

# Auto ABS from an EDW-Perspective



## MANAGEMENT SUMMARY

1. This analysis builds on our study “Fasten Your Seatbelts - European Auto ABS on the Rise”, in which we undertook a broad review of the European ABS market. In this study we look at the auto ABS segment based on an alternative data source, namely data from the European Data-Warehouse (EDW). In doing so, we will look at loan-level data which has become available as a result of the ABS loan-level initiative. Creditreform Rating continuously monitors the development of the ABS market, as this segment is an important field of business for us. Moreover, Creditreform Rating is a shareholder in the European DataWarehouse GmbH.

2. Our analysis of the EDW data pool indicates favorable development for auto ABS in Europe. The number of auto ABS deals found in the EDW has steadily increased since vintage 2009. As of July 2015, the EDW contains auto ABS transactions with a total issue volume of 100.5bn euros. A breakdown of the loan-level data in the EDW shows not only that the European auto ABS market is dominated by German transactions, but also that auto ABS are the predominant asset class with regard to securitizations with German underlyings.

3. The cumulative net loss rate fell in 2011 from an average 0.483% to 0.155% before increasing again in 2012 to 0.444%. The cumulative net loss rate has since been in decline. In 2013 the cumulative net loss of auto ABS issued amounted to an average of 0.262% of the original pool balance. Only slight losses can be observed for 2014 and 2015 to date. Differentiation by the country of collateral indicates that German transactions exhibit strong collateral performance, with an average cumulative net loss rate of 0.169%.

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In our study “Fasten Your Seatbelts - European Auto ABS on the Rise”, we presented a broad analysis of the European auto ABS market, examining key criteria related to rating and collateral performance as well as issue volumes for auto ABS.

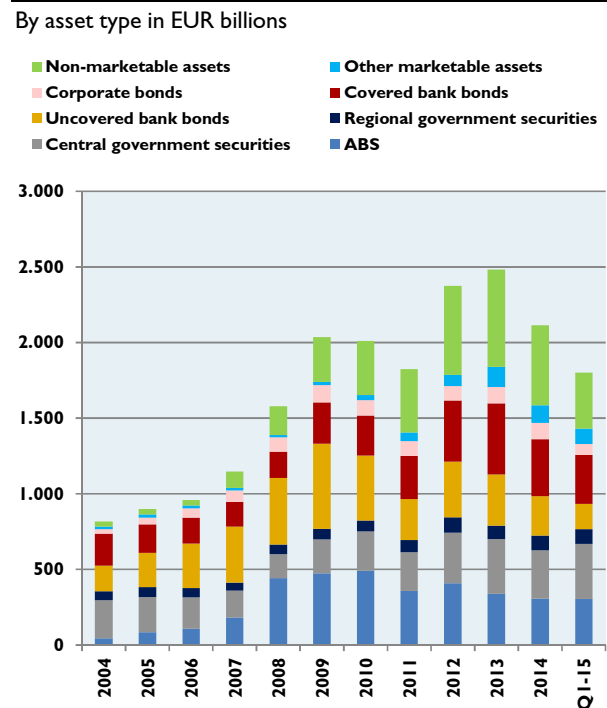
This analysis builds on the aforementioned study. Here we analyze the auto ABS market based on an alternative data source, namely data obtained from the European DataWarehouse (EDW). In light of this, we will review loan-by-loan information for auto ABS, which have only recently become available due to the loan-level initiative of the ECB.

As we showed in our preceding study, turbulence in the international finance markets since 2008 has led to relatively weak development of the securitization market in Europe, due to the high level of uncertainty on the part of market participants. Hence the Eurosystem has since taken on a more significant role, undertaking within its framework a series of changes in order to avoid collateral constraints and to mitigate risks in the securitization market. This has had a considerable effect upon the development of eligible collateral in the euro area, with regard to its composition and volume.<sup>1</sup> The volume of collateral posted with the Eurosystem had increased between 2007 and 2013 from 1.15 to 2.48tr euros before falling to approx. 1.8tr euros at the beginning of 2015 (see fig. 1).

At the same time, several originators experienced difficulties placing their newly-issued ABS due to market tensions, pledging these increasingly with central banks as collateral for Eurosystem credit operations. Other trading partners of the Eurosystem deliberately retained ABS transactions in order to use them as collateral in light of their urgent need for funds. The use of ABS saw a corresponding increase, resulting in a rise in the volume of ABS used as collateral since 2005 from

83.5bn euros to 304.1bn euros in Q1 2015, with an interim peak at 490bn euros in 2010.

**Fig. 1: Collateral posted with the Eurosystem**



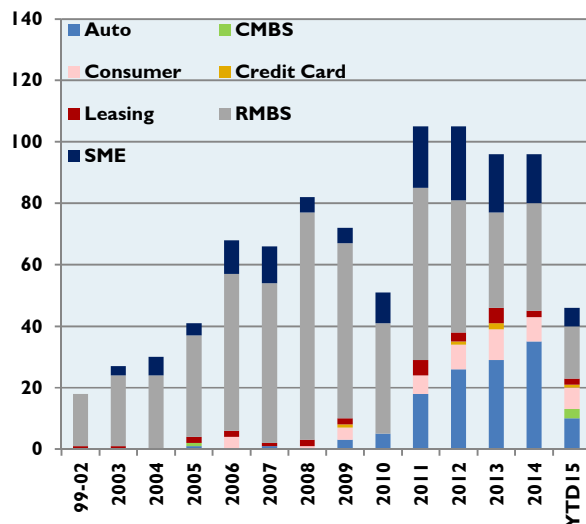
Source: ECB, Creditreform Rating

A series of decisions and initiatives on the part of the Eurosystem proved constructive in this respect. After the Eurosystem temporarily extended the eligibility criteria for ABS in 2011 and 2012, the ECB Governing Council decided in 2013 on measures to reduce the minimum threshold for ratings and haircuts for ABS.<sup>2</sup> Of particular significance, however, are the mandatory provisions of loan-by-loan information for ABS, the so-called ABS loan-level initiative, which came into effect in January 2013 and establishes specific requirements for the transparency and standardization of ABS which apply as eligibility criteria for the acceptance of ABS as collateral in the Eurosystem. This initiative constitutes a significant building block for the future development of the ABS market, fostering the reduction of information asymmetries and the restoration of market confidence.

In light of this, the European DataWarehouse (EDW) was implemented as a portal for loan-level data. The EDW is an independent platform which enables investors, originators, rating agencies, and other market participants to upload and download data related to individual loans. Market participants can use the EDW's highly standardized data to carry out analyses of the collateral pools underlying ABS more efficiently, and to systematically compare various portfolios.<sup>3</sup> This significantly improves the market transparency and risk assessment of collateral, which will in turn have a favorable effect on the functioning and development of the market.

**Fig. 2: The securitization market in the EDW**

Number of deals by asset class until July 2015



Source: European DataWarehouse, Creditreform Rating

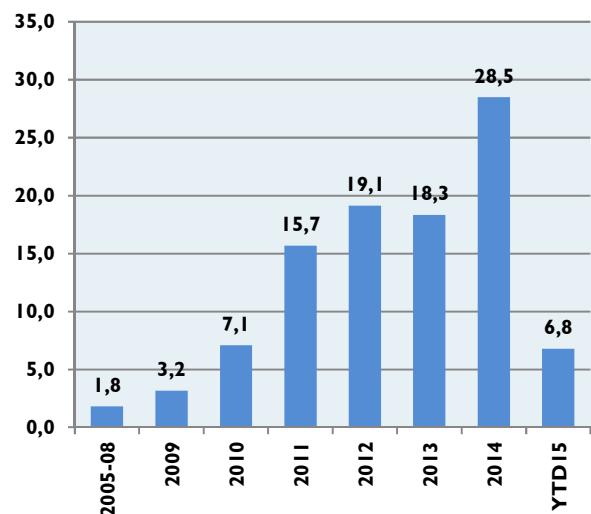
The EDW contains a total of 903 deals as of 20 July 2015. The majority of these are accounted for by RMBS with 60.8%, followed by SME transactions with 15.6%. However, what is the situation with regard to auto ABS? Generally, the composition of the EDW database reflects the positive development of auto ABS in Europe. Figure 2 shows a steady increase in the number of auto ABS existing in the EDW since 2009. While only ten transactions were recorded up to the vintage year 2010, this number increased to 18 in

2011. In the vintage year 2014 the number of auto ABS transactions rose by 35 to 118. In 2014, more than every third deal (36.5%) was an auto ABS transaction. Developments in the current year, in which ten transactions have been recorded to date, also indicate continuing robust growth.

This growth is reflected not only in the number of deals contained in the database of the EDW, but is also apparent from the development of the issue volumes of the respective vintages (see fig. 3). Between 2009 and 2011, the volume of new issuances doubled in each of the respective vintages, from 3.2bn to 7.1bn to 15.7bn euros. In the vintage year 2012 the volume reached approx. 19.1bn euros before declining slightly in the following year to 18.3bn euros. 2014 saw a surge to 28.5bn euros, a peak in the annual volume of auto ABS in the EDW. While the number of deals may be a cause for optimism, the volume of issues in the current year so far does not point to any imminent peaks. On the contrary; at 6.8bn euros, only one-quarter of last year's volume has been reached.

**Fig. 3: Development of auto ABS in the EDW**

Issue volume per year in EUR billions, until July 2015

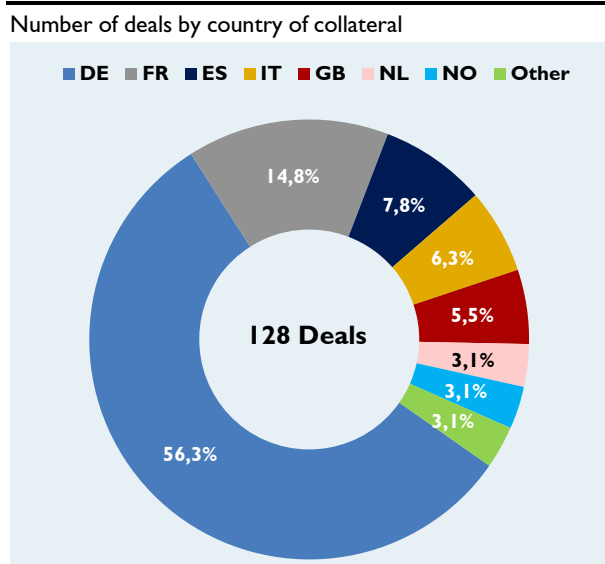


Source: European DataWarehouse, Creditreform Rating

Thus the EDW includes auto ABS deals with an issue volume in the amount of 100.5bn euros. The main proportion is accounted for by German transactions, with a total volume of 59.6bn euros. French issues amount to 12.0bn euros.

If one examines auto ABS by the country of collateral, the geographical distribution of the deals largely represents that of the market as a whole (see fig. 4), which we have analyzed in our study “Fast Your Seatbelts – European Auto ABS on the Rise”. German auto ABS deals, with a proportion of 56.3%, account for over half of all deals in the EDW (total market: 52.7%). A further 14.8% are French transactions, compared to 11.8% in the total market. Only transactions from the UK in the EDW account for a lesser proportion than in the total market (5.5% vs. 11.9%), which should be primarily due to the eligibility criteria for eligible collateral, which in the standard Eurosystem collateral framework assume the euro as standard issue currency.

**Fig. 4: Geographic distribution of auto ABS in the EDW**



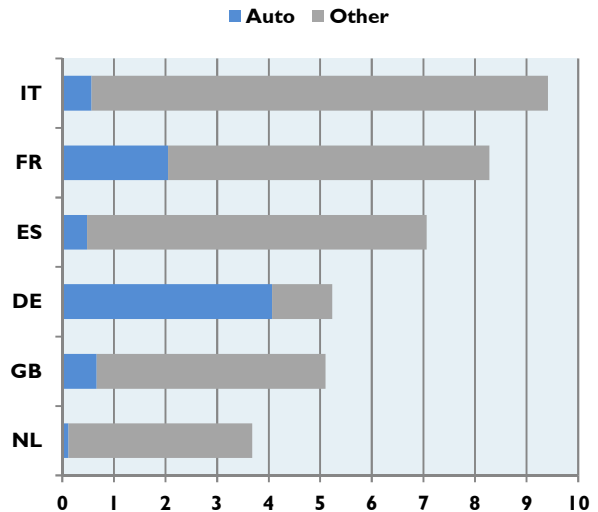
A breakdown of loan-level data in the EDW shows that there are 4.1 million loans underlying the 72 German auto ABS transactions. By com-

parison, for French deals there are 2.1 million loans for 19 deals. It is also notable that the proportion of auto loans to the total individual loans documented in the EDW - including assets for RMBS, SME, etc. - is much higher in Germany than in other European countries (see fig. 5).

Thus the EDW contains 9.4 million and 7.1 million individual loans for Italian and Spanish transactions respectively, of which the 0.6 and 0.5 million auto loans comprise only a fraction. Hence German transactions dominate not only in the European auto ABS market; auto ABS are also the predominant asset class with regard to securitizations with German underlyings. By contrast, in other countries, consumer (in Italy and Spain) and credit card (UK) take on the predominant role.

**Fig. 5: Individual loans in the EDW**

Number of loans by country, in millions; ‘other’ includes CMBS, consumer, credit card, leasing, RMBS, and SME



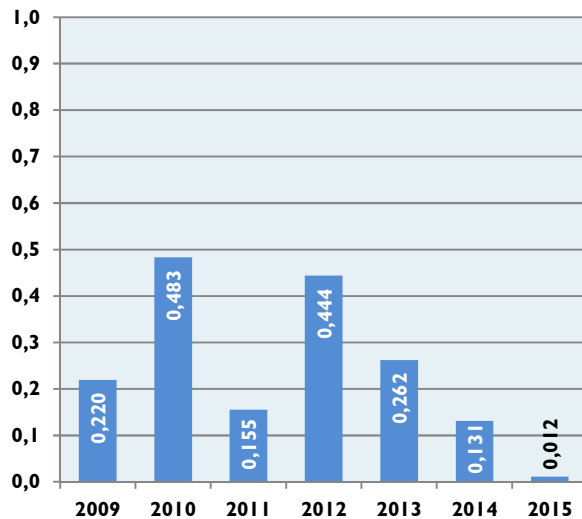
Source: European DataWarehouse, Creditreform Rating

The cumulative net loss indicates a robust performance of the underlyings. The cumulative net loss is the cumulative amount of losses minus recoveries as of the cut-off date. The calculation of the cumulative net loss based on loan-level data confirms the findings in our analysis of the European auto ABS market that the underlyings of

auto ABS have exhibited robust performance. Furthermore, our findings with regard to the fact that net loss rates have been comparatively low and in decline is confirmed upon examining data available from the EDW, although the time series does certainly not extend very far back (see fig. 6). Thus the cumulative net loss rate fell in 2011 from an average 0.483% to 0.155% before rising in 2012 to 0.444%; whereby the relatively small amount of available data must be taken into account for the vintage years 2009 and 2010. The cumulative net loss rate has since been in decline. In 2013 the average cumulative net loss of auto ABS issued amounted to a median of 0.262% of the original pool balance. Not surprisingly, only slight losses can be observed so far for 2014 and 2015.

**Fig. 6: Development of cumulative net loss for auto ABS in Europe**

Average net loss rate (median) by vintage year in %, as of 31 July 2015



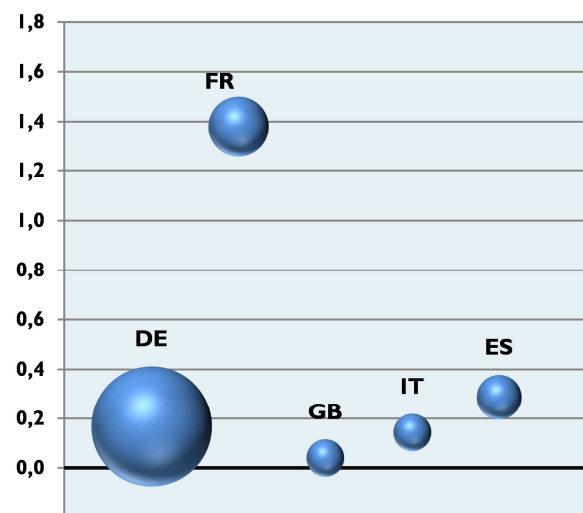
Source: European DataWarehouse, Creditreform Rating

Differentiation by the country of collateral affirms the findings of the preceding study that German auto ABS portfolios exhibit strong collateral performance (see fig. 7). Thus analysis of loan-level data shows that the average cumulative net loss for German transactions amounts to only 0.169%.

While Italian deals are at a comparable level with 0.144%, British auto ABS amounted to only 0.040%. However, it remains to be determined whether this is due to the relatively small number of deals in these countries. Spanish deals exhibited weaker performance with 0.287%. The highest cumulative net loss rate was recorded for auto ABS with French collateral, averaging 1.379%.

**Fig. 7: Cumulative net loss by country of collateral**

Average net loss rate (median) in % as of 31 July 2015; bubble size corresponds to the number of deals



Source: European DataWarehouse, Creditreform Rating

<sup>1</sup> European Central Bank (2013): The Eurosystem collateral framework throughout the crisis, Monthly Bulletin, July 2013.

<sup>2</sup> European Central Bank (2014): SME access to finance in the euro area: barriers and potential policy remedies, Monthly Bulletin, July 2014.

<sup>3</sup> Kanoni, E. und M. Schaber (2013): European Data Warehouse: An initiative to improve transparency for European securitization markets, Zeitschrift für das gesamte Kreditwesen, 66. Jahrgang, 18-2013.

## About us

Creditreform Rating AG is registered by ESMA as a European rating agency. We are specialists in the assessment of credit risk and offer services for capital and loan providers in the form of ratings and credit services. Creditreform Rating carries out ratings worldwide which are used by investors in Europe in the context of investment decisions and for regulatory purposes. Moreover, banks and financial enterprises utilize our outsourcing solutions for credit processes and rely on the analytical results of our risk management tools. Creditreform Rating is a shareholder of the European Datawarehouse and provides structured finance ratings in all relevant asset classes. Debt funds in the asset classes Corporates, Real Estate, and Infrastructure are the object of our ratings for institutional investors.