

U.S. Structured Finance Newsletter

Volume 5, Issue 4, January 26, 2009



Claire Mezzanotte

Managing Director, ABS/RMBS
U.S. Structured Finance,
+1 212 806 3272
cmezzanotte@dbrs.com

Jan Buckler

Senior Vice President,
Research and Modeling
U.S. Structured Finance
+1 212 806 3925
jbuckler@dbrs.com

David Hartung

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3269
dhartung@dbrs.com

Quincy Tang

Senior Vice President, RMBS
U.S. Structured Finance
+1 212 806 3256
qtang@dbrs.com

Kathleen Tillwitz

Senior Vice President,
Operational Risk
U.S. Structured Finance
+1 212 806 3265
ktillwitz@dbrs.com

Toronto

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York

140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

Chicago

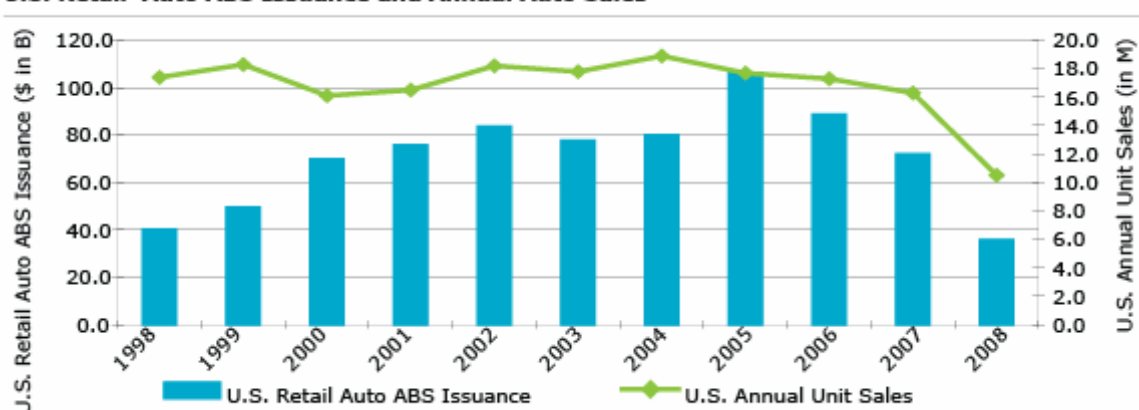
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

WHERE THE RUBBER MEETS THE ROAD IN AUTO ABS

The number of auto sales in the United States does not necessarily drive the issuance of auto asset-backed securities (ABS). Although there is a correlation between vehicle sales and ABS issuance in normally functioning capital markets, the currently weak ABS market shows that this correlation is more coincidental than “cause and effect.”

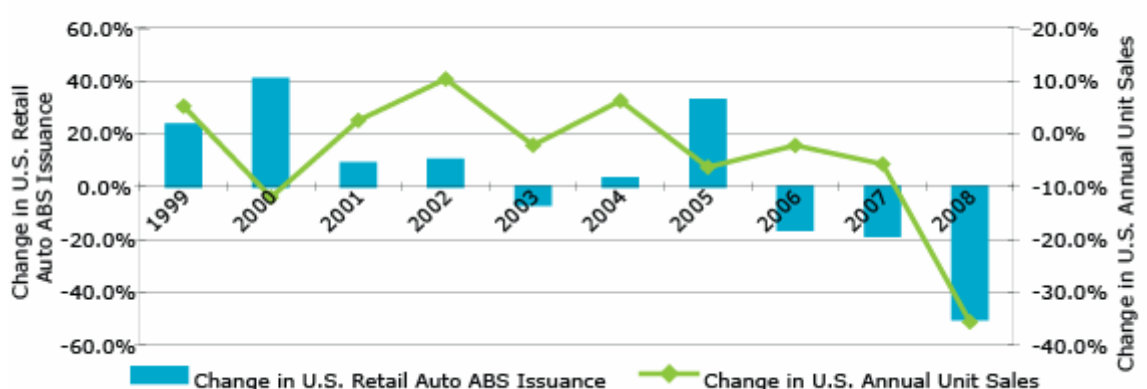
Vehicle sales declined over the past three years by 2.3%, 5.8% and 35.6%, respectively; however, ABS issuance declined much more precipitously: by 16.5%, 18.8% and 50.2%, respectively. These statistics indicate that auto sales are still being financed, but that the financing is occurring outside of the public ABS market. The pre-2008 data shows, for example, that when the capital markets provide an efficient source of funding, the public ABS market is an attractive source of funding for vehicle sales.

U.S. Retail Auto ABS Issuance and Annual Auto Sales



Source: DBRS and U.S. Bureau of Economic Analysis.

The Change in U.S. Retail Auto ABS Issuance and Annual Auto Sales



Source: DBRS and U.S. Bureau of Economic Analysis.

Although retail auto ABS issuance was notably down in 2008, a significant volume of it was funded privately. This fact is a testament to the strength of auto collateral and provides the rationale for why DBRS believes that auto ABS issuance should increase rapidly once conditions in the capital markets begin to ameliorate.

Performance of retail auto ABS has declined marginally throughout the economic downturn but has remained relatively strong as a result of the fundamentals behind the product. Retail auto ABS collateral is well diversified both geographically and across the credit spectrum; the de-leveraging structure of auto ABS provides increased loss protection as transactions amortize; and the relatively short tenor of auto ABS collateral allows investors to model expected performance with greater certainty and a shorter risk window.

For questions or comments please contact David Hartung at dhartung@dbrs.com or Chris O'Connell at coconnell@dbrs.com.