

Hertz

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August 1, 2011

By email: rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
Re: Proposing Release on Credit Risk Retention (File No. S7-14-11)

By email: regs.comments@occ.treas.gov

Office of the Comptroller of the Currency
250 E. Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
Re: Credit Risk Retention—Docket Number OCC 2010-0002

By email: Comments@FDIC.gov

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Attention: Robert E. Feldman, Executive Secretary, Comments
Re: RIN 3064-AD74

By email: regs.comments@federalreserve.gov

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attn: Jennifer J. Johnson Secretary

Ms. Elizabeth M. Murphy
August 1, 2011

Ladies and Gentlemen:

The Hertz Corporation (“Hertz”) welcomes the opportunity to submit this letter in response to the request of the Securities and Exchange Commission (the “Commission”) for comments on the Credit Risk Retention proposal Release No. 34-64148, dated March 30, 2011 (the “Proposing Release”).

Hertz supports the Commission’s efforts to bolster investor confidence in the domestic securitization markets. Given the importance of those markets to Hertz, and Hertz’s experience in them, Hertz wanted to offer its perspective on certain aspects of the Proposing Release.

Our letter generally is organized into three parts: (1) background on Hertz and its rental car securitization program; (2) structural and credit characteristics of rental car securitizations; and (3) a discussion of why rental car securitizations should be exempt from the risk retention requirements of the Proposing Release. Lastly, as we recently announced that we are in the process of acquiring a fleet leasing company, we also have provided brief commentary regarding the application of risk retention requirements to the fleet leasing sector.

Background

The Hertz Corporation

Hertz, a subsidiary of Hertz Global Holdings, Inc., a Delaware corporation (NYSE: HTZ), is the largest worldwide airport general use car rental brand, operating from approximately 8,000 locations in approximately 150 countries worldwide. Hertz also operates one of the world’s largest equipment rental businesses, Hertz Equipment Rental Corporation, offering a diverse line of equipment to customers ranging from major industrial companies to local contractors and consumers from approximately 320 branches. As of December 31, 2010, Hertz employed over 22,900 people globally, and employed on average approximately 12,000 people in the U.S. car rental business during the course of calendar year 2010. Since the beginning of 2005, Hertz has purchased over one million vehicles manufactured in the United States with an aggregate initial purchase price in excess of \$23 billion, the vast majority of which were financed through Hertz’s rental car securitization program.¹

¹ Both Hertz and Hertz Global Holdings, Inc. file periodic reports with the Commission under the Securities Exchange Act of 1934, as amended.

Hertz's Rental Car Securitization Program

The car rental business in the United States is capital intensive and highly competitive. Since 2004, Hertz has relied on the U.S. securitization markets as its primary source of capital for the acquisition of vehicles used in its domestic car rental business. The rental car securitization market provides Hertz, and other domestic car rental businesses that do not benefit from investment-grade corporate credit ratings, with a cost-effective source of capital. Therefore, any limitations on access to the domestic securitization markets or any increase in the costs of accessing such markets could have a significant negative impact on Hertz's business, may result in the pass-through of higher costs to Hertz's car rental customers, and may adversely impact Hertz's debtholders and Hertz Global Holdings, Inc.'s shareholders and debtholders.

To date, Hertz, through its wholly-owned subsidiary Hertz Vehicle Financing LLC ("HVF"), a Delaware limited liability company, has sponsored issuances of more than \$7.4 billion of term rental car asset-backed securities and finances all of its domestic rental car fleet (except for vehicles in Hawaii and Kansas) through the HVF securitization program.² HVF offers medium term and variable funding, investment-grade rental car asset backed securities in the U.S. private placement markets from time to time solely to qualified investors.³ To date, no investors in HVF's securities (and to our knowledge, no investors in any rental car securitization) have realized any actual credit losses on their investment in such securities.

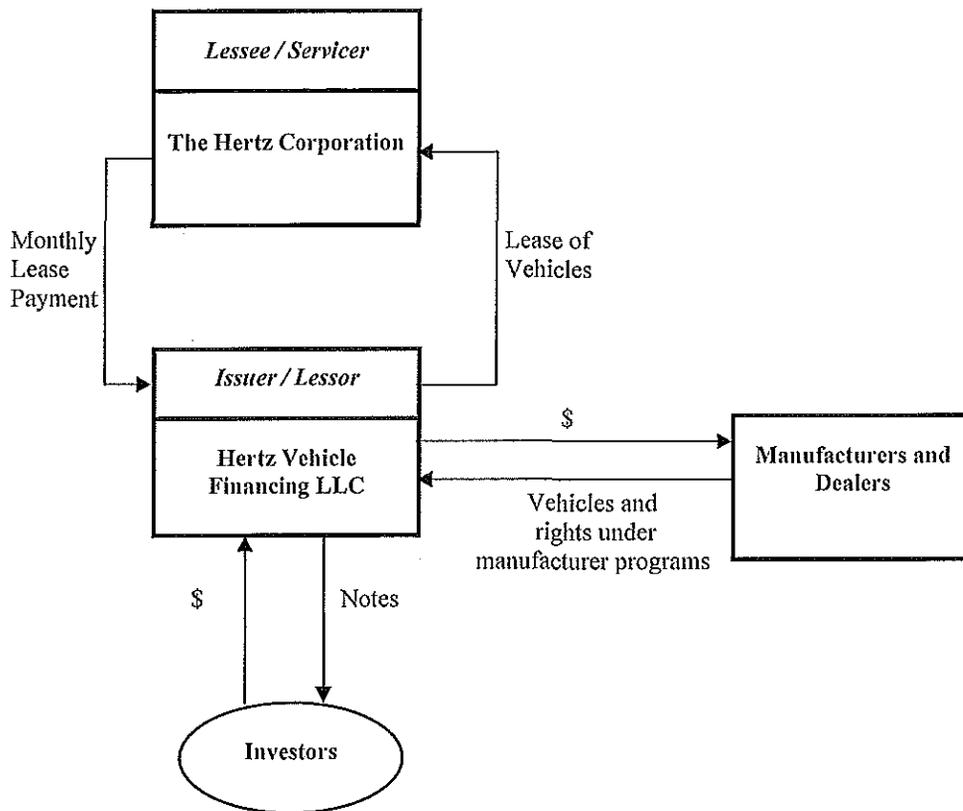
Structural and Credit Characteristics of Rental Car Securitizations

Structural Overview

A rental car securitization is an "operating asset" securitization in which the principal asset of the car rental company, its car rental fleet, comprises the primary collateral security, rather than a pool of assets that by their terms convert to cash over time. For your reference, we have provided below a simplified schematic of HVF's securitization program.

² To the best of Hertz's knowledge, approximately \$8.7 billion of term rental car asset-backed securities issued by U.S. issuers remained outstanding as of June 30, 2011.

³ These offerings are structured as Securities Act of 1933, Section 4(2) and/or Regulation D offerings eligible for Rule 144A resale. As rental car asset-backed securities do not fit within the current Regulation AB definition of "asset-backed security", neither HVF nor, to our knowledge, any other issuer of rental car asset-backed securities, has issued any publicly registered rental car asset backed securities. At present, HVF has no plans to issue publicly registered asset-backed securities.



HVF acts like a master trust in that the notes issued by HVF are typically backed by a shared, revolving collateral pool consisting primarily of vehicles. Notes are issued by HVF in one or more series, each of which may have one or more classes of notes with fixed and/or floating rates of interest. As depicted in the schematic, HVF uses the proceeds of note issuances to purchase new vehicles from various manufacturers, including Chrysler, Ford, General Motors, Kia, Mazda, Nissan, Subaru and Toyota. Pursuant to a master motor vehicle operating lease, HVF leases the vehicles it owns to Hertz and in turn Hertz makes a monthly lease payment to HVF which is sized to cover interest payments on notes issued by HVF, vehicle depreciation and other transaction expenses. Hertz then uses such vehicles in its domestic car rental business. Given the myriad demands of the customer base of the car rental business, at any given time HVF owns vehicles of multiple types and models from a number of manufacturers. At all times, ownership of the vehicles supporting the notes remains with HVF.

Like other securitization issuers, HVF is structured to be a special purpose, bankruptcy-remote entity, meaning that the investors look solely to the collateral pool (and its value upon liquidation) for repayment instead of relying on the corporate credit of the sponsor, in this case Hertz. The transaction structure is designed to isolate HVF's assets from the assets of Hertz, so that in the event of a bankruptcy proceeding with respect to Hertz, HVF's assets would not be available to satisfy the claims of Hertz's creditors.

Characteristics of the Collateral

As mentioned above, the primary collateral securing each series of notes includes, among other items, the vehicles owned by HVF, the related vehicle manufacturer programs (described below), if any, and the lease entered into by HVF with Hertz under which such vehicles are leased by Hertz from HVF.⁴ HVF's collateral pool is revolving in nature, meaning that HVF may sell vehicles from the collateral pool securing HVF's notes and use the proceeds to purchase additional vehicles that will be added to such collateral pool.

HVF purchases vehicles from manufacturers in two ways. First, HVF purchases vehicles pursuant to guaranteed depreciation programs or repurchase programs (collectively referred to hereafter as "repurchase programs") provided by eligible manufacturers, pursuant to which such manufacturer agrees either to repurchase such vehicles at a later date or guarantee that a specified amount of proceeds will be realized upon disposition of such vehicles. Such vehicles are referred to typically as "program vehicles". Each such repurchase program specifies the parameters under which program vehicles must be disposed, including the timing of such disposition, the channels through which such program vehicles will be disposed, and the manufacturer repurchase price or the proceeds that will be guaranteed by the manufacturer upon disposition. Through the repurchase programs, HVF is able to mitigate its exposure to the residual value risk of the program vehicles by shifting that risk to the related manufacturers. Additionally, HVF purchases vehicles from eligible manufacturers without the benefit of a repurchase program. Such vehicles are referred to typically as "non-program vehicles". Non-program vehicles primarily are sold by HVF in the established wholesale used car auction market. Since HVF has no contractual arrangements in place to lock-in the proceeds upon sale of non-program vehicles, HVF bears the residual value risk associated with these vehicles.

Rental car asset-backed securities differ from other securities based on other asset classes

While certain structural aspects of rental car securitizations are similar to securitizations of other asset classes (i.e., the use of a special purpose, bankruptcy remote issuer to isolate assets from bankruptcy risks), rental car securitizations are distinguishable from securitizations of other asset classes in certain key respects.

As mentioned above, in a typical financial asset securitization, such as an RMBS, CMBS or auto loan securitization, the notes issued are secured by a pool of self-amortizing "financial assets" with a diverse pool of consumer obligors. These assets by their terms convert to cash within a finite period of time. An investor in such a transaction, therefore, would want to understand the nature and likelihood of payments to be received under such assets in evaluating the credit risk associated with their investment. As such,

⁴ The collateral securing the notes also includes rights in certain insurance proceeds, rights of HVF under various transaction documents, cash and/or letters of credit.

investors likely would want to know detailed information regarding the payment characteristics of the underlying assets, as well as detailed information regarding the obligors under such assets.

In a rental car securitization, on the other hand, the collateral pool consists primarily of "hard assets", in this case vehicles, that by their terms do not convert to cash within a finite time period. As a result, the fundamental credit analysis in a rental car "operating asset" securitization primarily hinges upon the liquidation value of the vehicles. Given the nature of the collateral, it follows that the methodology used to determine the appropriate amount of credit enhancement provided to investors in rental car securitizations focuses primarily on the risks inherent in the vehicles themselves and the credit of the manufacturers providing repurchase programs to HVF.

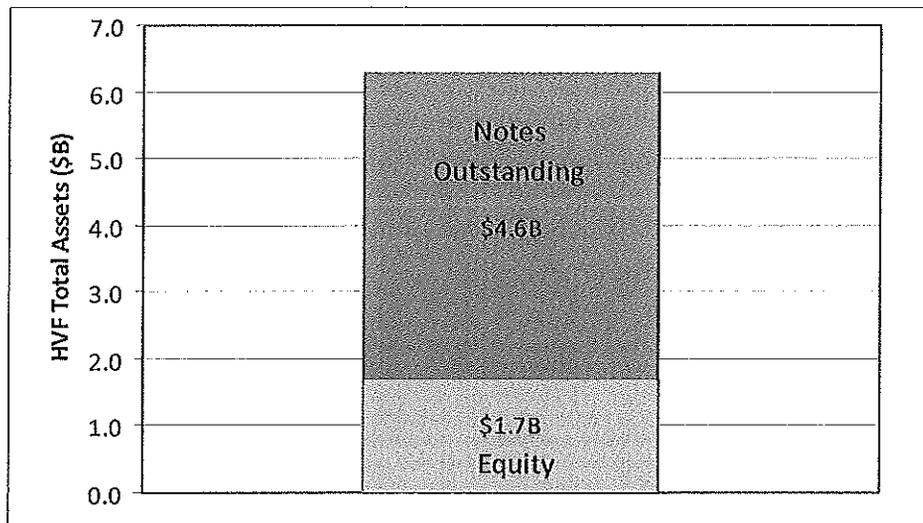
Determination of the applicable amount of required enhancement in a rental car securitization primarily is a function of two factors. First, different enhancement rates⁵ are applied to the vehicles in the collateral pool based on whether a vehicle is (i) a program vehicle or a non-program vehicle or (ii) purchased from an investment-grade manufacturer or a non-investment grade manufacturer. As a result of the foregoing, the amount of enhancement required to support the outstanding notes changes as the composition of the vehicles in the collateral pool changes. Second, HVF is required to perform periodic "mark-to-market" tests with respect to the non-program vehicles in the fleet. Under such "mark-to-market" tests, if the aggregate collateral value assigned to the non-program vehicles exceeds the aggregate fair market value of such vehicles, determined utilizing third-party pricing sources, such as the NADA guides and the Automotive Finance Guide, or the aggregate proceeds received upon disposition of such vehicles, HVF may be required to provide additional credit enhancement. The "mark-to-market" tests provide investors with additional dynamic protection regarding the appropriate valuation of the collateral securing their investment.

Furthermore, the total amount of enhancement required to be provided to support rental car asset-backed notes generally far exceeds amounts required in most mainstream securitization asset classes in the U.S. In a typical rental car securitization, the required enhancement often exceeds 30% at a triple-A attachment point and 25% at a triple-B attachment point.⁶

⁵ The rates are determined based upon a number of factors, including losses that would occur due to theft, normal course wrecks and the like; market value declines in the used car market generally; market value declines with respect to individual manufacturers that are assumed to become insolvent at the same time as Hertz; and credit risk on the receivables owed by the manufacturers to HVF under the previously described repurchase programs.

⁶ Although rental car securitizations typically present credit enhancement requirements as a percentage of the outstanding bond balance, for ease of reference and comparison, in this letter we have converted such percentage requirements into "haircuts" relative to the assets, as more commonly seen in other asset classes.

The chart below shows that in the aggregate the assets owned by HVF exceeded the principal amount of its liabilities by approximately \$1.7 billion as of June 30, 2011. This \$1.7 billion represents HVF's equity in the rental car fleet, which enures to Hertz's benefit through its 100% ownership of HVF, and given the \$4.6 billion in principal amount of debt outstanding represents a blended advance rate of approximately 73%.



Application of Risk Retention Rules to Rental Car Securitizations

With this background on Hertz, its rental car securitization program and the most salient features thereof, we now address why rental car securitizations should be exempt from the risk retention requirements described in the Proposing Release.

Section 15G of the Exchange Act, as added by Section 941(b) of the Act, mandates the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System (the "FRB"), the Office of the Comptroller of the Currency (collectively, the "Banking Regulators") and the Commission (collectively, with the "Banking Regulators", the "Regulators") to promulgate rules requiring any "securitizer to retain an economic interest in a portion of the credit risk for any asset that the securitizer, through the issuance of an asset-backed security, transfers, sells, or conveys to a third party." Section 15G dictates that a securitizer of an asset (other than a qualified residential mortgage) either retain (i) at least 5 percent of the credit risk for any asset or (ii) less than 5% of the credit risk for an asset if the originator of the asset satisfies underwriting criteria to be established by the Banking Regulators that "specify the terms, conditions, and characteristics of a loan within the asset class that indicate a low credit risk with respect to the loan". Notwithstanding the foregoing, Section 15G grants the Regulators the power to exempt, except or adjust the risk retention rules for classes of institutions or

assets “as may be appropriate in the public interest and for the protection of investors”. Any such exemption, exception or adjustment shall:

- help ensure high quality underwriting standards of the securitizers and the originators of assets that are securitized or available for securitization; and
- encourage appropriate risk management practices by the securitizers and originators of assets, improve the access of consumers in businesses to credit on reasonable terms, or otherwise be in the public interest and for the protection of investors.

As required under Section 941(c) of the Act, the FRB released its *Report to the Congress on Risk Retention* in October 2010 (the “FRB Report”). The FRB Report states that “Section 941 is intended to help align the interests of key participants in the securitization process, notably securitizers and originators of the assets underlying an ABS transaction, with the interests of investors.” As further described in the FRB Report, Congress’ primary intent behind enacting Section 941 of the Act was to “remedy the perceived misalignment of interests among securitizers, originators and investors in asset-backed securities, which perceived misalignment garnered significant attention during the credit crisis”. Thus, the FRB concluded in its report that the Regulators should craft tailored risk retention requirements specific to a delineated set of asset classes and exempt those asset classes for which risk retention requirements will not further Congress’ goals behind enacting the legislation.

Although we do not believe that rental car securitizations would be definitionally captured by the risk retention rules currently set forth in the Proposing Release, because we believe that rental car securitizations are one such asset class for which it would be appropriate to deviate from the general risk retention rules, we are respectfully requesting that rental car securitizations be exempted from the risk retention rules as dictated by the Proposing Release in order to prevent any ambiguity as to the application of such risk retention rules. Rental car securitization structures inherently align the interests of investors with the securitizer and neither the public interest nor the protection of investors would be promoted by imposing risk retention rules on such transactions.

Rental car securitizers are required to maintain credit enhancement amounts well in excess of those required in securitizations of most mainstream asset classes in the U.S. As depicted in the chart above, with so much of its own “skin-in-the-game” through the significant residual equity value in these transactions, the sponsor of a rental car securitization has a strong incentive to ensure that it maximizes the value of the fleet. In addition, as Hertz leases vehicles from HVF for use in its business operations, Hertz has a business incentive (as well as a contractual obligation) to service and maintain the fleet in good working order and in the high-quality condition that customers of Hertz’s premium brand have come to expect. By the nature of the importance of the vehicles to Hertz’s business and the substantial equity currently at risk, Hertz’s incentives already are aligned with investors in ensuring that the value of the fleet is maximized.

As described in the FRB report, the purpose of risk retention is to incentivize a securitizer “to exercise due care in making underwriting decisions, or in selecting assets for securitization purchased from the entities making such decisions.” However, incentives needed to promote high quality underwriting standards simply are not applicable here due to the fact that the asset being securitized is a “hard asset”, namely a vehicle. As for discretion with respect to asset selection, a car rental securitizer does have discretion to decide what vehicles will be purchased into the collateral pool from time to time, however that discretion is tempered by the dynamic enhancement features of the structures. As described above, the structure recognizes that different vehicles carry different risks and includes dynamic enhancement features that require the amount of enhancement to adjust as the composition of the pool of vehicles changes to ensure that the amount of such enhancement is commensurate with the risks of the current collateral pool. In addition, it is a condition precedent to purchasing any new vehicle into the revolving collateral pool that there be sufficient enhancement after giving effect to such purchase. Therefore, there is a built in policing mechanism to maintain appropriate collateral protection notwithstanding the discretion to select assets. Lastly, the mark-to-market tests described above provide investors with further protections against shifts in the broader vehicle resale market over time and provides independent third party verification of the quality and value of the collateral pool.

Rental car securitizations also have proven over time to be one of the most durable and resilient asset classes, and have not been plagued by many of the issues that have impacted other asset classes, in particular RMBS, CMBS and CDOs. The rental car securitization structure has survived the bankruptcies of two sponsor rental car companies,⁷ the bankruptcy filings of both General Motors and Chrysler in 2009, as well as the broader stresses placed on the entire financial system over the past few years. Notwithstanding the foregoing and as noted above, to our knowledge no investor in a rental car securitization has suffered any actual credit losses to date on their investments in rental car securitizations. This is in stark contrast to investors in RMBS, CMBS and CDOs, many of whom suffered severe credit losses during the financial crisis. The strength of the rental car asset class is further evidenced by the continuing confidence investors have shown. Rental car securitizations were among the first term securitization transactions to return to the securitization market in 2009, despite the fact that these transactions were issued without the benefits of any of the then-available governmental support programs, such as the Federal Reserve’s Term Asset-Backed Loan Facility program.⁸ Likewise, since September 1, 2008, to our knowledge, over \$6 billion of new

⁷ In 2001, ANC Rental Corporation (at the time the owner of the Alamo, National and CarTemps brands) filed for bankruptcy protection and in 2002 Budget Group, Inc. (the parent of Budget Rent-A-Car) filed for bankruptcy protection. To our knowledge, at the time of their bankruptcy filings, these operating companies together had more than \$5.8 billion of rental car asset-backed securities outstanding and all investors in the rental car asset-backed securities sponsored by these companies received timely payments in full.

⁸ These transactions include HVF’s Series 2009-2 Notes and Avis Budget Rental Car Funding (AESOP) LLC’s Series 2009-2 Notes.

term rental car securitizations have come to market, and during the same time period bank conduits have provided between \$4 billion and \$5 billion of committed securitized revolving credit facilities (in the form of variable funding notes) to securitization vehicles sponsored by Hertz, Avis/Budget and Dollar Thrifty.

It is difficult to see how imposing risk retention requirements on rental car securitizations would further the public interest or provide investors with incremental protection. In light of the extensive overcollateralization required to support a rental car securitization, the on-going structural protections with respect to collateral valuation, and the importance of the vehicles to the business operations of the car rental operating company, a clear alignment of interests already exists in a rental car securitization between investors and the car rental operating company not evidenced in RMBS, CMBS, CDOs and other asset classes highlighted in the FRB Report as contributors to the financial crisis. Concerns about underwriting standards are simply inapplicable here as the assets underlying rental car securitizations are the vehicles themselves and not, for example, mortgage, loans or other forms of “originated” or “underwritten” receivables with varying credit characteristics. Therefore, the only likely result of requiring incremental “skin-in-the-game” would be an increase in financing costs for HVF and therefore Hertz. Any such higher costs incurred by Hertz in operating its business is most likely to result in higher prices borne by Hertz’s car rental customers and/or a reduction in services provided to them, and may adversely impact Hertz’s debtholders and Hertz Global Holdings, Inc.’s shareholders and debtholders.

For these reasons, we respectfully request that the Regulators exempt rental car securitizations from the risk retention rules to be promulgated under Section 15G of the Exchange Act.

Application of Risk Retention Rules to Fleet Leasing Securitizations

On July 18, 2011, we announced that we signed a definitive agreement to acquire Donlen Corporation, a leading provider of long-term car, truck and equipment leasing and management services for corporate fleets across the United States.⁹ The transaction is expected to be completed in the third quarter of 2011, subject to the satisfaction of customary closing conditions, including regulatory approvals.

In connection therewith, we wanted to express our support for the comments submitted to the Regulators by the Equipment Leasing and Finance Association (“ELFA”) on June 8, 2011 pertaining to the applicability of the risk retention rules to equipment lease securitizations.¹⁰ We concur with ELFA that the Regulators should recognize horizontal

⁹ See The Hertz Corporation, Current Report (Form 8-K) (July 18, 2011).

¹⁰ See “Equipment Lease and Finance Association Comment Letter Re: Dodd-Frank Risk Retention Regulations for ABS—Equipment Leasing and Lending” (June 8, 2011), available at <http://www.sec.gov/comments/s7-14-11/s71411-51.pdf>.

risk retention in the form of overcollateralization, equipment residual values and cash collateral accounts, together with permissible investments purchased with cash on deposit in any such account, as satisfying applicable risk retention requirements for equipment lease securitizations whether or not such interests in any such overcollateralization or equipment residual value is evidenced by a note, certificate or other instrument. In addition, we believe that letters of credit posted in lieu of cash deposited to such a cash collateral account should be equivalently recognized as horizontal risk retention, as reimbursement obligations in respect thereof establishes similar "skin-in-the-game" and alignment of interests. We would welcome the opportunity to work with the Regulators throughout this process to develop appropriate rules for the fleet leasing sector that recognize the various forms of risk retention techniques currently employed in equipment lease securitizations, and participate in the development of any expansion of qualified auto loans to include auto and equipment leases.

Conclusion

Hertz appreciates the Commission's efforts in addressing issues that plagued the asset-backed securities market and the U.S. economy during the credit crunch and in working to bolster investor confidence in the asset-backed securitization market. Nevertheless, we are concerned that certain aspects of the Proposing Release intended to address such issues will have broader implications than intended, and as a result could adversely affect or forestall our ability to utilize the rental car asset-backed markets in the future. Likewise, we are concerned that the Proposing Release does not appropriately recognize commonly accepted forms of risk retention currently utilized in fleet leasing securitizations, and as a result could adversely impact the fleet leasing securitization markets. We appreciate the opportunity to share with the Commission views on the Proposing Release and would be happy to discuss with the Commission any questions regarding this letter.

Sincerely,



Elyse Douglas
Executive Vice President and
Chief Financial Officer