MEMORANDUM

To: Commission File No. S7-08-10

From: Katherine Hsu
Senior Special Counsel
Office of Rulemaking
Division of Corporation Finance
U.S. Securities and Exchange Commission

Date: October 13, 2010

Re: Proposing Release on Asset-Backed Securities (Release Nos. 33-9117; 34-61858)

On October 13, 2010, Paula Dubberly, Jay Knight, and Katherine Hsu of the Division of Corporation Finance and Eric Emre Carr and Stanislava Nikolova of the Division of Risk, Strategy and Financial Innovation participated in a teleconference with Dan Frank (Wheels, Inc.), Al Chircop (Wheels, Inc.), and Pamela Sederholm (American Automotive Leasing Association). Among the topics discussed was the Commission's April 7, 2010 proposing release regarding asset-backed securities. Handouts are attached to this memorandum.

Attachment

American Automotive Leasing Association

CONFERENCE CALL DISCUSSION AGENDA

Date/Time: Wednesday, October 13, 2010
12:30 p.m. CDT/1:30 p.m. EDT

Subject: Proposed Rules for Asset-Backed Securities (SEC File No. S7-08-10)

Participants: SEC
Katherine Hsu – Sr. Special Counsel, Office of Rulemaking
Paula Dubberly – Deputy Director, Corporate Finance
Rolaine Bancroft* - Special Counsel, Office of Structured Finance, Transportation and Leisure (*tentative)

American Automotive Leasing Association (AALA)
Dan Frank – General Manager, Wheels, Inc. / VP Federal Affairs, AALA
Al Chircop – Advisor, Wheels, Inc.
Pamela Sederholm – Executive Director, AALA

Background:

On July 30, 2010, the AALA submitted written comments to the SEC regarding Proposed Rules for Asset-Backed Securities. In our comments, the AALA specifically requested that the SEC consider a separate template for the commercial vehicle fleet leasing industry. AALA then requested, and was granted, to opportunity to speak with the SEC directly to further clarify its request. Moreover, in the process of absorbing the forthcoming changes and reflecting on the impact of the recently enacted Dodd-Frank Act, the AALA would like to share with the SEC additional observations. AALA will also submit a letter to the FED and FDIC regarding the same.

Discussion Agenda:

1. Why is the commercial automotive fleet leasing industry, under the banner of the AALA, seeking a separate template?
   a. The business of commercial fleet leasing is focused on logistics, buying power and information sharing that largely employs a cost-plus transparency model

   b. It is not based on taking credit risk (the industry does not take substantial credit risk losses – fractions of basis points more like a manufacturing/service company)
   c. It does not take meaningful residual risk on assets.
   d. The predominant method of business in this industry is a TRAC lease – that is, a lessee is responsible for depreciation/residual costs, insurance and maintenance of the asset.
   e. There is a relatively low amount of "spot" or opportunistic short duration lease activity, which is unlike car rental or equipment rental. There is no real inventory waiting to be mobilized. Commercial automotive leases are preponderantly term and the vehicle is sold at termination, not re-deployed.
   f. Significantly different from the equipment leasing industry and completely different from auto finance.

2. The industry is concerned that the risk retention model developed for public market shelf application will migrate to become the effective standard in the 144a private market - making ABS punitively expensive and less viable as a financing alternative.
   a. The AALA believes that, in addition to the "vertical slice" model adopted for public deals, SEC should be open to other models in harmony with the FED and FDIC.
   b. AALA supports the notion that the SEC should accept retention of first loss position as an alternative
   c. AALA supports the notion that the SEC should accept the securitizer shares in risk by holding a proportionate cross section on its balance sheet of the financed risk population.

3. As part of our management of unsecured risk exposure to our lessees, AALA members have sometimes used CDS and other similar forms of protection to mitigate risk. Our industry is concerned that in the implementation of "unhedged" risk, we are unable to use basic risk protection tools that address shortfalls in payments arising from a corporate default.

4. After reading the SEC's September 7, 2010 presentation by the ASF concerning the impact of the proposed changes on ABCP issuers, AALA agrees with observations raised by the ASF in certain key areas.
   a. ABCP is back stopped by banks that will finance the assets if there is an inability to do so in the commercial paper market. The CP investor bears a different risk profile from a term ABS (Public or 144a).
   b. Detailed asset level disclosure immediately will likely be a systems and deal transition challenge. The commercial vehicle fleet leasing industry will be supportive of increased asset level disclosure, but believe it will require some form of extended transition to accomplish the desired level of compliance.
   c. ABCP is an important form of financing for ABS issuers who are subscale for public deals. AALA members make extensive use of this market.

d. While not directly an issue for the SEC, AALA is concerned that the forthcoming changes on bank capital resulting from the eventual implementation of Basle 3 and other regulations will make bank revolving credit facilities used as back stops prohibitively expensive.

American Automotive Leasing Association

July 30, 2010

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549-1090

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

Ladies and Gentlemen:

Re: Proposed Rules for Asset-Backed Securities (SEC File No. S7-08-10)

This letter is in response to the SEC's Proposed Rules with respect to asset-backed securities (Release Nos. 33-9117; 34-61858). The American Automotive Leasing Association (AALA) represents companies engaged in commercial and government vehicle fleet leasing. Our members represent the top US commercial fleet leasing companies which as an industry in 2009 managed slightly more than 3 million vehicles in the United States.[1] In 2009, commercial fleet registrations of new cars, SUVs and light trucks were 456,317 or 4.5% of total vehicle registrations in the United States.[2] As the vast majority of commercial and government fleet purchases are from the "Detroit 3", the fleet industry has been a large and consistent buyer of vehicles from domestic manufacturers.

The fleet leasing client base ranges from small and medium businesses with under 5 vehicles in their leased fleet to large, global companies with leased fleets of well over 1,000 vehicles to states and municipalities. Beyond the lease of a vehicle, our members offer their clients comprehensive value added services including facilitation of vehicle acquisition, management of ongoing maintenance, accident repair, fuel and emissions management, regulatory compliance, disposal and valuable performance and cost information on fleets. This activity involves millions of individual transactions. The commercial fleet leasing industry operates across the country and throughout the year employing hundreds of thousands of contractors and other service providers.

[1] "Automotive Fleet" 2010 Statistics pg 44
[2] "Automotive Fleet" 2010 Statistics – 2009 – MY registrations

Existing vehicle portfolios and new acquisitions are largely funded by external financing and many are financed through asset backed securities that are distributed through the private and public markets. Losses in ABS transactions in the commercial fleet leasing industry have been minimal. There has been almost no client, portfolio or asset induced turmoil brought to our investors. Cash flow and industry dynamics have been largely stable. However, the commercial vehicle fleet leasing industry has not been spared the increased cost, market volatility and investor uncertainty brought on by the market turmoil in other asset classes.

Our purpose in writing to the SEC is to specifically communicate that the needs of this industry could be better met with modifications to the currently proposed Schedule L templates. We request the SEC to consider a unique template for Fleet Lessors. Under the Term Asset-Backed Securities Loan Facility (TALF) established by the Federal Reserve Bank of New York, fleet leases were categorized as a separate asset class. Alternatively, the SEC should allow for inclusion of the Commercial Fleet Leasing Sector within the Equipment Lease template in Schedule L – Item 7 and Schedule L-D – Item 7.

While our members typically lease on-road vehicles, largely cars, light and medium duty trucks, the sector does not fit into the Automobile Lease template contained in Schedule L or Schedule L-D as currently proposed. Our clients are businesses and governments, not individuals.

While the commercial fleet leasing industry also offer clients closed end leases, our typical financing is in the form of a "TRAC Lease" where the lessee is bearing the ongoing cost of maintenance and insurance as well as, in most cases, the residual value risk of the vehicle on its ultimate disposal. This in turn means that the holder of a security backed by the cash flows from an open end lease has minimal exposure to the risk of a decline in value of the underlying vehicle or equipment. As a result, investor evaluation regarding the risk of securities backed by commercial fleet leases has typically focused on the credit quality and diversification of the lessees. We have available for the SEC's consideration a sample of rating agency and analyst evaluations of transactions that demonstrate this risk perspective. While both Closed and Open end leases are deemed "True" Leases, they differ in which party (of the Lessee or Lessor) is taking the preponderant risk on residual value of the vehicle.

Individual FICO scores, dealer location and residual value estimates are not relevant variables in this sector. As an industry, we believe the commercial fleet lease sector is better aligned with other categories of Equipment Leasing.

Using the Equipment Lease template as the basis of discussion, we would propose several specific modifications to accommodate commercial fleet vehicle assets. Our suggested changes in Item 7 of Schedule L are as follows identified by item number:

7(a)(1) Lease Type

Propose to make two additions to the currently proposed categories. Add "Closed end Leases" which defines a true lease where the preponderance of economic risk on residual value of the vehicle resides with the Lessor. Also add, "TRAC or Open end leases reflect that the lessee bears the responsibility of maintenance, insurance and ultimate residual value on disposal.

7(b)(1) Equipment Type

Propose to adopt and expand the definition of vehicles contained in 5(b)(6) as follows:
1 = Full Size Car
2 = Full Size Truck
3 = Full Size SUV
4 = Mid Size SUV
5 = Compact Van/Truck
6 = Economy/Compact Car
7 = Mid size Car
8 = Sports Car
9 = Motor Cycle
10 = Medium Heavy Truck
11 = Heavy Duty Truck
12 = Trailer
98 = Other
99 = Unknown

7(b)(3) Residual Value

Propose to add “TRAC /Open End Lease” in addition to the current categories. This input would replace in this field an absolute dollar amount for other categories of leases.

7(c)(1) Obligor Industry

Propose that the SEC adopt SIC codes for this element.
As an industry our internal reporting and for those in the industry who securitize, we report industry concentrations using SIC codes. We believe our investors and their stakeholders view this standard is an effective means of disclosing industry distribution. I propose to add “Food” and “Chemicals” to the existing industry list if the SEC chooses not to adopt SIC codes.

7(c)(2) Geographic Location
As most commercial fleet lessees operate units in multiple regions and the source of lease payment is generally sourced from a regional or national business foot print, the ZIP code of the lessee is a less important variable. Instead, we would propose the ZIP code of where the vehicle is regularly garaged.

Our suggested changes in Item 7 of Schedule L-D are as follows identified by item number:

7(a) Updated Residual Value

As the leases are “TRAC/Open End”, the corporate lessee is bearing the residual value risk of the vehicle, we propose that there is no update. We believe this item should be deleted or enable “TRAC/Open End Lease” as an acceptable response

7(b) Source of Updated Residual Value

Propose the following change:

3 = Closed End Lease
4 = TRAC/Open End Lease”
5 = Other

The remaining items in both schedules are consistent with the form of financing in the industry and require no further modifications to base level data to be provided for such transactions. We also trust that the SEC recognizes that these financing structures are often highly tailored. We as an industry appreciate that the schedules provide latitude to add other variables to the information templates (e.g. industry, vehicle or geographic concentrations, ancillary or service cash flows etc.) which would provide greater insight to our investors on a specific financing.

As an industry, we believe the modifications recommended above provide the investor increased clarity into the risks of this asset class while permitting the industry to more clearly convey the key variables in the prospective transaction.

On behalf of our members, we hope that the SEC will concur with our recommendations. Should you wish to discuss our observations further, please feel free to contact the undersigned.

Sincerely,

Daniel Frank

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Al Chircop
Bio Information

Al Chircop is an adviser to executive management at Wheels Inc. His focus is long range financial planning. Al has thirty five years of corporate banking, financial market and risk management experience gained domestically and overseas. In the last several years, he has held the positions of Managing Director, Global Head of Financial Institutions and General Manager – Americas for the Australia and New Zealand Banking Group; Managing Director – J.P. Morgan Securities Inc. and President, Bank One International Holdings.