

# Auto ABS Index – Australia: The Dinkum ABS Index

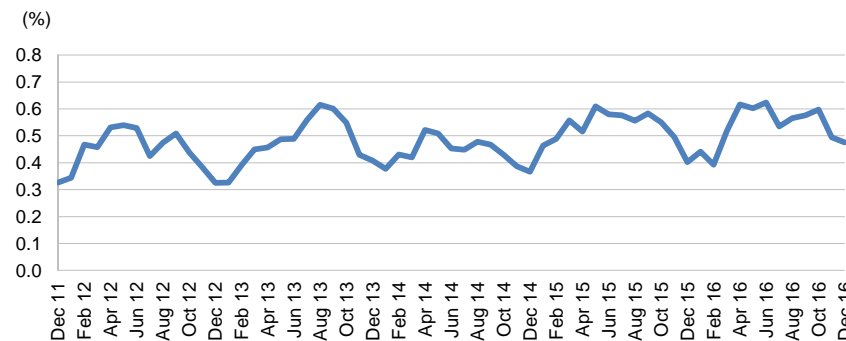
4Q16

At a Glance	4Q16	Δ	3Q16	4Q15
<b>Auto ABS Index (%)</b>				
No of Transactions	27	↓	29	26
Collateral (AUDbn)	11.6	↓	12.4	10.8
30+ days (%)	1.40	↑	1.39	1.17
60+ days (%)	0.63	↑	0.62	0.54
Annualised Net Loss	0.48	↓	0.58	0.40
Recovery Rate	38.03	↓	41.36	45.34
Absolute Payment Rate	28.43	↑	28.16	28.42

[Auto ABS Index - Australia: The Dinkum ABS Index - 4Q16 \(Excel File\)](#)

## Net Losses Improve and Arrears Stabilise

Fitch Dinkum ABS - Annualised Net Loss Index



Source: Fitch

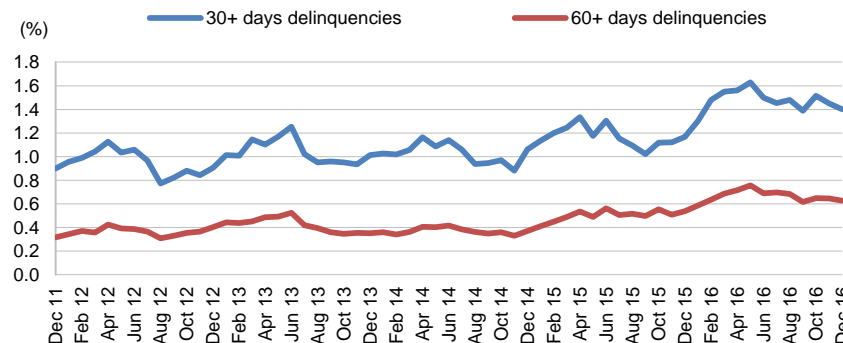
■ **Stable Arrears Over 12 Months:** Arrears of 30+ and 60+ days in 4Q16 – at 1.4% and 0.6%, respectively – remain unchanged from the previous quarter and below the 30+ days peak in 1H16 of 1.63%. Overall, arrears have been stable for the past 12 months, despite Fitch Ratings’ expectations of higher arrears during the fourth quarter of 2016 due to lower auction clearance rates leading to higher arrears.

■ **Net Loss Rate Stabilising:** The annualised net loss rate decreased by 10bp from the third quarter to 0.5% and is in line with the 0.5% five-year average. However, annualised net losses tend to be low in the fourth quarter, with an average five-year net loss rate at 0.4%. We expect the rate to worsen qoq in 1Q17 due to seasonality.

## Contacts

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Fitch Dinkum ABS - 30+ Days and 60+ Days Delinquency Indices



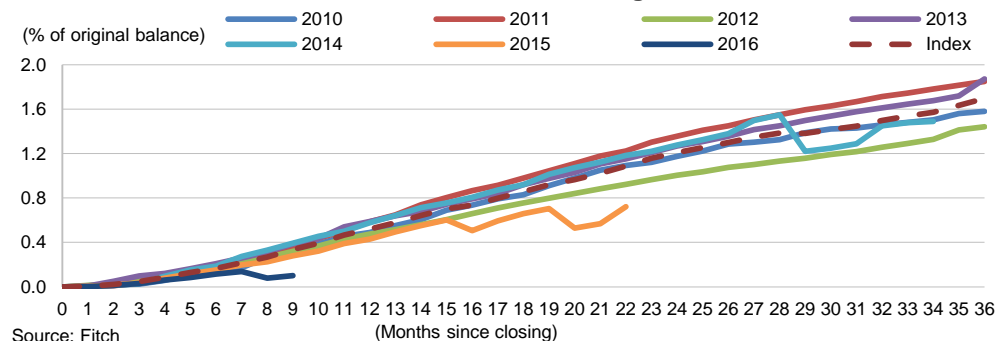
Source: Fitch

■ **Macroeconomic Conditions Remain Strong:** Unemployment was low at 5.8% at end-2016 and inflation was in line with real wage growth during 4Q16. The Westpac-Melbourne Institute Consumer Sentiment Index has shown some correction with a decrease to 97.3 from 101.4 in 3Q16.

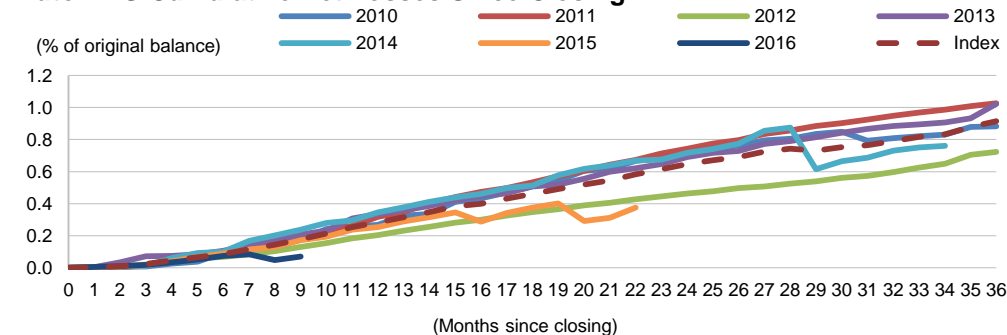
■ **Low Wage Growth Imperils Borrower Performance:** Fitch believes historically low wage growth presents a threat to borrower performance. However, we expect overall strong macroeconomic conditions to support borrowers’ ability to service debt.

## Prime Auto ABS Performance

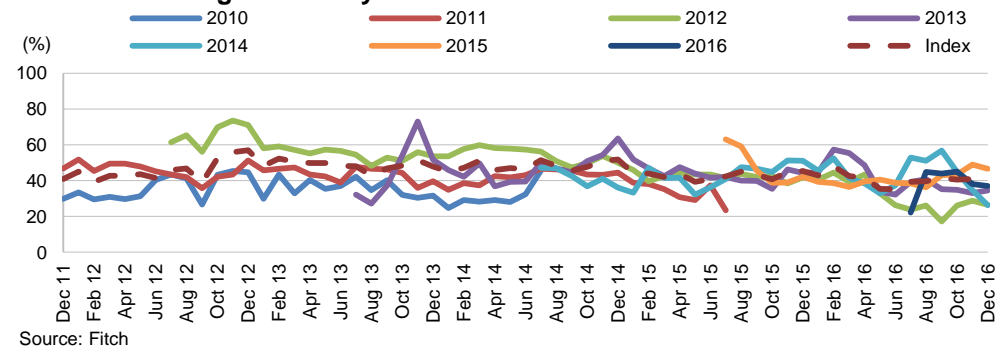
### Auto ABS Cumulative Gross Losses Since Closing



### Auto ABS Cumulative Net Losses Since Closing



### Auto ABS Average Recovery Rates



### Performance Overview

Cumulative gross and net losses at 36 months after closing were 1.7% and 0.9% in 4Q16, respectively, in line with the previous quarter. Both metrics remain well below Fitch's base case.

Average recovery rates continue their decline to a new historic low of 38.0%, from the 45.0%-55.0% range; the five-year average recovery rate was 45.3% at end-2016. The falling recovery rate follows a fall in new vehicle sale prices due to higher competition, which has put downward pressure on used-car prices. Longer recovery times could also be fuelling the decline in recovery rates.

One transaction – SMART ABS Series 2016-2US Trust – has been included in the delinquency indices for the first time after two months' seasoning. Three transactions – SMART ABS Series 2013-1US Trust, Driver Australia One Trust and BMW Finance Trust 2012-1 – have been removed from the indices. The total collateral underlying the indices fell by AUD0.8 billion to AUD 11.6 billion in 4Q16.

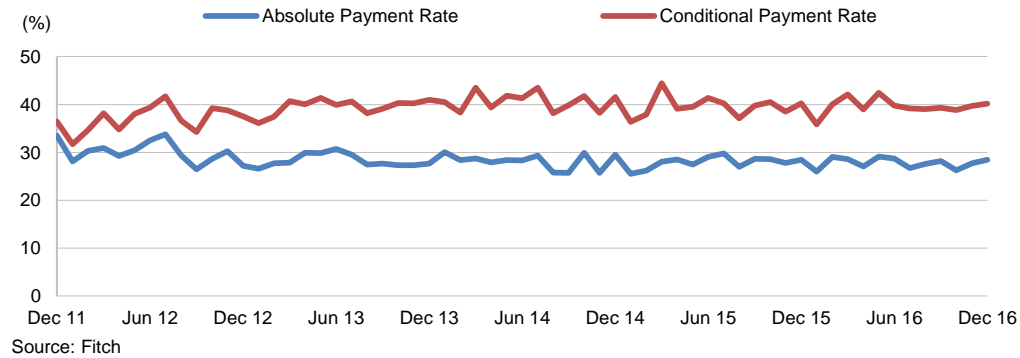
### Long-Term Trends

The Australian auto ABS market is characterised by a small number of originators and dominated by Macquarie Leasing Pty Limited. Current loss levels are well below Fitch's base case gross-loss and net-loss assumptions. Fitch expects ratings to remain stable unless a significant deterioration in the economy results in higher unemployment, slower wage growth and continued poor recovery rates due to lower used-vehicle prices. Fitch uses multiples of its base gross- and net-losses at each rating scenario to ensure ratings can withstand different stresses and scenarios.

For more information, see [Global Consumer ABS Rating Criteria](#), dated 1 December 2016.

## Prime Auto ABS Performance (Cont.)

### Fitch Australian Auto ABS Payment Rate



### Auto ABS Payment Rates

The average absolute payment rate (APR) across Fitch-rated transactions was 28.4% at end-2016, an increase of 0.2pp qoq. Fitch expects the average APR to remain between 25.0%-30.0% in the next six to 12 months.

The conditional payment rate (CPR) across Fitch-rated transactions was 40.2% at end-2016, an increase of 0.9pp yoy. Auto prepayments tend not to be affected by prevailing interest rates due to the short-term nature of the loan and lower loan balances.

Payment rates in Australia's auto ABS market tend to be strong, often resulting in transactions reaching the 10% clean-up call option three to four years after closing.

Fitch's analysis focuses on the APR, as it tends to be constant over time due to the short-term nature of the loans and fixed interest rate. The presence of balloon payments, if well-distributed over 24-30 months, does not affect APRs.

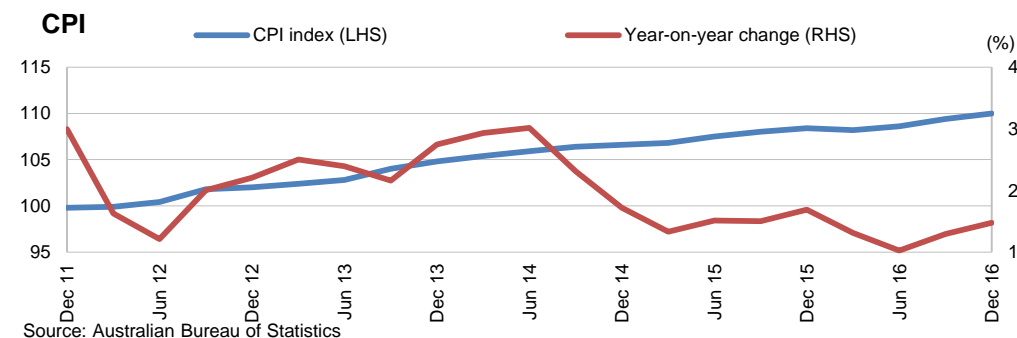
For more information on CPR and APR, see [The Dinkum Auto ABS Index and Methodology](#)

## Key Drivers: Supporting Serviceability

### CPI

Quarter	CPI index
Dec 16	110.0
Sep 16	109.4
Jun 16	108.6
Mar 16	108.2
Dec 15	108.4

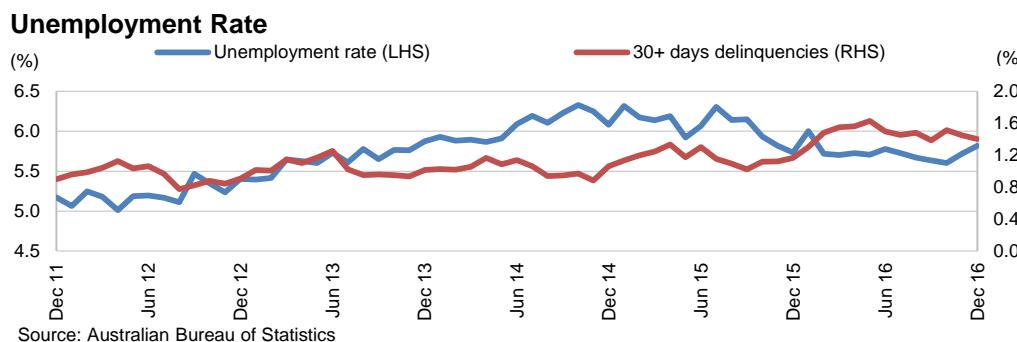
Source: Australian Bureau of Statistics



### Unemployment Rate

Quarter	Rate
Dec 16	5.8
Sep 16	5.6
Jun 16	5.8
Mar 16	5.7
Dec 15	5.8

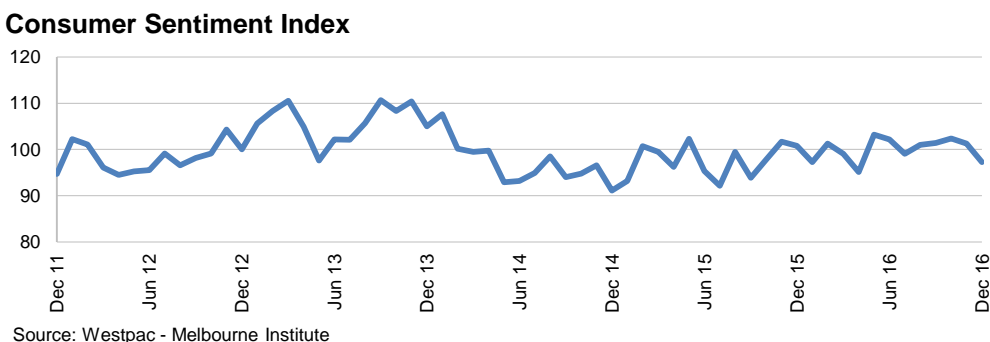
Source: Australian Bureau of Statistics



### Consumer Sentiment

Quarter	Sentiment index
Dec 16	97.3
Sep 16	101.4
Jun 16	102.2
Mar 16	99.1
Dec 15	100.8

Source: Westpac - Melbourne Institute



### Slow Wage Growth Offsets Stable Living Costs

The Consumer Price Index (CPI) remained stable over the quarter, with yoy growth at 1.5%. Inflation increased by 0.5pp, in line with wage growth, which was also 0.5pp. However, real wage growth has been practically flat since 1Q13. Fitch does not expect stable living costs to translate into a significant improvement in spending or serviceability.

### Unemployment Rate Key to Serviceability

Fitch believes unemployment and disposable income drive loan serviceability in the long term. Unemployment was 5.8% in 4Q16 (4Q15: 5.8%), below Fitch's expectation of 6.1%. Higher underemployment has meant the stable unemployment rate has not had a positive effect on the labour market or consumer spending. An unexpected increase in unemployment and a rise in the cost of living or fuel prices could lead to serviceability pressure for some borrowers, increasing arrears and eventual losses.

### Consumer Sentiment Falls

The Westpac-Melbourne Institute Consumer Sentiment Index decreased in the 12 months to end-2016, reaching 97.3 at end-4Q16. Lower consumer confidence may lead to decreasing vehicle sales, lower resale values and recovery rates.

### Long-Term Trends

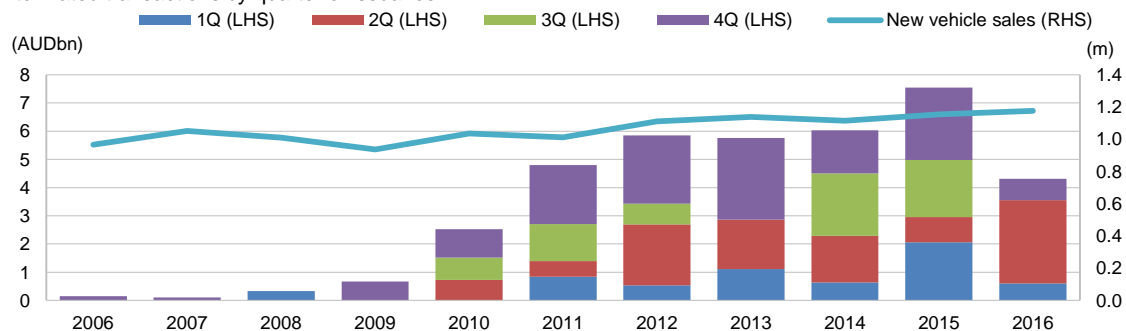
Australia has strong economic fundamentals; however, the country remains reliant on commodity exports. Services exports and housing construction activity still supports growth, while declining mining investment continues to act as a drag. We expect the country to remain vulnerable to external shocks, particularly from China.

A severe slowdown that causes unemployment to rise would impair the ability of individuals to service debt. However, this is not Fitch's base-case scenario.

## Australian Prime Auto ABS Market

### Australian Auto ABS Issuance versus New Vehicle Sales

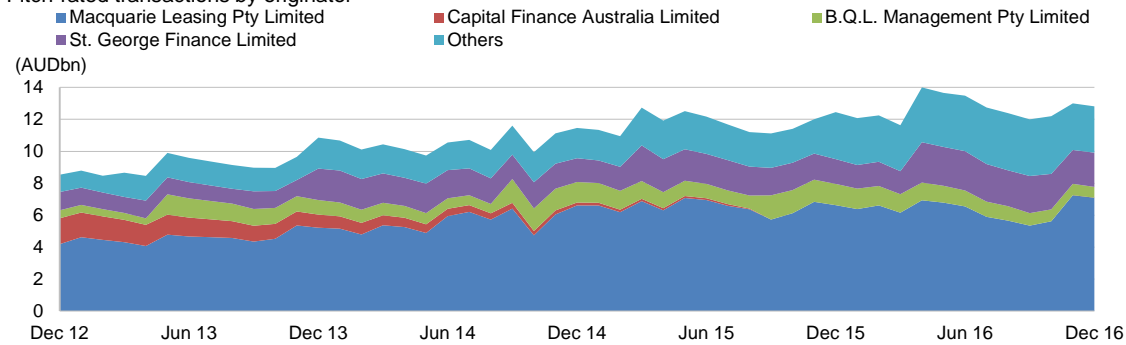
Fitch-rated transactions by quarter of issuance



Source: Fitch, ABS

### Australian Auto ABS Outstanding Volumes

Fitch-rated transactions by originator



Source: Fitch

### Drop in Issuance After Strong 1H16

There was no issuance in 3Q16 and little issuance in 4Q16, following a record level of issuance by value in 1H16. Vehicles sales remained strong in 2016.

New-car annual sales rose 1.9% yoy, following a slowdown in 4Q16. Australia is one of the world's most competitive new-car markets, according to a benchmark study by the Federal Chamber of Automotive Industries, an industry organisation representing automotive vehicle manufacturers and importers. The Australian market is characterised by a high level of choice and affordability; this competitiveness extends to finance options and contributes to auto ABS issuance.

### Petrol Prices Highest in Over a Year

Petrol prices increased in 4Q16, according to the Australian Competition and Consumer Commission's December 2016 quarterly report, which said petrol in the five largest cities cost 122.0 cents per litre (cpl), an increase of 7.8cpl from 2Q16. High petrol prices increase living expenses, potentially affecting savings and consumer spending.

### Long-Term Trends

The sector outlook remains stable and in line with stable unemployment, consumer confidence and low inflation. Fitch believes the popularity, pricing and risk level of the asset class remain long-term positives.

Existing ABS transactions are experiencing strong excess spread and a fast build-up of credit enhancement.

**Fitch-Rated ABS Transactions at a Glance**

Prime Auto ABS <sup>a</sup>	(AUDm)		(% current balance)		(AUD)		(% original balance)		Asset type
	Original balance	Current balance	30+ days	60+ days	Gross losses	Net losses	Gross losses	Net losses	
Crusade ABS Series 2012-1 Trust	1,200.0	130.0	4.88	2.83	29,296,478	20,433,045	2.44	1.70	Auto loans/leases
Crusade ABS Series 2013-1 Trust	1,000.0	275.9	3.42	1.84	20,146,411	13,955,483	2.01	1.40	Auto loans/leases
Crusade ABS Series 2015-1 Trust	800.0	529.3	2.45	1.19	9,658,269	6,031,176	1.21	0.75	Auto loans/leases
Crusade ABS Series 2016-1 Trust	1,300.0	1,207.6	1.17	0.48	1,623,274.30	872,207.66	0.12	0.07	Auto loans/leases
Driver Australia Master Trust	177.3	484.9	0.36	0.21	-	-	0.00	-	Auto loans/leases
Driver Australia Three Trust	573.5	442.0	0.52	0.25	358,747	188,031	0.06	0.03	Auto loans/leases
Driver Australia Two Trust	500.0	220.3	1.25	0.72	1,644,577	952,435	0.33	0.19	Auto loans/leases
Series 2014-1 REDS EHP Trust	950.0	260.8	1.99	1.82	21,093,484	12,871,155	2.22	1.35	Auto loans/leases
Series 2015-1 REDS EHP Trust	750.0	415.4	0.8	0.58	9,124,369	5,350,689	1.22	0.71	Auto loans/leases
SMART ABS Series 2013-2US Trust	852.6	103.2	1.8	0.8	16,605,167	8,532,934	1.95	1.00	Auto loans/leases
SMART ABS Series 2013-3 Trust	500.0	82.8	1.75	0.89	12,770,958	7,265,691	2.55	1.45	Auto loans/leases
SMART ABS Series 2014-1US Trust	633.2	159.6	0.95	0.44	9,445,782	4,788,308	1.49	0.76	Auto loans/leases
SMART ABS Series 2014-2E Trust	1,033.7	296.5	1.57	0.78	13,719,223	7,434,149	1.33	0.72	Auto loans/leases
SMART ABS Series 2014-4 Trust	1,250.0	529.2	1.2	0.5	14,782,380	7,712,927	1.18	0.62	Auto loans/leases
SMART ABS Series 2015-1US Trust	756.8	387.8	0.91	0.44	7,423,049	3,771,467	0.98	0.50	Auto loans/leases
SMART ABS Series 2015-2 Trust	900.8	485.7	1.19	0.53	10,452,261	6,040,570	1.16	0.67	Auto loans/leases
SMART ABS Series 2015-3US Trust	798.6	501.8	0.8	0.38	4,813,966	2,676,765	0.60	0.34	Auto loans/leases
SMART ABS Series 2015-4E Trust	915.0	594.3	1.11	0.56	5,869,093	3,622,209	0.64	0.40	Auto loans/leases
SMART ABS Series 2016-1 Trust	900.0	692.6	0.89	0.41	2,901,701	1,853,843	0.32	0.21	Auto loans/leases
SMART ABS Series 2016-2US Trust	759.7	704.5	0.37	0.13	123,223	46,171	0.02	0.01	Auto loans/leases
SMART ABS Series 2016-3 Trust	1,764.8	1,670.5	0	0	75,658	24,210	0.00	0.00	Auto loans/leases
<b>Other Asset Types</b>									
Australian Sales Finance and Credit Cards Trust	3,764.1	3,694.5	3.040	1.69	n.a.	n.a.	n.a.	n.a.	Credit Card Receivables
Flexi ABS Trust 2015-1	210.0	76.5	4.47	2.83	n.a.	7,038,443	n.a.	3.40	Equipment
Flexi ABS Trust 2015-2	285.0	52.5	2.27	1.03	n.a.	6,291,036	n.a.	2.24	Unsecured Consumer
Flexi ABS Trust 2016-1	260.0	122.3	2.21	1.13	n.a.	3,573,131	n.a.	1.39	Unsecured Consumer
FP Turbo Series 2014-1 Trust	277.0	50.0	1.06	0.92	2,563,487	1,126,957	0.95	0.42	Auto Loans - RV

n.a. = Information not publicly available

<sup>a</sup> Warehouses and privately placed transactions not shown

Source: Fitch

## The Dinkum ABS Index and Methodology

**Coverage:** Fitch rates 100% of outstanding Australian securitised prime auto ABS.

**Collateral:** Transactions are included in the indices when prime auto loans and leases make up more than half of the collateral, with some containing a portion of equipment loans. Public warehouses backed by prime auto loans and leases are also included in the indices.

**Seasoning:** Transactions are added to the arrears indices two months after issue to allow some seasoning to occur. Transactions are removed once fully redeemed.

**Delinquent Receivables:** The Dinkum ABS indices are calculated as a weighted average of the monthly delinquencies on the outstanding collateral balance. The Dinkum ABS indices are a good indicator of performance, especially when the total auto ABS outstanding volumes remain constant over time.

**Annualised Net Loss Index:** Delinquencies might show an upward trend when repayments are strong and are not accompanied by new issuance, as arrears increase as a percentage because the delinquent loans are not cleared as fast as repayments. For this reason, Fitch closely monitors the level of losses through the **Annualised Net Loss Index (ANL)**, calculated as the weighted average of the monthly net losses divided by the total monthly outstanding collateral balance, and annualised linearly. ANL gives an indication of the level of losses that are expected each year. Transactions are added to the index from issuance.

**Cumulative Loss Indices:** Fitch also tracks defaults and losses since closing and compares levels through the life of the transaction to original expectations. For this reason, Fitch reports the level of defaults and losses in comparison with the original issue size, and expresses them in months since closing, rather than at a specific point in time, using the **Cumulative Gross Loss Index (CGL)** and the **Cumulative Net Loss Index (CNL)**.

**Losses:** The losses (or defaults) are reported as the loan/lease amount at the time of default according to the servicer's reports. Net (or realised) losses are reported according to the servicer's methodology and when the losses have occurred in the trust. Net losses are reported before excess spread, but net of eventual sales proceeds.

**Recoveries:** These are reported as the difference between the monthly defaulted amount and monthly net losses, and expressed as a percentage of the monthly defaulted amount. Future recoveries from eventual future payments of delinquent borrowers – or from sales of non-performing loans to external parties – are usually excluded from the index.

**Repayment Rates:** Fitch monitors the **Conditional Payment Rate (CPR)** and the **Absolute Payment Rate (APR)** to predict the amortisation profile of Australian securitised transactions. The difference between the two payment rates is that the CPR is calculated as monthly principal collections on the outstanding collateral balance, expressed in terms of a single monthly mortality rate. The APR is instead calculated as a monthly payment on the original collateral balance and is annualised linearly. Fitch has normalised its calculations to better take into account principal payments.

**Fast Paydown:** The amortisation slope of a pool of auto loans/leases tends to be much more linear than in a RMBS due to the fast paydown of Australian auto ABS and the presence of balloon payments. For this reason, CPRs can increase significantly over the life of the transaction, while the APR is more constant and becomes a better predictor of future amortisation: for example, an APR of 30% would indicate that a transaction is expected to reach a 10% clean-up call option (or to have amortised by 90%) in three years.



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