

# U.S. Structured Finance Newsletter

Volume 3, Issue 49, December 17, 2007



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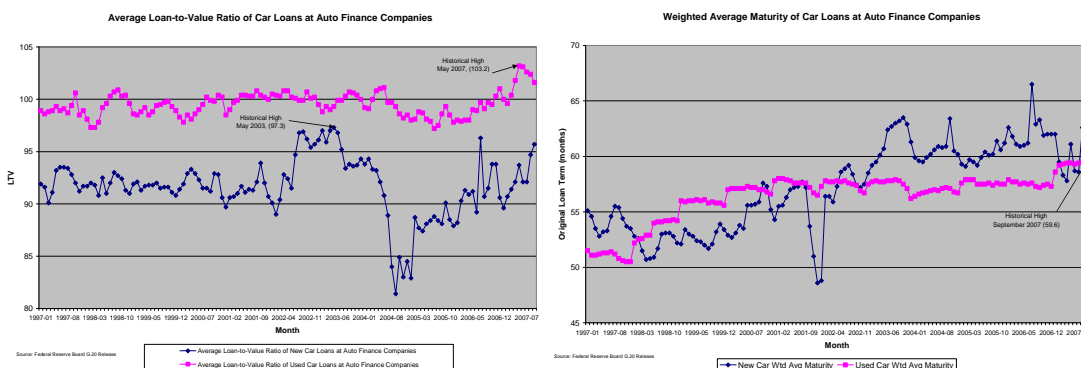
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## TRENDS IN AUTO LOAN PRODUCTS

The recent evolution of auto loan products has been driven by the need to facilitate lower borrower payments. Over the last few years, the use of subvented financing rates, higher loan-to-value (LTV) ratios and longer loan terms have helped auto lenders to offer affordable payments as vehicle values have risen. Historically, loans on new vehicles took the lead as lenders experimented with loan products to achieve a balance with affordable payments.

Until recently, the majority of “affordability” financing in the sector was relatively limited to new car loans. Manufacturer subsidies to captives through various subvention programs reduced monthly payments and helped drive the sale of new vehicles. As shown in the graphs below, beginning in 2002, the three major U.S. captive finance companies<sup>1</sup> began to originate new car loans with average LTVs and weighted average maturities outside the traditional bounds of 95% LTVs and 60-month terms.



Meanwhile, used car loans in this data set had consistently hovered around 100% LTVs with loan terms less than 60 months until only recently. Throughout 2007, used car loans originated by the three major captive finance companies have begun to utilize affordability financing techniques. In May 2007, used car LTVs peaked to the highest level ever at 103.2%. Furthermore, the weighted average maturity on used car loans has continued to climb, reaching an all-time high of 59.6 months in September 2007.

Loans with longer terms are likely to amortize principal more slowly relative to the depreciation of the vehicle. Similarly, higher LTV loans have a greater potential for the outstanding principal loan amount to be more than the vehicle value. DBRS expects that longer loan terms and higher LTVs will increase the degree of severity associated with an auto loan default. Lastly, although used car loans typically comprise less than 20% of securitized pools, relative concentrations of used cars loans have increased<sup>2</sup> for some captives this year.

For questions or comments, 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> Source: Federal Reserve Board G.20 Release - Data are from the subsidiaries of the three major U.S. automobile manufacturers and are volume-weighted averages covering all loans of each type purchased during the month.

<sup>2</sup> DCAT 2007-A (Chrysler Financial) had a concentration of 20% used vehicles, relative to an average of ~9% in 2006 securitizations. CARAT 2007-4 (GMAC) had a concentration of 23.4% used vehicles, relative to an average of ~14% in 2006 securitizations.