



Methodology
*Rating U.S. Wholesale Auto
Securitizations*

JANUARY 2010

*Operational Risk Review section updated in methodology entitled
“Operational Risk Assessment for U.S. ABS Servicers” in June 2011*



Insight beyond the rating.

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Related Research:

Legal Criteria for U.S. Structured Finance Transactions
Operational Risk Assessment for U.S. ABS Servicers

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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.

This methodology replaces and supersedes all related prior methodologies. This methodology may be replaced or amended from time to time and, therefore, DBRS recommends that readers consult www.dbrs.com for the latest version of its methodologies.



Rating U.S. Wholesale Auto Securitizations

TABLE OF CONTENTS

Executive Summary	4
Introduction / Industry Overview	4
Transaction Parties	5
Transaction Structures	7
Structural Risks in Auto Wholesale ABS	10
Asset Analysis	11
Liquidation Analysis / Credit Enhancement	12



Executive Summary

DBRS analyzes both qualitative and quantitative factors when rating U.S. wholesale auto ABS transactions which include the following:

- Creditworthiness and business profile of the vehicle manufacturer;
- Operational servicing capabilities of finance company as servicer (as outlined in Operational Risk Assessment for ABS servicers dated June 2011);
- Profile of dealer base and concentrations within dealer base;
- Capital structure, proposed ratings and credit enhancement;
- Liquidation and cash flow analysis;
- Legal structure and opinions.

DBRS performs an operational risk review and assessment of the finance company's operational and servicing capabilities with particular focus on monitoring dealer inventories and sales of vehicles. For each requested rating, DBRS develops cash flow stress assumptions based upon the proposed transaction structure to test the viability of the transaction under various scenarios. DBRS reviews the transaction's legal structure and opinions to assess that all necessary steps have been taken and no subsequent actions are required to protect the ownership interests of the trust in the assets.

Introduction / Industry Overview

Auto wholesale loans (also known as dealer floorplan loans) are revolving lines of credit extended to retail automotive vehicle dealers to finance the purchase of inventory at wholesale rates. While the assets underpinning floorplan financing can vary from consumer products to commercial equipment, this report focuses on the predominant floorplan asset, automotive vehicles, but can be applied to other floorplan assets, as well.

Auto wholesale ABS are structurally similar to credit card ABS with a revolving period, amortization periods, and certain triggers that cause an early or rapid amortization of the transaction. One unique aspect of auto wholesale ABS is that rather than having the ABS repaid directly from the cash flow of retail consumer who may be repaying installment contracts over time, auto wholesale loans are repaid by the cash flow generated by a dealer's sale of vehicles. The terms of these financings are typically "pay as sold." Therefore, the underlying wholesale loans most often do not have regularly scheduled payments. Further, because the wholesale loans are repaid from the proceeds of vehicle sales, incentives and business practices of the auto manufacturers have a significant impact on the cash flows of auto wholesale loans.

The two most important metrics to analyze in auto wholesale ABS are loss rates and payment rates. Historically, wholesale ABS have exhibited very low loss rates and while payment rates have remained high despite fluctuation due to the seasonal nature of the auto sales industry. The strong performance of wholesale ABS is a result of the strong servicing capabilities of the auto finance companies, the liquid assets underpinning the loans and the essential distribution network wholesale finance plays in the automotive industry in the U.S. Absent any of these components, DBRS would expect the performance of wholesale ABS to vary from historic ranges.

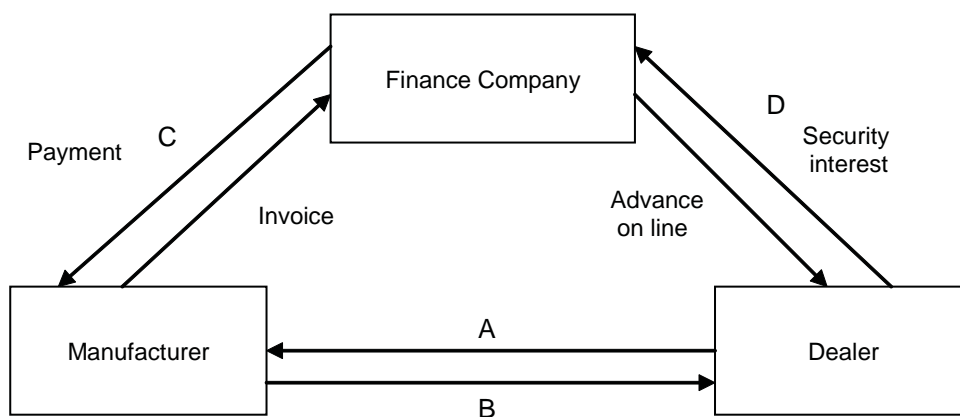
Dealer floorplan lenders include captive and independent finance companies. The captive finance companies are subsidiaries of manufacturers and provide funding for dealers in the manufacturer's dealer network. The captive finance company can provide favorable rates or incentives to the dealers in order to support the manufacturer's sales.

Impact of Chrysler and General Motors Bankruptcies on Wholesale ABS

The strength of wholesale auto ABS transactions and structures has been tested with the recent recession and its impact on the auto manufacturers. This was particularly true for the Chrysler and General Motors transactions as these manufacturers filed for bankruptcy in April and June 2009, respectively. In some cases, the underlying transactions entered early amortization as a result of the bankruptcy filings and have paid down as designed in order to protect the bondholders.

Transaction Parties

Wholesale auto financing can best be described as a tri-party relationship between the vehicle manufacturer, the finance company and the dealer. The diagram below illustrates the transaction flow.



- A. The dealer requests shipment of vehicles from the manufacturer; the manufacturer confirms there is available credit with the finance company before the vehicles are released.
- B. The manufacturer ships the inventory and the security interest on the inventory is transferred to the finance company which concurrently receives a payment invoice from the manufacturer.
- C. The manufacturer invoices the finance company and upon payment the finance company generates a receivable from the dealer as debtor. Following payment and creation of the receivable, the vehicle is shipped and the finance company is granted a security interest in the collateral.
- D. The dealer is obligated to repay the finance company the amount funded with interest upon the sale of each of the vehicles or via a curtailment schedule if the inventory remains at the dealer over a longer than expected period.

As illustrated in the chart above, the dealer provides the retail distribution channel for the manufacturer. Within this relationship, the finance company provides the dealer with financing for this wholesale inventory transaction. Lines of credit are established by the financing company for qualified dealers to purchase the inventory to populate their showroom floors. A dealer's main source of repayment stems from the sale of inventory to retail consumers. A dealer's debt obligations are generally short-term in nature as the inventory turns over quickly.

THE MANUFACTURERS

Automobile manufacturers play a variety of critical roles in the auto wholesale business. They grant the franchise to the dealer after reviewing a dealer's automotive background and qualifications, in addition to their financials and local business relationships within the communities they reside. Manufacturers also provide economic sale incentives to retail customers for slow moving vehicle models or models they deem critical to their brand; may provide interest reimbursements on in-transit vehicles (i.e. the period of time



the vehicle is actually being shipped from the factory to the dealer), and provide warranties on products and replacement parts for vehicles they manufacture. Manufacturers may even provide loans to dealers for equity infusions, capital expansion projects or mortgage financing. Some manufacturers have also been active by creating online auctions for remarketing used equipment, helping to consolidate what was once a fragmented market.

Another important service that manufacturers provide to the wholesale auto business are repurchase arrangements, in which a manufacturer retains an option to buy back inventory when the dealer franchise is terminated. Enactment of these agreements is typically a last step for the manufacturer after all other remedies have been exhausted or found to be ineffective. In exercising a repurchase, the manufacturer will buy back vehicles under a variety of circumstances. The repurchase price may vary depending on the condition of the vehicle, whether the vehicle has been driven, if the vehicle is damaged in some way, or how much the vehicle is aged.

THE DEALERS

The dealers are the underlying obligors in these deals. A dealer is evaluated initially, and on an on-going basis, by both the manufacturer and the finance company. These two entities have mutually consistent goals which is to sell vehicles profitably.

Franchised dealers vary in size, ownership structure, and credit quality but generally operate as licensed distributors for the manufacturers. A dealer also provides parts and service for the manufacturer's warranty that may enhance the value of a vehicle. The typical dealer is a small business operator who is thinly capitalized and has a reliance on floorplan financing to fund its inventory. These dealers tend to be high net worth but the corporations are typically registered as S-Corporations. By nature, this type of corporation requires distribution of all revenue within a pre-set period so they are thinly capitalized businesses.

Eligible dealers are rated based upon credit quality by the finance company. Credit scoring methodologies for dealers vary depending on the finance company, but generally include typical assessments of financial strength, diversification, management expertise, historical performance and the results of physical audit findings. Wholesale ABS structures may limit funding to the highest dealership tier classifications.

As most auto manufacturers maintain a national footprint, the major finance companies tend to lend to a geographically well-diversified base of dealers. Most major auto manufacturers maintain a variety of brands and/or models and dealers maintain a well-diversified product mix to sell. Dealers also derive much of their income from sales of used vehicles and from sales of parts and services.

Wholesale auto lines of credit are secured by the inventory financed by the finance company. Often, a personal guarantee from the dealer ownership is obtained by the finance company. Additional security may also include a lien on the dealership's property.

THE FINANCE COMPANIES (AS SELLERS)

The finance companies are usually the captive finance arm of the manufacturers, established for the purpose of supporting the sale of vehicles through the network of dealers licensed to sell the manufacturers' brands. These companies operate as independent units from the manufacturers and serve as the seller of the pools of wholesale loans backing the ABS. Wholesale lenders and sellers can also be banks or other types of diversified finance companies.

ORIGINATION REVIEW

DBRS pays particular attention to the quality of the seller. DBRS conducts an operational risk assessment to assess the quality of the sponsor's origination capabilities. DBRS seeks to fully understand the operational aspects of originating within the context of the tri-party relationship that defines the wholesale auto business.



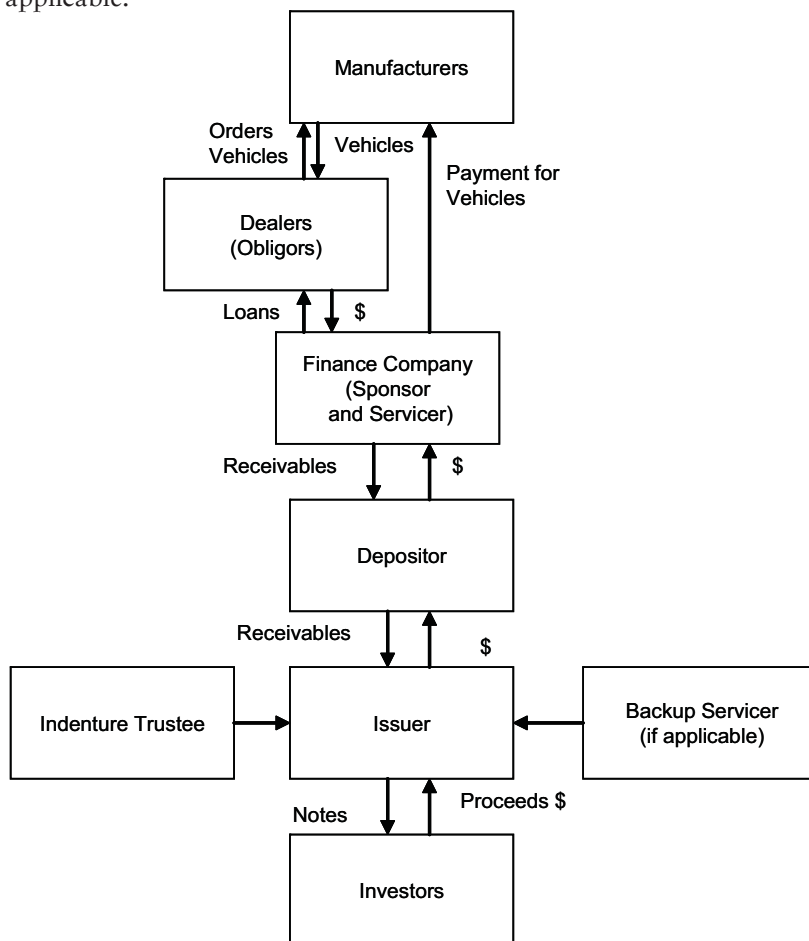
ORIGINATION

A critically important and complex factor in the origination process of wholesale auto loans is underwriting dealers for the appropriate lines of credit. Often, the finance company supports a dealer network that is continuously changing and adapting to the economic environment affecting consumers, the manufacturers and the finance companies. Loan originators must actively monitor the dealers who are the obligors and the dynamic portfolios of floorplan loans.

DBRS reviews the processes in place for the finance company to conduct a thorough review of each new loan applicant, as well as monitoring existing dealers. This process should include assessing management experience, industry track record, financial condition, operational controls, credit checks and bank references. Finance companies usually rank order the dealers based on quality categorization criteria in order to determine the frequency of ongoing reviews.

Transaction Structures

As in any securitization transaction, in a wholesale auto loan ABS transaction assets are transferred to a bankruptcy remote special purpose entity, or trust. The assets consist of all collections from an eligible pool of loans, plus any recoveries from the disposition of the inventory or the dealer's assets, insurance claims, security interest in the assets of the dealer, including trust accounts and earnings from cash collateral accounts, if applicable.





Most wholesale auto ABS structures are dynamic in nature, which means that eligible accounts may be added or removed from the asset pool over time and the trust can sell different series of notes to investors all backed by the common pool of assets. For each series, the assets of the trust are divided between the investors' and the seller's interest, with the seller's interest representing a pari-passu interest in the trust, except as noted below in the subordination section.

Revolving Period

During the revolving period, principal collections on the trust assets are allocated between the seller and the investor interest on a pro-rata basis. The investor portion of principal collections is then reinvested in new receivables that arise from the accounts already conveyed to the trust. Principal cannot be used to pay down the investor interest during the revolving period.

Controlled Amortization

At the end of the revolving period, principal collections are then applied towards the repayment of the notes on a monthly basis. This is also known as a controlled amortization structure. At this time, the numerator of the ratio used to allocate principal to the investor interest freezes; that is, it does not decrease and equals the size of the investor interest at the end of the revolving period. However, the denominator may float each month in order to ensure that the investor interest receives no more than 100% of the trust's collections. This process provides a benefit to noteholders because, as the notes amortize based on the fixed allocation percentage, the notes will amortize more quickly than via a pro-rata allocation of principal between the investor and seller interests, thus shortening the period of time that the notes are exposed to potential losses on the underlying assets.

Rapid Amortization

Certain events or triggers, specific to the series or general to the trust, may lead to an early amortization of the trust. For those transactions operating under a master trust structure, where a 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 to the loan pool. Trust specific amortization events would 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 are typically applicable only for that specific series of notes; in the event a series specific amortization trigger is breached, the trust may continue purchasing new assets under these circumstances for the remaining outstanding series of notes.

Amortization periods may be triggered by certain performance tests on the pool of floorplan lines of credit or certain events related to the servicer or manufacturer. Due to the rapid turnover of vehicles, an early amortization period is designed to pay out investors in a rather short time horizon before any significant losses impact the portfolio. The monthly payment rate, which is calculated as the collections remitted for a particular month as a percentage of the average or point in time (i.e., beginning or ending) pool balance for that month, is one of the more salient performance tests. A high payment rate would indicate robust demand for the manufacturer's product and the network of dealer's ability to turn over the inventory quickly. A low payment rate may be due to seasonality or an early signal to suggest that the pool is at risk of experiencing potential defaults in the dealer networks as a result of weakening demand for the product. Moreover, the payment rate also gauges the speed in which investors can be repaid before being impacted by mounting losses in the loan pool. Often, the breach of a payment rate trigger is measured based on a rolling three month average, as opposed to a one month incidence, to accommodate the seasonality in the automotive sales business cycle.

Other performance triggers include a single dollar's draw of credit enhancement. In certain transactions, the allocation of principal and interest collections from eligible and ineligible pool of receivables to repayment of outstanding notes gives the trust first access to these additional proceeds. Furthermore, under a master trust structure shared excess collections from different series of notes provide an added buffer to withstand a greater degree of losses under a distressed scenario.



In addition to the performance tests, early amortization triggers are associated with the manufacturer or the seller/servicer. Triggers may be related to the validity of representations and warranties, a failure to remit collections on a timely basis, a breach of cross default covenants or any draw on credit enhancement. More importantly, events stemming from either the manufacturer or the seller/servicer being the subject of a bankruptcy petition may be included and would cause an early amortization of the revolving structure. This helps to protect the trust against declining asset values should it need to liquidate the underlying vehicles or parts quickly in the event of the declining financial health of the manufacturer or servicer.

CREDIT ENHANCEMENT

Credit enhancement in wholesale ABS transactions is provided through several different forms including: overcollateralization, subordination, a reserve fund and excess spread.

Overcollateralization

Overcollateralization (OC) is most often the major component of credit enhancement for a wholesale auto ABS transaction. OC is created by the inclusion of receivable loans in excess of the aggregate outstanding funded principal balance of the investors' series of notes. Not only does the overcollateralization provide credit support to the trust to absorb charged-off loans, the collections stemming from the additional assets may assist in the payment of interest or principal on the investor interest portion of the trust.

OC primarily serves to mitigate the following risks that are inherent in floorplan securitization structures:

- Wholesale portfolios tend to be well diversified across franchised dealers; however, since mega-dealers or public dealership groups are often financed in most floorplan portfolios, ownership concentrations often exist. Floorplan loans in excess of the concentration limits are typically ineligible receivables in these trusts which helps to mitigate the severity risk associated with concentration limits.
- Additional receivables may be pledged to the trust as the seller's interest to mitigate potential diluting and ineligible receivables.

Subordination

Typically, in a wholesale auto ABS transaction, a portion of the seller's interest is subordinated to the notes held by investors. The subordinated interest is available to absorb losses (up to the subordinated principal amount). The available subordinated amount may float up or down depending on the constitution of the loan pool. The initial level of the available subordinated amount is typically derived from the cash flow stress scenarios and reflects a level of credit enhancement that corresponds with a desired rating level on the notes.

Cash Reserve Account

Similar to other ABS transactions, a cash reserve account (CRA) is usually included in wholesale auto ABS structures for credit enhancement purposes. The CRA is usually fully funded with bond issuance proceeds at the transaction closing or partially funded and built up over time from the trapping of excess spread and other non-principal collections (if available) following the trigger of certain events. Draws from the reserve account are usually replenished in the trust's cash flow waterfall from excess interest collections on the collateral pool.

Excess Spread

In a wholesale ABS transaction, excess spread is equal to the weighted average interest on the pool of loans less the sum of trust's funding costs, net losses, servicing fees (if applicable) and other trust fees. Excess spread absorbs the first level of losses incurred by the pool of assets. The underlying loans are usually benchmarked to the floating Prime rate while the funding costs of the trust are typically indexed to the London Interbank Offered Rate or Libor plus a spread. The subordination of certain trust related fees would be given credit in the determination of excess spread. Additionally, a basis swap from an appropriately rated counterparty to mitigate the spread compression may also be taken into consideration.



Structural Risks in Auto Wholesale ABS

Wholesale auto ABS involves several unique risks which include sold out of trust loans, dealer defaults, dilution, concentration risk and servicer risk.

SOLD OUT OF TRUST

One of the main risks in wholesale auto financing is sold out of trust (SOT) loans. SOT loans arise when the proceeds received by a dealer from the sale of a vehicle are not remitted to the finance company to repay its credit line. The reasons for this may range from an oversight by the dealer's bookkeeping personnel to situations of outright fraud. As a preventative measure, the finance company should monitor a dealer's sales records for paid-off inventory and payment rates. Robust monitoring procedures are the most effective tool for identifying and preventing instances of SOT loans.

Field audits are conducted regularly by the finance companies to mitigate the occurrence of SOT loans. The frequency of these audits typically depends on the risk category of the dealer and its inventory turnover, payment behavior and sales reporting pattern. Historically, dealer oversight is quite good and losses from SOT loans have been low. However, the industry has experienced incidences of increased numbers of SOT loans which usually have been related to periods of extraordinarily weak economic conditions negatively affecting dealerships.

DEALER DEFAULTS

When a dealer defaults, most often an auditor is immediately dispatched by the seller/servicer to the location of the defaulted dealership in order to monitor the inventory and to ensure the proceeds from the sale of such inventory are remitted properly. The finance companies, as servicers, are broadly based geographically and maintain a presence in various regions which enables them to dispatch field auditors instantly to any location. Additionally, this function may also be outsourced to independent third parties.

Upon the repossession of the inventory, the finance company would attempt to sell the new inventory to the remaining network of dealers or back to the manufacturer under any repurchase agreement that might exist. Depending on the nature of the repurchase agreement, the manufacturer has the right but not the obligation to repurchase the repossessed new inventory. Used inventory, however, would be sold at wholesale auctions. Further recourse includes pursuing the principals of the defaulted dealer to realize on any additional supporting collateral to remedy any deficiencies following the disposition of the inventory.

DILUTION

Dilution resulting from in-transit inventory, product warranty claims and promotional discounts which are non-credit reduction items in receivables would reduce the pool of outstanding receivables supporting a wholesale auto ABS transaction. A revolving structure would provision for this risk by requiring the seller to pledge additional loan receivables to the trust, also known as the seller's ownership interest.

CONCENTRATION RISK

Concentration limits on used vehicle collateral and maximum dealer exposures are incorporated in wholesale ABS structures to ensure consistency in the pool composition. Dealer composition in a pool of floorplan loans may be geographically diversified; however, large dealer concentrations tend to be included in most pools due either a smaller dealer network, typical of a foreign captive's wholesale program or to the existence of several large dealer ownership groups in the U.S.

The principal owners of the larger multi-franchised dealerships would be given additional consideration when reviewing structural dealer concentration limits. Like all dealers, a sales decline will impact these mega-dealers. The likelihood of a higher severity scenario and lower recovery scenario offset the diversification benefit associated with these types of dealers. Since these mega-dealers have so many vehicles in



their inventory, when those vehicles are moved or liquidated there may not be the ability to absorb those vehicles easily.

Asset Analysis

DBRS analyzes the characteristics of the loans backing a wholesale ABS transaction including age distribution of vehicles, advance rates, interest rates and concentrations to dealers, manufacturers, geographic regions and vehicle types.

Age Distribution

The age distribution refers to the days outstanding for the inventory of financed vehicles and provides an indication of the quality of management of the inventory. The management of inventory levels is important as the underlying collateral is depreciating and may also be impacted by the financial condition of the manufacturer in addition to overall market conditions. As wholesale auto ABS is generally repaid with proceeds of the sales of the vehicles by the dealers, the age distribution also provides an indication of the historic turnover of the collateral which impacts the monthly payment rates.

Advance Rates

As part of its credit and collection policy, finance companies may limit the wholesale loan advance rates depending on the nature of the inventory. Typically, two advance rates are used, one for new and another for used vehicles. For example, the advance rate on a new automobile may be 100% of the invoice price and only 75% of the black book value on a used vehicle. For slower moving inventory, and particularly for a used vehicle, a dealer may be required to make periodic payments to curtail the outstanding loan balance relative to the value of the unit that is financed. This helps to protect the lender against declining asset values should it need to liquidate the underlying vehicles or parts and provides incentive to the dealer to sell the vehicle.

Interest Rates

The interest charged on wholesale loans is usually a floating rate benchmarked to the prime interest rate and begins to accrue the day following the advance. Financing terms generally require the advance to be repaid immediately upon the sale of a financed vehicle. As most consumers finance these purchases, some lenders allow payment within a certain number of days of the retail sale of a vehicle. Because automotive vehicles are depreciating assets, periodic payments may also be mandated by the finance company to curtail the loan value relative to a depreciation schedule in the event vehicles are not sold quickly enough.

Concentrations

The collateral backing wholesale auto transactions is analyzed for concentrations in terms of dealer, manufacturers, geography and vehicle types. Dealer concentrations are reviewed and limitations may be placed on dealers concentrations in order to minimize the impact of a dealer default and/or bankruptcy on the transaction. Manufacturer limits may be placed on transactions as well on transactions with multiple manufacturers in order to limit exposure to any one manufacturer. This is generally not the case for a captive finance company as the nature of these relationships would dictate that there will be a concentration to the related manufacturer. In that case, more emphasis may be placed on limitations to dealers or dealer groups and to limitations on geographic regions. Geographic concentrations are examined to ensure that the collateral is not concentrated in any particular region in order to mitigate the impact of a regional downturn on the transaction. Vehicle type refers to new versus used vehicles and there may be a limit placed upon used vehicles in a transaction.



Liquidation Analysis / Credit Enhancement

DBRS uses three approaches to analyze a wholesale auto transaction in order to assess the sufficiency of proposed credit enhancement levels. These quantitative approaches include dealer concentration scenario, a dealer liquidation scenario and the use of a cash flow model. The results from the dealer liquidation scenario are used in the cash flow model. The dealer concentration scenario is used along with the cash flow model to determine the adequacy of structural proposals.

DEALER CONCENTRATION SCENARIO

In the dealer concentration scenario, the rank order of dealers by dollar exposure is established based on allowable concentration limits set in the transaction documents. The volume of potential losses stemming from an assumed default of specified numbers of the top dealers is measured against the proposed credit enhancement. The range of coverage at each rating level is described on the following page:

Dealer Coverage

Rating Category	Range of Dealer Groups
AAA	Top 6 – 8
AA	Top 5 – 6
A	Top 3 – 5
BBB	Top 2 – 3
BB	Top 1 – 2

DEALER LIQUIDATION SCENARIO

In the dealer liquidation scenario, the mix of dealers based on the quality ratings assigned by the finance company shifts to create a “worst case scenario” and an assumed number of the weakest dealers are liquidated. The resulting net losses are used in the cash flow modeling exercise. The following example includes a mix of dealers spread amongst three quality tiers and all having wholesale loans related to both new and used vehicles. The concentrations based on dealer quality and new versus used vehicles are set at the maximum limits per the transaction documents. A multiple of the resulting weighted average net loss would be expected to be covered by the transaction’s available credit enhancement. The number of dealers assumed to be liquidated in this exercise is generally reflective of the number of dealers sought to be covered in the dealer concentration scenario.

Sample Dealership Liquidation Scenario

Category	Concentration Limit (by pool balance)			
Common Dealer Group	2.0%			
Mega-Dealers	4.0%			
Used Vehicles	25.0%			
New Vehicles				
Dealer Quality Rank	High	Medium	Low	Total
Worst Case Pool Mix	20.00%	20.00%	35.00%	75.00%
Number of Defaulted Dealers	2	3	3	8
Dealer Concentration Limit	2.00%	4.00%	4.00%	
Gross Liquidation Losses	4.00%	12.00%	12.00%	



Recovery Assumption	50.00%	25.00%	25.00%	
Net Liquidation Losses	2.00%	9.00%	9.00%	
Net weighted average expected losses	0.40%	1.80%	3.15%	5.35%

Used Vehicles

Dealer Quality Rank	High	Medium	Low	Total
Worst Case Pool Mix	0.00%	12.50%	12.50%	25.00%
Number of Defaulted Dealers	2	3	3	8
Dealer Concentration Limit	2.00%	4.00%	4.00%	
Gross Liquidation Losses	4.00%	12.00%	12.00%	
Recovery Assumption	12.50%	12.50%	12.50%	
Net Liquidation Losses	3.50%	10.50%	10.50%	
Net weighted average expected losses	0.00%	1.315%	1.315%	2.63%

Aggregate Losses

New Vehicles	5.35%
Used Vehicles	2.63%
Combined Weighted Average Net Loss (monthly)	7.98%

CASH FLOW SCENARIOS

In the cash flow scenarios, conservative assumptions are made with regard to the various model inputs. The objective is to get a view of how deterioration in the credit quality of the dealer obligors and the weakening of the manufacturer and brand may impact vehicle sales and the ability of the dealers to repay the wholesale loans and thus the performance of the ABS.

Before determining the stress levels for modeling the cash flows, DBRS reviews the historical performance of the trust to determine the quantitative parameters. Data capturing a minimum of 5 years and at least one economic cycle would be the minimum criterion when assessing historical performance. Discussions with the finance company on its operational capabilities in servicing the pool, especially under a distress scenario, would be explored to determine the qualitative aspects of the transaction. DBRS also factors in the covenant package as it relates to the insolvency and bankruptcy events surrounding the manufacturer and the finance company or servicer. Trigger levels relating to the performance of the underlying assets are an important component in the covenant package when reviewing the stress levels. These triggers must be conservative to ensure investors get repaid under a stressed cash flow scenario.

The cash flow analysis conducted by DBRS incorporates various elements of the transaction structure, including any triggers or covenants that may impact cash flows and result in an early amortization. One key assumption DBRS makes is to assume the inability of the manufacturer to produce new inventory to be sold to the dealer network and consequently, the inability of the finance company to generate new receivables for the wholesale ABS trust. The frequency of multiple dealer 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 wholesale ABS trust structure, DBRS assumes that the purchase of new receivables by the trust would cease immediately at the commencement of an amortization event which would lead to an immediately declining pool balance. This is especially true for captive finance companies; DBRS, however, considers diversified companies who are not reliant on a single manufacturer.



To reflect a stressed cash flow scenario, conservative assumptions are made with regard to the monthly payment rate, dealer defaults, recoveries, the recovery lag and excess spread in order to determine the robustness of the proposed enhancement levels.

DEFAULTS

DBRS evaluates dealer concentration levels, used car concentration levels, and whether or not the manufacturer or any affiliate of either has an equity interest in the dealerships when deriving default expectations for a proposed transaction. When these entities invest in dealers, they support the dealer base, but at the cost of directly impacting the default frequency of that dealer should the manufacturer enter some form of bankruptcy proceedings.

For perspective, historic loss performance on wholesale loan portfolios has been exceptionally low. Generally, this is due to two factors: first, the finance company generally has a security interest in most of the dealer's assets and property, and upon the occurrence of a dealer default, the finance company has incentive to protect the value of both the automobiles and the loans; second, repurchase arrangements provide for a manufacturer to voluntarily buy back inventory from a bankrupt dealer, which due to the manufacturer's desire to support the market value of its products result in high recovery levels. This second reason only holds true in the case of a solvent manufacturer. In the event of a manufacturer bankruptcy, the manufacturer may not be able to provide support to aid in the collateral valuation during liquidation.

The manufacturer also lends significant forms of financial assistance to its dealer base and potential retail customers. This assistance includes below market (subvented) interest rates on new vehicles, free flooring for regularly financed vehicles and or vehicles that leave the factory and are in-transit to the dealership lots, marketing support, and even capital or mortgage loans. Therefore, the actuarial loss history for a dealer does not necessarily provide an appropriate basis for the derivation of a loss scenario. Reported loss figures typically only represent receivables that are SOT, stem from dealer bankruptcies and result from the exposure to the used automobile market.

Defaults are stressed in the cash flow scenarios. DBRS believes that all of the support was to disappear, the dealer would encounter difficulty in meeting their obligations and selling the vehicles they maintain on their lots. Additionally, if the manufacturer were to become insolvent, consumers' reaction to the vehicles and the manufacturer may negatively impact the dealer and their ability to sell those vehicles.

DBRS views a pool composed of multi-branded dealers which have access to alternative financing as being more likely to experience less frequent defaults than a pool of dealers that have a heavier reliance on a single manufacturer and the captive finance company. Annualized defaults, and the velocity with which these defaults would occur immediately after an amortization event has been triggered, would be in part dependent on the level of the dealers' diversification. As mentioned above, historic default rates are generally low for ongoing wholesale auto transactions. Under a stressed scenario, it is assumed that the default levels will increase substantially month over month. These levels are derived from the dealer liquidation scenario described above. Typically, in the cash flow modeling, DBRS would increase the default levels in 2.5% to 5% increments, with a maximum level being achieved in the 9 to 12 month timeframe, if the program has not paid out.

The table below illustrates the ranges of annualized stressed default rates applied to each month's outstanding pool balance under each rating category.



Maximum Monthly Defaults (Annualized Rates)

Rating Category	Ranges
AAA	48%-60%
AA	42%-54%
A	36%-48%
BBB	30%-42%
BB	24%-36%

RECOVERIES

In the absence of a solvent dealer, recoveries and the timing of recoveries depend on the nature of collateral. Under normal conditions, the recovery values of the underlying collateral, when remarketed via retail channels, or auctions, may provide a recovery value greater than the wholesale price, which would result from selling inventory to other dealers. DBRS gives very limited recovery credit in wholesale auto ABS in developing the dealer liquidation scenario.

DBRS anticipates that the timeframe for recoveries would also be extended as a result of the need for time for auditors and workout personnel to organize a liquidation of the inventory and the potential effects of seasonality on the market.

PAYMENT RATES

Under a revolving structure, the monthly payment rate determines how fast an investor can be repaid from the monthly cash flows before the investor is impacted by the adverse performance of the underlying assets. Generally, actual payment rates on floorplan assets are much higher than the trigger levels established for each transaction.

At the starting point in the cash flow analysis, DBRS assumes the payment rate starts at the minimum payment rate trigger level and begins an immediate and steady decline to reflect waning demand for the manufacturer's product. Typically, for an 'AAA' stress scenario, the payment rate would be declined to 50% below the payment rate trigger over 12 months.

The table on the following page illustrates the percentage of the monthly payment rate decline at each rating category that DBRS applies in the cash flow scenarios.

Percentage Decline from Payment Rate Trigger

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

EXCESS SPREAD

The yield on the wholesale auto ABS loans is stressed based on the review of the underlying pool of loans and DBRS simulates a convergence between the Prime and Libor indices. In our cash flow analysis for each rating category, the yield is compressed immediately to equal the note rate plus any fees. Therefore, no excess spread is generated in the cash flows.



SPECIAL CONSIDERATION FOR WEAK MANUFACTURERS AND FINANCE COMPANIES

The methodology applied by DBRS assumes that if the manufacturer or finance company were to experience severe financial distress, it would initiate a filing for bankruptcy protection which would allow for the reorganization of the company under Chapter 11 of the United States Bankruptcy Code instead of entering directly into a liquidation or Chapter 7 of the United States Bankruptcy Code and wind down of its business. This reorganization would by necessity have a longer timeframe than that of a forced liquidation and wind down of the company, but would lead to a rapid and orderly amortization of the wholesale auto ABS transaction. Under a liquidation and wind down scenario, the actual results could differ substantially from assumptions utilized in the analysis of a transaction that assumes a reorganization of the company.

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