

ABS
EMEA
Criteria Report

EMEA Consumer ABS Rating Criteria

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Related Research

- *Residual Values in European Auto ABS (April 2006)*
- *Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLOs) (July 2009)*
- *Special-Purpose Vehicles in Structured Finance Transactions (June 2006)*
- *Exposure Draft: Counterparty Risk in Structured Finance Transactions (March 2009)*

Introduction

This criteria report is applicable to ABS transactions backed by diversified and granular portfolios of loans and leases, advanced to individuals and small corporate entities within EMEA jurisdictions.

This report outlines the key risks involved in EMEA consumer ABS and details the agency's rating approach. The report covers asset analysis - including rating stresses, liability structure analysis - including cash flow modelling, legal structure review, counterparty risk considerations and performance analytics.

Auto ABS is common to both the US and EMEA jurisdictions, while the securitisation of unsecured consumer loans is more prevalent within EMEA jurisdictions. Between the various EMEA jurisdictions, legal and structural differences are commonly observed. This report sets out Fitch Ratings' analytical approach to analysing the risks of such transactions.

Key Risks

The key risks affecting consumer ABS transactions can be split into the following categories: (i) asset performance risks; (ii) structural and legal risks; and (iii) counterparty risks.

Asset performance risks relate primarily to obligor default and recovery rates. However, other performance variables may also present risks; these include the impact of delinquency and prepayments upon the yield generated on the assets. Some transactions may also be exposed to residual value risk. Asset performance risks will be increased for transactions that feature revolving periods, as the characteristics of individual loans or leases may change (see the "Asset Analysis", "Default Risk Analysis" and "Cash Flow Modelling" sections for further details).

Securitisation structures are intended to delink the performance of the issued notes from the credit quality of the originator. This is typically achieved by a true sale of the assets from the originator to a bankruptcy-remote special purpose vehicle (SPV). Analysis of legal and structural risks is a key part of Fitch's rating review, and underpins the quantitative analysis (see the "Liability Structure" and "Legal Structure" sections for further details).

The effective operation of the SPV in collecting receivables and distributing funds is reliant upon a number of counterparty relationships. Of specific relevance, from a cash flow perspective, is the servicer, account bank and hedge counterparty. Securitisation structures generally seek to minimise counterparty risk through diversification and replacement procedures; nevertheless, inevitable counterparty dependencies still present a degree of risk to securitisation transactions (see the "Counterparty Risk" section for further details).

Criteria Application

Individual and Corporate Obligors

This criteria report is applicable primarily to individual obligors, but also to small and medium corporate entities. In determining the application of this criteria report to pools of corporate obligors, a key factor is the diversification (including by sector) and granularity of the pool, measured both in terms of number of loans and maximum obligor size. The application of this criteria report shall be restricted to pools with a high number of obligors, consumer sized average obligor debt balances,

low obligor concentration levels, and relevant historical vintage data. For example, a typical consumer ABS transaction has in excess of 10,000 obligors and an average obligor debt balance of between EUR10,000 and EUR15,000 (or equivalent in relevant currency). With respect to product type, this criteria piece applies to both secured and unsecured loans (excluding mortgages) and lease obligations.

For small and medium corporate pools, the relevance of this criteria report shall be assessed on a case-by-case basis, with consideration of the above factors. Where the level of granularity is not sufficiently high to support the application of this criteria, then Fitch may apply alternative criteria (primarily its SME criteria, see “*Rating Criteria for European Granular Corporate Balance-Sheet Securitizations (SME CLOs) (Europe CDOs)*”, dated 23 July 2009). In some ‘borderline’ transactions, Fitch may also apply the different analytical approaches in parallel.

Product Types

Amortising Loans

Fully amortising loans consist of a series of periodic instalments over a fixed period. The instalments include a portion of principal repayment, plus interest and fees over the loan tenor. Such loans may be secured upon an object, such as a vehicle, or may be unsecured and advanced for a variety of consumer purposes.

Balloon Loans

Balloon loans consist of a number of equal periodic payments, followed by a one-off balloon payment. The balloon payment can often represent a substantial portion of the initial loan amount. The origination of balloon loans is typically reserved for secured financing arrangements, and the balloon amount is usually sized by the originator with consideration to the expected future value of the secured object.

Where the obligor has the option to return the object to the originator (eg a Personal Contract Plan product), and the securitisation transaction has purchased the balloon payment obligation, then the transaction may be directly exposed to residual value risk. Alternatively, if the obligor enters into a separate contract to sell the object to the supplying dealer at a predetermined price equal to the balloon amount, then the transaction is exposed to indirect residual value risk. Transactions that feature a high degree of residual value risk will be viewed as particularly high risk by Fitch and may be subject to a ratings cap. The residual value risk component of auto loans will be analysed using the criteria “*Residual Values in European Auto ABS*”, dated 11 April 2006 and available at www.fitchratings.com.

Leases

Leases consist of an obligation to make a series of payments (in consideration for using the leased object) followed by the return of the leased object; some leases also allow a purchase option for the obligor. Leased objects are commonly vehicles, however, some pools may be comprised of equipment. In economic substance, leasing products are similar to balloon loans where the obligor has a return option. Lease products differ from loans in terms of legal and tax treatment. If the proceeds from the sale of the leased object are included within the securitisation transaction, then the transaction will also be exposed to residual value risk, which will be analysed using the criteria “*Residual Values in European Auto ABS*”.

Credit Cards and Revolving Loans

Credit cards and revolving loans do not provide a fixed repayment schedule; instead, obligors can make variable repayments subject to a specified minimum. In addition, obligors can make further drawings, within the credit limit. Due to these features of the underlying obligations, the asset analysis and rating stresses are based upon dynamic, rather than static, analysis. This criteria report is therefore not applicable to the asset analysis of credit card and revolving loan transactions.

Emerging Market Application

The contents of this report are orientated towards international scale ratings assigned to transactions backed by assets originated in EMEA countries, with a Country Ceiling rating of 'AAA'.

In addition, the approach outlined in this report will form the basis of the analysis of securitisation transactions backed by granular asset portfolios from EMEA countries with a Country Ceiling rating below 'AAA'. For such 'emerging market' jurisdictions, the approach outlined in this report shall be supplemented by specific emerging market criteria, in particular "*Criteria for Existing Asset Securitization in Emerging Markets – Sovereign Constraints*", dated 17 March 2008, and "*Criteria to Analyse Legal Uncertainty in Emerging Market Transactions*", dated 10 July 2009 (both available at www.fitchratings.com).

Data Adequacy

The rating approach outlined in this criteria report utilises historical performance data to form an expectation of future portfolio performance. A summary data list is presented in *Appendix 1* which outlines the key data that Fitch would expect to receive in order to apply the analysis outlined in this criteria report.

Historical data analysis may be deemed inappropriate due to (but not limited to): (i) limited data availability, due to the duration of the data series and/or the occurrence of economic stress within the data series; or (ii) a lack of granularity within the underlying pool. In such cases, the agency will determine the applicability of this criteria report versus alternative ratings approaches. Where this criteria report is deemed to be applicable, notwithstanding any data limitations, any data adjustments or assumptions applied by Fitch will be highlighted in Fitch's transaction rating reports.

Rating Approach

The first step for Fitch is to review a term sheet outlining the key elements of the transaction. As part of its initial analysis, Fitch will apply a screening process to determine the relevant rating criteria; this is particularly relevant for transactions with atypical risks.

A review of the originator's procedures is undertaken by Fitch to understand the specific features of the loan products included in the portfolio and to assess the impact of the originator's underwriting standards and procedures on the portfolio's performance. The servicer, which may often be the same entity as the originator, is reviewed with regards to its ability to manage and service the portfolio appropriately. Fitch will analyse how the specific servicing may affect future performance of the receivables (see "*Asset Analysis*" section for further details).

Following the originator and servicer review, Fitch undertakes a detailed analysis of pool data and historical performance data. Fitch combines insights from the originator and servicer review and its sector outlook with the data analysis in order to form base case assumptions (see "*Default Risk Analysis*" section for further details).

Transaction documentation is reviewed to understand the rights and obligations of each party to the documents and to consider how the structure will operate, particularly under different stress assumptions (eg counterparty replacement). Legal opinions will also be reviewed to confirm that Fitch's assumptions - which are being factored into the credit analysis with respect to the transaction - are supported by such legal opinions. Such opinions may include for example, that the transfer of the assets, whether by way of a true sale or not, has been perfected and will be enforceable against third parties and the seller, and that the transaction documents are legal, valid, binding and enforceable against all parties to them (see "*Liability Structure*", "*Legal Structure*" and "*Counterparty Risk*" sections for further details).

This rating approach utilises historical data to form an expectation of future performance. Historical data analysis may be inappropriate due to: (i) limited data availability; or (ii) a lack of granularity within the underlying pool.

Fitch will utilise its cash flow model to test the ability of the assets and the structure to withstand rating stresses. The cash flow model will apply the rating stresses to the receivables pool to calculate the stressed cash collections. The cash flow model will be calibrated to mirror the transaction structure, as set out in the legal documentation, particularly with respect to capital structure and priorities of payment (see “*Cash Flow Modelling*” section for further details).

To determine the rating of a given tranche of notes, Fitch analyses a series of stress scenarios to determine whether the payment of interest and principal under such notes is fulfilled in all stress scenarios. However, while the cash flow model output is an important consideration in determining the final rating, ratings are ultimately assigned by a Fitch rating committee, which also considers other quantitative and qualitative factors.

At the time of assigning expected and final ratings, Fitch will publish transaction-specific presale and new issue reports respectively. The reports will highlight key features and risks of the transaction in the context of the rating criteria. The reports will outline Fitch’s rationale for assigning the given ratings.

After the transaction has closed, Fitch will monitor the transaction’s performance to ensure that the assigned ratings remain appropriate (see “*Performance Analytics*” section for further details).

Asset Analysis

Fitch reviews the asset structure of transactions that are presented by originators and their arrangers. Fitch identifies risks under different rating scenarios and forms an opinion on the ability of given structures to mitigate such risks. The following section outlines standard features of typical consumer ABS transactions; however, it should be noted that Fitch does not recommend or approve any particular structural features.

Originator & Servicer Review

The originator and servicer review plays a key part within the analysis of Consumer ABS transactions. For each transaction Fitch conducts a review of the originator and servicer, and key components of the review are detailed in Appendix 2.

As well as reviewing servicing processes Fitch will investigate the specific products offered by the originator and developments to the origination and underwriting processes. These insights shall be applied by Fitch when analysing historic performance data. For example if the originator has broadened origination channels and/or relaxed underwriting criteria, then Fitch would expect performance data to show a deteriorating trend, and vice versa (see the “*Default Risk*” section for further details). In addition risk arising from specific product features shall be identified and taken into account in Fitch’s asset analysis.

Products and Sub-Products

Within a receivables pool, different sub-products can exhibit very different performance characteristics. Such distinction can be made using a number of different categorisations; however, the purpose is to establish sub-products that are homogenous with respect to expected performance. Example product distinctions include: (i) originator’s own product distinctions; (ii) obligor type; (iii) origination channels; (iv) underwriting process; (v) loan purpose; or (vi) underlying asset type.

Fitch will review the terms and characteristics of the products that will be included within the securitisation transaction, in particular, tenors, interest rates, loan-to-value (LTV) limits (if applicable) and restrictions on loan purpose. Fitch may subdivide the securitised pool into sub-products (see the “*Default Risk*” section for further details).

Different sub-products can exhibit very different performance characteristics. The purpose of the pool segregation is to establish sub-products that are homogenous with respect to expected performance.

Eligibility and Portfolio Criteria

Eligibility and portfolio criteria help to mitigate risk with respect to the type and quality of assets included within the pool. Typical loan-level eligibility criteria include, but are not limited to, the following:

- originated in line with the originator's underwriting guidelines;
- compliant and enforceable with respect to applicable consumer finance legislation;
- no over 30 day delinquent or written off/charged-off contracts;
- maximum loan/lease tenor;
- minimum interest rate or spread for each loan in the pool; and
- maximum original maturity for every contract.

Typical pool-level concentration limits, which are especially relevant for revolving transactions, include, but are not limited to, the following:

- maximum single obligor concentration limits;
- maximum percentage of different loan products;
- geographical concentrations;
- maximum Residual Value (RV) or balloon per contract, by portfolio or sub-pool;
- minimum weighted-average interest rate; and
- RV/balloon cap for the portfolio or sub-pool.

Fitch will assess the rating impact of eligibility criteria on a transaction-by-transaction basis, by identifying any risks and considering available mitigants.

In terms of compliance with eligibility criteria, transaction documentation usually obliges originators to repurchase any ineligible assets inadvertently sold to the issuer. Fitch assumes that originators will comply with such documented provisions and as such, the credit analysis does not address the risk of ineligible assets being sold into the pool.

Revolving Transactions

Consumer ABS transactions often feature a revolving period, whereby for a specific period of time, principal collections are used to purchase further receivables rather than repaying noteholders. Revolving periods (similar to other mechanisms that allow the addition or substitution of assets) expose noteholders to additional risks with respect to the asset quality and performance. Some of these risks can be mitigated by structural features or addressed by Fitch's analytical assumptions.

The risk of performance deterioration during a revolving period can be partially mitigated by adequately sized performance-based triggers. Fitch will monitor revolving transactions by reviewing transaction performance data (see '*Performance Analytics*' section). Revolving transactions are exposed to changes in origination standards. In the event that performance deterioration is reported or anticipated, Fitch will request updates to items discussed in the originator review meeting. In addition, Fitch expects originators and servicers to provide notification of any material changes to their origination, underwriting or servicing processes.

Concentration Limits

In transactions where Fitch has assigned separate base case assumptions to different sub-products, the agency will utilise the documented concentration limits to form a weighted average base case. Fitch will assume that during the revolving period, the portfolio migrates to the worst case possible under the concentration limits (see "*Eligibility and Portfolio Criteria*" section for further details).

The risk of performance deterioration during a revolving period can be partially mitigated by adequately sized performance-based triggers.

Performance-Based Triggers

In order to mitigate the risk of deteriorating asset performance caused either by: (i) declining origination standards; or (ii) deteriorating economic factors, Fitch would expect revolving transactions to be subject to effective amortisation triggers. Structures utilise a variety of performance-based triggers, including:

- maximum dynamic delinquency rate;
- maximum dynamic default rate;
- maximum cumulative default rate.

The emphasis in Fitch's analysis is to ascertain whether the given triggers will be effective in halting the revolving period in advance of a significant deterioration in asset performance.

Fitch does not have a preference for, nor does it recommend or approve, the type of trigger used. The emphasis of Fitch's analysis is to ascertain whether the given triggers will be effective in halting the revolving period in advance of a significant deterioration in asset performance. Typically, triggers would be activated at levels commensurate with 'BB' stress levels; lower rated notes will be particularly exposed to transactions with less tight triggers. Notwithstanding the trigger, the notes remain exposed to the existing pool until maturity or repayment.

In the event that performance-based triggers are considered by Fitch to be ineffective to protect against performance deterioration, the risk may, in some examples, be mitigated by higher credit enhancement (to cover the additional loss exposure of the transaction). Fitch's view on the ability of additional credit enhancement to mitigate ineffective triggers will be driven by a number of considerations including, but not limited to: (i) the extent of the variance between the triggers and historical performance; (ii) the history and Outlook for the originator and asset class; and (iii) the duration of the revolving period. Fitch does not apply a formulaic linkage between credit enhancements and triggers, and the ability of credit enhancement to mitigate loose triggers is not universal.

Credit Enhancement Based Triggers

Credit enhancement-based triggers mitigate the risk that the originator continues to transfer receivables to the issuer after the credit enhancement has fallen below the initial level. Examples of credit enhancement triggers are listed below:

- no un-cleared drawing on principal deficiency ledgers (PDLs);
- no unreimbursed drawings on cash accounts or liquidity facilities.

The specification of triggers will vary by transaction; however, to maximise the effectiveness of the triggers, the revolving period would cease on any interest payment date when the credit enhancement falls below its initial level. In its cash flow modelling, Fitch models the amortisation period, taking into account the credit enhancement that will not be eroded in advance of the commencement of the amortisation period (based upon credit enhancement triggers being in place).

Asset-Level Triggers

Revolving transactions often feature the ability of the issuer to hold cash as an alternative to reinvestment in receivables in the event that insufficient new receivables are offered for sale by the originator on a particular purchase date.

Such structures are exposed to the risks of: (i) reducing excess spread due to negative carry; and (ii) increasing the exposure to the account bank. The risks can be mitigated by: (i) an excess spread trigger, so that early amortisation is triggered if excess spread falls below certain levels; and (ii) applying a cap as a percentage of receivables to the amount that can be held as cash. In such cases, no quantitative adjustment is performed by Fitch, as it is expected that, upon a breach of the trigger, the excess cash would be used to redeem notes (as per the transaction structure) and as such, the negative carry situation would cease to exist.

Other Triggers

The occurrence of certain events that would have a negative impact upon the performance of the transactions are also typically applied as early amortisation events. Such events typically include:

- a material deterioration in the financial profile or insolvency of the originator;
- the termination of the original servicer;
- an unremedied default or termination of a transaction counterparty (other than originator or servicer).

Default Risk Analysis

The transaction documents will define the point at which receivables will be classified as defaulted. Typically, this will be upon the earlier of a certain period of delinquency (eg 120 days), or another factor that gives rise to the servicer classifying the receivable as uncollectible (eg debtor insolvency). As a result of being classified as defaulted, the principal balance of the receivable (from the perspective of the securitisation transaction) will be reduced to zero.

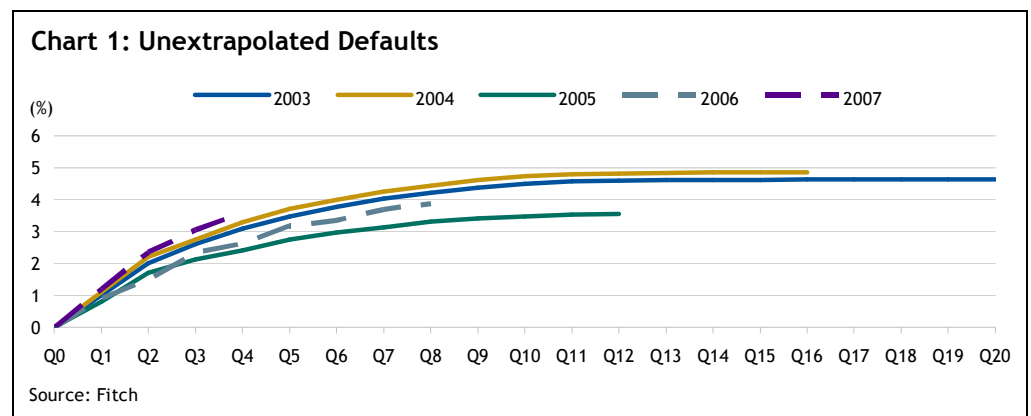
Generally, Fitch's analysis will follow the transaction default definition and therefore, historic data is expected to be provided on the same basis. The timing of the default definition does not impact the net loss amount, as later timing will result in lower defaults and lower recoveries. However, as Fitch applies separate stresses to defaults and recoveries, the defined timing will have an impact on the stressed net loss rate. In the event that the transaction provides for default definition - that in Fitch's view is later than the point when a receivable is typically considered as defaulted (eg 120 to 180 days) - then Fitch may analyse data that is based upon an earlier default definition.

Where a transaction does not follow a definition of default that is fixed in terms of days delinquent, Fitch will base its analysis upon a proxy default timing, derived by reviewing historic default timing. Fitch will also analyse the incentives of the servicer to amend the default timing, where such flexibility is permitted under the transaction documents.

Default Base Case Assumptions

The default base case is defined as the value of receivables that Fitch expects to be classified as defaulted, as a percentage of the aggregate initial loan amount during the life of the loans. The base case is derived from a combination of quantitative and qualitative considerations.

The default base case is defined as the percentage of receivables that Fitch expects to be classified as defaulted, and is derived from a combination of quantitative and qualitative considerations.



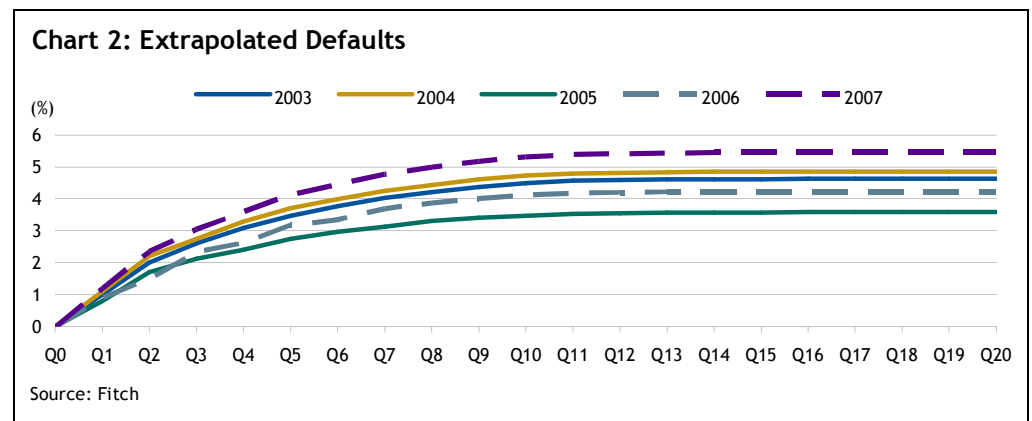
Fitch looks at the historical performance of a corresponding asset from the same originator, of the same quality and composition as the pool to be securitised. Base cases are determined for each individual product type. The base case is always set to cover the maximum original tenor of the receivables. The available data is

expected to cover the majority of the original term of the loans, so that the default curves reach a point of flattening.

A static pool is a group of assets generated during a specific calendar period, typically a month, quarter, or year (referred to as the “vintage” of the data). In Charts 1 and 2, data is presented with respect to year of origination, showing default performance with respect to quarters since origination (x-axis).

Historic data will be extrapolated to project forward the expected performance of younger vintages, assuming that they exhibit the same performance as older vintages (as shown below and outlined in *Appendix 3*).

The technique of extrapolation has the following limitations: (i) the extrapolation is based on historic performance and does not take into account future economic expectations; (ii) where data presented is volatile, the extrapolation will be additionally volatile; and (iii) where younger vintages are performing outside of the trend, the extrapolation will extend this variation, rather than applying a mean reverting path.



In addition to the above quantitative approach, Fitch will apply the following considerations when forming a base case assumption:

- If historical data is volatile or shows a certain trend, Fitch investigates this further with a view to gaining a better understanding of the historical and likely performance of the pool.
- The agency will also look into historical dynamic delinquency data, as this can provide insight into near-term default performance. Increasing delinquency levels indicate the likelihood of increased defaults.
- Fitch will compare default data and base case assumptions between different originators for similar asset types. However, Fitch will use originator-specific data as the primary means of deriving base case assumptions, due to the impact of originator-specific factors upon default performance.
- For static transactions with significant seasoning, Fitch will apply a seasoning adjustment to derive the expected default rate for the remaining pool (see *Appendix 4* for details) taking into account: (i) defaults incurred to date; and (ii) portfolio amortisation incurred to date.

In order to derive a base case that is forward looking, Fitch will overlay the above quantitative perspective with qualitative considerations. Input from the relevant Fitch Sovereigns analyst will provide the economic context for the historical data and the economic outlook for the relevant jurisdiction. Specifically, Fitch will seek to form a view as to how much economic stress is included within the default data that is presented for a particular transaction.

Fitch considers origination quality and unemployment to be key drivers of consumer ABS asset performance. Historic vintage data, spanning a period of increasing unemployment, will generally be considered to include a degree of economic stress (whereas the opposite conclusion would apply to data derived from a period of stable or decreasing unemployment). Fitch will compare the range of unemployment levels and the extent of growth observed in the period corresponding to the historical performance data to its unemployment expectations for the relevant jurisdiction over the term of the transaction. This analysis, along with data from other transactions, will contribute towards Fitch's overall outlook for the asset class.

The base case assumption determined during the rating analysis will incorporate the impact of Fitch's country and asset class outlook upon the historical performance data, as well as originator-specific factors derived from the originator review.

Default Rating Stresses

Fitch's rating analysis will include stress multiples to incorporate the risk that actual default performance may be worse than the base case assumption. The stressed assumptions are intended to provide a basis to account for the impact of economic deterioration upon the transaction's cash flows.

The following multiples are applied to the base case default expectation to arrive at the rating default rate (RDR) for a given rating scenario. The RDR will be an input to Fitch's cash flow model. The stresses below are applied at the time of the initial rating and during the replenishment period for revolving transactions.

Default stress multiples will be determined by Fitch on a transaction-specific basis, in conjunction with the base case assumption, and with consideration for qualitative factors.

Table 1: Default Stress Multiples

Rating level	Lower	Median	Higher
AAA	4.0	5.0	6.0
AA	3.2	4.0	4.8
A	2.4	3.0	3.6
BBB	1.8	2.2	2.4
BB	1.2	1.5	1.8

Source: Fitch

Within the above ranges, the actual multiple will be determined by Fitch on a transaction-specific basis, in conjunction with the base case assumption, and with consideration for qualitative factors including the following:

- **Level of base case relative to long run average performance:** given that stresses are intended to provide protection against economic deterioration (in excess of that accounted for in the base case), Fitch considers it logical to apply a multiple above the median if the base case does not incorporate an element of economic stress. If the base case, defined to cover the performance expectation for the term of the transaction, is lower than the long-term average performance of the originator (due to a benign economic outlook), then a higher multiple shall be applied. The opposite scenario, where the base case includes an element of economic stress (eg expectation on increased unemployment) would lead to a lower multiple.
- **Quantity and volatility of historic data:** limited data history and volatile performance would give rise to concerns regarding the consistency of the origination and collection processes. Such portfolios are likely to be more volatile in an economic stress and therefore a higher multiple would be applied. The opposite scenario, where historic data is consistent, especially if it includes a period of economic stress, would lead to a lower multiple. However, it should be noted that a higher stress cannot mitigate the provision of insufficient data.
- **Stability of origination volumes:** historic data derived from periods of unstable, especially growing, origination volumes is typically less predictive than data

derived from a period of stable origination volumes. This is because the same factors that support increased origination volumes may also negatively impact future performance (eg broader distribution and lower acceptance standards). Base case expectations derived from unstable origination volumes would lead to a higher multiple, where as data derived from stable origination volumes would lead to a lower multiple. However, it should be noted that a higher stress cannot mitigate the absence of data base on a representative level of origination volumes.

- **Obligor diversity:** within consumer ABS transactions, a high level of diversity is expected. Certain concentrations, for example regional, may make the portfolio more exposed in the event of an economic stress; therefore, increased stress multiples may be appropriate for certain portfolios.

Many transactions feature both positive and negative aspects from the above. The importance of the above factors will vary for different portfolios. The final stresses shall be selected on a qualitative basis and the rationale will be described in transaction rating reports.

While the above range of stresses provide a tool to reflect the expectation that different portfolios will respond differently to economic deterioration, it is highlighted that the application of higher stresses does not negate the importance of adequate origination and servicing practices, as well as the availability of sufficient historical data when setting base case expectations. In the absence of adequate origination and servicing practices, and/or adequate data, Fitch may be unable to derive base case expectations with a sufficient degree of comfort to apply this rating approach, and in such event, a rating cap may be applied to the transaction.

Recovery Base Case Assumptions

The recovery base case assumption can be defined as the amount of cash proceeds (expressed as a percentage of the corresponding defaulted amount), which Fitch expects could be realised by the issuer in respect of receivables that become defaulted. Such proceeds can include cash payments from obligors and sale proceeds from secured assets.

The base case is derived by performing static data analysis and applying qualitative considerations. Static recovery data is analysed in a similar way to static default data, with the exceptions that data is analysed with respect to the period of default rather the period of loan origination, and levels are shown as a percentage of the amount defaulted rather than the amount originated.

Qualitative considerations, including any legal or operational limitations on the issuer's recovery capabilities, will be taken into account by Fitch when deriving the base case recovery assumptions. For example, in the case of secured receivables, if the issuer does not benefit from the same security as the originator, then the base case shall be reduced, possibly to zero.

This information is used to derive cumulative recovery rate assumptions and a time vector for recoveries. The agency will also consider other data provided by the originator, or from other data available to the agency, including peer comparison.

Recovery Rating Stresses

Fitch's rating analysis will include stress multiples to incorporate the risk that actual recovery performance may be worse than the base case assumption. The stressed assumptions are intended to provide a basis to account for the impact of economic deterioration upon the transaction's cash flows. The haircuts in the table below will be applied as a reduction to the base case recovery assumption in different stress scenarios. The stresses below are applied at the time of the initial rating and during the replenishment period for revolving transactions.

Table 2: Recovery Stress Haircuts

Rating level	Lower	Median	Higher
AAA	40	50	60
AA	32	40	48
A	24	30	36
BBB	18	23	27
BB	12	15	18

Source: Fitch

Within the above ranges, the actual multiple will be determined by Fitch on a transaction-specific basis, in conjunction with the base case assumption, and with consideration for qualitative factors including the following.

- **Level of base case relative to long run average performance:** given that stresses are intended to provide protection against economic deterioration (in excess of that accounted for in the base case), Fitch considers it logical to apply a haircut below the median if the base case already factors an element of economic stress (and vice versa). For example, if an economic downturn is expected in the near term, and the base case has been set below the historical average to capture the expected impact, this would justify a lower haircut, relative to a base case that was set closer to the long run average performance.
- **Quantity and volatility of historic data:** recovery history, based on a large sample of defaulted receivables and showing stable performance, would support a haircut below the median (and vice versa).
- **Recovery processes:** the recovery processes and timing will vary depending upon the jurisdiction and the asset class. Often the impact will already be reflected within the base case assumption derived from historical data, for example, higher base cases are typically observed for secured asset classes where the legal framework allows a rapid repossession and sale of the secured object. However, the level of stresses may be varied, within the above ranges, to accommodate such considerations, to the extent that they are expected to be more pronounced in a stress scenario.

Recovery timing will typically follow that shown by the historic data; however, for certain transactions Fitch will apply timing stresses in addition to stressing the level of recoveries. Such examples would include a scenario where Fitch is of the opinion that a replacement servicer could not follow the same recovery processes as the original servicer.

Liability Structure

Fitch reviews the liability structure of transactions that are presented by originators and their arrangers. Fitch identifies risks under different rating scenarios and forms a view on the ability of given structures to mitigate such risks. The following section outlines standard features of typical consumer ABS transactions; however, it should be noted that Fitch does not recommend or approve any particular structural features.

Interest Rate and Currency Swaps

Fitch will identify any underlying interest rate mismatches, and analyse the extent to which these positions are covered via the transaction's hedging structure (see also the "Cash Flow Modelling" and "Counterparty Risk" sections for further details).

Fitch will identify any currency mismatch, and analyse the extent to which these positions are covered via the transaction's hedging structure. In the event of a mismatch between debtor income and the currency of the loan obligation, Fitch will consider the impact of a currency shift upon default risks; such examples are

Fitch reviews the structure of transactions and forms a view on the ability of structures to mitigate the identified risks.

usually confined to emerging market jurisdictions (see also the “*Cash Flow Modelling*” and “*Counterparty Risk*” sections for further details).

Credit Enhancement

Credit enhancement is typically provided in the form of: (i) overcollateralisation or subordination; (ii) cash reserves; and/or (iii) excess spread. Fitch will review the relevant credit enhancement structure of each transaction and include it within the agency’s cash flow model.

Cash reserves offer the benefit that they can be utilised to cover the short-term liquidity needs of a transactions, particularly in the event of a disruption to the collection process. However, Fitch may form a negative view of transactions that rely exclusively on cash reserves for credit enhancement, as cash reserves are inevitably exposed to counterparty risk.

Overcollateralisation and Subordination

Receivables in excess of the amount of any given class of notes (and the amount of notes of senior classes) protect the rated notes against the risk of defaulted receivables. Typically, losses will be allocated first to lower rated notes. The allocation of losses and the amortisation profile of the senior and junior notes impacts the degree of protection provided.

Cash Reserves

For transactions with cash reserves, Fitch will analyse the scenarios in which drawings can be made, for example to cover senior expenses, interest costs and defaults. In the event that the reserve can be drawn to cover for defaults, then the risk exists that it could be fully drawn and therefore unavailable for liquidity purposes.

Fitch will analyse the structure with respect to the build up and amortisation of the cash reserve. These features will be included within the cash flow modelling, as per the transaction documentation. Where a structure envisages the amortisation of the cash reserve, Fitch considers the risk that enhancement could be reduced in advance of the losses on defaults being incurred. Such risk can be mitigated with performance-based triggers.

Excess Spread

Where the portfolio yield exceeds interest costs and expenses there will be a source of funds to cover defaults, subject to the transaction priority of payments. The availability of excess spread, to cover for defaults, will be dependant upon the prepayment, yield and delinquency performance of receivables. This will be included with Fitch’s cash flow modelling.

Priority of Payments

Fitch will review the priority of payments to identify the relative seniority of each obligation. Fitch will replicate the transaction-specific priority of payments within its cash flow model.

In combined waterfall structures, principal and interest collected from the loans are merged and distributed according to one priority of payments. Principal payments to each note class are typically subordinated to payment of interest on the related note tranche. Between transactions with combined waterfalls, a distinction exists with respect to the amount paid to principal on the notes: in some transactions all available cash will be used to redeem the senior notes; in other transactions, the note principal will only be redeemed to a target level (linked to the amortisation of the asset balance), with remaining funds applied at subsequent positions in the priority of payments.

With separate waterfalls, principal and interest funds are kept segregated and applied in their own respective waterfalls. In such transactions, interest is usually available to cover for principal default via a principal deficiency ledger (PDL)

mechanism. In addition, principal can often be allocated to cover for interest shortfalls, which may be of benefit in scenarios where total collections are very low for a short period of time.

Principal Deficiency Ledger

The principal deficiency ledger (PDL) mechanism is commonly used to account for defaulted principal receivables and to make cash available from the interest priority of payments to reimburse such amounts.

As long as there are sufficient available interest collections to cover the defaulted principal amount, the total amount of principal receivables will be equal to the sum of the notes (excluding any overcollateralisation).

Fitch will review the transaction structure to identify how asset defaults are treated. This mechanism will be included in Fitch's cash flow modelling.

Note Amortisation

Different classes of notes will typically be amortised either on a sequential or pro rata basis. Under sequential amortisation, principal funds are allocated first to repay senior notes in full, before being allocated to repay junior notes. Under pro rata amortisation, funds are shared in proportion to the note balance.

Pro rata structures are vulnerable to back-loaded loss profiles and tail risk. For transactions with a back-loaded risk profile, for example residual value transactions, Fitch may form a negative view of pro rata amortisation structures.

Structures may feature both sequential and pro rata amortisation phases. In such examples, Fitch will analyse the triggers that lead to the transaction switching between the different phases. The amortisation sequence will be included in Fitch's cash flow modelling.

Cash Flow Modelling

To determine the rating of a given tranche of notes, Fitch analyses a series of stress scenarios to determine whether the payment of interest and principal according to the terms and conditions of such notes is fulfilled across all scenarios. However, while the cash flow model output is an important consideration in determining the final rating, ratings are ultimately assigned by a Fitch rating committee, which also considers other quantitative and qualitative factors.

Scenarios modelled by Fitch include: (i) increasing, stable, and decreasing interest rates; (ii) different default distributions and timings; and (iii) high and low prepayment rates. For particular transactions, other scenarios may be tested to identify the sensitivity of the transaction to different assumptions.

Fitch's proprietary consumer ABS cash flow model provides a uniform platform for the analysis of a wide range of transactions and compares their results in a consistent way. The main variables feeding the cash flow model are the portfolio scheduled amortisation profile, default and recovery assumptions, prepayment assumptions, portfolio yield, capital structure, and interest rates.

The Fitch cash flow model reflects how the various stress scenarios affect principal and interest proceeds as they are received each period throughout the life of a transaction. The cash flow model then allocates those payments to the various classes of notes, based on the transaction structure as detailed in the underlying documents. If the cash flow model shows that a particular class of notes has received principal and interest payments according to the terms and conditions of the notes under the stress scenario for a particular rating, then it is deemed to have passed that particular stress scenario.

Fitch models asset performance from the commencement of the amortisation period. Where assets have been analysed as separate sub-products, the default and

Fitch analyses a series of stress scenarios to determine whether the payment of interest and principal, according to the terms and conditions of such notes, is fulfilled.

In its cash flow model, Fitch will apply a worst case weighting to sub-products, according to the transaction's eligibility and portfolio criteria.

recovery rates of each sub-product shall be input to the cash flow model. If the structure envisages a revolving period, Fitch will review eligibility and portfolio criteria to determine to what extent the portfolio composition, by sub-product, can change over time. In its cash flow model, Fitch will apply a worst case weighting to sub-products, according to the transaction-specific eligibility and portfolio criteria.

Default and Recovery Timing

The allocation of defaults over time can have a significant impact on an issuer's ability to pay its debt, since the timing of defaults affects the use of excess spread as it flows down the waterfall. In its cash flow model, Fitch will allocate the stressed default rate over the amortisation period of the transaction, as observed in the historic default vector; Fitch may also test alternative scenarios (ie front loaded and back loaded), determined on a case-by-case basis, where the transaction is particularly sensitive to the timing assumption.

In transactions with high prepayment rates and high default rates, Fitch will bring forward the default timing in order to ensure that the full amount of defaults is incurred, in advance of the repayment of asset balance.

In a similar manner as that in which the allocation of defaults over time affects the allocation of proceeds during a transaction's life, so the generation of recoveries over time also has implications. In analogy to cumulative defaults, cumulative recoveries on defaulted obligations show a time vector that is again derived from static pool recovery data; as with defaults, Fitch may also test alternative scenarios determined on a case-by-case basis, where the transaction is particularly sensitive to the recovery timing assumption.

Prepayments

The table below outlines typical prepayment stresses. For example, at the 'AAA' level, a base case (BC) of 20% will be stressed up to 30% (ie, 20% plus 10%) and downwards to a level between zero and 10% (ie, 20% less 10%).

Table 3: Prepayment Stresses

Rating	Upwards	Downwards
AAA	BC plus 50%	Zero to BC less 50%
AA	BC plus 40%	Zero to BC less 40%
A	BC plus 30%	Zero to BC less 30%
BBB	BC plus 20%	Zero to BC less 20%
BB	BC plus 10%	Zero to BC less 10%

Source: Fitch

Fitch models the impact of prepayments on the amortisation of the principal collateral of the portfolio. The base-case annual prepayment rate, derived from historical dynamic data, is stressed upwards and downwards under each rating scenario, as shown in the table above.

Fitch tests the cash flows for both the high and the low prepayment scenarios. Transactions with positive excess spread will typically be negatively impacted in high prepayment scenarios. However, transactions with negative excess spread or residual value exposure may be negatively impacted in low prepayment scenarios (as prepaid contracts are not exposed to residual value risk); in such cases, the low prepayment assumption will be derived on a case-by-case basis, down to zero for lease contracts with very low prepayment histories.

In the case of auto loan and lease transactions, prepayment is often driven by the debtor's desire to purchase a new vehicle and therefore settle the outstanding financing on the existing vehicle. Often this trend may be encouraged by the marketing campaigns of the captive originators, leading to very high levels of historic prepayments. In such scenarios, Fitch may adjust downwards historic prepayment levels when forming a base case.

The impact of prepayment on the weighted average yield rate is modelled indirectly by applying a deduction to yield, as described below.

Portfolio Yield

Fitch reviews the current yield distribution for an amortising portfolio and the minimum warranted weighted-average (WA) yield for a revolving transaction. The agency then applies a weighted-average coupon compression (WACC) which is driven by prepayment and default stresses, as it assumes that:

- higher yielding accounts are more likely to be subject to default, as accounts priced with higher interest are assumed to have less creditworthy borrowers, and are more likely to default;
- higher interest paying accounts are more likely to prepay, as these obligors are more incentivised to find cheaper funding elsewhere. The pool interest rate distribution is therefore dynamically adjusted, and a new WA interest rate is calculated at each payment date to reflect the assumed change in the interest rate composition of the then-outstanding portfolio.

For transactions where the initial pool amortises along with the notes, Fitch uses the pool's initial WA yield as a starting point for its cash flow model, whereby 100% of defaults and 50% of prepayments are assumed to come from the higher rate buckets. For revolving transactions, Fitch normally models yield at the minimum WA yield that the eligibility criteria allow.

Delinquencies

The agency assumes in its cash flow modelling that all loans going into default in the respective rating scenario will have been delinquent for the period until they are recorded as defaulted, which ties into the default definition as described earlier.

Servicing Fee

Typically, the originator/seller of the receivables in ABS transactions acts as servicer. A range of fees have been seen across consumer transactions; Fitch will apply servicing fees according to the higher of the contractual rate or the rate in the following table.

Table 4: Servicing Fee Assumptions

Rating	AAA	AA	A	BBB & below
Fee assumption (bps)	100	90	80	70

Source: Fitch

The rates in the above table are intended to account for increased levels of revenue to a replacement servicer during a stressed period.

Available Cash Investments

In most ABS transactions, the SPV will hold some cash from principal or interest payments, either until the next payment date or until the available amounts are reinvested in other collateral. In particular, in cases where significant amounts of cash are held, the interest earned thereon over time can have an impact on the overall performance of the transaction.

Fitch makes an assumption about the amount of cash on the balance sheet of the SPV in each period and assumes that interest on this amount is earned at the lower of: (i) Euribor/Libor minus 0.50% with a floor of zero; or (ii) the contractual interest rate, as per the transaction documents.

Interest Rate Risk

Fitch will test the sensitivity of the transaction to interest rate volatility by applying increasing, stable, and decreasing stress scenarios within its cash flow model. The relevant stresses will be as per the criteria report “*Interest Rate Risk in Structured Finance Transactions*”, 1 November 2006, for the relevant currency.

The impact of the swaps protecting the transaction against interest rate risk or providing support will be factored into the cash flow modelling. In extreme cases, the interest rate, prepayment, and margin compression risks can be fully transferred to a swap counterparty and thereby isolate the transaction from such risks.

However, as a result, the transaction will have an increased counterparty dependency that will be taken into account in the rating analysis, potentially resulting in a credit-link to the counterparty rating (see “*Counterparty Risk*” section).

Legal Structure

Fitch reviews legal structures that are presented by originators and their arrangers. Fitch does not recommend or approve any particular structural features. Where particular structures or legal opinions differ from Fitch’s standard expectations, as outlined below, the agency will amend its analytical approach accordingly.

Issuer & True Sale

The analysis of Consumer ABS transactions involves addressing legal issues concerning the establishment and preservation of the issuer’s bankruptcy-remote status, proper transfer of receivables from the sellers to the issuer, and the acquisition and maintenance of security interests in the assets (where applicable). For more information on Fitch’s criteria report regarding special-purpose vehicles, please see “*Special-Purpose Vehicles in Structured Finance Transactions*” dated 13 June 2006.

Legal Opinions

For securitisation transactions, Fitch reviews the opinions of transaction counsel, which address the true sale of the assets from the non-bankruptcy remote seller to the bankruptcy remote issuer, and the likelihood that the assets of the bankruptcy remote issuer (receivables plus security where applicable) will be consolidated into the assets of the seller, in the event of the insolvency of the seller. Fitch also expects that legal opinions will address the tax status of the issuer and the enforceability of the documents against the issuer.

Specifically for Consumer ABS transactions, Fitch expects to receive legal opinions that, amongst other things:

- confirm that (based upon appropriate factual assumptions) the standard form contracts will be legal, valid, binding and enforceable under all relevant consumer credit and other laws that govern its formation;
- confirm whether any legal right exists for the consumer to exercise set-off rights against the lender in respect of the contract and if such a right does exist, analyse such risk;
- confirm whether there is any potential lender liability in respect of the contract under applicable consumer laws; for example, for lender’s liability (whether several, or jointly with the supplier) for goods or services purchased under the contract or for untrue or incorrect representations made by brokers or suppliers of goods or services financed by the consumer finance contract, and if such a liability does exist, analyse such liability; and
- identify whether the contract can be affected by any applicable usury laws.

In addition, where the relevant governing law of the contract prescribes that the validity or enforceability of the contract can be affected by any failure of the originator to comply with specific procedures or formalities when forming the contract, Fitch will expect that the opinion or a diligence memorandum will confirm compliance by the originator with these specific procedures or formalities.

Fitch will review the transaction opinions in connection with the transaction asset and liability structure to understand the rights and obligations of each party to such documents and to consider how the transaction structure will operate.

Counterparty Risk

The following section highlights counterparty risks that are common within European consumer ABS transactions; however, they should be considered in conjunction with the relevant counterparty risk criteria.

At the time of publication of this criteria report, Fitch's counterparty criteria (commingling, hedge, account bank and investments) are being reviewed; see "*Exposure Draft: Counterparty Risk in Structured Finance Transactions*", published 30 March 2009, available at www.fitchratings.com.

Servicing

In most consumer ABS transactions the originator acts also as the servicer. Servicing agreements typically contain detailed provisions, including the requirement of the servicer to apply the same level of care to securitised and non-securitised receivables and to act in a way consistent with a reasonable and prudent consumer lender.

Fitch analyses the ability of the transaction to survive an insolvency of the servicer. Fitch will review the transaction documentation to identify the sequence of events that may result in a servicer termination event and the consequences thereof; this will include analysing the notification to obligors, redirection of cash flows, and appointment of a replacement servicer. Fitch would expect that the sequence of events that may result in a servicer termination event, and the consequences thereof, as well as the obligations of different parties, to be clearly outlined.

For transactions originated and serviced by low rated or unrated entities, it is common that a committed back-up servicer is assigned at closing. Upfront back-up servicers may also be appropriate in the case of complex or less transferable asset classes, originated by highly rated entities.

Where back-up servicers are not appointed at closing, Fitch will identify, from the transaction documentation, the event upon which they would be appointed and consider the remaining risks of not having a back-up servicer at closing. For example, transactions that do not envisage the appointment of a back-up servicer until the termination of the existing servicer are exposed to the risk that it is not possible to transfer the servicing in a timely fashion under such circumstances.

Some mitigants in respect of back-up servicers that Fitch has seen in rated transactions include the use of a third-party data agent - with whom debtor and account data is deposited on a frequent basis - or the availability of a liquidity reserve, which may assist the SPV in making costs and senior interest payments during a period of appointing a new servicer (in the event the transition results in a temporary block of the pools cash flows).

In transactions where the servicer is relied upon to perform functions in addition to collecting funds, for example to set interest rates for obligors on floating rate contracts, Fitch will analyse the ability and incentives of the servicer to perform such roles.

Where back-up servicers are not appointed at closing, Fitch will identify the events upon which they would be appointed and consider the risks of not having a back-up servicer at closing.

Commingling

Fitch's current commingling criteria is detailed in the report "*Commingling Risk in Structured Finance Transactions*", dated June 2004; please note however that this criteria is subject to update, as outlined in the report "*Exposure Draft: Counterparty Risk in Structured Finance Transactions*", dated 30 March 2009, available at www.fitchresearch.com.

Set-Off

In consumer ABS transactions, set-off risk arises primarily in the event that the originator is a deposit-taking entity, which is often the case for retail banks and for certain car finance companies. Set-off risk may also arise in the scenario where obligors are employees of the originator.

Fitch would expect the legal risks of set-off to be addressed in the legal opinions and will analyse the structural mitigants provided to cover the identified set-off risks.

Account Bank & Investment

Fitch analyses the bank account structure, including replacement events, in accordance with its account bank and permitted investment criteria. Fitch's account bank criteria is available in the report "*Commingling Risk in Structured Finance Transactions*", dated June 2004, please note however that this criteria is subject to update, as per the options outlined in the report "*Exposure Draft: Counterparty Risk in Structured Finance Transactions*", dated 30 March 2009, available at www.fitchratings.com.

Interest Rate Hedging

In many structures, the SPV relies on an interest rate swap or other hedging to mitigate interest rate risk. The default of the hedging counterparty will therefore expose the SPV to such risks. Fitch will analyse the transaction's hedging arrangements in accordance with its hedge criteria.

Fitch's hedge criteria is available in the report "*Counterparty Risk in Structured Finance Transactions: Hedge Criteria*", dated 1 August 2007; please note however that this criteria is subject to update, as outlined in the report "*Exposure Draft: Counterparty Risk in Structured Finance Transactions*", dated 30 March 2009, available at www.fitchratings.com.

Performance Analytics

The ongoing performance analysis of transactions forms an essential part of the Fitch rating process. A dedicated team handles the ongoing monitoring and review of Fitch-rated consumer ABS transactions by assessing whether the transactions are performing as expected.

At the time of assigning the initial rating, Fitch reviews sample servicer reports and identifies key performance parameters. Such parameters include pool size, delinquency and default rates, as well as principal and interest payments on the notes. In addition to the transaction-specific triggers, Fitch will assign performance-related surveillance triggers.

At each reporting date, Fitch's performance analytics group reviews the information provided on servicer reports. For publicly-rated ABS transactions, a summary of the reported information is published on Fitch's subscription web site (www.fitchresearch.com) under the "*Surveillance*" section.

Rating review committees are convened in the following circumstances: (i) for a routine review at least once every 24 months, but on average every 12 months; or (ii) following the breach of a performance-based surveillance trigger or the identification of negative performance developments (which may include events such as the downgrade of a transaction counterparty, or the breach of a documented performance-based trigger). A rating committee review shall result in

As Fitch considers both the absolute level and relative level of credit enhancement, negative rating actions may be expected to be more prevalent at lower rating levels versus higher rating levels, during a period of economic decline.

a rating action - ie an upgrade, downgrade, or affirmation - and an Outlook or Rating Watch being assigned/reviewed.

Rating actions for public ratings are announced via appropriate commentary on the free public Fitch web site, www.fitchratings.com. Privately-rated transactions are reviewed internally to the same rigorous standards as public transactions and any rating action is communicated privately to the party which mandated Fitch to provide the ratings analysis.

In the scenario of negative performance trends, Fitch will form a view with respect to the root cause of the deterioration and will include this view in published rating commentary.

Where Fitch is of the opinion that performance deterioration is driven by macro economic factors, the agency will consider the adequacy of the credit enhancement in absolute terms and relative to Fitch's latest performance expectations. The deterioration of performance expectations, all else being constant, may result in a decision to downgrade the rating of a particular class of notes. Given that Fitch considers both the absolute level and relative level of credit enhancement, negative rating actions may be expected to be more prevalent at lower rating levels versus higher rating levels, during a period of economic decline.

Where Fitch is of the opinion that performance deterioration is driven by transaction- or originator-specific factors, it may apply a fully updated analysis to the transaction, resulting in revised base case expectations and rating actions at all levels of the capital structure.

For each transaction, Fitch also monitors counterparty ratings relative to the agency's counterparty criteria.

Appendix 1: Summary Data List

The following outlines the key data that Fitch utilises in order to apply the analysis outlined in this criteria report. In the absence of specific data, the agency will determine the applicability of the rating criteria on a case-by-case basis. Specific data shortages and any data adjustments are highlighted in Fitch's transaction rating reports.

The list does not cover residual value risk analysis, which is subject to a separate criteria report. Further, this general list is not exhaustive, as additional data will be relevant for individual transactions to analyse specific risks (eg voluntary termination data on UK auto loans).

Pool Data

The following data, with respect to the draft and final pool cuts, is usually presented in summarised stratification tables, split by current balance and number of contracts. The data should be split by sub-product (eg new and used cars):

- initial and current balance;
- obligor concentrations;
- balance, split by instalments and balloon payments;
- period of origination and seasoning;
- origination channel;
- original term and remaining term;
- yield;
- geographic distribution;
- loan purpose and type of asset (if secured);
- initial balance as a percentage of asset value (if secured);
- amortisation schedule;
- originator's loan-by-loan credit scores (where available).

Historic Performance Data

The following data should cover the original tenor of the underlying loans, and a minimum of five years of originations. The data should be split by sub-product (eg new and used cars):

- historical origination volumes;
- historical receivable balances;
- static cumulative default amount (ie gross loss) by month of origination;
- static cumulative recovery amount by month of default;
- dynamic delinquency balances, split by ageing buckets up to point of default;
- dynamic default by amount;
- static pool or dynamic prepayment data.

Market Data

- Consumer credit origination and receivable levels.
- Delinquency and default data, if available.

Appendix 2: Originator & Servicer Review

Fitch will review the originator and servicer associated with each securitisation. In Fitch's opinion, originator-specific factors, such as product offering, distribution channels and underwriting, have a significant impact upon the performance of consumer ABS assets. Insights from the review meeting are applied to the quantitative aspects of Fitch's asset analysis.

Fitch does not perform an audit of loan files; however, Fitch will typically observe a demonstration of the underwriting and collections process performed on the originator's systems with example loan files. The objective is to reinforce Fitch's understanding of the originator's systems and processes.

Corporate Overview

An understanding of the company's history, structure, strategic objectives, management experience and funding capabilities are key to the operational review undertaken by Fitch. The originator's strength, history, and strategy are qualitative inputs to Fitch's views on asset quality, especially for revolving transactions. The servicer's strength impacts Fitch's performance expectations as well as its counterparty risk analysis (see the "Counterparty Risk" section for further details).

Fitch will investigate the motivation for the securitisation transaction, as well as the role of the securitisation transaction within the originator's overall funding strategy. Fitch will assess the extent to which the originator retains an interest in the performance of the asset pool, for example by holding a material 'first-loss' position or the right to receive material excess spread.

Origination Channels

Fitch will review the different origination channels used by the originator with a view to understanding the impact they may have upon the pool credit quality and performance. For example, loans originated via independent brokers or internet channels often exhibit higher risk.

Origination & Underwriting

The quality and consistency of the underwriting process is critical to the future performance of the receivables. Fitch's review ensures the agency has an understanding of the originator's sourcing practices and the manner in which vendors are selected and monitored. The agency reviews the data receipt, verification, and loan approval process. In the case of decentralised loan approval processes, Fitch also considers the processes employed by the originator to monitor and control underwriting quality.

Fitch will not perform a statistical validation of an originator's scorecards, however the agency will investigate the originator's policies for reviewing and updating scorecard assumptions (with a view to assessing if the assumptions are kept up to date while being relatively stable). Knowledge of the evolution of scorecards will be applied by Fitch when analysing static default data.

Fitch will also ascertain the effectiveness of the company's application fraud detection processes. As a minimum, the agency expects originators to employ money laundering checks, customer identity and address verification procedures, and to participate in industry and national fraud detection schemes. The transaction will be exposed to losses resulting from fraudulent credit applications, in the event that such receivables are transferred to the issuer and the originator does not subsequently repurchase such receivables.

For secured contracts, Fitch will identify the method by which security is provided to and held by the originator, for example by holding vehicle documents or the use of a national security registration database. For contracts with residual value elements, Fitch will review the residual value setting policy, as detailed in the criteria "Residual Values in European Auto ABS", dated 11 April 2006.

Servicing

Fitch will review the organisational structure of the servicing functions and the ability to accommodate anticipated growth. If the originator outsources significant portions of the servicing to a third party, a review is also carried out with this party.

If the servicer lacks a credit rating from Fitch, the appropriate analytical group within Fitch (primarily Financial Institutions or Corporates) may be consulted to ascertain the financial strength and viability of the servicer. The servicer's strength impacts Fitch's performance expectations as well as its counterparty risk analysis (see the "*Counterparty Risk*" section for further details).

Delinquency Collections

Fitch will evaluate the collection processes and loss mitigation tactics, as well as the servicer's procedures surrounding enforcement and repossession of collateral, in the case of secured transactions.

If the originator offers delinquent obligors the possibility to reschedule loan payments, Fitch will investigate the circumstances in which such rescheduling is permitted and what limitations are applied.

Fitch would expect historical data and post issuance reporting to disclose the level of rescheduling or loan repurchases undertaken in each period, so that the agency can form a view on the underlying performance, absent of the originator's intervention. The impact of this analysis would be incorporated within the asset analysis, as deemed appropriate on a case-by-case basis.

Staffing and Training

Fitch will form an opinion on the adequacy of the company's staffing levels, recruitment, and training programmes. Inadequate human resource provisions will negatively impact Fitch's expectations of future asset origination and servicing standards.

Technology

Fitch will evaluate the adequacy of IT systems used to support the management of the portfolio, the administration of the receivables and, for revolving structures, the ongoing origination of accounts. The review will include an understanding of the company's IT infrastructure, including its network configuration and how the various applications used for origination, underwriting and servicing interface with one another.

Along with tracking payment receipts, billings, insurance, and monitoring borrower contact, the servicer's systems should also be able to generate information management reports. Disaster recovery and business contingency is also discussed, as well as the company's process for ongoing systems development, and any plans for upgrading or replacing existing systems.

Appendix 3: Static Data & Extrapolation Example

The following is a simplified example of the presentation and extrapolation of vintage default data.

In Tables 5 to 7, the rows represent the period that the receivables were originated, eg 2003 to 2007. The columns represent the period since the loan origination, eg one to five years. The tables below have been simplified to annual periods for presentation purposes; in practise, Fitch would analyse data in terms of monthly or quarterly periods.

In Table 5, the figure of 3.1% represents the percentage of receivables originated in 2003 that had been recorded as defaulted one year after origination. After year two, a cumulative amount of 4.2% of receivables had defaulted, as so on.

Table 5: Un-extrapolated Defaults

(%)	Year 1	Year 2	Year 3	Year 4	Year 5
2003	3.1	4.2	4.6	4.6	4.6
2004	3.3	4.4	4.8	4.8	
2005	2.4	3.3	3.6		
2006	2.6	3.9			
2007	3.6				

Source: Fitch

In Table 6, gradient factors are shown. The figure of 1.37 shows that, for the 2003 vintage, the amount of cumulative defaults increased by a factor of 1.37 between years two and three, ie 4.2%/3.1%.

Table 6: Gradient Factors

	Year 1	Year 2	Year 3	Year 4	Year 5
2003	-	1.37	1.09	1.01	1.00
2004	-	1.35	1.09	1.01	
2005	-	1.37	1.08		
2006	-	1.47			
Average		1.39	1.09	1.01	1.00

Source: Fitch

In Table 7, the actual cumulative default observations, as well as extrapolated data points are shown. For example, the projection for the 2007 vintage after two years is a default level of 5.0% - ie 3.6% x 1.39 - whereas the projection after three years for the same vintage is 5.4%, ie 5.0% x 1.09.

Table 7: Extrapolated Defaults

(%)	Year 1	Year 2	Year 3	Year 4	Year 5
2003	3.1	4.2	4.6	4.6	4.6
2004	3.3	4.4	4.8	4.8	4.8
2005	2.4	3.3	3.6	3.6	3.6
2006	2.6	3.9	4.2	4.2	4.2
2007	3.6	5.0	5.4	5.5	5.5

Source: Fitch

Appendix 4: Adjustments for Seasoning

If presented with a well-seasoned pool, Fitch may make an adjustment to the default rates based on the remaining losses as a percentage of the outstanding pool. An adjustment is not typically made where transactions have a revolving period, unless the eligibility criteria include a requirement that receivables are a minimum number of months seasoned.

Table 8 demonstrates two examples of the seasoning adjustment calculation.

Table 8: Seasoning Adjustment Example

	Example 1	Example 2
Default base case at loan maturity (%)	6.0	6.0
Default base case at point of seasoning (%)	3.0	3.0
(a) Default base case from seasoning to maturity (%)	3.0	3.0
Initial pool balance	1,000	1,000
Current pool balance	600	400
(b) Initial pool balance/current pool balance	1.67	2.5
(a) x (b) = Adjusted base case	5.0	7.5

Source: Fitch

The first step is to identify the remaining expected defaults. The 'default base case at loan maturity' corresponds to the base case outlined in the main body of this report. The 'default base case at point of seasoning' will be read from the same default curve, at a point that corresponds to the amount of seasoning exhibited by the pool. The adjustment reduces the base case to remove defaults already incurred.

The second step is to take into account the level of pool amortisation that has been incurred to date, as the remaining defaults will need to be absorbed by a pool that is now smaller than it was at the time that the loans were originated. The ratio of the initial pool to the current pool balance is calculated.

An adjusted base case is derived from the product of the above two results. Where defaults have been incurred at a faster rate than the pool has amortised, then the adjusted base case will be lower than the initial base case, as in example 1. However, the opposite result will arise where the pool has amortised at a quicker rate than that at which defaults have been incurred, as shown in example 2.

The accuracy of the seasoning adjustment is sensitive to the input used for the 'default base case at point of seasoning'. Where the default base case assigned is in excess of the observed vintages, it may not be possible to derive an accurate value for this input. In such an example, Fitch will test the sensitivity of the base case assumption to seasoning adjustments. Where such uncertainty exists, the adjustment will not be applied in scenarios where it does not have a significant impact on the base case assumption.

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