

U.S. Structured Finance Newsletter

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AUTO LEASING: AS THE WHEEL TURNS

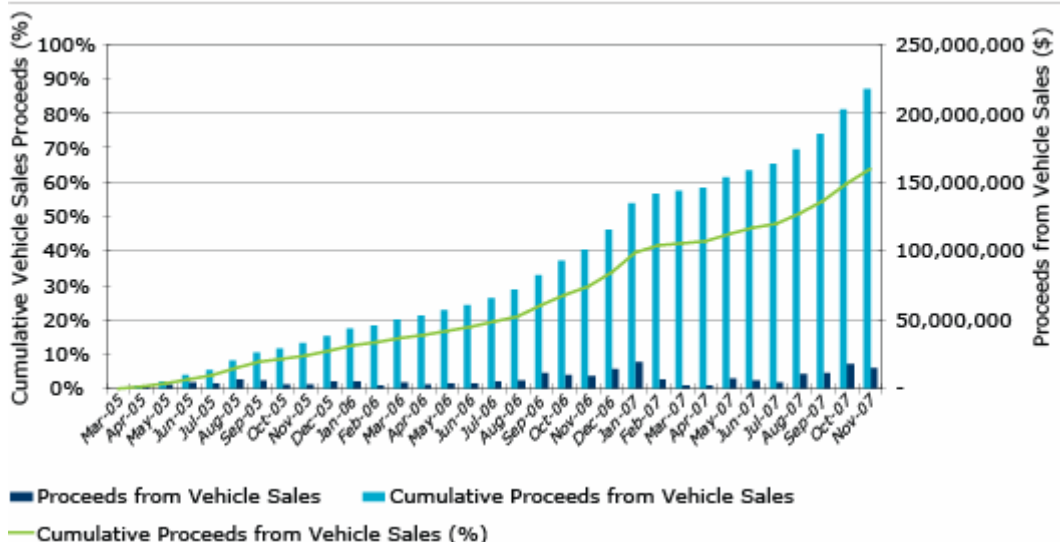
The economic slowdown in the United States continues to have ripple effects throughout the asset-backed securities (ABS) market. In the auto space, reduced consumer spending is driving new vehicle sales lower. Vehicle manufacturers are reacting by cutting production and reducing fleet sales. Also, dealers may well dust off marketing campaigns to promote leasing programs as alternatives to new vehicle purchases because of the leases' lower monthly payments. All three of these actions affect the residual values of used vehicles.

The likelihood exists that more lease-backed auto ABS transactions may be forthcoming as a result of the following: (1) increased leasing activity, (2) manufacturers' effectively supporting residual vehicle values through reductions in new vehicle supply, (3) the positive effect on used car prices with consumers turning to used cars as opposed to new cars in a weak economy and (4) broad capital markets acceptance of auto lease ABS. A key element of auto lease ABS is the reliance on the vehicles' residual values.

ABS issuers effectively finance residual values when securitizing leases because lease payments and the funds obtained through the vehicle sale at the end of the lease are heavily relied upon to repay bondholders. In an auto lease ABS transaction, as time passes, more leases terminate and more vehicles are turned in by lessees and disposed of by lessors and dealers primarily through auctions. As a result, the amount of funds generated from the sales of leased vehicles that flows through the transactions to pay down bonds increases as a percentage of total cash flows.

The graph below illustrates this circumstance. By the end of the transaction, the percentage of cumulative residual cash flow grew to more than 60% of the cumulative incoming cash flow of the transaction.

Susquehanna Auto Lease Trust 2005-1



Because vehicle residual values are such a significant driver of credit enhancement in auto lease ABS transactions, investors should fully understand the role residual values play in any auto lease ABS transaction. DBRS carefully considers residual values when developing cash flow stress scenarios that drive credit enhancement levels. The actual residual values upon which DBRS relies are derived from data provided by the issuer, as well as obtained from a third-party resource representing an experienced evaluator of residual vehicle values.

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