Welcome to the July Issue of ABS Spotlight

In this edition, we discuss the potential profit squeeze on subprime auto lenders, new details revealed in Santander USA’s recent IPO filing, a new FDIC lawsuit against Advanta executives for its relevance to ABS investors, new NY and Hawaii legislation that will prompt ABS issuance, the effect on the US banks of the US Supreme Court’s recent decision on class-wide arbitration, as well as how higher student loan interest rates will affect securitization credit. There are, of course, more articles, all designed to keep you informed of key credit issues and developments affecting the US and Canadian ABS markets.

The next edition of the ABS Spotlight will be published on 17 September. Enjoy your summer!

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Quick Check Portals
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Coming Soon: Our multi-sector report on the housing recovery in the US, a comprehensive report examining the impact of the housing recovery on a wide variety of entities: sovereigns, public finance, financial institutions, corporates and structured finance issuers and transactions.
Rising Interest Rates and Credit Losses Will Squeeze Profits for Subprime Auto Lenders

Subprime auto lenders are anticipating lower profit margins owing to rising interest rates and credit losses. The profit squeeze could push smaller, less well-capitalized lenders out of the market if they do not adapt to the changing business conditions. Many new subprime auto lenders, enticed by low financing costs, entered the market during the credit boom. But rising competition has forced lenders to lower loan rates to customers and extend credit to borrowers with weaker credit as a way to build or preserve market share.

Increased funding costs will hurt lenders' profits

Rising interest rates and higher spreads will drive up funding costs for lenders, which are parsing signals from the Federal Reserve in anticipation of further rate hikes. For the last several years, lenders have benefited from historically low funding costs as a result of the lower benchmark rate and the thin spread between the benchmark rate and the pricing of their financing. Exhibit 1 illustrates how rising financing costs and credit losses will squeeze profits.

Exhibit 2 shows the weighted average coupon of the highest-rated short- and long-term bonds in GM Financial’s AMCAR programs. The current thin spread on the bonds reflects the high demand for subprime auto ABS and the consistently good collateral performance of these bonds during the recession. Because of its longevity in the ABS market and the frequency of securitizations, AMCAR is a benchmark issuing platform.
Competition will force some subprime lenders to take on more credit risk without compensation

To grow or maintain their positions in a crowded market, some lenders will take on more high-risk borrowers. To stay competitive, some lenders will not offset the increased credit risk with additional compensation or protection for their business through higher rates on loans. The auto lending market at large is already getting riskier: Exhibit 3 shows that loan origination growth was the highest in the lowest FICO score segment for both banks and finance companies in fourth-quarter 2012, compared with the year-earlier period.

Competitive pressures will also rein in the income that lenders earn on loans, income that they derive primarily from the rates they charge obligors on loans, as well as from fees or discounts when they buy the loans from dealers. As Exhibit 4 and 5 illustrate, credit quality is slipping, but the APR has not increased.
**Thinner profit margins will hurt some companies more than others**

Companies with scale, financial strength, and experience are better able to weather downturns. Exhibit 6 lists two of the largest subprime issuers, their long-term unsecured rating, portfolio size and length of time in business.

<table>
<thead>
<tr>
<th>Subprime Lenders</th>
<th>Rating</th>
<th>Portfolio (as of 31 March 2013)</th>
<th>Years in Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santander Consumer USA</td>
<td>Baa2*</td>
<td>$17 billion</td>
<td>18</td>
</tr>
<tr>
<td>GM Financial</td>
<td>Ba1**</td>
<td>$11 billion</td>
<td>21</td>
</tr>
</tbody>
</table>

* Santander Consumer USA is a subsidiary of Santander Holding USA, Inc, which we rate Baa2.
** GM Financial is a subsidiary of General Motors Company, which we rate Ba1.

Source: Moody’s Investors Service, based on data from Santander and GM Financial
Smaller companies are more at risk because their operating costs tend to be higher, in part because they do not have economies of scale. Still, some lenders have already learned that they can adapt to sector downturns by stopping or reducing loan originations and focusing more on servicing the existing portfolio. As in the past, the best positioned smaller lenders are those willing to sacrifice market share to maintain a better risk/reward structure.

US Used Car Price Declines are Credit Negative for Auto Securitizations

Originally published in Credit Outlook, 15 July

Last Monday, Manheim Consulting published its latest monthly Used Vehicle Value Index showing the index at its lowest quarterly level since third-quarter 2010. The declines in used vehicle prices are credit negative for auto securitizations, particularly for subprime auto loan and auto lease asset-backed securitizations (ABS).

Because vehicle prices are declining, we expect the ABS pools to realize lower collateral proceeds upon borrower default or lease turn-ins, and subsequent vehicle resale than they did in the past two years, when vehicle prices were higher. The price declines have also diminished residual value gains for auto-lease ABS because of the lower collateral proceeds when cars are turned in at the end of a lease and remarkeeted.

In the auto loan sector, the negative effect of the price dips is greater in subprime ABS than in prime given subprime borrowers’ higher number of defaults: when customers default, the cars are resold, but at lower values than previously. As seen in the exhibit below and as we forecast in our US Auto ABS: 2013 Outlook, used car prices will drop this year and recoveries for defaulted auto-loan ABS will fall closer to pre-crisis levels of approximately 50%, in part because of the recent increase in supply of off-lease vehicles available to used car buyers. Our 50% forecast for defaulted auto-loan ABS recovery compares with recovery levels, as seen in the exhibit, of 55%-65% in 2011 and 2012. The incremental effect to subprime auto-loan ABS losses as a result of lower recoveries would range between 0.50% and 1.50% on an annualized basis, assuming an average annualized gross default rate of 10%.
Auto-lease ABS are now close to the end of double-digit percentage residual value gains seen in 2011 and 2012, as seen in Exhibit 2. The recent declines in used vehicle prices have led to a decline in proceeds on the sale of returned vehicles to a point where the prior 10%-20% residual value gains seen in 2011 and 2012 only averaged 5.4% in second quarter.

A continued decline in used car prices will bring existing pools to a point where proceeds are close to securitized residual values, which were set when used car prices were higher. The pace of decline will cause the current residual value gains in securitizations to eventually become moderate losses. These transactions have enough credit protection to withstand high levels of residual value loss.

The Manheim Index, which measures used vehicle auction values on a seasonally adjusted basis, was 119.7 for June, bringing the index’s second-quarter average to 119.3, the lowest level since the third quarter of 2010, when the average was 118.9. The price declines are attributed to additional supply in the used car market because of 1) an increase in new car sales and associated trade-ins, 2) high volume of maturing leases turn-ins, 3) and heightened replenishment in fleet and rental car sectors compared with the tight used vehicle inventories in the wake of the financial crisis, reflecting postponed purchasing decisions.
IPO Filing Sheds Light on Chrysler Arrangement with Santander

On 3 July, Santander Consumer USA Holdings Inc. filed an S-1 registration statement with the SEC for an initial public offering of its common stock. Santander Consumer USA (SCUSA) is currently 65% owned by Banco Santander (Baa2 stable, C-/baa2 stable, P-2¹); after an IPO that stake could decline. The filing includes the disclosure of several details, for the first time, about SCUSA’s agreement with Chrysler, whereby the lender became the preferred provider for Chrysler’s consumer loans and leases and dealer loans on 1 May. The filing includes details about the terms of the arrangement, the sharing of lease residual value risk with Chrysler, a dealer-lending flow agreement between SCUSA and Sovereign Bank, growth projections for SCUSA and sources of liquidity to fund new loan originations.

Chrysler can terminate the agreement if performance targets are not met

The filing disclosed specific circumstances under which Chrysler can terminate the agreement, a 10-year deal through which SCUSA launched a Chrysler Capital brand to originate private-label loans and leases to borrowers for purchase of Chrysler vehicles and to provide financing to Chrysler-franchised automotive dealers.

However, Chrysler can terminate the agreement if 1) SCUSA does not meet certain performance targets, including market penetration rates, approval rates and service-level standards during the term of the agreement, 2) another entity or person obtains a stake of more than 20% in the company, exceeding the amount Banco Santander owns, or 3) SCUSA becomes part of an OEM that competes with Chrysler.

Furthermore, that Chrysler can also choose to purchase at fair market value an equity interest of any percentage in Chrysler Capital during the life of the agreement.

Chrysler will share in auto lease residual value gains and losses with Santander; Sovereign Bank and SCUSA enter into dealer-lending flow agreement

According to the filing, Chrysler shares the lease residual value gains and losses with Santander as part of the agreement, which mitigates some of the residual value risk to SCUSA.

Sovereign Bank has entered into a flow agreement with SCUSA, whereby Sovereign Bank gets the first right to review and assess dealer lending opportunities.

SCUSA expects the loans and leases originated through the Chrysler agreement to provide the majority of projected growth over next several years

A primary driver of this growth will be SCUSA’s moving up-market to lend to prime borrowers, providing leases to consumers and providing financing to dealerships. These are markets in which SCUSA has no lending experience.

SCUSA acknowledges in its filing that losses in the prime loan portfolio could be higher than it expects because of the lack of flexibility in making risk-based adjustments to the pricing of the prime loans. Although losses on prime loans are lower than on subprime loans, the prime loans segment is competitive, with thin margins.

¹ These are the bank’s long-term deposit rating, bank financial strength rating/baseline credit assessment, and the corresponding ratings’ outlooks, as well as the bank’s short-term rating.
Agreement requires minimum levels in available funding for dealer inventory financing and funding for Chrysler loan and lease originations

SCUSA must maintain $5.0 billion in funding available for dealer inventory financing. The flow agreement with Sovereign Bank will provide the funding for these loans.

The agreement also requires that SCUSA maintain $4.5 billion in funding exclusively for Chrysler loan and lease originations. SCUSA entered into a credit agreement with seven banks for an aggregate commitment of $4.55 billion.

SCUSA also had existing revolving credit facilities, not specifically designated for Chrysler loans, of $9.8 billion as of 31 March, of which it had used $3.1 billion. Of the $9.8 billion, Banco Santander provides $4.5 billion through facilities that mature at the end of 2015 and year-end 2017.

SCUSA also entered into a flow agreement with Bank of America for prime loans, under which SCUSA has the option to sell up to $3 billion of prime loans that Chrysler Capital originates in 2013, $6 billion in 2014 and $8 billion in 2015.

In May 2013, SCUSA originated $1.9 billion in vehicle and dealer financing volume, about $1.1 billion of which was Chrysler volume. The $1.9 billion represents a significant increase in originations year over year. In the S-1 filing, SCUSA says that it expects to maintain or increase this level of volume, which will require additional sources of funding for these originations. In the S-1 filing, SCUSA says that it expects to increase the amount of securitizations as well as the availability of bank credit facilities to finance this additional volume.

US Prime Auto Loan Credit Indexes: May 2013

Originally published on 17 July 2013

According to Moody’s Prime Auto Loan Credit Indices, the net loss rate on securitized prime auto loans increased to 0.29% in May from 0.22% in April. The delinquency rate index went up by one basis point to 0.36%. The net loss rate increased year over year basis for the fourth month in a row, while the delinquency rate decreased by 4%.

The Manheim Used Vehicle Value Index² increased to 119.7 in June from 119.1 in May after six consecutive monthly decreases. The unemployment rate³ was unchanged at 7.6% in June.

Our outlook for the US auto asset-backed securities sector in 2013 is stable.⁴ The outlook reflects lenders’ gradual return to higher but reasonable levels of risk-taking, which will manifest in a marginal decline in the credit profile of underlying borrowers and slightly longer loan terms.

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² Source: Manheim Consulting
³ Source: Bureau of Labor Statistics
EXHIBIT 1

Aggregate Prime Auto Loan Indexes - March 2013

<table>
<thead>
<tr>
<th>Prime Auto Loan Indexes</th>
<th>May-13</th>
<th>May-12</th>
<th>% Change</th>
<th>Apr-13</th>
<th>May-13</th>
<th>May-12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Loss/Avg. Receivables (%)</td>
<td>0.29</td>
<td>0.19</td>
<td>48%</td>
<td>0.22</td>
<td>0.27</td>
<td>0.22</td>
<td>20%</td>
</tr>
<tr>
<td>60-Plus Delinquency Rate (%)</td>
<td>0.36</td>
<td>0.38</td>
<td>-4%</td>
<td>0.35</td>
<td>0.35</td>
<td>0.35</td>
<td>-1%</td>
</tr>
<tr>
<td>Cum. Loss/ Original Amt (%)</td>
<td>0.35</td>
<td>0.44</td>
<td>-20%</td>
<td>0.36</td>
<td>0.36</td>
<td>0.36</td>
<td>-24%</td>
</tr>
<tr>
<td>Cum. Loss/ Liquidations (%)</td>
<td>0.73</td>
<td>0.83</td>
<td>-12%</td>
<td>0.73</td>
<td>0.74</td>
<td>0.88</td>
<td>-16%</td>
</tr>
<tr>
<td>Avg. Seasoning (months)</td>
<td>25.06</td>
<td>25.54</td>
<td>-2%</td>
<td>25.40</td>
<td>25.43</td>
<td>25.73</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Monthly historical data from inception to date are available in Excel Format.

EXHIBIT 2

Moody’s US Prime Auto Loan Index
Annualized Net Losses (3-Month Average)

Sources: Moody’s Analytics, Moody’s Investors Service

May 2013 net loss rate increased to 0.29%

The annualized net loss rate index increased for the fourth month in a row to 0.29% in May from its year-earlier level of 0.19%. The net loss rate also increased from its April level of 0.22%. Although the net loss rate will remain low in 2013, much of the year-over-year improvement is over, as rates start to normalize toward their long-term average from historical lows.

EXHIBIT 2

Moody’s US Prime Auto Loan Index
Annualized Net Losses (3-Month Average)

Sources: Moody’s Analytics, Moody’s Investors Service
EXHIBIT 3
Moody’s US Prime Auto Loan Index
60-Plus Delinquencies (3-Month Average)

May 2013 60-plus delinquency rate decreased to 0.36%

The proportion of account balances for which a monthly payment is more than 60 days late was 0.36% in May, 4% lower than its year-earlier level of 0.38%. The delinquency rate increased by one basis point from the previous month.
FDIC Lawsuit Against Advanta Executives Highlights Connection Between Re-Pricing and Portfolio Performance

On 17 June, the FDIC filed suit against Advanta’s former top two executives over the bank’s failure, a case that will not have a direct impact on Advanta ABS investors but is relevant to all card ABS investors because it highlights the connection between re-pricing and general portfolio performance.

The FDIC claims that during 2008 and 2009, the chairman and vice-chairman of the company caused the insolvency of the bank by, among other actions, implementing aggressive re-pricing strategies that went materially beyond industry standards. The FDIC claims that the re-pricing actions resulted in a drastic increase in portfolio charge-offs and in high levels of attrition. Advanta’s bank peers also re-priced their portfolios during the recession, but not by as much, or as often, as Advanta did.

FDIC sues Advanta executives

On 17 June, the FDIC filed suit in the US District Court for the Eastern District of Pennsylvania against the former top two executives of Advanta over the bank’s failure. The FDIC claims that between 2008 and May 2009, right before the bank’s collapse, Dennis Alter, the bank’s chairman, and William Rosoff, the vice-chairman, caused the insolvency of the bank by, among other actions, implementing aggressive re-pricing strategies that went materially beyond industry standards.

The FDIC claims that Alter and Rosoff were grossly negligent and breached their fiduciary duties by failing to consider how the re-pricing actions would affect the bank in terms of attrition and credit losses, and seeks $219 million in damages. In a countersuit filed on the same day, Alter and Rosoff allege that previously, in June 2009, the FDIC and the bank had reached a settlement on the 2008 and 2009 re-pricing strategies, without the company’s admission of wrongdoing. The bank paid cardholders whose accounts were re-priced $21 million in restitution.

The current lawsuit, regardless of the outcome, will not have an impact on Advanta’s ABS noteholders, because the FDIC did not name the trust or its investors as defendants. However, the case is relevant to all card ABS investors, because it highlights the potential effect of re-pricing on general portfolio performance, particularly charge-offs.

Re-pricing can increase profitability

Re-pricing a portfolio initially raises its profitability, because the APRs are higher, but higher APRs make it more difficult for cardholders to remain current in their payments, which could lead to higher delinquency levels. In addition, re-pricing creates an incentive for cardholders to transfer their business to another bank or card with better terms. Banks are thus cautious when re-pricing their portfolios, because an overly aggressive strategy can backfire and result in higher losses and attrition, rather than higher profitability.

The CARD Act of 2009 limits the ability of credit card issuers to re-price. In general, issuers can now re-price only new balances, not outstanding ones, and can re-price only those accounts that are at least 60 days past due.

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5 Re-pricing refers to the increase in the APR of a credit card or portfolio.
6 Following the beginning of the trust’s early amortization in May 2009, the Class A investors were repaid in full, while the Class B investors suffered a loss of approximately 5% on their investment and Class C and D investors were completely wiped down.
Industry yields and charge-offs rose after re-pricing in general, but particularly in Advanta’s case

Most, if not all, of Advanta’s bank peers re-priced in general during the recession, and ahead of the CARD Act in particular, but not by as much, or as often, as Advanta did. During the recession, Advanta was the only bank whose ABS card trust (ABCMT) early-amortized, because the increase in yield caused by re-pricing was insufficient to offset the increase in the trust’s charge-off rate. Most of Advanta’s peers pursued a different strategy, limiting their re-pricing actions and implementing discounting to offset increases in their trusts’ charge-off rates.

Discounting, i.e., the re-characterization of principal collections as yield, is designed to increase a trust’s excess spread and avoid early-am, but it does not affect the profitability of a credit card portfolio. Advanta, whose only business was its credit card portfolio, re-priced its portfolio to increase the profitability of the company, but did not use discounting.

Specifics of the FDIC’s lawsuit

The FDIC alleges that Advanta had poorly designed the credit card re-pricing actions it took during 2008 and 2009; that by these actions, it aimed to increase its short term gains at the cost of its long-term financial health; and that as a result, its credit card portfolio’s charge-offs increased drastically. Exhibits 1 and 2 show the yield and early-stage delinquencies in the ABCMT in comparison to those in the Moody’s Credit Card Index.

EXHIBIT 1
Rise in ABCMT’s Yield over Moody’s Credit Card Index

Source: Moody’s Investors Service, based on company data
The lawsuit also claims that Advanta’s re-pricing strategies caused an unprecedented level of attrition in the bank’s managed portfolio, which was almost indistinguishable from ABCMT’s. Exhibit 3 shows how the trust’s portfolio balance changed over the same time period.
We Raise Our Credit Card Principal Payment Rate Forecast as Delinquencies Continue to Drop

We now expect the credit card index payment rate, i.e., the rate at which cardholders pay off their balances, to reach new highs and remain elevated for the remainder of 2013 and into 2014. The change in our forecast, which is credit positive for card-backed ABS, reflects the ongoing improvement in early-stage delinquency rates in the card securitization trusts in our index.7

**Forecast payment rate rises to 22%-24% for 2013-2014**

We now expect card trust payment rates to range from 22% to 24% for 2013-2014, up from our previous forecast of 21% to 23%.8 We also expect the payment rate index to set record highs between now and end-2014, particularly in the seasonally strong months of March, May and December.

**Lower early-stage delinquencies point to a rising payment rate**

Higher payment rates correlate strongly with the long-term, unabated improvement in early-stage delinquencies9 that has taken place since the credit crisis. We expect delinquencies will continue to improve year over year until sometime in 2014 for two reasons: 1) A large portion of receivables from weaker borrowers charged off during the recession, and 2) issuers have not added receivables from newly originated accounts to their trusts in recent years, leaving behind receivables from highly seasoned and exceptionally high-credit-quality obligors in the card trusts.

In credit card securitizations, the correlation between the payment rate and early-stage delinquencies has been particularly strong, as Exhibit 1 shows.10

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7 We have already lowered our forecast for the Moody’s Credit Card index charge-off rate for 2013; see “We Lower Our Credit Card Charge-Off Rate Forecast as Delinquencies Continue to Drop,” ABS Spotlight, June 2013.
9 The percentage of receivables in card trusts that are 30-59 days delinquent.
As Exhibit 2 shows, our early-stage delinquency index, which tracks the performance of the Big Six bank card trusts, has declined steadily, from a peak of 1.78% in March 2009 to an historic low of 0.52% in June 2013.

EXHIBIT 2
Credit Card ABS: Early-Stage Delinquency Rate Versus the Principal Payment Rate

Source: Moody’s Investors Service

Non-Renewal of Aeroplan Program Would Be Credit Negative for CARDS II Trust

The potential loss of the Aeroplan reward credit card program if the originator of the credit cards, Canadian Imperial Bank of Commerce (CIBC; Aa3 stable, C+/a2, P-1), decides not to renew it will result in a decline in spending on the bank’s Aeroplan co-branded credit cards, which constitute a material portion of the CARDS II Trust’s custodial pool, and will thus weaken the trust’s current performance metrics. CIBC has an option to renew the Aeroplan program until 9 August 2013. If CIBC does not renew it, The Toronto-Dominion Bank (TD; Aa1 stable, B/aa3 stable, P-1) will become the new Aeroplan card partner as of 1 January 2014, after which the CIBC Aeroplan card customers will begin exiting the custodial pool as TD starts moving customers to its new Aeroplan partner cards.

The trust’s performance metrics will deteriorate if CIBC does not renew the program.

Should CIBC decide not to renew the Aeroplan card’s rewards program, these borrowers’ receivables will fall as accounts leave and the pool’s performance metrics will deteriorate. Rewards cards like those affiliated with the Aeroplan program attract higher-quality convenience borrowers, whose payment rates tend to be higher, and whose credit losses tend to be lower, than those of borrowers of general purpose cards. The Aeroplan program is a very popular Canadian rewards program, so the most loyal of these higher credit quality Aeroplan cardholders are likely to switch to a new TD Aeroplan card, and the loss of these

11 The Big Six are American Express’ AECAMT, Bank of America’s BACCT, Citibank’s CCCIT, Capital One’s COMET, Chase’s CHAIT and Discover’s DCENT.
12 These are bank’s deposit ratings, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks, as well as its short-term rating.
13 The Aeroplan partnership comes up for renewal every 10 years; the last renewal was in 2003.
CREDIT CARDS

cardholders will weaken the credit performance of the remaining pool of receivables. In addition, the loss of the Aeroplan program will result in a decline in the pool balance because of the decline in usage.

If CIBC doesn’t renew, it can minimize performance deterioration and receivables attrition

If CIBC decides not to renew the program, it has a number of options to minimize any deterioration in performance and decline in pool balance.

CIBC has the financial ability as well as a strong incentive to try and minimize the negative impact of the loss of this program. Because the current program does not expire until 31 December 2013, CIBC has more than five months to plan a retention strategy or to take steps to support the CARDS II Trust notes. CIBC could decide to launch a new travel reward card product, although any new proprietary travel card the bank offers will have to be competitive with the lost Aeroplan program to support its account retention rate. CIBC owns the accounts and receivables, so the accounts will leave the CARDS II Trust custodial pool only if customers cancel their cards and switch to TD or another issuer.

The custodial pool currently has around CAD13 billion of receivables backing the CAD6 billion of CARDS II Trust notes currently outstanding, an excess of CAD7 billion of receivables. Therefore, even if the pool balance shrinks substantially, it is still likely to remain above the minimum level below which the notes would enter early amortization. In addition, as of 30 April 2013, CIBC had almost CAD1 billion of additional credit card receivables on its balance sheet relating to accounts that it had not transferred to the custodial pool. It could transfer those accounts to the custodial pool, to increase the pool balance if needed.

Aeroplan’s reward program credit cards allow account holders to earn Aeroplan points that they can redeem for air travel on Air Canada and Star Alliance carriers, as well as for other specialty, merchandise, hotel, car rental or experience-related rewards.

14 According to CIBC Management’s Discussion and Analysis for the six months ended 30 April 2013 (page 31), credit card receivables amounted to CAD14.8 billion. According to CARDS II Trust sedar.com filing, the CARDS II Trust pool balance on 30 April 2013 was CAD13.0 billion, and excess receivables came to CAD1.8 billion. According to the Broadway Credit Card Trust sedar.com filing, the Broadway Trust pool balance on 30 April 2013 was CAD1.1 billion. The excess receivables came to CAD0.7 billion after accounting for the CARDS II Trust and Broadway Credit Card Trust pool balances.
Credit card charge-offs and delinquencies continued to decline in June. Securitized credit card charge-offs, as measured by Moody’s Credit Card Index charge-off rate, were 3.63%, only 61 basis points higher than the all-time monthly low dating back to 1989. Not including the artificially low rates in early 2006 (because of a change in bankruptcy law), the last time the charge-off rate index was this low was in November 1989. The delinquency rate index declined to a record low again, setting the stage for lower charge-offs in the coming months.

Strong credit trends remain firmly in place, and although the pace of improvement is slowing, it has not ended. Delinquency rates, especially the early-stage component, are a harbinger of future charge-off rates. The steady improvement in early-stage delinquency rates, combined with stable roll rates, points to a continued decline in bank card trust charge-offs through the end of the year. As a result, last month we lowered our forecast for the Moody’s Credit Card Index charge-off rate for 2013 to 3%-4%, down 50 basis points from our forecast earlier this year.

The delinquency rate index declined again in June, although the early-stage delinquency rate index was unchanged. In past years, June has tended to mark a seasonal inflection point prior to a gradual rise in early-stage delinquencies into the summer months, a trend that we expect will hold once again this year. This typical increase notwithstanding, delinquency rate trends continue to underscore the remarkable credit strength of credit card pools today.

The payment rate index decreased to 23.35%, down 82 basis points from May. In the first six months of 2013, the payment rate index averaged 23.15%, 130 basis points higher than in the first half of 2012.

The higher credit quality of collateral pools and the growing proportion of transactors, cardholders who pay their balances in full every month, will likely continue to support trust payment rates at or above their current lofty levels throughout the coming quarters.

The yield index declined in June by a single basis point to 18.66%. The yield index declined steadily during 2010-12 because of declining finance charge collections from the ongoing improvement in the credit quality of collateral pools. Thus far in 2013, however, yields have stabilized, with the index averaging 18.54% so far in 2013, compared to 18.44% in the first half of 2012. The June excess spread index was 12.31%, just six basis points shy of the all-time high it set this past March.
Canadian Credit Card Index: Stable Performance for Remainder of 2013

We expect charge-off levels to remain low throughout 2013, in light of the stable unemployment rate, a steady but moderate decline in the number of bankruptcy filings, and low, stable delinquencies.

Credit card charge-offs declined in first-quarter 2013 and will likely range between 2.75% and 3.25% for the remainder of the year. The charge-off rate improved to 2.95%, from 3.19% in fourth-quarter 2012, having declined steadily since reaching a record high 4.92% in third-quarter 2009, and is below 3% for the first time since first-quarter 2008.

Year over year, the payment rate has remained stable, at 34.75% in first-quarter 2013 versus 34.46% in first-quarter 2012, while the gross yield improved very modestly, rising to 12.78% from 12.62%. Delinquency rates have also changed very little, improving slightly to 2.32% from 2.38%.

Canadian credit card issuance from January to June 2013 amounted to CAD4.11 billion, in six transactions.

### EXHIBIT 1

<table>
<thead>
<tr>
<th>Credit Indices</th>
<th>Q1 2013</th>
<th>Q1 2012</th>
<th>% Change</th>
<th>Avg. 2013</th>
<th>Avg. 2012</th>
<th>% Change</th>
<th>Q1 2013</th>
<th>YoY % Change</th>
<th>Q4 2012</th>
<th>YoY % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charge-offs (Annualized %)</td>
<td>2.95</td>
<td>3.62</td>
<td>(18.49)</td>
<td>2.95</td>
<td>3.62</td>
<td>(18.49)</td>
<td></td>
<td></td>
<td>3.92</td>
<td>(20.90)</td>
</tr>
<tr>
<td>30-Plus Delinquency Rate (%)</td>
<td>2.32</td>
<td>2.38</td>
<td>(2.58)</td>
<td>2.32</td>
<td>2.38</td>
<td>(2.58)</td>
<td>2.27</td>
<td>(20.10)</td>
<td>2.94</td>
<td>(33.19)</td>
</tr>
<tr>
<td>Payment Rate (%)</td>
<td>34.75</td>
<td>34.46</td>
<td>0.85</td>
<td>34.75</td>
<td>34.46</td>
<td>0.85</td>
<td>22.84</td>
<td>5.22</td>
<td>18.89</td>
<td>13.35</td>
</tr>
<tr>
<td>Gross Yield (Annualized %)</td>
<td>12.78</td>
<td>12.62</td>
<td>1.34</td>
<td>12.78</td>
<td>12.62</td>
<td>1.34</td>
<td>18.44</td>
<td>0.28</td>
<td>20.51</td>
<td>(17.59)</td>
</tr>
<tr>
<td>Net Yield (Annualized %)</td>
<td>9.83</td>
<td>8.99</td>
<td>9.33</td>
<td>9.83</td>
<td>8.99</td>
<td>9.33</td>
<td>14.52</td>
<td>8.11</td>
<td>15.60</td>
<td>(2.80)</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service

Access the full report [here](#), and the Excel data supplement, [here](#).
Junior-Most Class A Tranches in Nine National Collegiate Student Loan Securitizations Likely to Incur Losses

The junior-most outstanding Class A tranches in six of the 15 National Collegiate Student Loan Trust (NCSLT) securitizations will incur losses because of low parity ratios (i.e. the ratio of assets over the aggregate balances of the outstanding tranches) and low excess spread, according to a break-even default analysis we conducted. Three other securitizations are already lacking the collateral base necessary to repay the junior-most Class A notes.

Based on our analysis, the lifetime default levels in the underlying student loan pools in the six transactions will exceed the break-even default levels for the junior-most Class A tranches, which is consistent with the tranches’ current ratings of Caa2 or lower. The junior-most Class A tranches (in nine securitizations) that we expect will default have a current aggregate balance of approximately $2.2 billion, which constitutes 22% of the outstanding bond balance of the NCSLT securitizations.

Junior-most Class A tranches in six securitizations are likely to incur losses

We expect lifetime cumulative defaults in NCSLT securitizations to range between 30% and 60% of their closing pool balances. However, our default break-even levels for the junior-most Class A tranches in six securitizations range from 27% to 52%, lower than our default projections, as Exhibit 1 shows. In addition, three single-class securitizations, NCSLT 2007-3, NCSLT 2007-4 and the National Collegiate Master Student Loan Trust (NCMSLT), are substantially under-collateralized and, therefore, we expect them to incur losses.

EXHIBIT 1
Cumulative Defaults to Date, Expected Lifetime Defaults and Break-Even Defaults in NCLST Transactions

* Securitizations with junior-most Class A tranches likely to incur losses

Sources: Moody’s Investors Service, based on NCSLT servicing reports

15 The default break-evens are the highest levels of cumulative defaults on the collateral pools, at which the tranches fully amortize, by their final maturity dates, with the next defaulting dollar causing a loss for the noteholders.
Main drivers of default break-even levels are securitizations’ current parity ratios and excess spread

High defaults since closing and increased funding costs in five securitizations with auction rate securities\(^{16}\) have eroded the collateral base in all of the NCSLT securitizations, leading to the under-collateralization of most of the subordinated tranches as well as some of the senior ones. As of 31 May 2013, the total parity ratios in NCSLT securitizations ranged between 74% and 87%. Senior parity ratios (the total assets over the Class A tranche balances) were also below 100% in nine of the 15 securitizations, indicating that some portion of the Class A notes was not supported by collateral. Parity ratios of less than 100% lower the excess spread and expose the subordinated and the junior-most Class A tranches to the risk of loss. As the asset base declines relative to the outstanding note balances, interest income will decline and become insufficient to cover the required debt service, i.e., trust expenses and interest payments on the bonds. The use of principal collections to cover the debt service will lead to further declines in collateralization, precipitating a downward spiral.

Exhibit 2 shows that for six NCSLT securitizations, the break-even lifetime default levels for the junior-most Class A tranches are lower than our expected life-time defaults. Consequently, these tranches will not fully repay by their final maturity dates.

**EXHIBIT 2**

Break-Even Lifetime Default Levels for Junior-Most Class A Tranches Are Lower Than Our Expectation for Life-Time Defaults
(As of 31 May 2013)

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Junior-Most Class A Tranche Name</th>
<th>Current Rating</th>
<th>Pool Factor</th>
<th>Total Parity</th>
<th>Senior Parity</th>
<th>Life-time Excess Spread</th>
<th>Projected Lifetime Default % of Original Pool</th>
<th>Break-Even Lifetime Defaults % of Original Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCSLT*</td>
<td>2005-AR-16</td>
<td>C</td>
<td>36.8%</td>
<td>80.2%</td>
<td>80.2%</td>
<td>-36.0%</td>
<td>30.0%</td>
<td>N/A**</td>
</tr>
<tr>
<td>NCSLT 2003-1*</td>
<td>A-7</td>
<td>Aaa2</td>
<td>44.5%</td>
<td>82.7%</td>
<td>114.3%</td>
<td>-11.0%</td>
<td>40.0%</td>
<td>34.0%</td>
</tr>
<tr>
<td>NCSLT 2004-1*</td>
<td>A-4</td>
<td>C</td>
<td>44.2%</td>
<td>79.2%</td>
<td>100.7%</td>
<td>-11.0%</td>
<td>37.0%</td>
<td>27.0%</td>
</tr>
<tr>
<td>NCSLT 2004-2</td>
<td>A-5-1</td>
<td>Baa2</td>
<td>55.1%</td>
<td>86.8%</td>
<td>110.1%</td>
<td>17.0%</td>
<td>42.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>NCSLT 2005-1</td>
<td>A-5-2</td>
<td>Ba1</td>
<td>52.1%</td>
<td>84.5%</td>
<td>106.9%</td>
<td>13.0%</td>
<td>37.0%</td>
<td>41.0%</td>
</tr>
<tr>
<td>NCSLT 2005-2*</td>
<td>A-5-2</td>
<td>Caa3</td>
<td>53.5%</td>
<td>79.8%</td>
<td>98.2%</td>
<td>13.6%</td>
<td>48.0%</td>
<td>45.0%</td>
</tr>
<tr>
<td>NCSLT 2005-3</td>
<td>A-5-2</td>
<td>Caa3</td>
<td>53.5%</td>
<td>79.8%</td>
<td>98.2%</td>
<td>13.6%</td>
<td>48.0%</td>
<td>45.0%</td>
</tr>
<tr>
<td>NCSLT 2006-1*</td>
<td>A-5</td>
<td>Caa3</td>
<td>62.3%</td>
<td>81.4%</td>
<td>97.2%</td>
<td>11.0%</td>
<td>49.0%</td>
<td>44.0%</td>
</tr>
<tr>
<td>NCSLT 2006-2*</td>
<td>A-4</td>
<td>Caa3</td>
<td>62.4%</td>
<td>76.2%</td>
<td>91.3%</td>
<td>13.0%</td>
<td>57.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>NCSLT 2006-3</td>
<td>A-5</td>
<td>B1</td>
<td>69.5%</td>
<td>79.5%</td>
<td>101.9%</td>
<td>19.0%</td>
<td>53.0%</td>
<td>54.0%</td>
</tr>
<tr>
<td>NCSLT 2006-4</td>
<td>A-4</td>
<td>B1</td>
<td>68.4%</td>
<td>76.2%</td>
<td>98.4%</td>
<td>22.0%</td>
<td>60.0%</td>
<td>60.0%</td>
</tr>
<tr>
<td>NCSLT 2007-1*</td>
<td>A-4</td>
<td>Caa2</td>
<td>70.7%</td>
<td>77.5%</td>
<td>96.5%</td>
<td>19.0%</td>
<td>55.0%</td>
<td>52.0%</td>
</tr>
<tr>
<td>NCSLT 2007-2</td>
<td>A-4</td>
<td>B1</td>
<td>72.2%</td>
<td>78.0%</td>
<td>99.4%</td>
<td>22.0%</td>
<td>56.0%</td>
<td>56.0%</td>
</tr>
<tr>
<td>NCSLT 2007-3*</td>
<td>A-3-L &amp; A-3-AR-7</td>
<td>C</td>
<td>78.8%</td>
<td>74.2%</td>
<td>74.2%</td>
<td>-41.0%</td>
<td>N/A**</td>
<td>N/A**</td>
</tr>
<tr>
<td>NCSLT 2007-4*</td>
<td>A-3-L &amp; A-3-AR-7</td>
<td>C</td>
<td>78.7%</td>
<td>74.0%</td>
<td>74.0%</td>
<td>-34.0%</td>
<td>53.0%</td>
<td>N/A**</td>
</tr>
</tbody>
</table>

* Securitizations with junior-most Class A tranches likely to incur a loss
** The break-even analysis does not apply to three single-class securitizations, NCSLT 2007-3, NCSLT 2007-4 and NCMSLT because they are substantially under-collateralized and are already in a loss position.
Sources: NCSLT servicing reports; Moody’s calculations

Assumptions for our break-even default analysis
We calculated the break-even default rates by conducting iterative cash flow analyses on 15 NCSLT securitizations using Moody’s Structured Finance Workstation® (SFW), to determine the default threshold for each junior-most Class A tranche, holding all other inputs constant. We used a constant prepayment rate (CPR) that increased from 2% to 6% over the first three years, a recovery rate on defaulted loans of 18%, and historical deferment and forbearance rates. We also assumed that interest rates follow the forward LIBOR curve. In arriving at the default break-evens, we did not consider insurance policies issued by AMBAC for 2007-3, 2007-4 and NCMSLT securitizations.

Higher Student Loan Rate Is Not a Big Factor for Student Loan Securitizations

Originally published in Credit Outlook, 1 July 2013.

As of 1 July, interest rates on Federal Direct Subsidized Loans (FDSL) for college students doubled to 6.8% from 3.4%. Although many media accounts portray the increased rates as harmful to students who would be driven further into debt, the overall effect on student loan securitizations is minimal. The rate increase is only slightly credit negative for both private and Federal Family Education Loan Program (FFELP) student loan securitizations, because although higher monthly payments boost default rates among borrowers, the new rates only affect borrowers who take out new FDSL loans. Most student loan securitizations we rate have a small proportion of borrowers who are still in school.

The White House estimates that doubling rates means that an incoming college freshman who borrows $27,000 will be forced to additionally pay more than $4,000 over the life of the loans. However, the average subsidized loan is $3,385, so over four years the typical borrower will take out $13,540 of FDSL cumulatively. Therefore, for a typical borrower, the doubling of rates means a smaller increase of $2,707 over the life of the loan, resulting from a small increase of $23 in monthly payments. In numerous media reports on the issue, lawmakers, student groups and others contend that the higher rates add to the burden on middle-class families struggling with soaring college tuition costs.

Higher loan rates are credit negative for securitizations, but the effect is small. Higher loan rates increase the debt burden for students, which will result in higher default rates in student loan securitizations. However, the effect on securitizations will likely be small because the new rates only affect students who are currently in school and eligible for new FDSL, not those paying down existing loans. Additionally, the borrower is not required to make interest payments while in school under the terms of the FDSL program.

The exhibit below shows the $23 increase in the monthly payment, to $156 from $133, as a result of the doubling of the interest rate for a student who, under the FDSL program, borrows an average sized subsidized Stafford loan for four years.

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17 See Fact Sheet: President Obama Fights to Keep Interest Rates from Doubling, 31 May 2013.
18 The average subsidized loan is $3,385 for fiscal 2013, which would add to $13,540 cumulatively over four years. See Department of Education Fiscal Year 2013 Budget Request.
Higher Student Loan Interest Rates Translate into Higher Monthly Payments

<table>
<thead>
<tr>
<th></th>
<th>Subsidized Loan Fixed Interest Rate for Life</th>
<th>Monthly Loan Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Rate</td>
<td>6.8%</td>
<td>$156</td>
</tr>
<tr>
<td>Old Rate</td>
<td>3.4%</td>
<td>$133</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service

Private student loan securitizations are more affected by higher rates. Higher rates have a greater effect on private student loan securitizations than on FFELP securitizations because private loan securitizations contain a higher proportion of loans to students currently in school, which makes them eligible for new federal loans. Loans to borrowers who are currently in school constitute 10%-50% of 2008-13 private loan securitizations we rate. The effect is smaller for FFELP loan securitizations we rate because fewer than 5% of loans in these securitizations are to borrowers currently in school.

Lawmakers could still deal retroactively with the loan issue. One proposal, unveiled 18 July by a bipartisan group of senators, sets the rate for newly issued loans at a fixed rate at loan origination based on the yield on the 10-year Treasury bill plus 2.05 percentage points for both subsidized and unsubsidized Stafford loans. This proposal is similar to the plan included in the Obama administration’s 2014 budget plan.

Student Loan Rate Hike Is Negative for US Tuition-Dependent Colleges

Originaly published in Credit Outlook, 1 July 2013

As of 1 July, interest rates on Federal Direct Subsidized Loans (FDSL) for university students will double to 6.8% from 3.4%. This sharp rise in student loan rates is credit negative for US colleges and universities because it increases the cost of student borrowing at a time when many tuition-dependent colleges are already struggling to maintain enrollment and grow revenue. It also raises the probability of higher student loan defaults in coming years.

Higher borrowing costs will add to the forces already weakening demand for many colleges, especially those dependent on student loan funding for a large share of revenue. The negative effects will accumulate over time, rather than cause a quick enrollment shock for the upcoming fall semester because the higher rates will only apply to new loans for eligible undergraduates; students do not make interest payments while enrolled at least half-time and parents and students generally view higher education as a valuable long-term investment.

FDSL is an income-tested loan program currently available for undergraduate students only. Colleges that predominately operate undergraduate programs and that tend to attract low and middle income students will face a greater risk of weaker demand. Because of a lack of revenue and programmatic diversity, these colleges are most susceptible to enrollment volatility caused by increased loan interest rates. They have varying financial flexibility to mitigate lower enrollment by offering scholarships to offset increased borrowing costs or by lowering operating costs to offset declines in revenue.
A majority of the not-for-profit universities we rate have a moderate reliance on subsidized student loans. Based on updated data, only seven institutions, or less than 2% of Moody’s rated portfolio, derive more than 20% of their revenue from this program, and 70% of Moody’s rated portfolio relies on this program for less than 10% of their total revenues. The exhibit below indicates the estimated amount of operating revenue derived from subsidized student loans by rating category and by type of university. Public universities are generally more reliant on these loans, with approximately 49% of Moody’s rated public universities garnering over 10% of their revenues from such loans, compared to just 15% of private universities. Lower rated private colleges tend to receive a greater share of their revenue from these loans, have less pricing power and less flexibility to provide offsetting funds for their students.

EXHIBIT 1
Subsidized Student Loans as a Percent of Operating Revenue, Fiscal 2012
Universities’ Reliance on Subsidized Student Loans Varies Based on Whether They Are Public or Private and on Rating

The effect on for-profit universities will be greater because they derive significantly more revenue from student loans (more than 80% in many cases), and their enrollments are already under pressure from greater student selectivity, negative publicity regarding admissions practices, high student loan default rates, and the tepid job market.

Across US higher education, the interest rate increase will exacerbate growing price sensitivity among students and their families. Weaker job placement for recent college graduates, poor family income growth and still-depressed household net worth have dampened the ability and willingness of families to pay for higher education.

According to the US Federal Reserve, the average American family experienced a 39% decline in net worth between 2007 and 2010, bringing median net worth to its lowest level since 1992. In addition, the median value of real family income (adjusted for inflation) before taxes fell 7.7% during this period. As universities reach the tipping point in pricing, an increasing share of our rated universities will be unable to grow tuition revenue at the average rate of inflation. In fiscal 2012, 26% of the not-for-profit private universities and 8% of the four-year public universities we rate did not achieve tuition revenue growth of 2%, a far higher share than before the 2008-09 financial crisis. Such weak revenue growth means a college cannot afford meaningful salary increases or new program investments unless it cuts spending.
STUDENT LOANS

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New York and Hawaii Legislation Will Propel New Utility Cost Recovery-Backed Bond Issuance

New legislation in New York and Hawaii will lead to new issuance of bonds backed by utility cost recovery charges (UCRC bonds).19 Pending New York legislation to reorganize the Long Island Power Authority (LIPA; Baa1 negative) sets a legal framework and standards for the issuance of UCRC bonds to refinance LIPA’s outstanding debt at lower interest rates to achieve Governor Andrew Cuomo’s goal of lowering customers’ electric utility costs. A similar securitization law went into effect in Hawaii on 27 June to help finance the state’s clean energy infrastructure. Such statutes fall on the heels of a similar law that Ohio enacted in December 2011.

Not including New York, 17 states now have similar securitization legislation. Electric utilities in 16 of the 17 have issued UCRC bonds, the exception being Hawaii.

New York legislation will lead to new issuance of UCRC bonds

On 21 June, the New York State Senate and Assembly passed Program Bill No. 20, paving the way for the reorganization of LIPA,20 a non-profit municipal electric utility, and for the securitization of a portion of LIPA’s debt obligations.21 If signed into law by Governor Cuomo, the legislation will lead to new issuance of UCRC bonds by LIPA; on 6 June, the utility issued a request for proposals for prospective underwriters for such a securitization.

The legislation would allow LIPA to refinance its outstanding debt by issuing UCRC bonds based on a specific legal standard. New York’s legislation, like that of the other states with similar securitization laws, would allow the utility to charge and collect irrevocable and non-by-passable22 charges on all ratepayers in its Long Island service area and to make periodic adjustments to those charges to ensure timely payment of the bonds. The legislation also includes a pledge and agreement by New York State that it will not impair the rights of bondholders by altering the legislation or the charges until the bonds are repaid in full, as well as other provisions typical in securitization laws.

The intent is to lower customers’ electric utility costs through bond issuance. LIPA’s electric rates are high in part because of the high interest rates on its approximately $7 billion of debt, a significant portion of which is related to the utility’s costs of financing and constructing the now abandoned Shoreham nuclear power plant. LIPA customers currently pay a portion of that debt through the delivery charge on their utility bills. Issuing bonds with lower interest rates to refinance higher-cost debt would lower LIPA’s debt service and therefore customers’ electricity costs.

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19 See Moody’s Approach to Rating Securities Backed by Utility Cost Recovery Charges, 2 March 2011.
20 LIPA owns the retail electric transmission and distribution system on Long Island and provides electric service to more than 1.1 million customers in Nassau and Suffolk counties and in the Rockaway Peninsula in Queens, New York.
21 See Long Island Power Authority - Credit impact of new legislation dependent on implementation, 25 June 2013.
22 “Non-by-passable” means that LIPA’s electric customers obligated to pay the charges cannot legally avoid payment of such charges.
Hawaii law provides a foundation for UCRC bond issuance to help finance clean energy infrastructure

On 27 June, Hawaii Governor Neil Abercrombie signed Act 211 into law, which establishes a clean energy infrastructure financing program for Hawaii, with the goals of making clean energy infrastructure purchases and installations more affordable and accessible for Hawaii’s consumers, achieving cost savings and helping the state meet its clean energy goals.23

Part of the legislation permits the state, acting through its Department of Business, Economic Development, and Tourism, to issue UCRC bonds, the proceeds of which will go to recovering the financing costs of clean energy technology, demand response technology and demand side management infrastructure, programs and services. The Hawaii law includes typical provisions, including irrevocable and non-by-passable utility charges, period adjustments to those charges to ensure timely bond payments and a state non-impairment pledge.

Recent Ohio statute led to UCRC bond issuance, more is likely to come

Ohio’s statute went into effect in March 2012, prompting four new UCRC bond issues, with more likely to follow. The three Ohio electric utility companies owned by FirstEnergy Corp. (Baa3 negative) were the first to sponsor issuance of UCRC bonds in the state.

On 20 June, we assigned Aaa (sf) ratings to three UCRC bond issues, one each from The Cleveland Electric Illuminating Company (Baa3 stable), Ohio Edison Company (Baa2 stable) and The Toledo Edison Company (Baa3 stable).24 In addition, on 22 Jul7, we assigned provisional ratings of (P)Aaa (sf) to a UCRC bond issue from Ohio Power Company (Baa1 stable), a wholly owned subsidiary of American Electric Power Company, Inc. (Baa2 stable), which the utility expects to close on 1 August.25

23 These goals include attaining energy self-sufficiency, greater energy security, and greater energy diversification, as well as helping Hawaii meet the state’s renewable portfolio standards and energy efficiency portfolio standards.

24 See FirstEnergy Ohio PIRB Special Purpose Trust 2013 Certificates and Underlying Bonds, 10 June 2013.

25 See Ohio Phase-In-Recovery Funding LLC, Senior Secured Phase-In-Recovery Bonds, 22 July 2013.
Global Airlines: Capacity Discipline, Lower Fuel Costs to Buoy Operating Profits Despite Slowing Demand

Our outlook for the global passenger airline industry is stable, and reflects our expectations for the fundamental business conditions in the global airline industry over the next 12 to 18 months.

Despite profit growth, margin improvement will be limited
The slow US economic recovery, continued weakness in Europe and restrained corporate spending will crimp demand for passenger airline travel. But lower fuel costs should offset soft demand and higher non-fuel operating expenses. As a result, operating profitability should grow modestly. We expect industry operating profit margins of between 4% and 7% in 2013 and 2014.

Yields will remain under pressure
Slowing demand growth, lower fuel costs and capacity increases among Asian, Canadian and Middle Eastern airlines will weigh on yields. We expect yield growth to range from -1% to 3% in 2013 and from flat to 3% in 2014.

Growth in emerging markets will drive growth in revenue passenger kilometers
We expect RPK growth of 3% to 5% in 2013 and 4% to 7% in 2014, as gains in China and the Middle East help to offset weak growth in the US and Europe.

What could change our outlook
We would consider changing our outlook to negative if the cost of Brent crude oil remained above $135 per barrel and increases in fares were not sufficient to prevent operating profits from turning negative. We would consider switching our outlook to positive if fares remained steady amid a sustained decline in the cost of fuel and or if RPKs grow faster than expected, leading to operating margins higher than 10%.

Access the global airline industry outlook report here.
US Supreme Court Upholds Waiver of Class-Wide Arbitration, a Credit Positive for Banks

Originally published in Credit Outlook, 1 July 2013

On 20 June, the US Supreme Court ruled that a contractual waiver of class-wide arbitration is enforceable, even if the expense of arbitrating on an individual basis is so high that it discourages parties to the contract from asserting their rights under federal laws. The decision in American Express Co. et al v. Italian Colors Restaurant et al. is credit positive for the financial services industry, and corporations generally, because it reinforces the ability of corporate entities to contractually immunize themselves against the risks of class-wide arbitration and avoid potentially devastating outcomes from large class-action judgments.

Financial services providers, such as credit card companies, and consumer product companies frequently include arbitration clauses in their contracts because this form of dispute resolution is generally quicker and cheaper than litigation. However, there are risks associated with arbitration, and these risks become magnified when a large group of plaintiffs asserts a common legal claim.

As the US Supreme Court noted earlier, arbitration proceedings lack the kinds of review and avenues of appeal of the judicial process, thereby increasing the likelihood of errors going unchecked. The monetary amount of errors can be very large when there are multiple claimants. By affirming the enforceability of class arbitration waivers, banks and other corporations can avoid potentially crippling class-action judgments.

The high court’s decision reinforces earlier rulings regarding the enforceability of class arbitration waivers. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act mandates that the US Consumer Financial Protection Bureau study and report to Congress on consumer products and financial services companies’ use of agreements providing for arbitration. To this end, the CFPB is currently constructing a survey to gather information about consumers’ perceptions, preferences and assumptions related to arbitration proceedings. This may eventually lead to regulatory limits on arbitration agreements in future.

In this case, a group of merchants sued American Express alleging that the company used its dominant position in charge cards to force merchants to accept ordinary Amex cards at expensive fee rates. They alleged that this constituted an unlawful tying arrangement in violation of federal antitrust laws. When Amex moved to compel arbitration under the Federal Arbitration Act (FAA), the merchants submitted a declaration estimating that the cost of expert analysis to prove the antitrust claims might exceed $1 million, whereas the maximum recovery for an individual plaintiff would be $38,549. The merchants argued that being compelled to arbitrate on an individual basis would effectively preclude them from vindicating their federal antitrust claims. The Second Circuit Court of Appeals agreed and held that the class arbitration waiver was unenforceable.

26 AT&T Mobility LLC v. Concepcion.
The Supreme Court reversed the Second Circuit’s judgment, holding that the class arbitration waiver is enforceable. The high court reiterated the FAA’s overarching principle that arbitration is a matter of contract and that courts must “rigorously enforce” arbitration agreements according to their terms, and added that this rule applies even where claims allege violations of federal law. Enforceability of class arbitration waivers, banks and other corporations can avoid potentially crippling class-action judgments.

In rejecting the merchants’ argument that forcing them to arbitrate individually will contravene the policies of antitrust laws, the Supreme Court stated that “the antitrust laws do not guarantee an affordable procedural path to the vindication of every claim.” A class arbitration waiver is enforceable as long as it does not preclude a party’s right to pursue statutory remedies, even if it makes prosecution prohibitively expensive.

US Crackdown Is Credit Negative for Consumer Debt Collectors

Originally published in Credit Outlook on 15 July 2013

On 10 July, the US Consumer Financial Protection Bureau (CFPB) issued bulletins to protect consumers from unscrupulous debt collectors, including the banks, payday lenders, finance companies and debt collection firms under its jurisdiction. The CFPB bulletins notified companies that debt-collection practices that misrepresent the size of a consumer’s debt, the company’s right to collect the money or other unfair, deceptive or abusive acts may violate the law.

This salvo from the CFPB is credit negative for firms actively engaged in consumer debt collection, including debt collection companies, large credit card lenders, payday lenders, private student lenders and other consumer lenders. The bulletin portends tightened regulatory oversight, which will increase the firms’ compliance requirements and costs, including more management time, legal expense, internal audit staff and reporting systems, and potential enforcement-related financial penalties that would adversely affect the firms’ profitability.

The CFPB published two bulletins on debt collection. The first states that any entity subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, whether a third-party collector or a creditor collecting its own debts, can be held accountable for any unfair, deceptive or abusive practices in collecting a consumer’s debts. The second warns companies to avoid deceptive statements concerning the effect of paying a debt on a consumer’s credit score, credit report or creditworthiness. The following are the rated issuers particularly affected by the CFPB’s action:
FINANCIAL INSTITUTIONS

Debt collection firms: SquareTwo Financial Corporation (B2 stable), which buys defaulted debt and collects the proceeds for itself, and West Corporation (B1 stable), Expert Global Solutions, Inc. (B2 stable), DCS Business Services, Inc. (B2 stable) and iQor US, Inc. (B3 stable), which do not make material purchases of defaulted debt, but rather collect debt for other companies in return for a recovery fee.

Credit card issuers: JPMorgan Chase & Co. (A2 negative), American Express Company (A3 stable), Capital One Financial Corporation (Baa1 stable), Bank of America Corporation (Baa2 negative), Citigroup Inc. (Baa2 negative), Discover Financial Services (Ba1 stable).

Payday lenders: Dollar Financial Group, Inc. (B2 positive), Community Choice Financial Inc. (B3 stable), Ace Cash Express Inc. (B3 stable), CNG Holdings, Inc. (B3 stable), Speedy Group Holdings Corp. (Ca1 stable).

Private student lenders: SLM Corporation (Ba1 review for downgrade).

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27 On 10 July, the Federal Trade Commission ordered Expert Global Solutions to pay a fine of $3.2 million for allegedly making illegal collections calls and not verifying debt in dispute. The proposed order is subject to court approval. It is the largest fine the FTC has issued against a third-party debt collector.

28 JPMorgan Chase is already under federal and state regulatory scrutiny for its credit card debt collection practices.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011</th>
<th>2012E</th>
<th>Most Recent</th>
<th>2013F</th>
<th>2014F</th>
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<td>2.2</td>
<td>1.6</td>
<td>1.8</td>
<td>3.4</td>
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<tr>
<td>Unemployment rate, Avg. %</td>
<td>8.9</td>
<td>8.1</td>
<td>7.6</td>
<td>7.5</td>
<td>6.9</td>
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<tr>
<td>Consumer Confidence, Avg. (index)</td>
<td>58.1</td>
<td>67.1</td>
<td>81.4</td>
<td>71.5</td>
<td>77.8</td>
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<tr>
<td>Moody’s Analytics Survey of Business Confidence, Avg. (index)</td>
<td>26.5</td>
<td>20.5</td>
<td>23.4</td>
<td>NF</td>
<td>NF</td>
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<tr>
<td>CPI-Core3, YoY</td>
<td>1.7</td>
<td>2.1</td>
<td>1.7</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>CPI-Top line, YoY</td>
<td>3.1</td>
<td>2.1</td>
<td>1.4</td>
<td>1.7</td>
<td>2.1</td>
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<tr>
<td>Consumer non-revolving debt, Avg. ($ bil)</td>
<td>11,281.8</td>
<td>10,985.4</td>
<td>10,942.2</td>
<td>10,969.0</td>
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<tr>
<td>1-Month LIBOR, Avg. %</td>
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<td>0.2</td>
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<td>Consumer bankruptcy filings, YE (000s)</td>
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<td>1,181.0</td>
<td>1,132.8</td>
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<tr>
<td>Business bankruptcy filings, YE (000s)</td>
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<td>40.1</td>
<td>37.6</td>
<td>36</td>
<td>35</td>
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<tr>
<td>Financial obligations ratio, Avg.</td>
<td>16.1</td>
<td>15.7</td>
<td>15.7</td>
<td>15.8</td>
<td>16.1</td>
</tr>
</tbody>
</table>

**Autos**

- Commercial bank lending rate, new cars, Avg. %: 4.3, 3.8, 3.9, 3.91, 3.96
- Repo rate, direct loan, Year-end (#/Month/1,000): 0.6, 0.4, 0.3, 0.63, 0.71
- Repo rate, indirect loan, Year-end (#/Month/1,000): 1.9, 0.8, 1.1, 0.67, 0.75
- Vehicle Sales: Cars, Avg. (mil): 6.2, 7.4, 7.9, 7.7, 8.3
- Vehicle Sales: Light trucks, Avg. (mil): 6.5, 7.1, 8.0, 7.6, 8.2
- Manheim Used Vehicle Value Index, Avg. (Jan. 1995 = 100): 124.9, 123.6, 119.7, 119.4, 118.0
- Used vehicle sales by dealers, Avg. (mil): 27.6, 29.0, 33.9, 29.5, 29.8
- Total incentives: $4,824.3, 5,104.9, 5,357.0, NF, NF

**Credit Cards**

- Interest rates on cards, Avg. %: 12.7, 12.1, 12.0, 11.89, 11.74
- Consumer revolving debt, Avg. ($ bil): 543.7, 537.6, 536.1, 529.4, 530.5
- Total retail sales, YoY: 7.5, 5.3, 4.3, 3.8, 4.9
- Total retail sales ex-autos, YoY: 7.0, 4.8, 3.4, 3.1, 4.0
- Real consumer spending, YoY: 2.5, 1.9, 1.9, 2.0, 3.4

**Student Loans**

- Prime/LIBOR spread, Avg.: 3.0, 3.0, 3.1, 3.05, 3.04
- LIBOR/CP spread, Avg.: -0.3, -0.2, -0.2, -0.10, -0.12
- LIBOR/T-Bill spread, Avg.: 0.2, 0.2, 0.1, 0.09, 0.04
- Unemployment rate: College grads, Avg. %: 4.3, 4.0, 3.9, NF, NF
- Unemployment rate: 20-24 year-olds, Avg. %: 14.6, 13.3, 13.5, NF, NF

**Equipment**

- ISM Non-Manufacturing Composite Index, Avg.: 54.5, 54.6, 52.2, NF, NF
- Equipment Leasing and Finance Foundation Monthly Confidence Index (MLF), Avg.: 59.9, 54.7, 57.3, NF, NF
- Small Business Optimism Index, Avg.: 91.4, 92.2, 93.5, NF, NF
- Capacity utilization, Avg. %: 74.4, 76.3, 76.73, 76.58
- Building permits, Avg. (mil): 0.6, 0.8, 1.1, 1.06, 1.70
- Prices received by farmers, Avg. (index): 178.3, 190.8, 200.0, 198.60, 198.19

NF = No forecast.

The US economy appears to be moving forward gracefully despite strong fiscal headwinds. The tax increases and government spending cuts, which will lower GDP by an estimated 1.5 percentage points this year, have done less damage than most economists had expected. Employment in particular has outperformed expectations -- if anything, job growth has picked up in recent months. Payrolls have recently been adding close to 200,000 positions per month, topping forecasts of less than 150,000 at the start of the year.

Despite a surprisingly resilient labor market, concluding that the economy is on its way to a complete recovery would be premature. Real GDP growth has slowed this year, and growth in the second quarter will come in well below the 2% annualized pace that has prevailed since the recession ended. Government spending is falling sharply and exports are hurting because of Europe’s recession and a slowdown in the emerging world.

Sturdy job creation and slower GDP growth undercuts productivity growth, which has been slow for the past couple of years, and is now at a standstill. The lack of productivity growth drags on business profits, thus firms are likely to react eventually by slowing the pace of hiring, at least through this fall. Real GDP growth leads job growth by one to two quarters, meaning the job numbers will turn softer soon.

Despite this cautionary note, there is good reason to be optimistic about the recovery heading into 2014. American households are more upbeat and showing it at auto showrooms, malls and open houses. Consumer sentiment was hammered during the recession, and confidence has been slow to rebuild, but most surveys show that households currently are as upbeat as they’ve been since the downturn.

The new confidence is most evident in resurgent vehicle sales, which jumped in June to a healthy annual pace of 16 million, without much assistance from discounts or special financing deals. The housing recovery helps: Sales of light trucks, used by builders and contractors, have been especially strong. Although sales have risen back to near our estimate of trend – that is, the pace consistent with long-run demographic and income changes – the pace will likely rise even further because of significant pent-up demand. Vehicle sales have been so far below trend for so long that this pent-up demand could account for more than two million additional units.

Retailing has also held up remarkably well despite Americans’ higher tax bills. Households have been willing to lower their savings rates and maintain spending in part because of solid wealth gains. Despite a recent correction, stock prices are still up almost 20% from a year ago, while house prices have risen by almost 10%. Although the distribution of stock and housing wealth is skewed, diluting the macroeconomic benefit of these gains, they have nonetheless been strong and provide a meaningful boost to consumer spending.

Lower gasoline prices and shrinking debt-service payments have supported spending by lower-income households. In contrast with the summers of 2012 and 2011, oil and gasoline prices fell this year. Debt payments have fallen as households have deleveraged and refinanced mortgages to take advantage of very low interest rates. The household debt service burden is as low as it has been since the Federal Reserve began tracking it in 1980.

Home sales also continue to rally. The recent rise in fixed mortgage rates, from record lows just a few months ago to above 4.5% today, has done little damage. If anything, it looks to have boosted sales, at least temporarily, by persuading fence-sitters waiting for even lower mortgage rates to act before rates rise further. As long as mortgage rates don’t outpace gains in the job market, the housing recovery will continue.
Nonetheless, if long-term interest rates continue to rise rapidly, they will pose a serious threat. Moody’s Analytics’ baseline forecast assumes that the 10-year Treasury yield will rise steadily but slowly over the next several years, nearing 2.5% by the end of 2013, 3.5% by the end of 2014, 4.5% in late 2015 and briefly peaking above 5% in spring 2016. Over the long run, in a normal economy, the 10-year T-note should yield around 4.75%. However, with the 10-year Treasury currently trading at 2.75%, this sanguine interest rate outlook is in jeopardy.
SURVEILLANCE RECAP

Quick Stats, by Number of Tranches
15 May 2013 to 14 June 2013

<table>
<thead>
<tr>
<th>Sector*</th>
<th>Upgrades</th>
<th>Downgrades</th>
</tr>
</thead>
<tbody>
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<td></td>
<td>Current Period</td>
<td>RTM</td>
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<tr>
<td>Autos</td>
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<td>136</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Student Loans</td>
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<td>30</td>
</tr>
<tr>
<td>Equipment</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Other ABS</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>ABS Total</td>
<td>7</td>
<td>215</td>
</tr>
</tbody>
</table>

* “Autos” comprises auto loans, leases, motorcycles, dealer floor-plan, marine and recreational vehicles; “Credit Cards,” general purpose and retail credit cards, and charge cards; “Student Loans,” FFELP and private student loans; “Equipment,” small and mid-ticket equipment, transportation equipment, and agriculture and industrial equipment loans and leases; and “Other ABS,” all other asset classes.

** We calculate the average notch change using a simple average.

RTM = Rolling twelve months.

Source: Moody’s Investors Service

RESEARCH HIGHLIGHTS

UPDATE ON SOVEREIGN ISSUERS – UNITED STATES
On 18 July, we moved the outlook on the Aaa government bond rating of the United States back to stable, replacing the negative outlook that has been in place since August 2011. We also affirmed the US government’s Aaa rating.

» Moody’s changes outlook on US Aaa sovereign rating to stable from negative; rating affirmed

REQUEST FOR COMMENT
On 18 July, we issued a new request for comment on our proposed approach to assessing the rating impact of linkage to swap counterparties in structured finance cash flow transactions. (It replaces a previous request for comment we had issued on 2 July 2012.)

» Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions

AUTO LEASE ABS QUARTERLY UPDATE
Transactions continue to perform better than our original expectations in terms both of credit and market (residual) value. Credit losses on lease payments will remain low given the strong credit profile of lessees and the persistently strong used vehicle market. Relatively high but declining used vehicle prices will also continue to lower or eliminate residual losses on lease turn-ins, but the gains of the past will decline modestly.
SURVEILLANCE RECAP

Stronger than usual used vehicle prices can lead to a higher than average setting of residual values in a transaction, which shifts the risk in auto lease ABS from the monthly lease payments to the end of lease residual value; that is, higher sales proceeds from vehicles at end of lease re-marketing relative to the predetermined residual amount are necessary to ensure that no losses are incurred. Elevated used vehicle prices will likely lead to a higher transaction residual setting. However, the marginally weaker prices in recent months could limit higher residual setting in future transactions, which could diminish residual gains that could lead to residual losses in both existing and future transactions.

Structurally, the outstanding transactions remain well insulated from credit and residual loss, because, as deals season, credit enhancement typically builds up quickly relative to the securities’ balance. All outstanding transactions incorporate non-declining credit enhancement features and sequential payment structures.

We rate 20 outstanding auto lease securitizations, more than half of which closed in 2012 and early 2013. Approximately 39% of the leases in these securitizations are due to mature in the next year. Actual average residual realizations on matured leases are now the lowest they have been since fourth-quarter 2010, although they are still higher than the securitized residual value, by approximately 5.6%. The residual gain is down to 5.6% from 6.4% as of our last report, and the lowest it’s been since November 2010, a trend that we expect will continue in 2013. Given our US economic forecast (see our Update to Global Macro Outlook 2013-14: Loss of Momentum, 13 May 2013) of weak growth and persistently high unemployment, we do not foresee drastic change in auto industry dynamics. We expect a continued marginal deterioration in used vehicle prices as new vehicle sales increase in 2013 to a projected 15.9 million new units from close to 15 million units at the end of 2012, as trade-ins associated with new sales increase the supply of used vehicles.

Access the full report here (Excel spreadsheet).

AUTO FLOORPLAN ABS QUARTERLY UPDATE

The most significant recent development for the floorplan ABS sector has been the surge in issuance. In 2012, public floorplan ABS issuance amounted to $15 billion, in 18 transactions. Total floorplan ABS issuance in 2011 was $7.1 billion in ten transactions, and in 2010, $5.5 billion in ten transactions. Heavy issuance continues into 2013, with $6.9 billion in ten transactions in the first half, compared to $4.7 billion in five transactions in first half of 2012. High issuance could be due to a combination of high ABS demand, the low cost of ABS funds relative to on-balance-sheet funding and higher sales by the major auto manufacturers, most of which have reported higher sales since 2010. The 2013 public floorplan ABS deals issued so far were from Ally Financial, Ford Credit, Nissan Motor Acceptance, World Omni Financial, GE Capital, Hyundai Capital and Navistar Financial.

The floorplan ABS summary includes approximately $34 billion outstanding securities we rate, most of them, Aaa (sf); none are on review for upgrade or downgrade. Issuance is heavily weighted towards auto floorplan transactions sponsored by domestic auto captive finance companies. As of June 2013, Ally and Ford Credit were the top issuers in the sector, with approximately $13 billion and $11 billion of outstanding securities, respectively.

Access the full report here (Excel spreadsheet).
SURVEILLANCE RECAP

RATING ACTIONS - LINKS TO PRESS RELEASES

AUTO ABS
» Moody’s reviews 2012 Mitsubishi prime auto loan ABS for upgrade
» Moody’s reviews 2012 World Omni prime auto loan ABS for upgrade
» Moody’s reviews USAA 2012-1 prime auto loan ABS for upgrade
» Moody’s reviews Harley-Davidson Motorcycle Trust 2012-1 for upgrade
» Moody’s: No ratings impact on AFC Funding Corporation following amendments

CREDIT CARD ABS
» Moody’s: No ratings impact on Citibank Omni card ABS following June 27, 2013 account removal
» Moody’s: No ratings impact on Chase card ABS following amendments to trust documents
» Moody’s: No rating impact on Dryrock card ABS following July 1, 2013 amendment to Transfer Agreement

STUDENT LOAN ABS
» Moody’s: No rating impact on bonds issued under the PHEAA (1997 indenture) as a result of sale and release of loans
» Moody’s reviews for upgrade 27 classes and downgrades one class of notes issued in Access Group’s FFELP student loan securitizations

OTHER ABS
» Moody’s: No negative rating impact on Blade aircraft engine lease ABS from engine disposition
» Moody’s: No rating impact on various JGWPT ABS series following amendment of intercreditor agreement
» Moody’s says no rating impact on PTL Funding 2012-A securitization as a result of amendments
» Moody’s withdraws rating on Enterprise Fleet Financing LLC Series 2011-1 VFN
» Moody’s upgrades and downgrades two Citibank-sponsored mutual fund fee deals
» Moody’s downgrades Aircraft Finance Trust 1999-1 Class A-1 aircraft lease backed ABS
» Moody’s upgrades BXG 2005-A timeshare loan ABS
» Moody’s downgrades CNL 2001-1 small balance commercial loan ABS
» Moody’s upgrades BXG 2005-A timeshare loan ABS
» Moody’s upgrades Patrons’ Legacy securitized life insurance policies
## Ratings Transition Tables, by Number of Tranches

### EXHIBIT 1
Auto ABS Rating Transitions, as of 14 June 2013

<table>
<thead>
<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
<th>Aaa</th>
<th>Aa</th>
<th>A</th>
<th>Baa</th>
<th>Ba</th>
<th>B</th>
<th>Caa</th>
<th>Ca/C</th>
<th>WR*</th>
<th>Total</th>
</tr>
</thead>
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### EXHIBIT 2
Credit Card ABS Rating Transitions, as of 19 July 2013

<table>
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<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
<th>Aaa</th>
<th>Aa</th>
<th>A</th>
<th>Baa</th>
<th>Ba</th>
<th>B</th>
<th>Caa</th>
<th>Ca/C</th>
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### EXHIBIT 3
Student Loan ABS Rating Transitions, as of 19 July 2013

<table>
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<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
<th>Aaa</th>
<th>Aa</th>
<th>A</th>
<th>Baa</th>
<th>Ba</th>
<th>B</th>
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<td>69</td>
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<td>28</td>
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<td>379</td>
<td>2,192</td>
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</tbody>
</table>

* WR = Withdrawn ratings. The transition tables are a ratings summary of instruments that Moody’s Structured Finance group rates and could include instruments that may not fall under the definition of a structured finance instrument.

Source: Moody’s Investors Service
EXHIBIT 4
Equipment ABS Rating Transitions, as of 19 July 2013

<table>
<thead>
<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aaa</td>
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<tr>
<td>Ba</td>
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</tr>
<tr>
<td>Caa</td>
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<td>Ca/C</td>
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<tr>
<td>Totals</td>
<td>106</td>
</tr>
</tbody>
</table>

EXHIBIT 5
Other ABS Rating Transitions, as of 19 July 2013

<table>
<thead>
<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aaa</td>
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<td>B</td>
<td>-</td>
</tr>
<tr>
<td>Caa</td>
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<td>Totals</td>
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</table>

EXHIBIT 6
All ABS Rating Transitions, as of 19 July 2013

<table>
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<tr>
<th>Ratings as of 15 July 2012</th>
<th>Ratings as of 14 July 2013</th>
</tr>
</thead>
<tbody>
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<td>Aaa</td>
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<td>B</td>
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<tr>
<td>Caa</td>
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<td>Ca/C</td>
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<tr>
<td>Totals</td>
<td>1,825</td>
</tr>
</tbody>
</table>

* WR = Withdrawn ratings. The transition tables are a ratings summary of instruments that Moody’s Structured Finance group rates and could include certain instruments that may not fall under the definition of a structured finance instrument.

Source: Moody’s Investors Service
Auto ABS Issuance Still in the Lead

Despite the recent slow-down, issuance in the first half of 2013 amounted to $92.5 billion, outpacing the $83.4 billion in the first of 2012. The Federal Reserve’s meeting on 19 June caused some sponsors to postpone their offerings by a month until market jitters subsided. June ABS issuance volume came to $11 billion, lower than the approximately $19 billion of last June. Autos continued to lead the pack in ABS issuance totals of the year, constituting $5.7 billion in 10 transactions. Student loan issuance came to $3.0 billion (in seven transactions) and commercial & esoteric, $2.1 billion (seven transactions). There was no credit card issuance in the month of June.

---

**EXHIBIT 1**

**Recent ABS Transactions***

<table>
<thead>
<tr>
<th>Closing Date</th>
<th>Deal Name</th>
<th>Issuance ($ mil)</th>
<th>Asset Type</th>
<th>Collateral Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/28</td>
<td>Horizon Funding Trust 2013-1</td>
<td>90</td>
<td>Commercial</td>
<td>Equipment leases</td>
</tr>
<tr>
<td>07/03</td>
<td>Double Diamond Funding IV LLC, Series 2013-1</td>
<td>48</td>
<td>Commercial</td>
<td>Time-share</td>
</tr>
<tr>
<td>07/17</td>
<td>Santander Drive Auto Receivables Trust 2013-4</td>
<td>842</td>
<td>Autos</td>
<td>Subprime auto loans</td>
</tr>
<tr>
<td>07/18</td>
<td>Sonic Capital LLC Series 2013-1 Senior Secured Notes</td>
<td>155</td>
<td>Commercial</td>
<td>Whole business</td>
</tr>
<tr>
<td>07/23</td>
<td>Sierra Receivables Funding 213-2**</td>
<td>325</td>
<td>Commercial</td>
<td>Time-share</td>
</tr>
<tr>
<td>07/23</td>
<td>Discover Card Execution Note Trust 2013-4</td>
<td>550</td>
<td>Credit Cards</td>
<td>Credit card receivables</td>
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<tr>
<td>07/24</td>
<td>Honda Auto Receivables Owner Trust 2013-3</td>
<td>1,500</td>
<td>Autos</td>
<td>Prime auto loans</td>
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<tr>
<td>07/24</td>
<td>South Carolina Student Loan Corp 2013-A**</td>
<td>265</td>
<td>Student Loans</td>
<td>FFELP student loans</td>
</tr>
<tr>
<td>07/25</td>
<td>Volkswagen Auto Lease Trust 2013-A</td>
<td>1,250</td>
<td>Autos</td>
<td>Auto leases</td>
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<tr>
<td>07/30</td>
<td>Pennsylvania Higher Education Assistance Agency, Series 2013-2**</td>
<td>331</td>
<td>Student Loans</td>
<td>FFELP student loans</td>
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<tr>
<td>07/30</td>
<td>American Express Credit Account Master Trust, Series 2013-1</td>
<td>1,130</td>
<td>Credit Cards</td>
<td>Credit card receivables</td>
</tr>
<tr>
<td>07/31</td>
<td>GE Equipment Small Ticket, LLC, Series 2013-1</td>
<td>508</td>
<td>Commercial</td>
<td>Equipment leases</td>
</tr>
<tr>
<td>07/31</td>
<td>JGWPT XXIX LLC, Series 2013-2</td>
<td>173</td>
<td>Commercial</td>
<td>Structured settlements</td>
</tr>
</tbody>
</table>

**Total** | **6,633**

*Transactions announced between 19 June and 23 July 2013. Click on the securitization name to access the pre-sale report.
**Not rated by Moody’s.
Source: Moody’s Investors Service

---

**EXHIBIT 2**

**Year-to-Date 2013 ABS Transactions Announced**

Through 23 July 2013

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Total ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autos</td>
<td>51,124</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>15,175</td>
</tr>
<tr>
<td>Student Loans</td>
<td>15,200</td>
</tr>
<tr>
<td>Commercial &amp; Esoterics</td>
<td>17,529</td>
</tr>
</tbody>
</table>

**Total** | **99,578**

Source: Moody’s Investors Service
EXHIBIT 3
Cumulative Issuance, 2012 - 2013

Source: Moody's Investors Service

EXHIBIT 4
Cumulative Issuance by Asset Class, 2013

Source: Moody's Investors Service
Sources of Information in This Publication:

Moody’s Investors Service
American Bankers Association
American Express
Bank of America
British Bankers’ Association
Bureau of Economic Analysis
Bureau of Labor Statistics
Canadian Imperial Bank of Commerce
Census Bureau
Citibank
CNW/Marketing Research
Comerica Bank
The Conference Board
Consumer Financial Protection Bureau
Discover
Energy Information Administration
Equifax
Equipment Leasing and Finance Foundation
Experian
Experian Automotive
Moody’s Analytics
Federal Reserve
GM Financial
Hawaii State Legislature
Institute of Supply Management
Manheim Consulting
National Collegiate Student Loan Trust
National Federation of Independent Businesses
Sallie Mae
Santander Consumer USA
State of New York
US Census Bureau
US Department of Agriculture
US Department of Education
US Department of Labor
US District Courts
US Energy Information Administration
US Financial Stability Oversight Council
USDA Economic Research Service
USDA Risk Management Agency
other professional adviser.

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