

Methodology

Rating U.S. Rental Car 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.



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Executive Summary

This report details the DBRS methodology for rating U.S. rental car (fleet) ABS transactions. DBRS analyzes both qualitative and quantitative factors when rating U.S. rental car ABS transactions which include an assessment of the quality of the rental car operator and their ability to adequately track and maintain the fleet of vehicles supporting the transactions. It also includes an analysis of the purchase agreements in place with manufacturers and the exposure to the manufacturers through repurchase obligations under these contracts.

The key analytical considerations evaluated by DBRS include the following:

- Quality of management and financial condition;
- Operational and servicing capabilities (as outlined in Operational Risk Assessment for ABS servicers dated June 2011);
- Fleet composition and purchase agreements;
- Capital structure, proposed ratings and credit enhancement;
- Liquidation analysis;
- Legal structure and opinions.

DBRS assesses the likelihood of repayment of the transaction under the terms of the proposed financial structure. We evaluate the adequacy of the proposed credit enhancement and capital structure under a liquidation scenario assuming a bankruptcy of the lessee (rental car company) under the proposed transaction. The key factors impacting this analysis are the likelihood of a default of the auto manufacturers and the timing considerations associated with gaining access to the vehicles following a bankruptcy of the rental car company. It also includes a review of the potential timing delays associated with liquidating a large fleet of vehicles under difficult circumstances.

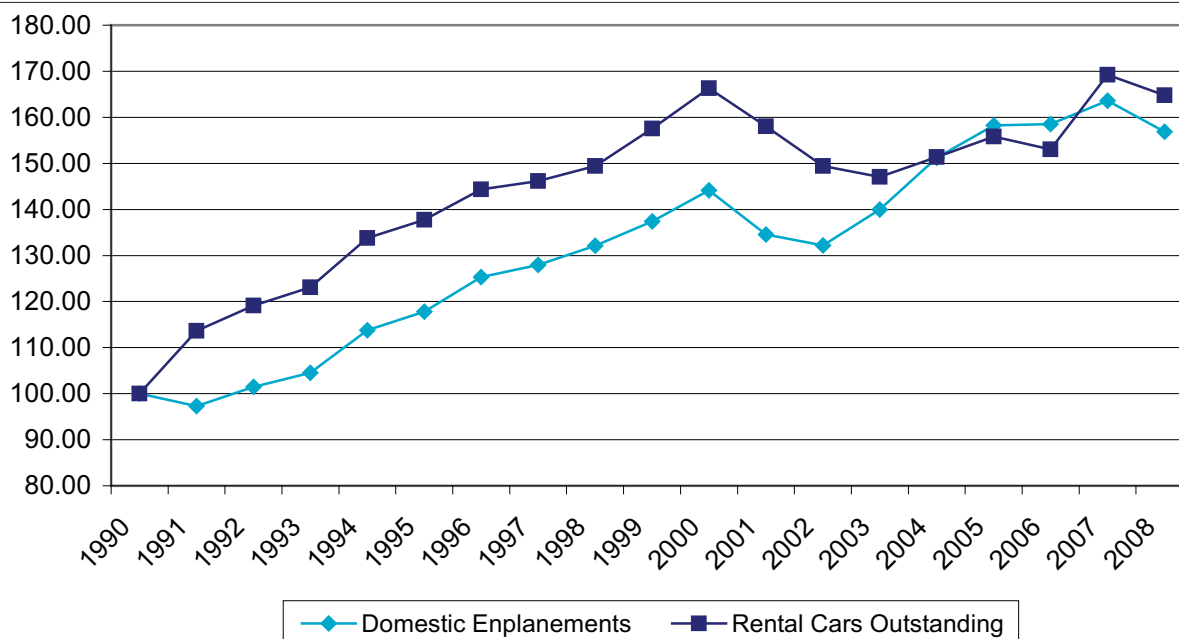
Introduction / Industry Overview

The rental car industry is divided into two business segments: the on-airport segment and the local rental segment. The on-airport segment of the industry is significantly influenced by developments in the travel industry, especially airline passenger traffic, or enplanements. The local rental segment serves commercial, leisure and insurance replacement customers.

The rental car industry experienced strong growth during the 1990s primarily due to the growth in business and leisure travel. However, over the past ten years, the rental car industry has undergone a number of dramatic changes. These changes were prompted by a precipitous drop in demand in air travel and corresponding rental car demand following the September 11, 2001 ("9/11") terrorist attacks.



Rental Cars in Service vs Domestic Enplanements (Indexed)



The graph above compares the amount of rental cars outstanding against domestic U.S. enplanements on an indexed basis (indexed to 1990). This graph shows the correlation between enplanements and rental cars outstanding as the rental car industry reduced its fleet following the drop off in travel after 9/11.

The average number of cars in service declined by over 5% per year in 2001 and 2002. Most of the reduction in fleet occurred in the fourth quarter of 2001 as rental car operators sold off much of their vehicles in service. Manheim Auctions¹ estimated that the rental car companies at on-airport locations reduced their fleets by 20% to 30% within two months of 9/11.

BANKRUPTCIES OF ANC AND BUDGET

This decline also impacted the financial condition of several of the rental car companies and, in November 2001, ANC Rental Corp (“ANC”), then owner of Alamo and National brands filed for bankruptcy². In July 2002, Budget Group was also forced into bankruptcy³ as it was unsuccessful in restructuring its balance sheet.

The occurrence of these bankruptcies was particularly significant to the rental car industry as both rental car companies had several classes of outstanding rental car ABS at the time of their filings.

In the case of ANC, most of their outstanding ABS transactions were funded through ARG Funding Corporation (“ARG”). Following the ANC bankruptcy filing, ANC made no lease payments during the automatic 60-day stay period. As a result, reserve accounts were drawn upon in order to make interest payments on the ARG debt. Principal payments scheduled to begin during this timeframe were also not made. However, lease payments did resume after this 60-day period as the bankruptcy court affirmed the contracts. The bankruptcy of ANC was a rapid amortization and liquidation event under the transaction documents. However, the ARG transaction did not enter into early amortization because the bond insurer in the deal, MBIA Insurance Corporation, as controlling party, temporarily waived the amortization event and chose not to liquidate the fleet. ANC continued to operate under bankruptcy until October 2003

1. Manheim is a wholesale vehicle auction company.
2. Chapter 11 of the U.S. Bankruptcy Code
3. Ibid



when Vanguard Car Rental was formed by Cerberus Capital Management to purchase the U.S. and Canadian assets of ANC Rental. During the bankruptcy, bondholders under the securitized transactions received timely interest and principal as scheduled (except for a delay of two months on principal due on the 1999-1 tranche).

In the case of Budget, lease payments continued even after the bankruptcy filing. Cendant Corporation, parent of Avis at that time, purchased Budget in November 2002 and refinanced Budget's outstanding deals.

More recently, rental car ABS transactions have been impacted by the bankruptcies of General Motors Corporation ("General Motors") and Chrysler LLC ("Chrysler"), which is discussed in the section entitled "Credit Quality of the Auto Manufacturers" below, as the credit quality of the auto manufacturers is a key variable impacting rental car ABS deals.

RENTAL CAR COMPANY OWNERSHIP

Prior to 1996, most large rental car companies were owned by one of the "Detroit 3" domestic auto manufacturers. General Motors had a stake in Avis and National. Ford Motor Company ("Ford") owned Hertz and Budget. Chrysler owned Dollar and Thrifty. In the late 1990s, the manufacturers started to spin off these rental car subsidiaries. General Motors sold its stakes in Avis and National. Ford sold a minority interest in Hertz to the public and sold Budget to Team Fleet. Chrysler spun off Dollar and Thrifty through a public IPO. Avis was subsequently purchased by Cendant Corporation in 2001.

As noted, following the bankruptcies of ANC and Budget, ANC became Vanguard Car Rental when Cerberus Capital Management purchased the U.S. and Canadian assets of ANC. Cendant purchased Budget out of bankruptcy.

In August 2006, Avis Budget became a public company through the split of Cendant into four separate companies. In August 2007, Vanguard was subsequently purchased by the owners of Enterprise Rent-A-Car and they are currently operated separately as a subsidiary of Enterprise. In December 2005, Ford spun off Hertz and Hertz is now a public company.

As a result of these changes, there are currently four large rental car groups remaining in the U.S. including Enterprise (including National and Alamo), Hertz, Avis Budget and Dollar Thrifty. The table below summarizes each of these:

	Enterprise / Alamo / National	Avis Budget	Hertz	Dollar Thrifty
Average 2009 Fleet size (units) ¹	842,376	300,000	286,000 ⁴	106,245
2009 Revenues ¹	\$10.70 billion	\$3.94 billion	\$3.31 billion ⁴	\$1.52 billion
Manufacturer Concentrations ²	General Motors (Alamo/ National)	General Motors (18%) Ford (26%) Chrysler (14%)	Ford (22%) Toyota (19%) General Motors (18%)	Chrysler (60%) Ford (25%)
Parent Company	Enterprise Holdings ³	Public Company	Public Company	Public company
DBRS Unsecured Rating	Enterprise rating: A (low)	B	BB (low)	NR

Notes: 1) Source: Auto Rental News.

2) Manufacturer concentrations as of 9/30/09 for Hertz. Avis Budget concentrations are a 2010E according to their 12/2/09 Investor Update. Dollar Thrifty concentrations are a 12/09 estimate based upon their 11/09 Investor Update.

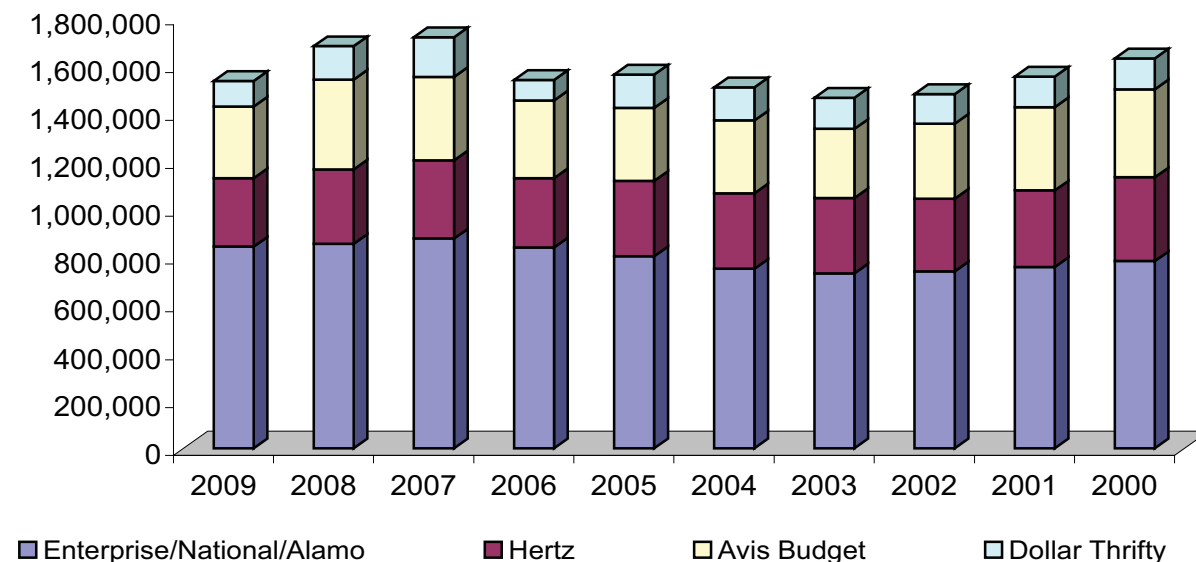
3) Enterprise Holdings is privately held by Andrew Taylor and his family.

4) Auto Rental News estimate.



The graph below compares the number of cars in service for each of the major rental car operators since 2000:

U.S. Cars in Service



Key Variables Impacting Rental Car ABS Transactions

There are three key variables which impact the performance and credit quality of rental car ABS transactions. The variables include: 1) the credit quality of the rental car company as servicer/operator of the fleet and lessee in the transaction; 2) the credit quality of the auto manufacturers of the fleet; and 3) the residual values of the fleet.

RENTAL CAR COMPANY

The performance of a rental car ABS transaction will be impacted by the credit quality of the rental car company as servicer/operator of the fleet and lessee in the transaction. This is due to the fact that the rental car company is responsible for making periodic lease payments to the special purpose entity (“SPE”) and is responsible for servicing the rental fleet over the life of the deal. As such, our analysis of the rental car company includes an analysis of their financial performance as well as the operational capabilities as servicer/operator. However, these transactions are structured so that the underlying assets of the securitization, which are the vehicles in the fleet, are placed in a bankruptcy remote vehicle so they can be liquidated in the case of a bankruptcy of the rental car company. As a result, we look at the likelihood of the rental car company filing for bankruptcy during the term of the transaction; however, we analyze these deals as if the rental car company is in bankruptcy and the credit enhancement levels will reflect the amount needed under a bankruptcy scenario.

CREDIT QUALITY OF THE AUTO MANUFACTURERS

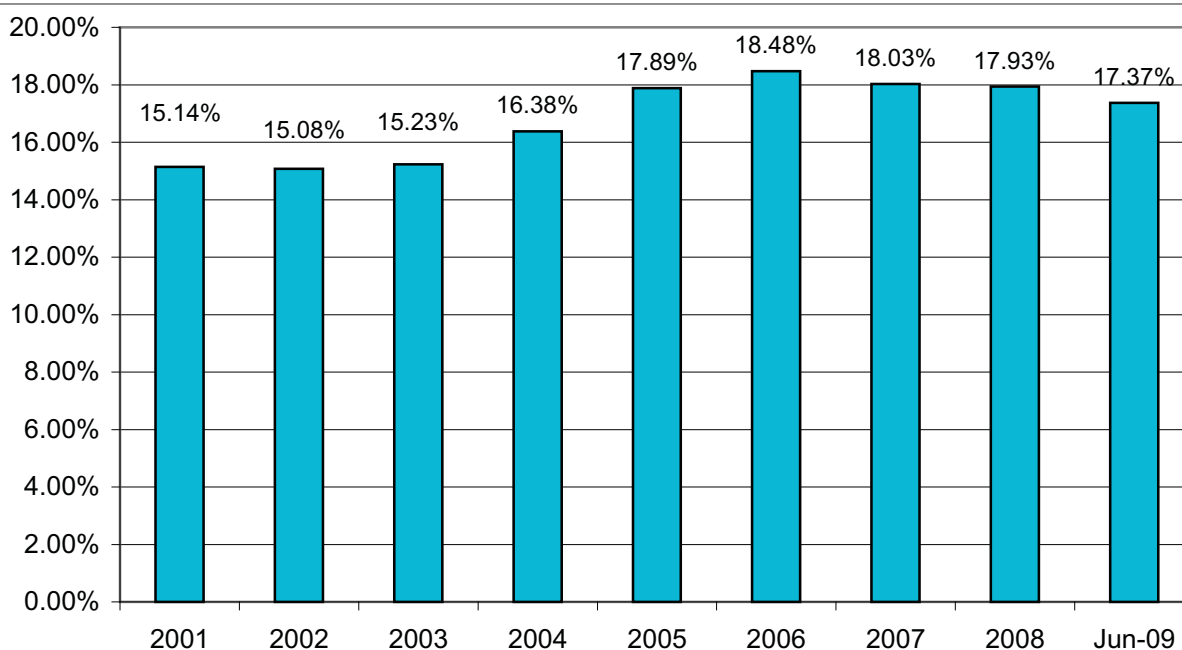
The deterioration of the credit quality of the Detroit 3 auto manufacturers has resulted in a number of changes to the structure of rental car ABS transactions since they have direct exposure to the creditworthiness of auto manufacturers through their repurchase obligations on program vehicles. Program vehicles are those in which the manufacturer agrees to buyback the vehicles under certain terms at a specified price thereby reducing the rental car company’s exposure to used car market price fluctuations. Rental car ABS



transactions have indirect exposure to the credit quality of the vehicle manufacturers for non-program vehicles to the extent that a manufacturer bankruptcy impacts the residual values of their vehicles.

In bankruptcy, a manufacturer may seek to terminate their obligation to buyback program vehicles from the rental car companies in the bankruptcy court. We view the likelihood of the manufacturers pursuing this termination of their buyback obligation to be somewhat remote as the rental car companies still represent relatively large new vehicle purchasers for the manufacturers. Rental car companies represented approximately 18% of new vehicles sales by manufacturers in 2008.

Percent of New Vehicles Sales to Rental Car Companies



Source: Adesa Analytical Services

The impact of an auto manufacturer's bankruptcy can be seen through the two recent examples: Chrysler and General Motors. Chrysler filed for bankruptcy on April 30, 2009 and General Motors filed for bankruptcy on June 1, 2009. The bankruptcy courts for both General Motors and Chrysler have affirmed their contractual obligations under vehicle repurchase agreements. This is significant for the rental car industry as they still have significant exposure to General Motors and Chrysler under repurchase agreements. Over time, the rental car companies have significantly reduced the percentage of program cars in their fleets as the credit quality of the Detroit 3 auto manufacturers has declined. The fact that rental car companies represent one of the largest purchasers of new vehicles from the manufacturers was a factor in their decision to affirm their repurchase obligations under the repurchase contracts.

The impact of a bankruptcy on the residual values of their vehicles is a larger issue which depends upon the disposition of the auto manufacturer in bankruptcy. The bankruptcy filings of Chrysler and General Motors have not yet resulted in any significant impact to residual values on Chrysler and General Motors vehicles. This is due in part to the support from the U.S. government of these companies as well as the speed in which the "new" Chrysler and General Motors entities have been able to emerge from bankruptcy. Going forward, the ability of the management teams at "new" Chrysler and General Motors to revitalize these firms will be important. It still remains to be seen how the residual values of any discontinued brands, such as Pontiac, may be impacted. In addition, if the management teams cannot revitalize the continuing brands, then there may also be an impact to the residual values of these vehicles.

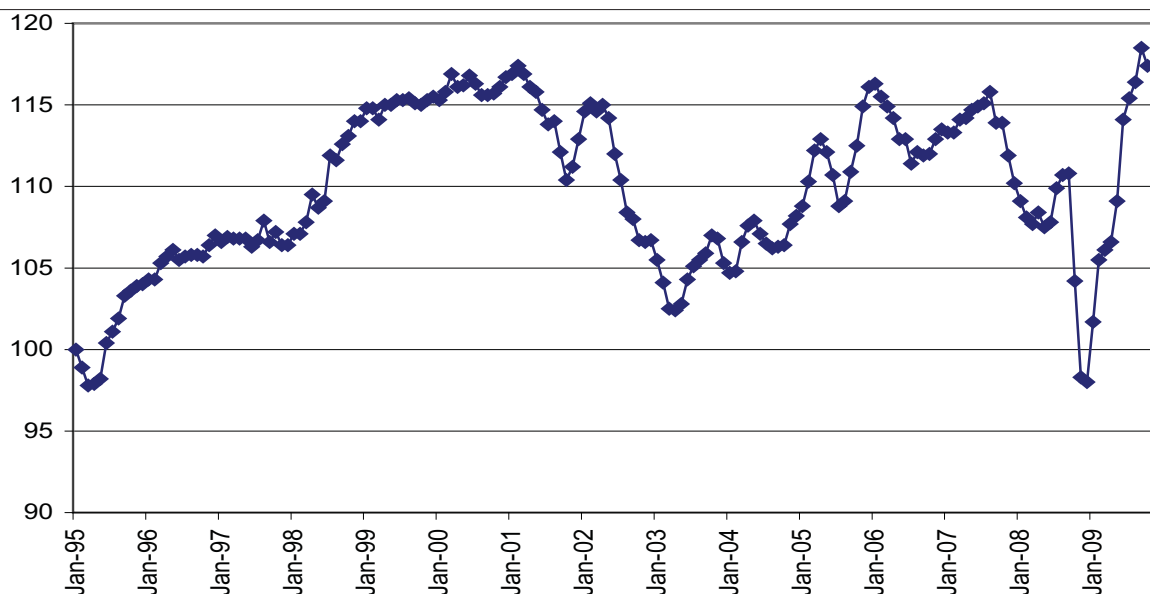


RESIDUAL VALUES OF THE VEHICLES IN THE FLEET

Rental car transactions are exposed to the residual values of the vehicles in the fleet as non-program or “at-risk” vehicles are not subject to a buyback agreement with manufacturers or may be ineligible program vehicles no longer subject to repurchase, so the value of those vehicles is realized through a sale into the used car market. The lease payments made under the lease by the rental car company are designed to cover the depreciation of the vehicles each month. These depreciation rates are determined for non-program vehicles based upon an estimated residual value for the vehicles when they are retired from the fleet. The extent to which vehicles do not depreciate in line with expectations will determine the amount of gain or loss on the sale of these vehicles at the time of disposition. As a result, we analyze the potential volatility in the used car market to determine the amount of loss in residual value to which the transactions may be subject.

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

Manheim Used Car Index



Source: Manheim Consulting

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

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



The structural features included in rental car ABS transactions which are intended to limit the extent to which these fluctuations impact the ABS transactions include: 1) a monthly marked-to-market test, 2) a monthly test on disposition proceeds compared to the net book value of vehicles sold (“measurement month test”) and 3) a monthly comparison of the borrowing base in the transaction.

The marked-to-market test is a comparison of the market value of non-program and “adjusted program vehicles” over the net book value of those receivables. The adjusted program vehicles are vehicles which have been re-designated as non-program vehicles following the bankruptcy of the manufacturer. These vehicles of the bankrupt manufacturer are not included in the calculation for 90 days following bankruptcy.

The measurement month test compares the actual disposition proceeds of vehicles sold against the net book value of those vehicles. These two tests are designed to keep the net book value of the fleet in the borrowing base in line with the market value that could be realized in the used car market. The results of the two tests are compared and the test requiring the highest amount of additional credit enhancement will apply. The borrowing base is then calculated to ensure that there are sufficient assets available to repay the asset-backed notes in the event of a bankruptcy of the rental car company and liquidation of the fleet.

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

DBRS has analyzed these changes in used car values in order to determine the extent to which used car values may decline under a liquidation scenario. This analysis is factored into the “haircuts” that we apply to the residual values of the collateral in determining the ratings for a transaction given the proposed credit enhancement levels.

The table below summarizes the maximum monthly declines in the Manheim used car index. This table indicates the maximum monthly and two-month cumulative changes in the used car index compiled by Manheim. Prior to 2008, the maximum monthly decline was 1.9% in 2002 and the maximum cumulative two-month decline was 3.3% in 2002.

	Monthly Change	2-Month Cumulative Change
2000	-0.7%	-1.0%
2001	-1.7%	-3.2%
2002	-1.9%	-3.3%
2003	-1.5%	-2.8%
2004	-0.7%	-2.0%
2005	-1.7%	-2.9%
2006	-1.3%	-1.7%
2007	-1.8%	-3.3%
2008	-6.0%	-11.3%
2009	-0.9%	-0.9%



Transaction Structures

TYPE OF TRANSACTION

Rental Car ABS transactions have been financed either through commercial paper or as a term transaction.

Rental car term transactions have typically been structured using a master trust where the issuer may issue multiple series of both fixed and floating rate notes. This is similar to a credit card master trust which is used to finance a revolving pool of collateral. In this case, the collateral is the fleet of vehicles which are either turned back to the manufacturer or sold within a relatively short period of time (12-18 months). Most rental car ABS transactions have been insured by a monoline bond insurer but they may also be issued using a senior-subordinate structure.

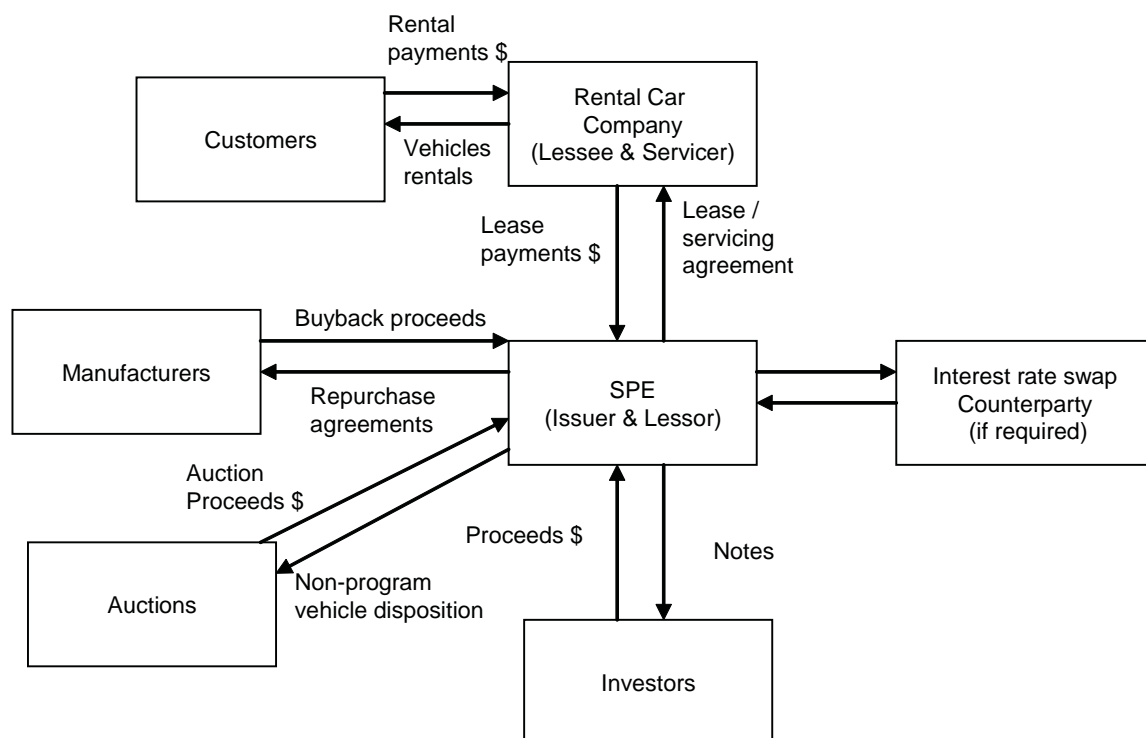
Most rental car fleet transactions are structured as a true lease. In a true lease transaction, the vehicles are titled in the name of the SPE with the indenture trustee/custodian named as lienholder on the certificates of title. This will enable the transaction to be structured to be bankruptcy remote so that the fleet of assets can be liquidated in the event of a bankruptcy of the rental car company without a competing claim being made on behalf of the bankrupt party's creditors.

In a transaction where the lease is a finance lease, the vehicles will be titled in the name of the lessee. In that case, the vehicles would be included in the bankruptcy estate if the rental car company were to file for bankruptcy. As a result, the finance lease should only be used in transactions funded through commercial paper where the risks of a bankruptcy are taken by a liquidity provider through a liquidity facility.

BANKRUPTCY REMOTE SPECIAL PURPOSE ENTITY

As with most structured finance securities, rental car ABS transactions use a bankruptcy-remote, SPE which is responsible for issuing securities and using the proceeds of that issuance to purchase vehicles under various purchase agreements with eligible manufacturers. The SPE is assigned the rights under these purchase agreements.

The SPE is normally administered by the rental car company under an administration agreement which specifies the responsibilities of the rental car company in the transaction. DBRS reviews this agreement and the responsibilities of the rental car company in connection with this agreement. A back-up administrator may be appointed in order to mitigate concerns over the transfer of these functions if the rental car company goes into bankruptcy or otherwise cannot perform these functions.



Note: Structural diagram above depicts a simplified rental car ABS structure for illustrative purposes and does not include all of the potential parties. Each proposed rental car ABS transaction and structure will be reviewed individually.

LEASE PAYMENTS WITH RENTAL COMPANY

In a typical rental car fleet ABS deal, the SPE enters into a lease agreement with the rental car company through which the SPE leases the vehicles it has purchased for use in the rental car company's fleet. The rental car company is responsible for making monthly lease payments to the SPE under the terms of the lease agreements. The lease payments are designed to cover interest payments, vehicle depreciation, program carrying costs and other expenses associated with the transaction.

RECOVERIES FROM BUYBACK AGREEMENTS AND SALES OF VEHICLES

The SPE enters into repurchase agreements with manufacturers to purchase vehicles that will then be leased to the rental car company as stated above. The SPE disposes of those vehicles by either returning them to the manufacturer under repurchase agreements or selling them into the used car market (at-risk vehicles). The proceeds of these returns and sales are used during the amortization period as the primary source of funds for principal payments on the notes. The terms and conditions of these repurchase agreements are discussed in more detail in the section entitled "Program Vehicles" below.

CREDIT ENHANCEMENT

Credit enhancement for a rental car fleet ABS transaction may be provided through a combination of subordination, overcollateralization, letters of credit, cash and/or a surety bond. The amount of credit enhancement is determined through an analysis of the liquidation of the fleet. There is a portion of the credit enhancement which should be in liquid form in order to cover the payment of interest and expenses during a potential bankruptcy scenario of the rental car company, where lease payments may not be made.

INTEREST RATE HEDGES OR CAP ON INTEREST

An interest rate hedge should be in place to mitigate the risk associated with interest rate fluctuations on floating-rate asset-backed notes. For AAA rated securities, DBRS rating criteria for a swap counterparty includes a long-term rating of A (high) or short-term rating of R-1 (middle). If the counterparty is downgraded and fails to maintain a rating of A (high) or R-1 (middle), within 30 business days the swap counterparty is expected to either:



- Post acceptable collateral covering one payment period in advance, to be rebalanced each payment period (for a total return swap, the amount to be posted must be subject to the satisfaction of DBRS). This option is only available if there is a second downgrade trigger.
- Provide a guarantee acceptable to DBRS from a guarantor rated A (high) or R-1 (middle).
- Assign its obligations under the swap to a counterparty that holds a rating of A (high) or R-1 (middle).

If the swap documentation contains a second rating threshold, and the counterparty is subsequently downgraded and fails to maintain a long-term rating of BBB (high) or short-term rating of R-2 (high), one of the following actions is expected to be taken within 30 days:

- Post additional acceptable collateral covering all future payment obligations of the downgraded counterparty under the swap.
- Assign the downgraded counterparty's obligations to another counterparty that holds a rating of A (high) or R-1 (middle).
- The swap terminates at par within ten days.

DBRS maintains a schedule of acceptable collateral for posting and the valuation percentages that will be applied. Collateral must be held in a bankruptcy-remote account in the name of the special purpose entity at an eligible institution with a rating of BBB (high) or R-2 (high).

PAYMENTS TERMS UNDER REPURCHASE AGREEMENTS – RECEIVABLES FROM MANUFACTURERS

Historically, manufacturers pay for these program vehicles returned under repurchase agreements within a certain number of days as specified in the repurchase agreement after the vehicles had been returned. This payment delay creates a receivable from the manufacturer.

As the credit quality of the Detroit 3 manufacturers declined, there have been more concerns regarding the size of the receivable created from these repurchase obligations. As a result, the rental car companies and manufacturers have modified payment terms so that the vehicles are returned to a third-party auction site and the title is retained by the SPE until the vehicle is sold and the proceeds from the auction and other amounts due from the manufacturer are received.

TIMELINE OF A RENTAL CAR ABS TRANSACTION

There are several phases in the life of a rental car ABS transaction. This includes the revolving period, a controlled amortization period and a rapid amortization period.

Revolving Period

During the revolving period of the transaction, interest payments are made on the notes but no principal payments are made. Principal proceeds from lease payments and vehicle sales are used to purchase new vehicles (or pay down other series of notes that have reached their amortization period).

Controlled Amortization Period

The controlled amortization period follows the revolving period as long as no rapid amortization event has occurred. During the controlled amortization period, there are scheduled principal payments on the notes in addition to ongoing interest payments. There may still be new vehicle purchases made from any cash flow in excess of that required for the scheduled principal and interest payments. The controlled amortization period is generally between 6 and 12 months in length and is designed to fully repay the notes by the expected final distribution date.

Rapid Amortization Period

A rapid amortization period takes place if certain negative events occur such as the breach of an early amortization event or event of default. These triggers are outlined below in the sections entitled "Lease Events of Default" and "Early Amortization Events", respectively. The consequence of tripping one of



these triggers is to terminate the revolving period in the transaction and use all cash flow available to repay the notes on an accelerated basis. There are no new vehicle purchases and no cashflow is distributed to the rental car company during the rapid amortization period and there is an immediate disposition of the rental car fleet. The timing of that disposition depends upon fleet size, any bankruptcy issues and the ability of the lessee/servicer to dispose of the fleet on a rapid basis.

Legal final maturity date

The legal final maturity date is normally set to be one year after the expected final payment date for a transaction. If the notes are not repaid by the expected final distribution date then an early amortization event goes into effect so that all notes can be repaid prior to the legal final maturity date.

BORROWING BASE

The borrowing base must be maintained in a rental car ABS transaction in order to ensure that there are adequate assets to repay the asset-backed notes if there is a bankruptcy of the rental car company and liquidation of the fleet.

The borrowing base calculation is as follows:

1. the net book value of program vehicles;
2. the net book value on non-program vehicles;
3. the accrued and unpaid lease payments due from the rental car company;
4. receivables due from the investment grade manufacturers for program vehicles returned;
5. receivables due from auctions;
6. cash and permitted investments on deposit in the collection account.

Accounts receivable from below investment grade manufacturers, bankrupt manufacturers and those unpaid by 30 days and 90 days after the sale of non-program and program vehicles, respectively, should be excluded from the borrowing base. If the borrowing base cannot be maintained then an early amortization event will be triggered.

TRANSACTION TRIGGERS

Lease events of default

Under the lease agreement with the rental car company, there should be certain events of default under which the SPE will no longer be permitted to enter into any further leases with the rental car company. These should include the following:

1. Failure of the rental car company to pay principal or interest on any lease following the applicable grace period;
2. Involuntary bankruptcy proceedings are initiated against the rental car company;
3. Failure of the rental car company to comply with any provision of the applicable lease agreement that continues after the applicable grace period;
4. Material breach of a representation or warranty of the rental car company as per the applicable lease agreement.

If a lease default occurs and continues following the applicable grace period, then an early amortization event occurs.

Early Amortization events

Rental car ABS transactions should include certain events which terminate the revolving structure for the deal and all cash flow repays the investors as quickly as possible. This rapid amortization of a transaction should occur under the circumstance of certain events including the following:



1. The issuer defaults in the payment of any interest owed on the notes and that default continues for a certain number of business days;
2. The issuer defaults in the payment of any principal due on the notes and this default continues for a certain number of business days;
3. The issuer fails to comply with any other agreements, covenants or provisions of a series that materially and adversely affect the interest of the noteholder of any series for a certain number of business days;
4. A borrowing base deficiency exists and continues for at least a specified number of business days;
5. The liquidity amount is less than the liquidity amount required in the transaction;
6. A lease event of default occurs and is continuing following the applicable grace period;
7. The commencement of bankruptcy of the issuer or the rental car company which continues following the applicable grace period;
8. Any representation or warranty made by the issuer is materially false and adversely affects the interest of the noteholders and is not cured within a specified number of days after written notice by the trustee on behalf of the noteholders.

Manufacturer Event of Default

A bankruptcy of one of the manufacturers supplying program vehicles to the fleet in a rental car ABS transaction is considered a manufacturer event of default. It may be immediate or with a built in time lag as per the transaction documents. If a manufacturer event of default occurs, the issuer must either repurchase and remove or supply additional credit enhancement for any vehicles owned pursuant to repurchase agreements with the bankrupt manufacturers.

In many transactions, the manufacturer event of default does not occur until 30 days after the bankruptcy filing. During this period, should the bankrupt manufacturer affirm their buyback obligations in court then a manufacturer event of default does not occur.

Rental Car Operator and Servicer

DBRS performs an operational review of the rental car company prior to rating any rental car transaction to ensure that DBRS is comfortable with the management team and operational capabilities of the servicer/operator (as outlined in Operational Risk Assessment for ABS servicers dated June 2011).

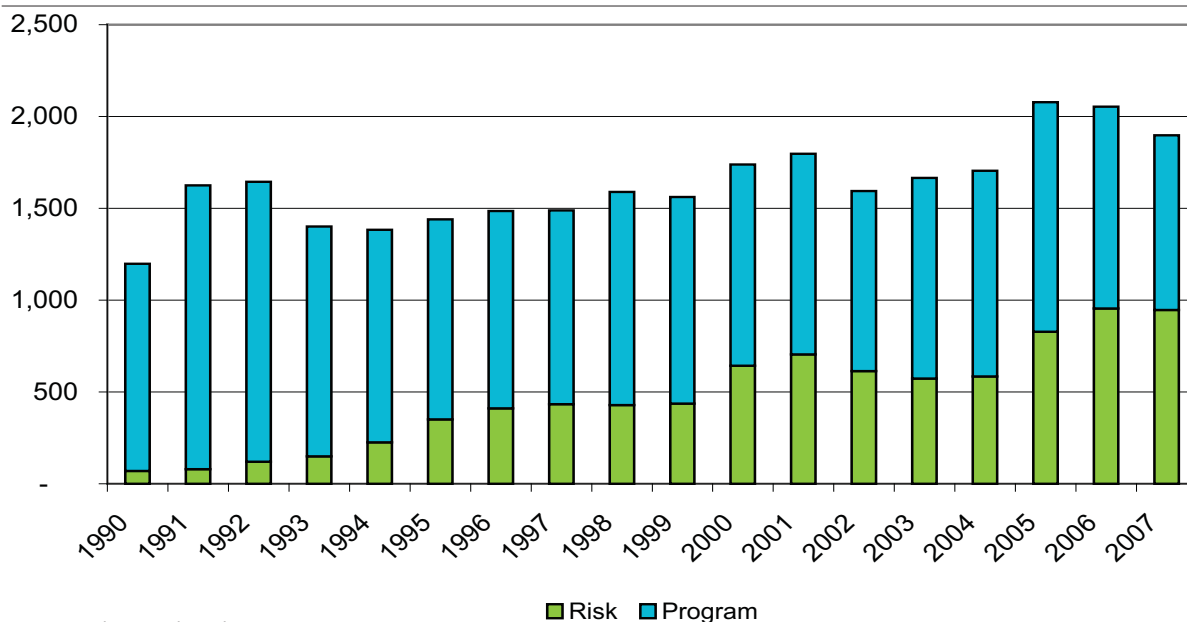
Fleet Assets

BREAKDOWN OF FLEET ASSETS

The rental car fleet should be analyzed based upon the type of agreements under which they are purchased, the credit quality of the manufacturer and the vehicle type. The type of agreement includes: 1) vehicles which are acquired under repurchase agreements which are known as program vehicles; and 2) vehicles which are acquired under contracts without any repurchase obligation of the manufacturer which are called non-program or “at-risk” vehicles. The fleet should be analyzed based upon the concentrations by manufacturer and the split between investment grade and below investment grade manufacturers. The vehicle type depends upon the actual types of vehicles being included in the fleet.



Program versus Risk Sales



Source: Adesa Analytical Services

Program vehicles

Program vehicles are acquired from an eligible manufacturer under repurchase agreements which state the terms and conditions under which a vehicle will be repurchased by the auto manufacturer. The terms and conditions in the repurchase agreements include timing of the return of the vehicles, mileage limitations on the vehicles and damage standards which exclude normal wear and tear. They also state the repurchase price and payment timing by the manufacturer. If the return conditions are not met, then it may result in a reduction to the repurchase price under the agreement or those vehicles may no longer qualify for repurchase by the manufacturer.

The repurchase price is generally determined based upon the manufacturer’s capital cost for the vehicle minus a fixed monthly depreciation charge. The vehicles need to be owned by the rental car company for a minimum period of time (minimum hold period) or there will be a penalty charged. There may also be a maximum hold period for the vehicles. The repurchase price may be adjusted if there are vehicles which have exceeded the mileage limitations put in place. If there is excess wear and tear on the vehicle as determined by an inspection by the manufacturer, then there may also be a penalty related to that wear and tear.

The contracts also state the timing of the payment required by the manufacturers. This is significant as the rental car transaction will be owed a receivable from the manufacturer during the period from when the car is turned over to the manufacturer until payment is received. As the credit quality of the Detroit 3 manufacturers has declined, there have been more concerns regarding the size of the receivable created from these repurchase obligations. As a result, the rental car companies and manufacturers have implemented new payment terms under which the vehicles are returned to a third-party auction site and the title is retained by the SPE until the vehicle is sold and the proceeds from the auction and other amounts due from the manufacturer are received.

The repurchase contracts are normally negotiated annually between the rental car company and the auto manufacturer. The terms and conditions are proposed by the manufacturers ahead of the expected delivery of any vehicles for that model year. DBRS reviews these repurchase contracts as part of its surveillance process for each rated rental car issuer prior to those vehicles being included in the transaction.



Non-Program Vehicles

The non-program vehicles or “at-risk vehicles” are purchased without any buyback obligation from the manufacturer so the rental car company must dispose of those vehicles into the used car market and bear any gain or loss on the sale of those vehicles. Historically, rental car companies had included a majority of program vehicles in their fleets. However, over the past several years, the percentage of non-program vehicles has increased substantially as discussed above in the section entitled “Credit Quality of the Auto Manufacturers.”

MIX BY MANUFACTURER, VEHICLE TYPE

Due to the risks associated with a manufacturer bankruptcy, the fleet should be analyzed by whether the manufacturer of the vehicle is investment grade or below-investment grade. The vehicles from below investment grade manufacturers have a higher credit enhancement level since there is a greater risk of those manufacturers filing for bankruptcy. The impact of a manufacturer bankruptcy on a rental car transaction may be direct through the obligation of the manufacturer to buyback vehicles under program agreements. It may also be indirect to the extent that a manufacturer bankruptcy impacts the residual values of their vehicles.

MANUFACTURER ELIGIBILITY/LIMITS

Certain manufacturers will be deemed to be eligible to be included in the transaction and there will be limits in place on the amount of vehicles allowed from each manufacturer. These limits are in place in order to mitigate concentration risk. There will normally be small amount of noneligible manufacturers allowed in the pool; however, the percentage of those allowed is normally very small and not considered significant (e.g., 3%).

HISTORICAL FLEET PERFORMANCE

In preparing to rate a rental car ABS transaction, DBRS requests fleet performance data and prefers to receive at least 5 years of historical data. This data should include the following:

1. a breakdown of gains and losses on the sale of vehicles by manufacturer on an annual basis;
2. a breakdown of the disposition history for program and non-program vehicles including turnbacks for program vehicles, ineligible, sales history for non-program vehicles, salvage and thefts/conversions on an annual basis;
3. historical reconditioning expenses on program vehicles;
4. fleet depreciation for program and non-program vehicles;
5. program vehicle ineligibles and the gains and losses over time on these vehicles.

Liquidation Analysis and Credit Enhancement

The primary risk that investors face in rental car ABS transactions is a bankruptcy of the rental car company which results in an automatic stay on the sale of its assets. As a result, DBRS performs a liquidation analysis in order to determine whether the proposed credit enhancement is sufficient to warrant the desired rating of the transaction from DBRS. The analysis allows DBRS to determine the extent to which credit enhancement is able to cover the interest and depreciation during this stay period, as it is assumed that lease payments are no longer made following bankruptcy. The analysis considers the timeframe of a fleet liquidation, incorporates the risk of a manufacturer default and the risk that a manufacturer will not honor their repurchase agreements in addition to reflecting the depressed market value for the vehicles. The latter is important due to the likelihood that a large portion of vehicles will be placed into the market given the short timeframe that the vehicles will be sold. The credit enhancement calculation incorporates stresses on the loss assumptions of vehicles which are turned back due to non-



compliance with manufacturer program agreements and stresses on the transaction's funding costs and expenses.

HOLDING PERIOD – INVESTMENT GRADE PROGRAM VEHICLES

For program vehicles from investment grade manufacturers, we take into consideration the characteristics of the repurchase contracts with the manufacturers as we assume, in these cases, that the repurchase obligation in the contract will be honored by these manufacturers following the minimum hold periods. We look at the historical fleet age to determine how long the maximum period of time has been between the age of the fleet and the minimum fleet hold period. Then we incorporate the reconditioning expense for these program vehicles based upon the historical experience. We also consider the loss on ineligibles based upon the operator's history of ineligible vehicles. DBRS applies a stress to the loss on ineligibles, loss on turnbacks and any incidental expenses incurred by the issuer based upon the requested rating for the transaction as depicted below.

Stress Range	BBB	A	AA	AAA
Maximum	2.5x	3.25x	4.0x	4.75x
Minimum	2.0x	2.5x	3.25x	4.0x

BANKRUPTCY STAY PERIOD

In developing an expectation of the bankruptcy stay period following the bankruptcy of the rental car operator, DBRS may request a memorandum from the appropriate counsel in the transaction indicating the counsel's view as to how long it would take for the indenture trustee/custodian to obtain possession of the vehicles in the event of the bankruptcy of the rental car company.

Based upon current bankruptcy laws and the precedent bankruptcy cases in the rental car industry, we assume, in a bankruptcy, that there will be no lease payments during the 60 day automatic stay period. Based upon the ANC and Budget bankruptcies, we believe that the contracts with either be rejected or approved following this 60 day automatic stay period. As a result, the rental car company will either: 1) start making lease payments and continue to use the fleet of cars, or 2) turn the cars over to the trustee resulting in a liquidation of the assets of the rental car company.

LIQUIDATION PERIOD FOLLOWING STAY

DBRS reviews the operational expertise of the rental car company and their ability to liquidate the fleet of vehicles within a short timeframe under stressful conditions. The operational factors included in this analysis are provided in the section entitled "Rental Car Operator and Servicer" and include the systems available to adequately track the location and disposition of their fleet, the proper titling of vehicles and the distribution channels available to dispose of its fleet. The depth and breadth of the used car market will be taken into consideration as well as the concentrations within the fleet to the various auto manufacturers.

DBRS assumes the time to liquidate and dispose of fleet assets to be 30 to 45 days. We then stress this liquidation period based upon the requested rating for the transaction.

	BBB	A	AA	AAA
Liquidation Period	1.5 months	3.0 months	5.0 months	7.0 months
Bankruptcy plus liquidation period	3.5 months	5.0 months	7.0 months	9.0 months

RESIDUAL VALUES DURING A LIQUIDATION

DBRS analyzes the historical gain and loss on disposition for the company's fleet. The residual values on the sale of collateral assumed during a liquidation of the fleet is stressed next to allow for the potential for a



weak used car market during the time of liquidation as well as the potential for additional stress associated with manufacturer bankruptcies.

In order to assess the potential stresses necessary, DBRS has undergone an extensive analysis of the used car market over the past 25 years based upon information from Manheim Consulting, Adesa Analytical Services and Automotive Lease Guide (ALG). We reviewed the historical price changes over time in the industry during different periods of stress such as following September 11, 2001 and the last 12-18 months due to the credit crisis. This analysis is discussed above under the section entitled “Residual Values of the Vehicles in the Fleet.” As a result of this analysis, DBRS has determined “haircuts” that are applied to the residual values of the fleet following the disposition during liquidation. The severity of the haircut or stress depends upon the desired ratings of the notes. The following table indicates the stress levels DBRS applies to the residual values for a series of desired rating levels, assuming that the portfolio is reasonably diversified amongst manufacturers and vehicle types.

Stress Range	BBB	A	AA	AAA
Maximum	15.0%	19.5%	24.0%	28.5%
Minimum	12.0%	15.0%	19.5%	24.0%

In order to address the risk for a manufacturer bankruptcy at the same time as the fleet is liquidated, DBRS applies an additional “haircut” to the vehicles of below investment grade manufacturers, both program and non-program. In order to determine the level of this additional haircut, we have analyzed the impact on residual values of a discontinued brand and the potential impact expected in the bankruptcy of Chrysler. We reviewed the impact on residual values of the discontinuation of the Oldsmobile brand by General Motors in 2000 and the expected and actual impact of the Chrysler bankruptcy on residual values. The bankruptcy filings of Chrysler and GM have not yet resulted in any significant impact to residual values on their vehicles. This is due in part to the support from the U.S. government of these companies as well as the speed in which the “new” Chrysler and GM entities have been able to emerge from bankruptcy. However, we need to recognize the potential that this level of support would not be available in the future.

Below are the “haircuts” that would be applied to the residual values of the fleet following the disposition during liquidation for non-investment grade manufacturers. These haircuts would be taken in addition to those applied to the marketplace as a whole. The severity of the haircut or stress depends upon the desired ratings of the notes. The following table indicates the stress levels DBRS applies to the residual values for a series of desired rating levels.

Stress Range	BBB	A	AA	AAA
Maximum	7.5%	10.0%	12.0%	14.5%
Minimum	6.0%	7.5%	10.0%	12.0%

TRANSACTION FUNDING COSTS AND EXPENSES

DBRS reviews the transaction costs and expenses including servicing fees, interest and liquidity fees to ensure that these expenses can be covered during the bankruptcy stay and liquidation periods. The servicing costs are reviewed with a view towards ensuring that there are sufficient cash flows in the transaction to incorporate a replacement servicer and liquidation agent as needed.

CREDIT ENHANCEMENT LEVELS

DBRS evaluates the proposed credit enhancement levels given the proposed rating of the transaction based upon our analysis of the factors above in addition to an analysis of the structure of the transaction given these factors. The credit enhancement levels are dynamic in these transactions based upon changes in the composition of the collateral in the fleet and changes in the ratings levels for the manufacturers of the



vehicles in the fleet. Appendix 1 provides a summary of DBRS's U.S. Rental Car ABS Stress Assumptions discussed above. In addition, the credit enhancement for those vehicles which would be disposed in the used car market will be subject to certain tests which are intended to true-up the enhancement in the transaction to the extent that either: 1) the market value of the vehicles in the fleet falls below the book value of the fleet; or 2) the actual disposition value received on vehicles sold falls below the book value of those vehicles.

DBRS has 3 levels of credit enhancement based upon the manufacturers' rating and the vehicle classification:

1. Program and Non-Program vehicles by below investment grade manufacturers (highest credit enhancement level);
2. Non-program vehicles by investment grade manufacturers (intermediate credit enhancement level);
3. Program vehicles by investment grade manufacturers (lowest credit enhancement level). In this credit enhancement level, BBB (low) rated manufacturers are limited to 10% of total vehicles. Those over 10% are enhanced at the intermediate credit enhancement level.

The highest and intermediate enhancement levels may be increased as a result of the outcome of two tests:

1. Mark-to-Market test – calculation of market value of the non-program and “adjusted program vehicles” over the net book value of those receivables. If the ratio is less than 100%, additional credit enhancement will be needed. “Adjusted program receivables” are program receivables where: (1) the manufacturer has filed for bankruptcy proceedings and the manufacturer has not yet affirmed the manufacturer program in the bankruptcy proceedings (as long as the bankrupt manufacturer continues to perform under the program and does not seek to reject the program) and (2) the lessee has chosen not to re-designate the program vehicle as a non-program vehicle. The market value is determined by the NADA guide or the Finance Guide. The adjusted program vehicles or vehicles re-designated as non-program vehicles following a bankruptcy of a manufacturer will not be included in the calculation until 90 days after the bankruptcy of the manufacturer.
2. Measurement month test – calculation of vehicle disposition proceeds over the net book value of those vehicles. If the ratio is less than 100%, additional credit enhancement will be needed.

In order to determine the extent of additional credit enhancement needed, the results of the mark-to-market and the measurement month tests are compared and the test requiring the highest level of additional enhancement will govern. In addition, the levels of credit enhancement will change as a manufacturer goes from investment grade to below investment grade (or vice versa).

A portion of this credit enhancement should be in liquid form to cover the payment of interest and expenses during any potential bankruptcy stay period and liquidation period.

Legal Criteria

DBRS reviews whether all necessary steps have been taken to perfect any sale of or a grant of a security interest in the assets being securitized. The SPE grants a first priority perfected security interest in the assets to the indenture trustee/custodian for the benefit of the holders of the rated securities.

In order to protect the transaction from the bankruptcy of the rental car company under a true lease, DBRS requests that the vehicles be titled in the name of the issuing SPE with the indenture trust/custodian named as lienholder on the certificate of title.

In addition, DBRS requests that certain opinions be in place (depending upon the details of any particular transaction):



1. A nonconsolidation opinion (of the lessor issuing SPE with the rental car company);
2. A security interest opinion which states that the indenture trustee/custodian has a valid first-priority perfected security interest in the assets (this may be requested only in states with above a certain % of vehicles);
3. A lease characterization opinion concluding that the lease entered into between the lessor issuing SPE and the rental car company and any other lessees is a true lease (in true lease deals) for bankruptcy purposes;
4. A preference opinion concluding that the lease payments do not constitute preferential transfers under Section 547 of the Bankruptcy Code; and
5. To the extent that the transaction analysis relies on performance by an automobile manufacturer under a repurchase agreement, a fraudulent conveyance opinion that funds paid by the manufacturer would not constitute a fraudulent conveyance in the event of bankruptcy of the manufacturer.

Please refer to the Legal Criteria for U.S. Structured Finance Transactions dated September 14, 2009 for a more detailed discussion of DBRS's legal criteria.



Appendix 1: DBRS Summary of U.S. Rental Car ABS Stress Assumptions

Ratings	BBB	A	AA	AAA
Bankruptcy Stay and Liquidation Period				
Bankruptcy Stay Period	2.0 months	2.0 months	2.0 months	2.0 months
Liquidation Period	1.5 months	3.0 months	5.0 months	7.0 months
Residual Value Loss Levels				
Investment Grade Program	Loss on ineligibles/turn-backs – stressed	Loss on ineligibles/turn-backs- stressed	Loss on ineligibles/turn-backs - stressed	Loss on ineligibles/turn-backs - stressed
Below Investment Program	18.0% - 22.5%	22.5% - 29.5%	29.5% - 36.0%	36.0% - 43.0%
Investment Grade Non-Program	12.0% - 15.0%	15.0% - 19.5%	19.5% - 24.0%	24.0% - 28.5%
Below Investment Grade Non-Program	18.0% - 22.5%	22.5% - 29.5%	29.5% - 36.0%	36.0% - 43.0%
Transaction Funding Costs and Expenses				
	Coverage of interest and liquidity costs during bankruptcy stay and liquidation. Replacement servicer fee incorporated. Reconditioning costs, ineligibles and salvage covered.	Coverage of interest and liquidity costs during bankruptcy stay and liquidation. Replacement servicer fee incorporated. Reconditioning costs, ineligibles and salvage covered.	Coverage of interest and liquidity costs during bankruptcy stay and liquidation. Replacement servicer fee incorporated. Reconditioning costs, ineligibles and salvage covered.	Coverage of interest and liquidity costs during bankruptcy stay and liquidation. Replacement servicer fee incorporated. Reconditioning costs, ineligibles and salvage covered.

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