

RATING METHODOLOGY

TABLE OF CONTENTS

Scope	1
Rating approach	2
Asset-level analysis and related modeling	2
Structural analysis and liability modeling	6
Other considerations	8
Monitoring	12
Moody's related publications	13

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Fleet Lease Securitizations Methodology

This rating methodology replaces the *Fleet Lease Securitizations Methodology* published in April 2020. In this update, we have (i) simplified the methodological framework to apply a single modeling approach, based on Monte Carlo simulations, to generate a probability distribution for the portfolio's default and recovery rates; (ii) adjusted our default probability assumptions in certain cases to account for the critical nature of fleet leases for business operations, including during Chapter 11 bankruptcy; (iii) updated our default probability assumptions for unrated lessees and established caps on the allowable size of large lessees without an individual assessment; (iv) updated the methodological framework to use estimated portfolio recovery rates as model inputs; (v) adopted a comprehensive cash flow model, ABSROM™, to assess fleet lease ratings based on the portfolio characteristics and liability structure; and (vi) established caps for the maximum percentage of sizable lessees without an individual assessment in a transaction. We also have made editorial updates to enhance transparency and readability.

Scope

This methodology applies to fleet lease securitizations globally. The underlying collateral in a fleet lease transaction mainly consists of a pool of open-end leases in which the lessees bear residual value losses. In certain transactions, a small percentage of the securitized pool may consist of closed-end fleet leases or fleet loans.

Although this methodology is global in nature, the asset class is most developed in the US. We may adjust the assumptions and analysis described in this methodology on a case-by-case basis for fleet lease securitizations issued outside of the US.

Rating approach

Asset description

Fleet lease asset-backed securities (ABS) are securitizations secured by pools of fleet leases and the related vehicles. The lessees are typically corporations that maintain fleets of vehicles to conduct their business. Fleet leases are generally originated under a master lease agreement with a particular lessee with specific schedules related to specific vehicles. The fleet vehicles are generally cars, light trucks or vans, but may also include medium- or heavy-duty trucks and some specialized vehicles such as trailers, forklifts and other types of equipment.

In an open-end lease, the fleet leasing company sells the vehicle on behalf of the lessee when the vehicle is returned upon lease expiration. Any loss or gain on the sale accrues to the lessee as long as the vehicle is sold for more than a specified minimum value guaranteed by the lessor. This minimum value guarantee provided by the lessor is set at a low value and is necessary to qualify the leases as "operating leases" by the lessee. The lessee bears any loss in residual value down to such a low value that, for all practical purposes, the lessee bears the residual risk.

Key risks

Potential losses in a fleet lease transaction are driven primarily by the aggregate default probability of the lessees (which, in turn, depends on the credit quality and diversity of the lessees in the pool) and the recovery rate on the repossessed vehicles when a lessee defaults. Because the lessees bear residual value losses in open-end leases, fleet lease ABS investors are typically only exposed to residual value loss if a lessee defaults on its lease and the defaulted lessee's vehicles are repossessed and sold for less than their book value. By contrast, consumer auto lease securitizations are typically backed by portfolios of closed-end leases, and therefore expose investors to residual value losses at lease expiration when consumers turn in their vehicles.

The credit risk of the corporate lessees is a key risk in fleet lease ABS. If the lessees are able and willing to make their lease payments, including during a Chapter 11 bankruptcy, the transaction will typically not bear losses. The credit strength of the pool also depends on its diversity, particularly the lessee and industry concentrations, which we discuss in the "Lessee concentrations" section.

In addition, fleet lease pools with weak lease and vehicle characteristics may expose investors to lower recovery rates in the event of a lessee default.

Analysis overview

To quantify the risks of the securitized pool, we assess the lessees' credit quality, concentration risks, and lease and vehicle characteristics. We use a Monte Carlo simulation model to determine the portfolio's default and recovery distribution.

We then use the default rate and recovery rate outputs in a cash flow model to derive the expected losses on the securities. In the cash flow model, we specify, among other aspects, the portfolio default and recovery timing over the transaction life and the credit enhancement in the transaction. The loss outcomes on the securities are calculated and probability weighted to estimate the expected loss on the securities.

The model outputs derived by our quantitative modeling are important considerations in our rating committee process. However, the ratings assigned by the rating committee incorporate a variety of qualitative factors and may differ from the model output.

Asset-level analysis and related modeling

Asset-level framework

We use a model called CDOROM™ to evaluate, using Monte Carlo simulation, losses on asset portfolios when we rate certain structured finance transactions. Each Monte Carlo scenario simulates defaults and recovery rates for each obligor to derive losses on a

portfolio. In CDOROM, we model correlations across lessees based on their location and industry. For fleet lease portfolios, the output generated from CDOROM is a portfolio's probability distribution with a default and a recovery rate for each scenario.

As part of our asset-level analysis and related modeling, we assess the following:

- » **Lessee default probability:** We review the ratings of the lessees that we rate, and perform credit estimates or make assumptions about the default probability for unrated lessees. We may request more detailed information on large exposures if we do not rate them to assess their default probability. We also examine the distribution of credit profiles among the lessees.
- » **Lessee concentrations:** We examine concentration (by net book value), including the relative size of the top lessees. We also analyze the industry and geographic distributions of the lessees to identify any large exposures to a particular industry or region.¹
- » **Recovery rates:** We review the types of vehicles in the pool as well as important lease characteristics, such as the weighted average depreciation rate and weighted average lease age. We consider investors' potential exposure to residual value risk in a transaction.

Lessee default probability

We estimate the default probability on lease obligations using the Moody's credit ratings of lessees in the pool and credit estimates for non-Moody's-rated lessees. We may derive credit estimates from the rating of a related entity.² In addition, we may derive a default probability for US corporate firms from Moody's Analytics RiskCalc™ (RiskCalc).

For lessees without an individual assessment (such as a Moody's rating, credit estimate or RiskCalc-based default probability), we typically use a conservative default probability assumption consistent with a B1 to Caa1 rating range. Typically, we seek to obtain an individual assessment whenever a lessee constitutes more than 3% of the pool balance, and we typically will not assign a rating to the securities if a single lessee without an individual assessment represents more than 5% of the pool balance at transaction closing. When a lessee without an individual assessment represents more than 3% of the pool balance, we typically apply a two-notch haircut to its default probability assumption, e.g., to Caa1 from B2, and we may test the sensitivity of the securities' ratings to a default probability assumption as low as Caa2 for such a lessee.

We will not assign ratings to the securities if the percentage of sizable lessees without an individual assessment exceeds 20% of the pool balance at transaction closing. For this purpose, we consider a lessee to be sizable if it represents at least 1% of the collateral pool. If the percentage of sizable lessees without an individual assessment comes to exceed 20% of the pool balance during the transaction life and this exceedance is not cured within 90 days, we would not maintain the ratings due to our inability to reliably assess the credit risk of the pool.

Fleet leases are often critical to a lessee's operations, including during a Chapter 11 bankruptcy, and fleet lessee bankruptcies often do not result in losses. As such, we may adjust the lessee's default probability in certain circumstances to consider the likelihood of a lessee assuming their lease in a Chapter 11 bankruptcy. Specifically, we apply a one notch positive adjustment to a lessee's credit rating (e.g., assume a B2 instead of B3 rating) when estimating its default probability in cases where a lessee is rated or has a credit estimate derived from the rating of a related entity. We restrict this adjustment to such lessees to ensure that the adjustment is applied primarily to larger lessees that, under the circumstances, would likely pursue a Chapter 11 bankruptcy. We do not apply this adjustment for fleet loans. However, in cases when fleet loans represent a marginal percentage of the pool, i.e., less than 5%, we may not differentiate between fleet leases and loans in our default probability analysis.

Lessee concentrations

Concentrations in the pool of lessees can increase a transaction's credit risk. A typical fleet lease pool includes thousands of leases, although the number of lessees is much smaller, typically numbering in the hundreds.

¹ We assign lessees to one of our industry classifications. A detailed description of our industry classifications is available in our methodology for rating collateralized loan obligations. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

² For more information, see our cross-sector methodology that discusses credit estimates. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

However, even with hundreds of lessees, most fleet lease transactions have significant lessee concentration risk. When a single lessee backs a large percentage of the pool, there is a risk that one lessee default could jeopardize a large portion of a transaction's cash flows. We review the actual concentrations in a pool as well as the concentration limits specified in the transaction documents to understand how pool concentrations could shift over time.

The industry and location of lessees may also be sources of concentration risk in fleet lease transactions. A downturn in an industry represented by a large concentration of lessees could increase the default risk of those related assets. Similarly, a regional economic downturn or other disruption could disproportionately impact a lease pool if the lessees are highly concentrated in the affected area.

We typically model the 60 largest lessees in the pool, as long as such lessees constitute at least 75% of the pool. If the top 60 lessees constitute less than 75% of the pool, we typically increase the number of lessees reviewed until we reach at least 75% of the pool (concentrated lessee portion). In CDOROM, we approximate the remaining granular portion of the pool by adding hypothetical lessees, each with a size typically equal to that of the smallest lessee in the concentrated lessee portion. We set the default probabilities and industry concentrations of the hypothetical lessees to be similar to those of the concentrated lessee portion.

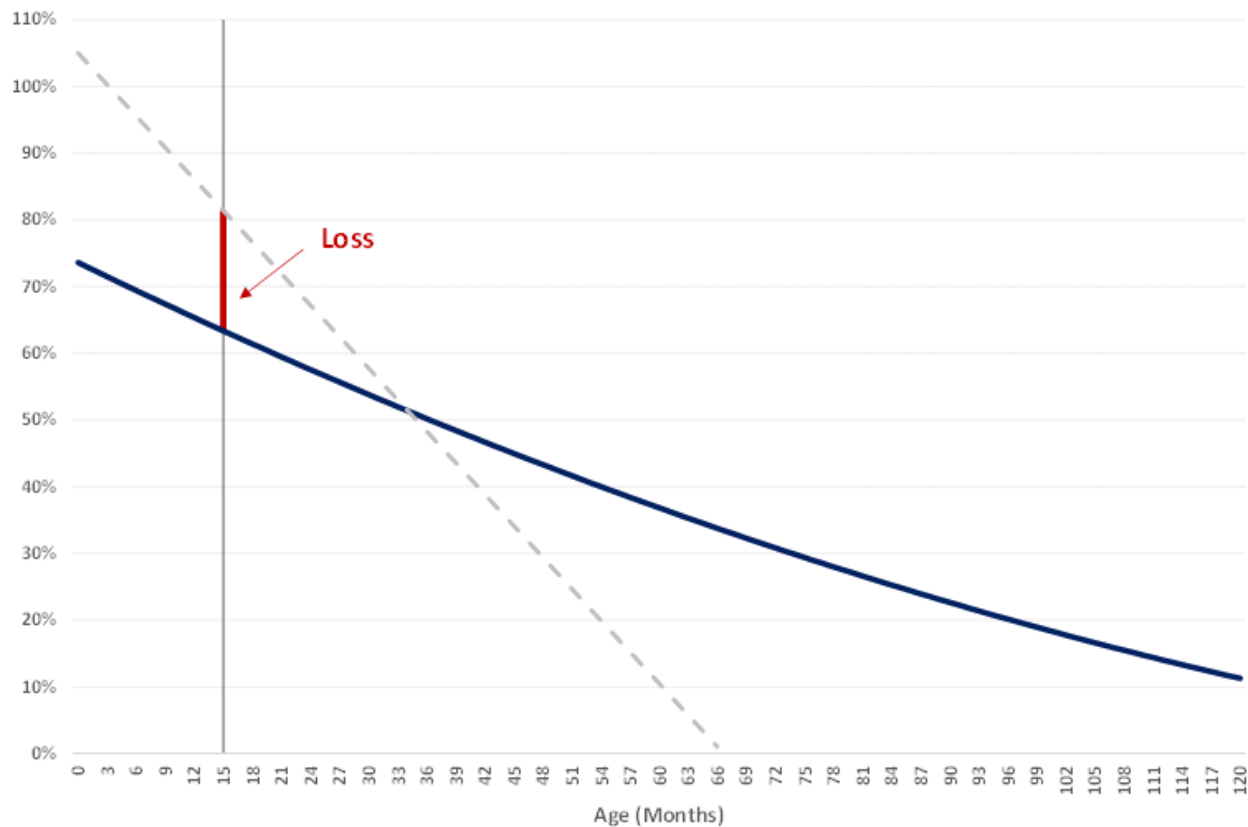
Recovery rate analysis

To estimate recoveries on defaulted fleet leases, we typically model stochastic recoveries. We assume each lessee's recovery rate follows a beta distribution specified by a mean recovery rate and a standard deviation of the recovery rate. Stochastic recoveries allow us to reflect the probabilities of various recovery scenarios.

The mean recovery rate is equal to one minus the mean loss severity which we estimate based on the difference between the average balance of the leases (as reduced by depreciation) and the average market value of the vehicles in a liquidation scenario, plus assumed liquidation expenses.³ Exhibit 1 provides a graphical illustration of the initial loss determination, prior to the consideration of liquidation expenses.

³ For more information, see the "Moody's related publications" section.

Exhibit 1

Illustration of initial loss determination (prior to consideration of liquidation expenses)

The gray dashed line represents the balance of a lease over time while the blue line represents the market value of a liquidated vehicle. Both lines are shown as a percentage of the MSRP and as a function of the vehicle age. In this exhibit, the lease age is equal to the vehicle age.

Source: Moody's Investors Service

We estimate the average lease balance as a percentage of the manufacturer's suggested retail price (MSRP) based on the actual or estimated lease weighted average age, depreciation rate, and initial capitalized cost relative to MSRP. We typically assume the leases depreciate based on a straight-line depreciation rate, but we may adjust our depreciation rates to reflect the presence of mortgage-style leases in the pool. The initial capitalized cost of the vehicles may be higher than their MSRP due to sales taxes, upfitting costs, and other fees and expenses but may also be lower due to negotiated discounts. We typically stress the weighted average age, depreciation rate and/or initial capitalized cost estimates to account for potential changes in pool composition.

We derive the vehicles' average market residual values as a percentage of the MSRP based on their age and broad vehicle type (pickup or non-pickup) using vehicle auction data. We may use lease age as a proxy for vehicle age in cases where pools include only a small percentage of used vehicles.

We typically increase our initial estimate of mean loss severity by a fixed amount (e.g., 5%) to account for potential contributors to losses in a liquidation scenario. This includes additional depreciation during the default period. When a lessee defaults, we assume the leases will be delinquent for a period before the lessee enters bankruptcy, a bankruptcy stay will delay the vehicle sales, and it will take time to sell vehicles in the used-vehicle market. We also consider the risk that vehicles may be stolen or damaged during the liquidation period. Although insurance may cover a significant portion of vehicle theft or damage expenses incurred during the liquidation period, third-party insurers may challenge a claim or delay payment, and we do not expect that a defaulted lessee would honor a self-insurance obligation.

We typically assume a minimum mean loss severity of 15%. This is partly to account for potential changes in pool composition after closing.

For the standard deviation estimate, we typically assume 12% for each lessee for pools with common characteristics, but may adjust this assumption on a case-by-case basis. We also assume that there is an intra-portfolio recovery rate asset correlation of typically 10%.

Closed-end leases

We consider on a case-by-case basis securitizations with a meaningful concentration of closed-end leases, in which investors bear the residual value risk. Transaction structures may provide additional credit enhancement for closed-end leases. To assess such risks, we may consider approaches that we use in other methodologies, such as our auto loan and lease ABS methodology, and we may review securitizations with such concentrations under that framework.⁴

Structural analysis and liability modeling

Most fleet lease transactions represent an interest in a master trust out of which individual series of securities are issued, and the individual series share a master securitized pool on a pari passu basis. The master securitized pools are revolving with new lessees entering into new leases and existing lessees exchanging vehicles, renewing lease terms, prepaying their obligations, or letting their leases expire. Certain transactions feature a revolving period during which investors are not paid any principal.

Cash flow analysis

Once we determine a probability distribution, we input into a cash flow model the cumulative defaulted and recovery amounts of the pool for each outcome in the probability distribution. We use a comprehensive cash flow model, ABSROM™, which enables us to model transaction cash flows derived from portfolios of fleet leases and the associated liability structure. The model produces a series of loss scenarios, with outputs for each security, including the expected loss, weighted average life and default probability. The key input parameters to the model typically include the following:

- » yield earned on the assets for each period, taking into account any stresses that could cause a decline in the yield
- » scheduled amortization of the assets
- » an asset prepayment rate assumption
- » an assumption about the timing of asset losses or defaults throughout the transaction's life
- » an assumption on the lag to recoveries on defaulted assets
- » transaction fees
- » interest rates on the securities, including the effects of any interest rate swaps
- » reserve amount, including under what conditions the amount will change
- » transaction's allocation of cash flows and losses among the various transaction parties, including different classes or tranches of securities
- » triggers that can change those allocations

The loss timing curve will depend on a transaction's maturity and will usually be front-loaded. For example, for a typical fleet lease securitization, we may assume that 50% of the defaults are realized in year one and 50% in year two. In our model, we typically use low or zero prepayments. However, we may apply alternative assumptions based on a review of transaction-specific information or historical data.

⁴ For information on how we assess residual value risk in auto lease securitizations, see our auto loan and lease ABS methodology. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

Excess spread is the difference between the interest earned on the leases and the interest paid on the securities plus transaction fees. Excess spread can provide a significant amount of credit protection to investors. However, the exact amount of protection is unknown at transaction closing and depends on several factors. We assess excess spread on a case-by-case basis. We may assume zero excess spread or apply a haircut to the weighted average interest rate of the leases in the pool, depending on the amount of excess spread available and other considerations. For example, for revolving pools, we consider the risk that new leases could have lower interest rates than pre-existing leases.

The model calculates the security's loss for each scenario of the probability distribution and weights each security's loss by the probability implied by the distribution. The model then sums the weighted losses to calculate the security's expected loss. We determine the model output for the security based on our benchmark relationships between a security's expected loss, its weighted average life, and our various rating categories.⁵

Credit enhancement

Credit enhancement in a fleet lease securitization typically includes subordination, over-collateralization, and a reserve account that is fully funded at transaction closing. A yield supplement account is also usually funded at closing to provide cash for any shortfall between the actual yield of a lease and the minimum required yield, which is equal to the weighted average cost of the securities plus servicing fee and a basis risk spread.

Short-term ('money market') tranche analysis

Transactions could contain a money market tranche that matures within 13 months of issuance. A key part of our analysis is determining the likelihood that the transaction (including consideration of available liquidity accounts) will provide sufficient cash flow to pay off the security before its stated legal final maturity. To analyze the risk, we focus on the timing of cash flows from the underlying assets.

For a money market security to be rated Prime-1 (sf), we typically expect the cash flows in the base-case scenario to be sufficient to completely pay down the security at least three months before its legal final maturity. In evaluating the cash flows, we consider the expected level of defaults, recoveries, prepayments, residual realizations and recovery lag until the legal final maturity of the money market security. A higher probability of servicer disruption and accompanying payment delays or volatile payment characteristics of the underlying collateral may require a cushion greater than three months.

In addition, we assess whether the cash flows the securitization assets would provide in a "stress" scenario – in which delinquencies and losses are high, prepayments and residual realizations are low and paid with a longer-than-expected lag – will be sufficient to pay off the security before its maturity date.

Loss benchmarks

In evaluating the model output for fleet lease transactions, we select loss benchmarks referencing the Idealized Expected Loss table⁶ using the Standard Asymmetric Range, in which the lower-bound of loss consistent with a given rating category is computed as an 80/20 weighted average on a logarithmic scale of the Idealized Expected Loss of the next higher rating category and the Idealized Expected Loss of the given rating category, respectively. For initial ratings and upgrade rating actions, the upper-bound of loss consistent with a given rating category is computed as an 80/20 weighted average on a logarithmic scale of the Idealized Expected Loss of the given rating category and the Idealized Expected Loss of the next lower rating category, respectively. When monitoring a rating for downgrade, the upper-bound of loss is computed as a 50/50 weighted average on a logarithmic scale. That is, the benchmark boundaries of loss appropriate for evaluating rating category *R* are given by:

⁵ For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions* (a link can be found in the "Moody's related publications" section) and in the "Loss benchmarks" section.

⁶ For more information, see the discussion of Idealized Probabilities of Default and Expected Losses in *Rating Symbols and Definitions*. A link can be found in the "Moody's related publications" section.

Exhibit 2

Standard asymmetric loss benchmark boundaries

$$[1] \text{ Rating Lower Bound}_R = \exp\{0.8 \times \log(\text{Idealized Expected Loss}_{R-1}) + 0.2 \times \log(\text{Idealized Expected Loss}_R)\}$$

$$[2] \text{ Initial Rating Upper Bound}_R = \exp\{0.8 \times \log(\text{Idealized Expected Loss}_R) + 0.2 \times \log(\text{Idealized Expected Loss}_{R+1})\}$$

$$[3] \text{ Current Rating Upper Bound}_R = \exp\{0.5 \times \log(\text{Idealized Expected Loss}_R) + 0.5 \times \log(\text{Idealized Expected Loss}_{R+1})\}$$

Where:

- » *Rating Lower Bound_R* means the lowest Idealized Expected Loss associated with rating *R* and the expected loss range of rating *R* is inclusive of the *Rating Lower Bound_R*.
- » *Initial Rating Upper Bound_R* means the highest Idealized Expected Loss associated with rating *R* that is either initially assigned or upgraded and the expected loss range of rating *R* is exclusive of the *Rating Upper Bound_R*.
- » *Current Rating Upper Bound_R* means the highest Idealized Expected Loss associated with rating *R* that is currently outstanding and the expected loss range of rating *R* is exclusive of the *Rating Upper Bound_R*.
- » *R-1* means the rating just above *R*.
- » *R+1* means the rating just below *R*.
- » The Rating Lower Bound for Aaa is 0% and the Rating Upper Bound for C is 100%. These are not derived using the formula.

Source: Moody's Investors Service

Other considerations**Counterparty risks**

We consider various counterparty-related risks at different stages throughout our credit analysis. More specifically, the risks we consider include hedge counterparties, operational risks, commingling risk, account bank risk and set-off risk.⁷ Based on our review, we may adjust our assumptions, inputs or model results. If information is limited, we may also adjust the rating level.

Hedge counterparties

We analyze the rating impact of exposures to hedge counterparties including assessing the probability of a transaction becoming unhedged and deriving additional potential losses. As part of our analysis, we may conclude that we adjust the ratings to reflect the linkage and additional loss.

Operational risk⁸

Operational risks can arise from various potential sources, including disruption to cash flows caused by the financial distress of a service provider to the fleet lease transaction. As part of our analysis, we consider the financial disruption risk and the roles of servicers, administrators, calculations agents, trustees and similar parties.

An operational risk specific to fleet lease ABS results from the sponsor or a subsidiary typically acting as the servicer to the transaction while also providing contractually separate, ancillary services to the lessees that are usually not part of the ABS transaction. These services may include title, registration, insurance, vehicle remarketing, maintenance, fuel cards, and accident management services.

Because these ancillary services are often integral to the value that the sponsor provides to their clients, a failure to perform these ancillary duties, possibly due to the financial stress or bankruptcy of the servicer, could affect the lessee's willingness to make lease

⁷ For more information, see our methodology for assessing counterparty risks in structured finance transactions. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

⁸ For more information detailing additional rating considerations specific to operational risk, see the link to a list of our sector and cross-sector methodologies in the "Moody's related publications" section.

payments. This risk is typically mitigated by the “hell-or-high-water” nature of fleet leases; that is, the lessees have an absolute obligation to make the lease payments regardless of any other service contracts between the lessee and the sponsor.

As described below, the titling trust structure of fleet lease securitizations typically mitigates the likelihood of operational risks related to automatic stay and substantive consolidation in the event of a servicer bankruptcy.

Commingling risk⁹

In fleet lease transactions, funds owed to investors may be “commingled” with funds of another transaction party before the funds’ transfer to the issuer’s account. If that other party becomes bankrupt, it may be difficult to determine the source and ownership of the commingled funds, resulting in an additional loss for investors. Our analysis captures whether commingling risk exists in a transaction, determines the credit quality of the party and the exposure, and incorporates the additional loss.

The lease payments are commonly made to a lockbox account, which is normally swept within two business days to a collection account in the name of the indenture trustee for the benefit of the investors. Thus, at most, two days of collections would be at risk of loss in a sponsor bankruptcy. Alternatively, if lessees are instructed to pay directly to the collection account in the trustee’s name, there is no commingling risk.

Account banks and investments

Generally, our analysis of account banks and temporary investments consists of three steps: (1) we assess the “rating uplift” to the account bank’s rating to obtain an “adjusted” rating; (2) if the adjusted rating is below a certain threshold, we assess the exposure of the transaction and categorize the risk into either “standard” exposure or “strong” exposure; and (3) we determine rating caps to the transaction ratings subject to other quantitative and qualitative factors.

Legal risks

We assess legal risks that may affect the expected losses posed to investors. In particular, we consider the potential legal consequences of whether the issuer is bankruptcy remote. We review legal opinions at closing to inform our views on the key legal risks identified in a transaction.

Compared to other securitization structures, the titling trust structure typically used in US fleet lease transactions requires additional legal factors to be addressed when considering bankruptcy remoteness and perfection of security interests in the assets of the transaction. In addition, ERISA liability is a further legal risk that we review in fleet lease securitizations. Canadian transactions typically do not use titling trust structures. Instead, the originator sells the vehicles to a limited partnership or trust, which then enters into a financing arrangement.

Titling trusts

In the US, the securitization sponsor – the fleet leasing company – typically establishes a “titling trust” or “origination trust” before undertaking its first securitization. The titling trust is intended to be bankruptcy remote from the securitization sponsor and is the key point of our bankruptcy remoteness analysis. A titling trust generally acts in its name. Certain states require the trustee of the titling trust to qualify as a fiduciary.

As leases are underwritten, the vehicles are titled from the beginning in the name of the titling trust. The titling trust, rather than the sponsor or the special purpose entity (SPE) issuing the ABS, owns the leases and leased vehicles. However, the sponsor performs the lease origination and management as servicer on behalf of the titling trust. The titling trust’s legal ownership of the lease and vehicle collateral never changes.

The titling trust is an efficient means of reducing the administrative burden of re-titling vehicles because re-titling vehicles in the name of a securitization trustee is economically and administratively impractical. More specifically, registering certificates of title to and liens on vehicles is costly because (i) registration of vehicles is governed by state law; (ii) state law varies on titling and perfection

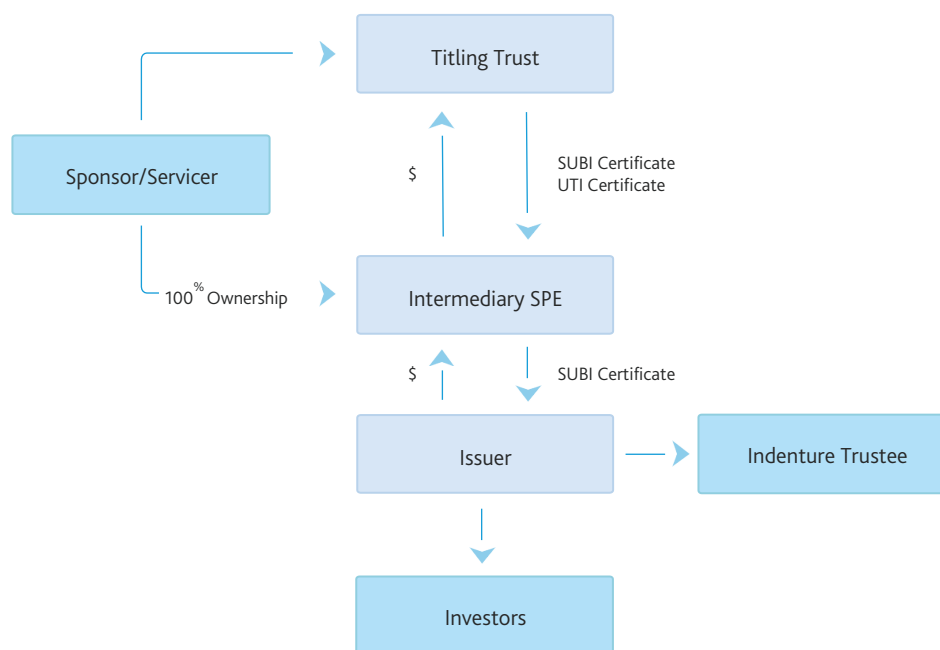
⁹ For more information on assessing commingling risk in structured finance, see the link to a list of our sector and cross-sector methodologies in the “Moody’s related publications” section.

requirements; and (iii) costs increase where each new transfer of the vehicle requires re-registration to establish indisputable rights in the vehicle. The multiple transfers often necessary in securitization structures magnify this cost and burden.

In a fleet lease ABS transaction, the titling trust will typically transfer a beneficial interest in a designated portfolio of leases and vehicles to an intermediary special purpose limited liability company (intermediary SPE). That interest is known as a “special unit of beneficial interest” (SUBI) and is represented by a SUBI certificate. The SUBI is an equitable claim on the designated portfolio of leases and vehicles and gives the holder the right to cash payments received with respect to those assets. Exhibit 3 illustrates a typical US fleet lease ABS transaction structure.

Exhibit 3

Typical fleet lease ABS transaction structure



Source: Moody's Investors Service

The titling trust also transfers to the intermediary SPE an undivided trust interest (UTI), which represents the remaining assets of the titling trust that are not allocated to a SUBI. The intermediary SPE will then sell the SUBI certificate to the issuer (another bankruptcy-remote special purpose limited liability company) in a “true sale” transaction. The intermediary SPE, which is wholly owned by the sponsor, retains the UTI. The issuer will issue ABS to finance the purchase of the SUBI certificate.

Typically, it is the SUBI and the rights associated with it that are securitized. Ownership of the leased vehicles and lease receivables are not part of the issuer's estate but remain in the titling trust. In addition, the securitization trustee, the issuer, and the ABS investors have no rights in any other designated SUBIs or the unallocated assets (the UTI).

Bankruptcy remoteness of the issuer, intermediary SPE and titling trust

We analyze whether the issuer, intermediary SPE and titling trust are bankruptcy remote such that the likelihood of (i) a bankruptcy filing by or against them; or (ii) substantive consolidation – that is, the pooling of the issuer's assets and liabilities with those of a bankrupt affiliate – is so low that it has no rating impact.¹⁰ If we determine that the issuer, intermediary SPE or titling trust is not

¹⁰ For more information, see our methodology on bankruptcy remoteness criteria in structured finance transactions. A link to a list of our sector and cross-sector methodologies can be found in the “Moody's related publications” section.

bankruptcy remote, we assess the potential rating impact on a case-by-case basis according to the likelihood of bankruptcy and the possible negative consequences for investors.

Fleet lease transactions are typically structured so that the securitized assets – in this case, the SUBI – are transferred to the issuer in a “true sale” and that the issuer holding the assets will not be substantively consolidated into the bankruptcy estate of the sponsor.

The key bankruptcy issue in fleet lease securitizations is the potential substantive consolidation of the titling trust or the issuer with the sponsor in the event of the sponsor's bankruptcy. Although intended to be bankruptcy remote, unlike other, more conventional SPEs, the titling trust is unavoidably a part of the sponsor's leasing program. The sponsor continuously manages the purchase of vehicles as the titling trust enters into lease agreements with the corporate lessees. The sponsor also remarkets and disposes of the vehicles as the lessees return them. This active role by the sponsor in the securitization can increase the risk of substantive consolidation of the titling trust or issuer with the sponsor's bankruptcy estate as the sponsor's creditors have stronger reason to argue that the titling trust assets belong to the sponsor.

The risk of substantive consolidation is mitigated in several ways in a fleet lease securitization. The titling trust acquires the vehicles for an amount that equals the vehicles' acquisition cost and then directly enters into leases with the lessees, in a process managed by the servicer. In addition, the assets designated for each SUBI are segregated on the titling trust's books and records, and all other appropriate corporate formalities associated with a bankruptcy-remote SPE are observed.

A secondary consideration is the potential involuntary bankruptcy filing by outside creditors against the titling trust. In this case, too, the ongoing financing of leased vehicles owned by the titling trust may undermine the financial integrity of the titling trust.

The formal separation of the titling trust from the sponsor and the issuer reduces the potential for substantive consolidation and involuntary bankruptcy filing by the titling trust.

Security interest

A first priority perfected security interest in the securitized assets, i.e., the SUBI certificate and the accompanying rights, is an essential protection of ABS investors' interests. Although the SUBI certificate is transferred in a true sale to the issuer, a first priority perfected security interest is typically obtained in favor of the securitization trustee to protect against the bankruptcy of the titling trust and the recharacterization of the sale as a financing. The titling trust's bankruptcy is a remote possibility since it is structured as a bankruptcy-remote vehicle.

Through its ownership of the SUBI certificate, the issuer has a beneficial ownership interest in the leases and the vehicles allocated to the SUBI. The issuer does not have title to, and the indenture trustee does not have a security interest in, the leases or the leased vehicles allocated to the SUBI. In most fleet lease ABS transactions, neither the issuer nor the indenture trustee has a perfected security interest in the leases and the leased vehicles.

Under certain circumstances, such as to protect against intervening creditors, a backup security interest in the lease agreements that remain in the titling trust in favor of the securitization trustee also may help to reduce risks. However, no lien is granted to the securitization trustee in the underlying vehicle. To do otherwise would defeat the purpose of the titling trust, which is set up as a bankruptcy-remote entity to avoid the expense and burden of retitling vehicles for each securitization.

ERISA liability

The titling trust assets could potentially become subject to liens in favor of the Pension Benefit Guaranty Corporation (PBGC) to satisfy unpaid Employee Retirement Income Security Act (ERISA) obligations of any member of an “affiliated group” of the sponsor or the operating leasing company. In a debt-for-tax transaction, the titling trust may be deemed affiliated with the leasing company for ERISA purposes.

To address this potential liability, fleet leasing companies typically provide evidence to the securitization trustee, on an ongoing basis, that neither it nor any of its ERISA affiliates, have unfunded PBGC liabilities. An effective means of monitoring this risk is through the officers' certificates of the sponsor on a periodic basis that confirm the absence of unfunded pension liabilities in any affiliated company.

Ongoing ERISA compliance is particularly important because fleet lease ABS investors typically do not have a perfected security interest in the vehicles that are included in their SUBI portfolio. Because any ERISA lien may have priority over the securitization trust's interest in the SUBI vehicle units, a transaction's rating is correlated with the creditworthiness of the leasing company to the extent that the leasing company or its affiliates have unfunded pension liabilities.

Data quality evaluation

We assign ratings to securities issued by a fleet lease transaction when we have sufficient information from reliable sources. Data quality is also important throughout the life of a fleet lease transaction, as described in the "Monitoring" section.¹¹

Local currency ceiling considerations

The country where the transaction's assets, originator, or issuer is located could introduce systemic economic, legal or political risks to the transaction that could affect its ability to pay investors as promised. We usually incorporate such risks into the analysis by applying our local currency ceilings (LCC).¹²

Environmental, social and governance considerations

Environmental, social and governance (ESG) considerations may affect the ratings of securities backed by a portfolio of fleet leases. For more information about our approach to assessing ESG issues, please see our methodology that describes our general principles for assessing these risks.¹³

Monitoring

We generally apply the key components of the approach described in this report when monitoring transactions, except for those elements of the methodology that could be less relevant over time, such as the structural and legal analysis.

Transaction performance

We typically receive periodic transaction performance data which we use to monitor transactions. When monitoring the performance of outstanding fleet lease ABS transactions, we review the delinquency and loss experience, and if applicable, residual realizations. We also consider developments in the credit quality and concentration of the lessees, the credit quality of the servicer and other parties to the transaction, and the amount and form of credit enhancement.

A material change in any of these factors may prompt a more in-depth analysis, including rerunning our models with updated assumptions.¹⁴ In addition, we typically monitor compliance with the various concentration limits, such as the top lessee concentration limit, as applicable.

¹¹ For more information, see our approach to evaluating data quality in structured finance transactions. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

¹² For more information, see our approach to assigning local and foreign currency country ceilings. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

¹³ A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

¹⁴ For example, in methodologies where models are used, modeling is not relevant when it is determined that (1) a transaction is still revolving and performance has not changed from expectations, or (2) all tranches are at the highest achievable ratings and performance is at or better than expected performance, or (3) key model inputs are viewed as not having materially changed to the extent it would change outputs since the previous time a model was run, or (4) no new relevant information is available such that a model cannot be run in order to inform the rating, or (5) our analysis is limited to asset coverage ratios for transactions with undercollateralized tranches, or (6) a transaction has few remaining performing assets.

Moody's related publications

Credit ratings are primarily determined through the application of sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. A list of sector and cross-sector credit rating methodologies can be found [here](#).

A comprehensive description of our approach for estimating recovery rates can be found in the following data report: [Fleet Lease Securitizations: Loss Severity Modeling](#).

For data summarizing the historical robustness and predictive power of credit ratings, please click [here](#).

For further information, please refer to *Rating Symbols and Definitions*, which includes a discussion of Moody's Idealized Probabilities of Default and Expected Losses, and is available [here](#).

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