September 12, 2016

VIA ELECTRONIC SUBMISSION TO:
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York, New York 10007

Re: Proposed Changes to Moody's Methodology to Rating Securities Backed by Rental Fleet - Request for Comment dated July 12, 2016

Ladies and Gentlemen:

The Structured Finance Industry Group ("**SFIG**")[1] is pleased to respond to Moody's Investors Service ("**Moody's**") July 12, 2016 Request For Comment ("**RFC**") on the Proposed Changes to Moody's Approach to Rating Securities Backed by Rental Fleet ("**Proposed Methodology**").

This response is submitted on behalf of SFIG's Investor Committee ("**Investor Committee**"). The Investor Committee is open to investor members of SFIG and outside legal counsel who regularly advise investors. Accordingly, the views expressed in this letter present a consolidated set of comments based on conversations among SFIG investor members, and it does not necessarily reflect the views of all SFIG investor members or the views of other industry participants including issuers, financial intermediaries, issuer counsel, etc. It should be further noted that, as such, no rating agencies participated in this comment process.

RESPONSE TO REQUEST FOR COMMENT

The Investor Committee appreciates and supports Moody's efforts to simplify its quantitative approach to rating asset-backed securities backed by rental car and truck fleets ("**Fleet Securitizations**") and reduce unnecessary ratings volatility to such transactions based upon its

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, to drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market, including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

analysis of historical data on used-vehicle values and review of the historical performance of the transactions. We further welcomed Moody's August 5th release of its scenario analysis for the Proposed Methodology as well as the August 16th conference call with us as they provided valuable quantitative detail to the modeling inputs and the specific application of such inputs in the model described in the Proposed Methodology.

In hopes of continuing this productive dialog and vital level of engagement, the Investor Committee would like to put forth the following additional topics for discussion and consideration:

1. **The Investor Committee asks Moody's to consider the concerns detailed in the following three points prior to finalizing the Proposed Methodology as well as explain to market participants, in reasonable detail, precisely what is driving the initiative to re-address its methodology for rating Fleet Securitizations at this time.**

   We completely understand and agree with Moody's view that there is no reason for rating methodologies to be unnecessarily complex, nor is there any reason for rating methodologies to result in unnecessary ratings volatility. However, we have some concerns regarding some of the proposed changes in the Proposed Methodology.

   (a) With respect to complexity and unnecessary ratings volatility, we observe that one of the principal proposed changes is to adopt an approach in which fleet composition is based on an "assumed vehicle pool", rather than more closely tracking actual pool composition. Although this approach would appear to be a simplification, which may result in "more stability in [the] composition assumptions over time despite the revolving nature of "Fleet Securitizations", it is not immediately obvious why this is an improvement to the methodology. As a factual matter, Fleet Securitizations generally do consist of revolving pools, and contain a "dynamic" credit enhancement mechanism to account for changes in fleet composition. The use of an assumed pool seems at first blush inconsistent with the factual and structural elements of these transactions, and we are concerned that this change may lead to unintended consequences (such as an incentive for adverse selection by the issuer as the sponsor's strategy for originating new collateral could be influenced by the rating agency assumptions).

   (b) We have a similar concern with respect to the scenario analysis, which appears to rely on a "single simulated net book value and haircut" for non-program vehicles and a fixed haircut for program vehicles. Our understanding is that, for other asset classes (such as student loans) the approach relies on a weighted scenario rather than a single point estimate.

(c) With respect to ratings volatility, the investors note that the Aaa senior notes issued in Fleet Securitizations – by far the largest component of the capital stack – have successfully withstood credit cycles without shortfalls or downgrades, and that our impression is that the underlying performance metrics of Fleet Securitizations are stable. So, it is unclear to the investors exactly what problematic volatility issues are intended to be addressed by the revised criteria in the Proposed Methodology. Moreover, given one of the intended purposes of the Proposed Methodology is reducing rating volatility we are concerned that the Proposed Methodology, if implemented as is, would actually create ratings volatility in the Aaa senior notes, especially as performance metrics have been stable.

2. The Investor Committee requests that Moody's provide additional clear and concise detail on three assumptions included in the Proposed Methodology, so we can gain a full understanding of Moody's position and provide meaningful responses to you.

We appreciate that assigned ratings are not solely model-driven and that subjective factors are also often involved in rating ABS securities; however, we kindly request additional clarification regarding three assumptions included in the Proposed Methodology. While there are descriptions of each of these assumptions included in the Proposed Methodology, we found them to be not sufficient fully to understand how they are initially set and in what circumstances they may be adjusted over the life of the security.

Therefore, in order to allow investors' comprehensive understanding and evaluation of these assumptions, we specifically ask that Moody's provide:

- what specific underlying factors are considered in the determination of these assumptions;
- what is the rationale and support for including these factors in the determination;
- what specific data, historical performance or other information does Moody's employ and how does it directly impact the determination of these assumptions; and
- what weighting is placed on each of those factors, relative to the other factors, in the determination of these assumptions.

(a) **Probability of Default and the Use of "Up To a Two Notch Upgrade" of the Sponsor's Corporate Rating.** In the proposed approach, Moody's states that, "[i]n cases in which we consider that the sponsor has a strong competitive position and the size of the securitized fleet is large percentage of the sponsor's overall fleet, we would adjust the sponsor rating up to two notches higher to simulate the sponsor default of its lease obligations". This is clearly a major factor in the Proposed Methodology, and it is based on several factors that are not quantitative – the assessment of the sponsor's "strong competitive position", the determination that the securitized fleet is a "large percentage" of the overall fleet and the underlying corporate rating itself. Given its centrality to the assigned rating, a detailed description of Moody's thinking behind the two-notch upgrade would be especially welcome.

(b) **Fleet Composition.** Similarly, any information regarding the determinants of the "conservative assumed portfolio" with respect to the fleet composition analysis would be useful.

(c) **Disposal Value Calculation.** Finally, based upon the scenario analysis, it appears that the model-implied results are most sensitive to the distribution of the calculated disposition values haircuts (especially the standard deviation distribution) when combined with the fleet mix. Further disclosure of the disposal value calculation haircut would greatly assist the investors in making their own risk assessment.

3. **The Investor Committee urges Moody's to consider publicly publishing the model(s) associated with the Proposed Methodology.**

We are concerned that Moody's current Monte Carlo simulation framework remains difficult to replicate and assess based upon the information provided to date. The investors' ability to understand and duplicate the model is an important step for the investors' independent risk analysis. Even where an investor relies on its own credit analysis to make an investment decision on an asset backed security, it is still crucial that the investor obtain a full understanding of the methodology used by each rating agency who assigns a rating to such security given any future volatility to that rating may induce a change in the perceived credit quality of the security and/or impact its valuation. To that end, investors also need to understand fully the model risk in order to demand appropriate pricing.

In order to reduce this model risk, allow investors better to understand and evaluate the rating analysis and to monitor the performance of a security in comparison to the model over time, any and all inputs/assumptions and the specific application of those input assumptions must be fully transparent. We therefore urge Moody's to consider publicly releasing its model(s) associated with the Proposed Methodology. This approach is the most efficient, allows for an equal playing field across all investors regardless of size and resources, and prevents the potential adverse consequences resulting from wrong assumptions, incorrect model design application, simplifications, approximations, etc.

4. **The Investor Committee believes that in addition to publishing the model(s) associated with the Proposed Methodology it is crucial that all Pre-Sale Reports include Moody's model results, rationales for any deviations or adjustments.**

We believe that the Pre-Sale Reports would be an appropriate place in which much of the information sought by investors as to a particular assigned rating should appear. Specifically, the investors request that the related Pre-Sale Report address: (i) all deal-specific assumptions, input variables and model results; (ii) rationales for any deviations from the rating produced by the model alone; and (iii) any adjustments to the model related to the deal and rationales for such adjustments. Pre-Sale Reports should in all cases be released on a timely basis such that investors have sufficient time independently to evaluate Moody's approach to rating each specific deal.

As regards existing securities, we note that the RFC suggests that a number of rating actions may be forthcoming. As with Pre-Sale Reports for new issue securities, Moody's should supply similar disclosure for existing Moody's-rated Fleet Securitizations. Many ABS investors are "buy and hold" investors, and rating actions are of course only episodic. An understanding of what goes into a rating action under the new approach will be very helpful in assisting the investors with their ongoing review and analysis of their ABS positions.

The Investor Committee again thanks Moody's for its high level of engagement since the release of the RFC. We believe that added benefits may yet be achieved by continuing that dialog, and by Moody's implementation of the investors' suggestions contained above.

Please contact Richard Johns at 202.524.6301 or Richard.Johns@sfindustry.org to address any of the points raised in this letter.

Respectfully Submitted,

Richard Johns

Richard Johns
Executive Director
Structured Finance Industry Group, on behalf of the Investor Committee