

Subprime Auto Securitization Participants Universally Believe Performance is Likely to Deteriorate, According to New Study by Credit Chronometer

Subprime auto loan performance is expected to deteriorate soon, according to a 360-degree market study released today by Credit Chronometer, a microsite authored by Joseph Cioffi, partner at Davis+Gilbert LLP and respected authority on credit markets.

The report, **Participants' Expectations Point the Way to the Future of Subprime Auto**, summarizes the results of an anonymous study of nearly 100 originators, investors, servicers, trustees and other securitization market participants, on topics such as credit quality, the sufficiency of credit enhancement protections and the ability to obtain and maintain desired credit ratings. Participants' views in these areas diverge, at key points, from the generally upbeat sentiment publicly reported. The full findings can be downloaded [here](#).

"This pessimism for the future exists despite a rosy past, given that a majority of respondents have not yet incurred a loss related to their participation in subprime auto securitizations," said Cioffi, chair of Davis+Gilbert's Insolvency, Creditors' Rights & Financial Products Practice Group.

Cioffi believes the securitization market's historical success has been due in large part to the balance achieved by three interdependent factors: credit ratings, credit enhancements and credit quality. Cioffi refers to these as factors as "C³" and finds that participants' responses indicate that "C³ equilibrium is being disrupted by recent performance," which will impact credit enhancement levels and credit ratings. The report describes how market expectations will need to adjust to restore the balance.

Key findings of the study include:

- A negative performance outlook is impacting participants' views on the sufficiency of credit enhancements and the ability to achieve desired ratings.
- Investors express greater concern than other market participants regarding credit enhancement levels, especially for subordinated tranches.
- Credit quality concerns center on the vulnerability of subprime borrowers to changes in the economy.

About Credit Chronometer™

Credit Chronometer™ is dedicated to analyzing economic, market and political events that shape the legal landscape and impact credit markets, including those related to auto, student and mortgage loans. The Subprime Auto Loan Crisis Chronometer, which closely tracks market risks, is a key feature of the site.

About Davis+Gilbert's Insolvency + Finance Practice Group

Davis+Gilbert's Insolvency + Finance Practice Group is a multi-disciplined practice engaged in a broad range of corporate finance, insolvency and litigation matters, involving sophisticated financing products. The group regularly prosecutes and defends litigation involving financial instruments, guides clients through financially distressed situations and formulates and executes creditor enforcement strategies. The extensive and diverse experience of the interdisciplinary group makes it particularly well-equipped to advise clients in rapidly evolving and dynamic industries.