

Methodology

*Rating Canadian Auto Fleet  
Lease Transactions*

MAY 2011



*Insight beyond the rating.*

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## CONTACT INFORMATION

**Tim O'Neil**

Vice President  
Canadian Structured Finance  
+1 416 597 7477  
toneil@dbrs.com

**Jamie Feehely**

Managing Director  
Canadian Structured Finance  
Tel. +1 416 597 7312  
jfeehely@dbrs.com

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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 Auto Fleet Lease Transactions

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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 corporate auto fleet receivables contracts. The purpose of this publication is to provide greater transparency in the rating process. This methodology should be reviewed in conjunction with the DBRS methodologies *Legal Criteria for Canadian Structured Finance*, *Swap Criteria for Canadian Structured Finance* and *Rating Canadian ABCP*, which are available at [www.dbrs.com](http://www.dbrs.com).

This methodology 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. Nor should this publication be seen as prescribing a rigid template applicable in all circumstances. DBRS recognizes that each transaction is different and that mitigating factors may lead to modification of some of the recommendations.

There have been a number of auto fleet lease transactions in the Canadian marketplace funded through asset-backed securities (ABS) and asset-backed commercial paper (ABCP). 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 industry specifically. The methodology summarizes the similarities and differences that arise when addressing risk in auto fleet lease securitizations and in traditional auto-related securitization programs, including retail loan, retail lease and floorplan structures.

The elements of the enhancement proposal and legal structure of auto fleet lease securitizations are the main discussion points for the DBRS methodology. DBRS is able to assign ratings to the related ABS that are higher than the rating of the sponsor by applying the methodology to structures that adequately address the main risks inherent in auto fleet lease securitizations: fleet composition risk, specifically obligor and industry concentrations; structural risk, including bankruptcy remoteness; and operational risk.

The methodology provides a brief overview of the auto fleet industry, followed by a review of the key variables in addressing the risks related to rating auto fleet lease 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 auto fleet companies as servicer/operator of the fleet.
- (3) The credit quality of the underlying obligors.
- (4) The reliance on and valuation of the underlying security.
- (5) Structural risk and historical performance in auto fleet securitizations.
- (6) Enhancement considerations.

The methodology also provides a synopsis of the cash flow modeling and resulting enhancement assumptions employed to address the key risks identified.



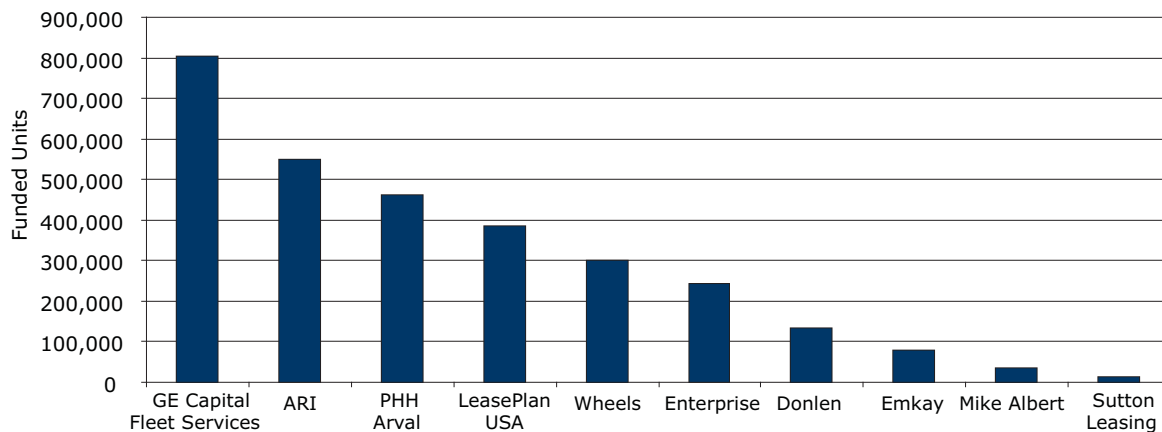
## Background Information

### INDUSTRY OVERVIEW – NORTH AMERICA

In any given month, fleet sales can represent a significant share of the total number of vehicles sold by manufacturers (ranging from 0% to as high as 30%) and include commercial vehicles, police cars, taxis, rental fleets and government-operated vehicles. DBRS has a separate methodology for rental fleet securitizations, *Rating Canadian Rental Car Securitizations*, which can be accessed via [www.dbrs.com](http://www.dbrs.com). For the purposes of the auto fleet lease methodology, rental fleet leases are not considered.

There are only a handful of auto fleet operators in North America large enough to participate in the securitization market. Although market share ebbs and flows, the industry is dominated by three North American-based entities that currently represent more than 60% of the auto fleet market in North America. To date, fleet securitization transactions rated by DBRS in Canada consist of fleets operated by Canadian subsidiaries of U.S.-based fleet management companies.

#### Auto Fleet Lessors by U.S. Car and Truck, 2009 Portfolio Size



Source: Automotive Fleet.

The auto fleet industry has seen a number of developments in recent years that have resulted in an overall reduction in fleet vehicle sales. The recent recession led corporations to look to operate more efficiently by reducing the size of their fleets and focusing on fuel-efficient and less expensive vehicles. As a result, vehicle fleet management companies have had to become more creative and diversified in their product offerings. Technological developments have provided an opportunity for the fleet management companies to enhance the value provided to their customers. In particular, global positional system (GPS) technology has provided fleet management operators the opportunity to increase the efficiency of the fleet for its customers, improve customer service and lower fuel costs. Online fleet management has also given auto fleet customers the ability to manage their fleets more efficiently and take advantage of the additional data that is available with this type of technology.

Fleet management operators have used the available technology in recent years to provide more management services on behalf of their corporate customers. For a fee, the larger fleet management companies offer fuel services, repairs and maintenance, accident services, titling, tax services, licensing, remarketing and other ancillary services. The additional services generally require minimal incremental increases in capital and the benefits to the fleet manager include a diversification of revenues, higher margins and increased customer loyalty. As a result, a securitization transaction may include cash flows originating



from monthly management fees in addition to the base lease cost of the fleet vehicles themselves. In some cases, the management fee represents a significant portion of the total monthly cash flow as the vehicles in the portfolio depreciate, resulting in an increasing yield on the portfolio as noted in the Auto Fleet Lease Runoff Profile graph in the Components of Credit Enhancement section below.

DBRS notes that these developments have a favourable impact on the ability of the fleet manager to more efficiently acquire, monitor the location of and remarket all of its assets. This is particularly important in a securitization transaction since the underlying security may need to be liquidated for note repayment in the event of a bankruptcy of the fleet management company or its obligors.

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## Transaction Structure Overview

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### STRUCTURAL ELEMENTS (INCLUDING BANKRUPTCY RISK)

Prior to evaluating the appropriate level of credit enhancement for a given transaction, an understanding of the legal structure implemented to accommodate the securitization of the fleet is necessary to provide the framework upon which the bankruptcy risk assessment is based. Depending on the structure, 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 the auto fleet management company. The additional enhancement is intended to provide liquidity and bridges the time required for the courts to consider and rule on any challenge to the assets of the structure. (Please refer to the DBRS *Legal Criteria for Canadian Structured Finance* at [www.dbrs.com](http://www.dbrs.com) for additional information.)

Structures established for auto fleet lease transactions have been similar to those used for other auto finance transactions and reflect the revolving nature of the asset class. Typical structures used in Canadian transactions have included the concurrent lease structure and the sale-leaseback structure. DBRS expects that the structure used incorporates the necessary safeguards required to ensure bankruptcy remoteness if either structure is employed. A two-step structure may be required based on amendments to the Bankruptcy and Insolvency Act in 2009, which increases the potential for “resiliation” (i.e., repudiation) of lease contracts.

#### *Title to Assets*

At closing, DBRS requires the structure to ensure that a true sale of beneficial title to the assets is transferred from the auto fleet company (Fleetco) to a trust or a partnership in a two-step sale process. Upon breach of certain early warning triggers (such as a downgrade of a seller or performance guarantor), DBRS requires the legal title to the assets (which typically remains in the name of the seller until that point) to be transferred to the relevant special-purpose vehicle. These measures are taken to ensure that the underlying assets would not become ensnared by creditors to Fleetco or the obligor in the event of a bankruptcy of either. Regardless of the type of structure implemented and the rating of the sponsor or its parent, DBRS reviews and relies on the transaction and true-sale opinions provided by legal counsel at closing as part of the rating process.

#### *Commingling and Partial Commingling of Funds*

Investors in the structure generally receive interest and principal payments based on collections from customers on the monthly lease contracts for use of the vehicle, management fees and, where applicable, proceeds received from the disposition of vehicles in the portfolio of leases. As noted in *Legal Criteria for Canadian Structured Finance*, available at [www.dbrs.com](http://www.dbrs.com), cash is to be deposited into segregated accounts at eligible institutions and held for the noteholders. Cash is distributed to the noteholders based on transaction documents and generally includes payments of interest followed by payments of principal.



Consistent with other methodologies, DBRS requires a minimum investment-grade rating of BBB (low) to permit Fleetco 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.

In the case of revolving transactions, DBRS partial commingling conditions may be considered appropriate. The details of partial commingling mechanics are described in *Legal Criteria for Canadian Structured Finance*. Broadly, 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 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 addressed on a case-by-case basis.

#### *Revolving Nature of Structures – Principal Repayment, Eligibility Criteria and Annual Review*

Auto fleet lease securitization structures may be revolving or amortizing in nature. Transactions structured with a revolving period may allocate a portion or all principal collections to be reinvested in new receivables on a regular basis (daily, weekly or monthly). 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 may be held in a collections account or an accumulation account (separate from the cash collateral account for enhancement purposes) to support the outstanding notes funding the assets. Asset coverage tests may also be incorporated in a revolving structure to ensure that there are adequate receivables to support the repayment of bullet maturity notes. For a transaction funded in an ABCP conduit, where the terms of 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.

One of the major risks in a revolving structure arises out of the potential for a reduction in the quality of the assets without a corresponding increase in enhancement to mitigate the risk. An important element of the initial structuring of a revolving structure is to ensure consistency in asset additions (whether monthly or sporadically) through the use of specific eligibility criteria. With established eligibility criteria in place at the outset of the transaction, investors can be assured that the portfolio is more likely to replace maturing assets with new assets that have a similar risk profile. Examples of eligibility criteria may include limitations on the portfolio with respect to the following:

- Obligor creditworthiness.
- Obligor concentration limits.
- Industry concentration.
- Geographic concentration.
- Vehicle type.
- Maximum percentage of heavy-duty trucks and non-auto-related equipment, including specialty-use vehicles.
- Maximum lease term limits.
- Maximum percentage of closed-end leases.
- Maximum percentage of management fees as a percentage of total receivables.
- Inclusion of hell-or-high-water and triple-net contracts only.

Notwithstanding the application of eligibility criteria, DBRS reviews the performance of transactions on a periodic basis and re-evaluates the enhancement assumptions on an annual basis in the case of revolving transactions.



### *Accumulation Period*

Accumulation periods in a revolving securitization structure are designed to ensure the repayment of principal and interest to the investor for scheduled maturing term bullet 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 the accumulation period is determined as part of the transaction structuring but should incorporate conservative assumptions based on the estimated number of payment periods required to collect the outstanding note balance due.

### *Amortization Period*

During an amortization period, principal collections are deposited to a distribution account and allocated to the notes. An early amortization period is usually triggered by predetermined events that can occur during the life of a transaction and may be trust or series specific. For those transactions operating under a master trust structure, whereby multiple series of notes are issued against a single master pool, trust-specific triggers are incorporated to protect all series of noteholders as a result of potential adverse performance of the pool of securitized assets. Trust-specific amortization events typically lead to a pro rata repayment of all series of notes, regardless of their respective scheduled maturities. Amortization triggers for a specific series of notes can also be incorporated and apply only to that 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 assets or certain events related to the seller, servicer or performance guarantor. An early amortization period is designed to pay out the investor in a relatively short time before any significant losses affect the portfolio of assets.

Other performance triggers may include loss rates, age 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 repay the outstanding notes gives the trust first access to these additional proceeds.

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## Key Variables Affecting Canadian Auto Fleet Lease Securitization Transactions

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Key variables that affect the performance and credit quality of auto fleet lease transactions include the following: (1) the credit quality of Fleetco as servicer/operator of the fleet in the transaction, (2) the credit quality of the obligors in the fleet and (3) the reliance and valuation of the underlying assets, including residual value analysis.

### **AUTO FLEET COMPANY (FLEETCO)**

The performance of a transaction will be affected by the credit quality of the auto fleet manager as servicer/operator of the fleet being securitized. Based on the structures used to date in Canada, Fleetco is responsible for managing the portfolio for the benefit of the noteholders and generating sufficient cash flow to support the interest and principal payments due. Fleetco is also responsible for servicing the fleet over the life of the transaction; however, it does not have custody of the vehicles. As noted earlier, notwithstanding the results of the review of the servicer/originator, transactions are structured such that the underlying assets of the securitization (the receivables and the vehicles in the fleet) are owned by a bankruptcy-remote entity so they can be liquidated in the event of the bankruptcy of Fleetco. As a result, the likelihood of Fleetco's filing for bankruptcy during the term of the transaction is a key consideration. As such, analysis of Fleetco includes an analysis of its financial well-being as well as its operational capabilities as servicer/operator. DBRS typically reviews transactions from large auto fleet management companies that have been in the business for many years and have established credit and collection policies implemented on a North American basis.

DBRS endeavours to provide ratings that take the economic cycle into account and, as such, transactions are analyzed assuming Fleetco will file for bankruptcy and/or restructure at some point during the transaction. Consequently, credit enhancement levels will reflect the amount of credit support required under a bankruptcy scenario. The rating of the fleet manager or its parent (assuming the parent provides a performance guarantee) is also relevant to whether the funds received daily can be commingled until the transactions' monthly settlement dates. Remittance of funds on a daily basis is required in the case of fleet management companies that are non-investment grade (rated less than BBB (low)) to reduce the amount of commingling risk exposure from 30 days to one to two days. Key considerations, in addition to the review of the financial performance of Fleetco, are the underlying terms of the standard form auto fleet lease contracts and the underwriting of the fleet portfolio.

### ***Standard Form Lease Contracts***

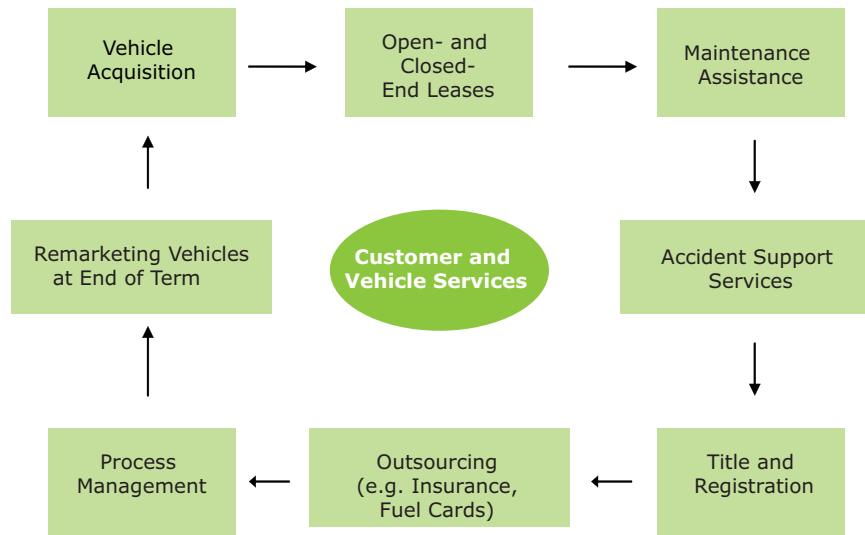
As part of the operational review, DBRS analyzes the standard form contract that governs the lease offered by Fleetco and accepted by the auto fleet lease obligor. Lease contracts in Canadian structures have typically involved open-end auto fleet leases of cars; light-, medium- and heavy-duty trucks; sport-utility vehicles (SUVs); some specialized trucks; and equipment, with the obligors assuming all risk for the value of the vehicle at the time of disposition. Closed-end lease contracts may also be included and require additional analysis due to the residual value exposure associated with these types of contracts. To date, most portfolios have a nominal percentage of closed-end leases; however, if this type of lease is significant, the loss assumptions and rating process applicable to Rating Canadian Auto Lease Transactions is applied for that portion of the portfolio. Regardless of whether the contracts are open- or closed-end, most contracts are triple net (whereby the obligor is responsible for all maintenance, insurance and tax owing on the lease) and hell or high water (meaning that the obligor is bound to the lease until maturity irrespective of any difficulties that the obligor may be having). Leases are typically billed monthly and represent the total amount due for the lease of the fleet of vehicles as well as any management fees owing for additional services performed as part of the contract.

The graphic below outlines the key steps involved in the management of a fleet of vehicles for a corporate customer. DBRS reviews the operational activities and underwriting standards of the servicer in the context of the sponsor's business cycle.

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### Fleet Management Process

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### *Underwriting*

The strength of the transaction relies heavily on the credit quality of the portfolio underwritten by Fleetco. The fleet companies and, by extension, the noteholders in a transaction are exposed to the creditworthiness of their obligors for the monthly payment of the lease contracts. DBRS attempts to gain an understanding of the policies and procedures used by Fleetco in approving the obligors in its portfolio. As part of the operational review, a number of functions and policies are examined:

- The sales process.
- Granting and adjudication of credit.
- Standard form contracts utilized.
- Credit terms (lease value and term limits for obligors).
- Geographic diversification of the fleet.
- Vehicles class diversification (cars; SUVs; light-, medium- and heavy-duty trucks; equipment).
- Industry concentration.
- Depreciation rates by vehicle class.
- Fleet management revenue versus vehicle lease revenue (i.e., unsecured versus secured credit).
- Internal credit tiering.
- Billing, collection, write-off and cash management processes.
- Bankruptcy monitoring of its obligors.
- Vehicle disposal and remarketing processes.
- Data warehousing, security and backup and recovery systems.
- Number of years in the business and experience of management.

Since historical data is relied on in the rating process, DBRS looks for demonstrated consistency in the fleet manager's application of its policies and procedures.



### *Bankruptcy Risk of Fleetco*

To date, there have been no bankruptcy filings of fleet management companies with securitization transactions rated by DBRS. However, given the DBRS approach of rating through the economic cycle, which in the first half of 2009 witnessed the bankruptcy filings of Chrysler LLC (Chrysler) and General Motors Corporation (GM), structures need to be robust enough to survive a bankruptcy of the seller/servicer or performance guarantor. Noteholders are protected by bankruptcy-remote structures, which, based on opinions provided by the seller's counsel, represent a true sale of the beneficial interest in the assets at closing, thus shielding the assets from claims by the bankrupt entities' creditors. Additional protections include triggers and provisions that result in the re-registration of legal title, the appointment of a replacement servicer to manage the fleet and the use of the collections to repay noteholders. In most transactions, noteholders will have some input as to approving the appointment of a replacement servicer subsequent to an event of default.

### **CREDIT QUALITY OF THE FLEET OBLIGORS**

Given that auto fleet lease transactions are characterized by a portfolio of corporate obligors that lease a small to large number of vehicles, obligor concentration risk is greater than in a transaction backed by consumer auto leases. Mitigation of obligor concentration risk requires assessment of the credit quality of the obligors in the proposed portfolio of auto fleet leases. The investment required for a securitized transaction generally means that the size and scope of Fleetco's portfolio is large and includes established and well-known corporate obligors. Canadian transactions have been characterized by portfolios that are represented by corporate obligors with strong credit ratings. The credit rating of the obligor is an important element in the assessment of the portfolio and takes the place of credit scores (e.g., FICO) normally referenced in a transaction backed by consumer loans. As the best proxy available for the ability to pay, DBRS relies on the published credit ratings of the obligors in reviewing the enhancement proposal for transactions it rates. Privately rated obligors are treated as non-investment grade and consequently are permitted concentration levels according to the Minimum Concentration Levels of Non-Investment-Grade Obligors table in the Evaluating Credit Enhancement section below. Additionally, industry and geographic concentrations are also considered.

### **RELIANCE ON AND VALUATION OF THE UNDERLYING ASSETS**

DBRS recognizes that a significant portion of auto fleet lease transactions are secured by the value of the vehicles and that the value may need to be realized in the used-car market in order to meet the obligations due under the transaction should the obligor default on the payment or the fleet management company or note issuer default on its obligations. Price fluctuations are normal, depending on the timing of the sale, since the used-car market has historically been characterized by seasonal fluctuations. Vehicle values in the spring typically represent the highest values and the late fall and early winter represent the lowest. Rising oil prices and fluctuating currency markets also contribute to the volatility in the used-car market. In its reliance on and valuation of the vehicles in a portfolio, DBRS notes that fleet portfolios are different from consumer portfolios with respect to depreciation.

#### *Depreciation*

The standard form contracts used by fleet management companies usually include agreed-upon depreciation rates as part of the calculation of the monthly payment. The effectiveness of the depreciation rates can be measured by the historical losses experienced by Fleetco when its obligors go bankrupt or otherwise fail to meet their contractual obligations. The extent to which vehicles do not depreciate in line with expectations will determine the amount of gain or loss on the sale of the vehicles at the time of disposition. Since portfolios are mostly open-end lease contracts, the gain or loss on the vehicle is only relevant if the obligor defaults on its contract. As a result, fleet management companies have historically experienced very low loss rates on their portfolios.



### *Residual Value Exposure in Auto Fleet Lease Transaction*

Auto fleet lease transactions are exposed to residual value risk to the extent that the portfolio includes closed-end lease contracts. To date, fleet transactions in Canada have contained only a small percentage of closed-end leases. If the risk is significant, DBRS treats the residual value risk in an auto fleet lease transaction in the same manner as it would in transactions backed by consumer auto leases (see *Rating Canadian Auto Lease Transactions*, available at [www.dbrs.com](http://www.dbrs.com)). When appropriate, turn-in rates and expected residual values will be stressed in accordance with the DBRS leasing methodology. In addition, third-party estimates of the residual value and calculations of embedded losses may be necessary.

In its enhancement analysis, DBRS incorporates the historical experience of losses by Fleetco, the depreciation rates applied to the various types of vehicles, the type of contract (open-end or closed-end), the used-car market trends and the diversification of the fleet by make and model. This analysis is factored into the haircuts applied to the recovery value of the collateral in determining the rating for a transaction given the proposed credit enhancement levels.

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## Structural Risks and Historical Performance in Auto Fleet Lease Securitizations

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### CONCENTRATION RISK

Concentration limits and eligibility criteria are incorporated in revolving structures to ensure that there is consistency and adequate diversification in the pool composition. Limits would also be considered on the maximum length of the term: pools of auto fleet leases with longer terms tend to exhibit more volatile losses. Limits on equipment and the percentage of management fees are also considered because of the less-liquid nature of the assets and, in the case of management fees, the unsecured nature of the asset.

Obligor composition in a pool of auto fleet leases may be diversified; however, there tend to be concentrations of a few large obligors in most pools. Generally, a large obligor's credit quality is determined by the finance company's credit assessment and its third-party credit rating, if available. The larger obligors tend to require fleets that are diversified by asset type and make, which removes some of the exposure to a single manufacturer normally associated with auto lease and floorplan pools. Exposure to these larger obligors is limited relative to the enhancement levels in a securitization structure, with minimum coverage levels expected.

### CREDIT LOSSES – HISTORICAL PERFORMANCE

Obligor defaults in an auto fleet lease transaction have historically been associated with the bankruptcy of the obligor. When an obligor defaults, an experienced fleet manager will have been aware of the deteriorating credit and will have taken steps accordingly to reduce its exposure by requiring more frequent payments or reducing its exposure to management fees. In many cases, the fleet manager may be considered a critical vendor if it is reorganizing under bankruptcy protection since the fleet assets are considered critical to the operations. If an obligor forgoes a restructuring and liquidates its property to pay off its creditors, the fleet manager will repossess the assets prior to their becoming part of the liquidation and will remarket the vehicles to maximize recovery. Losses in this scenario are further minimized by the depreciation rates incorporated in the lease contract at inception. Measured on an annual basis, loss rates in auto fleet lease portfolios have historically been very low (0 to 15 basis points (bps)). Again, a key factor contributing to the low rate of losses experienced in auto fleet lease pools is the critical function (sales, delivery, etc.) played by the vehicles in the obligor's business. In the limited cases where the obligor files for bankruptcy and liquidation of the assets is required, DBRS notes that normal-course recoveries have tended to be more than 90% of the book value at the time of loss.



## SERVICER RISK AND BACKUP SERVICER CONSIDERATIONS

Since Fleetco plays an integral role in the servicing of the transaction, financial difficulties at Fleetco may affect its ability to service the portfolio, having an impact on how the underlying assets perform. To help insulate the investor from servicer risk, triggers are incorporated to replace Fleetco as the servicer in a securitization transaction. Some of these triggers include breach of representations and warranties, failure to remit collections in a specified time frame, cross-defaults to other credit agreements, breach of financial covenants and a bankruptcy filing.

### *Backup Servicer Considerations*

In some situations, DBRS believes that a backup servicer should be required. Factors considered include the following:

- Nature of the services provided by the servicer.
- Amortization and event of default triggers.
- The proposed level and mix of enhancement.
- The corporate credit rating of Fleetco.
- The percentage of closed-end leases in the proposed portfolio.
- Credit quality and experience of the proposed backup servicer.

In summary, a snapshot of the major risk characteristics inherent in auto fleet lease transactions compared to other transactions secured by automotive assets is presented in the table below.

### **Auto Transaction Risk Matrix**

	<b>Corporate Auto Fleet</b>	<b>Daily Rental Car Fleets</b>	<b>Retail Auto Lease</b>	<b>Retail Auto Loan</b>	<b>Floorplan</b>
Concentration Risk	Moderate (Less than 5,000 obligors)	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)
Credit Risk	Low (0 to 25 bps)	Low (0 to 25 bps)	Low to medium (10 to 125 bps)	Low to medium (10 to 125 bps)	Low (0 to 25 bps)
Residual Value Risk	Nominal	Medium to high (25% to 100% of pool balance)	Medium to high (40% to 60% of pool balance)	n/a	n/a
Manufacturer Risk	Low (no reliance)	Medium (higher on program vehicles)	Medium (end-of-term considerations)	Low (no reliance)	High (linked closely to the manufacturer)
Maturity Features	Revolving	Revolving	Amortizing	Amortizing	Revolving
Enhancement	<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> <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>• 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>



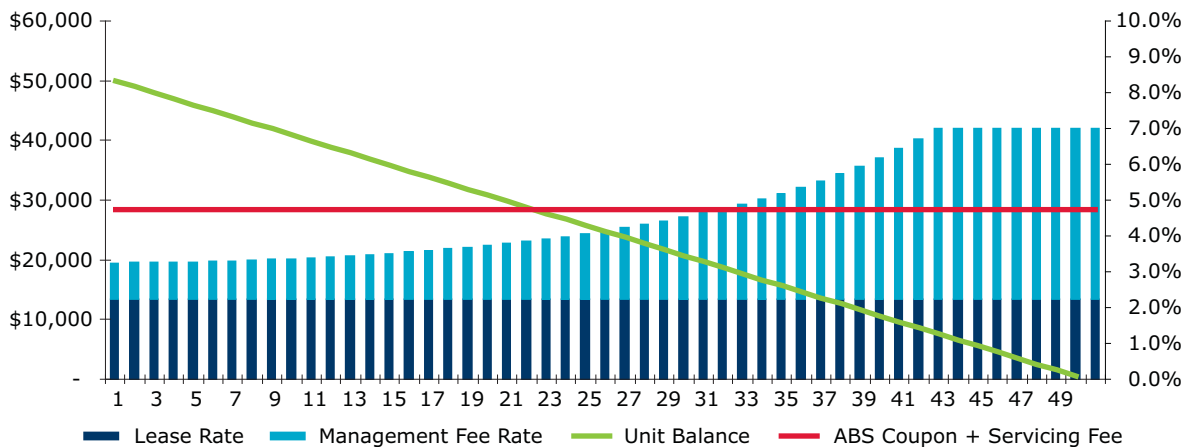
## Components of Credit Enhancement

### EXCESS SPREAD

Excess spread is the amount by which the weighted-average interest on the pool of assets exceeds the sum of the issuer'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, auto fleet lease assets are usually characterized by fixed- and floating-rate contracts, while the funding costs of the trust are typically based on the Canadian Dealer Offered Rate (CDOR) plus a spread for ABCP transactions and may be fixed or floating for ABS transactions. Interest rate and basis rate mismatches between the funding of the obligations and the underlying receivables are required to be hedged in accordance with the DBRS *Swap Criteria for Canadian Structured Finance*, available at [www.dbrs.com](http://www.dbrs.com).

A unique characteristic of auto fleet lease pools is represented by the fact that the excess spread on most portfolios increases as the lease contracts age. This increasing yield is due to the fact that the management fee is usually a fixed dollar amount per lease per month, while the lease amortizes in line with the depreciation charges on the vehicle, as shown in the graph below. The subordination of certain issuer-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 instrument from an appropriately rated counterparty to mitigate potential spread compression may be taken into consideration.

**Auto Fleet Lease Runoff Profile**



Source: DBRS.

### OVERCOLLATERALIZATION

Overcollateralization can represent the largest single component in the overall credit enhancement structure of an auto fleet lease securitization transaction. Overcollateralization is created by the inclusion of eligible receivable balances in excess of the aggregate outstanding funded principal balance. Not only does overcollateralization provide credit support to the issuer, the collections forming part of the issuer's interest from the additional assets may assist in the rapid amortization of the outstanding notes.

### CASH RESERVE OR LETTER OF CREDIT AMOUNT

Similar to other securitization transactions, a cash reserve amount and/or letter of credit (L/C) is also required in a revolving or amortizing auto fleet lease structure for credit enhancement purposes. The cash 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 breach of a performance



trigger established at the outset of the transaction. The cash or L/C provides short-term liquidity to the transaction for monthly losses or delays in cash flows caused by delinquencies or slower-than-expected recoveries or to supplement interest payments, if required, during a stay period.

## 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 in auto fleet lease securitization transactions are, primarily, the obligations of the corporate obligors secured by their fleet of leased vehicles. The performance of the assets depends on the health of the obligors supported by a diversified pool of vehicles and an experienced and financially stable Fleetco. In the normal course, these assets experience low default frequency and low severity of losses in the instances of obligor default. However, DBRS also considers an increased severity of default in a transaction that could be caused by the bankruptcy of the fleet manager or the bankruptcy of several of its largest obligors.

The credit enhancement is structured and consists of a variety of forms to mitigate the risks arising from losses caused by defaulting obligors and also includes the potential for timing delays (i.e., the costs of interest carry) during a stay of proceedings caused by a bankruptcy filing of Fleetco. Credit loss assumptions derived from a review of the portfolio's historic performance and concentration levels are also incorporated in the analysis. DBRS applies three levels of analysis to review enhancement proposals received for transactions that it rates: (1) obligor concentration scenario by largest obligors in the portfolio and (2) by the underlying credit rating of the corporate fleet lessee and (3) a break-even cash flow test on recoveries expected from the portfolio. Each of the constraints below is reviewed within the context of the fleet manager's portfolio, including historical loss experience and the concentrations within the pool by asset type.

## OBLIGOR CONCENTRATION SCENARIO

DBRS's approach to evaluating the credit enhancement proposal received from an originator of auto fleet lease securitization transactions begins with a review of the obligor concentration levels and the credit-worthiness of the obligors.

### *Concentration Limits – Non-Investment-Grade Obligors*

For portfolios that consist of a significant number of non-investment-grade (less than BBB (low) by DBRS or equivalent) or unrated obligors, minimum concentration limits are applied for each transaction rating category based on the table below.

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#### Minimum Concentration Levels of Non-Investment-Grade Obligors

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Transaction Rating Category	Minimum Obligor Concentration Limits
AAA	Top 5 to 7 Obligors
AA	Top 4 to 6 Obligors
A	Top 3 to 4 Obligors
BBB	Top 2 to 3 Obligors
BB	Top 1 to 2 Obligors



For example, total enhancement required for a AAA rating should be no less than the total percentage of the assets of the top five to seven non-investment-grade obligors combined. Application of the above table ensures that concentration limits are limited for portfolios that include a significant number of lessees that are non-investment grade.

### *Concentration Limits – Investment-Grade Obligors*

In addition, DBRS reviews the credit quality of the individual obligors in the portfolio of auto fleet leases and benchmarks the level of enhancement with the credit rating of the largest obligors that are investment grade. Under this scenario, the risk of default is directly related to the level of enhancement available in the transaction. For example, a AAA-rated obligor (e.g., a government entity) would be afforded a greater individual concentration limit relative to lower-rated obligors in the same portfolio. This second step in the analysis ensures that concentration limits are enforced for portfolios that are characterized by a composition of a large number of investment-grade obligors.

For auto fleet lease portfolios that consist of secured receivables and unsecured receivables (i.e., management fees), it may be necessary to bifurcate the pool when evaluating the proposed level of enhancement. DBRS evaluates the proposed level of enhancement and applies the benchmarks as shown in the table below.

### **Obligor Concentration As a Per Cent of Total Hard Credit Enhancement (i.e., Excluding Excess Interest Rate Spread)**

<b>Obligor Third-Party Credit Rating<sup>1</sup></b>	<b>Secured Portfolio</b>	<b>Unsecured Portfolio<sup>2</sup></b>
AAA	200%	100%
AA (low) or better	100%	50%
A (low) or better	66.6%	33.3%
BBB (low) or better	50%	25%
Less than BBB (low)	34%	17%

1. DBRS rating or equivalent. If no DBRS rating applies, DBRS uses the lowest available third-party credit rating.
2. Management fees, if securitized, are treated as unsecured assets, with reduced concentration limits recommended.

### *Special Obligors*

In limited circumstances, an obligor without a third-party credit rating may be classified as a “special obligor” and treated as if it has an investment-grade rating. This is possible in cases where an entity has previously been rated investment grade but no longer has a rating because it has repaid all of its debt. A specific review of the company’s credit history and financial metrics are part of the DBRS analysis.

## **CASH FLOW STRESS SCENARIOS**

The adequacy of the amount of enhancement proposed is also evaluated by applying a cash flow stress scenario whereby conservative assumptions are made with respect to the various model inputs. The objective is to obtain a view of the likelihood of full repayment on the notes if the credit quality of the obligor deteriorates. In the worst-case scenario, all obligors default and repayment relies on a liquidation of the secured assets. Given the diversity of the obligors by province and industry, this risk is considered remote. Historical analysis supports this view, based on observations from the severe economic climate experienced from 2007 to 2009, when rated transactions performed within expectations, with very low levels of losses.

As part of determining loss level expectations for modeling cash flows in an auto fleet lease 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 minimum time frame reviewed by DBRS when assessing performance. Discussions with Fleetco regarding its operational capabilities in servicing the pool, especially under a distressed scenario, are 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 the fleet management company and its parent, if relevant. 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. Review of the extent of closed-end lease contracts is also undertaken to determine whether application of the concepts considered in *Rating Canadian Auto Lease Transactions* is appropriate. If the percentage of closed-end leases in the proposed portfolio is significant, application of stresses on turn-in rates, calculations of embedded losses and stresses on third-party residual value estimates will be applied where possible.

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 defaults and the severity of losses are expected to increase under this scenario. Although investors are entitled to the current and future cash flows in a revolving 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 recoveries and timing of recoveries to determine the robustness of the enhancement structure. The enhancement levels are initially evaluated based on the top obligor concentrations and the risk elements. Recovery expectations are assumed for the different components of the portfolio.

In the absence of a solvent obligor, the extent and timing of recovery depends on the nature of the collateral. For example, recoveries on automotive vehicles and light-duty trucks should be realized one to three months after default. In contrast, specialized vehicles and equipment are more susceptible to seasonality and obsolescence and would require a longer time horizon to resell in the downstream market. The amount of recovery assumed on rated transactions will depend on the composition of the portfolio, taking into consideration historical performance of the collateral type. Under normal conditions, the recovery value of the underlying collateral, when remarketed via retail channels, would provide a recovery value greater than the depreciated price. Under a distressed scenario, with a higher-than-normal number of assets being disposed of simultaneously, the realized price is likely to fall below the book value of the vehicle. The cash flow analysis and recovery rates can be applied to the portfolio on a static basis to determine break-even analysis and is recommended at the outset of a transaction and on an annual basis for revolving structures.

In the distressed scenario, cash flow modeling is applied to test the break-even recovery rate required on the vehicle in order to evaluate the appropriateness of the enhancement proposal based on the utilization of the obligor concentration assumptions. In the table below, the recovery assumptions are applied to the portfolio based on the amount of the portfolio that is required to be liquidated. Given that the individual obligors in the transaction are contractually obligated to repay the full obligation for open-end leases, it is reasonable to assume that full recovery from some obligors can be expected. DBRS's portfolio stress for each rating category assumes increasing rates of default by obligors on an annual basis. Under the scenario demonstrated in the table below, the cash flow recovery test assumes 30% of the individual obligors in the portfolio file for bankruptcy in Year 1 for the AAA rating level and assumes a 50% recovery on a homogenous pool of assets. In this example, expected net recovery of 85% is based on the following assumptions:

- 30% of the individual obligors file for bankruptcy and DBRS assumes a 50% recovery on the liquidation of the related assets as measured against the book value of the assets at the time of the loss (i.e., the depreciated value).
- The remaining obligors are assumed to be solvent, resulting in 100% recovery on 70% of the portfolio.
- The net recovery assumption in Year 1 is representative of the weighted-average recovery of the fully recovered portion of the portfolio plus the remaining portion of the portfolio multiplied by the corresponding rating requirement. The net recovery for AAA is represented mathematically as  $(100\% \times 70\%) + (50\% \times 30\%) = 85\%$ .
- The cash flow model is required to be updated on an annual basis for revolving transactions.



- Term transactions are stressed to the maturity date of the notes issued, based on the expected runoff of the portfolio in subsequent years.
- The break-even analysis is stressed based on increasing default rates of obligors in the later years of the transaction as recommended in Appendix 1.

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**Auto Fleet Lease Receivable Recovery Rate Range Assumptions – Year 1**

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Rating	Portfolio Loss Requiring Liquidation	Net Recovery Assumption Range <sup>1</sup>
AAA	20% to 30%	85.0% to 87.5%
AA	15% to 25%	87.5% to 90.0%
A	10% to 20%	90.0% to 92.5%
BBB	5% to 15%	92.5% to 95.0%

1. In this example, recovery on the portion of the fleet that is required to be liquidated is assumed to be 50% for all rating categories and is calculated as the net proceeds received divided by the book value of the asset at the time of loss.

The recovery assumptions are tested through the cash flow model applied by DBRS to the portfolio at the outset of the transaction and take into consideration the expected runoff of the securitized portfolio at the time of the review. For revolving portfolios, DBRS expects to receive annual updates of the portfolio with enough information available to complete the cash flow analysis. The cash flow model takes into consideration the proposed level of enhancement, the anticipated runoff of the portfolio, the depreciation rate for the portfolio, estimated recovery values and the requirement to include a reserve for potential replacement servicer fees.

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## Conclusion

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The DBRS auto fleet lease methodology is applied on a transaction-by-transaction basis and incorporates the unique subtleties that arise based on the Fleetco 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 fleet-leasing 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 risks inherent in the auto fleet industry. The fleet transactions are to some extent similar to revolving floorplan structures; however, the fleet companies benefit significantly from a much greater diversification of exposure to vehicle manufacturers as well as industry diversification with respect to its corporate obligors.



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# Appendix 1

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## Stress Testing over a Four-Year Period

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Rating	Percentage of Portfolio Requiring Liquidation			
	Year 1	Year 2	Year 3	Year 4
AAA	20.0% to 30.0%	45.0% to 60.0%	60.0% to 75.0%	75.0% to 90.0%
AA	15.0% to 25.0%	35.0% to 50.0%	50.0% to 65.0%	65.0% to 80.0%
A	10.0% to 20.0%	25.0% to 40.0%	40.0% to 55.0%	55.0% to 70.0%
BBB	5.0% to 15.0%	15.0% to 30.0%	30.0% to 45.0%	45.0% to 60.0%

## Appendix 2: Rating Canadian Auto Fleet Lease Transactions Summary

### LIMITATIONS

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

### APPLICATION OF QUALITATIVE AND QUANTITATIVE METHODOLOGY CONCEPTS

#### Summary of Risk Analysis Process Applied to Auto Fleet Lease Transactions

Input	Detail	Key Variables
<b>Portfolio-Level Analysis – Historical Performance</b>	A minimum of three to five years of loss data, with tracking of key variables on the securitized pools.	<ul style="list-style-type: none"> <li>• Originator’s historical loss analysis on open-end and closed-end leases.</li> <li>• If applicable, pools are analyzed based on stratification of pools, including make, model, model year, weighted-average original term, weighted-average remaining term, monthly portfolio runoff, contract term, province, new, used, truck, sport-utility vehicle (SUV), passenger car, aggregate embedded residual value loss, weighted-average annual percentage rate (APR), obligor concentrations, industry concentrations and management fees.</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 credit and collection policy, originations, servicing, collections, asset recovery, time frame for recovery, historical loss performance and management experience.</li> </ul>
<b>Economic Analysis</b>	Through an economic or credit cycle.	<ul style="list-style-type: none"> <li>• Review of economic cycles and potential impact on auto fleet lease transaction performance, with an emphasis on the used-vehicle market, including factors such as the relative strength of the Canadian dollar and corporate bankruptcies.</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>• In Canada, specific emphasis is placed on the additional risks associated with the potential “resiliation” (i.e., repudiation) of lease contracts.</li> <li>• Legal document analysis also covers the review, consideration and assessment of early amortization events and events of default, including loss triggers and servicer, seller and obligor bankruptcies.</li> <li>• Transaction representations, warranties and covenants are reviewed for consistency with the DBRS Legal Criteria for Canadian Structured Finance.</li> </ul>




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### Summary of Risk Analysis Process Applied to Auto Fleet Lease Transactions

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Input	Detail	Key Variables
<b>Loan-/Lease-Level Analysis – Proposed Pool Composition</b>	Obligor concentration analysis of the portfolio in relation to the proposed enhancement for the securitized pool.	<ul style="list-style-type: none"> <li>Obligor concentration limits are assessed based on the proposed level of enhancement and the underlying corporate rating of the individual obligors as determined from a review of the portfolio-level analysis, economic analysis and legal document analysis.</li> </ul>
<b>Output</b>	<b>Application</b>	
<b>Obligor Concentration Limits Assumption</b>	<ul style="list-style-type: none"> <li>Enhancement is evaluated based on the obligor concentrations in the portfolio, with reference to the underlying corporate rating of the individual obligors as detailed in Table 1 and Table 2.</li> <li>Consideration is given to whether unsecured assets are to be funded.</li> </ul>	
<b>Residual Value Loss Assumption</b>	<ul style="list-style-type: none"> <li>If the percentage of closed-end leases in a proposed transaction is significant, residual value loss assumption is determined based on the loan-level and portfolio-level analysis.</li> <li>The residual value loss assumption is stressed based on the rating level ranges detailed in Table 3 and Table 4 below and includes a calculation of a total embedded loss, if appropriate.</li> <li>If possible, the embedded loss is calculated on a contract-by-contract basis as the shortfall between the contracted residual value and the estimated Automotive Lease Guide, Inc. (ALG) residual value.</li> <li>Embedded losses are aggregated without netting of contracts that may have an embedded gain.</li> </ul>	

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

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Input	Process
<b>Evaluating Amount of Enhancement</b>	<p>(1) Apply relevant obligor concentration limits as detailed in Table 1 and Table 2 below to the proposed portfolio. If applicable, for closed-end leases, apply the residual value stress ranges in the DBRS methodology Rating Canadian Auto Lease Transactions to the lower of ALG (or another acceptable third-party pricing guide) and contract residual value to the proposed pool of lease contracts to be securitized. Add the total cumulative embedded loss calculated based on a cumulative stressed expected residual value loss, if appropriate.</p> <p>(2) A cash flow model is used to determine whether the proposed level of enhancement is sufficient to warrant the requested rating (see Table 3 below). Replacement servicer fees are included in estimated cost contingencies.</p>
<b>Output</b>	Appropriate rating level based on the proposed enhancement.



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

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

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

Risk	Description	Methodology <sup>1</sup>
<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 auto fleet lease 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 by the securitized contracts and manages the funds within its daily operations between monthly remittance dates.	<i>Legal Criteria for Canadian Structured Finance</i>



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

Risk	Description	Methodology <sup>1</sup>
<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>
<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

### Summary of Surveillance Procedures for Auto Fleet Lease Transactions

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 AUTO FLEET LEASE TRANSACTIONS

**Table 1: Minimum Concentration Levels of Non-Investment-Grade Obligors**

Transaction Rating Category	Minimum Obligor Concentration Limits
AAA	Top 5 to 7 Obligors
AA	Top 4 to 6 Obligors
A	Top 3 to 4 Obligors
BBB	Top 2 to 3 Obligors
BB	Top 1 to 2 Obligors

**Table 2: Obligor Concentration As a Per Cent of Total Hard Credit Enhancement (i.e., Excluding Excess Interest Rate Spread)**

Obligor Third-Party Credit Rating <sup>1</sup>	Secured Portfolio	Unsecured Portfolio <sup>2</sup>
AAA	200%	100%
AA (low) or better	100%	50%
A (low) or better	66.6%	33.3%
BBB (low) or better	50%	25%
Less than BBB (low)	34%	17%

1. DBRS rating or equivalent. If no DBRS rating applies, DBRS uses the lowest available third-party credit rating.

2. Management fees, if securitized, are treated as unsecured assets, with reduced concentration limits recommended.

**Table 3: Auto Fleet Lease Receivable Recovery Rate Range Assumptions – Year 1**

Rating	Portfolio Loss Requiring Liquidation	Net Recovery Assumption Range <sup>1</sup>
AAA	20% to 30%	85.0% to 87.5%
AA	15% to 25%	87.5% to 90.0%
A	10% to 20%	90.0% to 92.5%
BBB	5% to 15%	92.5% to 95.0%

1. In this example, recovery on the portion of the fleet that is required to be liquidated is assumed to be 50% for all rating categories and is calculated as the net proceeds received divided by the book value of the asset at the time of loss.

**Table 4: Stress Testing over a Four-Year Period**

Rating	Percentage of Portfolio Requiring Liquidation			
	Year 1	Year 2	Year 3	Year 4
AAA	20.0% to 30.0%	45.0% to 60.0%	60.0% to 75.0%	75.0% to 90.0%
AA	15.0% to 25.0%	35.0% to 50.0%	50.0% to 65.0%	65.0% to 80.0%
A	10.0% to 20.0%	25.0% to 40.0%	40.0% to 55.0%	55.0% to 70.0%
BBB	5.0% to 15.0%	15.0% to 30.0%	30.0% to 45.0%	45.0% to 60.0%

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**Corporate Headquarters**

DBRS Tower  
181 University Avenue  
Suite 700  
Toronto, ON M5H 3M7  
TEL +1 416 593 5577