

# What's Driving Auto Finance Funding?



# *George Halloran*

---

*Program Manager  
Auto Finance Practice*

**BenchMark Consulting  
International**

**M**anaging **P**rofitable **G**rowth



# *Ken Clark*

---

*Senior Vice President*

**Bank of America**

**M**anaging **P**rofitable **G**rowth



# *Robert Mc Donald*

---

***Vice President***

***Goldman Sachs***

**M**anaging **P**rofitable **G**rowth



# *Amy Martin*

---

***Director***

**Standards & Poor's**

**M**anaging **P**rofitable **G**rowth



# *Paul Tsang*

---

*Senior Vice President*

**Wells Fargo**

**M**anaging **P**rofitable **G**rowth

# Session Objectives

- **Recap developments in funding marketplace**
- **Panelists answer some key questions**
- **Audience Q&A**

# Market Update

# **Auto Loan Asset-Backed Securitization Industry: Ratings, Performance and Outlook**

Amy Martin, Director  
Standard & Poor's  
Structured Finance Ratings  
AFSA's 12<sup>th</sup> Annual Vehicle Finance Conference  
San Francisco

February 7, 2008

Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.  
Copyright (c) 2006 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All rights reserved.

# Auto Loan ABS Upgrades/Downgrades

---

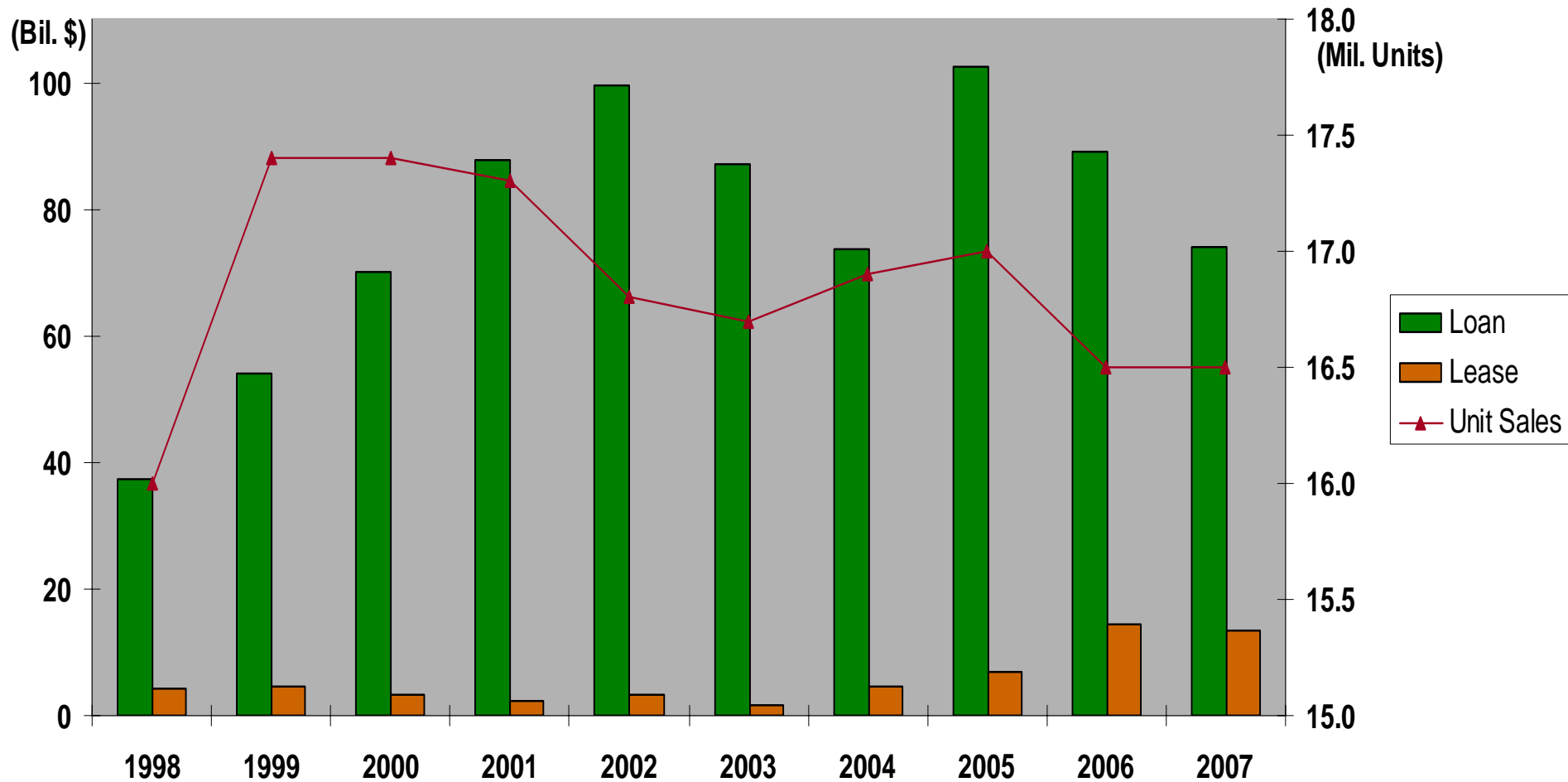
	<u>Upgrades</u>	<u>Downgrades</u>
<b>2001</b>	<b>56</b>	<b>0</b>
<b>2002</b>	<b>25</b>	<b>1</b>
<b>2003</b>	<b>32</b>	<b>22</b>
<b>2004</b>	<b>48</b>	<b>0</b>
<b>2005</b>	<b>87</b>	<b>0</b>
<b>2006</b>	<b>91</b>	<b>0</b>
<b>2007</b>	<b>116</b>	<b>2</b>

# Auto Loan Rating Approach

---

- **Legal Analysis**
- **Qualitative Assessment**
  - History of Company
  - Underwriting Guidelines
  - Dealer Relationships
  - Servicing and Collection Procedures
  - Re-marketing
- **Quantitative Assessment – “Determining Base-Case Losses”**
  - Static Pool Approach
  - Pool Comparison
  - Peer Comparison
  - Portfolio Analysis
- **Requisite Credit Enhancement**
  - Multiples
- **Cash Flow Analysis**

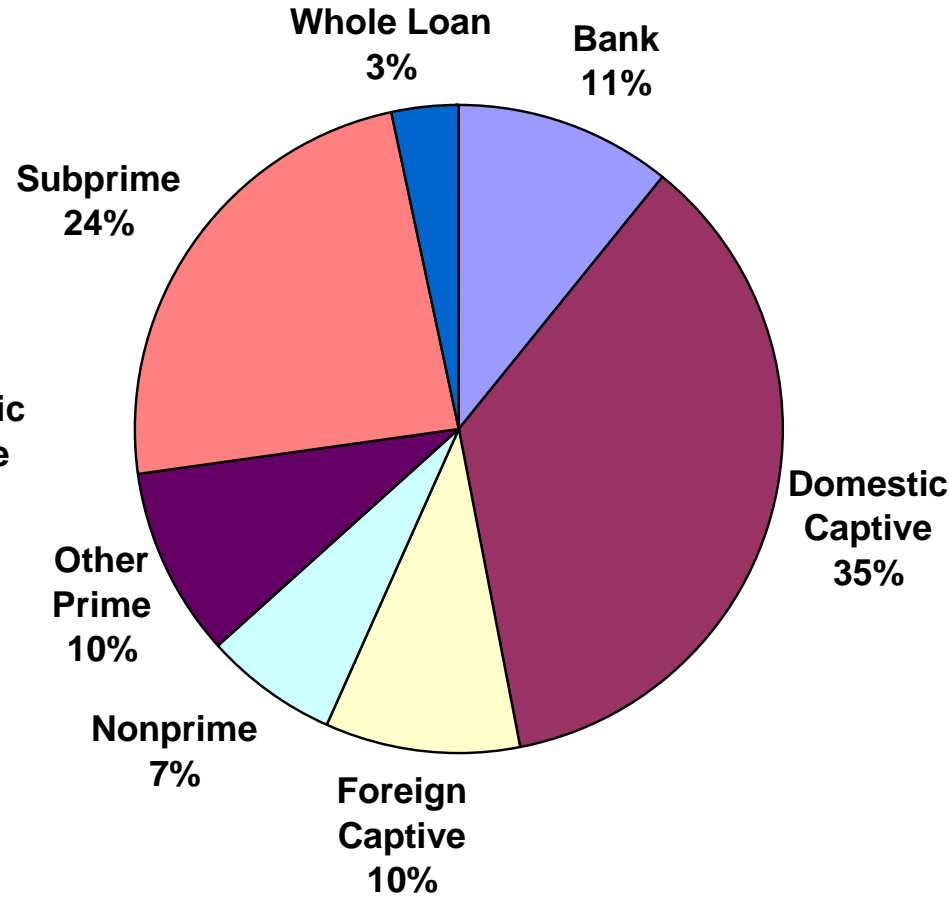
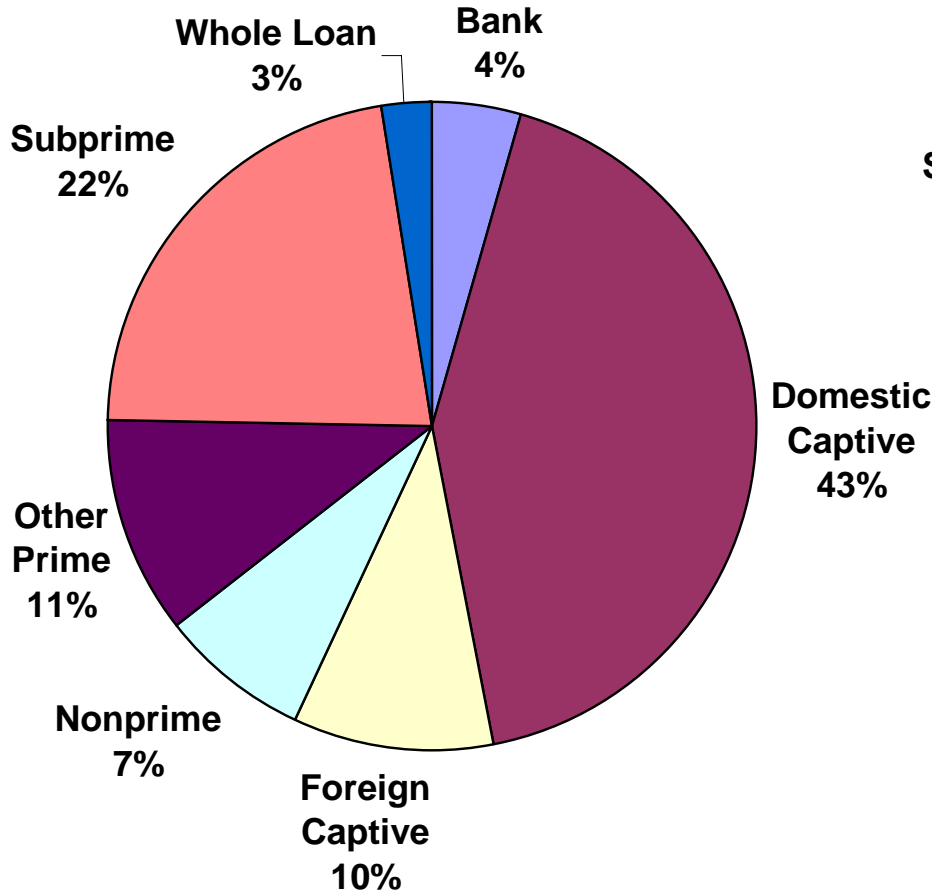
# Retail Auto ABS Volume Compared To Retail Unit Sales



# Retail Auto Loan Term ABS Volume By Segment

2007 – 70 Transactions - \$73.9 bn

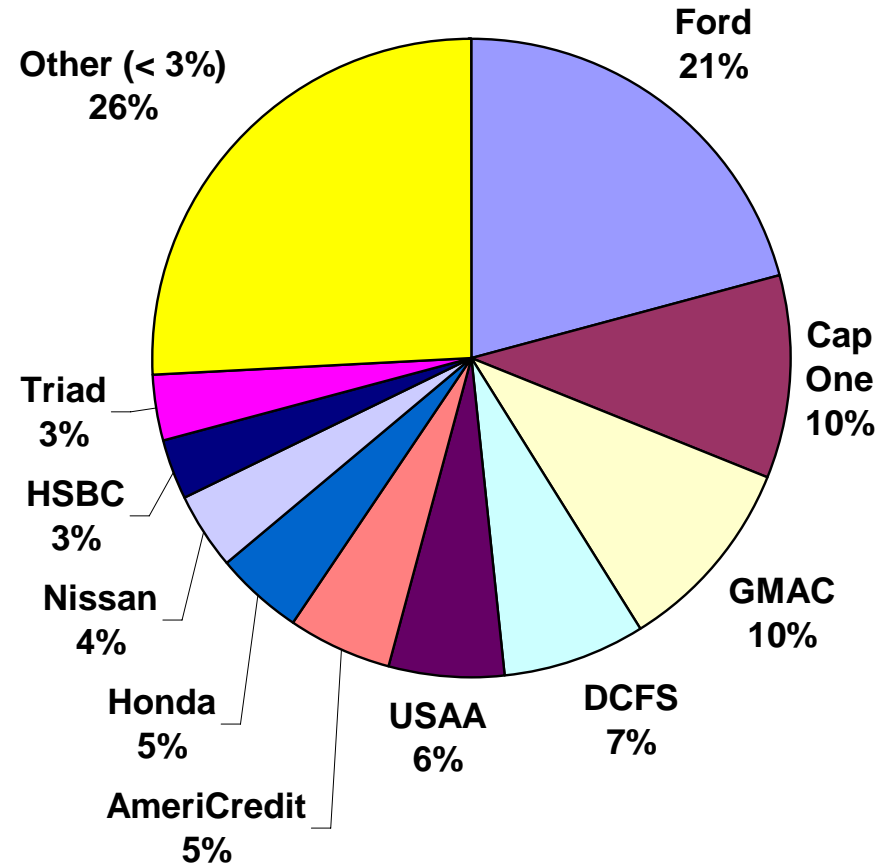
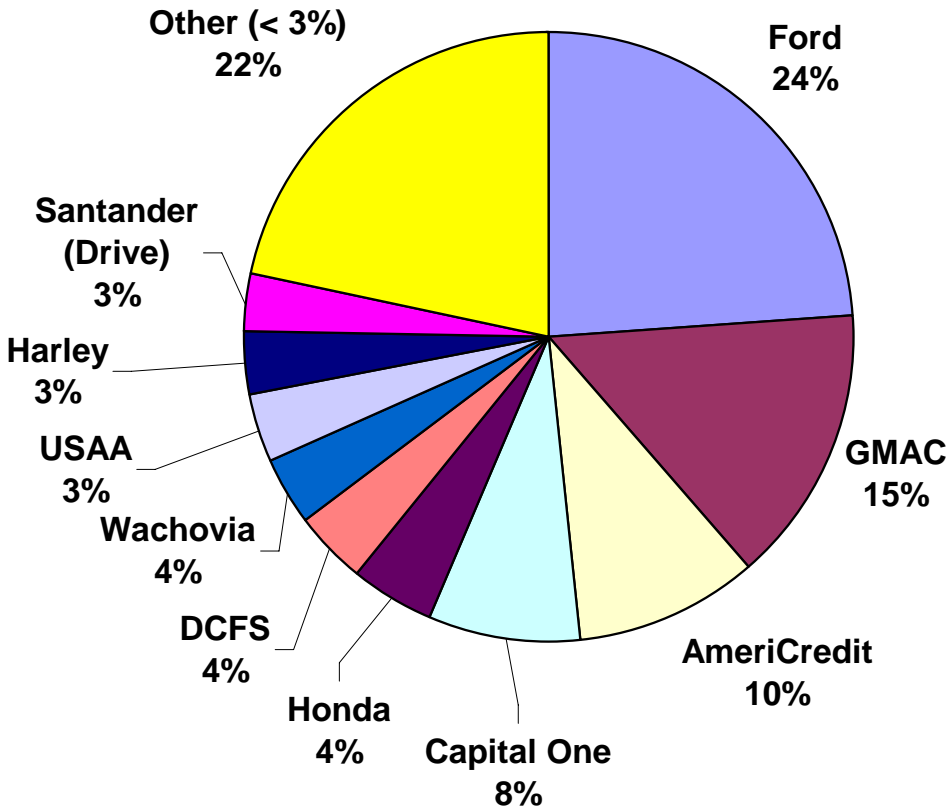
2006 – 78 Transactions - \$89.9 bn



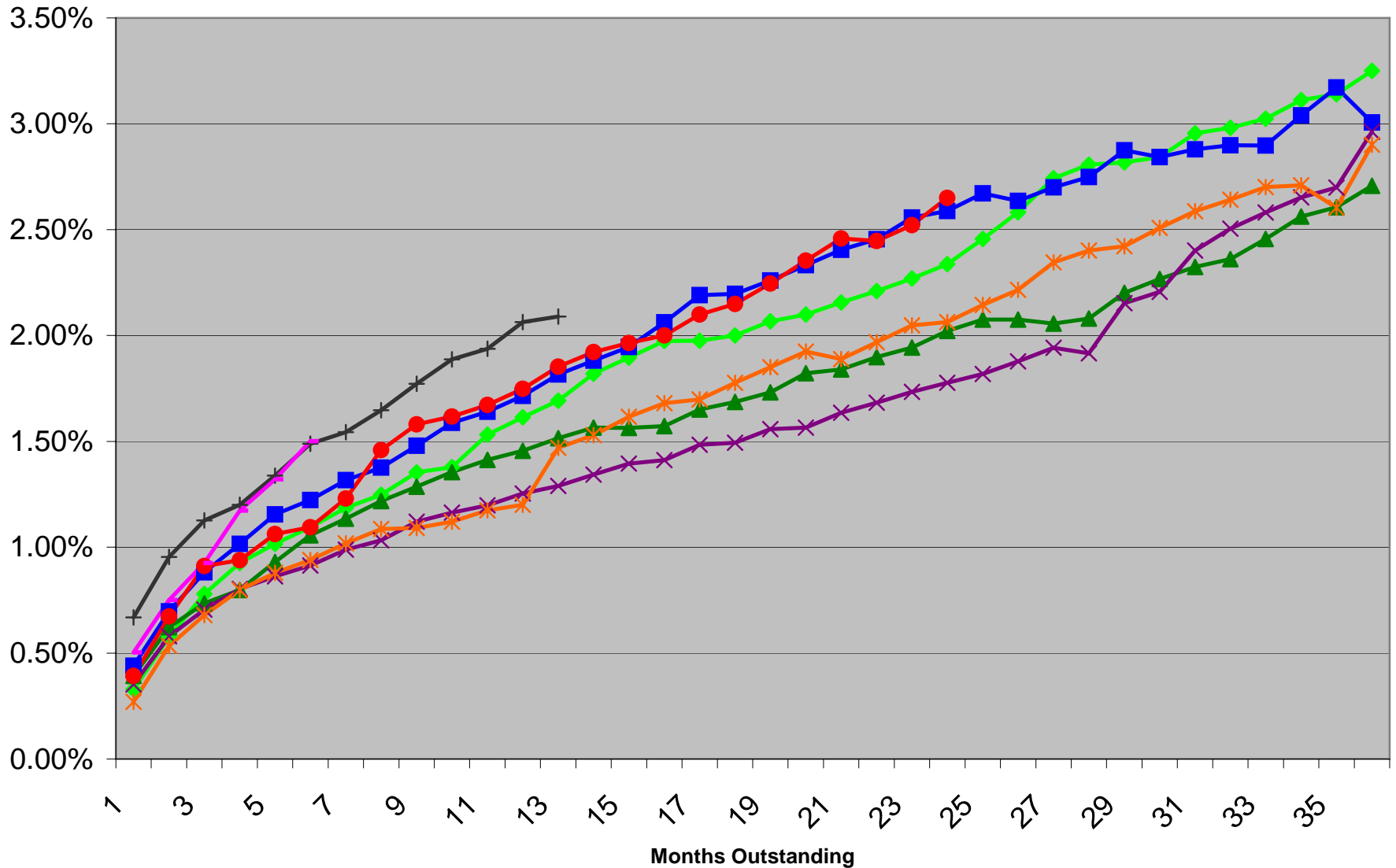
# Retail Auto Loan Term ABS Volume by Issuer

2007 – 70 Transactions - \$73.9 bn

2006 – 78 Transactions - \$89.9 bn



# Prime\* Auto Loans 30+ Day Delinquencies By Vintage Year



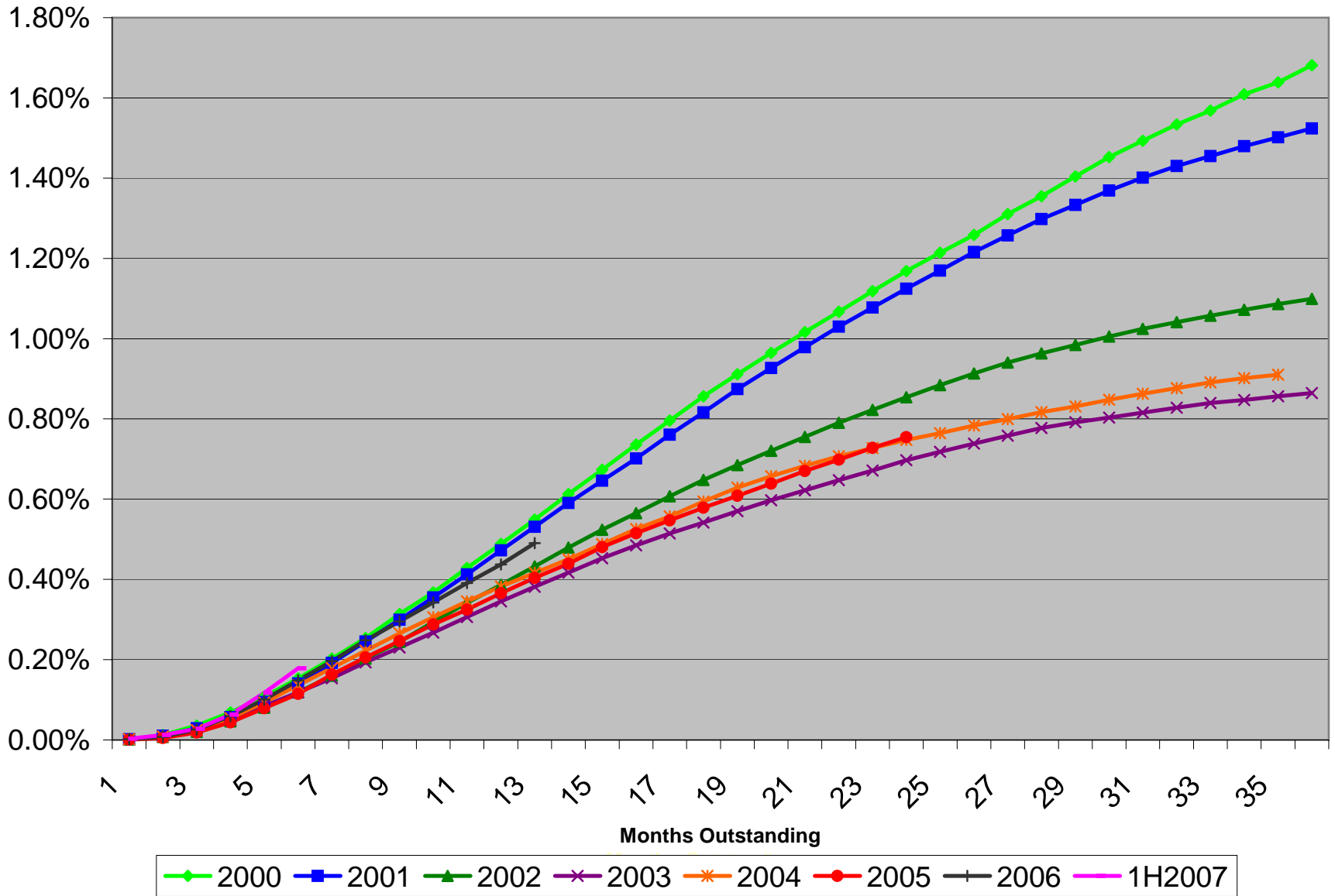
◆ 2000 
 ■ 2001 
 ▲ 2002 
 × 2003 
 ✱ 2004 
 ● 2005 
 + 2006 
 ◆ 1H2007

\*Pools with cumulative net losses of less than 3% and a typical FICO of at least 680

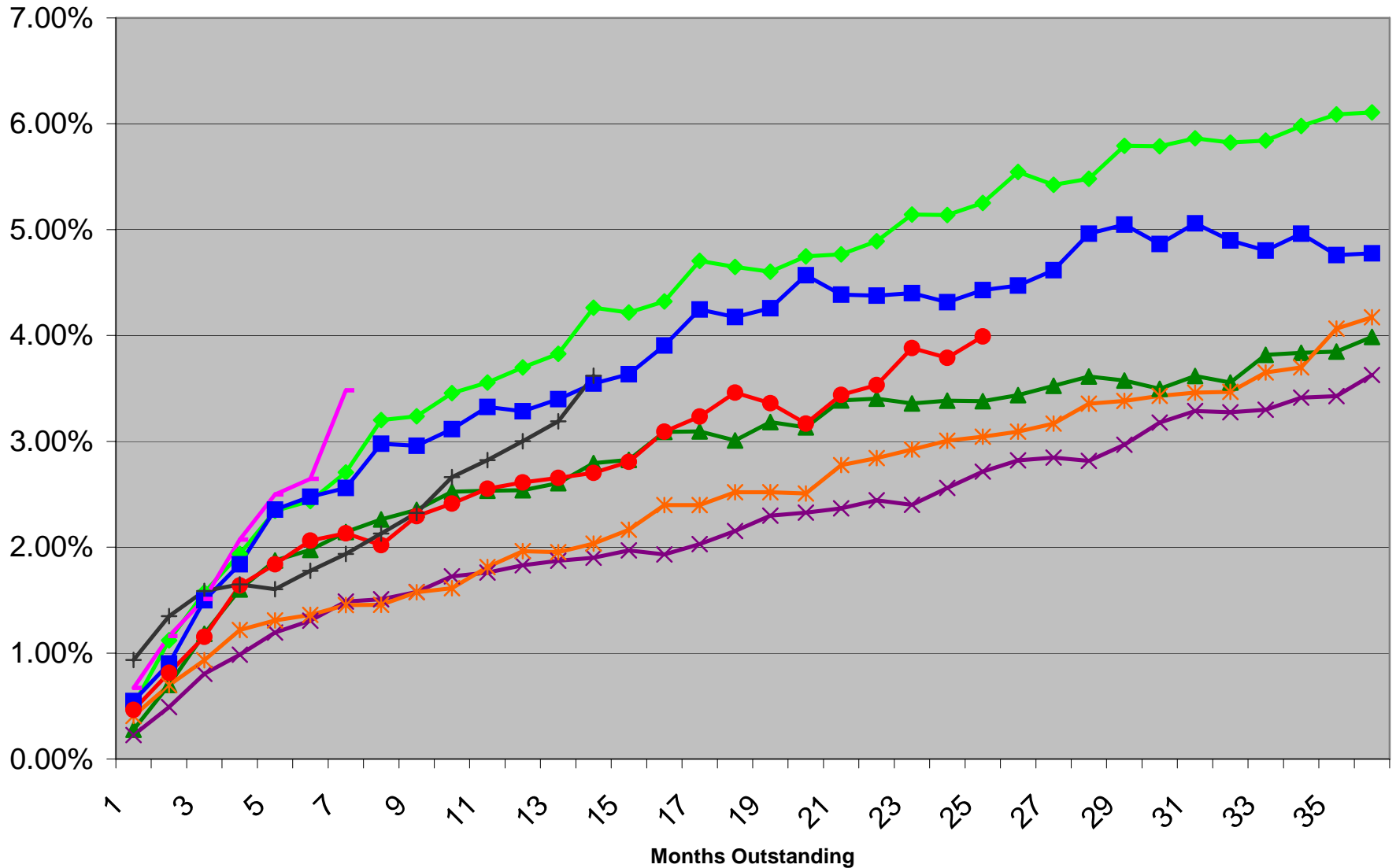
Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.



# Prime Auto Loans Cumulative Net Losses By Vintage Year



# Nonprime\* Auto Loans 30+ Day Delinquencies By Vintage Year



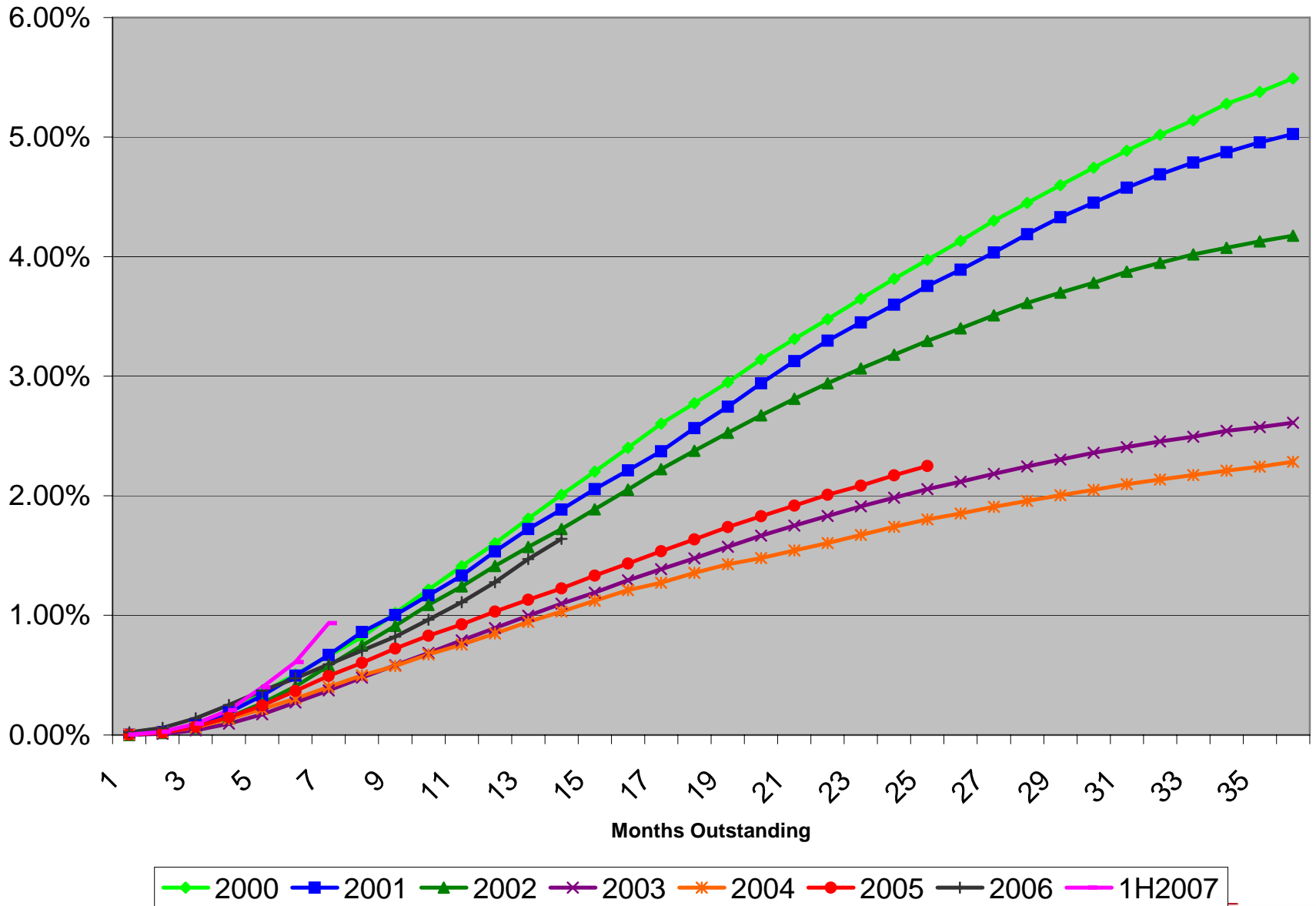
◆ 2000 
 ■ 2001 
 ▲ 2002 
 ✕ 2003 
 ✱ 2004 
 ● 2005 
 + 2006 
 ◆ 1H2007

\*Pools with cumulative net losses of between 3% and 7.5% and a typical FICO of between 620 and 680.

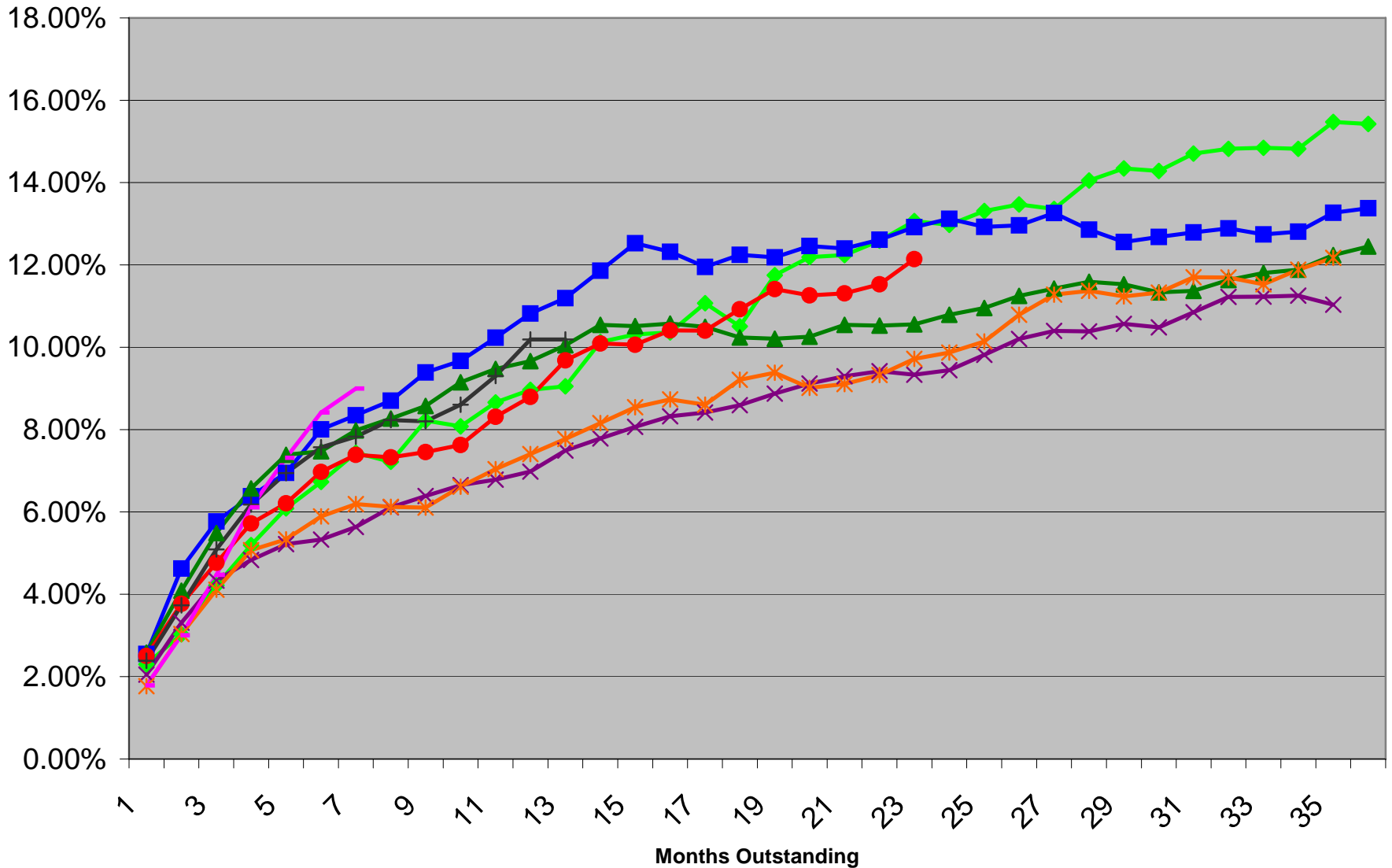
Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.



# Nonprime Auto Loans Cumulative Net Losses By Vintage Year



# Subprime\* Auto Loans 30+ Day Delinquencies By Vintage Year



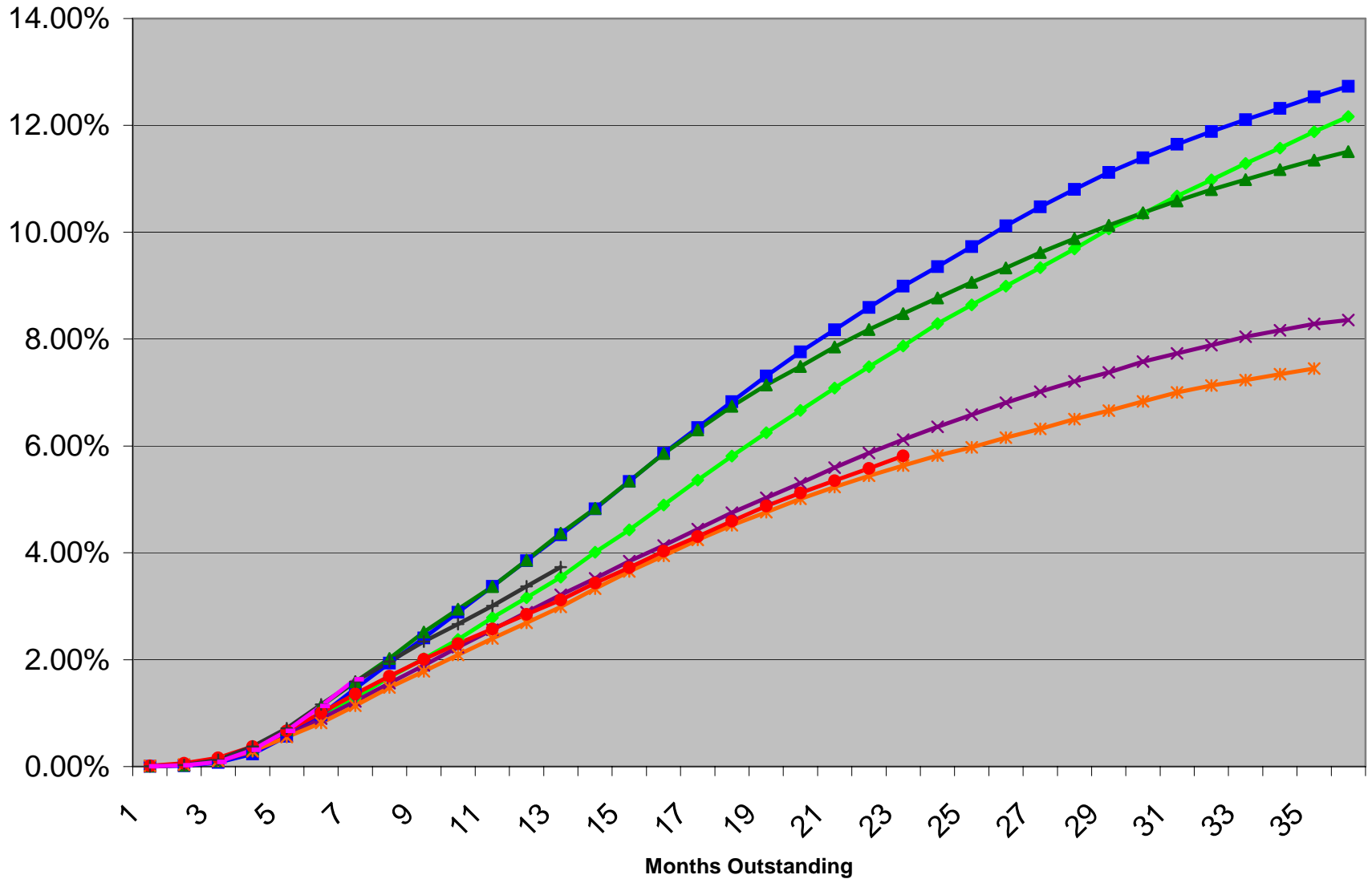
◆ 2000   
 ■ 2001   
 ▲ 2002   
 × 2003   
 ✱ 2004   
 ● 2005   
 + 2006   
 — 1H2007

\*Pools with cumulative net losses of greater than 7.5% and a typical FICO of less than 620.

Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.



# Subprime Auto Loans Cumulative Net Losses By Vintage Year



◆ 2000   
 ■ 2001   
 ▲ 2002   
 × 2003   
 ✱ 2004   
 ● 2005   
 + 2006   
 ◆ 1H2007



# Collateral Trends

---

		<u>Wtd. Avg. APR %</u>	<u>% Used</u>	<u>% Long-Term Loans</u>	<u>Wtd. Avg. FICO</u>
<b>Prime</b>	2003	5.28	21.37	14.84	717
	2004	5.35	28.43	29.99	719
	2005	5.79	24.62	31.61	719
	2006	5.68	22.28	39.27	716
	2007	5.47	21.58	40.97	713
<b>Nonprime</b>	2003	10.47	62.26	51.79	661
	2004	10.05	58.81	51.94	655
	2005	10.81	62.01	56.35	650
	2006	11.43	55.11	66.17	654
	2007	10.03	65.48	82.23	659
<b>Subprime</b>	2003	16.3	68.88	42.79	589
	2004	16.26	63.9	45.86	590
	2005	14.95	63.55	52.27	590
	2006	15.60	71.94	65.95	587
	2007	15.92	74.36	64.95	595

Source: Standard & Poor's Auto Loan Static Index

Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's.

**STANDARD**  
**& POOR'S**

# Outlook

---

- **Losses likely to continue to rise in 2008 due to weaker economy.**
- **Credit performance hinges on unemployment levels, borrowers ability to manage higher debt service, and the quality of servicing.**
- **The deterioration in the housing market could take a greater toll on the economy.**
- **Lengthening loan terms could lead to higher losses.**
- **Used vehicle market faces challenging environment.**
- **Access to ABS funding is restricted to 'AAA' ratings and at wider spreads than historically. Bond insurance has lost much of its appeal.**
- **Limited market for subordinated ratings could impair some capital-constrained companies, leading to reduced origination volume.**

# Panel Questions



# Key Questions

S&P has changed its rating methodology for other structured ABS, namely RMBS -- are you considering changing your approach to rating auto loan ABS?

How has the current market impacted securitizations?

What are the impacts on whole loans?

Relative to current market, are whole loan buyers still active in the market place?

Is performance data as predictive in the current market and how does the robustness of data impact buyers' analyses and pricing in general?

Will lenders continue to finance negative equity at trade-in with higher LTVs?

What other factors might a whole loan buyer consider important in today's market?

Auto finance is becoming more capital intensive in the current market environment -- is this a short-term or long-term phenomenon?

Where will additional (auto financing) capital come from?

What will be the impact (of funding marketplace changes) on returns to the auto finance business?

# Other Questions



**Thank You**