



Auto Finance Summit 2024

THE STATE OF FUNDING, CAPITAL
MARKETS, AND INTEREST MARGINS





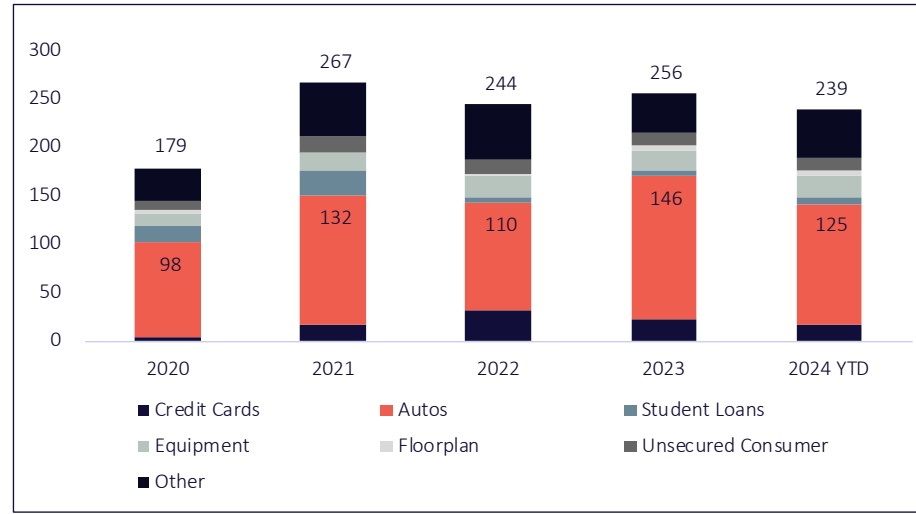
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Market Overview

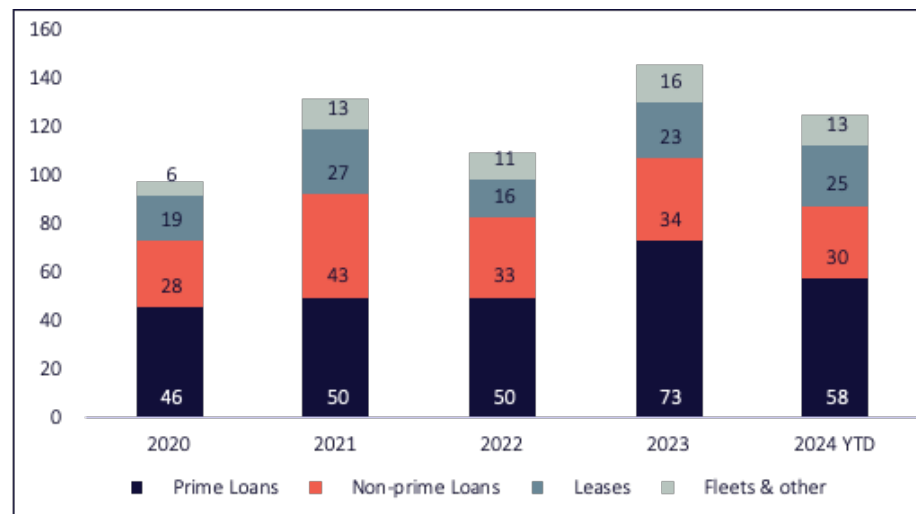
Cover Photo Photo by Paul IJsendoorn: <https://www.pexels.com/photo/paronama-photography-of-high-rise-buildings-444964/>

Issuance Volume (\$ billions)

All ABS Issuance

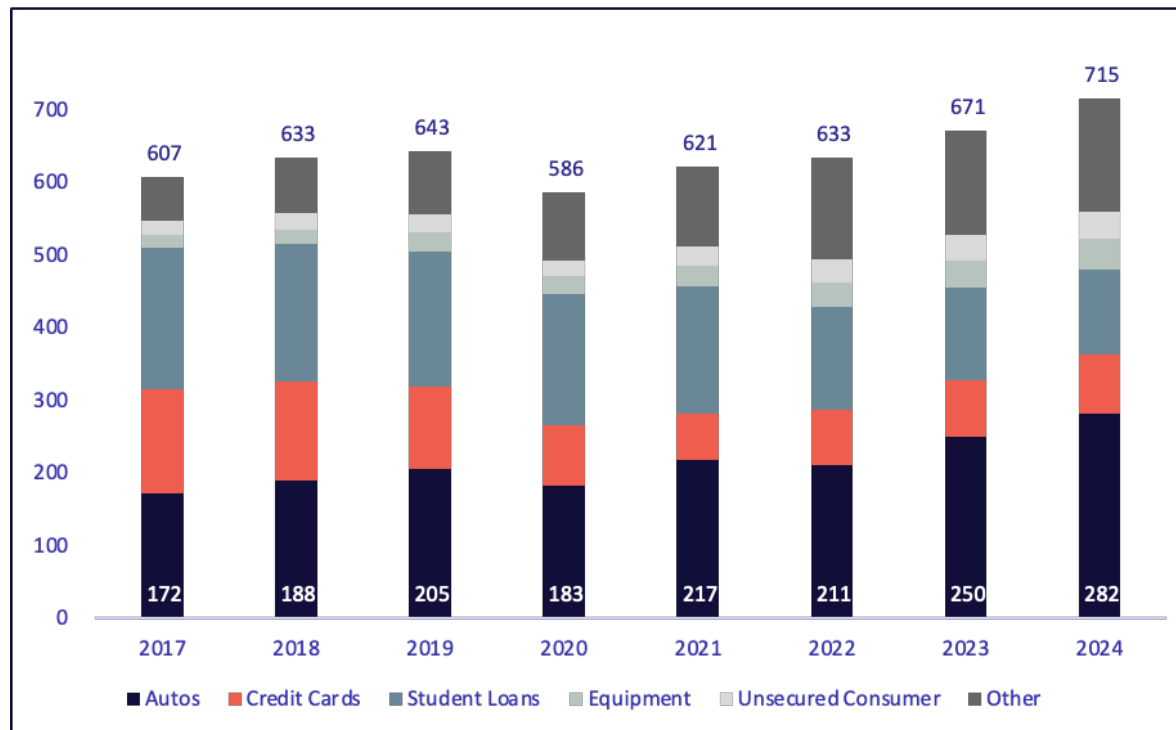


Auto ABS Issuance



All ABS Outstanding (\$ billions)

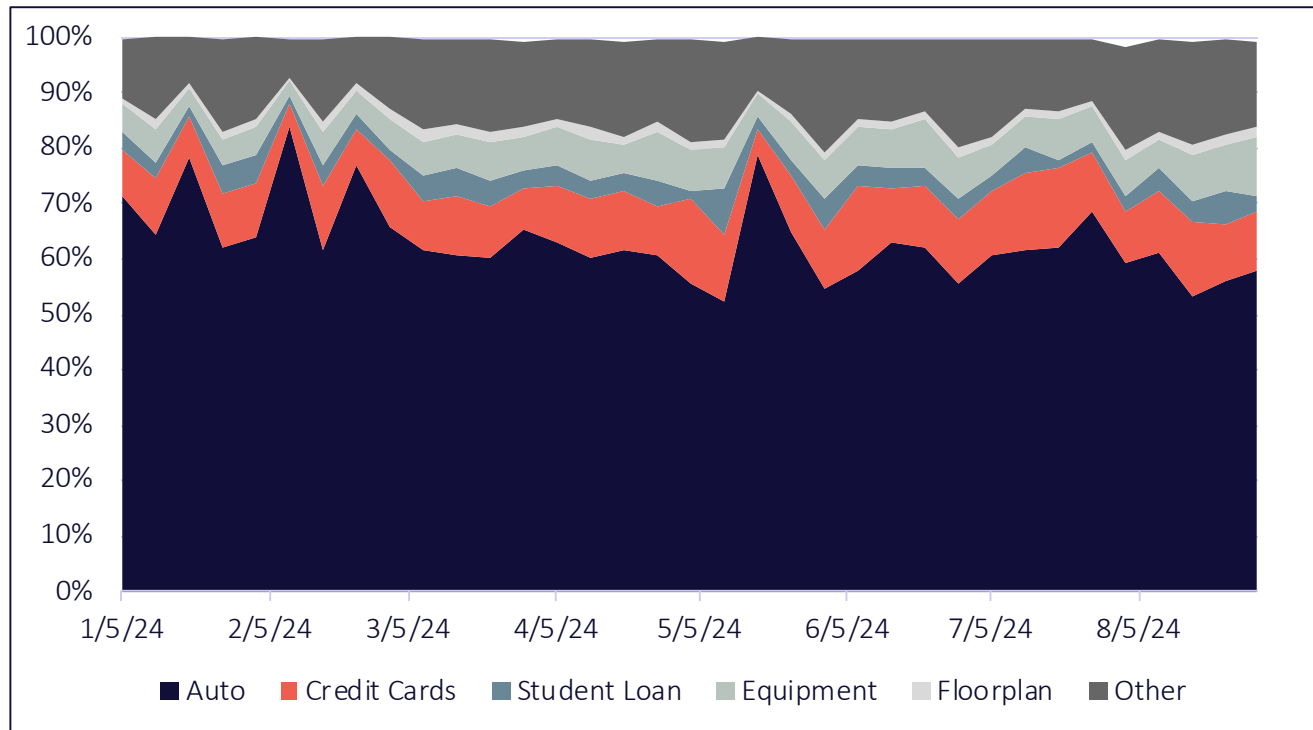
Auto ABS represents ~40% of all outstanding ABS



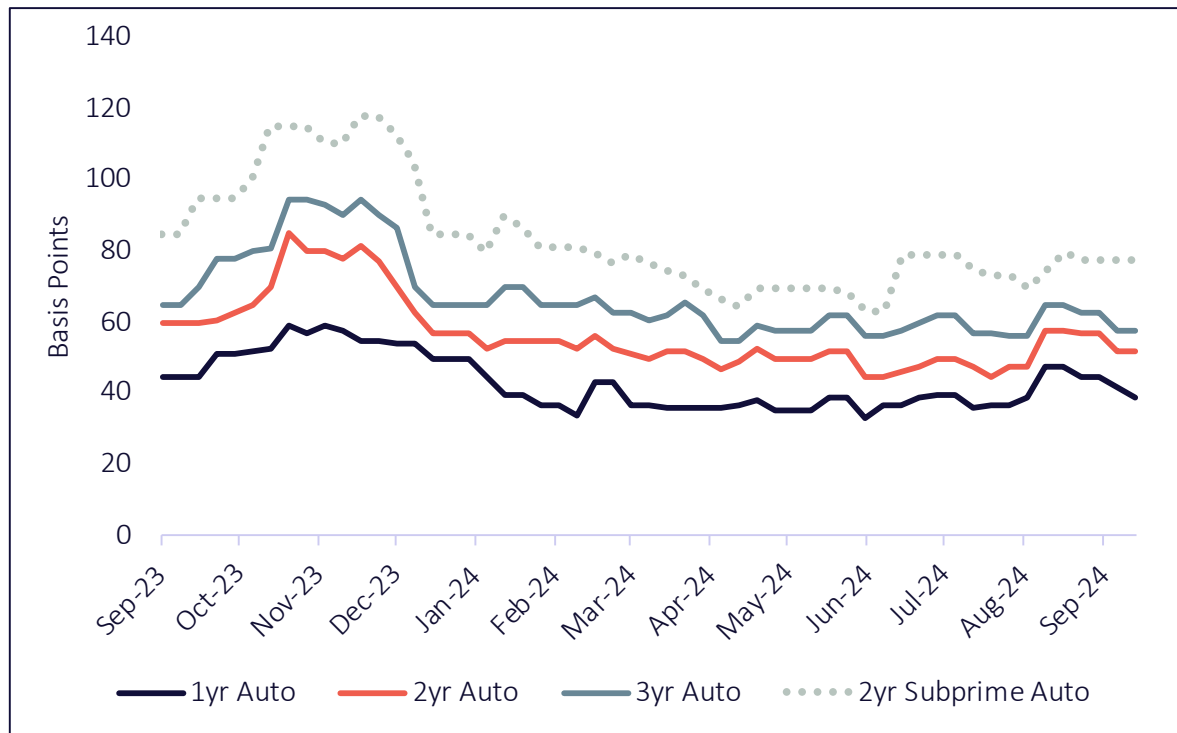
Source: JPMorgan Securitized Products Weekly, As of September 13 2024

ABS TRACE Trading Volume

By Sector as % of Total Number of Trades



Secondary Market Triple-A Auto ABS Credit Risk Spread to Benchmark (bp)

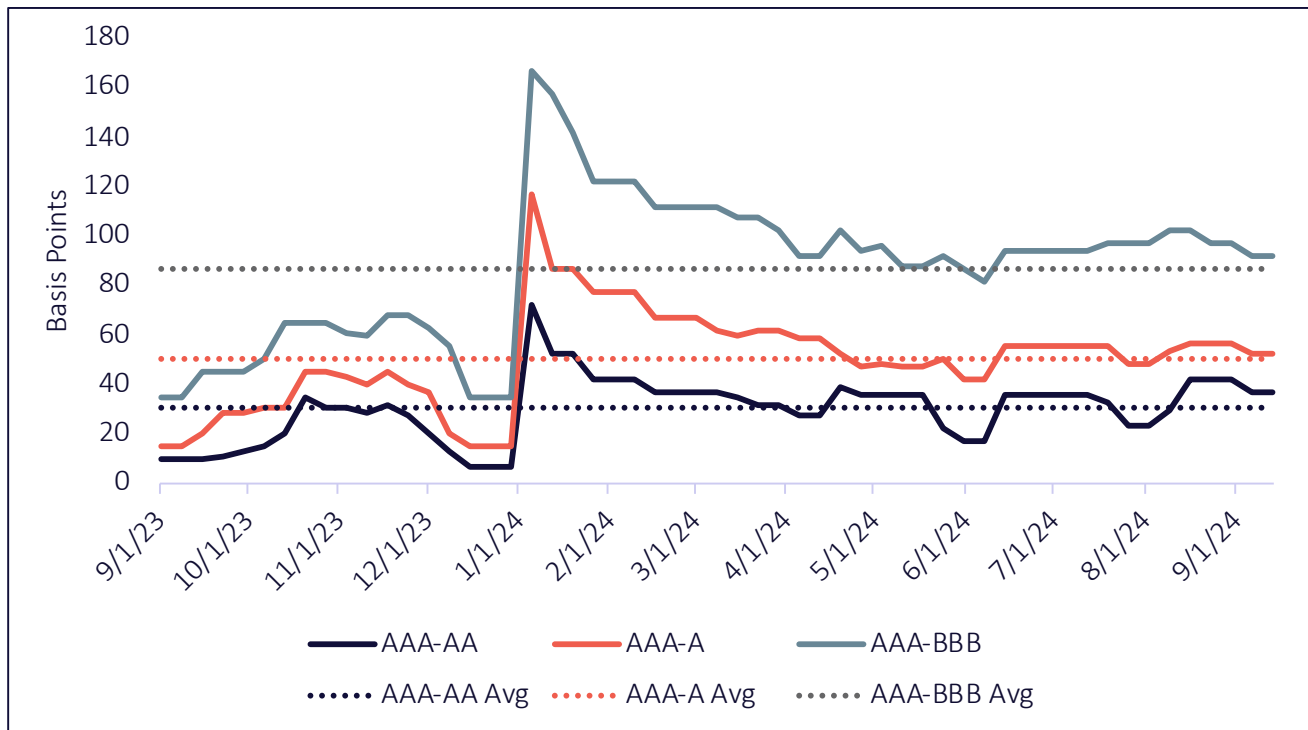


	1yr Prime	2yr Prime	3yr Prime	2yr Subprime
September 2024	39	52	58	78
12-mo Max	59	85	95	118
12-mo Min	33	45	55	63
12-mo Avg	43	57	67	84

Source: Deutsche Bank Securitization Research

Appetite for Risk

Spread Difference Between Triple-A Auto ABS and Subordinate Auto ABS
(3yr, Credit Risk Spread to Benchmark (bp))



Source: Deutsche Bank Securitization Research



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What We're Watching

Synthetic Risk Transfer – What’s in a Name

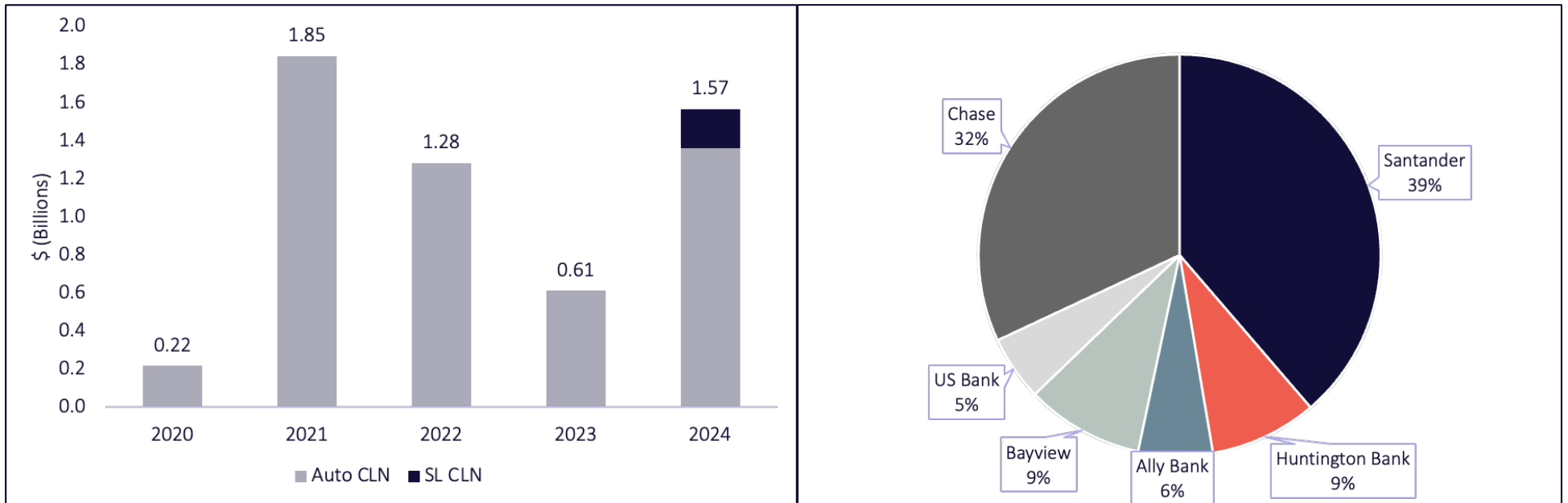
- **“Credit Risk Transfer”** or **“CRT”**: This is the prevailing term in the United States, having been borrowed by the wider market from Fannie Mae and Freddie Mac’s mortgage risk transfer programs.
- **“Significant risk transfer”** or **“SRT”**: This, very technically, refers to a form of capital relief that can be achieved by tranching portfolio transactions. It is the usual label in the European market (sometimes irrespective of the actual capital treatment), and also encompasses cash SRT transactions.
- **“Synthetic securitization”**: This is the term used in the Basel framework. While it is in our view the most succinct description of what is really going on, market participants and regulators remain reluctant to embrace the “synthetic” label following the experience of the global financial crisis.
- **“Credit risk-sharing trades”**: A label to reflect the fact that the bank and the investor share in the portfolio risk together, this is the name preferred by a number of prominent investors.
- **“On-balance sheet securitizations”**: This refers to the fact that the assets remain legally owned by the originator, and is the name preferred by the EU regulators in recent legislation.

Source: AO Shearman, Credit Risk Transfer and Significant Risk Transfer trades: An introductory Guide for Issuers and Investors,

Synthetic Risk Transfer (SRT)

Aspect	Insurance SRT	Banking SRT
Risk Transferred	Catastrophic risk, high-severity risk	Credit risk (defaults, downgrades)
Mechanism	Reinsurance, insurance-linked securities, catastrophe bonds	Synthetic securitization, credit-linked notes, Credit Default Swaps
Regulatory Framework	Solvency II, RBC	Basel III
Capital Relief	Reduced solvency capital requirements	Reduced RWA, lower capital requirements
Protection Seller	Reinsurer or capital market investors	Protection seller or investor in CLNs
Risk Retention	Retention layer (first-loss)	Retain senior and residual tranche
Market Access	Reinsurance markets, capital markets (ILS)	Capital markets (CLNs, CDS)
Financial Stability	Reduces exposure to large claims	Lowers exposure to defaults, economic risk

Synthetic Risk Transactions Volume



Source: Deutsche Bank Securitization Research

Synthetic Risk Transfer

U.S. banks are increasingly using synthetic risk transfers to allocate regulatory capital more efficiently and risk exposure by transferring credit risk to outside investors through the issuance of Credit-Linked Notes (CLNs).

What is the key motivation for banks to issue CLNs?

Regulatory capital rules are set separately from the actual risk of the loans. The most popular assets for risk transfers have been prime auto loans and residential mortgages where regulatory capital requirements far exceed historical loss distributions.

What motivates investors to buy CLNs?

- Given historical loss performance of a reference pool, premium received by investor will outweigh losses following defaults
- Spread pick up relative to cash auto ABS backed by similar collateral
- CLNS have also been issued with deep subordinate classes which are not typically available in cash ABS transactions and offer even wider spreads

Synthetic Risk Transfer

Before SRT
\$1 billion Prime Auto Loans
100% Risk Weighting
8% Minimum Capital Requirement
$\$1 \text{ bn} \times 100\% \times 8\% = \$80 \text{ million capital required}$

After SRT
\$1 billion Prime Auto Loans
Application of SRT to reference pool using a waterfall structure: 87.5% senior tranche (retained, 20% risk weighting, 1.6% capital requirement) 11.75% mezzanine tranche (investors, 0% risk weighting, 0% capital requirement) 0.75% first loss (retained, 1250% risk weighting, 100% capital requirement)
Senior tranche: $1.6\% \times 87.5\% \times \$1 \text{ bn} = \$14 \text{ million capital required}$
Mezzanine tranche: $0\% \times 11.75\% \times \$1 \text{ billion} = \$0 \text{ capital required}$
Residual tranche: $100\% \times 0.75\% \times \$1 \text{ billion} = \$7.5 \text{ billion capital required}$
$\$21.5 \text{ million total capital required}$

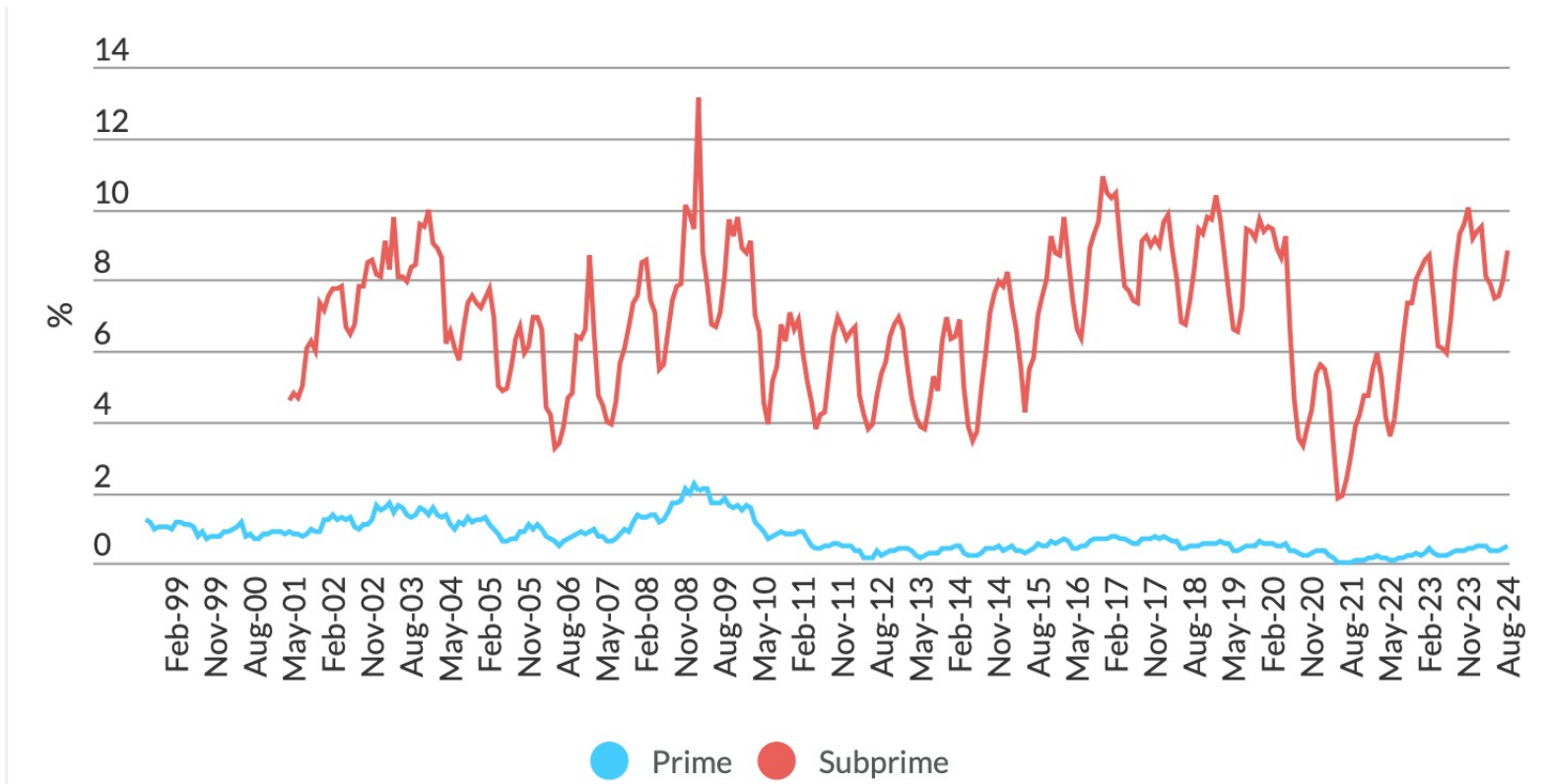
Policy Issues

Policy Issues

Basel III

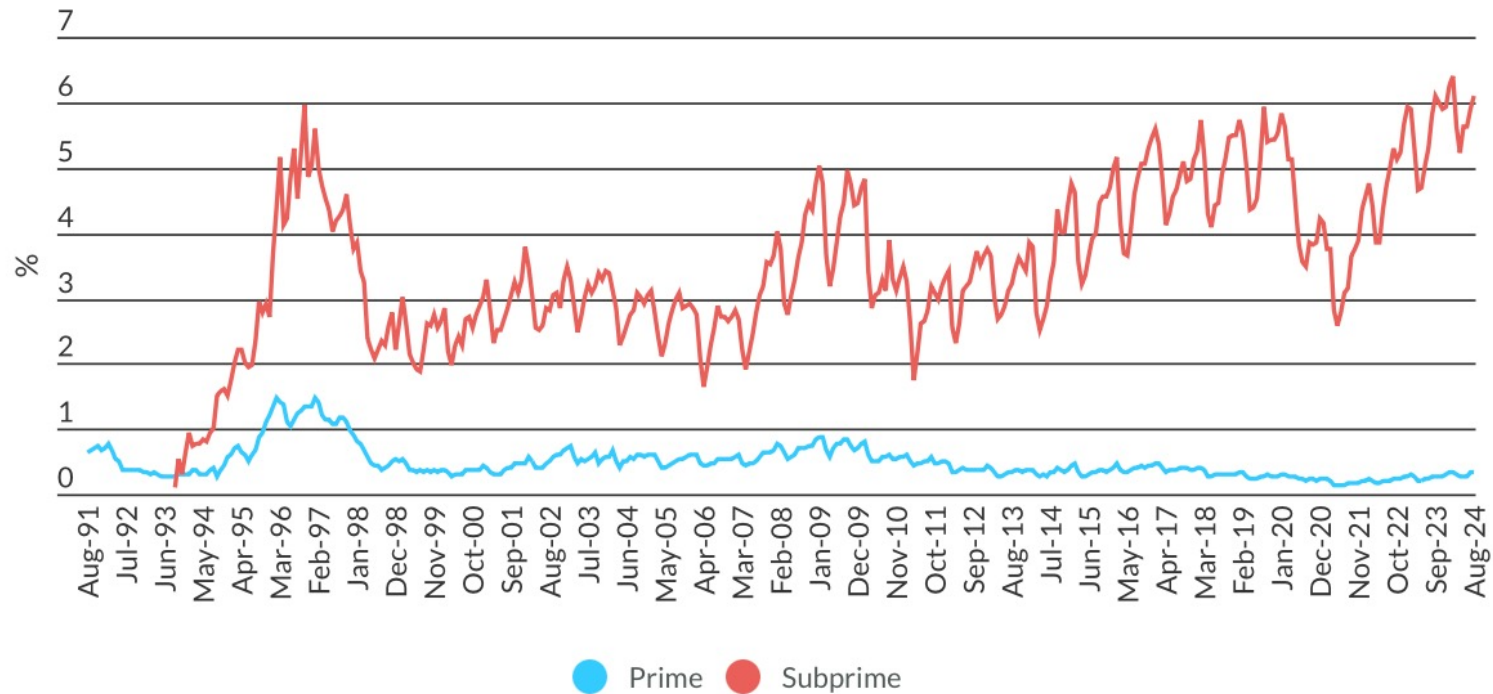
Implications of CFPB vs NCSLT:
SFA, SIFMA File Amicus Brief to U.S. Supreme Court on CFPB Trust Ruling

FitchRatings: Auto Loan Annualized Net Loss Index



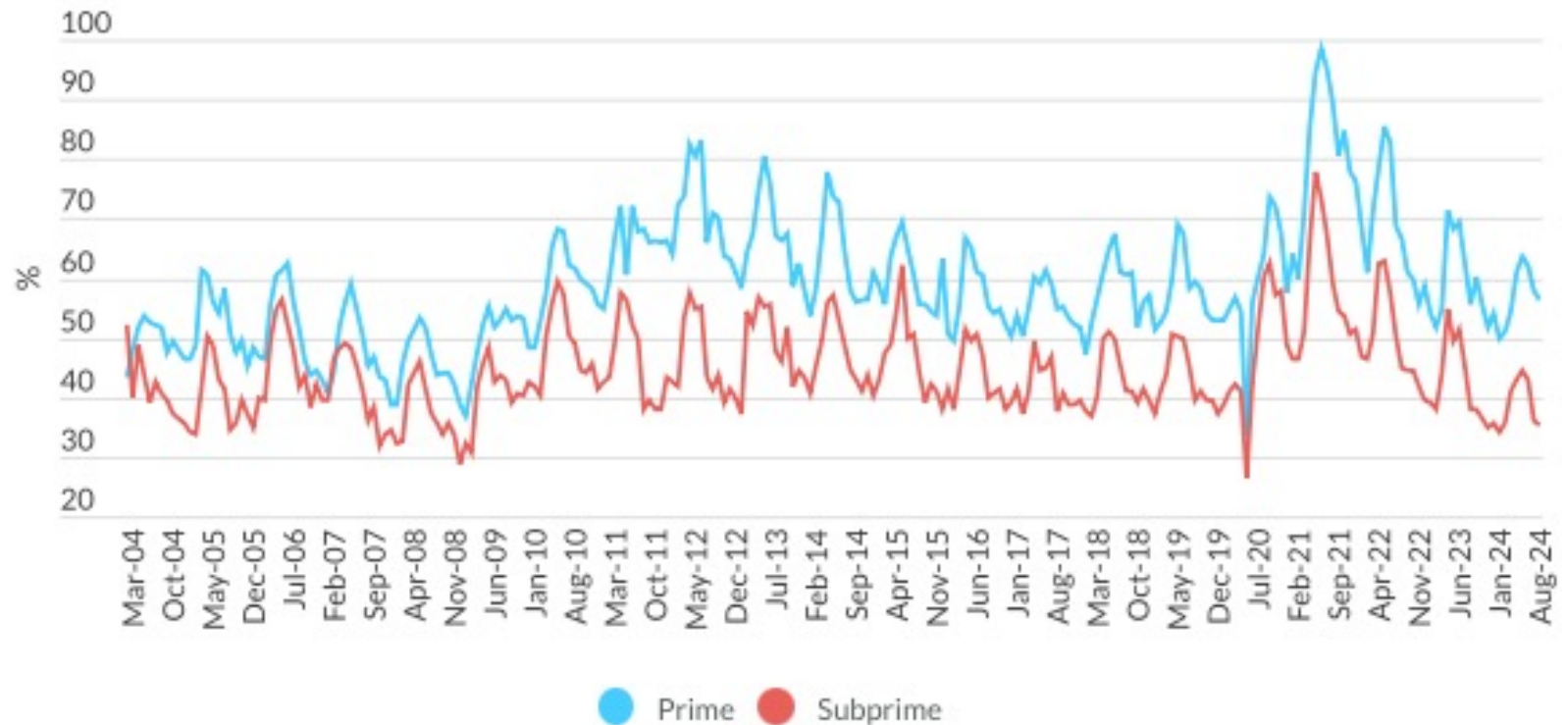
Source: Fitch Ratings Auto ABS Index

FitchRatings: Auto Loan 60+ Delinquency Index



Source: Fitch Ratings Auto ABS Index

FitchRatings: Auto Loan Recovery Rate Index



Source: Fitch Ratings Auto ABS Index



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Consumer Trends
