Global Rental Fleet ABS Rating Criteria

Sector-Specific

Scope

This report describes Fitch Ratings' criteria and approach to rating new and existing rental fleet ABS (RF ABS) transactions issued globally. The criteria take into account the nature and degree of the varying collateral types and treatment thereof; the nuances and nature of regional markets and application therein; legal frameworks; and availability and applicability of relevant data.

The scope of the criteria is global, while the quantitative assumptions are applicable to U.S. transactions. Other specific rating assumptions and stresses will be developed and derived on a bespoke basis for other markets (non-U.S. transactions), and will then be published as an appendix to this criteria report. These criteria are applicable only for rating transactions that issue notes bearing fixed interest rates.

Key Rating Drivers

The relative influence of the qualitative and quantitative factors described below is listed in order of importance.

Transaction Analysis: Fitch takes into consideration the strength of the economy, as well as future expectations, by assessing key macroeconomic indicators that are correlated with asset performance, such as the state of the travel and auto industries and the wholesale vehicle market.

Fitch analyzes transaction features present in RF ABS transactions, including monthly mark-to-market vehicle value tests and minimum monthly vehicle depreciation, by stressing the liquidation timing, vehicle depreciation, disposition losses and expected carrying costs of the transaction at various rating levels.

Vehicle Value Risks: Fitch analyzes the risk of collateral value depreciation prior to vehicle liquidation in a bankruptcy scenario and the residual risk of realizing mark-to-market losses on the actual sale of the collateral. This analysis is driven by historical vehicle depreciation rates, disposition losses, casualty losses and non-lien vehicle concentrations, all provided by the rental fleet company (RFC), as well as historical vehicle value volatility observed in the wholesale vehicle market.

Collateral Analysis: Fitch determines the diversity and quality of a securitized pool by analyzing vehicle make, model and segment concentrations; manufacturer/brand mix; age of vehicles; and geographic concentrations. Based on the diversity classification, Fitch applies different levels of stress to the expected liquidation proceeds of the vehicles.

Rental Fleet Company/Servicer Operational Risks: Fitch's analysis includes a qualitative review of the RFC's operations, and transactions benefit from the presence of backup servicers and liquidation agents. Fitch will assess the ability to effectively replace the RFC and conduct a fleet liquidation in an orderly, efficient manner.

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This report updates and replaces "Global Rental Fleet ABS Rating Criteria," dated July 12, 2022.

Related Criteria

Global Structured Finance Rating Criteria (March 2023)

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Data Sources and Adequacy

The key rating assumptions for the criteria are derived by Fitch's analysis of data and information received from the issuer and other third parties, as well as public information and Fitch's analytical judgment. Fitch's RF ABS rating methodology utilizes historical data, combined with expectations regarding the future state of the wholesale vehicle market, to form an expectation of future performance. Fitch requests to receive both prior securitization (if available) and total managed fleet data from the RFC, including, but not limited to, vehicle liquidation value experience, depreciation, historical non-lien vehicle concentrations and casualty losses segmented by program/nonprogram vehicles, vehicle segment, and makes and models (if available) included in the pool *(see Appendix B for a complete data request list)*.

Fitch will also use historical wholesale vehicle value performance data from various U.S. third-party sources, including ADESA Inc. (ADESA), Automotive Lease Guide (ALG), Black Book, Manheim Consulting (Manheim) and National Automobile Dealership Association (NADA), among others. The historical data are combined with Fitch's expectations for future used vehicle values and the state of the wholesale vehicle market.

Key assumptions utilized in this criteria report are derived using RFC data and/or market data as mentioned in the paragraph above. This includes the components derived to calculate the expected loss (EL), including casualty losses, depreciation and disposition losses as discussed later in the Credit Analysis section.

Industry data from third-party sources provide well over 20 years of wholesale vehicle value performance in the U.S., reflecting trends observed across the millions of used vehicle dispositions that occur annually. Based on these data, the various sources available and the implicit market coverage of each source, the data utilized by Fitch are deemed adequate.

As mentioned above, data utilized to rate RF ABS transactions are received or utilized from U.S. issuers and/or auto industry/market sources, since the majority of ABS issuance occurs in the U.S. Non-U.S. data are limited, as issuance is very limited for regions outside the U.S. Therefore, Fitch requests to receive similar data sets from issuers for non-U.S. transactions. However, depending on the content level of the data and form thereof, Fitch will make adjustments to, or for, non-U.S. transactions.

Rating Methodology

Ratings assigned to RF transactions are based on a qualitative and quantitative analysis of the collateral securing the notes; the operational and fleet management review of the RFC; the structural analysis; and available credit enhancement (CE), including any letter of credit (LOC) or liquidity support.

Transaction performance is dependent on the value of fleet vehicles that serve as collateral. Fitch's analysis assumes that the RFC enters into bankruptcy, leading to a liquidation of the securitized RF to pay down principal and interest on the outstanding notes. Fitch assumes that the liquidation of the fleet occurs during a stressed macroeconomic environment with a depressed wholesale vehicle market. This rating case scenario assumption is a worst case fleet liquidation.

Since this approach utilizes a liquidation value methodology (regardless of whether the RFC is operating normally or following a bankruptcy filing), the criteria thus intend to de-link the transaction rating from the Issuer Default Rating (IDR) of the RFC in the normal course of business and in a bankruptcy event scenario. Fitch's analysis thus includes the derivation and ultimate calculation of our EL for each rating level, based on the expected liquidation proceeds of the RF vehicles under a stressed scenario. As detailed further in this report, for each rated transaction, quantitative and qualitative analyses of market factors and conditions of the RFC may lead to adjustments to a transaction's assumptions and/or stresses in the derivation of this EL level. The fleet liquidation process and related risks that follow bankruptcy and subsequent liquidation are other major risks considered during Fitch's analysis of a transaction.

In circumstances where a rating approach utilized differs from those detailed herein, a variation will be employed, as detailed on page 14.

Collateral Analysis

Analysis of the collateral (the securitized fleet) is a key element of Fitch's review of a transaction. Securitized collateral consists of vehicles acquired from manufacturers pursuant to repurchase agreements (program vehicles) or purchased outright from the manufacturer (nonprogram vehicles).

Program versus Nonprogram Vehicles

Program Vehicles

RFCs often enter into buyback agreements with the manufacturers from which the vehicles are purchased. These agreements are known as repurchase program agreements or guaranteed depreciation programs. The vehicles subject to these agreements are known as program vehicles. Under a repurchase agreement, the manufacturers agree to repurchase or reimburse the vehicles at their net dealer invoice less a preset depreciation charge. Therefore, the vehicle is not subject to market value risk; however, it is exposed to the financial strength of the manufacturer and its ability to make payments under the repurchase agreement.

Depreciation is usually calculated on a daily or monthly basis. The terms of program agreements include certain limitations and restrictions, such as maximum mileage and maximum holding periods. Program vehicles that do not meet the limitations documented in the applicable agreement are required to be sold at auction or otherwise disposed of without reimbursement. The RFC would be responsible for disposition costs and additional penalties for vehicles turned back prior to the terms stated in the agreement.

Manufacturer repurchase programs are renegotiated on an ongoing basis. The manufacturer updates the terms of the program for each new model year. The preset depreciation charge may not take into account the net book value of the vehicles and may be higher or lower than the market price available in the used vehicle market. Additionally, in the case of manufacturer bankruptcy, program vehicles will be converted to nonprogram vehicles by the RFC, subjecting them to the requirements of nonprogram vehicles, as described below.

Nonprogram Vehicles

Vehicles that are not included under a manufacturer's repurchase program are known as nonprogram, or at-risk, vehicles. Rental companies acquire nonprogram vehicles to include models not covered under manufacturer repurchase or guaranteed depreciation programs in their fleets (thereby enhancing their ability to provide vehicle diversification) or to optimize vehicle acquisition costs.

These vehicles must be sold at the end of their rental service term at auction or through another method of disposition, such as directly to used car dealers or wholesalers. Consequently, these vehicles are subject to the state of wholesale vehicle market values and, therefore, pose a greater risk to the final disposition price of these vehicles than those subject to a manufacturer repurchase agreement.

To mitigate this risk, transactions are structured such that nonprogram vehicles are marked to market each month. The mark-to-market methodology usually consists of two tests. The first test – a market value test – compares the current market value for the vehicle using the applicable published vehicle valuation guides with the net book values on the fleet. This test ensures that the fleet is being appropriately depreciated.

The second test compares actual disposition proceeds with the net book value of the fleet. This test verifies that the fleet's liquidation value is at least equivalent to the book value, and the disposition proceeds must always be greater than or equal to the net book value.

As per transaction documentation, the RFC would be expected to increase CE levels if disposition proceeds are less than the net book value and if the vehicles are not appropriately depreciated. RF securitizations may also include a limit on nonprogram vehicle exposure to mitigate the disposal risk of these vehicles.

Fitch assesses the characteristics of vehicles securing the RF transaction to determine the key risks presented by that specific pool. This review focuses on the following collateral characteristics:

- vehicle manufacturer/make, model and segment concentrations;
- vehicle age;

- program/nonprogram mix; and
- geographic concentrations: this includes a review of the RFC's locations including both on- and off-airport locations, as well as state concentrations.

In the context of this report, collateral refers to vehicles used to securitize the notes. While Fitch's analysis focuses on the value of the vehicles in the RF in a liquidation scenario, the notes in an RF ABS transaction are ultimately secured by a combination of monthly RFC rental payments, vehicle disposition and/or refinancing proceeds — although Fitch does not give any credit to the first or last items.

Vehicle Diversification

Collateral values and loss profiles can differ based on the vehicle manufacturers, vehicle segments (e.g. compact car, sport utility vehicle [SUV] and so on) and the age and geographic location of the vehicles. Diverse pools tend to produce more consistent depreciation rates, resulting in fewer losses upon liquidation. Portfolios that lack diversification are exposed to greater risks, including changes in wholesale vehicle values, vehicle recalls or other issues.

Additionally, a pool consisting of vehicles manufactured by a few highly correlated and financially weak manufacturers may be as risky as a pool exhibiting limited vehicle-type diversification. Risks associated with manufacturers include vehicle recalls and manufacturer bankruptcy, which may cause a decrease in vehicle values.

During benign periods, vehicles purchased through program agreements are subject to limited market value risk, as manufacturers have agreed to repurchase the vehicles at a predetermined price. However, vehicles are exposed to the financial strength of the manufacturer and its ability to make payments to the RFC under the agreement. While Fitch's review of the manufacturer's health and the presence of repurchase agreements are considered in determining the diversity of the collateral pool, no direct credit is given to repurchase agreements in Fitch's analysis of an RF ABS transaction.

Diversity Classification

Following the review of a securitization's collateral characteristics, Fitch categorizes the securitized pool as either diverse or nondiverse. Fitch considers the following in its determination of fleet diversity:

- manufacturer concentrations;
- composition of vehicle mix, including vehicle segment, makes and models; and
- geographic concentrations.

If collateral concentration limits are not explicit in transaction documentation and there are historically high concentrations present in a pool, Fitch may cap the rating it assigns or choose to not rate the transaction because of the possibility of a pool shifting from a diverse to a nondiverse collateral mix. As an example, Fitch would either cap ratings or decline to rate a transaction backed by only one manufacturer, or a transaction comprising a single vehicle make/model or vehicle segment. These examples would be deemed to be nondiverse fleets carrying a high degree of credit risk that cannot be quantified. Following the diversity determination, Fitch will apply different levels of stress when deriving Fitch's transaction total EL, as described in the following section.

Credit Analysis and Stress Assumptions

Fitch's credit analysis and stress assumptions relate exclusively to U.S. RF transactions, as issuance outside the U.S. has been very limited. Fitch will develop jurisdiction-specific credit analysis and derivation of stress assumptions for non-U.S. transactions.

In RF ABS, Fitch utilizes the 'BBsf' rating stressed assumptions as the anchor of all investment-grade rating scenarios (BBB-sf and above).

As mentioned prior, Fitch's rating approach assumes a hypothetical liquidation scenario in which the RFC enters Chapter 7 bankruptcy protection, which triggers a potential waiting period extending to 60 days (during this period, no payments are expected to be made by the RFC).

Chapter 7 of the U.S. Bankruptcy Code implies that reorganization/restructuring of the company is not an option (as under Chapter 11), therefore requiring liquidation of the company's assets to pay creditors. As rights to the securitized RF have been assigned to the trust, the trust would then have the ability to liquidate the securitized fleet. Concurrent with the bankruptcy and, thus, the fleet liquidation, Fitch assumes the wholesale vehicle market is in a state of depression, leading to higher-than-expected losses on the sale of the securitized fleet.

The structure should have sufficient CE at each rating category to withstand stressed EL during a liquidation scenario commensurate with the rating category. Fitch stresses the following to derive its cumulative EL for each rating level:

- timing of bankruptcy/liquidation period;
- losses stemming from casualty vehicles;
- non-liened vehicle adjustment;
- depreciation of the vehicles during the assumed bankruptcy/liquidation period;
- disposition value of the vehicles; and
- maximum administrative and expected note interest costs during bankruptcy and the collateral liquidation process.

Bankruptcy/Liquidation Timing

Prior to a declaration of bankruptcy, RFCs may miss lease payments in addition to other outstanding obligations, and once an RFC files a Chapter 7 bankruptcy petition, Fitch then assumes lease payments will stop. Such leases are assumed to be immediately rejected by the bankruptcy trustee after the filing of the Chapter 7 bankruptcy petition or will be rejected by operation of law on the 60th day. Following the rejection, Fitch assumes the servicer, backup servicer or disposition agent, as applicable, will locate and obtain the vehicles in the RF to begin the liquidation process.

While the 60-day waiting period is expected to be mostly a fixed timeline, the period prior to the declaration of bankruptcy when lease payments cease and the actual vehicle liquidation time frame can vary, depending on market conditions and individual vehicle location. Fitch may assume up to two months of missed payments prior to the declaration of bankruptcy, and assumes an additional 30-day delay past the 60-day stay period to allow the servicer, backup servicer or disposition agent to gain control of the vehicles.

Based on historical vehicle disposition data, Fitch assumes that liquidation occurs within up to 10 months after lease payments cease (at the highest AAAsf rating category) for U.S. RF ABS transactions (but can differ for regions outside the U.S. due to differing markets and related laws). Fitch's assumption is due to the depth, breadth and efficiency of the wholesale vehicle market witnessed over time, even during the weakest 2008–2009 period.

The timing assumptions at each rating level were derived after examining various disposition channels available in the U.S that could potentially be utilized under a liquidation scenario and reviewing issuer-specific data. The most efficient and expeditious channel for reducing large amounts of inventory has traditionally been through wholesale vehicle disposition. Wholesale vehicle auction houses facilitate the exchange of used vehicles through a physical and online auction marketplace, aligning qualified sellers and volume buyers (including automobile dealerships, banks, car rental agencies, car manufacturers and government agencies) of used vehicles.

For example, Fitch's liquidation stress at a 'BBBsf' rating level is up to seven months, which is equal to two months of missed lease payments prior to the declaration of bankruptcy, a 60-day waiting period, a 30-day delay period and a one- to two-month liquidation window, determined utilizing either stressed issuer and/or market liquidation time frames. Due to uncertainties regarding how long the liquidation period could last in a stressful economic environment, to achieve higher ratings, the liquidation time frame is scaled upward by one month for each rating category, as shown in the table below. Conversely, Fitch's 'BBsf' timing stress is reduced by one month to account for potential shorter liquidation windows, with a minimum of four months in the liquidation time frame.

Fitch can utilize historical issuer-specific liquidation periods or auto-specific, industry-standard liquidation time frames, stressed up to a specific maximum number of months, as listed in the Bankruptcy/Liquidation Timing Stress table below.

Bankruptcy/Liquidation Timing Stress

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing (Months)	4 to 6	Up to 7	Up to 8	Up to 9	Up to 10

Source: Fitch Ratings

Casualty Loss

Casualty losses stem from vehicles defined as those that become lost, stolen, destroyed, or damaged or rejected by program agreements because the vehicle condition is in violation of agreement terms. The RFC is required to reimburse the issuer for these vehicles at net book value. On payment, the vehicle title is transferred to the RFC, or the lien is removed in favor of the RFC.

However, in a liquidation scenario, the RFC's ability to make casualty reimbursement payments is assumed to be impeded due to the weak financial condition of the RFC. To account for any potential casualty vehicles in a fleet liquidation, Fitch will determine a casualty rating case loss proxy for a transaction derived by utilizing the issuer's historical casualty loss data. The level of assumed casualty losses is determined and then subtracted from the aggregate securitized fleet during the calculation of a transaction's expected loss.

Casualty losses can be applied during the assumed liquidation period for a minimum of a three-month period, which includes the 60-day bankruptcy stay period and one further month to locate and secure the vehicles. Following the 90-day period, no further casualty losses are applied since the vehicles have been secured and the liquidation process has begun. If data dictate that casualty losses be applied beyond three months for any reason, including as exhibited by issuer or market data or missed lease payments prior to the declaration of bankruptcy, then Fitch will apply casualty losses for a longer period beyond three months, up to the maximum period of months assumed for the liquidation period at each rating category.

Although casualty losses can occur upon vehicle disposition for program vehicles, should the manufacturer deem the vehicle in poor condition, Fitch will not consider casualty losses at the end of the bankruptcy/liquidation period. Fitch assumes the backup disposition agent for the transaction will have removed all casualty vehicles from the fleet by the end of the initial 90-day period. As indicated previously, Fitch will adjust this analysis by applying casualties for a longer period if data indicate otherwise.

Casualty Loss Stress — An Example

Rating Stress	AAAsf to BBsf
First 90 Days of Bankruptcy/Liquidation Period (Months)	3
Expected Casualty Assumption (%)[a]	0.25 per Month
Total Casualty Assumption (%)	0.75

[a]Fitch assumes a 0.25% per month depreciation for this example.
Source: Fitch Ratings

Non-Liened Vehicle Adjustment

In certain cases, the RFC may not have a first-priority security interest in a vehicle within its fleet due to the administrative process for obtaining title on the vehicle upon purchase.

Although the likelihood is remote, there is a scenario in which, in the event of an RFC bankruptcy, the trustee's liens on these vehicles may be challenged and unavailable for repayment of the notes. To account for this risk, Fitch applies a stress to the fleet to essentially remove a portion of these "non-lien" vehicles in the fleet prior to applying the remaining stresses to derive the EL assumption. This is completed by analyzing the maximum allowable amount of non-lien vehicles in the trust and the monthly average historical observations of concentrations of non-lien vehicles. A haircut based on committee decision is then applied to account for the remoteness of the series of events, which would need to occur for another lien to supersede the trust's claim.

Depreciation

Prior to bankruptcy of the RFC, the presence of manufacturer program agreements (for program vehicles) and mark-to-market tests provided in RF ABS deal documentation (for nonprogram vehicles) helps to maintain parity with respect to the listed net book value of the vehicles versus their actual market value.

However, upon an RFC bankruptcy, it is expected that the RFC will no longer be able to fulfill mark-to-market test requirements. Therefore, while the RFC is (assumed to be) in default and unable to make debt payments during the bankruptcy period and liquidation process, vehicles in the securitized pool will continue to depreciate. During this time, noteholders will be exposed to losses due to the depreciation of vehicles prior to their disposal.

AAAsf Depreciation Stress Calculation

Depreciation Rate (Monthly) (%)	2.00
AAAsf Timing Stress (Months)[a]	8
Declining Balance Formula	[1 – (1 – d) ^ t]
Calculation	[1 – (1 – 2.0%) ^ 8] = 14.92%
Adjusted Pool Balance[b]	(100% - 2.00%) x (1-0.75%) = 97.27%
Adjusted Depreciation Stress	97.27% x 14.92% = 14.52%

[a]In this example, the timing stress is assumed to be 8 months, below the maximum 10 months for 'AAAsf'. [b]Adjusted by removing non-lien vehicle losses of 2.00% and casualty losses of 0.75%. d - Base monthly depreciation rate.
t – Liquidation timing (months).
Source: Fitch Ratings

To account for risk of depreciation, Fitch reviews both the issuer and industry depreciation rates and will determine a rating case monthly depreciation rate for all vehicles; in applicable cases, for each vehicle segment; or by program and nonprogram vehicles. If no recent historical data are provided by the RFC or if historical data provided by the RFC to Fitch deviate from market data, Fitch will determine its own rating case depreciation rate based on industry sources.

This monthly depreciation rate (d) is compounded monthly over the liquidation time frames (t) for each rating category as vehicles depreciate at the assumed rate. In the example above, given a historical monthly depreciation assumption of 2.0%, Fitch would anticipate losses to be approximately 14.92% over an eight-month period at a 'AAAsf' rating level, exclusive of any other stress described herein. This loss amount is then multiplied by the remaining pool balance after accounting for the non-lien vehicle adjustment and casualty losses. For illustrative purposes, a non-lien vehicle adjustment of 2.0% is used in the above and following examples.

The example set forth here is based on a hypothetical monthly average depreciation rate of 2.0% per month and is applied to a declining (depreciating) collateral balance adjusted after accounting for the non-lien vehicle adjustment and casualty losses. Depreciation compounds monthly.

Depreciation Stress — An Example

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing (Months)	4 to 6	Up to 7	Up to 8	Up to 9	Up to 10
Expected Depreciation Assumption[a] (%)	2.00	2.00	2.00	2.00	2.00
Total Depreciation Assumption[b] (%)	7.55	9.35	11.10	12.83	14.52

[a]Fitch assumes a 2.0% per month depreciation for this example. [b]Calculated on the adjusted pool balance after accounting for non-lien vehicle losses and casualty losses.
Source: Fitch Ratings

Disposition

Once vehicles are in the possession of the trust, they are expected to be liquidated, likely through wholesale vehicle auction houses including Manheim or ADESA. This helps maximize liquidity by achieving the highest recovery rate on liquidated vehicles. Liquidation proceeds are used to pay back noteholders according to the transaction waterfall. Vehicles sold below net book value could translate into principal losses to the transaction. Fitch utilizes historical loss performance data provided by the issuer and third parties to determine potential stress scenarios for each rating category.

Macroeconomic conditions, the health of automobile manufacturers, the supply and demand of both new and used vehicles, gas prices and other factors all affect used vehicle values, as exhibited by wholesale vehicle market data. For example, highly volatile gas prices, along with other economic pressures, can create inverse price movements in some vehicles, such as SUVs and compact cars.

Given Fitch's EL analysis assumes that a liquidation of the fleet occurs during a stressed macroeconomic period with a depressed wholesale vehicle market, Fitch looked to the 2007-2009 recession as a sustained period of stress to derive the 'BBBsf' EL stress for a diverse pool of vehicles. The stress was determined to be consistent with a 'BBBsf' rating, based on Fitch's review of the scale of wholesale vehicle value declines for all vehicle types. The worst decline during this period was 11.3% peak to trough over one year, rounded up to 12%. Although a slightly higher decline was observed during the recent pandemic-related recession in 2020, this period was unprecedented, short lived and atypical, and, therefore, not included in Fitch's derivation of rating case loss assumptions. Further, it aligns with the higher end of the range for the 'BBBsf' disposition stress (12%-16%). As discussed above, nondiverse pools tend to have higher price volatility; as such, the stress increases to 20% at a 'BBBsf' rating level for a pool categorized by Fitch as nondiverse.

Fitch would either cap ratings or, more likely, decline to rate a transaction if a securitized pool is backed by a single vehicle segment and does not have adequate vehicle segment diversification.

Fitch's 'BBBsf' loss stress is scaled upward in increments of 4% (for BB rating, downward) of the approximate mean standard deviation of the data to reflect higher ELs under each ascending rating category, which was seen during the 2008–2009 period within less than 12 months. This results in an EL stress of up to 28% at the 'AAAsf' rating level for a diverse pool and up to 32% for a nondiverse pool. The disposition loss amount is then calculated after accounting for ELs from casualty and depreciation losses.

Fitch's expectations of wholesale vehicle values and the general health of the RFC and related manufacturers will determine the specific loss disposition stress to be utilized. For example, in a 'AAAsf' rating scenario, Fitch would tend to use the upper range of the disposition stress in a period of weak macroeconomic conditions or if the RFC is of particularly weak credit quality. Conversely, if Fitch's expectation for the macroeconomic environment is positive and the RFC has a high IDR, Fitch may choose to use the lower end of the range in its disposition stress.

Considering the current size of each of the RFCs and manufacturer diversity of their vehicle fleets, Fitch believes vehicles securing a U.S. RF ABS transaction can be repossessed, disposed of and liquidated in the secondary market without causing significant declines in wholesale vehicle values. In reviewing the market, Fitch witnessed that rental car companies' fleets remain a very small percentage of the overall wholesale vehicle market on an individual basis at any given time. Therefore, no further liquidity stresses have been incorporated into Fitch's analysis.

An example of a single vehicle, as illustrated in the table below, demonstrates the impact of the eight-month depreciation and disposition stresses on the vehicle value for a single risk vehicle after accounting for the non-lien vehicle adjustment and casualty stress. Effectively, a $30,000 vehicle under a 'AAAsf' scenario, assuming the worst case fleet mix stresses, would experience a loss of $11,133, or 37.11% of NBV, excluding the interest/other expenses amount.

AAAsf Scenario — Individual Vehicle (NPV) Example

Net Book Value ($)	A	30,000
Non-Lien Vehicle Adjustment (%)	B	2.00
Value Less Non-Lien Vehicle Adjustment ($)	a - (a*b) = c	29,400
Casualty Loss (%)	D	0.75
Value Less Casualty Loss ($)	c - (c*d) = e	29,180
Bankruptcy/Liquidation Timing (Months)	F	8
Monthly Depreciation (%)	G	2.00
Total Depreciation (%)	[1-(1-g)^f] = h	14.92
Vehicle Value After Eight Months Depreciation ($)	e - (e*h) = i	24,825
Disposition Loss (%)	J	24.00

AAAsf Scenario — Individual Vehicle (NPV) Example

Vehicle Value After Disposition ($)	i - (i*j) = k	18,867
Total Loss ($)	a - k = l	11,133
Total Loss (%)	l/a = m	37.11

Source: Fitch Ratings

Interest and Other Expenses

Following an RFC bankruptcy and before collateral liquidation, interest is still expected to be payable on the notes. Additionally, administrative costs will be incurred to locate, store and dispose of the vehicles. Fitch's analysis accounts for the interest cost and administrative expenses by stressing the structure to ensure these costs are covered during a liquidation scenario.

Depending on the rating, sufficient liquid (i.e. not overcollateralization [OC]) CE, for example, a cash reserve or an LOC, would be expected to cover anticipated interest expenses/funding costs, servicing fees and any other administrative expenses up to their maximum allowed amounts over the liquidation period. LOCs are expected to be structured where draws on this feature occur without the direction of the RFC, such that ABS note interest expenses and related costs are covered by the LOC in the event of any shortfall in lease payments from the RFC, specifically on the interest portion of the payment, in or out of a bankruptcy scenario.

For example, if the expected note coupon for class A is 5.0% per annum, class B is 6.0% per annum and the aggregate of all other carrying costs is 1.0% per annum (for the total note balance), Fitch would expect approximately 4.13% of liquid CE to achieve a 'AAAsf' rating, as depicted in the table below.

The calculation described above assumes the collateral amount is equal to the notes balance. In the majority of RF ABS transactions, a certain level of OC will be built into the capital structure. Therefore, the interest and other expense amount will be converted as a percent of the collateral, as all other assumptions are assumed to be as a percentage of the collateral.

AAAsf Interest/Other Expense Calculation

Class A Interest (p.a.) (%)	5.00
Class B Interest (p.a.) (%)	6.00
Other Expenses (p.a.) (%)	1.00
AAAsf Time Stress (Months)	8
Total Calculation: (5% x $400 Mil.) + (6% x $100 Mil.) + (1% x $500 Mil.) x (8/12) / $500 Mil.	4.13

p.a. – Per annum
Source: Fitch Ratings

Total Expected Loss

Fitch calculates the EL proxy at each rating category by summing the stressed casualty, depreciation, disposition loss, estimated interest and administrative expenses, and non-lien vehicle adjustment, if any. Fitch then compares the total EL at each rating with the amount of CE proposed in the structure for each class of notes to determine the highest rating at which the note is passing.

Note that the depreciation amount is calculated on a declining (depreciating) balance, after taking into account the non-lien vehicle adjustment and casualty losses, as described in the Depreciation section. The disposition loss amount is calculated after accounting for the non-lien vehicle adjustment, casualty loss and expected depreciation loss. In the table below, the EL for the class A notes with a diverse fleet, totaling the non-lien vehicle adjustment, casualty loss, depreciation, disposition loss, and interest and other expenses, adds to 41.2%. Thus, as the proposed transaction has CE totaling 45.0%, which is greater than the 41.2% EL, the expected rating is 'AAAsf'.

Fitch also derives the transaction EL by considering the mix of vehicles comprising a pool, along with vehicle manufacturer concentrations. Fitch may derive both a peak (worst case fleet mix) and low (best case fleet mix) EL rate while considering concentration limits present in a transaction. This approach captures a transaction's dynamic CE calculations (if applicable) and changes in fleet mix on an ongoing basis, which can shift periodically and are derived utilizing fleet and manufacturer compositions during the life of a transaction. By capturing both the best and worst case vehicle fleet mix possible, the approach assesses whether available enhancement covers any possible type of vehicle fleet mix under the transaction's stated concentration limits. Ultimately, ratings assigned can be determined based on the weakest fleet mix and peak enhancement level.

Rating Determination

RF ABS ratings are determined by a rating committee. While the MIR is a key input to the committee determination, assigned ratings may differ from the MIR in certain cases. A committee's rating determination may deviate from the MIR by up to one full rating category (three rating notches) due to qualitative considerations such as asset performance or the transaction's structure.

Model-Implied Rating:
Although cash flow modeling is not conducted, this represents the highest rating at which the note is passing the EL (base loss timing scenario) compared to the amount of CE proposed.

Transaction Analysis

RF securitizations are structured with a revolving period. As vehicles from the initial collateral pool are sold following their rental service periods, disposition proceeds are reinvested in new vehicles. Revolving periods are typically three to five years in duration (in some cases longer). Following the revolving period, a six-month amortization period commences, during which time vehicle disposition proceeds are used to repay note principal or are invested in qualified investments.

Fitch Rental Fleet ABS Total Expected Loss Coverage — An Example

XYZ Rental Fleet Co. Series A Proposed Structure	Class A	Class B	Total Notes	OC	Liquidity Amount	Collateral Amount	Total
Amount ($)	400,000,000	120,000,000	520,000,000	160,000,000	25,000,000	680,000,000	705,000,000
% of Collateral Amount	58.8	17.6	76.5	23.5	3.7	—	
Credit Enhancement (CE) (%)	44.9	27.2	—	—	—	—	
Requested Rating	AAAsf	BBBsf	—	—	—	—	
Coupon per Annum (p.a.) (% of Notes)	6.5	8.0	—	—	—	—	
Interest Frequency	Monthly	Monthly	—	—	—	—	
Servicing Fee p.a. (%)	1.0	1.0	—	—	—	—	
Expected Monthly Depreciation (%)	2.0	2.0	—	—	—	—	
Rating Stress		**BB**	**BBB**	**A**	**AA**	**AAA**	
Bankruptcy/Liquidation Timing[a]		4	5	6	7	8	
Non-lien Vehicle Adjustment (%)		2.0	2.0	2.0	2.0	2.0	
Expected Casualty Losses (%)		0.75	0.75	0.75	0.75	0.75	
Expected Depreciation		2% per Month	2% per Month	2% per Month	2% per Month	2% per Month	
Total Depreciation (%)		7.6	9.3	11.1	12.8	14.5	
Disposition Loss (%)[b]							
Securitized Fleet Diversity:							
Nondiverse		12–16	16–20	20–24	24–28	28–32	
Diverse		8–12	12–16	16–20	20–24	24–28	
Interest Expense/Other Fees (%) (p.a.)[c]		2.1	2.6	3.1	3.6	4.1	
WA Bond Interest Expense (%) (p.a.)		5.2	5.2	5.2	5.2	5.2	
Other Fees (%) (p.a.)		1.0	1.0	1.0	1.0	1.0	
Total Loss Coverage							
Fleet Diversity (%)							
Nondiverse		23.1–26.7	28.7–32.2	34.2–37.6	39.4–42.8	44.6–47.9	
Diverse		19.5–23.1	25.2–28.7	30.7–34.2	36.1–39.4	41.2–44.6	

[a]Bankruptcy liquidation timeline assumed at 8 months at 'AAAsf' scenario, within the max 10-month criteria stated period. Note: Percentages are as a % of collateral amount unless otherwise stated. [b]Applied to the pool balance after subtracting the non-lien vehicle adjustment, casualty losses and depreciation. [c]Scaled to the bankruptcy/liquidation timing per rating level.
Source: Fitch Ratings

Events that may terminate the revolving period and commence early amortization include the following: failure to pay interest due on the notes; asset and/or enhancement amounts not at required levels; injunctions, liens, estoppels or other stays placed on any trust assets; loss of a valid and perfected first-priority security interest in the collateral; bankruptcy of a transaction servicer/administrator; and breach of covenants, representations or warranties by the issuer and/or RFC.

Monthly lease payments are the primary source of funds for making interest payments on the notes and other securitization expenses during the revolving period. The lease agreement requires the RFC to make monthly payments consisting of a base rent and a variable (supplemental) rent. The base rent represents monthly accrued depreciation of the vehicles, the interest payable on the distribution date and other amounts, such as carrying costs and incentive payments from the manufacturers. The supplemental rent is sized monthly to cover certain expenses of the issuer, including vehicle maintenance; interest costs; payment of taxes, titling and registration fees; and other funding costs.

Liability Structure

Fitch reviews the liability structure of transactions proposed by sponsors, identifies risks under different rating scenarios and forms a view on the ability of the proposed structure to mitigate such risks. Notably, Fitch does not recommend or approve any particular structural features.

Credit Enhancement

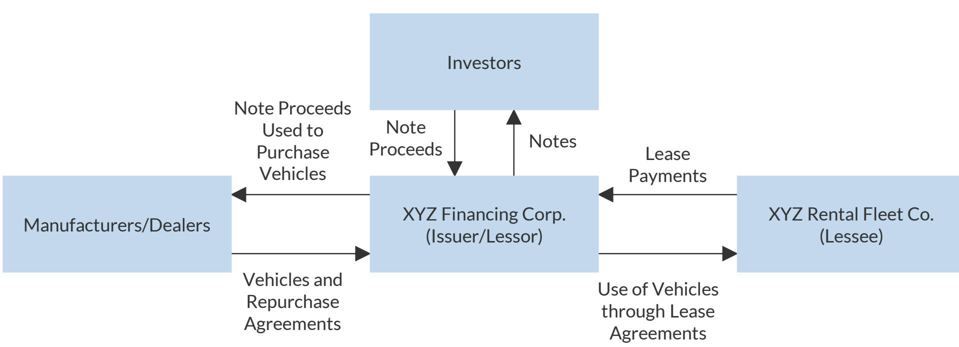
CE is typically provided by a combination of subordination, OC, LOC and cash reserves. Fitch will review the relevant CE structure of each transaction and apply it within the agency's EL analysis. In the majority of transactions, CE is calculated by the RFC on a dynamic basis periodically (daily/monthly), utilizing calculations that derive enhancement based off the evolving vehicle fleet mix and vehicle manufacturer concentrations possible under transaction concentration limits. The result is CE with dynamic enhancement levels *(as stated in the Transaction Analysis section above)*. This will vary for the best case fleet mix (the strongest fleet mix based on vehicle and manufacturer compositions) resulting in the lowest possible CE level, and the worst case fleet mix that determines the peak enhancement level.

Transaction Structure

In a typical RF securitization transaction, the RFC creates a wholly owned, bankruptcy-remote, special-purpose entity that issues debt securities similar to other ABS structures. The securities are backed by the RFC lease payment and vehicles purchased by the issuer from manufacturers and leased to the RFC for use in its daily rental business. Fitch's analysis of special-purpose vehicles (SPVs) in structured finance is described in detail in "Global Structured Finance Rating Criteria."

New vehicles acquired by the issuer are mostly classified under true operating leases in the U.S. and are titled in the name of the issuer or a titling trust. Rights to existing fleet vehicles already owned by the RFC can also be acquired by the issuer under a finance lease, which is a financing arrangement wherein security interest of such vehicles is granted to the issuer by the RFC.

Transaction Structure



Source: Fitch Ratings

Vehicle Title and Security Interest

The lienholder is a trustee on behalf of the secured parties, or by a nominee SPV entity, in U.S transactions. The transaction structure may vary for transactions outside the U.S.

Counterparty Risk

Rental Fleet Company Operational Review

This section covers the RFC operational review process in more depth, including counterparty risks common in RF ABS transactions and considered in conjunction with the "Structured Finance and Covered Bonds Counterparty Rating Criteria."

The RFC can affect the performance of the underlying assets and, ultimately, an RF ABS transaction. Fitch's ABS analysts review the operational platform and fleet management for the RFC in an SF transaction rated by Fitch. The result of Fitch's review may lead to adjustments to a transaction's assumptions and/or stresses, application of a rating cap or cause Fitch to decline to rate a transaction. These include poor financial or operational strength; inadequate ability or lack of experience in fleet management and servicing; and lack of or inadequate financial, operational or performance data/information provided by the applicable party, if Fitch deems these corporate credit aspects applicable in the analysis of the ABS notes.

Fitch will conduct a review of the RFC's operations, including its fleet management and servicing divisions, combined with a corporate review, prior to assigning ratings for new issuers.

Fitch's RFC Operational Review – Areas of Focus

- Corporate performance — review of corporate operations, financial stability and funding strategies.
- Capabilities and quality of the fleet-management and servicing operations, including vehicle purchasing, capacity planning, fleet depreciation and valuation operations, and vehicle remarketing and vehicle in-service management.

Corporate background and performance may be indicators of management quality, financial strength and operational risk management capabilities, which all feed into fleet management capabilities. As mentioned previously, Fitch assumes that the RFC is in bankruptcy in its analysis, and the fleet of vehicles will be liquidated within the agency's assumed timeline.

Fitch's Financial Institutions group reviews the RFC's financial profile based on analytical factors outlined in Fitch's "Non-Bank Financial Institutions Rating Criteria."

A review is conducted of management's fleet management and servicing strategies and objectives. Further, Fitch's ABS group reviews the ownership, management tenure and depth, operating history and experience, fleet-management and servicing operations, portfolio characteristics and future competitive strategy.

Servicing

The RFC acts as both lessee and servicer to the transaction. While many asset securitizations allow for the separation of the performance of the seller/servicer and assets that are sold to the issuer, RF securitizations rely heavily on the performance of the servicer because of its lease arrangements with the issuer and the reliance on lease payments to service the notes. As in typical asset securitizations, the servicer in RF securitizations determines and collects amounts due under the lease and provides transaction reporting. The servicer is also responsible for fleet management and operations.

In Fitch's opinion, a conflict of interest may arise in the event of an RFC bankruptcy between the RFC and the SPV acting on behalf of investors. To mitigate this risk in RF ABS transactions, a backup servicer and/or administrator/disposition agent are appointed. The backup servicer and/or administrator/disposition agent will then facilitate the repossession and liquidation of the securitized RF in the event of a performance default of the servicer and mitigate the potential conflicts of interest that could arise. For more information, see the Backup Servicer and Disposition Agent sections.

Fleet Management and Operations

Fitch will review fleet management and operational processes and systems, ABS reporting systems, and contingency/disaster recovery systems and processes.

The RFC attends to management of its fleet operations, including ongoing strategies such as size and vehicle concentrations, vehicle purchasing strategies and capacity planning, vehicle remarketing and vehicle in-service management, according to the economic and market environment in which it operates.

A key element of fleet management is an RFC's fleet purchasing, composition and planning capabilities. These elements include manufacturer and vehicle composition, capacity planning, vehicle depreciation and valuation or residual-setting methodologies and historical performance, remarketing channels and historical valuation performance against set values/residuals.

The servicer, or the franchisee if a franchise structure is utilized by the RFC, is responsible for all in-service maintenance and repairs to keep the fleet in good working order and condition, as well as to maintain the vehicles to retain the manufacturer's warranty. This includes review of fleet procurement and planning, vehicle registration, plating and titling, maintenance and warranty claims, and vehicle recovery processes.

Vehicle Remarketing

On service termination, program vehicles are examined to determine conformance with repurchase or guaranteed depreciation agreement requirements. This involves:

- returning the vehicle to a manufacturer-approved location;
- inspection by both the manufacturer and an RFC representative, usually within one day of arrival;
- agreement on the repurchase price based on vehicle condition and required turnback/excess mileage charges;
- completion of the vehicle condition report;
- transfer of the vehicle title to the manufacturer;
- recognition of a receivable from the manufacturer by the RFC;
- payment by the manufacturer to the RFC within a few weeks; and
- costs related to vehicle remarketing, including manufacturer program and nonprogram vehicle costs.

For program vehicles not returned within the time frame or under other terms required by the repurchase agreement, the servicer is responsible for disposing of such vehicle and remitting to the issuer the amount due under the terms of the repurchase agreement, regardless of whether the disposition proceeds equal or exceed this amount.

The disposition process for nonprogram vehicles begins with an evaluation of various sales channels to maximize net sale proceeds after disposition costs, including transportation expenses. The vehicle can be transferred either to an auction or directly to a dealer or the franchisee purchasing the vehicle, or sold directly by the RFC through direct consumer sales channels. When the vehicle is sold, the title is transferred to the buyer.

As previously noted, the servicer, as lessee, is responsible for payment of the remaining net book value balance on lost, stolen, salvaged or seized program and nonprogram vehicles. In a bankruptcy-induced liquidation, the trustee would closely monitor the management adequacy of the liquidation process on behalf of noteholders.

Backup Servicer

Following a default of the initial servicer, standard procedure would be to appoint a replacement or backup servicer in each transaction. Backup servicers are usually appointed to all the duties of the initial servicer, aside from, if applicable, certain tasks assigned to the disposition agent. The backup servicer should be familiar with the initial servicer's operations and fleet-monitoring systems to effectively serve as a replacement. The initial servicer should provide periodic reports to the backup servicer on an ongoing basis.

Disposition Agent

A disposition agent is appointed in transactions to fulfill the liquidation of fleet vehicles following an RFC bankruptcy. The disposition agent should be an independent third party with direct access to information related to the tracking and disposition of vehicles, such as the location of the vehicle and the program agreements, among other things. The disposition agent is expected to have the ability to carry out sourcing duties and take possession of and liquidate the securitized vehicles. The disposition agent should have extensive experience in vehicle liquidations, including that of the RFC.

Performance Analytics

The ongoing monthly performance analysis of transactions forms an essential part of the Fitch rating process. A distinctly managed function handles the ongoing monitoring and review of transactions by assessing whether they are performing as expected.

Fitch expects to receive monthly servicer reports from issuers, detailing note paydown and available credit support. All provided information is entered into Fitch's surveillance system and reviewed by a surveillance analyst. In addition, Fitch expects to receive updated collateral characteristics, including vehicle make, model and segment concentrations, age of vehicles, program/nonprogram mix and geographic concentrations. Furthermore, Fitch will contact a servicer/administrator if additional detail is needed regarding performance or collateral composition changes within the transaction.

Fitch analysts aggregate various transaction-level data and performance metrics for each active transaction. This comparative analytical approach enables Fitch analysts to differentiate between performance trends observed across the sector and those affecting select or single issuers. The results are discussed in a monthly meeting, known as Fitch's RF ABS screener process.

Surveillance of a transaction includes an ongoing review of the following:

- Any transaction covenants and any breaches thereof (if applicable), including mark-to-market tests requiring the RFC to increase CE levels if depreciation and/or disposition values are outside expectations.
- Fleet management, composition and servicing thereof, including any material shifts in the concentration of vehicle types and/or manufacturers that could lead Fitch to reclassify a formerly diverse pool into a nondiverse pool.
- Adequacy of the borrowing base to ensure full payment of the notes during a liquidation scenario, as well as ongoing vehicle depreciation and mark to market (valuation versus set residuals/values).
- All transaction fees associated with a transaction, including bond interest, servicing fees, administrative fees, and backup and liquidation fees.
- Casualty losses.

Fitch expects material changes in the above factors to result in a review of a transaction at any one time. Additionally, if conditions in the wholesale vehicle market change significantly or if any unforeseen precedents are set regarding bankruptcy proceedings in this or a similar asset class, Fitch can redefine its stress assumptions (*see Appendix A — Rating Assumption Sensitivity for the potential impact of these changes on a transaction*), which could lead to a transaction review. All transactions are reviewed annually.

A review consists of examinations of the structure and remittance of funds and any impact of macroeconomic factors and auto-related industry issues affecting the RFC and/or issuer.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of this criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Criteria Disclosures

In the initial rating report or rating agency disclosures, Fitch will disclose the following items:

- Rating assumptions and stresses for non-U.S. transactions derived on a bespoke basis, including any adjustments applied due to data adequacy such as limited data available from the issuer or region and auto/RF markets, as Fitch develops jurisdiction credit analysis and derivation of stress assumptions for non-U.S. transactions.
- Any credit given to manufacturer repurchase programs, which would be deemed a variation from criteria; or any adjustments made to the analysis during Fitch's review of the RFC.
- Securitized pool's vehicle diversity classification (diverse or nondiverse).
- The EL level (for both a peak [worst case fleet mix] and low [best case fleet mix] EL rate) including the following key components comprising the EL:
  - timing of bankruptcy/liquidation period;
  - losses stemming from casualty vehicles;
  - depreciation of the vehicles during the assumed bankruptcy/liquidation period;
  - disposition value of the vehicles; and
  - maximum administrative and expected note interest costs during bankruptcy and the collateral liquidation process.

Any variations to criteria will be detailed in Fitch's transaction rating reports *(as mentioned previously in the Variations from Criteria section).*

In many cases, Fitch uses the assumptions derived in its initial rating analysis in its surveillance reviews. To focus Fitch's rating action commentaries on the most important changes to the rating, Fitch will not disclose these assumptions in the subsequent rating action commentaries, unless there is a material change to the assumptions.

Appendix A — Rating Assumption Sensitivity

Fitch's rating sensitivity analysis will include defined sensitivities with stresses to the rating case assumptions used in deriving the expected loss (EL).

For the sensitivity analyses, two scenarios involve potentially extreme market disruptions that would force the agency to redefine its stress assumptions. The first examines the effect of increasing Fitch's rating case disposition loss assumption to the higher end of the range at each rating. For example, the 'AAAsf' stress levels would move to 28% from 24% for a diverse pool, and to 32% from 28% for a nondiverse pool. For instances in which the disposition stress for the rating case is already at the higher end of the range, a 4% increase will be applied, which is derived by using the difference between the lower and higher end of the range for each rating stress level.

The second sensitivity considers the effect of an increase in Fitch's bankruptcy/liquidation time frame stress of two or more months. Finally, the last example shows the combined impact from the disposition loss assumption and bankruptcy/liquidation time frame stresses. The purpose of these stresses is to demonstrate the potential rating impact on a transaction if one or a combination of these scenarios occurs. Resultant ratings for each stress are shown for both diverse and nondiverse pools. Shown below are examples of certain of the sensitivity analyses conducted as mentioned above.

Sensitivity Analysis — Wholesale Used Vehicle Value Stress

As described in the Disposition section, Fitch's disposition stress at the 'BBBsf' rating level is based on the worst peak-to-trough decline in wholesale used vehicle values during the 2007-2009 recession (12%). This number is stressed upward for each ascending rating category to a maximum of 32% for a nondiverse portfolio at a 'AAAsf' rating level.

As part of its rating sensitivity analysis, Fitch tests each structure to determine the rating impact to a transaction if the wholesale vehicle market experiences a decline equal to the higher end of the initial 'BBsf' rating case stress range (12%-16%). All other assumptions, including scaling to other rating levels, are held constant. The tables below and in the following pages demonstrate the effect of each of these increases in Fitch's rating case disposition loss stress, the impact this change would have on the total EL stress and the anticipated resultant rating. The tables only depict variables linked to Fitch's disposition stress; all other variables (interest expense, depreciation loss and so on) are held equal to values in the EL table.

Fitch Rental Fleet ABS Rating Sensitivity

(%)

XYZ Rental Fleet Co. Series A	Class A	Class B	OC	Liquidity Amount
Transaction Details				
Amount ($ Mil.)	400,000,000	120,000,000	160,000,000	25,000,000
% of Collateral Balance	58.8	17.6	23.5	3.7
Credit Enhancement	44.9	27.2	—	—
Requested Rating	AAAsf	BBBsf	—	—
Coupon per Annum (p.a.)	6.50	8.00	—	—
Interest Frequency	Monthly	Monthly	—	—
Servicing Fee p.a.	1.00	1.00	—	—
Expected Monthly Depreciation	2.00	2.00	—	—

Source: Fitch Ratings

Disposition Rating Stress

(%)

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing	4	5	6	7	8
Non-Lien Vehicle Adjustment	2.0	2.0	2.0	2.0	2.0
Expected Casualty Losses	0.75	0.75	0.75	0.75	0.75
Total Depreciation	7.6	9.3	11.1	12.8	14.5
Disposition Loss					
Fleet Diversity:					
Nondiverse	16.0–20.0	20.0–24.0	24.0–28.0	28.0–32.0	32.0–36.0

Disposition Rating Stress

(%)

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing	4	5	6	7	8
Non-Lien Vehicle Adjustment	2.0	2.0	2.0	2.0	2.0
Expected Casualty Losses	0.75	0.75	0.75	0.75	0.75
Total Depreciation	7.6	9.3	11.1	12.8	14.5
Diverse	12.0–16.0	16.0–20.0	20.0–24.0	24.0–28.0	28.0–32.0
Interest Expense/Other Fees (p.a.)	2.1	2.6	3.1	3.6	4.1
WA Bond Interest Expense (p.a.)	5.2	5.2	5.2	5.2	5.2
Other Fees (p.a.)	1.0	1.0	1.0	1.0	1.0
Total Expected Loss Coverage					
Fleet Diversity:					
Nondiverse	26.7–30.3	32.2–35.8	37.6–41.1	42.8–46.2	47.9–51.2
Diverse	23.1–26.7	28.7–32.2	34.2–37.6	39.4–42.8	44.6–47.9
Resultant Rating Class A, Nondiverse	AA–sf				
Resultant Rating Class A, Diverse	AAsf				
Resultant Rating Class B, Nondiverse	<BBsf				
Resultant Rating Class B, Diverse	BBsf				

Source: Fitch Ratings

As shown in the rating case, rating stress example above, if Fitch's rating case disposition stress is increased 4% for the lower and higher end of the range at each rating, 44.9% of credit enhancement (CE) coverage would result in a 'AA-sf' rating category for a nondiverse fleet, and a 'AAsf' rating category for a diverse fleet of vehicles. CE of 27.2% would result in less than 'BBsf' coverage for a nondiverse fleet, and 'BBsf' coverage for a diverse fleet.

Sensitivity Analysis — Bankruptcy/Liquidation Extension

Fitch also considers the impact of an increased bankruptcy/liquidation time frame by at least two months to the Fitch current rating stress. For example, at a 'AAAsf' rating level with an assumed eight-month liquidation time frame, Fitch would extend the bankruptcy time frame to 10 months. Note that this hypothetical timing stress increase would necessitate a larger liquidity amount to cover larger carrying costs (e.g. interest and other expenses) than what is contemplated in Fitch's normal 'AAAsf' stress scenario. As a result, the implied ratings below do not take into account timely payments of interest.

Fitch Rental Fleet ABS Rating Sensitivity — Bankruptcy Liquidation Extension

(%)

XYZ Rental Fleet Co. Series A	Class A	Class B	OC	Liquidity Amount
Amount ($ Mil.)	400,000,000	120,000,000	160,000,000	25,000,000
% of Collateral Balance	58.8	17.6	23.5	3.7
Credit Enhancement	44.9	27.2	—	—
Requested Rating	AAAsf	BBBsf	—	—
Coupon per Annum	6.5	8.0	—	—
Interest Frequency	Monthly	Monthly	—	—
Servicing Fee p.a.	1.00	1.00	—	—
Expected Monthly Depreciation	2.00	2.00	—	—

Source: Fitch Ratings

Using the same example as above, the tables below show the rating impact of extending the bankruptcy/liquidation time frame two months for each rating level. Only the variables linked to timing are shown below; all else is held equal. Variables linked to timing are the depreciation, interest expense and other expense stresses.

Bankruptcy/Liquidation Rating Stress

(%)

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing (Mos.)	6	7	8	9	10
Non-Lien Vehicle Adjustment	2.0	2.0	2.0	2.0	2.0
Expected Casualty Losses	0.75	0.75	0.75	0.75	0.75
Total Depreciation	11.4	13.2	14.9	16.6	18.3
Disposition Loss					
Fleet Diversity:					
Nondiverse	12.0–16.0	16.0–20.0	20.0–24.0	24.0–28.0	28.0–32.0
Diverse	8.0–12.0	12.0–16.0	16.0–20.0	20.0–24.0	24.0–28.0
Interest Expense/Other Fees (p.a.)	3.1	3.6	4.1	4.7	5.2
WA Bond Interest Expense (p.a.)	5.2	5.2	5.2	5.2	5.2
Other Fees (p.a.)	1.0	1.0	1.0	1.0	1.0
Total Expected Loss Coverage					
Fleet Diversity:					
Nondiverse	27.3–30.7	32.7–36.1	37.9–41.2	43.0–46.3	47.9–51.1
Diverse	23.8–27.3	29.3–32.7	34.6–37.9	39.8–43.0	44.8–47.9
Resultant Rating Class A, Nondiverse	AA–sf				
Resultant Rating Class A, Diverse	AAsf				
Resultant Rating Class B, Nondiverse	BBsf				
Resultant Rating Class B, Diverse	<BBsf				

Source: Fitch Ratings

As shown in the rating case, rating stress example above, if Fitch's rating case bankruptcy/liquidation stress is increased by 2 months for each rating level, 44.9% of CE coverage would result in a 'AA-sf' rating category for nondiverse and a 'AAsf' rating category for diverse fleets of vehicles. CE of 27.2% would result in a rating of 'BBsf' or lower for both nondiverse and diverse fleets.

Sensitivity Analysis — Combination Stress

Fitch considers the impact of the combination effect of both increases in its disposition loss stress and increases in the bankruptcy/liquidation time frame stress. Considering the combination stress, at a 'AAAsf' rating level, this would increase the low end of the range for the disposition loss to 28% from 24% while simultaneously increasing the bankruptcy/liquidation time frame to 10 months from 8 months.

Considering 44.9% CE for class A notes, the resultant rating of the combination stress would be approximately in the 'AAsf' and 'Asf' rating category for a nondiverse and diverse pool, respectively. Given 27.2% of CE for class B notes, the resultant rating would be below 'BBsf' for both diverse and nondiverse fleets of vehicles.

Fitch Rental Fleet ABS Rating Sensitivity

(%)

XYZ Rental Fleet Co. Series A	Class A	Class B	OC	Liquidity Amount
Amount ($ Mil.)	400,000,000	120,000,000	160,000,000	25,000,000
% of Collateral Amount	44.9	17.6	23.5	3.7
Credit Enhancement	44.9	27.2	—	—
Requested Rating	AAAsf	BBBsf	—	—
Coupon p.a.	6.5	8.00	—	—
Interest Frequency	Monthly	Monthly	—	—
Servicing Fee p.a.	1.00	1.00	—	—
Expected Monthly Depreciation	2.00	2.00	—	—

Source: Fitch Ratings

Combination Stress

(%)

Rating Stress	BBsf	BBBsf	Asf	AAsf	AAAsf
Bankruptcy/Liquidation Timing (Mos.)	6	7	8	9	10
Non-Lien Vehicle Adjustment	2.0	2.0	2.0	2.0	2.0
Expected Casualty Losses	0.75	0.75	0.75	0.75	0.75
Total Depreciation	11.4	13.2	14.9	16.6	18.3
Disposition Loss					
Securitized Fleet Diversity:					
Nondiverse	16.0–20.0	20.0–24.0	24.0–28.0	28.0–32.0	32.0–36.0
Diverse	12.0–16.0	16.0–20.0	20.0–24.0	24.0–28.0	28.0–32.0
Interest Expense/Other Fees (p.a.)	3.1	3.6	4.1	4.7	5.2
WA Bond Interest Expense (p.a.)	5.2	5.2	5.2	5.2	5.2
Other Fees (p.a.)	1.0	1.0	1.0	1.0	1.0
Total Expected Loss Coverage					
Fleet Diversity:					
Nondiverse	30.7–34.2	36.1–39.4	41.2–44.6	46.3–49.5	51.1–54.3
Diverse	27.3–30.7	32.7–36.1	37.9–41.2	43.0–46.3	47.9–51.1
Resultant Rating Class A, Nondiverse	Asf				
Resultant Rating Class A, Diverse	AA–sf				
Resultant Rating Class B, Nondiverse	<BBsf				
Resultant Rating Class B, Diverse	<BBsf				

Source: Fitch Ratings

Sensitivity Analysis — Summary

A summary of Fitch's rating sensitivity stresses is provided below. The resultant ratings are based on the examples provided above, considering a hypothetical structure with 44.9% of CE for class A notes and 27.2% for class B notes.

Sensitivity Summary: XYZ Rental Fleet Co. Series A

	Nondiverse Pool	Diverse Pool
Initial Rating — Class A	AAAsf	AAAsf
Wholesale Vehicle Value Stress	AA–sf	AAsf
Bankruptcy/Liquidation Extension Stress	AA–sf	AAsf
Combination Stress	Asf	AA–sf
Initial Rating — Class B	BBBsf	BBBsf
Wholesale Vehicle Value Stress	<BBsf	BBsf
Bankruptcy/Liquidation Extension Stress	BBsf	<BBsf
Combination Stress	<BBsf	<BBsf

Source: Fitch Ratings

Appendix B — Rental Fleet ABS Data List

Company Overview

- Description of business lines.
- Description of marketing strategy.
- Description of industry/competitive position.
- Organizational charts.
- Management biographies.
- Key managers and members of the board of directors.
- Financial highlights (past three years of audited financials).
- Funding sources/securitization objectives.
- Industry outlook.

Fleet Management and Operations

- Fleet management/servicing organization structure and operations.
- Fleet strategies, competition and capacity planning. Vehicle procurement, including manufacturer programs and at-risk vehicles.
- Vehicle depreciation and residual value-setting policies and methodologies.
- Fleet depreciation and residual value-setting procedures and methodologies.
- Vehicle in-service management and servicing.
- Fleet maintenance and servicing, including registration, plating, titling, maintenance and warranty claims, and vehicle recovery.
- Historical casualty losses.
- Backup servicer and administrator and liquidation agent servicing, duties and responsibilities.
- Reporting systems.

Insurance

- General overview of the policy, including coverage.
- Required documentation and ongoing maintenance.
- Discussions of how accounts are removed or substituted.

Manufacturer Relationships

- Key manufacturer relationships and any proposed changes to these relationships.
- Key repurchase and vehicle supply agreements.
- Fleet-management process from vehicle purchase to vehicle disposition.

Remarketing

- Car disposition process and timeline.
- Description of remarketing process.
- Physical auction.
- Internet.
- Dealer.
- Lessee.
- Other.

- Disposition expenses and collection of end-of-term charges.
- Auction and disposition expenses.
- Mileage and wear/tear.
- Differences in remarketing procedures by product.

Residual Value Underwriting

- Forecasting procedures.
- Analysis of residual values.
- Loss protection mechanisms.
- Vehicle maintenance/excess wear recoveries.
- Other recoveries.

Portfolio Performance Review

- Historical fleet composition.
- Vehicle manufacturer programs and vehicle concentrations/limits.
- Casualty losses.
- All costs associated with fleet management and servicing.
- Vehicle depreciation (vehicle segment/make/model/program versus nonprogram).
- Disposition loss performance:
  - Disposition losses by program versus nonprogram, and by disposition channel.
  - Disposition losses by vehicle segment/vintage/make/model (combined for entire fleet and by program versus nonprogram vehicles).
  - Disposition/residual value loss trends.
  - Mark-to-market comparisons by program versus nonprogram/vehicle segment/vintage/make/model.
  - Disposition expenses and fees.
  - Outlook for residual values.

Collateral Stratification Tables

- Each stratified by dollar and percentages of securitization value.
- Vehicle age.
- Vehicle year distribution.
- Vehicle make/model composition.
- Vehicle type composition, separated into the following segments:
  - Compact car.
  - Midsize car.
  - Full-size car.
  - Luxury car.
  - Sports car.
  - Minivan.
  - Full-size van.
  - Compact pickup.

- Full-size pickup.
- Mini-SUV/crossover utility vehicles.
- Midsize SUV.
- Full-size SUV.
- Luxury SUV.

- Original price/capitalized cost.
- Current value based on established pricing source.
- Geographic distribution.
- Program/nonprogram mix.

Administration and Liquidation Agents

- Corporate overview.
- Ongoing duties and responsibilities.
- Processes and procedures.
- Vehicle tracking and disposition/liquidation.
- Administrative duties.
- Reporting.