Methodology

DBRS Master U.S. ABS Surveillance Methodology

OCTOBER 2014
Marine Containers Leases Appendix added March 2015
U.S. TV Programming Licensing Rights Appendix added March 2015
Film Rights Appendix Added April 2015
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Scope and Limitations

DBRS evaluates both qualitative and quantitative factors when conducting surveillance on U.S. asset backed securitization (ABS) transactions. This methodology represents the current DBRS approach for rating surveillance in the United States (with collateral originated in the U.S.). It outlines the asset types, describes the DBRS approach to analysis and discusses the methods DBRS typically employs when monitoring a transaction. It is important to note that the methods described herein may not be applicable in all cases. Further, this methodology is meant to provide guidance regarding DBRS methods for surveillance and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

Executive Summary

This methodology includes a description of the DBRS surveillance process which is typically employed across the sector-specific asset class methodologies employed by DBRS in the ongoing monitoring of the following asset types:

- Auto Fleet Leases
- Auto Leases
- Auto Loans
- Consumer Loans
- Credit Cards
- Equipment Leases
- Insurance Premium Finance
- Rental Cars
- Structured Settlements
- Student Loans - Federal Family Education Loan Program (FFELP)
- Student Loans - Private
- Timeshare Loans
- Wholesale Auto/Dealer Floorplan
- Healthcare Receivables
- TV Programming Licensing Rights
- Marine Container Leases
- Film Rights

For additional detail regarding the DBRS approach to surveillance, please see the accompanying appendices.

1. Initial rating approach described in an appendix to the DBRS methodology Rating U.S. Structured Finance Transactions.
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. To facilitate the ABS surveillance analysis, DBRS typically anticipates:

- Periodic (e.g., monthly or quarterly) servicer reports from issuers, detailing note paydown and available credit support;
- Updated collateral characteristics;
- Access to originator and/or servicer;
- Updates regarding amendments to a transaction; and
- Information on key transaction parties.

Reviews conducted by DBRS may consist of analyzing performance trends, comparing actual performance to DBRS initial expectations, forecasting collateral behavior, reviewing transaction triggers or reviewing transaction parties. Data obtained from trustee/servicer reports is also normally used to calculate performance metrics. When a review indicates that a transaction’s current rating may be inconsistent with its performance, an evaluation is typically conducted to assess such rating.

Revolving structures, or those structures constructed by issuers as master trusts, may pose potential risk migration in securitization transactions. The collateral profile in such transactions can be dynamic, because they allow addition by the originator of new collateral to support the prefunding or future funding through a revolving warehouse series or the issuance of additional term series of debt. Transaction documents for revolving structures usually include pool-wide concentration limit triggers designed to contain excessive exposures that could otherwise exist. Surveillance typically reviews such triggers for breaches of these triggers.

For additional information regarding the DBRS approach to surveillance, please see the Structured and Corporate Finance Rating Surveillance Global Policy located at www.dbrs.com.
Appendix I – Auto Fleet Leases

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for Auto Fleet Lease ABS. Included is a discussion of the credit factors DBRS typically examines.

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Performance Triggers
Performance triggers are defined in the governing legal documents for each transaction. They are usually tied to collateral performance, but may be tied to other metrics that are of particular importance to a transaction. Breaches of these triggers may cause increases in levels of credit enhancement, reconfiguration of the deal cash flows, early amortization of the transaction (in the case of revolving structures) or other measures designed to mitigate the aspect of the deal that is not in compliance. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.

Pool Concentrations
Because of the potential for changes in the asset pool composition, deals may have concentration limits on various characteristics of the pool, such as lessee concentrations, geographic composition, industry concentrations, types of leases, etc. DBRS usually monitors concentration levels against applicable requirements.

Losses
Losses erode credit enhancement and investor protection. DBRS typically monitors losses on a monthly and cumulative basis.

Credit Enhancement
Credit enhancement may come in the form of overcollateralization, reserve funds, excess spread, subordination, or typically, through a combination of those structural elements. 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.
Appendix II – Auto Leases

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

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 typically monitors 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). Generally, expected CNLs are measured against available credit enhancement. Other metrics for which vectors may be developed include residual value realization, turn-in rates, delinquencies and loss severity. These vectors are typically reviewed using a combination of trend and event analysis.

Credit Losses/Residual Losses
Generally, 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- 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 when evaluating this metric.

Generally, 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 typically 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. The results of these methods are typically used in projecting CNLs that may 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.
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 transac
tion’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 ÷ 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 repre
sents 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 ÷ (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 would be 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 will remain in the pool, or .542 x (1 - (.97 x .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, over-collateralization, reserve accounts and excess spread (or some combination of these). DBRS typically monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses.

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.

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

Transaction Parties

DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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.
Appendix III – Auto Loans

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

One performance vector generally evaluated is expected cumulative net losses (CNLs). Expected CNLs are measured against available credit enhancement. Other metrics for which vectors are developed typically include excess spread, delinquencies 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 as over three- 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 typically 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 may then be 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 ÷ .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 ÷ (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 endeavors to monitor trends in excess spread over one, three and six month intervals.

Credit enhancement may come in the form of subordination, over-collateralization, reserve accounts and excess spread (or a combination of these). Credit enhancement is monitored both in terms of its sufficiency to cover losses 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 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 typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

**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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix IV – Consumer Loans

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Credit Enhancement/Excess Spread
Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities. 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 endeavors to monitor trends in excess spread over one-, three- and six-month intervals.

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

Delinquency Rates
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. DBRS typically monitors trends in delinquency rates in monthly terms, as well as changes over three- and six-month periods.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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, the termination of revolving periods (in revolving structures) or other changes designed to mitigate the risk measured by the trigger. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix V – Credit Cards

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

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 typically monitors 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 typically monitors charge-off rates over monthly as well as three- and six-month periods and compares performance 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- and six-month periods.

Credit Enhancement
Credit enhancement is typically in the form of subordination, over-collateralization, cash collateral accounts and excess spread (or some combination of these). Credit enhancement is typically monitored against original enhancement levels.

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 longer periods.

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 typically monitored using changes over monthly as well as three- and six-month periods.
Yield

The yield on a credit card portfolio consists 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 endeavors to track 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 comprising 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 typically monitors trends in yield by observing changes over monthly as well as three- and six-month periods.

Transaction Parties

DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix VI – Equipment Loans and Leases

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

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 typically monitors 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, usually 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. Often, triggers tied to charge-offs are used to increase required credit enhancement levels. DBRS typically monitors loss activity for trigger compliance over monthly, three- and six-month periods. Cumulative losses are typically 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 typically 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 generally 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 may be 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 ÷ (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 + .800, or 5.625%. The remaining unrealized losses are then 1.625%, or 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, over-collateralization, 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 typically monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses.

**Delinquency Rates**

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 often incorporate delinquency triggers to increase credit enhancement. DBRS typically monitors delinquencies over monthly as well as over three-month and six-month periods.

**Transaction Parties**

DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

**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. Trigger 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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix VII – Insurance Premium Finance

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for Insurance Premium Finance ABS. Included is a discussion of the credit factors DBRS typically examines.

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 typically monitors 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 typically monitors charge-off rates as of current points in time, as well as with three- and six-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 typically 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. Trends in payment rate are typically monitored by observing monthly changes, as well as over three- and six-month periods.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Credit Enhancement
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. DBRS typically monitors credit enhancement for trends and in terms of its sufficiency to cover losses.

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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix VIII – Rental Cars

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

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 typically monitors the following performance metrics in order to develop a more comprehensive picture of a transaction’s performance.

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 typically 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 typically tracks concentration levels of manufacturers.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix IX – Structured Settlements

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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 typically 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 typically 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.

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 others, 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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix X – Student Loans - Federal Family Education Loan Program (FFELP)

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for FFELP Student Loan ABS. Included is a discussion of 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.

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 typically monitors 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 typically 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 typically monitored over monthly, three- and six-month periods.

**Credit Enhancement**
Credit enhancement is derived from the ED reinsurance, subordination, over-collateralization, 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 typically monitors credit enhancement levels over three-, six- and nine-month periods for trends.

**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 generally monitored over monthly, three- and six-month periods.

**Transaction Parties**
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

**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 noteholders 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 typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix XI – Student Loans - Private

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for Private Student Loan ABS. Included is a discussion of 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). FFELP are covered in the previous section of the report.

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 typically monitors 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 typically 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) they 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 typically monitored for trends and projected out for comparison to available credit enhancement. Delinquencies are generally 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 typically used in projecting CNLs that may 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. 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 ÷ (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 would then be 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 ÷ .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).

Credit Enhancement
Credit enhancement typically is in the form of subordination, over-collateralization, 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.

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 usually fully funded at closing and typically step down in size over the first few years of the transaction. Unlike reserve accounts, they are not replenished from available funds. DBRS typically monitors reserve and capitalized interest accounts over monthly, three- and six-month periods.

DBRS typically monitors credit enhancement over time for trends and in terms of its sufficiency to cover losses.
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 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 parity to required levels. DBRS typically 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 generally monitored over monthly, three- and six-month periods.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Losses

DBRS performs a cumulative loss calculation with the same frequency as transaction performance remittance reports are provided to investors.

DBRS typically examines loss rates on a monthly basis, as well over three-month and six-month periods for trends and generally compares them against available credit enhancement. Many structures allow for a percentage of defaulted loans to be repurchased or substituted. In structures where this is the case, DBRS typically tracks the amount of defaulted loans repurchased or substituted in order to develop a “gross” loss rate, which may provide a more accurate depiction of loss experience for projecting future loss activity and measuring performance against expectations.

Projecting Expected Cumulative Losses

DBRS typically uses two methods for projecting the expected cumulative losses of timeshare loan pools: the loss curve and the pool factor methods. The results of these loss projection methods may be 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 projected cumulative losses using this method, the current level of cumulative loss is 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 cumulative losses for a transaction, the current cumulative loss level is then divided by the percentage obtained from plotting the transaction’s seasoning on the cumulative loss curve. In the final step, the current cumulative losses are subtracted from projected lifetime cumulative losses to arrive at the projected losses remaining.

For example, if current cumulative losses are 5%, and the transaction is seasoned 23 months, the cumulative loss curve would be consulted to see what percentage of losses are expected to have occurred by month 23. If the curve assumes 45% of lifetime cumulative losses will occur by month 23, the lifetime projected cumulative losses would be .05 ÷ .45, or 11.11%. The remaining cumulative losses would be 6.11%, or 11.11% - 5.0%.

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 cumulative losses are divided by one minus the current pool factor to arrive at projected lifetime losses. To arrive at the cumulative losses remaining in the transaction, current losses are then subtracted from the projected lifetime losses calculated in the first step. For example, if current cumulative losses equal 4% and the pool factor is 60%, lifetime cumulative losses are projected to be .04 ÷ (1 - .60), or 10%. The remaining cumulative losses in the transaction would then be 10% - 4%, or 6%.
Credit Enhancement
Credit enhancement for timeshare loan ABS transactions typically takes the form of excess spread, reserve accounts, over-collateralization and subordination (usually, a combination of these elements).

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.

Reserve accounts are cash accounts that are often used in timeshare loan ABS transactions to provide additional liquidity. They may be funded upfront or build over time to target levels by using excess spread. Their required levels may decrease over time if performance is within set parameters or increase if certain performance triggers are breached.

Over-collateralization is achieved by issuing a lesser amount of obligations than the value of the collateral securing the obligations. Losses are “absorbed” by amounts related to overcollateralization as a result of the balance of the collateral decreasing from a realized loss, while a corresponding amount of debt is not paid down. Like reserve accounts, overcollateralization levels typically have targeted requirements that may be decreased if collateral performance is within expectations or increased if performance triggers are breached.

Subordination is achieved by issuing junior classes of notes that are subordinated in their rights to receive payments. Losses in structures with subordination are allocated in a reverse seniority order, with the most junior classes absorbing losses before other classes more senior.

DBRS typically monitors credit enhancement in terms of its sufficiency to cover losses and for trends over one-month, three-month and six-month periods.

Delinquency Rates
Delinquency trends may be used to predict future loss trends and may also be indicative of other issues. 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, a decrease in the resort’s appeal to owners or may be indicative of other servicing issues. Any of those factors can have a significant impact on future pool performance and is taken into consideration when evaluating a transaction.

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

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Performance Triggers
Performance triggers are defined in the governing legal documents for each transaction. They are usually tied to collateral performance such as loss, default and delinquency rates, 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, reconfiguration of the deal cash flows or possibly replacement of transaction parties, such as the servicer. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix XIII – Wholesale Auto/Dealer Floorplan

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for Wholesale Auto/Dealer Floorplan ABS. Included is a discussion of the credit factors DBRS typically examines.

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 typically monitors 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 typically examines changes in default and loss rates over monthly and three-month periods.

Credit Enhancement
Credit enhancement may come in the form of subordination, over-collateralization, reserve accounts and excess spread (or, typically, a combination of these). Credit enhancement is generally 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 typically monitored on the basis of monthly changes, as well as changes over three-month and six-month periods.

Portfolio Turnover
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 typically monitors aging buckets to identify trends that may indicate a change in performance.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

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 floorplan 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.
Appendix XIV – Healthcare Receivables

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Credit Enhancement

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

Gross excess spread is the difference between the yield on the asset pool and the cost of funding the securities. 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.

Delinquency Rates/Aging

Certain patterns of delinquency/aging behavior may be indicative of various issues that could affect investor security. DBRS typically monitors trends in delinquency rates in terms of monthly, as well as changes over three- and six-month periods.

Collection Rates

Collection rates provide a measure of the accuracy of valuations, as well as the sufficiency of cash collected to amortize a transaction. DBRS typically endeavors to monitor collections in terms of turnover rate and in terms of collections in relation to the expected net value of the receivables purchased and the amount advanced against the receivables.

Defaults/Losses

Losses erode credit enhancement and investor protection. DBRS endeavors to monitor defaults and losses on a monthly and cumulative basis.

Transaction Parties

DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Pool Concentrations

Because of the potential for changes in the asset pool composition, deals may have concentration limits on various characteristics of the pool. DBRS usually monitors concentration levels against applicable requirements.
**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, reconfiguration of the deal cash flows, the termination of revolving periods (in revolving structures) or other changes designed to mitigate the risk measured by the trigger. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix XV – TV Programming Licensing Rights

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for TV Programming Licensing Rights ABS. Included is a discussion of the credit factors DBRS typically examines.

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Credit Enhancement
Credit enhancement typically comes in the form of over-collateralization, but may contain other forms such as subordination, reserve accounts or letters of credit. Credit enhancement is typically monitored both in terms of its sufficiency to cover transaction obligations as well as over time for trends.

License Fees
DBRS typically monitors realized licensee fee revenues relative to historical and expected revenues, as well as the amount advanced against expected revenues.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such parties in a manner consistent with an approach applicable for an initial rating.

Production Costs
DBRS typically monitors the amount and variability of the production costs incurred with respect to the TV programming backing the transaction. Funds available in the priority of payments are typically monitored for sufficiency to produce and complete upcoming programs.

Performance Triggers
Performance triggers are usually tied to future contractual license fees in existence and debt service coverage, but may be tied to other metrics that are of particular importance to the transaction. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix XVI – Marine Container Leases

The purpose of this section is to set forth the surveillance methodology DBRS utilizes for Marine Container Lease ABS. Included is a discussion of the credit factors DBRS typically examines.

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 formats may vary between issuers, DBRS typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Credit Enhancement
Credit enhancement typically comes in the form of over-collateralization (typically represented by the Net Book Value of containers in excess of the outstanding ABS), but may contain other forms such as subordination, reserve accounts or letters of credit. Credit enhancement is monitored both in terms of its sufficiency to cover transaction obligations as well as over time for trends.

Transaction Parties
DBRS typically reviews relevant transaction parties of a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Pool Concentrations
Deals may have concentration limits on various characteristics of the pool, as different types of containers have differing patterns of utilization and rates, and so exhibit differing patterns of revenue generation. DBRS typically monitors concentration levels against applicable requirements as specified in the transaction documents, and usually tracks the portfolio with respect to age.

Performance Triggers/Manager’s Financial Covenants
Performance triggers and financial covenants are typically defined in the governing legal documents for each transaction. The triggers may be tied to revenue generation, profitability, leverage, value of the containers or other aspects pertinent to the transaction. DBRS typically reviews triggers and covenants against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.
Appendix XVII – Film Rights

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

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 typically monitors the following performance metrics to develop a more comprehensive picture of a transaction’s performance.

Credit Enhancement
Credit enhancement typically comes in the form of overcollateralization, but it may contain other forms such as subordination, reserve accounts or letters of credit. Credit enhancement is monitored both in terms of its sufficiency to cover transaction obligations as well as over time for trends.

Revenues and expenses
Revenue and expense realization provides a measure of the sufficiency of cash collected to amortize a transaction, since available funds are typically net of distribution fees and releasing costs. DBRS typically monitors revenues and expenses in relation to expected amounts.

Valuations
In certain transactions, valuations are provided on a periodic basis and used in connection with borrowing base tests and loan-to-value triggers. DBRS typically monitors valuations relative to such performance triggers and may compare actual cash flow with those projected in prior valuations.

Transaction Parties
DBRS typically reviews relevant transaction parties to a transaction, which may include monitoring of such party in a manner consistent with an approach applicable for an initial rating.

Performance Triggers
Performance triggers are defined in the governing legal documents for each transaction. They are usually tied to revenue generation and coverage of deal obligations but may be tied to other metrics that are of particular importance to a transaction. DBRS typically reviews triggers against their respective thresholds and, to the extent data is available, may re-calculate certain performance metrics to evaluate compliance.