



Methodology

*DBRS Master U.S. ABS Surveillance
Methodology*

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Insight beyond the rating.

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Rating U.S. Auto Lease Securitizations

Rating U.S. Wholesale Auto Securitizations

Rating U.S. Rental Car Securitizations

Rating U.S. Credit Card Securitizations

Rating U.S. FFELP Student Loan Transactions

Rating U.S. Private Student Loan Transactions

Rating U.S. Equipment Lease and Loan Securitizations

Rating U.S. Insurance Premium Finance Securitizations

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DBRS is a full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any financial institution, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

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.



DBRS Master U.S. ABS Surveillance Methodology

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Executive Summary

This methodology includes a description of the DBRS surveillance process including the rating committee process, the types of rating actions taken by rating committees, disclosure policies and procedures, as well as the sector specific methodologies employed by DBRS in the ongoing monitoring of the following asset types:

- Auto Loan
- Auto Leases
- Wholesale Auto (Dealer Floorplan)
- Rental Cars
- Credit Cards
- Federal Family Education Loan Program (FFELP) Student Loans
- Private Student Loans
- Equipment Loans and Leases
- Insurance Premium Finance
- Structured Settlements

General ABS Surveillance Methodology

Once DBRS assigns a final short and/or long-term rating to a security, the surveillance process begins and is continued for as long as DBRS maintains a rating on the security. DBRS monitors all of its outstanding public, Rule 144A and private ratings so that each rating reflects data and information sourced and received by DBRS. In general terms, ratings are opinions that reflect the creditworthiness of an issuer, a security, or an obligation.

DBRS conducts periodic reviews for all outstanding transactions and each transaction is reviewed by a rating committee at least once per year, on or before the anniversary of previous review by a rating committee, or "as needed" when a rating event occurs. For periodic reviews, data obtained from trustee/servicer reports and trusted third party sources is used to maintain databases that store data and calculate performance metrics. The periodic review conducted by DBRS consists of analyzing performance trends, comparing actual performance to DBRS initial expectations and forecasting collateral behavior and its impact on the rated securities. The evaluation also entails the review of transaction triggers that may change cash flow allocations or cause the replacement of key entities within the transaction structure and a review of relevant transaction parties that entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds. DBRS may also utilize a sector review, which is used to examine outstanding rated transactions in a given sector or asset class. When a periodic evaluation determines that a transaction's current rating may be inconsistent with its performance, a rating committee is typically convened for the purpose of determining the appropriate rating action(s).

PROCEDURES

DBRS obtains data from servicer remittance reports, as well as third party sources for its reviews, which typically occur with the same frequency as the receipt of servicer remittance reports. The data is either entered manually or migrated electronically into analytical tools and checked for accuracy by surveillance analysts. The tools calculate critical performance characteristics and maintain historical records of performance for trend analysis and comparison to DBRS original expectations. Structural features such as transaction triggers are reviewed against their respective thresholds, and performance vectors are derived and examined to derive a full picture of the transaction's performance. Stress levels and curves used are the same as those used in the current rating methodologies with base cases incorporating actual performance



RATING COMMITTEES

All DBRS ratings and rating actions are determined by rating committees. The purpose of DBRS rating committees is as follows:

- provide objective and independent rating decisions that are a reflection of DBRS opinion, rather than the view of an individual analyst or analysts;
- ensure rating decisions are based on sufficient information, incorporate both global and local considerations, and apply DBRS approved methodologies;
- provide a checkpoint for actual and perceived conflicts of interest among analysts; and standardize the rules, procedures and documentation processes to drive efficiency and adherence with respect to rating decisions.
- standardize the rules, procedures and documentation processes to drive efficiency and adherence with respect to rating decisions.

Rating committees are comprised of experienced and knowledgeable analysts, senior staff and management personnel. For monitoring existing securities, rating committees review each outstanding rating at a minimum of once per year on or before the anniversary of the transaction's previous rating committee date, or on an "as needed" basis as events warrant. This approach provides maximum flexibility, as well as permitting timely and informative rating decisions.

RATING ACTIONS

Over the life of each rated security, DBRS may change a rating by raising (upgrade), lowering (downgrade), keeping the rating the same (confirm) or ceasing monitoring of a rating (discontinue). Other rating actions include placing a rating "Under Review". When a material event occurs that may directly impact the credit quality of a particular security, DBRS attempts to provide an immediate rating opinion. If there is uncertainty regarding the outcome of the event, and DBRS is unable to provide an objective, forward-looking opinion in a timely fashion, the rating(s) of the transaction(s) are placed Under Review.

When a decision is made by DBRS to place a rating Under Review, DBRS provides initial guidance as to its opinion by noting whether the Under Review action has Positive, Negative or Developing Implications. These descriptors indicate DBRS preliminary view of the impact on the credit quality of the security. As situations and potential rating implications may vary, a final rating conclusion may depart from the preliminary assessment. Typically, the subsequent rating action for securities placed Under Review with Positive Implications is either an upgrade or a confirmation. The subsequent rating action for securities placed Under Review with Negative Implications is typically either a downgrade or confirmation. The subsequent rating action for securities placed Under Review with Developing Implications may be an upgrade, downgrade or confirmation. A Developing description is typically used when a structured finance security is highly dependent on a corporate entity that has been placed Under Review with Developing Implications.

In cases where a rating is placed Under Review, DBRS views this as a temporary situation and strives to complete its review and remove the rating from this status as soon as it is appropriate to do so. In the event that a lengthy Under Review period is anticipated, DBRS may provide such guidance in a press release and may, if appropriate, provide guidance as to the anticipated rating that would emerge under a proposed scenario. In the event that DBRS decides to discontinue a rating that is Under Review, DBRS resolves the Under Review status prior to the discontinuance.

RATINGS

DBRS employs different rating scales for short term debt and long term debt.

Short term debt is rated on a scale ranging from R1 (high), which is the highest rating, to D which is the rating for a defaulted security



Rating categories between R1 and D are denoted as R2 through R5. The two highest rating categories, R1 and R2, have subcategories of “high” and “low”, indicating a securities credit profile is at near the top or bottom of the range. A security in the R1 or R2 category with no designation of high or low means the rating is in the middle of the range. Please refer to dbrs.com Rating Scales for a full description.

The DBRS long-term debt rating scale ranges from “AAA” to “D” and with the exception of the “AAA” and “D” categories is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category. Below is a summary of the long term debt ratings scale.

AAA	Highest quality
AA	Superior quality
A	Good quality
BBB	Adequate quality
BB	Speculative
B	Highly Speculative
CCC	Very Highly Speculative
D	Defaulted

DISCLOSURE - PRESS RELEASES

DBRS typically discloses rating actions made on public and Rule 144A transactions through the publication of press releases with the goal to deliver high quality rating opinions in a timely manner to the market. Press releases contain the name of the issuer, the rating action taken, the final rating determined and the title(s) of the relevant methodology(ies) applied. For private ratings, a rating letter is typically provided to the sponsor of the transaction.

DBRS may publish a Performance Analytics Report (PAR) for public deals on www.dbrs.com. The PAR provides a summary of the transaction’s historical and current performance in a user-friendly format to enable market participants to assess ongoing performance.



Auto Loans

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for auto loan ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The auto loan securitization market can be segmented into prime and subprime. Issuers in the prime market segment are typically finance company subsidiaries of auto manufacturers, though there are some independent market participants as well. Borrowers in this category have higher credit scores and are typically financing newer vehicles. Generally, expected cumulative net losses on prime pools as a group have averaged in the 1% - 3% range, though in recessionary environments, losses have trended somewhat higher. The subprime segment is composed of independent finance company issuers. Borrowers in this category have lower credit scores and are typically financing used vehicles. Expected cumulative net losses on subprime pools have greater variability, depending on the financing company's targeted credit tiers (B, C or D) with losses ranging approximately from 5%-8% in the B category, to greater than 15% for the D category.

Auto loan securitizations are typically term structures, utilizing a senior subordinated capital structure. Currently, most term auto loan securitizations use an owner trust in order to re-allocate cash flows among securities and often include a short term money market tranche. Older deals utilized grantor trusts that required a pro-rata principal pay down of securities. Principal repayments in a term structure are usually either sequential or concurrent in nature. In a sequential pay structure, principal collected is allocated to the outstanding tranche with the shortest maturity. In concurrent structures, principal is allocated to maintain credit enhancement levels at a constant level based on the initial capital structure.

Warehousing structures, which are revolving in nature may also be issued. Warehouse structures are usually "termed out" periodically, wherein the assets are used to support a longer dated securitization and the proceeds from the sale of the term securitization are used to repay investors in the warehouse facility.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics in order to develop a more comprehensive picture of a transaction's performance.

A key performance vector evaluated is expected cumulative net losses ("CNLs"). Expected CNLs are measured against available credit enhancement to determine if the transaction is still within acceptable loss coverage ratios for its current rating. Other metrics for which vectors are developed typically include excess spread, delinquencies, repossession inventory and loss severity. These vectors along with event driven metrics such as transaction triggers and counterparty ratings are reviewed using a combination of trend and event analysis.

Gross Losses / Recovery Rates (or Loss Severity)

DBRS performs a cumulative net losses ("CNLs") calculation with the same frequency as transaction performance remittance reports are provided to investors. CNLs are a function of gross loss rates and recovery rates. Increased gross loss rates, even when recovery rates are constant, lead to higher net losses and greater stress on available credit enhancement. Additionally, loans that have been charged off due to contractual arrearages, rather than asset disposition, place liquidity stress on credit enhancement, as any offsetting recoveries will not be available until later in the transaction's life.

Expected gross loss rates vary by asset type (prime versus subprime) and by originator/issuer. This is



especially true of the subprime sector, where an issuer's targeted blend of credit tiering may range from a level below prime, or "B" quality, to deep subprime, or "D" quality loans. DBRS compares changes in loss rates on a monthly basis as well over three month and six month periods for trends. Cumulative losses are compared against expectations and stresses used in the original rating of the transaction and are also projected for comparison to available credit enhancement.

As recoveries reduce the losses a transaction's credit enhancement must absorb, the recovery rate is an important metric to monitor. Recovery rates are a function of the supply and demand for used autos. Factors that affect the supply and demand include seasonal changes, demand for new cars (which can be affected by manufacturer incentives among other things), market saturation by fleets of vehicles coming off lease, and general economic conditions. Lower than anticipated recovery rates not only represent increased stress in terms of greater losses on current defaults, they may signal greater than anticipated losses in the future, even if gross losses are within expectations. DBRS endeavors to monitor trends in recovery rates, typically over three and six month periods.

Projecting Expected Cumulative Net Losses ("CNL")

DBRS uses two methods for projecting the expected cumulative net loss of auto loan pools; the loss curve and the pool factor methods. The results of these loss projection methods are then measured against available credit enhancement and act as one of the factors, along with the performance trends discussed herein, to assess the overall performance of the transaction.

Loss Curve Method

This method assumes that losses are correlated with the timing of cumulative loss curves that has been developed by DBRS. To calculate CNLs using this method, current CNLs are first adjusted to include losses yet to be realized from delinquent loans. This loss pipeline, is calculated using historical delinquency roll rates and loss severity experienced by the pool, and adjusted to reflect its percentage of the transaction pool's original principal balance. The transaction's seasoning at the end of the pipeline is then plotted on the cumulative loss curve to ascertain the percentage of lifetime losses that will have been experienced at that point in time. To project lifetime CNLs for a transaction, the current adjusted CNLs are then divided by the percentage obtained from plotting the transaction's seasoning on the cumulative loss curve. In the final step, the current CNLs are subtracted from projected lifetime CNLs to arrive at the projected losses remaining.

For example, if current cumulative losses are 2.8%, another 0.2% of losses are in the delinquency pipeline, the pipeline is expected to account for the next three months of losses and the transaction is seasoned 23 months, the current CNLs would be adjusted to 3.0% (2.8% + 0.2%) and the cumulative loss curve would be consulted to see what percentage of losses are expected to have occurred by month 26 (23 + 3). If the curve assumes 45% of lifetime cumulative net losses will occur by month 26, the lifetime CNLs would be $.03 \div .45$, or 6.67%. The remaining CNLs would be 3.87%, or 6.67% - 2.80% (not minus 3.0% as the 0.2% pipeline represents losses that have not yet been realized).

Pool Factor Method

The pool factor method assumes that future losses continue at a rate correlated to the amortization of the pool. To calculate remaining losses using this method, current period CNLs are divided by one minus the current pool factor to arrive at projected lifetime losses. To arrive at the cumulative net losses remaining in the transaction, current net losses are then subtracted from the projected lifetime losses calculated in the first step. For example, if current cumulative net losses equal 2% and the pool factor is 60%, lifetime cumulative net losses are projected to be $.02 \div (1 - .6)$, or 5%. The losses remaining in the transaction would then be 5% - 2%, or 3%.

Credit Enhancement / Excess Spread

Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities (including administration fees such as servicing, etc). Excess spread absorbs losses each month



typically before other forms of credit enhancement are drawn upon. After losses have been absorbed, the amount of excess spread available, if any, is “net excess spread”, and may be used to replenish credit enhancement that has been reduced from losses in prior months. If net excess spread is not needed to replenish credit enhancement it may be released from the deal. Once released, it cannot be recaptured. DBRS typically monitors trends in gross and net excess spread as well as yield.

A pool’s yield may be affected by pool concentrations of subvented loans (i.e. loans with low annual percentage rates (APRs), such as from manufacturer incentive programs). The risk is typically mitigated by yield supplement accounts that are sized by discounting the notional value of such assets at a rate that ensures a targeted yield. The accounts may be in the form of cash or overcollateralization. When these accounts are utilized in a deal structure, DBRS monitors their balance as information is reported.

Credit enhancement may come in the form of subordination, overcollateralization, reserve accounts and excess spread (or a combination of these). Credit enhancement is monitored both in terms of its sufficiency to cover losses projected by DBRS and over time for trends.

Delinquency Rates / Repossession Inventory

Delinquency trends may be used to predict future loss trends. Beyond forecasting loss pipelines, certain patterns of delinquency behavior may also be indicative of other issues. Increasing overall delinquencies (that are not attributable to seasonality), roll rates that indicate a decreased number of “delinquency cures” or the build-up of seriously delinquent loans may be attributable to weakening macroeconomic conditions or be indicative of servicing issues. Either may have an impact on future pool performance and should be taken into consideration when evaluating a transaction.

Repossession (repo) inventory represents cars that have been repossessed, but not yet liquidated. Deal structures typically require a loan be charged off at the earlier of liquidation, a specific period of time after default, or a specified time after the auto has been repossessed. Hence, loans secured by vehicles in the repo inventory may have been fully charged off. As such, they represent unrealized recoveries and are monitored for their effect on asset cash flows. A growing repo inventory may be indicative of issues ranging from weak demand for used vehicles to servicer problems in liquidating the repossessed vehicles. Either of these situations would lead to lower recoveries, higher losses and greater stress on the transaction’s credit enhancement in the future.

DBRS monitors trends in delinquency rates in terms of monthly as well as changes over three and six month periods. Repossession inventory data, when available, is also monitored over the same time periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company’s DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Performance Triggers

Performance triggers are defined in the governing legal documents for each transaction. They are usually tied to delinquency and loss performance, but may be tied to other metrics that are of particular importance to a transaction. Remedies for breaches of these triggers may include increases in levels of credit enhancement as described in the transaction’s governing legal documents, reconfiguration of the deal cash flows or possibly replacement of transaction parties such as the servicer. DBRS reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.

Further information about DBRS rating methodology for auto loan securitizations can be found in the following publication available on the DBRS website:

“[Methodology: Rating U.S. Retail Auto Loan Securitizations](#)”



Auto Leases

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for auto lease ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

Auto lease securitizations are usually collateralized by closed end leases on new or used automobiles. Typically the lessor (a finance company or bank) purchases a vehicle from a manufacturer or dealer and leases it to the consumer. The lessee (i.e. the consumer) then pays the lessor for the right to use the vehicle during the term of the lease. At the end of the lease, the lessee typically has the right to purchase the vehicle for a pre-determined price set in the lease contract (the “residual” value of the vehicle). If the lessee does not exercise the option, the dealer may purchase the vehicle. If neither purchases the vehicle, the lessor retains ownership and must dispose of the vehicle, usually by selling it at auction. This could lead to the vehicle being disposed of for less than its contractual residual value. As the typical auto lease securitization includes the residual value component of the lease in the trust valuation, the securitization is exposed to this residual risk, in addition to the credit risk presented by the lessee defaulting on the lease contract.

The major industry participants acting as lessors are the captive finance companies of auto manufacturers. Much of their dominance can be attributed to the manufacturers’ use of subvention programs to increase vehicle sales, which allow the captives to offer more attractive rates to lessees. Additionally, captive finance companies generally have better channels for disposing vehicles not purchased at the end of lease, thus giving them another significant competitive advantage over banks and independent finance companies. While subvention programs increase the competitive advantage of captive finance companies, subvented rates decrease the “yield” on a portfolio, and must be addressed in the discounting of the lease cash flows.

Lessee groups may be segmented into prime and subprime. Prime pools of auto lease assets include obligors with higher credit scores and are typically secured by new vehicles with lease terms that tend to be somewhat longer. Subprime portfolios tend to include lower FICO lessees and are often secured by used vehicles leased for relatively short terms. Prime asset pools have typically experienced losses approximating 2% or less, while subprime pools may have losses that are several times that average. Historically, the majority of auto lease securitizations have been secured by prime pools.

Since the lessor retains ownership of the vehicle during the term of the lease, securitizations must transfer both the lease contracts and titles to the vehicles to a bankruptcy remote entity to isolate them from the lessor’s estate in case of a bankruptcy. While the use of titling trusts and the issuance of special unit benefit interest (or “SUBI”) certificates addresses this issue, in most states it creates another risk. If the originator has unfunded pension liabilities, the Pension Benefit Guaranty Corporation (“PBGC”) may put a lien on the originator’s assets that would supersede that of the securitization trust. To address this concern some structures require that an originator either not have unfunded pension liabilities or maintain an investment grade rating during the life of the securitization.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction’s credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

One of the key performance vectors evaluated is that for expected cumulative net losses (“CNLs”). Expected CNLs are measured against available credit enhancement to determine if the transaction is still



within acceptable loss coverage ratios for its current rating. Other metrics for which vectors are may be developed include residual value realization, turn-in rates, delinquencies and loss severity. These vectors are reviewed using a combination of trend and event analysis.

Credit Losses / Residual Losses

DBRS performs a cumulative net losses (“CNLs”) calculation with the same frequency as remittances to investors. CNLs are a function of both credit losses and residual losses. Credit losses arise from a combination of defaulted leases and recoveries that are insufficient to replenish the cash flow lost to the transaction. DBRS monitors changes in default and recovery rate patterns for monthly changes as well as those occurring over three month and six month periods for trends.

Residual losses arise when lessees (or dealers) do not purchase the leased vehicle for the pre-determined price and the financing company must dispose of the vehicle. Thus, they are a function of the turn-in rate (or the percentage of vehicles not purchased at the end of the lease) and the recovery rate on the vehicle when sold. Turn in rates are correlated with the accuracy of the initial residual value set at lease inception, and are influenced by supply and demand in the used vehicle market as well as by the make and model of the vehicle. Similarly, residual value realization rates are also correlated with used vehicle prices. Factors that affect the supply and demand in the used vehicle market include seasonal changes, demand for new cars (which can be affected by manufacturer incentives among other things), market saturation by fleets of vehicles coming off lease, and general economic conditions. DBRS monitors residual loss accumulation and when evaluating this metric.

Credit losses and residual losses are compared against expectations and stresses used in the original rating of the transaction, and are used in projecting total cumulative net losses for comparison to available credit enhancement.

Projecting Expected Cumulative Net Losses (“CNL”)

DBRS uses a two step method for projecting the expected CNLs in order to reflect the fact that pool losses may come from credit losses as well as residual losses. In the first step, credit losses are projected using the loss curve and pool factor methods. In the second step, turn-in rates are applied to the remaining balance of leases projected to survive then multiplied by the transaction’s adjusted historical residual recovery rate. Finally the credit loss projection and the residual loss projections are combined to arrive at a total CNL projection.

Projecting Credit Losses

DBRS uses two methods for projecting the expected cumulative net losses attributable to credit losses; the loss curve and the pool factor methods. The results of these methods are used in projecting CNLs that are then measured against available credit enhancement and act as one of the factors, along with the performance metric trends discussed herein, to assess the overall performance of the transaction.

Loss Curve Method

This method assumes that losses are correlated with the timing of a cumulative loss curve that has been developed by DBRS. To calculate credit related CNLs using this method, current credit related CNLs are first adjusted to include losses yet to be realized from delinquent loans. This loss pipeline is calculated using historical delinquency roll rates and loss severity experienced by the pool, and adjusted to reflect its percentage of the transaction pool’s original principal balance. The transaction’s seasoning at the end of the pipeline is then plotted on the cumulative loss curve to ascertain the percentage of lifetime losses that will have been experienced at that point in time. To project lifetime credit related CNLs for a transaction, the current credit related CNLs are then divided by the percentage obtained from plotting the transaction’s seasoning on the cumulative loss curve.

For example, if current credit related cumulative losses are 3.0%, another 0.2% of losses are in the delinquency pipeline, the pipeline is expected to account for the next three months of losses, and the



transaction is 20 months seasoned, the current credit related CNLs would be adjusted to 3.2% (3.0% + 0.2%) and the cumulative loss curve would be consulted to see what percentage of losses are expected to have occurred by month 23 (20 + 3). If the curve assumes 55% of lifetime cumulative net losses will occur by month 23, the lifetime credit related CNLs would be $0.032 \div 0.55$, or 5.82%. The remaining credit related CNLs would be 2.82%, or 5.82% - 3.00% (not minus 3.2% as the 0.2% pipeline represents losses that have not yet been realized). The current credit related CNLs are then subtracted from projected lifetime credit related CNLs to arrive at the credit related losses remaining.

Pool Factor Method

The pool factor method assumes that future losses continue at a rate correlated to the amortization of the pool. To calculate remaining losses using this method, current period credit related cumulative net losses are divided by one minus the current pool factor to arrive at projected lifetime credit related losses. To arrive at the cumulative credit related net losses remaining in the transaction, current credit related losses are then subtracted from the projected lifetime credit related losses calculated in the first step. For example, if current cumulative credit related net losses equal 3% and the pool factor is 40%, lifetime cumulative credit related net losses are projected to be $.03 \div (1 - .40)$, or 5%. The credit related losses remaining in the transaction would then be 5% - 3%, or 2%.

Projecting Residual Value Losses

To arrive at the survivor rate, the current principal balance of the pool is reduced by the defaults projected to occur in the first step of the process. The historical turn-in rate is adjusted by using DBRS rating based stresses, and multiplied by the surviving balance. Finally, the historical recovery rate, as adjusted by using DBRS rating based stresses is applied to the projected turn-ins to arrive at remaining residual losses in the transaction.

For example, if the pool factor is 60%, the remaining credit losses are projected to be 1.5% (of original principal balance) and historical recovery rates have been 50%, then the turn-in rate will be applied to 57%, or $(.60 - (.015 / .5))$. If a stressed 95% turn in rate is used, then we project 54.2% in remaining turn-ins. If the historical residual rate has been 97%, and a 10% recovery stress is applied, then we would expect approximately 6.88% in residual losses remain in the pool, or $.542 \times (1 - (.97 \times .9))$.

Projecting Cumulative Net Losses

In this step the projected credit losses and projected residual losses are combined. Using the example from above, if projected remaining credit losses are 1.50% and projected remaining residual losses are 6.88%, the projected cumulative net losses remaining are 8.38%, 1.50% plus 6.88%.

Credit Enhancement / Excess Spread

Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities (including administration fees such as servicing, etc). Excess spread typically absorbs losses each month, before other forms or credit enhancement are used. After losses have been absorbed, the amount of excess spread available, if any, is "net excess spread", and may be used to replenish credit enhancement that has been reduced from losses in prior months. If not needed to replenish credit enhancement, it is released from the transaction and cannot be reclaimed.

Auto lease securitizations often contain pool concentrations of subvented leases (with low financing charges) that will have a negative impact on yield. In such cases, synthetic excess spread may be created by discounting the cash flow from such leases at a rate that ensures a positive spread between the lease cash flow and the funding costs of the transaction.

Credit enhancement typically comes in the form of subordination, overcollateralization, reserve accounts and excess spread (or some combination of these). DBRS monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses projected by DBRS.



Delinquency Rates

Delinquency trends may be used to predict future loss trends. Increasing overall delinquencies, roll rates that indicate a decreased number of “delinquency cures” or the build-up of seriously delinquent loans may be attributable to weakening macroeconomic conditions but could also be indicative of servicing issues. Either may have an impact on future pool performance and must be taken into consideration when evaluating a transaction.

DBRS monitors trends in delinquency rates in terms of monthly change as well as changes over three month and six month periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company’s DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Performance Triggers

Performance triggers are defined in the governing legal documents for each transaction. Triggers are often tied to pool performance and breaches of triggers may necessitate changes such as increases in required credit enhancement or replacement of transaction parties such as the servicer. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for auto lease securitizations can be found in the following publications available on the DBRS website:

“[Methodology: Rating U.S. Auto Lease Securitizations](#)”



Auto Wholesale (“Dealer Floor Plan Loans”)

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for auto wholesale (Dealer floor plan loan) ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The assets in auto wholesale loan securitizations are revolving lines of credit that have been extended to auto dealerships in order to finance their inventory at wholesale rates. When an auto is sold by the dealership, the warehouse loan is repaid, and a new loan is usually taken out to purchase another auto for the dealership’s inventory. The loans may be extended by captive or independent finance companies. Often, captive finance companies that are subsidiaries of auto manufacturers are the lenders as they can provide attractive incentive rates to dealers.

Since the assets are expected to pay-off in a short period of time then be regenerated into a new asset, auto wholesale securitizations are typically structured utilizing a master trust structure. In a master trust structure, several series of notes may be issued and cross-collateralized by a single, large pool of assets. The series are structured with a revolving period, followed by an amortization (or accumulation) period, and triggers that place the transaction into a rapid amortization if breached.

The data monitored by DBRS reflects both the inherent performance characteristics of the collateral and the structure of the deal.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction’s credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics in order to develop a more comprehensive picture of a transaction’s performance.

Default & Loss Rates

Net losses are a function of default frequency and severity of loss upon disposition of the asset. DBRS examines changes in default and loss rates over monthly and three month periods.

Credit Enhancement

Credit enhancement may come in the form of subordination, overcollateralization, reserve accounts and excess spread (or typically, a combination of these). Credit enhancement is monitored both in terms of the level required by deal documentation and its sufficiency to cover losses projected by DBRS. Excess spread, a component of credit enhancement is monitored on the basis of monthly changes as well as changes over three month and six periods.

Portfolio Turnover (Monthly Payment Rates, Loan Aging)

Repayment rates are the key determinant in how quickly investors are repaid in a rapid amortization scenario, thus either extending or reducing the amount of time investors may be exposed to asset deterioration. Additionally, repayment rates may be used as a proactive indicator of deal stress. Slow repayment speeds that are not attributable to seasonality may be indicative of a lack of demand for the equipment and signal a forthcoming increase in defaults. Slow repayment rates may also be a sign that equipment is being sold “out of trust” (i.e. the proceeds from sale of the equipment are not being used to repay the inventory loan) which may indicate issues in the management of the program or, in a worst case scenario, fraud. While deals have trigger events tied to minimum repayment rates, in favorable economic conditions, the average repayment rate of many transactions is well above that trigger level. Trends in repayment rates are typically examined over monthly, three month and six month periods.



Portfolio aging, which is a function of repayment rates, often serves as an early warning of demand weakness, and due to the depreciating nature of the collateral, presents the potential for higher loss severities in the event of a default. DBRS monitors aging buckets to identify trends that may indicate a change in performance.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Revolving Periods and Pool Concentrations

Due to the revolving nature of the deal structure, a pool's composition may change over time. Transactions are structured with concentration limits on various characteristics such as dealer concentrations, asset type concentrations, or other pertinent risk factors. The monitoring of these concentrations not only provides insight into the management of the floor-plan program (and its compliance with limits in the legal documentation) but can also be utilized in predicting deal stress brought on by exogenous factors.

Performance Triggers

Asset pool performance or events related to the financial condition or performance of certain entities may trigger the early amortization of a transaction. These early amortization trigger events typically include a decline in repayment rates below a prescribed level, insolvency of certain key parties to the transaction such as a manufacturer, draws on credit enhancement, the invalidation or breaches of representations made in the transaction's documents and failure to remit collections on a timely basis. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for auto wholesale securitizations can be found in the following publications available on the DBRS website:

[“Methodology: Rating U.S. Wholesale Auto Securitizations”](#)



Rental Cars

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for rental car ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

In a rental car securitization, a special purpose entity (“SPE”), managed by a rental company under an administration agreement, acquires cars from an auto manufacturer. The purchase agreement for the vehicles also has a repurchase option whereby the manufacturer is obligated to buy the vehicles back from the SPE at a specified point in time. These vehicles are termed “program” vehicles. The SPE may also acquire vehicles that are not subject to repurchase. Vehicles not subject to a repurchase are termed “non-program” vehicles. The SPE then leases the vehicles it has acquired to a rental car company that in turn makes periodic lease payments to the SPE for use of the vehicles. The leases are typically true leases, wherein the titles to the vehicles are retained with the SPE. The SPE uses the lease payments from the rental company, the proceeds of the manufacturers’ repurchases and proceeds from the sale of non-program vehicles to repay investors.

Accordingly, there are three variables that may have an impact on the performance of rental car ABS: 1) the financial condition and quality of the rental car company as servicer/operator of the fleet and as lessee in the transaction, 2) the financial condition of the vehicle manufacturers in the transaction; and 3) the residual values of the vehicles in the transaction.

There are currently four major rental car participants in the market. Two are rated below investment grade by DBRS, the third maintains an internal assessment and the fourth is rated A (low). Historically, the rental fleets of the four participants have contained significant exposures to General Motors, Chrysler LLC and Ford Motor Company. With respect to residual value realization, the used car market has shown volatility over the years, and is subject to a variety of influences including seasonal fluctuations in demand, the demand for new cars (which can be affected by manufacturer incentives among other things), market over-supply (often by fleets of vehicles coming off-lease) and general economic conditions. Structures in rental car securitizations have evolved in an effort to manage the risk posed by these factors.

Rental car securitizations are typically structured as master trusts, wherein multiple series are issued and collateralized by a single pool of assets. The master trust series are structured with a revolving period, a controlled amortization period, and in the event of certain trigger breaches or covenant violations, a rapid amortization period. During the revolving period, only interest payments are made to investors and principal proceeds received from lease payments or the sale of vehicles are used to acquire new vehicles. In the controlled amortization period, interest and scheduled principal are paid to investors, and collections in excess of those obligations may be used to acquire new vehicles. If a rapid amortization event occurs, all cash collected is used to pay current interest and amortize the notes on an accelerated basis.

Securitizations of rental car fleets usually have a required asset amount or borrowing base that must be maintained in order to ensure that there are adequate assets to repay the asset-backed notes in the case of a bankruptcy and liquidation of the fleet. The borrowing base calculation typically includes 1) the net book value of program and non-program vehicles, 2) accrued and unpaid lease payments due from the rental company, 3) receivables due from investment grade manufacturers for program vehicles returned, 4) receivables due from auctions of vehicles and 5) cash and permitted investments on deposit in the collection account. Amounts due from manufacturers with below investment grade credit ratings or in bankruptcy are usually excluded, as are balances due for sold vehicles that have aged beyond specified time limits (typically between 30 and 90 days). If the borrowing base cannot be maintained then an early amortization event will be triggered. Marked-to-market and measurement tests help to establish



the net book value of vehicles to ensure it is in line with market values upon liquidation of the vehicles. The marked-to-market test compares the market value of vehicles not covered under a repurchase agreement to their net book value. The measurement test compares the proceeds of actual vehicle dispositions against their respective net book values. The test requiring the largest amount of credit enhancement is the one used to calculate borrower base sufficiency.

Triggers related to the rental car company's financial condition and performance, vehicle manufacturer financial condition and the residual value of vehicles are also contained within the structure of a typical rental car securitization. The breach of a trigger may result in a variety of events ranging from early amortization to creating a repurchase obligation of collateral.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavours to monitor the following performance metrics in order to develop a more comprehensive picture of a transaction's performance.

Residual Value of Vehicles

Rental car securitizations are exposed to the residual values of non-program vehicles as well as of vehicles for which the manufacturer is unwilling or unable to honor its repurchase agreement. In those instances, the value of those vehicles is realized through a sale in the used car market. The lease payments made by the rental car company are designed to cover the depreciation of the vehicles. To the extent the vehicles do not depreciate in line with expectations, gains or losses are realized on their sale. DBRS monitors performance indicators of these metrics over three and six month periods.

Credit Enhancement

Credit enhancement levels in rental car securitizations are dynamic. They are based upon changes in the composition of the collateral and in the ratings of the vehicle manufacturers. Credit enhancement may come in the form of a combination of subordination, overcollateralization, letters of credit, cash and/or a surety bond. A portion of the credit enhancement is typically in liquid form in order to cover the payment of interest and expenses during a bankruptcy scenario of the rental car company, where lease payments may be interrupted. Credit enhancement is monitored for changes over monthly, three and six month periods for signs of deterioration.

Pool Concentrations

Because of the potential for change in asset pool composition, transactions typically have concentration limits. Due to the impact that a manufacturer bankruptcy may have on a rental car transaction, limits on the amount of vehicles allowed from each manufacturer may be incorporated into the transaction's structure. Similarly, the mix of program and non-program vehicles in the pool may have significant impact on the residual values realized upon vehicle disposition, as non-program vehicles will need to be sold rather than be repurchased. DBRS endeavors to monitor concentration levels against applicable requirements.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Triggers / Events of Default

As discussed earlier (in the "Overview" section), transactions typically must maintain a minimum borrowing base. If the borrowing base cannot be maintained, then an early amortization event is triggered. Other events of early termination typically include the failure of the transaction to pay interest or principal when due, the occurrence of a lease agreement default or a failure to maintain the required levels of credit enhancement or liquidity as dictated by the transaction's legal documents.



The events of lease default usually relate to the rental company's financial condition or the performance of its duties under the lease agreement. These events generally include the rental car company's failure to pay scheduled payments on any lease, its voluntary or involuntary bankruptcy, its failure to comply with the terms of the lease agreement or a material breach of a representation or warranty it has made in the transaction's documentation.

Events of default pertaining to the manufacturers that supply vehicles are also included in the structure of the typical rental car securitization. The primary event of default is usually related to the bankruptcy of a manufacturer. The occurrence of a manufacturer default typically requires the issuer to either repurchase/remove vehicles covered under repurchase agreements with the bankrupt manufacturer or supply additional credit enhancement to cover the potential default of the manufacturer in its repurchase obligation. Generally, the manufacturer event of default does not occur until a specific time after the bankruptcy filing (often 30 days). This provides the bankrupt manufacturer time to affirm its buyback obligations in court, and preclude the event of default. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for rental car securitizations can be found in the following publications available on the DBRS website:

[“Methodology: Rating U.S. Rental Car Securitizations”](#)



Credit Cards

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for credit card ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The assets in credit card securitizations are the receivables generated from cardholder usage. Cardholders may pay their principal balance in full each month (i.e. “convenience users”) or carry a balance from month to month (i.e. “revolvers”). Due to the potentially short life of the receivables, credit card securitizations utilize a structure that has a revolving period followed by an amortization period. The breach of triggers related to certain performance metrics, the failure of the sponsor to comply with its obligations, or the failure of the trust to meet its payment obligations will cause an early amortization of the transaction.

While this is the general structure used, there can be significant variations that will have an impact on how investors are paid in the event of an early amortization. Many credit card securitization sponsors utilize a master trust structure. A master trust structure allows a sponsor to issue multiple series and collateralize them with a single receivables pool. Methods for allocating cash among series can differ between master trusts, and in the event of an early amortization, may change within the same master trust.

The credit card industry may be segmented by the type of card, and by the type of obligor. Credit card types can be categorized into general usage cards which are typically issued by banks, and private label cards, which may be issued by a variety of entities, from specialty banks to retailers. As the universe of merchants that accept a private label card may be limited to the issuer of the card, especially in the case of retailer-issued cards, exogenous events can have a more significant impact on the performance of these portfolios than on general use cards.

Credit card obligors can be categorized into prime and subprime. Prime obligors have lower annual percentage rates (APRs) and higher credit limits while the opposite is true of subprime obligors. While most credit cards are unsecured obligations of the cardholder, some subprime obligors are required to post deposits that secure their usage of the card.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction’s credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Charge-Offs / Delinquencies

Charge-offs are loans written off as uncollectible by the issuing entity, net of recoveries. Most credit card issuers are subject to federal banking regulations that require an account to be charged off at the earlier of the time at which it becomes 180 days delinquent or 60 days after notification of the bankruptcy of the obligor. Issuers of private label cards that are not subject to federal banking regulations may have different guidelines for charging off accounts. Most issuers pursue recoveries through a combination of internal collections, the use of outside collection agencies, sales of delinquent and/or charged off loans and through legal channels. In the case of subprime obligors who have posted a deposit, the deposit may be claimed as a recovery by the issuer. Increased charge-off activity is typically the result of macroeconomic conditions, but may also be a sign of problems in the servicing of the accounts.



Delinquency rates are early indicators of deterioration or improvement in portfolio performance, though seasonal variations must be taken into account when analyzing changes. Increasing rates of seriously delinquent accounts can signal future stress on a transaction resulting from weakening macroeconomic conditions or other changes in cardholder behavior brought on by exogenous events. DBRS endeavors to monitor charge-off rates on a gross (i.e. before recovery) and net basis over monthly as well as three and six month periods and compared with stresses used in deriving the transaction's original rating. Delinquency rates are typically monitored using monthly changes in activity as well as changes over three month and six month periods.

Credit Enhancement Excess Spread

Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities (including administration fees such as servicing, etc.). Excess spread absorbs losses each month, before other forms or credit enhancement are used. After losses have been absorbed, the amount of excess spread available, if any, is "net excess spread", and may be used to replenish credit enhancement that has been reduced from losses in prior months. If not used to replenish credit enhancement, it may be released from the deal, and will not be subject to recapture. DBRS monitors trends in excess spread by examining monthly changes as well as three month and six month moving averages.

Credit enhancement typically is in the form of subordination, overcollateralization, cash collateral accounts and excess spread (or some combination of these). Credit enhancement is monitored against original enhancement levels and for signs of deterioration.

Payment Rate

Payment rate is calculated by dividing the total monthly collections received by the beginning period receivables balance. It is an important metric in that it determines the length of time needed to repay noteholders during either controlled accumulation or early amortization periods. In the case of an early amortization, a low payment rate will result in noteholders being exposed to risk for a longer period of time.

Payment rates are a function of the percentage of "convenience" users in the pool as well as of delinquencies and charge-offs. A declining trend in a payment rate that is not attributable to seasonal fluctuations may be a sign of a change in payment policy by the issuer, or in payment behavior by obligors. This trend may be a sign of a weakening obligor base that may result in increased delinquency and default activity. Trends in payment rate are monitored using changes over monthly as well as three and six month periods.

Yield

The yield on a credit card portfolio is comprised of interest charges, annual fees, late payment fees, over-limit fees, and interchange. Occasionally, recoveries from charged-off accounts are included, depending on the transaction's governing documents. DBRS tracks the individual components of yield separately, to the extent data is available. This allows DBRS to assess trends at a more detailed level, and make more precise adjustments to yield when cash flow modeling.

Credit cards have interest rates that are based on a fixed or floating rate, plus a spread or "premium". As the premium is based on the credit quality of the obligor, portfolios of lower credit quality accounts typically have higher yields than portfolios with accounts comprised of obligors with stronger credit profiles. The portfolio's composition with respect to "convenience" users and "revolvers" also have an impact on yield as "convenience" users do not generate interest income for the portfolio, only interchange and potentially, annual fee income. DBRS monitors trends in yield by observing changes over monthly as well as three and six month periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.



Triggers

Events related to asset pool performance or events involving the program sponsor may trigger an early amortization of a transaction. These early amortization trigger events typically include a decline of payment rates or excess spread below a prescribed level, an insolvency of key parties to the transaction, failure of a sponsor to maintain its pro-rata interest in the receivables pool (sometimes referred to as the “seller’s interest”), or a breach in the performance of the sponsor with regard to representations or warranties it has made in the transaction’s documents. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for credit card securitizations can be found in the following publications available on the DBRS website:

“[Methodology: Rating U.S. Credit Card Securitizations](#)”



Federal Family Education Loan Program (FFELP) Student Loans

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for Federal Family Education Loan Program (FFELP) student loan ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The student loan securitization market consists primarily of two types of loans, federal loans under the FFELP loans and private loans (“PSLs”). PSLs are covered in the next section of the report.

The terms of FFELP loans are governed by the Higher Education Act of 1965 (Act) and all subsequent reauthorizations of the Act since that time. FFELP loans are used to fund educational expenses at eligible educational institutions as determined by regulations promulgated by the U.S. Department of Education (ED), which include primary, secondary, post-secondary, graduate, and professional/career training schools.

Regulatory changes that are made through the reauthorization process are typically prospective in nature. However, DBRS evaluates all program changes and their potential effects on all outstanding ratings, as certain changes could impact the qualitative and/or quantitative analytical considerations of outstanding debt.

Loan Types

FFELP loans can be categorized into four main categories; 1) subsidized Stafford loans, for undergraduate and graduate students meeting a financial “needs” test, 2) unsubsidized Stafford loans, for undergraduate and graduate students regardless of financial need, 3) PLUS (and GradPLUS) loans, for parents of students as well as graduate and professional students, and 4) Consolidation loans, for any FFELP borrower.

Underwriting, Guarantee and Reinsurance by the ED

FFELP loans typically undergo minimal credit underwriting, but are guaranteed by eligible guarantee agencies and reinsured by the U.S. Department of Education (ED) between 97% and 100% of defaulted principal and interest, depending on the disbursement date of the loan and the guarantor’s historical default performance.

For loans disbursed after July 1, 2006 the reimbursement rate is 97%. For loans disbursed between October 1, 1993 and June 30, 2006, the reimbursement rate is 98%. For loans disbursed prior to October 1, 1993, the reimbursement rate is 100%. For guarantors with historical default rates above certain thresholds, the reinsurance rate may be reduced.

Interest Rates

Interest rates on FFELP loans are set by the ED. Loans originated since 1998 typically have variable interest rates based on 90-day commercial paper that re-set annually and subject to a lifetime cap. The interest rates on loans depend on several factors, including when the loan was made, whether the borrower is still in school or in deferment, or whether the loan is subsidized or unsubsidized. For certain types of loans, interest is subsidized by the ED during periods when the borrower is not required to make payments. Interest on unsubsidized loans is capitalized during periods when the borrower is not required to make payments.



Special Allowance Payments

A feature unique to the FFELP program is the presence of “special allowance payments” (or “SAP”). Under this program, in periods of rising interest rates, holders of FFELP student loans are paid a quarterly payment by the ED based on the amount by which the 90 day Commercial Paper rate plus a spread (the “SAP rate”) is greater than the interest rate on the loans. However, for loans originated after April 1, 2006, while loan holders continue to receive payments in rising interest rate environments, in declining interest rate environments, rebates based on the amount by which the loan rate exceeds the SAP rate will become payable to the ED. This essentially turns loans originated after April 1, 2006 into floating rate instruments, irrespective of their note interest rate structure. For loans disbursed previous to April 1, 2006, no such rebate is payable.

Origination and Servicing

To be eligible for the reinsurance after a loan default, the loan must have been originated and serviced by eligible lenders and servicers in accordance with FFELP regulations and guidelines. Failure to comply with the regulations and guidelines may result in rejection of a default claim. Typically, FFELP portfolios have exhibited low levels of realized losses, primarily due to the presence of the guarantee.

Borrower Benefits

FFELP borrowers who have a payment history containing no delinquencies may be eligible for “borrower benefits” such as interest rate reductions for scheduling automatic payments or for making a certain number of consecutive on-time monthly payments. Another borrower benefit can be loan forgiveness. This benefit is usually tied to social programs and typically offered to borrowers who are willing to teach or practice medicine in specified geographic regions for a specified period of time.

Financial Structure

FFELP loan securitizations may utilize either a term owner trust structure with discrete, non-revolving collateral pools, or a master trust structure wherein multiple series of securities may be issued and cross-collateralized by a single pool of loans. A senior/subordinated capital structure is generally utilized with principal repayment accomplished through a sequential pay mechanism with a “step-down date”. After the step-down date, if performance metrics are being met, the principal distribution method will convert to a pro-rata pay structure. However, if performance metrics are not being met, the deal may de-lever by re-directing all principal, and in some instances subordinated interest to amortize the senior notes.

Student loan securities may be fixed-rate or variable-rate. Some variable-rate securities are auction-rate notes, meaning the interest rate is determined through a periodic auction process. If an auction fails, the interest rate is usually reset to a maximum rate specified in the offering documents. If the maximum rate is linked to an index, an auction failure may expose a transaction to increased basis risk. Additionally, auction rate securities may have available funds caps that limit rates on the notes to the net loan rate on the loans, which could lead to interest shortfalls in transactions with parity levels of less than 100%.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction’s credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Parity Ratios

Parity is the ratio of assets to liabilities (i.e. the ratio of the principal balance of the loans to the principal balance of notes outstanding). When a transaction’s parity ratio is less than 100%, it has more liabilities than assets. If parity is not restored by final maturity, the transaction will not have enough cash to fully repay the notes outstanding. Parity ratios of less than 100% also increase liquidity stress on transactions, result in less excess spread and may result in interest shortfalls in certain scenarios.



FFELP securitizations typically have parity triggers that if not satisfied may result in various structural changes including the redirection of principal and interest from subordinated to senior noteholders to build parity, or the restriction of distributions to residual holders in order to use the excess funds to replenish credit enhancement. Student loans often have parity ratios of less than 100% at origination due to the acquisition of collateral at more than par, and use excess spread to build to required parity levels. Other deals are pre-funded, meaning the note sale proceeds are put into an account and used to acquire additional collateral. In the case of pre-funded transactions, the negative carry between the account holding the proceeds and the outstanding notes is covered by a pre-funding interest account.

DBRS monitors both senior parity (the ratio of collateral to senior notes) and overall parity (the ratio of all collateral to all notes outstanding) over monthly, three and six month periods.

Claims Filed / Claims Rejected / Delinquencies

As noted, FFELP loans are guaranteed against default by third-party guarantors and reinsured for between 97% and 100% of principal and accrued interest by the ED. In 2012, the reimbursement rate will be reduced to 95%. Claims for non-payment due to reasons other than default (death, disability, etc.) may be reinsured for 100% of principal and accrued interest.

FFELP loans are considered defaulted and eligible for claim when they become 270 days delinquent. Provided the loan was originated and serviced in accordance with federal guidelines, the guarantor will purchase a defaulted loan within 30 days from the filing of the claim. The guarantor then has 30 days to submit a reinsurance reimbursement claim to the ED.

If a claim is ultimately rejected the prospects for recovery are improved by the fact that student loans are not dischargeable in a bankruptcy, but it is highly unlikely the same level of recovery will be achieved. DBRS endeavors to examine data in the periodic reports to discern claim rates, reimbursements and the accumulation of rejected claims.

Delinquency rates are generally early indicators of deterioration or improvement in portfolio performance. However, some servicers use forbearance and deferment as default mitigation tools, so reported delinquencies may not present a complete picture of distressed loans in a portfolio, and sometimes adjustments to include loans in deferment or forbearance must be made. Delinquency rates are monitored over monthly, three and six month periods.

Excess Spread / Credit Enhancement / Liquidity Reserves

Credit enhancement is derived from the ED reinsurance, subordination, overcollateralization, reserve accounts and excess spread (or some combination of these). Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities (including administration fees such as servicing, etc.). Excess spread absorbs losses each month and is utilized to achieve or replenish required parity levels. Many student loan deals were structured as premium proceeds structures (more liabilities issued than assets) with parity ratios below 100%. These transactions use excess spread to accelerate the amortization of senior notes and build to required parity ratio levels.

As unsubsidized loans included within an asset pool may not be generating interest cash flow due to the student's use of permitted grace, deferment or forbearance periods, FFELP securitization structures generally incorporate reserve accounts to mitigate the liquidity stress of these loans. Typically these reserves are fully funded at the time the transaction is closed, and may be replenished from available funds. The reserve account requirement may be a set amount or may decline based on the underlying bond or collateral balance to a specified floor.

Capitalized interest accounts or cash capitalization accounts may also serve as liquidity reserves, and are intended solely to cover interest shortfalls stemming from non-cash flowing student loans. They are fully funded at closing and usually step down in size over the first few years of the transaction. Unlike reserve accounts they are not replenished from available funds.



DBRS monitors credit enhancement levels over three, six and nine month periods for trends or signs of deterioration.

Grace/Forbearance/Deferment Levels

Unsubsidized loans in grace, deferment or forbearance categories are not paying interest and thus reduce yield. The amount of loans in grace, forbearance and deferment are monitored over monthly, three and six month periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Triggers

As discussed previously, FFELP securitization structures sometimes use step-down dates and triggers that will affect the principal repayment methodology for noteholders. Trigger events typically include minimum parity ratios, cumulative default rates and net loss rates. The breach of triggers may redirect principal or interest from subordinated note holders to build parity, or prevent the release of excess funds to residual holders and instead require it to build or replenish credit enhancement. In other structures triggers may also serve to increase credit enhancement, or place transactions into accelerated amortization. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance..

Note:

Further information about DBRS rating methodology for FFELP student loan securitizations can be found in the following publications available on the DBRS website:

“[Methodology: Rating U.S. FFELP Student Loan Transactions](#)”



Private Student Loans

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for Private Student Loan ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The student loan securitization market consists primarily of two types of loans, private loans (“PSLs”) and federal loans under the Federal Family Education Loan Program (“FFELP” loans).

PSLs are used to fund education at various institutions, including primary, secondary, post-secondary, graduate, and professional/career training schools. While both FFELP and PSLs are typically funded by commercial banks, PSLs have no federal guarantees and are subjected to credit underwriting guidelines and serviced in the manner of an unsecured consumer loan. However, unlike the typical consumer loan, student loans are not dischargeable in bankruptcy. Therefore recovery rates tend to be higher than some other types of unsecured consumer debt.

Several factors affect the overall default performance of a PSL pool. These factors include the source channel, the type of student, the type of school and whether the loan is co-signed or not. Lenders usually source the loans either from school financial aid offices or direct to the consumer marketing efforts. Typically loans sourced from direct to the consumer marketing efforts exhibit a greater range of credit quality and performance as students not referred by a school’s financial aid office may not have received financial aid or debt management counseling. The program type (undergraduate, graduate, professional or vocational) will also have an impact on performance as professional and graduate students will generally have higher incomes and better resources with which to repay the loan. Additionally, graduate and professional students typically have more experience in managing personal finances than do undergraduate students. Similarly, the type of school (proprietary, two year, four year, graduate) will also affect performance for the same reasons as the program type.

Because students usually have limited or no credit history, PSL loans are often co-signed by a third party, typically the student’s parents. A co-signer is fully obligated on the loan, and typically has an established credit history and demonstrated experience in managing personal finances.

Aside from being non-dischargeable in bankruptcy, student loans have features that distinguish them from other forms of unsecured personal debt. Many PSL lenders provide borrowers with in-school grace periods, deferment and forbearance options. During grace periods, which are typically while the student is enrolled in school and sometimes for a certain period of time after graduation, lenders may require borrowers to only make minimum interest payments or no payments at all. During these grace periods, unpaid interest is capitalized. The liquidity risk to the securitization transaction is typically addressed by incorporating reserve accounts in the transaction structure.

In addition to periods of grace, deferment or forbearance, some PSL lenders offer borrower benefits such as interest rate reductions for scheduling automatic payments or for making a certain number of consecutive on-time monthly payments. Generally, the use of borrower benefits is not as widespread among PSL lenders as it is among FFELP lenders.

Structurally, most PSL securitizations utilize an owner trust structure with discrete, non-revolving collateral pools and a senior/subordinated capital structure. The principal payment method typically used is a sequential pay mechanism with a “step-down date” (similar to the structures used in many RMBS securitizations). After the step-down date, which is usually five to seven years after a transaction’s origination, if performance metrics are being met, the principal distribution method will convert to a pro-rata



pay structure. However, if performance metrics are not being met, the deal may de-lever by re-directing all principal, and in some cases, subordinated interest, to amortize senior notes.

Student loan securities may be fixed-rate or variable-rate. Some variable-rate securities are auction-rate notes, meaning the interest rate is determined through a periodic auction process. If an auction fails, the interest rate is usually reset to a maximum rate that specified in the offering documents. If the maximum rate is linked to an index, an auction failure may expose a transaction to increased basis risk. Additionally, auction rate securities may have available funds caps that limit rates on the notes to the net loan rate on the loans, which could lead to interest shortfalls in transactions with parity levels of less than 100%.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction's performance.

One of the key performance vectors evaluated is that for expected cumulative net losses ("CNLs"). Expected CNLs are measured against available credit enhancement to determine if the transaction is still within acceptable loss coverage ratios for its current rating. Other metrics for which vectors may be developed include delinquencies, forbearance and deferment ratios, and parity levels. These vectors are typically monitored using a combination of trend and event analysis.

Losses / Delinquencies

Losses are a function of default rates and recovery rates. Default rates on PSLs have tended to be lower than on FFELP loans. This may be attributed to the facts that; 1) they are more stringently credit underwritten, and 2) often have co-signers. Since they are not guaranteed, as FFELP loans are, the loss severity on PSLs tends to be higher than those on FFELP loans. However, the recovery rate on PSLs is typically greater than other types of unsecured consumer loans. The higher recovery rates may be attributed to the presence of a co-signer (which gives the servicer another party to contact for repayment) and the fact that student loans are not dischargeable in a bankruptcy.

Delinquency rates are generally early indicators of deterioration or improvement in portfolio performance. Increasing rates of delinquent accounts can signal future stress on a transaction resulting from weakening macroeconomic conditions and place additional liquidity stress on a transaction's structure. However, some servicers use forbearance and deferment as default mitigation tools, so reported delinquencies may not present a complete picture of distressed loans in a portfolio, and sometimes require adjustment.

DBRS endeavors to monitor losses on gross (i.e. before recovery) and net bases over monthly as well as three and six month periods. Levels of losses are monitored for trends and projected out for comparison to available credit enhancement. Delinquencies are monitored over monthly, three and six month periods.

Projecting Expected Cumulative Net Losses ("CNLs")

DBRS endeavors to use two methods for projecting the expected cumulative net losses attributable to credit losses; the loss curve and the pool factor methods. The results of these methods are used in projecting CNLs that are then measured against available credit enhancement and act as one of the factors, along with the performance metric trends discussed herein, to assess the overall performance of the transaction. The pool factor method is not utilized during revolving periods when collateral is being added to a pool.

Pool Factor Method

The pool factor method assumes that future losses will continue at a rate correlated to the amortization of the pool. To calculate remaining losses using this method, current period CNLs are divided by one minus the current pool factor to arrive at projected lifetime losses. To arrive at the CNLs remaining in the



transaction, current losses are subtracted from the projected lifetime losses calculated in the first step. For example, if current CNLs equal 2% and the pool factor is 40%, lifetime CNLs are projected to be $0.02 \div (1.0 - 0.4)$, or 3.33%. The losses remaining in the transaction would then be 3.33% - 2.00%, or 1.33%.

Loss Curve Method

This method assumes that losses will be correlated with the timing of cumulative loss curves that have been developed by DBRS. To calculate CNLs using this method, current cumulative net losses are first adjusted to include losses yet to be realized from delinquent loans. This loss pipeline is calculated using historical delinquency roll rates and loss severity, and adjusted to reflect its percentage of the transaction pool's original principal balance. The transaction's seasoning at the end of the pipeline is then plotted on the cumulative loss curve to ascertain the percentage of lifetime losses that will have been experienced at that point in time. To project lifetime CNLs for the transaction, the current adjusted CNLs are then divided by the percentage obtained from plotting the transaction's seasoning on the cumulative loss curve. In the final step, the current CNLs are subtracted from projected lifetime CNLs to arrive at the losses remaining. For example, if current cumulative losses are 1.00%, another 0.75% of losses are in the delinquency pipeline, the pipeline is projected to be six months and the deal is seasoned 24 months, the CNLs would be adjusted to 1.75% (1.00% + .75%) and the cumulative loss curve would be consulted to see what percentage of losses are expected to have occurred by month 30 (24 + 6). If the curve assumes 35% of lifetime cumulative net losses will occur by month 30, the lifetime CNLs would be $.0175 \div .3500$, or 5%. The remaining unrealized losses are then 4%, or 5% - 1% (not minus 1.75% as the 0.75% pipeline has not yet been realized).

Excess Spread / Credit Enhancement / Liquidity Reserves

Credit enhancement typically is in the form of subordination, overcollateralization, reserve accounts and excess spread (or a combination of these). Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities (including administration fees such as servicing, etc.). Excess spread absorbs losses each month, before other forms or credit enhancement are used. After losses have been absorbed, the amount of excess spread available, if any, is "net excess spread", and may be used to replenish reserve accounts. If not needed to increase credit enhancement levels, net excess spread may be released from the deal and is not subject to recapture. DBRS monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses projected by DBRS.

As some loans included within an asset pool may not be generating interest and principal cash flow due to the student's use of permitted grace, deferment or forbearance periods, PSL securitization structures generally incorporate reserve accounts to mitigate the liquidity stress presented by loans that are not cash flowing. Typically these reserves are fully funded at the time the transaction is closed, and may be replenished from available funds. The reserve account requirement may be a set amount or may decline to a floor amount based on the underlying bond or collateral balance. The reserve account may also be used as credit enhancement.

Capitalized interest accounts or cash capitalization accounts may also serve as liquidity reserves, and are intended solely to cover interest shortfalls stemming from non-cash flowing student loans. They are fully funded at closing and usually step down in size over the first few years of the transaction. Unlike reserve accounts they are not replenished from available funds. DBRS monitors reserve and capitalized interest accounts over monthly, three and six month periods.

Parity Ratios

Parity is the ratio of assets to liabilities (i.e. the ratio of the principal balance of the loans to the principal balance of notes outstanding). A transaction with a parity ratio of less than 100% has more liabilities than assets. Consequently it will not have enough cash to fully repay the notes outstanding if parity is not restored by final maturity. Parity ratios of less than 100% also increase liquidity stress on transactions, result in less excess spread to absorb losses and in certain scenarios, may lead to interest shortfalls. PSL securitizations typically have parity triggers that if not satisfied result in various structural changes includ-



ing the redirection of principal and interest from subordinated to senior noteholders to build parity, or the restriction of distributions to residual holders in order to use the excess funds to replenish credit enhancement. Student loans often have parity ratios of less than 100% at origination due to the acquisition of collateral at more than par, and use excess spread to build parity to required levels. DBRS monitors both senior parity (the ratio of collateral to senior notes) and overall parity (the ratio of all collateral to all notes outstanding) over monthly, three and six month periods.

Grace/Forbearance/Deferment Levels

Borrowers in these categories are either not paying interest or are paying a reduced level of interest. The percentages of loans in grace periods, forbearance and deferment are monitored over monthly, three and six month periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Triggers

As discussed previously, most PSL securitizations are structured with step-down dates and triggers that may affect the principal repayment methodology for noteholders. Triggers events typically include minimum parity ratios, cumulative default and net loss rates. The breach of triggers may redirect principal or interest from subordinated note holders to build parity, or prevent the release of excess funds to residual holders and redirect it to increase parity or fund reserves. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance..

Note:

Further information about DBRS rating methodology for private student loan securitizations can be found in the following publications available on the DBRS website:

“[Methodology: Rating U.S. Private Student Loan Transactions](#)”



Equipment Loans and Leases

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for equipment loan and lease ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The loan and lease equipment market may be segmented by equipment-type, lease type and participant. Each of these factors has significance in monitoring the performance of a transaction.

Participants

Generally, the participants in this market can be categorized into captive finance companies and independent leasing companies. Captive finance companies are the financing arms of a manufacturer. Typically they are wholly-owned and supported financially by the sponsoring parent. The sole purpose of the captive leasing company is to facilitate the leasing of the parent's manufactured products. Hence, their product offerings are usually narrow and targeted at specific industries such as agriculture or construction. Typically, portfolios of captive finance companies exhibit low losses. They are, however, tied to the fortunes of their parent manufacturing company and to those of specific industry sectors.

Independent "specialty finance" lessors can be further subdivided into independent leasing companies and bank financiers. Independent leasing companies can range from large to small in terms of portfolio size and capitalization. Large independent leasing companies depend on their own product expertise and capital, and because they typically do not have alliances with any one specific manufacturer, tend to offer a broad array of products. Large leasing companies usually have a national presence, with large and diversified product lines and are typically more strongly capitalized (often with an investment grade rating). Medium and small leasing companies may be less diversified in terms of product lines, and are usually not as well capitalized as larger leasing companies (and may be unrated or have a non-investment grade credit rating). Medium and small leasing companies may also have limited depth of management and be heavily reliant on the retention of certain personnel (commonly referred to as "key person" issues).

Bank financiers range from large money center banks to small community banks. Larger banks tend to have a broader focus and more diversified lines of products, while smaller banks tend to focus on certain types of equipment. Historically, bank financiers tend hold their leasing activities as part to of their portfolio and have not comprised a large portion of the equipment lease securitization market.

Lease Types & Terms

Equipment leases can be categorized as financing leases or operating leases. Under the terms of a financing lease, the lessee makes lease payments that cover at least 90% of the value of the equipment and the lease term extends for more than 75% of the leased equipment's useful life. Essentially, the lessee is financing the purchase of the equipment and often has the option of purchasing the equipment for a nominal amount at the end of the lease contract. Under an operating lease, the lessor retains ownership of the leased property, along with the risks associated with owning the equipment such as its residual value at the end of the lease term.

Equipment Segmentation

Equipment leases can generally be broken down in to the following categories.

Micro-Ticket – This category includes equipment with an original cost of less than \$25,000. Typical types of equipment would be bank card processing machines, computers and copiers.



Small-Ticket Equipment – The equipment in these types of portfolios have an original cost of \$25,000 to \$100,000. Examples of equipment in this category would include large office equipment, small computers systems and small printing equipment. Certain types of agricultural and construction equipment would also be classified in this category.

Mid-Ticket Equipment – The original cost of the equipment in this category is between \$100,000 and \$500,000. Examples of the equipment included in this category are mainframe computers and certain types of specialized commercial and industrial equipment.

Large-Ticket Equipment – The equipment in this category has an original cost of greater than \$500,000. Examples of equipment in this category would be magnetic resonance imaging machines (MRI machines) and other specialized medical equipment.

Transportation Leases – The equipment in this category may vary in original cost, but are typically related to the transportation industry. These leases are typically operating leases and include such equipment as aircraft, rail cars and shipping containers.

The type of equipment leased may have an impact on the performance of the deal with respect to default and recovery rates.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction's performance.

One of the key performance vectors evaluated is that for expected cumulative net losses ("CNLs"). Expected CNLs are measured against available credit enhancement to determine their sufficiency to protect investors in each rated class. Other metrics for which vectors may be developed include delinquencies, loss severity and repossession inventory. These vectors along with event driven metrics such as transaction triggers and counterparty ratings are typically reviewed using a combination of trend and event analysis.

Losses / Recovery Rates

Typically, transaction documents require a delinquent lease to be charged off at the earlier of the time when the equipment has been repossessed and liquidated or when the lease payments are in arrears for a certain period of time, typically between 120 and 180 days. Increasing trends in charge-off activity may be attributed to a variety of causes ranging from macroeconomic conditions to problems at the servicer level. Typically triggers tied to charge-offs are used to increase required credit enhancement levels. DBRS monitors loss activity for trigger compliance and to derive vectors for projecting future performance. Trends in loss activity are monitored over monthly, three and six month periods. Cumulative losses are measured against expectations and the sufficiency of available credit enhancement.

Recovery rates reduce losses the credit enhancement must absorb. Recovery rates on equipment can be affected by various factors such as macroeconomic conditions, servicer effectiveness in liquidating the equipment, as well as the type of equipment being liquidated. Factors such as product obsolescence, a significant consideration in some computer equipment, may reduce recovery rates in seasoned securitizations involving that type of equipment. Other types of equipment, such as certain medical equipment, may retain their value and result in much higher recoveries. DBRS monitors trends in recovery rates by examining changes over monthly, three month and six month periods.

Net losses are charged off amounts net of recovered amounts. Cumulative net losses are typically projected out and compared to credit enhancement available.



Projecting Expected Cumulative Net Losses (“CNLs”)

DBRS uses two methods for projecting the expected cumulative net losses attributable to credit losses; the loss curve and the pool factor methods. The results of these methods are used in projecting CNLs that can then be measured against available credit enhancement and act as one of the factors, along with the performance metric trends discussed herein, to assess the overall performance of the transaction.

Pool Factor Method

The pool factor method assumes that future losses will continue at a rate correlated to the amortization of the pool. To calculate remaining losses using this method, current period cumulative net losses are divided by one minus the current pool factor to arrive at projected lifetime losses. To arrive at the CNLs remaining in the transaction, current losses are subtracted from the projected lifetime losses calculated in the first step. For example, if current CNLs equal 3% and the pool factor is 60%, lifetime CNLs are projected to be $0.03 \div (1.00 - 0.60)$, or 7.50%. The losses remaining in the transaction would then be $7.5\% - 2.0\%$, or 5.5%.

Loss Curve Method

This method assumes that losses will be correlated with the timing of a cumulative loss curve that has been developed by DBRS. To calculate CNLs using this method, current CNLs are first adjusted to include losses yet to be realized from delinquent loans. This loss pipeline is calculated using historical delinquency roll rates and loss severity, and adjusted to reflect its percentage of the transaction pool's original principal balance. The transaction's seasoning at the end of the pipeline is then plotted on the cumulative loss curve to ascertain the percentage of lifetime losses that will have been experienced at that point in time. To project lifetime CNLs for the transaction, the current adjusted CNLs are then divided by the percentage obtained from plotting the transaction's seasoning on the cumulative loss curve. In the final step, the current CNLs are subtracted from projected lifetime CNLs to arrive at the losses remaining. For example, if current cumulative losses are 4.0%, another 0.5% of losses are in the delinquency pipeline and the deal is seasoned 36 months, the CNL would be adjusted to 4.5% ($4.0\% + 0.5\%$) and the cumulative loss curve would be consulted to see what percentage of losses are expected to have occurred by month 42 ($36 + 6$). If the curve assumes 80% of lifetime cumulative net losses will occur by month 42, the lifetime CNLs would be $.045 \div .800$, or 5.625%. The remaining unrealized losses are then $5.625\% - 4.000\%$ (not minus 4.5% as the 0.5% pipeline has not yet been realized).

Credit Enhancement

Credit enhancement typically is in the form of subordination, overcollateralization, reserve accounts and excess spread (or some combination of these). Excess spread is built into the deals at inception by the discount rate used to value the receivables pool. DBRS monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses projected by DBRS.

Delinquency Rates / Repossession Inventory

Trends in delinquency rates can be used to predict future loss activity and have a significant impact on cash flow when servicer advances are not being made. When delinquent amounts are not being advanced, increased delinquencies reduce the amount of excess spread available to cover losses. Rising trends in delinquency rates may also be a sign of issues with the servicing of the loans and presage future stress in the transaction. Lease securitization structures typically incorporate delinquency triggers to increase credit enhancement. DBRS monitors delinquencies over monthly as well as over three month and six month periods.

Repossession inventory represents equipment that has been repossessed, but not yet liquidated/remarketed. As transactions typically require a lease to be charged off at a certain level of delinquency, the equipment in repossession inventory may have been fully charged off. In those instances, they represent unrealized recoveries. Additionally, a growing repossession inventory may be an early warning of future stress such as weak demand for the equipment or servicer problems in the disposition of the assets.



Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Triggers

Trigger breaches may initiate changes in a transaction ranging from servicer replacement to increases in required levels of credit enhancement or shifts in the distribution priorities under the transaction's cash waterfall provisions. Triggers events are typically tied to delinquency and loss performance, a breach of representations and warranties by the sponsor, and may include financial covenants for the sponsor such as tangible net worth or profitability measurements. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance..

Note:

Further information about DBRS rating methodology for equipment lease securitization can be found in the following articles available on the DBRS website:

“[Methodology: Rating U.S. Equipment Lease and Loan Securitizations](#)”



Insurance Premium Finance

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for insurance premium finance ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The collateral in insurance premium finance securitizations consists of short term loans made to obligors in order to finance property and casualty insurance premiums. In the underlying transaction, an obligor finances an insurance premium by putting down a 5%-25% down payment with a finance company and obtains a loan for the remaining balance of the premium. The loans are always shorter than the term of the insurance coverage and paid in a lump sum to the insurance carrier. The obligor then repays the loan, with interest to the finance company. The loan amortizes at a faster rate than the rate at which the insurance company earns the premium payment, and so, the loan is over-collateralized. If the obligor defaults on the repayment loan, the finance company cancels the insurance policy and claims the unearned premium as reimbursement for the loan. The finance company will typically not cancel the policy until it is certain the obligor will not pay, but due to the dynamics of the transaction will cancel a policy after the loan becomes 30-45 days delinquent, unless there are extenuating circumstances. If the insurance carrier is insolvent, a claim as a general creditor may be filed against the estate of the failed insurance carrier, and dependent upon the state, may be eligible for reimbursement from a state insurance guaranty fund.

Insurance premium securitizations are typically structured as master trusts with a dynamic credit enhancement structure wherein with a large pool of assets, or borrowing base, collateralizes multiple series of notes. The series typically revolve for a period of time then enter a controlled amortization and utilize rapid amortization triggers related to excess spread, payment rates, portfolio yield, and required level of issuer's interest (i.e. the principal balance of the loan pool must exceed the principal balance of all issued notes outstanding by a specified amount). Financial covenants may also be placed on the finance company.

KEY PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavours to monitor the following performance metrics to develop a more comprehensive picture of a transaction's performance.

Losses

The key sources of loss in insurance premium securitizations relate to the solvency of the insurance carriers and the proper servicing of the portfolio (i.e. canceling insurance policies and claiming the unearned premium in a timely manner). DBRS monitors charge off rates as of current points in time as well as with 3 and 6 month averages.

Delinquencies

Delinquency rates are early indicators of deterioration in portfolio performance and may place additional stress on liquidity. Given the sensitivity to the timing of unearned premium rebate claims, increasing levels of delinquencies over 30 or 60 days may indicate problems in the servicing of the loans. Delinquent loans that have aged too long may become under-collateralized by their unearned premium rebate and place additional stress on credit enhancement. DBRS monitors delinquency rates over three and six month periods.

Payment Rates

Payment rate is calculated by dividing the total monthly collections received by the beginning period receivables balance. It is an important metric in that it determines the length of time needed to repay



noteholders during either controlled accumulation or amortization periods. In the case of an early amortization, a low payment rate will result in noteholders being exposed to risk for a longer period of time. Trends in payment rate are monitored by observing monthly changes, as well as over three and six month periods.

Transaction Parties

DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Credit Enhancement / Excess Spread

Credit enhancement may come in the form of subordination, overcollateralization, reserve funds and excess spread (or a combination of these forms). Reserve accounts act as credit enhancement against losses and liquidity protection for delays or lags in receipt of unearned premium rebates.

Excess spread is the amount by which interest payments received from the collateral exceed the financing costs of the transaction. Excess spread is available to absorb losses before other forms of credit enhancement and may be used to replenish other forms of credit enhancement that have previously been drawn upon. If not needed for credit enhancement replenishment, it may be released from structure and cannot be reclaimed. DBRS typically monitors trends in excess spread on the basis of monthly changes as well as three and six month rolling averages.

Pool Concentrations

Because of the potential for changes in the asset pool composition, deals typically have concentration limits on insurance carriers in the pool. These parameters typically set limits for rating categories and individual carriers. Transactions may also include concentration limits on insurance agents (as the underlying loans are typically sourced through insurance agencies) and on obligors. DBRS endeavors to monitor concentration levels against applicable requirements.

Triggers

Certain events related to asset pool performance or events involving the program sponsor may trigger an early amortization of a transaction. Early amortization events are typically related to performance metrics (payment rate, yield or excess spread, charge off rate), insolvency of key parties to the transaction, failure of a sponsor to maintain its pro-rata interest in the receivables pool, or a breach in the performance of the sponsor with regard to representations or warranties it has made in the transaction's documents. Other triggers may relate to pool concentration limits for insurance carriers and ratings buckets. Breach of these triggers may result in an increase in required credit enhancement. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for insurance premium securitizations can be found in the following publications available on the DBRS website:

“Methodology: Rating U.S. Insurance Premium Finance Securitizations”



Structured Settlements

The purpose of this section is to set forth the surveillance methodology and process DBRS utilizes for structured settlement ABS. Included is a discussion of the analysis process and the credit factors DBRS typically examines.

OVERVIEW

The assets in a structured settlement securitization are typically a long-term stream of payments due a claimant from an insurance company or insurance company affiliate. They arise from a claimant winning or accepting an award in settlement of a tort or personal injury lawsuit and then agreeing to take their award in installments rather than as a lump sum payment. The structure of these settlements can vary considerably with regard to the amount and timing of the payments (i.e. monthly, quarterly, annually, etc.). However, once the timing and size of the periodic payments under the structured settlement have been agreed upon, they cannot be modified.

With the settlement agreement in place between the claimant and insurer, the insurer may choose to make the stream of payments directly, but often, to gain access to certain tax benefits, chooses to remove the obligations from its balance sheet by assigning the obligation to another entity (typically another insurance company or affiliate of the insurer) in exchange for an upfront payment. The new assignee of the liability, will typically, then purchase an annuity contract from a life insurance company, with the assignee entity named as the “owner” of the annuity and the claimant named as the beneficiary.

The claimant now has a stream of payments that will be received over a period of time. However, due to various life circumstances, the claimant may wish to convert that payment stream into a lump sum payment. In order to do that, the recipient may sell the payment stream (or a portion of the payment stream) to a specialty finance company at a discounted rate. The terms of the sale vary with the claimant’s requirements and may entail the sale of the entire payment stream, sale of the stream for a specific time period (for instance, sell the first 5 years of payments and retain the remaining payments thereafter) or sell a portion of each payment (for example, 40% of each future payment while retaining 60%). Once the claimant and purchaser have agreed to terms, a petition is filed in court, pursuant to applicable state law, seeking approval of the transfer. In determining whether to grant the transfer, the court will typically examine issues such as if the sale is in the best interests of the claimant, if the price and terms of the sale are reasonable and if the transfer would not contravene any other court order or statute. If the sale is approved, purchase is consummated and in exchange for a lump sum payment, the finance company is entitled to the payment stream or portion thereof as per the terms of the sale agreement. The specialty finance company may then bundle a group of these payment stream rights and use them as collateral to back a securitization offering.

In more recent years, legislative changes have made it easier to sell/assign the rights to the annuity payments and as a result a number of specialty finance companies have been founded. These changes have made the assignment of payment streams more secure, and have provided exclusions for prohibitive tax treatment associated with the sale of the payment stream. These specialty finance companies will bundle a group of these arrangements and use them as collateral for a securitization.

Securitization deals are typically structured using a static pool of assets, though some employ prefunding periods. Warehouse facilities, however are securitizations of dynamic pools of assets and require additional criteria with respect eligibility criteria and concentration limits for insurance carriers, typically with respect to rating categories and individual entity limitations. They may also employ a more dynamic form of credit enhancement wherein required levels of credit support change with the composition of the asset pool.



PERFORMANCE METRICS

Trend analysis of certain performance metrics allows for a more accurate assessment of developments in a transaction's credit profile. While reporting requirements and data availability may vary between issuers, DBRS endeavors to monitor the following performance metrics to develop a more comprehensive picture of a transaction's performance.

Transaction Parties

The performance of insurance carriers and annuity providers is a key factor in the performance of structured settlement securitizations. DBRS reviews relevant transaction parties in its periodic evaluation of a transaction. This entails a review of the company's DBRS credit rating or internal assessment relative to pertinent rating thresholds.

Losses

The key sources of loss in structured settlement securitizations relate to the solvency of the insurance carriers and the proper servicing of the portfolio. DBRS monitors losses on a monthly and cumulative basis.

Delinquencies

Delinquency rates are early indicators of deterioration in portfolio performance and may place additional stress on liquidity. Since the levels of delinquencies in a structured settlement are typically negligible, significant or increasing levels may indicate problems in the servicing of the loans or with insurers responsible for making payments. DBRS monitors delinquency rates over monthly three and six month periods.

Credit Enhancement

Credit enhancement may come in the form of subordination, overcollateralization, reserve funds and excess spread (though excess spread is typically a relatively small component). DBRS typically monitors trends in excess spread on the basis of monthly changes as well as three and six month rolling averages. Credit enhancement is monitored for changes against original levels for signs of deterioration.

Pool Concentrations

Because of the potential for changes in the asset pool composition, deals typically have concentration limits on insurers in the pool. These parameters typically set limits for rating categories and individual carriers. Transactions may also include other such as geographic or other concentration limits. DBRS endeavors to monitor concentration levels against applicable requirements.

Triggers

Certain events related to asset pool performance or events involving the program servicer may trigger an early amortization, a change in servicing or change in required credit support of a transaction. Early amortization events in transactions with revolving periods (such as warehouses) are typically related to performance metrics such as charge off rates, pool composition/concentrations, insolvency of key parties to the transaction, or a breach in the performance of the sponsor with regard to representations or warranties it has made in the transaction's documents. DBRS reviews triggers against their respective thresholds and to the extent data is available may re-calculate certain performance metrics to evaluate compliance.

Note:

Further information about DBRS rating methodology for Structured Settlement securitizations can be found in the following publications available on the DBRS website:

[“Methodology: Rating U.S. Structured Settlements Asset-Backed Securitizations”](#)

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