Consumer ABS: Credit Risk Drivers of Performance (Europe)

A one-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 the collateral, originator, servicer and structure
- Understand the impact of performance variables on risk assessment models
- Critique transaction structures to identify and assess the risks and mitigants
- Evaluate the relative risks and rewards of consumer ABS across the rating spectrum.

CONTENT

INTRODUCTION

Analytic approach to credit

- A structured approach to analysis: purpose, payback, risks and structure
- Applying the approach to ABS asset classes (e.g. credit cards, auto loans)
- Purpose / payback: originator motivations and sources of repayment

RISKS TO REPAYMENT

Collateral analysis

- Collateral features of ABS assets: credit card and auto loan
- 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
- Stress multiples: loss approach and obligor concentrations
- Modelling the impact of key performance variables
- Deriving credit enhancement levels

Originator evaluation

- Company analysis: commercial / financial viability
- Risks arising from the business model
- Credit risk management and underwriting

Servicer evaluation

- Loss mitigation: capabilities, strategy and procedures
- Specialised needs for specialised assets
- Third party servicers and replacement risk

STRUCTURE

Credit enhancement (CE)

- Unravelling different types of internal and external CE
- Allocating losses within deal structures
- Evaluating changing forms and amounts of CE
- Ensuring CE mechanisms protect investor interests

Profile

- Waterfall structures: protecting priority of payments
- Comparing pay structures: sequential, pro rata, modified pro rata, shifting pay etc.
- Revolving and amortising pools: special considerations
- Expected and legal maturity, soft bullets and redemption features

Structural safeguards

- Eligibility criteria: controlling new additions
- Trigger events: types, mechanics, and applications
- Ensuring trigger events capture key risks
- Evaluating liquidity structures and providers
- Using swaps to hedge various risks

Legal safeguards

- Security, tax and regulatory areas of concern
- Events of default, reps and warranties

Pricing

- Spreads across the credit spectrum and asset classes
- Moving down the curve: value versus risk

MONITORING PERFORMANCE

- Surveillance: Collateral, servicer / originator and counterparty
- Interpreting performance to identify early warning signals
- Credit trends: migration and developing pockets of risk.

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