

Subprime Auto Loan ABS Update

**Annual Non-Prime Auto Financing
Conference
NAF Association**

**Fort Worth, Texas
May 31, 2018**

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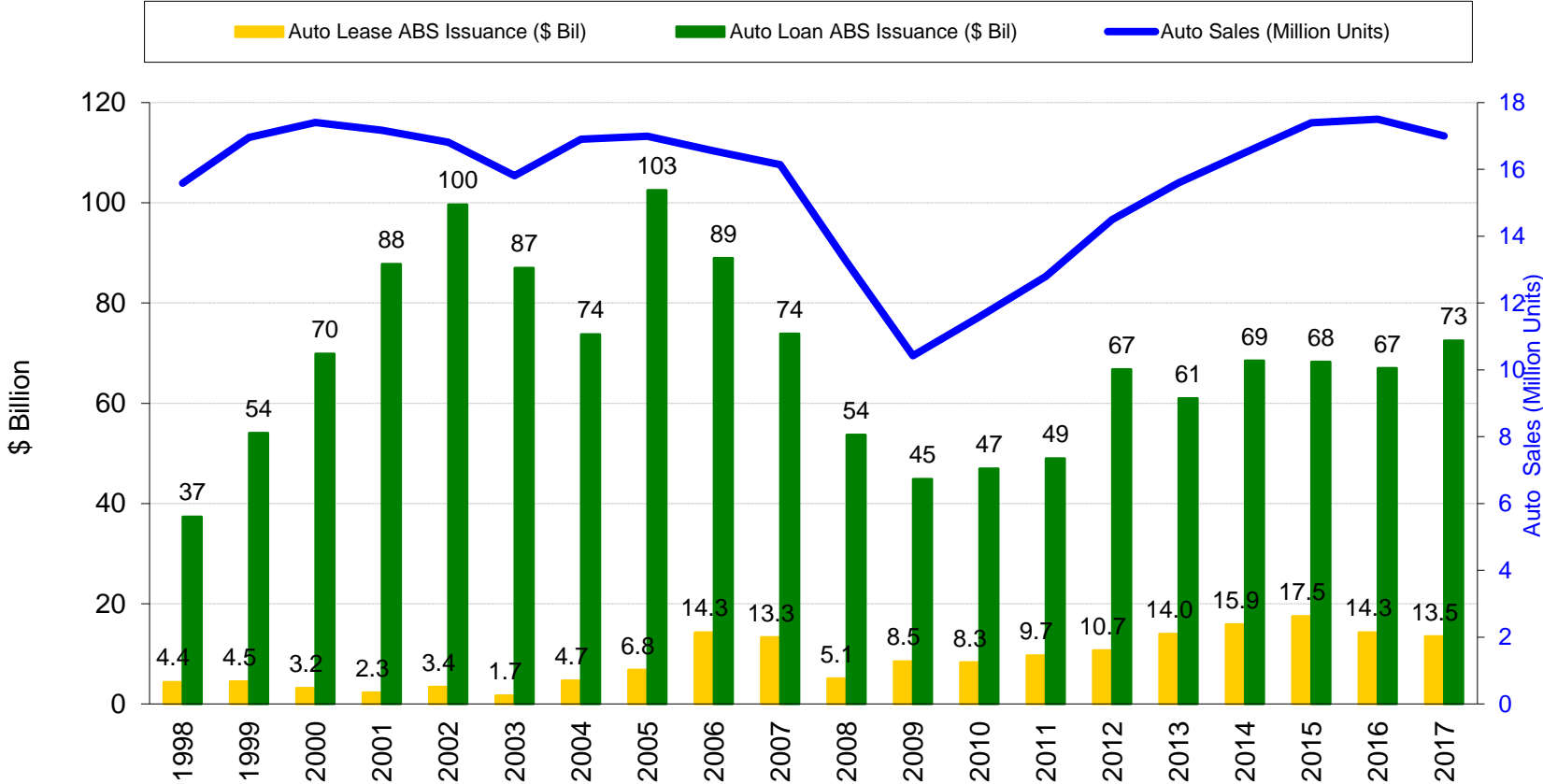
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Agenda

- Size Of The Auto Loan And Subprime Auto Loan ABS Markets
- Subprime Auto Finance Trends
- Collateral Characteristics Of Subprime Auto Loan ABS
- Subprime Auto Loan ABS Collateral Performance (Vintage Analysis)
- Comparison of Issuers To S&P's Subprime Auto Loan Static Index
- New Performance Metric
- Subprime Auto Loan ABS Ratings Performance
- Outlook

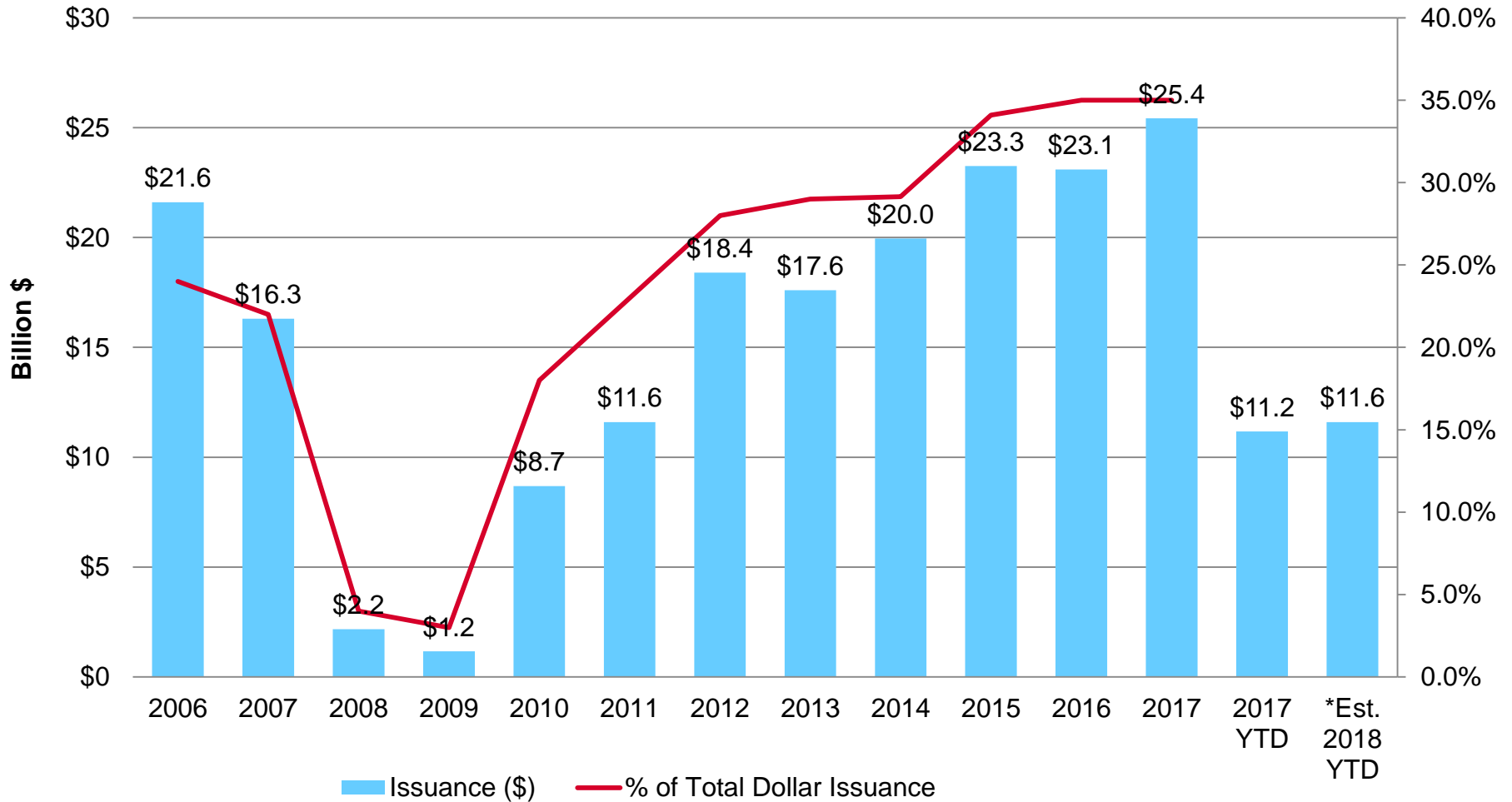
Auto ABS Issuance Generally Tracks Auto Sales

U.S. Auto Sales, Auto Lease ABS Issuance and Auto Loan ABS Issuance



Subprime Dollar Issuance

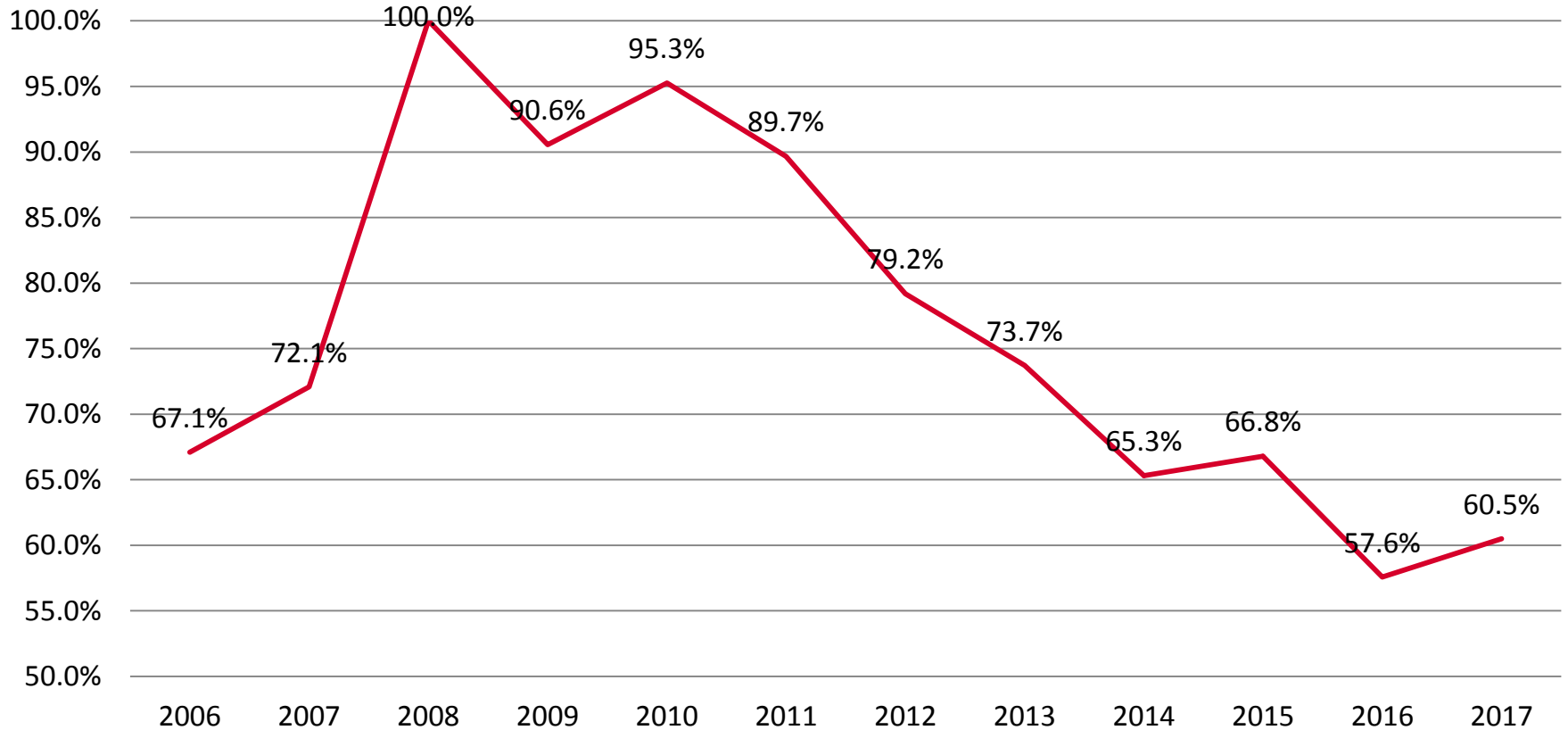
% Of Total Retail Auto ABS



Source: S&P Global Ratings

*YTD 2018 is estimated through May 31, 2018

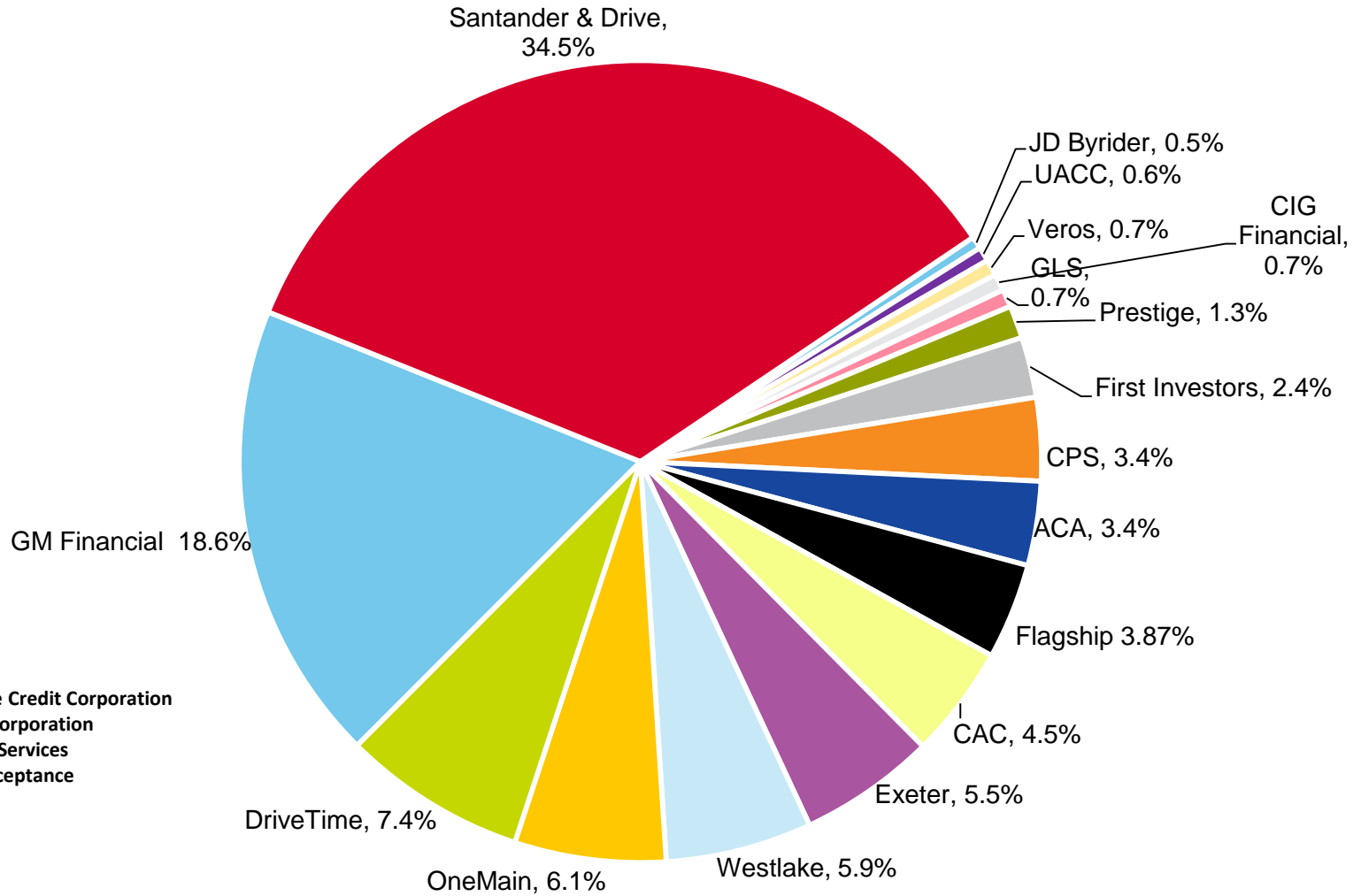
Top 3 Subprime Issuers As a % of Subprime Auto Loan ABS



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	CapOne	AMCAR	AMCAR	AMCAR	Santander	Santander	Santander	Santander	Santander (\$7.2 bn)	Santander (\$9.8 bn)	Santander (\$6.7bn)	Santander (\$8.8bn)
2	AMCAR	Capital One	CPS	DriveTime	AMCAR	GM Financial	GM Financial	GM Financial	GM Financial (\$4.2 bn)	GM Financial (\$4.4 bn)	GM Financial (\$4.9 bn)	GM Financial (\$4.7 bn)
3	HSBC	Drive Santander	CAC	Prestige	DriveTime	DriveTime	CPS	Exeter	Exeter (\$1.7 bn)	Exeter (\$1.4 bn)	Flagship (\$1.6 bn)	DriveTime (\$1.9 bn)

Subprime Auto Loan ABS 2017

48 Transactions, \$25.42B



UACC – United Acceptance Credit Corporation
CAC – Credit Acceptance Corporation
CPS – Consumer Portfolio Services
ACA - American Credit Acceptance

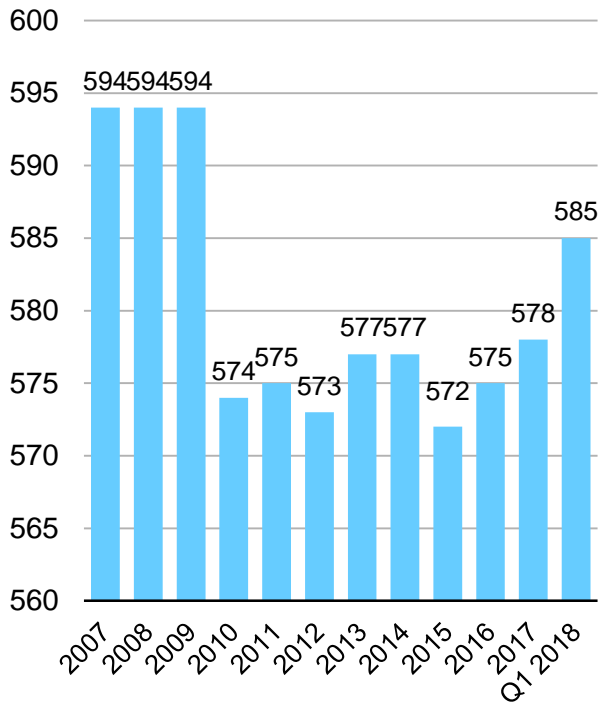
Source: S&P Global Ratings

S&P's Take On Subprime Auto Finance Trends

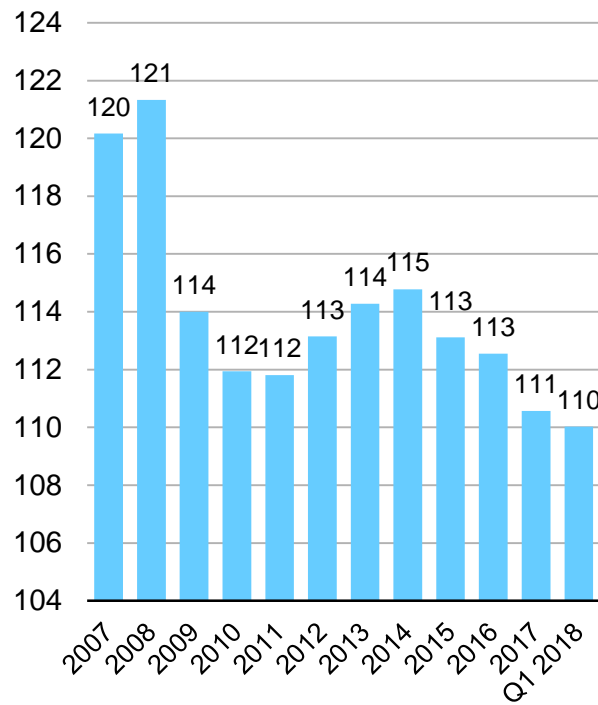
- Credit performance remains weak despite lenders tightening their credit standards.
- The industry remains intensely competitive despite subprime origination volumes declining in 2016 and 2017. Lenders are competing on the basis of price, quick approvals, and limited stipulations.
- Several subprime auto finance companies are reporting losses due to competitive pricing and higher loan losses, in part due to lower recovery rates. While a few are still building scale to improve margins, others have greatly reduced origination volumes and face liquidity concerns. Some have gone out of business, and we believe others could fail.
- Private equity and warehouse funding aren't as plentiful as they were earlier in the recovery.
- Investors have a growing appetite for subprime auto loan ABS. Several issuers have issued 'B' rated classes this year for the first time.

Subprime Collateral Trends (ECNL >7.5%)

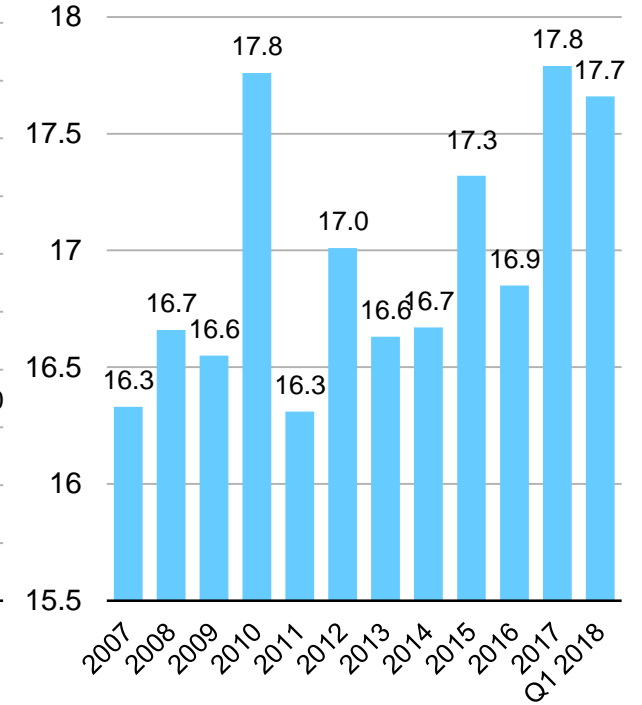
FICO®



Loan-To-Value (%)



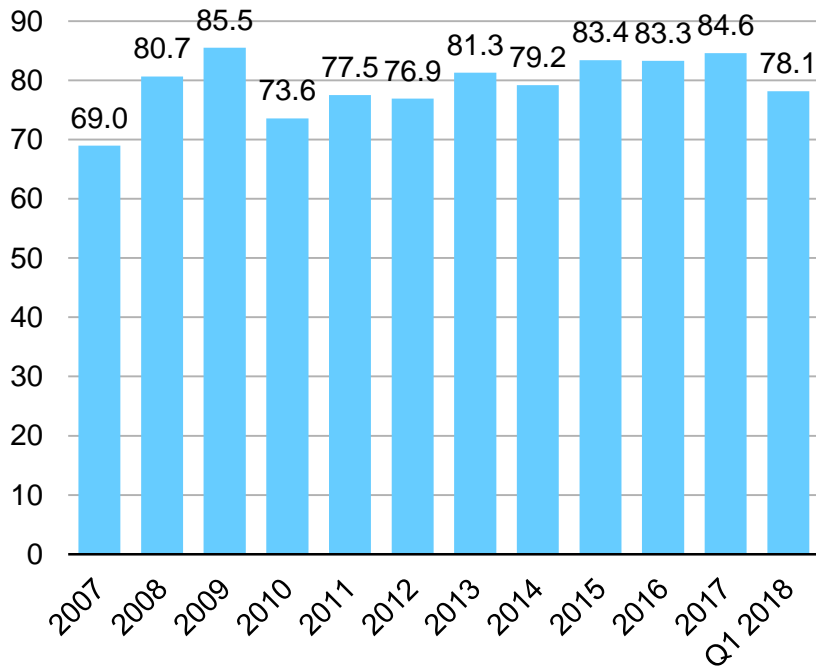
WAAPR (%)



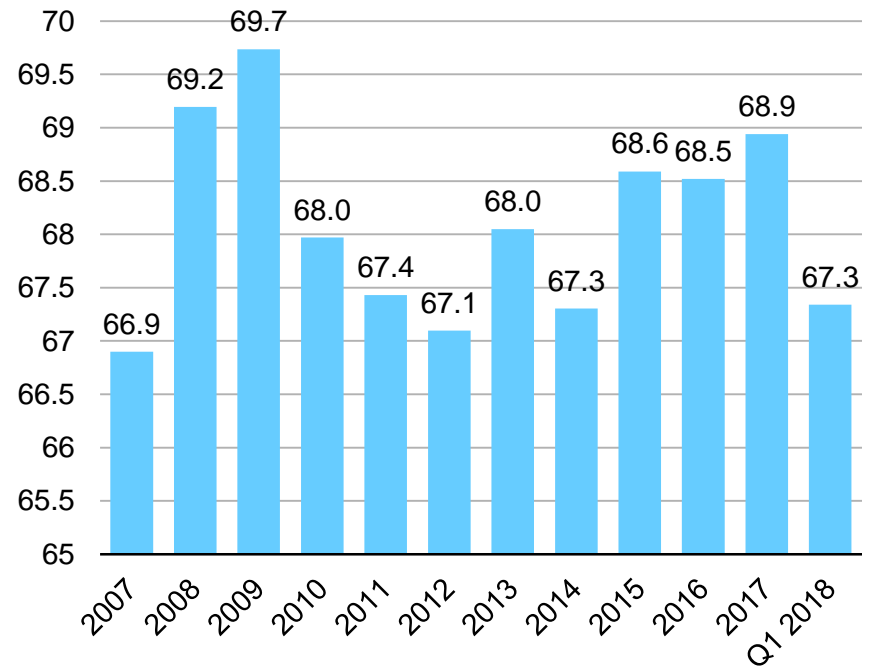
Source: S&P Global Ratings

Subprime Collateral Trends (ECNL >7.5%)

% of Loans With Original Term > 60 months



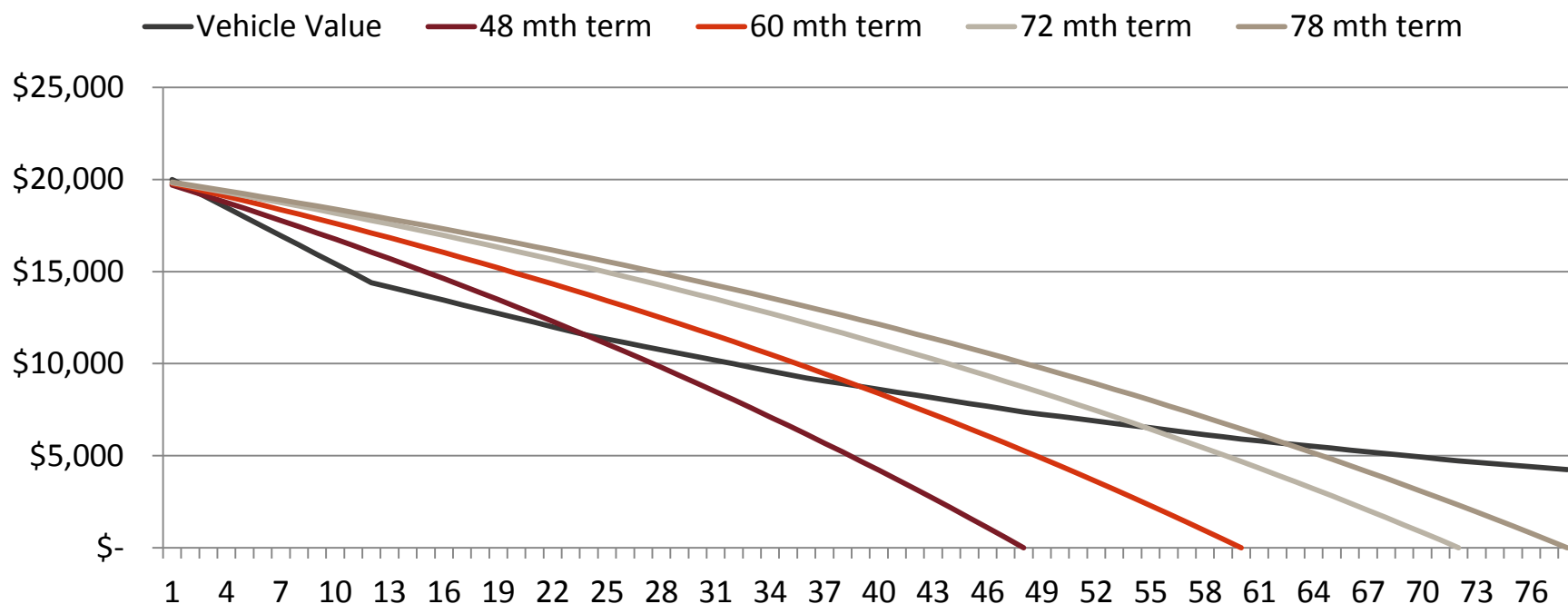
Weighted Average Original Maturity



Source: S&P Global Ratings

Vehicle Depreciation Versus Loan Amortization Amount

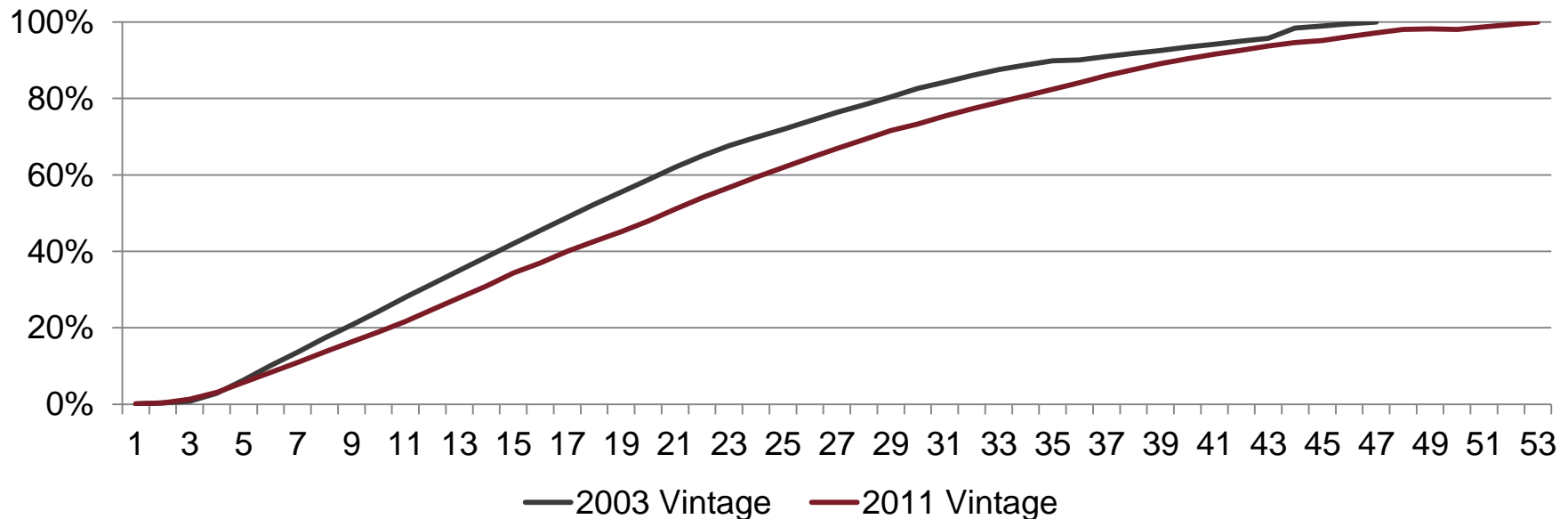
- When amortization of the loan balance is spread out over a longer term, the point at which the obligor gains an equity position in the car is delayed.
- The point at which the vehicle's value exceeds the loan balance comes later and later in the life of the loan as the loan term lengthens.



Longer-Term Subprime Auto Loans Are Leading To More Back-Loaded Losses

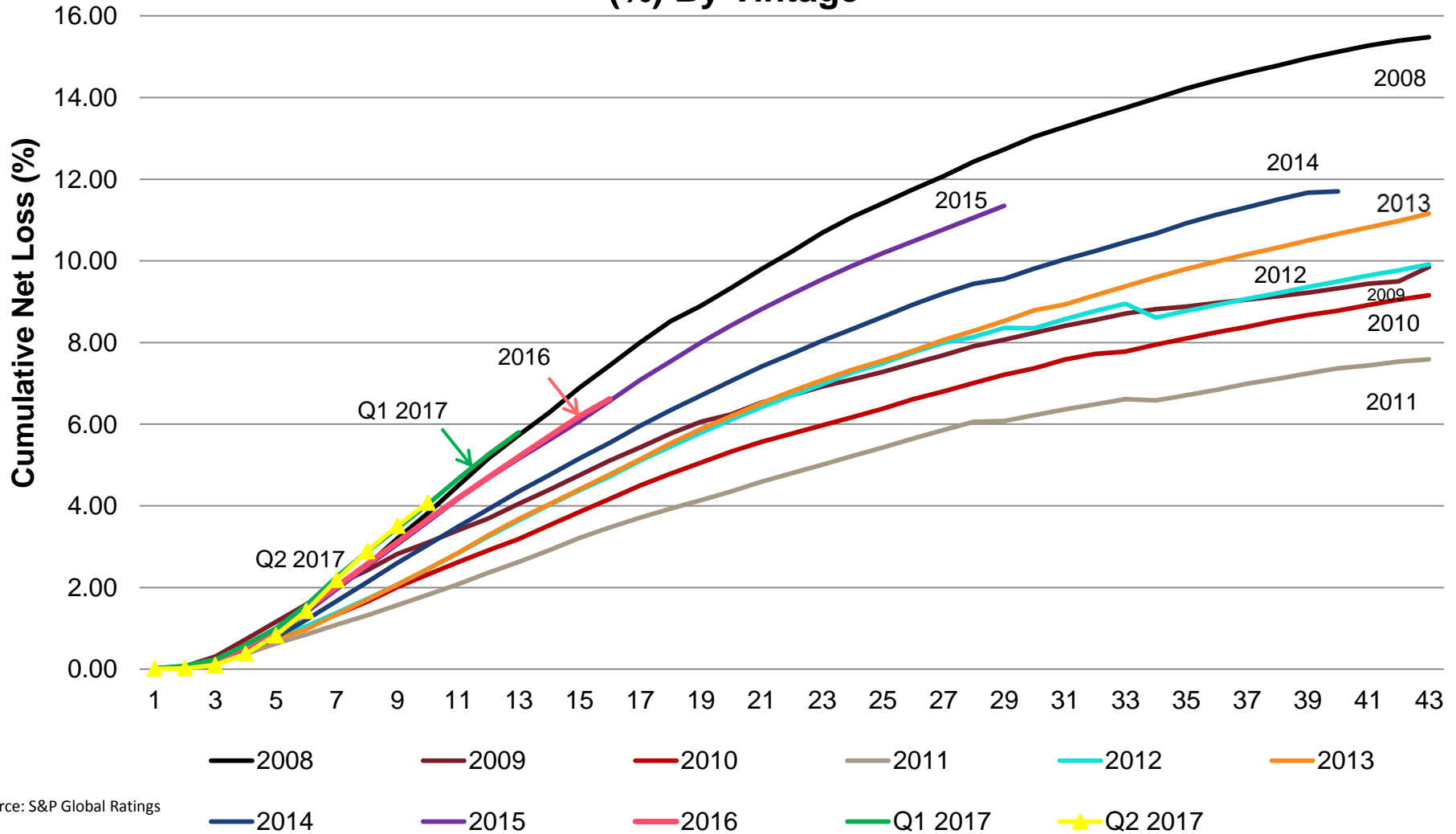
- Longer-term loans affect the timing of losses: losses become more back-loaded and extend for a longer period of time.
- We observed a shift in the loss curve to 25-60-84-98-100 for the 2011 vintage from 32-70-90-100 for the 2003 vintage. As the chart shows, the loss curve for the 2011 vintage is slower and longer, and its losses extend into year five.

Yearly Vintage Loss Curve



Subprime Auto Loan ABS Performance

S&P's Subprime Auto Loan Static Index - Cumulative Net Losses (%) By Vintage

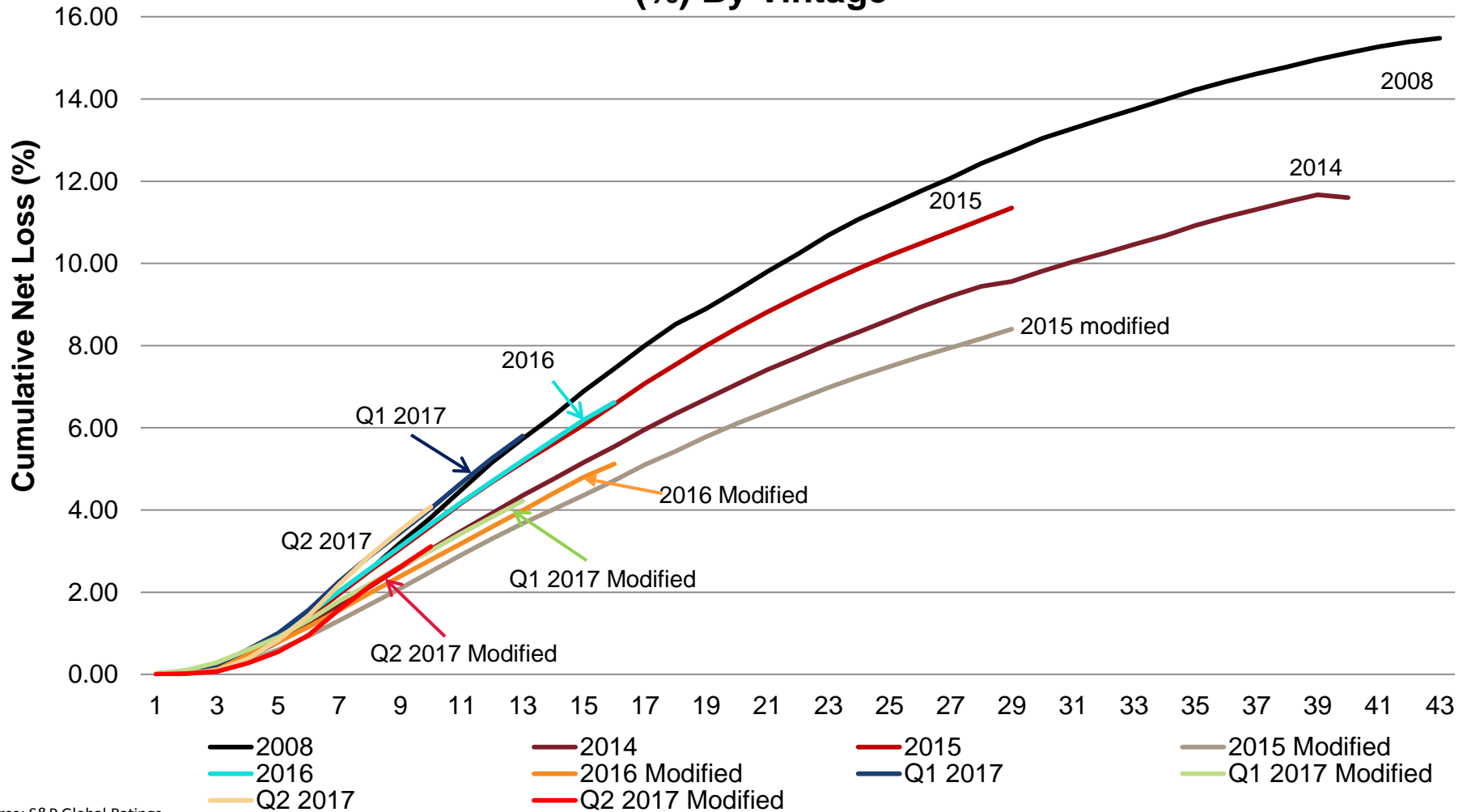


Source: S&P Global Ratings



Subprime Auto Loan ABS Performance

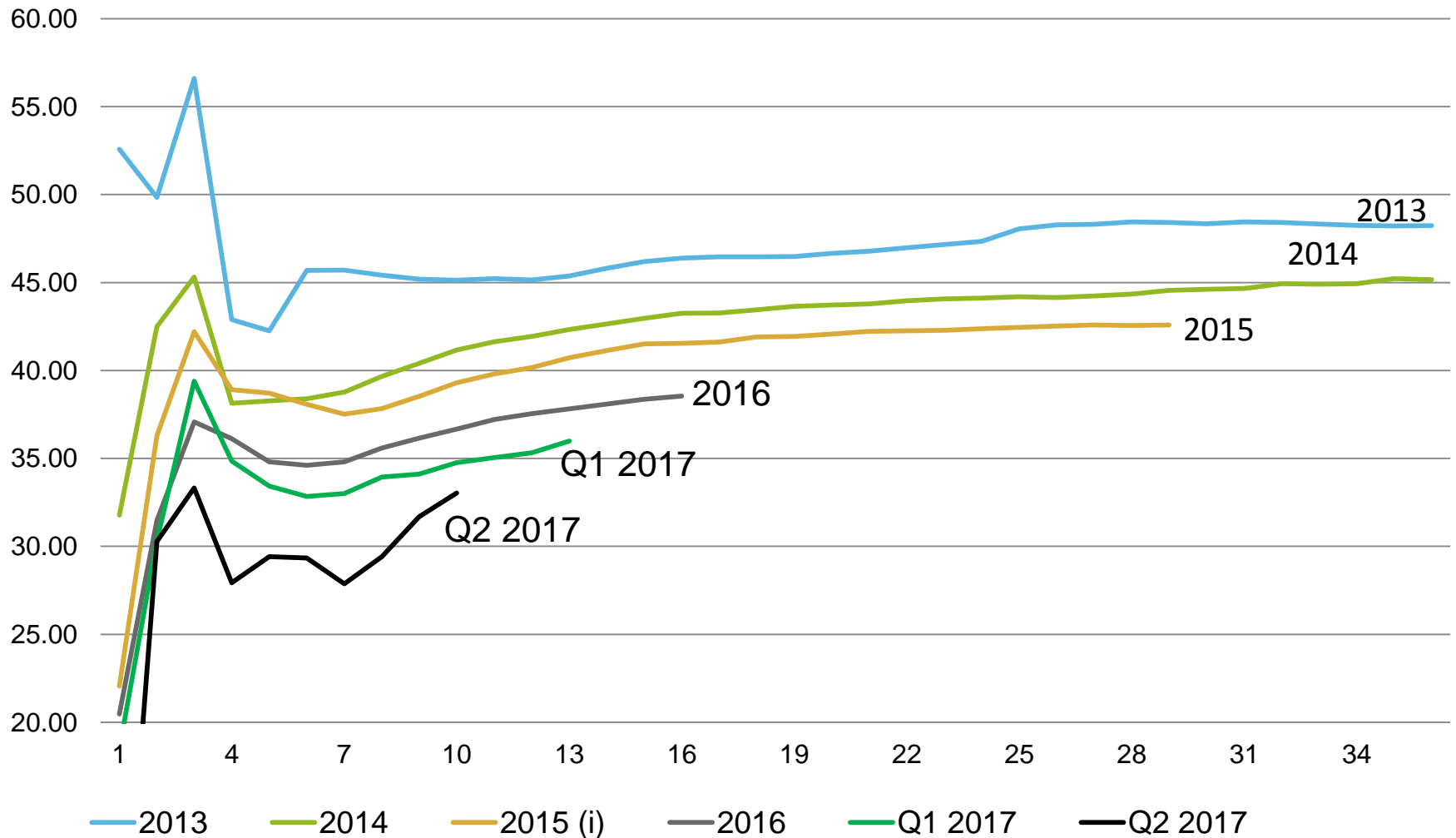
Modified Subprime Auto Loan Static Index - Cumulative Net Losses (%) By Vintage



Source: S&P Global Ratings

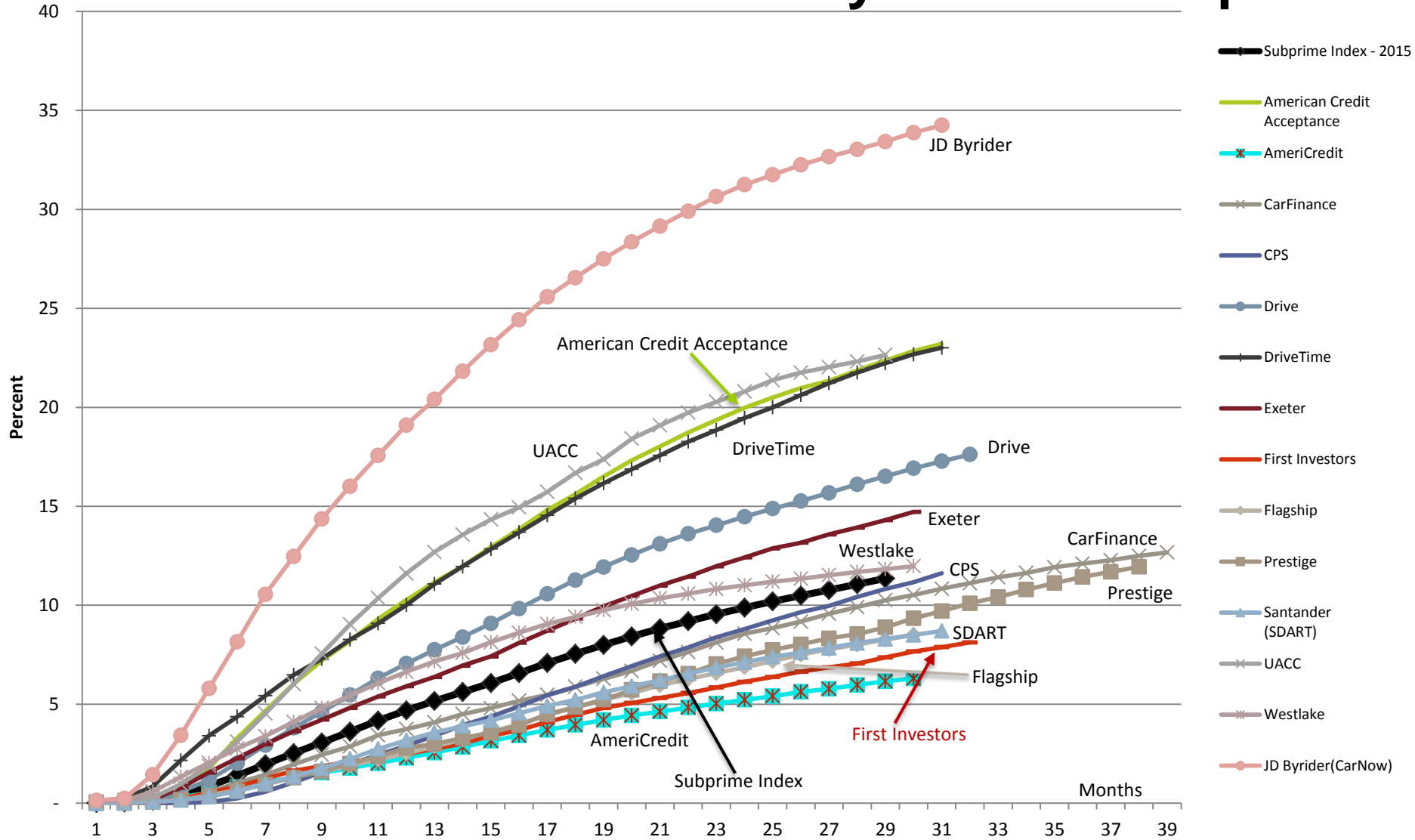


Modified Subprime Cumulative Recoveries (%)



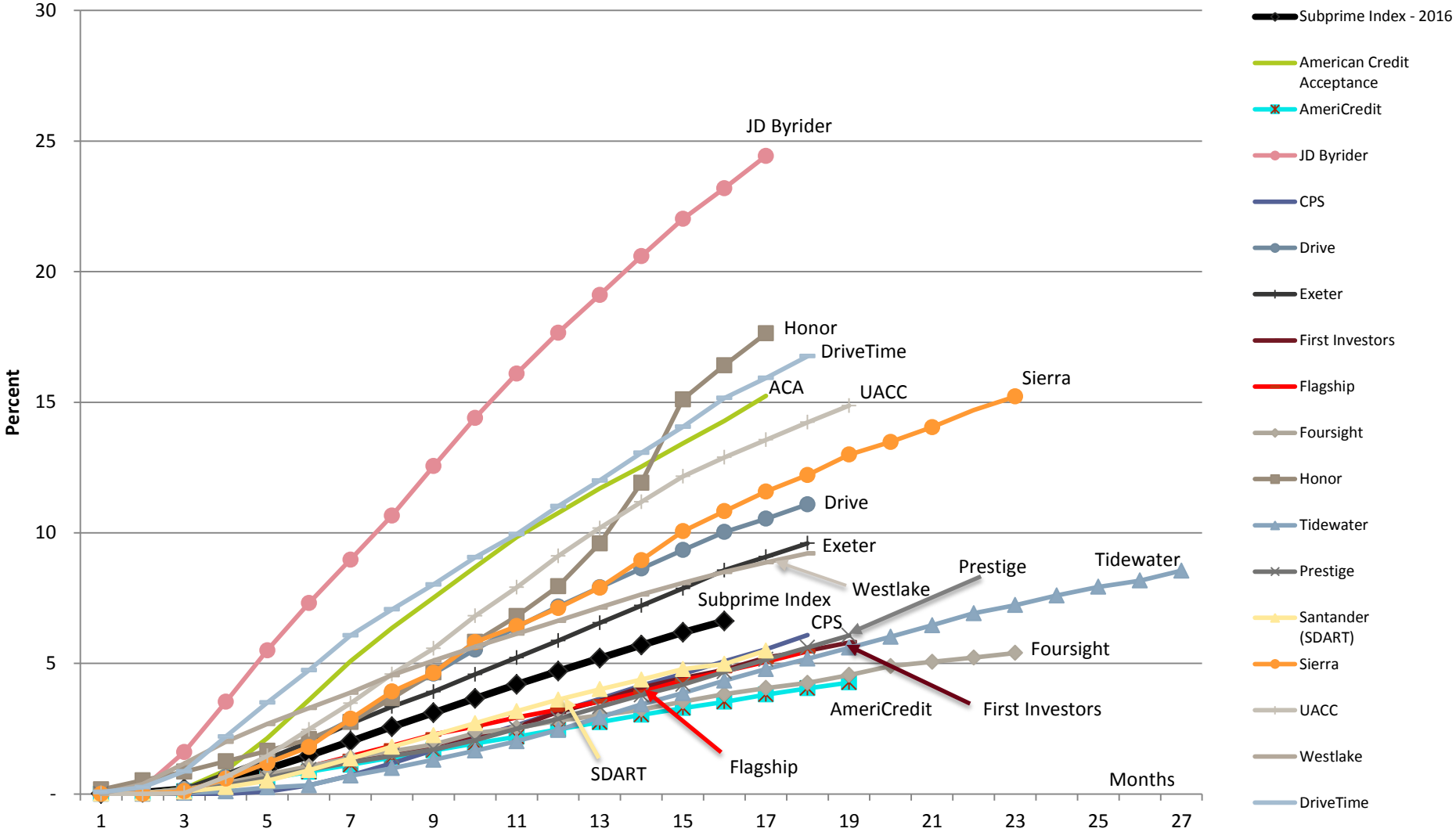
Source: S&P Global Ratings

2015 Cumulative Net Losses by Issuer - Subprime



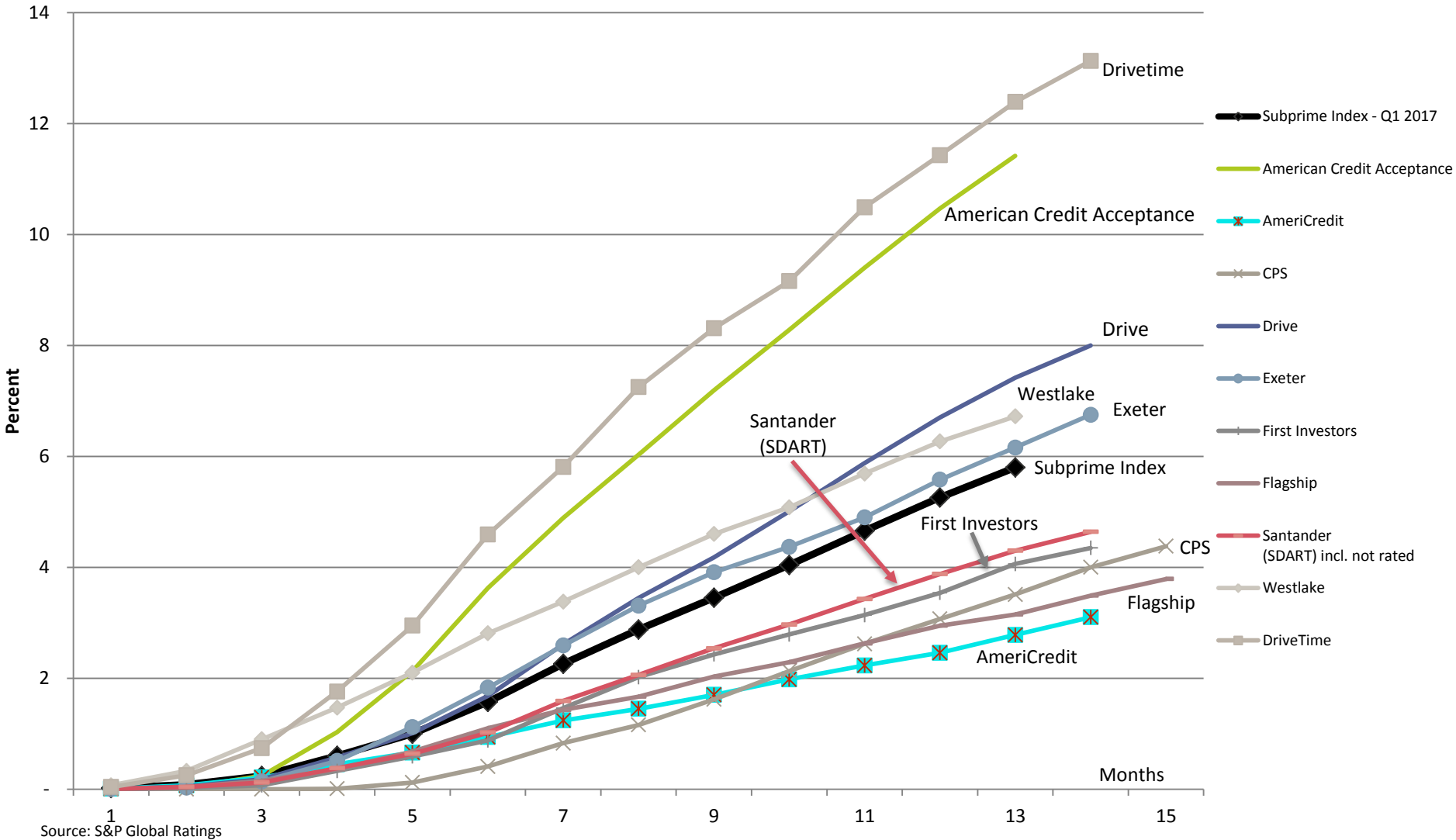
Source: S&P Global Ratings

2016 CNLs by Issuer - Subprime



Source: S&P Global Ratings

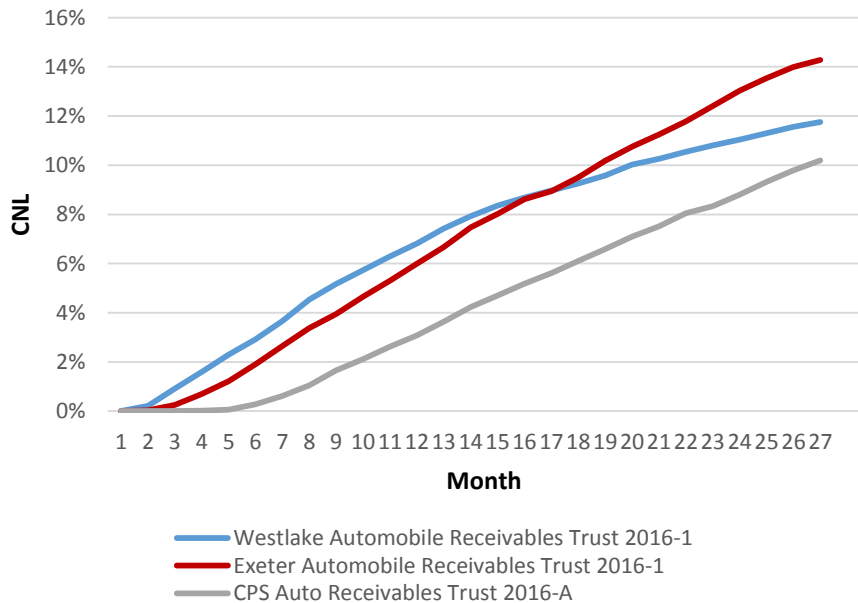
Q1 2017 CNLs by Issuer - Subprime



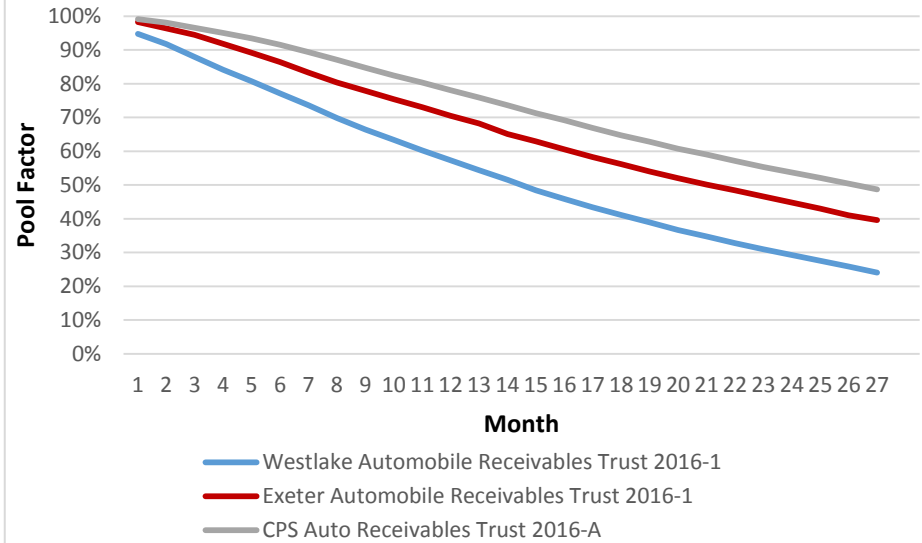
Performance Analysis

CNL Is Only One Factor

Cumulative Net Loss (CNL)

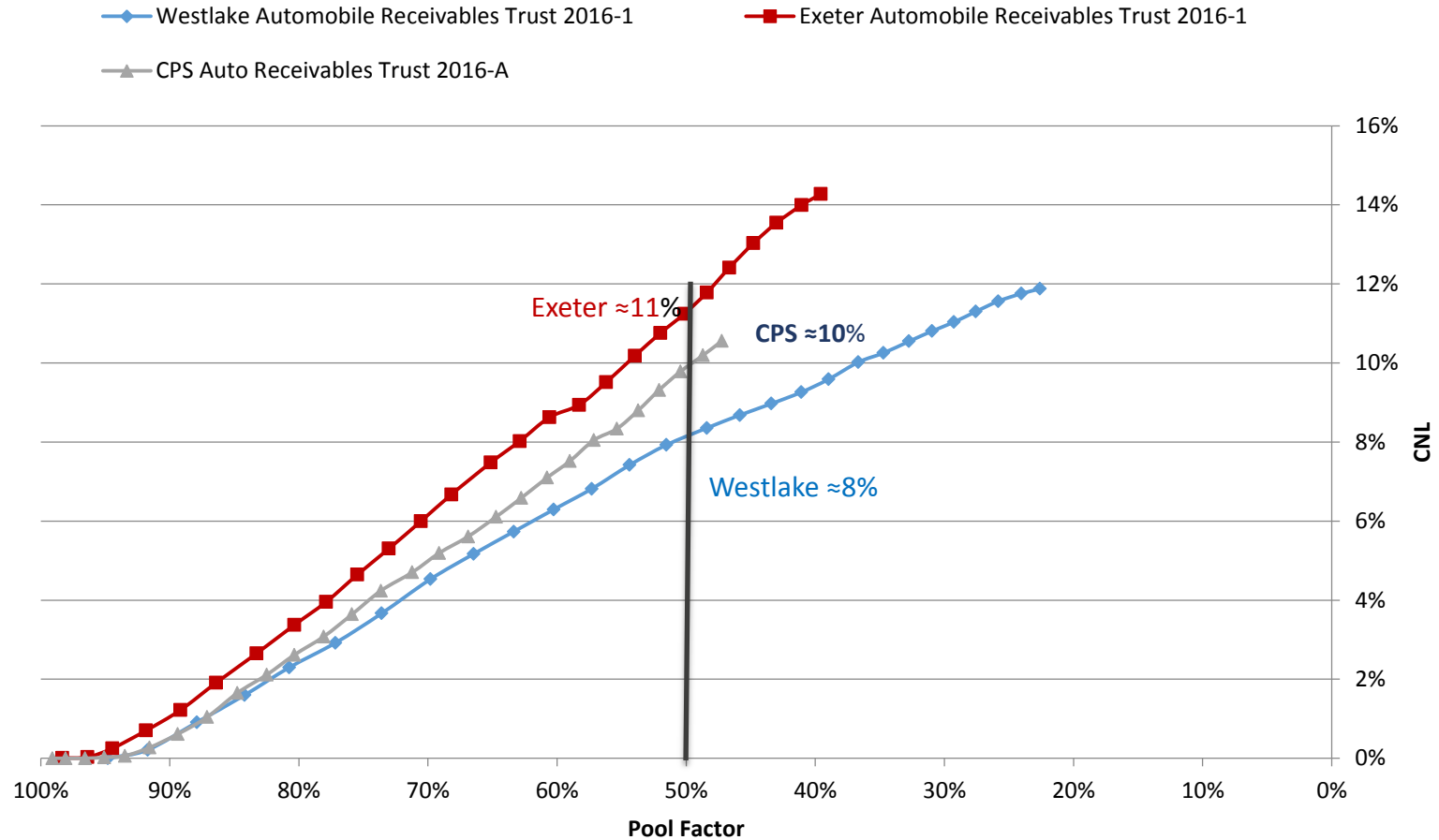


% of Original Collateral Remaining (Pool Factor)



Pool Factor Analysis

Cumulative Net Loss Relative to Orig. Collateral Outstanding (Pool Factor)



Subprime Auto Loan Rating Actions*

Year	Upgrades	Downgrades
2004	6	0
2005	0	0
2006	4	0
2007	13	0
2008	5	0
2009	29	0
2010	4	0
2011	34	0
2012	50	0
2013	133	0
2014	57	0
2015	169	0
2016	244	0
2017	222	0
2018 YTD (as of May 22)	127	0
Total	1,097	0

*The upgrades/downgrades do not include those based on rating changes on the bond insurer, if any. All rating actions in the table are credit-related.

S&P's Subprime Auto Finance Outlook

- Losses will remain under pressure due to lower used vehicle values.
- Higher interest rates will inflate funding costs and squeeze profit margins.
- Providers of capital, including warehouse lenders, have become more selective.
- We're late into the credit cycle. As we've seen before, after several years of loan growth and competition-induced weaker lending standards, credit losses rise and some companies fail.
- Consolidations and portfolio sales are likely to increase. History has shown that auto loan portfolios can be successfully transitioned.
- Auto loan ABS ratings outlook is stable, but subprime non investment grade classes may incur downgrades. The 'BB' and 'B' rated classes have lower loss-absorbing cushions and mild deterioration could result in downgrades.

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