

# U.S. Structured Finance Newsletter

Volume 5, Issue 35, September 21, 2009



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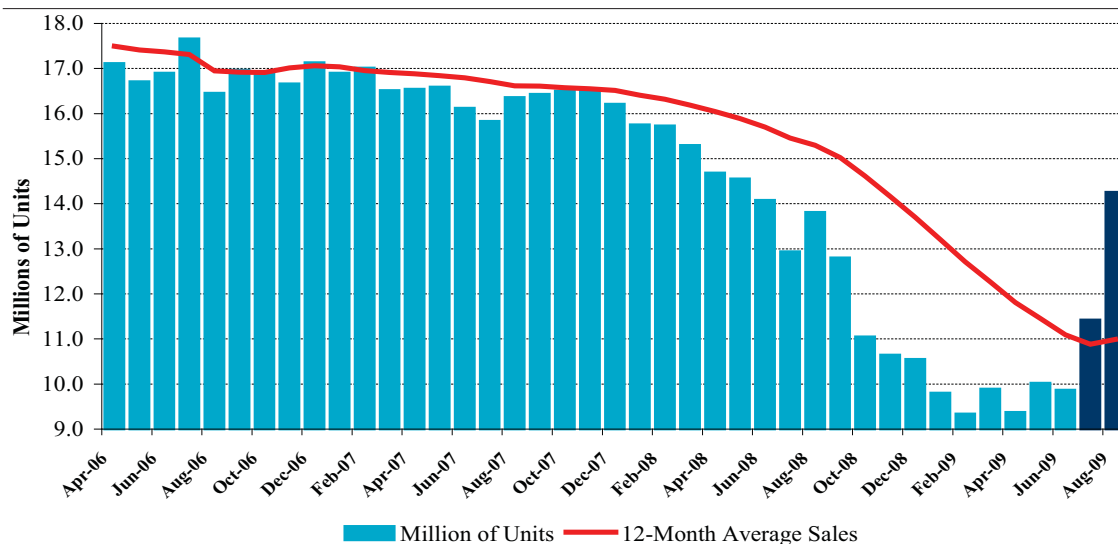
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## SUCCESS OF CASH FOR CLUNKERS...AND THE IMPACT ON AUTO COMPANY INVENTORIES

Sales of new motor vehicles had declined sharply during the recent recession, which took hold roughly 18 months ago. The 12-month average sales dropped from 17.5 million to a low of 10.9 million in July 2009. This drop in sales was primarily due to the lack of available credit for consumers and rising unemployment. Additionally, the precarious financial condition of the Detroit Three auto manufacturers exacerbated the problem.

### Motor Vehicle Sales (April 2006 - August 2009)



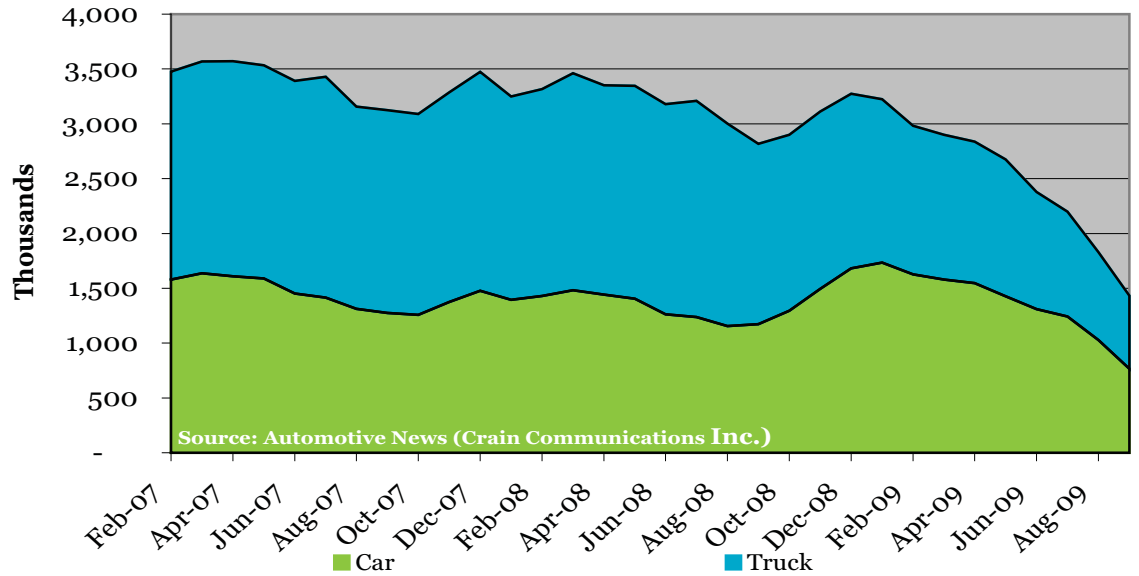
Source: Bureau of Economic Analysis; DBRS

In an effort to spur new vehicle buying, in July 2009, the Department of Transportation rolled out the Car Allowance Rebate System, or more commonly referred to as the "Cash for Clunkers" program. The program had an immediate positive impact on new vehicle sales. It provided incentives to U.S. residents to purchase new, more fuel efficient vehicles when trading in less efficient vehicles, considered "clunkers" under the program. The program was originally intended to provide \$1 billion in incentives and was expected to last approximately three months. However, the program proved more successful than expected. New vehicle sales increased to 11.4 million in July and the \$1 billion was exhausted by July 30<sup>th</sup>. In August, Congress approved an additional \$2 billion for the program and 14.3 million more new cars were sold in August before the program officially ended on August 26<sup>th</sup>.

The success of Cash for Clunkers demonstrates that there is purchasing power still available in the consumer market, but that consumers are using it cautiously. It also proves that demand for new vehicles was building for several months prior to the roll out of the Cash For Clunkers program.

Despite the positive results of the Cash for Clunkers program, there is still a long way to go to get back to the average annual sales volumes of 2006 and 2007. Consumer confidence has not returned to the levels achieved in those years, and unemployment persists as household incomes remain stagnant or lower than before the start of the recession. Additionally, pressures remain for the auto industry, including the long-term viability of the Detroit Three auto manufacturers, despite Chrysler and GM exiting bankruptcy relatively quickly, and the fact that new vehicle inventory levels are at the lowest they have been, at 1.4 million cars, when compared to 3.0 to 4.0 million cars in inventory during the 2006 to 2008 timeframe.

### Aggregate Automotive Inventory History



For the securitization market, these conditions mean that the now-smaller auto manufacturers (for the time being) will not need to sustain the same sales volumes as they have in the past and will produce fewer new vehicles and require smaller or less frequent securitization financing. Also, for the near future, purchaser incentives on new cars are likely to be lower and fewer than they have been in the past because manufacturers are more capital constrained.

Nevertheless, the market for auto loan asset-backed securities has been slowly coming back, helped by the Federal Reserve's Term Asset-Backed Lending Facility and the boost in sales volumes attributed to the Cash for Clunkers program. Also, the re-emergence of cash investors in the market have added to the attractiveness of auto ABS and, in some cases, helped with the successful placement of new issuance subordinate notes.

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