

# U.S. Structured Finance Newsletter

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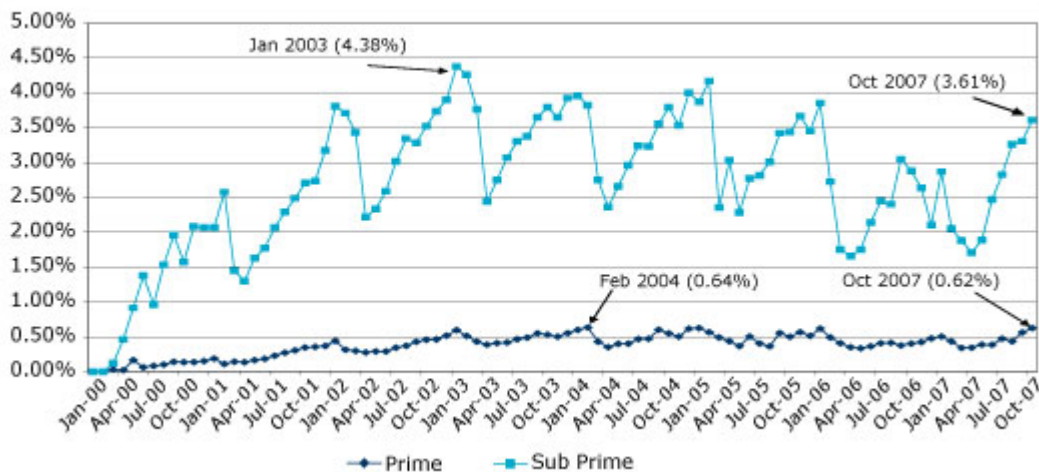
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## THE SEASONS OF AN AUTO LOAN PORTFOLIO

Historically, auto loan performance has followed a seasonal pattern: the lowest delinquency rates are experienced in April and May, with delinquencies generally increasing over the summer months and through the year-end holiday season. Annual highs for loan delinquencies have typically been realized in January, when delinquency rates have been as much as nearly two times the annual lows. See the chart below for the 60+ day delinquencies for benchmark prime and subprime retail auto loan issuers.<sup>1</sup>

**Average Retail Auto Loan 60+ Day Delinquencies**



Source: ABSNet and DBRS.

Year to date, average 60+ day delinquencies for both prime and subprime retail auto loans have been within the historical ranges observed since 2000. While average 60+ day delinquencies have ticked up in recent months, they are still below the highs experienced in the last seven years (0.64% in February 2004 for the prime sector and 4.38% in January 2003 for the subprime sector).

Based on seasonal patterns, DBRS expects that delinquency rates will continue to rise throughout the remainder of the year and into early 2008. Assuming October delinquency rates represent 75% of the rates experienced in the following January,<sup>2</sup> auto loan delinquencies may reach new record highs of up to 0.83% for prime auto collateral and 4.81% for subprime collateral. Using this conservative assumption, auto loan ABS structures should be able to withstand a modest spike in delinquencies for the following reasons: (1) less than 100% of the 60+ day delinquent loans are expected to default, and for those that do, recoveries on the collateral will mitigate the severity of those losses, and (2) DBRS base case net loss assumptions, one of the major factors in determining credit enhancement in auto ABS transactions, are generally derived from loan originators' loss experience over a six- to ten-year period. Therefore, provided that originators have maintained consistent underwriting standards and net losses remain within historical ranges, established credit enhancement should provide sufficient loss coverage.

For questions or comments, please contact Cherry Allen at [callen@dbrs.com](mailto:callen@dbrs.com) or Justine Chai Segal at [jsegal@dbrs.com](mailto:jsegal@dbrs.com).

<sup>1</sup> DBRS, ABSNet non-weighted-average aggregate index of 2000–2007 public transactions of public issuers. Prime index includes BMW, GMAC, COPAR, Carmax, Chase, Chrysler, Ford, Honda, M&I, Nissan, USAA, Volkswagen, WAOT and World Omni. Subprime index includes Americredit, COFAT, HSBC, Triad, CPS and WALOT.

<sup>2</sup> Historically, 60+ day delinquencies in October have averaged 82% and 89% of the rates experienced in the following January for prime and subprime portfolios, respectively.