American Automotive Leasing Association

October 14, 2010

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via e-mail: rule-comments@sec.gov

Ladies and Gentlemen:

Re: New Risk Retention Requirements Under Dodd-Frank

This letter is written to the Securities and Exchange Commission (SEC) in connection with its evaluation of risk retention requirements mandated by the recently legislated Dodd-Frank Wall Street Reform and Consumer Protection Act, in particular, its proposed rules regarding risk retention by ABS issuers. Our purpose is to bring to the attention of the SEC the specific characteristics and needs of commercial and government vehicle fleet leasing in the United States. The American Automotive Leasing Association (AALA) is comprised of the principal companies engaged in commercial vehicle fleet leasing, which as an industry manages slightly more than 3 million vehicles in the United States. In 2009, vehicles added to commercial and government fleets (673,013 vehicles) represented 6.7% of vehicle registrations[1].

The AALA supports the efforts of the US Government and the SEC in consumer protection as well as in increasing the transparency and long term vibrancy of the asset-backed securities markets in the United States be they public, 144A or bank sponsored or funded in form. Throughout the financial turmoil, commercial fleet finance transactions have performed well with minimal losses. We can provide statistics if you wish more detail. As an industry, we are concerned about negative consequences of regulatory change to our business model. Included in this letter are three specific requests of the SEC and other regulators that would help avoid unintended negative consequences for many industry participants including AALA members.

The commercial fleet leasing industry covers a client base that ranges from small and medium businesses with a fleet of under five vehicles to large global companies with leased fleets of well over 1,000 vehicles. The government sector involves municipalities, counties and states as well as agencies. Our members assist these diverse clients in acquiring, maintaining, repairing and ultimately disposing of the vehicles, including setting specifications, titling, license renewal, insurance management, oil changes, tire replacement, breakdown towing and repair, collision management, fuelling, and disposal. The industry provides significant information to our clients on fleet efficiency, fuel optimization and fraud management as well as processes for selection and disposal.

[1] "Automotive Fleet" 2010 Statistics pg 44

Through the year, our member companies execute millions of transactions with our corporate lessees, their designated drivers and hundreds of thousands of contractors spread across North America. In most cases, our corporate clients do not bring their business to our members because they see us as an alternative form of finance. What drives the industry is the technological strength of logistics management, efficiency of buying power and the ability to provide constant driver and servicer coverage across the country. As our members' profitability is driven by the many repetitive services provided over the life of the vehicle and by repeat acquisitions of our corporate lessees, and not the financing, there is little incentive in our industry to originate risky assets. The industry's loss statistics are negligible whether in ABS or on balance sheet funding. Our members' service proposition is its long standing "skin in the game".

The negligible losses and stability of financing in this sector is reflective of the fundamental structure of the business. Commercial vehicle fleet financing is predicated on three pillars. Our lessees are corporate or municipal entities where the vehicles are essential to their activity – tools of their trade. Even in bankruptcy, the lease contract has been honored in most cases because the vehicle is essential to day to day operations. Secondly, the leases are "open ended" in structure. Our lessees bear the residual risk of the vehicle on its disposal as well as responsibility for all maintenance and insurance. There are no actuarial risks imbedded in our valuation assumptions. Lastly, vehicles as collateral are highly liquid assets. Tens of thousands of cars, light and medium trucks are sold daily in the United States through direct sales, internet and auctions. As owners of record, the lessor is able to take possession and realize on its collateral quickly without decline in the market value of the asset. Taken together, these characteristics afford the investor a predictable set of lease and asset cash flows that have performed well through multiple economic cycles.

The AALA is concerned that the impact of the emerging standards on risk retention together with other regulatory changes will make access to the securitization markets discouragingly difficult and so expensive as to destroy the market economics that accrue to our members from the use of this form of finance. Unlike other sectors that participate in the securitization markets, the commercial fleet leasing industry's underlying lessee base is largely institutional. This lessee type provides higher credit quality to investors in the related asset-backed securities, but in return the higher grade institutional lessee requires lease pricing that is in line with its own typically low marginal funding costs. Depending on its form, increased risk retention results in more cost per dollar financed through increased fees paid to financial intermediaries for paper that ultimately remains with the securitizer. The increased compliance procedures associated with risk retention also raise the fixed costs of a transaction. These increased costs will have to be passed on to our clients and may result in diminished vehicle purchase and service volumes. Under current market conditions, a public market transaction has been beyond the typical scale of our membership. Instead, our members have relied on the 144A and bank sponsored conduit markets where fixed cost and scale requirements for issuance have been more in line with our industry's size. If the type and scale of changes proposed thus far persist, all aspects of the securitization market are likely to be closed to our members. In light of the quality of our risk

portfolio and the demonstrated value this sector adds to the U.S. economy, this would be a profoundly wrong unintended consequence.

We appreciate that risk retention is an important element of maintaining the integrity of the market place. Our industry's track record evidences the importance we attach to performance for all of our stakeholders. While we would prefer there be no risk retention requirement in this sector, we understand that this may be an impossible expectation on our part. We ask you to consider a risk retention model that allows for one of the following and thereby increasing our members' operational flexibility:

1. The securitizer or one of its closely controlled affiliates holds an exposure equal to no less than 5% of maximum risk (often defined as "first loss" or subordinated tranches) of the amount of the securities held by third party investors at any point in time, or
2. The securitizer or one of its closely controlled affiliates maintains ownership on its balance sheet of at least 5% of the value of the pool of assets or the specific leases included in a securitization, or
3. The securitizer holds at least 5% of the asset-backed securities, pro-rata, across all tranches which is un-hedged, except for interest rate or currency hedges.

AALA is also concerned with the concept that any retained risk should be "un-hedged". In the course of their business, our members take credit risks on their lessees. Many of these are corporations with credit protection on their unsecured name (e.g. CDS) available in the market. Apart from specific leases (that are the subject of securitizations) our members' risk includes cash settlements involved in payments for services rendered, reimbursements for vehicle repairs, disposals and other activities related to their business. Their lease exposure is secured, but in an effort to prudently manage their unsecured exposure at a potential default, we believe that it is sound and good business practice for our members to be able to access means of protecting themselves against unsecured exposure. We understand that the regulators are seeking to prevent securitizers and sponsors from buying hedges to offset their risk retention, but the wording thus far has been sufficiently broad as to create the concern that name specific credit protection would also be prohibited. Again, we believe this would be an unintended negative consequence. We ask you to specifically accommodate credit protection or insurance coverage purchased to protect the quality of trade receivables.

As an industry that uses multiple financing markets, AALA urges and requests the SEC, the Federal Reserve, the Federal Deposit Insurance Corporation, and other government regulators to harmonize their approach to regulation of asset-backed securities financing. We welcome the opportunity to visit with you or at least schedule a conference call in order to discuss our industry and the merits of our request.

Sincerely,

Dan Frank

Dan Frank
Vice President, Government Affairs

cc:

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