically. The methodology summarizes the similarities and differences that arise when addressing risk in rental car fleet securitizations and in traditional auto-related securitization programs, including retail loan, retail lease and floorplan (wholesale) structures.

The elements of structuring rental car securitizations are the main discussion points for the methodology that DBRS applies when rating transactions. Notwithstanding the rating of the sponsoring rental car company, DBRS is able to assign AAA ratings by applying the methodology on structures that adequately address the three main risks inherent in rental car fleet securitizations: operational risk; structural risk, including bankruptcy remoteness; and fleet composition and residual value risk.

The methodology provides a brief overview of the rental car industry, followed by a review of the key variables in rating rental car fleet transactions in Canada, including the following:

- (1) A structural overview from a legal and bankruptcy-remoteness perspective.
- (2) An assessment of the credit quality of the rental car company as servicer/operator of the fleet.
- (3) The credit quality of the auto manufacturers of the fleet.
- (4) The residual value exposure in the fleet.

The methodology also provides a synopsis of the modelling assumptions and resulting enhancement guidelines employed to address the key risks identified. Information on post-transaction surveillance and additional considerations are also provided.

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## Background Information

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### INDUSTRY OVERVIEW

#### *Consolidation*

The daily rental car industry has seen a number of consolidations in the past ten years, in part due to the high leverage required to run a large fleet of vehicles and to the industry's reliance on business and leisure travel segments of the economy, which can be cyclical. In the past, some rental vehicle companies were captive subsidiaries of automobile manufacturers and operated primarily as a marketing strategy to promote the manufacturers' vehicles and manage their inventories. Although most manufacturers have exited this business directly, key relationships with the independent daily rental companies have been maintained to take advantage of the marketing and inventory-management opportunities that the rental car industry can provide.

The most significant feature of these relationships is the annual repurchase agreements that are negotiated between the vehicle rental company and the corresponding auto manufacturer. Under the terms of these repurchase agreements, the auto manufacturer, subject to certain conditions, agrees to repurchase its vehicles from the rental company at an agreed-upon price. The vehicles that the manufacturer agrees to repurchase, referred to as program vehicles, are clearly identified and depreciated according to established rates.

The vehicles that are not part of a repurchase agreement are referred to as non-program vehicles or at-risk vehicles and are held by the rental vehicle company and disposed of at the end of their life as a daily rental vehicle. The entity (the manufacturer or the daily rental company) that bears the residual value risk drives the unique structuring features of a rental car fleet securitization transaction.

In recent years, a number of brands have been sold or spun off, resulting in the emergence of four main players representing approximately 85% of the auto rental business in North America: Enterprise Rent-A-Car Company (Enterprise, which includes National Rental Car (National) and Alamo Rental (Alamo) brands); Hertz Corporation (Hertz); Avis Budget Group, Inc. (AvisBudget); and Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty). Consolidation trends continue with the recently announced acquisition of Dollar Thrifty by Hertz, leaving just three major auto fleet rental operations in North America. The companies compete in the weekend rental market, the insurance replacement market and the mid-week urban market, with on-airport and off-airport locations, for the leisure and business traveller. Competition is fierce, with pricing monitored and updated thousands of times each day. The barriers to entry are quite high given the significant leverage and operating infrastructure required to manage a fleet that includes thousands of vehicles located across North America that must be purchased, rented and ultimately disposed of on a regular basis.

#### *Seasonality*

Entities involved in the business of renting vehicles to consumers must cope with the seasonal nature of the travel industry. Demands for rental vehicles are strongest in the spring and summer months as these are typically the high-traffic months for vacationing travellers, while business travellers add demand to the industry baseline volume in the early spring and late fall. January is the slowest month for both business and leisure travel. The ebbs and flows in the travel industry require vehicle rental companies to be proactive in managing their fleets of vehicles to maximize fleet efficiency and utilization.

Enplanements measure the number of passengers travelling by airplane and are the key market trend that the rental car industry tracks to determine consumer demand. By closely watching these trends, rental car companies are able to expand and contract the size of their inventories to avoid prolonged periods of excess inventory or unmet demand. The flexibility to manage the size of the fleet is achieved by entering into purchase agreements with various auto manufacturers for program vehicles and by shortening or extending the number of months that at-risk vehicles are held.



Repurchase agreements specifically detail the number of program vehicles that will be acquired during the year and the minimum period individual program vehicles must be held prior to being repurchased by the manufacturer (referred to in the industry as the minimum hold period). Typically, delivery of the vehicles occurs in line with the seasonality of the business.

Although the number of vehicles in the fleet changes throughout the year, DBRS modelling assumptions incorporate a fleet liquidation scenario based on the fleet at its peak risk levels.

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## Transaction Structure Overview

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### STRUCTURAL ELEMENTS (INCLUDING BANKRUPTCY-REMOTENESS RISK)

Prior to evaluating the appropriate level of credit enhancement for a given transaction, an understanding of the typical legal structure implemented to accommodate the securitization of the fleet is provided. The structure is important in providing the framework upon which the operational risk assessment is based.

Depending on the structure followed, additional non-credit-related enhancement may be required to bridge any challenges to the ownership of the securitized vehicles that may occur following a bankruptcy filing by either the rental car company or auto manufacturer. The additional enhancement provides liquidity and bridges the time required for the courts to consider and rule on any challenge to the assets of the structure. (For further discussion on bankruptcy remoteness, see the July 28, 2009, issue of the DBRS Canadian Structured Finance Newsletter – “The Question of Bankruptcy Remoteness: Québec Court Affirms Securitization in a CCAA Proceeding.”)

Structures established for rental car fleet transactions have been different from those for auto lease or loan transactions. The difference evolved from the reliance on the rental car company to manage its fleet efficiently, which includes the purchase, rental, maintenance and ultimate sale or return of the fleet in a cyclical environment.

A typical structure used in Canadian transactions has involved the creation of a limited partnership, with asset-backed commercial paper trusts or a master trust (Funding Trust) as the primary funding source and possible limited partner and the rental car company as the general partner. The partnership is generally restricted to purchasing, owning, leasing and renting prescribed classes of vehicles in Canada and selling vehicles that the partnership has owned as rental or service vehicles. Proceeds from the rental contracts and vehicle dispositions are distributed to the partners and, ultimately, to the noteholders, as discussed below. Figure 1 illustrates an abbreviated sample structure of a rental car fleet securitization.

#### *General Partner*

The general partner, represented by the Canadian rental car company (Op. Co.) or a special-purpose vehicle administered by the Op. Co., has specific rights and responsibilities that are outlined in the partnership agreement. The general partner has the authority to administer, manage, control and operate the partnership. A performance guarantee from the parent of the rental car company is usually required to guarantee the general partner's performance of its obligations pursuant to the partnership agreement. The general partner also has unlimited liability for the debts, liabilities and obligations of the partnership.

#### *Additional General Partner*

As part of the bankruptcy-remoteness structuring, the transactions may require an additional general partner that may also act as a standby general partner. The additional general partner is available to become a fleet administrator in the event that certain performance triggers are breached during the course of the transaction.



### ***Limited Partner***

Typically, the Funding Trust provides funding for the fleet and takes a priority position on fleet cash flows to support the debt issued by the Funding Trust. Specifically, the Funding Trust obtains certain rights to cash flows generated by the renting and disposing of the securitized vehicles in exchange for a capital contribution.

### ***Title to Partnership Assets***

The partnership is legally structured such that title to the assets is transferred from the rental company to the partnership. Regardless of the type of structure implemented, DBRS reviews the transaction to determine how bankruptcy remote the vehicles are from the car rental company and the underlying auto manufacturer. DBRS also reviews true-sale opinions provided by legal counsel as part of the rating process.

### ***Cash Flow: Partnership Distributions***

Investors in the Funding Trust receive interest and principal based on distributions that are first made to the partners on a pro rata basis in accordance with the capital contributions of each limited partner in a ranking prescribed in the partnership agreement. Distributions are based on proceeds received from customers on the daily rental contracts as well as proceeds received upon disposition of the vehicle.

### **Daily Rental Proceeds**

Distributions from proceeds collected from the daily rental contracts with customers are typically allocated first to interest on issued notes or other equivalent debt issued by the partnership to fund capital contributions and related expenses.

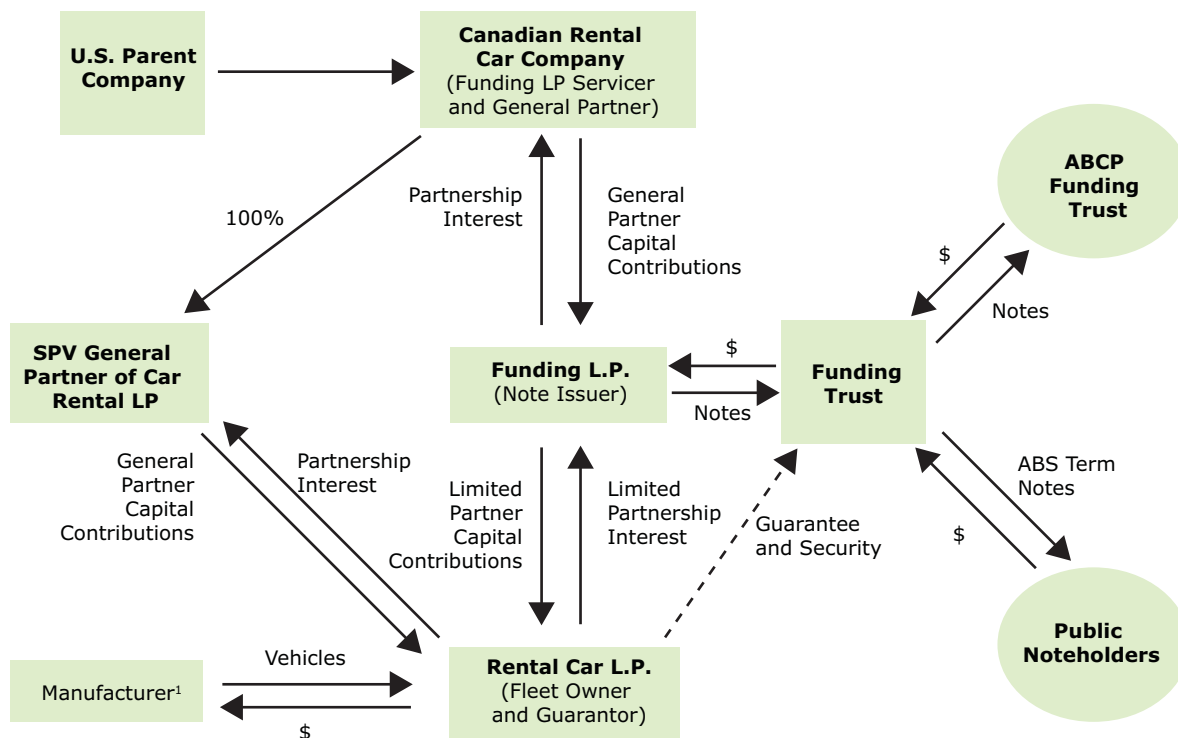
### **Sale-of-Vehicle Proceeds**

Distributions of proceeds received on the sale of the rental vehicles as they are retired from the rental fleet (whether repurchased by the manufacturer or sold at auto auction centres) are typically used to fund the repayment of outstanding principal on issued notes or other equivalent debt issued by the partnership, to fund partner capital contributions or to fund the purchase of new partnership vehicles.

### ***Commingling of Funds***

Consistent with other methodologies, DBRS requires a minimum investment-grade BBB (low) rating threshold to permit the rental car company to commingle funds collected from the securitization with its corporate funds. In cases where the required rating threshold is not met, other steps may be taken to mitigate the cash-commingling risk, including daily remittance of funds, monthly prepayment based on estimates of cash collections or a guarantee and indemnity from an appropriately rated parent company.

**Figure 1: Sample Auto Rental Transaction Structure**



1. Manufacturer will sell the fleet to the Rental Car L.P. with a Servicing Agreement whereby Funding L.P. will provide services to Rental Car L.P. in connection with the fleet. Funding L.P. will delegate those servicing responsibilities to Canadian Rental Car Company.

## Key Variables Affecting Canadian Rental Car Fleet Securitization Transactions

There are three key variables that affect the performance and credit quality of rental car fleet transactions: (1) the credit quality of the rental car company as servicer/operator of the fleet in the transaction, (2) the credit quality of the auto manufacturers of the fleet and (3) residual value exposure in the fleet.

### RENTAL CAR COMPANY

The performance of a transaction will be affected by the credit quality of the rental car company as servicer/operator of the fleet in the transaction. This is due to the fact that based on the structures used to date in Canada, the rental car company is responsible for managing the affairs of the partnership and generating sufficient cash flow to support the payments on a timely basis to the funding trust. It is also responsible for servicing the rental fleet over the life of the transaction. As such, analysis of the rental car company includes an analysis of its financial performance as well as its operational capabilities as servicer/operator. Appendix 1 of this report provides an overview of the types of considerations and review items DBRS typically considers when assessing the credit quality of a rental car company.

Notwithstanding the results of the review of the servicer/originator, transactions are structured so that the underlying assets of the securitization (the vehicles in the fleet) are owned by a bankruptcy-remote entity so they can be liquidated in the event of the bankruptcy of the rental car company. As a result,

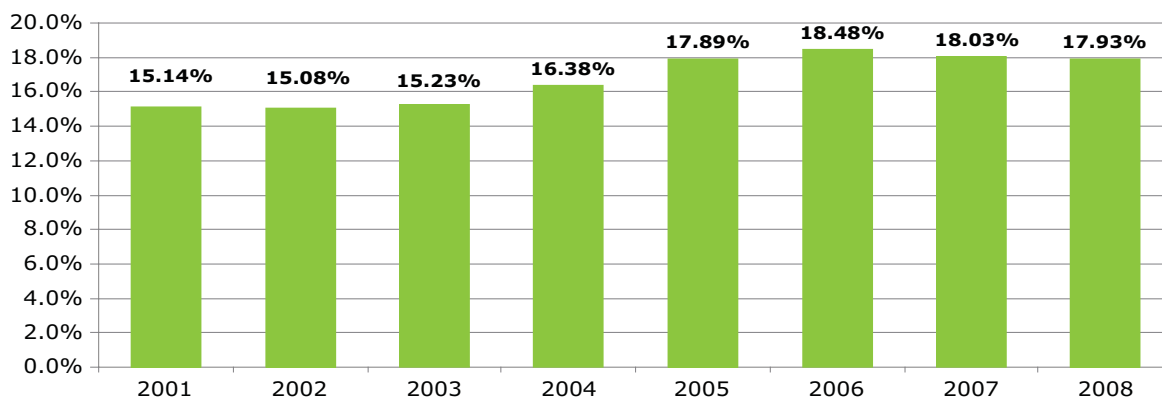
the likelihood of the rental car company's filing for bankruptcy during the term of the transaction is a key consideration. Transactions are analyzed assuming the rental car company will file for bankruptcy at some point during the transaction. Consequently, credit enhancement levels will reflect the amount of credit support required under a bankruptcy scenario.

## CREDIT QUALITY OF THE AUTO MANUFACTURERS

The deterioration of the credit quality (culminating in the bankruptcy and restructuring of two of the Detroit Three) of auto manufacturers has resulted in a number of changes to the structure of rental car transactions. The rental car companies are exposed to the creditworthiness of the auto manufacturers through their reliance on the program vehicle repurchase obligations. The creditworthiness of the auto manufacturer can also affect non-program vehicles to the extent that a manufacturer bankruptcy has an impact on the residual values of its vehicles.

In bankruptcy, a manufacturer may seek to terminate its obligation to buy back program vehicles from the rental car companies in bankruptcy court. The likelihood of the manufacturer's pursuing a termination of its buyback obligation is somewhat remote as the rental car companies still represent relatively large new-vehicle purchasers for the manufacturers. For example, in the United States, rental car companies represented approximately 18% of new-vehicles sales by manufacturers in 2008 (see Figure 2).

**Figure 2: Rental Car Company Share of Total Vehicles Sold (U.S. Data)**



Source: Adesa Analytical Services.

The recent bankruptcy filings of Chrysler LLC (Chrysler) and General Motors Corporation (GM) in the first half of 2009 provide a basis for assessing the impact of a manufacturer's filing on a rental fleet securitization. Chrysler filed for bankruptcy on April 30, 2009, and GM filed for bankruptcy on June 1, 2009. The bankruptcy courts for both GM and Chrysler upheld their contractual obligations under vehicle repurchase agreements. This is significant for the rental car industry as it still has significant exposure to GM and Chrysler under repurchase agreements.

In response to the increasing deterioration in credit of some of the auto manufacturers, rental car companies have significantly reduced the percentage of program vehicles in their fleets to minimize the counterparty risk associated with program vehicles subject to repurchase agreements. An additional mitigant to the counterparty risk is evident in the commitment of the manufacturing entities to guarantee their repurchase obligations under the repurchase contracts in recognition of the significant sales channel that the rental fleet operators represent.

The impact of the bankruptcy of an auto manufacturer on the residual values of its vehicles is a larger issue that depends on the disposition of the auto manufacturer in bankruptcy. The bankruptcy filings of



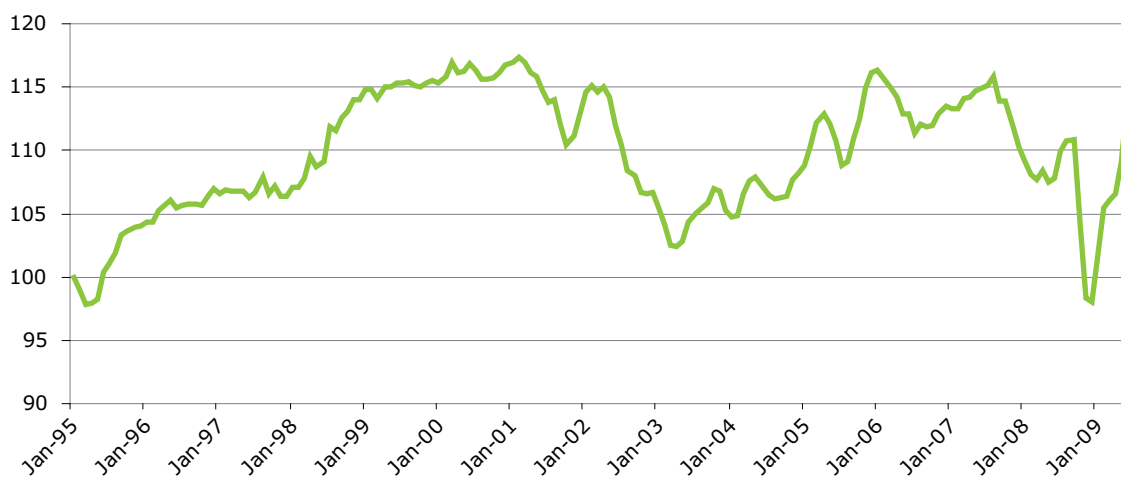
Chrysler and GM have not resulted in any significant impact on the residual values of Chrysler or GM vehicles. This is due in part to the support of the U.S. government for these companies as well as the speed at which the “new” Chrysler and GM entities were able to emerge from bankruptcy. Another mitigant to the risk of residual value decline due to manufacturer bankruptcy is the ability of the rental car companies to convert program vehicles to non-program vehicles. This conversion flexibility allows the rental car company to continue to rent the vehicle, which reduces the residual value risk over time.

### RESIDUAL VALUE EXPOSURE IN THE RENTAL CAR FLEET

Rental car transactions are exposed to the residual value risk since non-program vehicles (including program vehicles no longer subject to a repurchase agreement) are not subject to a buyback agreement with manufacturers. The value of those vehicles is realized by selling them in the used-car market, resulting in potentially volatile price fluctuations depending on the timing of the sale. The cash flow generated by the activities of the partnership are designed to include the depreciation of the vehicles on a monthly basis. The depreciation rates are determined for non-program vehicles based on an estimated residual value of the vehicles when they are retired from the fleet. The extent to which vehicles do not depreciate in line with expectations will determine the amount of gain or loss on the sale of these vehicles at the time of disposition. As a result, analysis of the potential volatility in the used-car market is required to determine the amount of loss in residual value to which the transactions may be exposed. The use of dynamic enhancement levels has also been employed to mitigate the risk of underdepreciation.

Over the past ten years, there has been a great deal of volatility in the used-car market. Figure 3 depicts the Manheim Consulting (Manheim) used-car index, which tracks used-car market values based on all sales in Manheim’s U.S. auctions. Manheim uses January 1995 as the base period for this index so used-car market values in January 1995 equal 100. Manheim then calculates current used-car market values on a monthly basis and converts those prices to the indexed value using January 1995 as the base period to demonstrate the change in used-car values since that time.

**Figure 3: Manheim Used Car Index**



Source: Manheim Consulting.

Used-car prices declined in 2001, even prior to 9/11, due to a weak economy and weak demand for used cars. Rental car operators contributed to this disparity in the supply and demand of used vehicles as they de-fleeted following 9/11. However, sales of used cars from rental fleets only accounted for approximately 4% of total used-car market sales in 2001, according to data from ADESA Analytical Services. As a result, the de-fleeting of rental car companies did not have a material impact on the used-car market. Used-car prices did decline, but that was caused primarily by the recession and by manufacturers’ offering large-scale new-car incentive programs.



From January 2003 to January 2007, used-car prices steadily improved, although there were fluctuations during the period. Prices again started to decline as the credit crisis and recession began in early 2007. The largest decline in used-car prices occurred in October and November 2008, when prices declined 6% per month. However, prices have again steadily improved since December 2008 as a result of tight supplies.

The structural features included in rental car asset-backed securities (ABS) transactions, which are intended to limit the extent to which these fluctuations affect the ABS transactions, include the following:

(1) **Monthly Partnership Asset Test:** The monthly partnership asset test is a measure of the equity in the transaction that the partnership has. Deterioration in the equity is an early warning signal of a potentially poor-performing transaction.

(2) **Monthly Test on Disposition Proceeds Compared with the Net Book Value of Vehicles Sold:** The monthly test on dispositions is a direct test of the residual value exposure in the transaction. Any losses beyond a predetermined amount require either an early termination of the transaction or a significant increase in the enhancement required to support the funding of non-program vehicles until the test is back on side for several months.

(3) **Monthly Comparison of the Cash Flow Coverage Test:** The cash flow coverage test measures the monthly cash flows required to service and operate the rental fleet. The failure to meet this test is an early warning signal that the operator is not managing the fleet efficiently, potentially resulting in an early termination of the transaction.

These structural protections limit the time frame that the residual value is at risk for the securitization transaction to the time between the last mark-to-market and measurement-month tests and the sale of the vehicles in the market. This time frame relates to the time it takes to obtain possession of the rental car fleet and liquidate it.

DBRS has analyzed the changes in used-car values to determine the extent to which used-car values may decline under a liquidation scenario. This analysis is factored into the haircuts we apply to the residual values of the collateral in determining the rating for a transaction given the proposed credit enhancement levels. Figure 3 summarizes the maximum monthly and two-month cumulative changes in the U.S. used-car index compiled by Manheim.

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## Assessing the Risk Profile of a Pool of Daily Rental Vehicles

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### **OBLIGOR CONCENTRATION RISK (FLEET LIQUIDATION SCENARIO)**

DBRS reviews the appropriateness of enhancement levels based on a number of risk factors that are unique to the securitization of a fleet of daily rental vehicles. The analysis and evaluation of enhancement levels is based on the assumption of a liquidation of the fleet and places more reliance on the success of the daily rental company (referred to as concentration risk in Table 1) than a retail lease or loan transaction places on the success of a captive auto finance company. This is because the pools of retail leases or loans that are funded in a securitization have already been sold, resulting in reliance on repayment from a diverse pool of obligors, whereas repayment on a rental fleet is reliant on the success of the rental car company and its ability to continue to generate cash flow from the fleet of vehicles.

#### ***Peak Fleet Liquidation***

As noted, managing the fleet efficiently is challenging and requires continual forecasting, which results in a cyclical fleet that ebbs and flows in line with seasonal and economic cycles. To ensure the structure can withstand the maximum stress that could ultimately be borne during the life of the transaction, DBRS



assumes the fleet will be liquidated when it is at its peak risk level. DBRS additionally assumes the liquidation will occur in an environment that includes the potential restructuring bankruptcy of one or more of the underlying manufacturers.

**Table 1: Auto Transaction Risk Matrix**

	Daily Rental Car Fleets	Retail Auto Lease	Retail Auto Loan	Wholesale Floorplan
<b>Concentration Risk</b>	Highest (reliance on rental car company as operator)	Low (20,000 to 60,000 obligors)	Low (20,000 to 60,000 obligors)	High (250 to 500 obligors)
<b>Credit Risk</b>	Low (0 to 25 bps)	Low to medium (10 to 125 bps)	Low to medium (10 to 125 bps)	Low (0 to 25 bps)
<b>Residual Value Risk</b>	Medium to high (25% to 100% of pool balance)	Medium to high (40% to 60% of pool balance)	n/a	n/a
<b>Manufacturer Risk</b>	Medium (higher on program vehicles)	Medium (end-of-term considerations)	Low (no reliance)	High (linked closely to the manufacturer)
<b>Maturity Features</b>	Revolving	Amortizing	Amortizing	Revolving
<b>Enhancement</b>	<ul style="list-style-type: none"> <li>• Cash (minimum 50 to 100 bps)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Letters of credit</li> </ul>	<ul style="list-style-type: none"> <li>• Cash (minimum 50 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 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 to 100 bps)</li> <li>• Overcollateralization</li> <li>• Subordinated notes</li> <li>• Excess spread</li> </ul>

## FLEET COMPOSITION: PROGRAM VEHICLES VERSUS AT-RISK VEHICLES

The first step in assessing the risk profile of the fleet is to determine the composition of the fleet in terms of program vehicles and non-program vehicles. In the case of program vehicles, the sponsoring auto manufacturer agrees to repurchase the qualifying vehicles at a predetermined price after a minimum hold period. Non-program vehicles, however, do not have a contractually agreed-upon repurchase price or minimum hold period. In these cases, the rental car company must manage the disposal of the non-program vehicles to recover the highest possible purchase price for the vehicle in order to avoid a loss relative to the capital cost of the vehicle. DBRS conducts annual analysis to examine rental car securitizations by separately evaluating and requiring distinct enhancement levels based on whether the vehicles are program vehicles or non-program vehicles (i.e., at-risk vehicles and salvage vehicles).

### *Program Vehicles*

Transaction structures historically required a minimum percentage of program vehicles in the fleet. Because program vehicles are subject to repurchase agreements that include predictable life cycles, losses on returns in the auction market were not a risk consideration. Similarly, past structures limited the number of non-program vehicles in the securitized pool to avoid overconcentration of vehicles exposed to residual value risk and to prevent a tail risk within the structure.

However, the recent and continued uncertainty with respect to the survivability of certain auto manufacturers has led to diversification away from program vehicles. This development was reinforced by a reduced willingness of the Detroit Three to supply program vehicles, resulting in structures that could potentially have fleets consisting of up to 100% of non-program vehicles.

From a credit standpoint, it is important to ensure that the amount of available enhancement reflects the risks associated with the characteristics of the fleet. The additional risk associated with the increase in non-program vehicles is somewhat offset by reduced reliance on a non-investment-grade auto manufacturers' meeting repurchase commitments on program vehicles.



Total enhancement structured under the assumption of a fleet liquidation scenario ensures that the structure can withstand a liquidation of the entire fleet at its peak levels. Assessing the sufficiency of enhancement for a specific fleet requires an in-depth analysis of the fleet, which is achieved by segregating the portfolio into program vehicles and non-program vehicles.

## REPURCHASE AGREEMENTS

As noted, program vehicles are purchased by the car rental company subject to repurchase agreements entered into with the sponsoring auto manufacturer. On an annual basis, daily rental companies negotiate repurchase agreements with each of the auto manufacturers with which they deal. DBRS reviews the repurchase agreements as part of the rating process.

Some rental companies have more significant relationships with certain manufacturers because of historical relationships and/or the spinoff of the rental agency from the manufacturing entity's operations. The Hertz-Ford Motor Company (Ford) spinoff is one relationship that continues, albeit to a lesser extent than previously. Most rental car companies have a diverse fleet of vehicles that comprises a number of participating automotive manufacturers. However, the availability and willingness of the manufacturers under severe market pressures to provide program vehicles reduces the available supply.

Repurchase agreements are renewed annually and typically set out the following criteria:

- Minimum number of program vehicles.
- Minimum number of non-program vehicles.
- Acknowledgement of repurchase obligation by the manufacturer.
- Standard vehicle-return conditions.
- Timing and method of payments.
- Non-assignable agreement.
- Schedule of rates for depreciation calculated on a daily basis.
- Delivery dates and locations for vehicles.
- Repurchase price calculation schedules of surcharges for excess kilometres.
- Schedule of surcharges for any damages or replaced equipment.
- Manufacturers' detailed inspection guide for the return of repurchase vehicles.

Historical experience indicates that only a small percentage of repurchase vehicles (1% to 2%) become ineligible because of a failure to meet the return standards.

## DETERMINATION OF CREDIT ENHANCEMENT FOR PROGRAM VEHICLES

Pursuant to the repurchase agreement, the enhancement is structured with reference to the key aspects for program vehicles, including the following:

(1) **Minimum Hold Period:** The rental fleet operator abides by the minimum fleet average hold period, which is generally six to seven months. There are also maximum hold periods; however, these are constrained by maximum kilometre limits, which are monitored by the manufacturer for sales purposes. Excess charges are incurred for exceeding the predetermined kilometre limit.

(2) **Number of Program Vehicles:** The structure typically sets a minimum percentage of the total fleet.

(3) **Depreciation:** Charged against program vehicles at a predetermined rate (approximately 2% per month), depreciation is applied to arrive at the negotiated repurchase price, subject to satisfactory vehicle inspection.

(4) **Ineligible Vehicle Costs:** Additional costs to the structure are incurred based on the assumption that not 100% of the vehicles will meet the above criteria. These are known as "ineligible" vehicles and are not repurchased by the automobile manufacturer and typically result in greater losses than non-program vehicles.



(5) **Miscellaneous:** Other costs for program vehicles include reconditioning expenses, loss on ineligibles, incidental costs, program liquidity costs and interest costs during a wind-down.

Credit enhancement for program vehicles is designed to cover any of the costs noted above that may be incurred before the partnership is able to return the vehicles to the manufacturers under the various repurchase agreements.

The enhancement is also structured to mitigate exposure to resale price risk in the event that a manufacturer defaults on its obligations under the repurchase agreement. Additional enhancement is required for event risks resulting in the loss of the entire fleet, potentially caused by the insolvency of the rental company (i.e., liquidation scenario).

The exposure is also affected by the age of the program vehicles as younger vehicles will incur a greater depreciation penalty as a result of the minimum hold period constraints. The range of enhancement required for program vehicles reflects the probability of default by the individual manufacturer as represented by their respective credit ratings. A sliding scale of enhancement is used based on the rating of the manufacturer, as detailed in Table 2.

**Table 2: Rating-Dependent AAA Enhancement Assumptions for Program Vehicles**

Manufacturer Credit Rating	Concentration Limit	Minimum Enhancement Percentage	Eligible for Program Vehicles
BBB and higher	100%	15.25%	Yes
BBB (low)	100%	17.25%	Yes
BB (high)	100%	18.25%	Yes
BB (low) or lower	100%	21.25%	Yes
Chapter 11 Performing	100%	23.25%	Yes
Chapter 11 Non-performing/Chapter 7	100%	29.25%	No

1. As a percentage of assets.

## DETERMINATION OF ENHANCEMENT FOR NON-PROGRAM VEHICLES (RESIDUAL VALUE RISK)

The remaining vehicles in a rental car fleet are referred to as non-program vehicles. The number of non-program vehicles is typically set at a maximum percentage of the total pool; however, as noted earlier, structures could potentially migrate to 100% non-program vehicles. Additional costs to the structure are assumed based on the fact that certain costs are incurred in preparing a non-program vehicle for sale at an auction, including reconditioning expenses and incidental costs. Similar to program vehicles, reserves to cover liquidity costs and interest costs during a wind-down are also reserved for.

Used vehicles are permitted; however, a relatively low maximum limit is generally employed. A used vehicle is generally defined as a vehicle that is not more than two model years from the purchase date.

The enhancement covers similar risks included in the determination of the level of enhancement for program vehicles, but it also includes an assumed loss on the disposition of the vehicle. The enhancement structure for non-program vehicles can be loosely compared with that of an auto retail lease structure, which requires additional enhancement for the residual value losses expected resulting from lease customers who return their vehicles to the seller.

In the course of its annual operational reviews, DBRS notes that car rental operators apply daily depreciation rates (expressed monthly) to non-program vehicles to recognize the use of the vehicle and to manage the expected cash flows from the sale of the vehicle once it has been removed from service in the fleet.



## MODELLING ASSUMPTIONS

In order to ensure the level of enhancement is commensurate with the profile of the fleet, DBRS reviews the average age of the fleet at different points of time in the year and compares it with the manufacturers' minimum average hold period for purposes of credit modelling. The most conservative difference (i.e., minimum average hold period minus the youngest fleet) is used as the base assumption in setting the enhancement level for the revolving period, thus ensuring that the maximum amount of enhancement is available, regardless of the time of year in which the fleet liquidation occurs.

For non-program vehicles, the key issue is the extent of loss on the sale of the vehicle. Historical experience, Automotive Lease Guide, Inc. (ALG) benchmarks, automotive auction statistics and annual site reviews with each of the rental car companies are readily available to DBRS in determining the appropriate loss assumption for non-program vehicles. Additional assumptions relevant to the sale and expected loss include the number of days it takes to collect and dispose of the vehicle as well as daily depreciation rates for new and used vehicles. Because wholesale auto auctions are the most frequently used channel to dispose of these vehicles, the fleet liquidation assumption requires confidence in the ability of the auction outlets in Canada to handle the sudden increase in volumes. The major effects to consider are the additional time it will take to liquidate an entire rental fleet through the available auction sites and the downward pricing pressure that such liquidation will have on the vehicles being liquidated.

### *Loss Estimates and Depreciation*

An additional factor in anticipating losses arises from the assumption that a key objective of the rental company is to avoid large fluctuations in losses or gains on the sale of non-program vehicles. This is managed by the application of daily depreciation rates, which are set based on the historical losses incurred by the rental company on the sale of all of its non-program vehicles. Because the wholesale auto markets are continually changing, car rental companies may update the rate of depreciation as frequently as monthly. DBRS reviews the historical experience in detail, which includes minimum depreciation rates, in its overall evaluation of the level of enhancement proposed.

The inclusion of depreciation (typically accruing at 2% per month) reduces the total amount of additional enhancement required to absorb losses on the sale of the non-program vehicles relative to the decline in book value. Conservative multiples, based on the highest loss experienced, are applied to provide sufficient enhancement to cover the suppressed car values that are likely in the event of the liquidation of an entire fleet in a short time frame.

Because the vehicles are purchased at wholesale prices and are typically disposed of within eight to 16 months of operation, the additional enhancement required for disposition losses is typically less than that seen in auto lease securitizations, which are characterized by an average term to maturity of retail vehicles of two to three years. Table 3 provides a summary of the minimum total enhancement for program and non-program vehicles.

### *Step-Up Enhancement*

Although the estimate of losses are structured to provide adequate enhancement to support the rating assigned, further protection is generally included in transactions by means of a step-up in enhancement. As noted in Table 3, an increase of 6% is added to the enhancement structure if any unexpected losses are incurred in a reporting period. For example, if the entity normally suffers a loss of 1% on a monthly basis, any loss beyond that 1% would result in an automatic step-up in enhancement of 6% for non-program vehicles. To date, this step-up has been more than sufficient to offset the risk posed by a range of economic stresses affecting the car rental industry, including the impact on the leisure and business traveller as well as the new- and used-auto markets.



The principal factors assessed in evaluating the proposed level of enhancement for program vehicles and non-program vehicles are summarized in Table 3. In general, a minimum loss level of 14% is used for non-program vehicles, which covers in excess of two to three times the highest loss experienced by the rental car companies during an extended historical review period. With the additional 6% enhancement that arises immediately on loss due to underdepreciation, total enhancement available for losses arising from the disposal of non-program vehicles increases to a range of 21.25% to 29.25%.

DBRS requires incremental enhancement to accommodate additional risks, including reconditioning expenses, insurance costs, stay risk, liquidity costs and interest costs during a wind-down. It is anticipated that a fleet liquidation base case would require approximately a weighted average period of 30 to 45 days to complete.

### *Forms of Credit Enhancement*

Enhancement generally consists of cash, letters of credit and capital contribution or equity in the partnership provided by the general partner (i.e., the rental car company). Since the fleet is turning over on a regular basis, DBRS requires a minimum level of cash in the enhancement structure to cover expected residual value losses, ensuring liquidity in the transaction to meet periodic interest payments.

The composition of enhancement should include a minimum level of overcollateralization (capital contributions) to ensure the rental car company has an equity stake in the partnership.

**Table 3: Summary of AAA Enhancement Assumptions<sup>1</sup>**

Enhancement Variable	Program Vehicles (Investment Grade)	Program Vehicles (Non- Investment Grade)	Non-Program Vehicles
Depreciation/Residual Value Risk	10.0% to 12.0%	13.0% to 24.0%	16.0% to 18.0%
Step-Up for Losses >1% in the Revolving Period	n/a	n/a	6.00%
Salvage Vehicles	0.65%	0.65%	0.65%
Reconditioning Costs	1.50%	1.50%	1.50%
Incidentals	0.25%	0.25%	0.25%
Liquidity Costs	0.10%	0.10%	0.10%
Replacement Servicer	1.00%	1.00%	1.00%
Interest Costs in a Wind-Down	1.75%	1.75%	1.75%
Total AAA Enhancement Range	15.25% to 17.25%	18.25% to 29.25%	21.25% to 29.25%

1. As a percentage of assets.

Note: Enhancement for salvage vehicles is calculated separately and does not typically represent more than 1% of the fleet.



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## The Surveillance Process

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Once the structural and enhancement considerations have been finalized, DBRS ensures that appropriate early warning signals, or performance triggers, are established. The performance triggers are included in the monthly reporting that is required to be submitted to the DBRS surveillance team for transaction monitoring. A performance trigger acts as an early warning signal to indicate that performance of the fleet is declining enough to require a review of the enhancement available for the transaction.

It is important to establish appropriate performance triggers that protect the structure and the initial rating but also allow for a reasonable amount of flexibility as original assumptions can often deviate (within an acceptable range) as a transaction evolves. Once a performance trigger is breached, the structures generally go into amortization or lock-up, meaning that any excess cash that is normally released to the seller (i.e., the rental car company) on a monthly basis is retained by the trust. The trust will then use the retained collections for the repayment of interest and principal to the investors.

In these cases, DBRS's experience has been that most sellers are motivated to update the expected performance, which will often lead to a required increase in enhancement in order to maintain the rating originally assigned to the transaction.

### TYPES OF PERFORMANCE TRIGGERS (GOING-CONCERN RISK)

Traditional transactions involving retail auto loan and lease contracts typically establish performance triggers that monitor the key performance drivers of the portfolio. Delinquency and default rates are the main drivers of success of a retail auto loan transaction, resulting in the inclusion of a three-month rolling annualized default ratio; the transaction structure will also include a loss ratio to monitor residual value losses. Similarly, the key driver of repayment in a floorplan structure is the rate of payment made by the automotive dealers on floorplan loans from the auto manufacturers.

The key driver of repayment in a daily rental car fleet is the revenue earned on its fleet of vehicles combined with the investment or amount of capital contributed by the partners. The rate of rental revenue that the fleet earns is critical to the success of the rental company since high levels of revenue increase cash flow, which is required to make the monthly interest and principal repayments.

DBRS requires minimum performance triggers to be established in the form of a cash flow coverage trigger and a partners' capital-to-assets ratio. DBRS actively monitors these ratios on a monthly basis. Similar to lease and loan portfolios, a breach of a performance trigger in a rental fleet securitization results in amortization scenarios and generally an increase of the enhancement required. It is important to ensure that the performance triggers are set low enough to allow a restructuring of the transaction prior to any potential loss to investors. In this way, additional enhancement can be added to maintain the rating.



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## Additional Considerations

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### FLEET INSURANCE RISKS

Further protection to the trust is provided through an indemnity against the possibility that the partnership will be subject to vicarious tort liability arising from or related to the use of its vehicles. DBRS also requires that the partnership be included in the insurance arrangements of the general partner (i.e., the rental car company) covering the partnership vehicles. The insurance arrangements include umbrella coverage for any claims of liability against the partnership relating to its ownership or use of partnership vehicles and further coverage for non-auto-related third-party liability. In addition, the structure may provide an all-risk property insurance policy that includes business interruption insurance. This is important in light of the revolving nature of daily rental car fleet securitization transactions. In each case, DBRS completes a comprehensive review of the complete insurance coverage provided to ensure minimum counterparty rating standards, as well as limits on the size of the deductible, are adhered to. The insurance review is part of the annual review that DBRS conducts with the rental car company. See Appendix 1 for a list of items reviewed in the rating process.

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## Conclusion

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The methodology outlined above is applied on a transactional basis and incorporates the unique subtleties that arise based on the individual seller that proposes a transaction. Differences are often found in structuring, fleet composition, loss performance, economic strength and market share position for each of the major rental companies that have entered into the various securitization transactions in Canada. DBRS reviews each proposal on an individual basis, incorporating and assessing each of the transaction traits to ensure ratings assigned are appropriate and adequately address the three principal risks inherent in the automotive rental industry: operational risk, structural risk and fleet risk composition, including residual value risk.

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## Appendix 1

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### OPERATIONAL REVIEW

As part of its review of the rental car operator and servicer, DBRS performs an operational on-site review in order to assess the operational capabilities of the rental car company. This assessment includes a review of the following areas:

(1) **Rental Process from Customer Pickup to Drop-Off:** A review of the rental process is performed to ensure that the vehicles are adequately tracked and that the appropriate customer information is maintained in the process.

(2) **Vehicle Preparation and Maintenance Process:** The vehicle preparation and maintenance process is reviewed to ensure that the maintenance requirements in the repurchase agreements are met and that scheduled maintenance of non-program vehicles is performed on a routine basis.

(3) **Vehicle Tracking Process:** The vehicle tracking system is reviewed in order to ensure that the vehicles are adequately tracked as to their location and whether they are in service or out of service and, if so, the reason for being out of service. Also, the age of the vehicles and kilometres are tracked to ensure that program vehicles are not rented past the designated limitations in the repurchase agreements.

(4) **Purchase-Ordering Process:** A review of the purchase-ordering process ensures that vehicles purchased under the transaction documents meet the limitations of the deal, including manufacturer eligibility and manufacturer concentrations (i.e., the number of program vehicles versus non-program vehicles), and that vehicles purchased from manufacturers under repurchase agreements are eligible for those repurchase agreements.

(5) **Titling Process:** The titling process is reviewed to confirm that the vehicles are titled for a true lease, with the appropriate entity listed and with the name of the indenture trustee as lien holder.

(6) **Turn-Back/Sales Process:** The turn-back/sales process is reviewed in order to understand how the vehicle sales and turn-backs to the manufacturers are handled. It also includes a review of the timing and method of transferring titles and how that corresponds to the timing and movement of cash on the turn-back/sale of each vehicle.

(7) **Insurance Coverage:** The insurance coverage in place and the rating of the insurance provider are reviewed.

(8) **Reporting Systems:** A review of the rental car company's reporting systems ensures that the appropriate systems are in place to adequately report to the trustee and that those reporting systems tie in to the vehicle-tracking and servicing systems.

(9) **Disposition Outlets:** Since it is important to de-fleet quickly in the event of a liquidation of the fleet, a review of the rental car company's potential disposition outlets determines the efficiency with which vehicles could be sold under a liquidation scenario.

(10) **Backup Servicer/Administrator:** A review of the role and experience of a backup servicer/administrator is conducted if a backup servicer/administrator is included in the transaction.

(11) **Disaster Recovery:** A review of the disaster recovery plan determines whether an adequate disaster recovery plan is in place to maintain operations and controls in the face of a disaster.



## Appendix 2: Rating Canadian Rental Car Securitizations 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 future values for rental car vehicles.
- 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 Rental Car Transactions

Input	Detail	Key Variables
<b>Portfolio-Level Analysis – Historical Performance</b>	A minimum of three to five years of performance data, with tracking of key variables on the securitized pools.	<ul style="list-style-type: none"> <li>• Review of the fleet operator's historical loss analysis.</li> <li>• Fleets are analyzed based on stratifications of fleets, including make; model, model year, program versus non-program, new, used, truck, sports-utility vehicle (SUV), passenger car, age of the fleet, peak fleet, rating of manufacturer, depreciation rates, rate of ineligible, salvage vehicles and fleet insurance.</li> </ul>
<b>Servicer Analysis</b>	DBRS undertakes periodic review of the servicer.	<ul style="list-style-type: none"> <li>• Assessment of originator's servicing capabilities, including its rental process, vehicle tracking, purchase ordering, vehicle titling, rate of turn-backs on program vehicles, insurance coverage, reporting systems, disposition outlets, recovery including time frame for recovery and management.</li> </ul>
<b>Economic Analysis</b>	Through an economic or credit cycle.	<ul style="list-style-type: none"> <li>• Review of economic cycles and the potential impact on rental car transaction performance, with an emphasis on the used-vehicle market, the relative strength of the Canadian dollar, seasonality and general economic conditions.</li> </ul>
<b>Legal Review</b>	DBRS review of transaction structure and underlying legal documents.	<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.</li> <li>• Legal document analysis may also include review, consideration and assessment of the structure of the transaction as well as review of repurchase agreements; early amortization events and events of default, including performance triggers such as a cash flow trigger or a minimum capital-to-asset ratio trigger and a loss on disposition trigger; step-ups in enhancement; and manufacturing and seller bankruptcy analysis.</li> <li>• Review of transaction representations, warranties and covenants for consistency with the DBRS Legal Criteria for Canadian Structured Finance.</li> </ul>
<b>Proposed Fleet Composition</b>	Cash flow analysis of the proposed enhancement for the securitized pool.	<ul style="list-style-type: none"> <li>• Minimum enhancement for rental fleet transactions at the portfolio level is determined from a review of the composition of the proposed fleet segregated into program vehicles and non-program vehicles, legal document analysis and economic analysis.</li> </ul>




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### Summary of Risk Analysis Process Applied to Rental Car Transactions

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Output	Detail	Application
<b>Enhancement for Program Vehicles</b>	Estimate minimum level of enhancement.	<ul style="list-style-type: none"> <li>• Enhancement for program vehicles is based on an analysis of a number of key variables, including minimum hold period, peak number of program vehicles, depreciation rates applied, ineligible vehicle costs, reconditioning costs, incidentals, liquidity costs, replacement servicer provision, interest costs in a wind-down scenario and the anticipated length of a stay period in a bankruptcy scenario.</li> <li>• Minimum coverage for program vehicles is detailed in Table 2 and is dependent on the rating of the manufacturer of the program vehicles as outlined in Table 1.</li> </ul>
<b>Enhancement for Non-Program Vehicles</b>	Estimate minimum level of enhancement.	<ul style="list-style-type: none"> <li>• Enhancement for non-program vehicles is based on an analysis of a number of key variables, including peak number of non-program vehicles, depreciation rates applied, historical losses on disposition, reconditioning costs, incidentals, liquidity costs, replacement servicer provision, interest costs in a wind-down scenario and the anticipated length of a stay period in a bankruptcy scenario.</li> <li>• Minimum coverage for non-program vehicles is detailed in Table 2.</li> </ul>

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### Summary of Process to Evaluate Amount of Enhancement Proposed in Rental Car Transactions

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Input	Process
<b>Peak Fleet Liquidation Assumption</b>	<p>(1) A fleet liquidation scenario model is used against the projected peak fleet to determine whether the proposed level of enhancement is sufficient to withstand a complete liquidation of the fleet in a relatively short period of time to warrant the requested rating.</p> <p>(2) DBRS expects minimum levels of enhancement for program vehicles and non-program vehicles to be applied to the fleet on a continuous basis since the rental fleet revolves on a continuous basis. The minimum level of enhancement expected is based on the ranges outlined in Table 1 and Table 2 below.</p>
<b>Output</b>	Appropriate rating level based on the proposed enhancement.




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## Summary of Process to Evaluate Form of Enhancement in Rental Car Transactions

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<b>Input</b>	<b>Assessment</b>
<b>Proposed Form of Enhancement</b>	<p>(1) A minimum level of cash is expected to provide short-term liquidity to the transaction, if needed, to address spikes in losses arising from ineligible vehicles or the disposition of non-program vehicles.</p> <p>(2) The remainder of the total enhancement is typically provided through a combination of subordination and overcollateralization. Subordination considerations include an analysis of the priority of payments and the rate of interest to be paid on the subordinated notes.</p>
<b>Output</b>	<ul style="list-style-type: none"> <li>• A proposed level of enhancement that includes a cash account<sup>1</sup> that is funded up front or an acceptable letter of credit from an acceptably rated financial institution and additional enhancement to enable the transaction to withstand an orderly liquidation of the entire fleet at its peak level and may include the following: <ul style="list-style-type: none"> <li>– Overcollateralization.</li> <li>– Subordination.</li> </ul> </li> </ul>

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

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## Summary of Additional Transaction Risks Addressed through Related DBRS Methodologies

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<b>Risk</b>	<b>Description</b>	<b>Methodology<sup>1</sup></b>
<b>Interest Rate Mismatch</b>	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 rental car contracts.	<i>Swap Criteria for Canadian Structured Finance Transactions</i>
<b>Basis Rate Mismatch</b>	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>
<b>Foreign Currency Mismatch</b>	Arises when the proceeds received on the securitized contracts are in a different currency than the principal and interest payments due under the note issuance.	<i>Swap Criteria for Canadian Structured Finance Transactions</i>
<b>Cash Commingling</b>	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>
<b>Bankruptcy Risk: Originator, Financial Servicer or Seller</b>	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>

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




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### Summary of Additional Transaction Risks Addressed through Related DBRS Methodologies

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Risk	Description	Methodology <sup>1</sup>
<b>Conduit Liquidity Risk</b>	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. Methodologies are available at [www.dbrs.com](http://www.dbrs.com)

## SUMMARY OF TRANSACTION MONITORING

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### Summary of Surveillance Procedures for Rental Car Transactions

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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 CANADIAN RENTAL CAR TRANSACTIONS

**Table 1: Summary of Minimum Enhancement Assumptions for Program Vehicles in Rental Car Transactions**

Manufacturer Credit Rating	Concentration Limit	Minimum Enhancement Percentage <sup>1</sup>	Eligible for Program Vehicles
BBB and higher	100%	15.25%	Yes
BBB (low)	100%	17.25%	Yes
BB (high)	100%	18.25%	Yes
BB (low) or lower	100%	21.25%	Yes
Chapter 11 Performing	100%	23.25%	Yes
Chapter 11 Non-Performing/Chapter 7	100%	29.25%	No

1. As a percentage of assets.

**Table 2: Summary of AAA Enhancement Assumptions<sup>1</sup> in Rental Car Transactions**

Enhancement Variable	Program Vehicles (Investment Grade)	Program Vehicles (Non-Investment Grade)	Non-Program Vehicles
Depreciation/Residual Value Risk	10.0% to 12.0%	13.0% to 24.0%	16.0% to 18.0%
Step-Up for Losses >1% in the Revolving Period	n/a	n/a	6.00%
Salvage Vehicles	0.65%	0.65%	0.65%
Reconditioning Costs	1.50%	1.50%	1.50%
Incidentals	0.25%	0.25%	0.25%
Liquidity Costs	0.10%	0.10%	0.10%
Replacement Servicer	1.00%	1.00%	1.00%
Interest Costs in a Wind-Down	1.75%	1.75%	1.75%
Total AAA Enhancement Range	15.25% to 17.25%	18.25% to 29.25%	21.25% to 29.25%

1. As a percentage of assets.

Note: Enhancement for salvage vehicles is calculated separately and does not typically represent more than 1% of the fleet.

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