

# Consumer ABS: Credit Risk Drivers of Performance (US)

A two-day workshop to develop an in-depth analytic approach to assessing the credit risk, structural aspects and returns of Credit Card and Auto ABS asset classes.

## TARGET AUDIENCE

Investors, issuers, fund management professionals and those involved in ABS credit risk management.

## COURSE OBJECTIVES

Participants will be equipped to:

- Use a structured approach to evaluate the risk profile of credit card and auto loan ABS by assessing collateral characteristics, role of the originator, credit enhancement available, current asset performance, and the cash-flow waterfall
- Understand the Fitch credit card default model focusing on the stress scenarios utilised by the rating agency given the current economic environment
- Unravel credit enhancement mechanisms including excess spread and overcollateralisation
- Assess the risks to each tranche by unravelling its position in the cash-flow waterfall
- Identify any risks arising from the seller / servicer's capabilities and business model
- Review various government and private sector programs including TALF and Reg AA
- Monitor deal performance to anticipate rating potential rating migration in the context of current market conditions.

## CONTENT

### INTRODUCTION

#### Analytic approach to credit

- A structured four-step approach to security specific analysis: purpose, payback, risks and structure
- Applying the approach to various ABS asset classes including credit cards, autos and student loans
- Originator motivations and the sources of repayment
- The role of the originator in asset performance
- Current challenges including the lack of liquidity and the consumer recession
- Understanding the government's role in thawing credit markets.

### RISKS TO REPAYMENT

#### Collateral analysis

- Collateral features of credit card receivables and auto loans
- Key variables which impact the likelihood of default and severity of loss
- Defining the base case: using static / vintage data and steady state assumptions
- Model approach: applying stresses to pools and sub pools
- Applying stresses to default probability and loss severity assumptions given changing market conditions

#### Seller / Servicer evaluation

- Company analysis: commercial / financial viability
- Risks arising from the business model – captive financing
- Servicer ratings: why, how and impact on credit enhancement
- Assessing replacement risk.

## STRUCTURE

### Credit enhancement (CE)

- Unravelling different types of credit enhancement including excess spread, over-collateralisation, and subordination
- Credit enhancement and loss allocation within deal structures

### Note Profile and Structural Safeguards

- Comparing pay structures: revolving and amortising pools
- Master trust and issuance trust structures for revolving pools
- The cash-flow waterfall: allocating and protecting the priority of payments
- Unravelling payment flows: sources and application of funds
- Early amortisation triggers: assessing the impact
- Using swaps to hedge interest rate risk and the impact on excess spread

### Legal safeguards

- Isolation of assets and the special purpose vehicle
- Events of default, reps and warranties

### Market Conditions

- Illiquidity and the impact on issuance and spreads
- The role of the government in thawing the credit markets – the TALF program
- The impact of the consumer recession on collateral performance.

## MONITORING PERFORMANCE

- Surveillance: evaluating and predicting collateral performance
- The role of the seller / servicer in mitigating losses
- Bankruptcy risk in consumer assets
- Credit trends, early warning signs, and assessing migration risk.

