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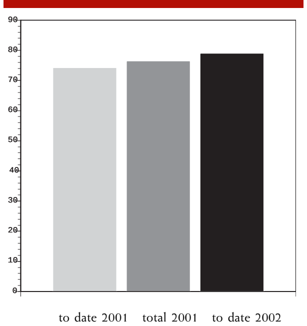
NEWS INDEX

AUTO ABS VOLUME



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FORD CREDIT SET TO LAUNCH "BALLOON-NOTE" FINANCING AS OPTION GAINS MOMENTUM

Ford Motor Credit Co., the captive finance arm of **Ford Motor Co.**, will launch its own version of the so-called "balloon-note" financing alternative to leasing in early 2003. The move is designed to enable the lessor to limit its "Vicarious Liability" exposure in states where it can be held legally responsible for any vehicle owner-related litigation.

Having already spread the word to its dealership base, the automaker plans to debut the program, dubbed the "Red Carpet Option," in the first quarter of next year in all of New York state, northern New Jersey, and western Connecticut. A Ford Credit spokeswoman said the company is still holding out hope that legislators in a number of states, including New York, will strike down "Vicarious Liability" statutes next year.

"We believe that vicarious liability law reform is a better solution, but we will do what makes sound business sense," she said. "Leasing is popular with New Yorkers, and New York area dealers want and need a leasing product."

At least nine states — Connecticut, New York, Rhode Island, Illinois, New Jersey, Delaware, Florida, Oklahoma, and Wisconsin — have had such statutes for years. These laws hold the automaker, and not the lease customer, ultimately liable for damages resulting from accidents, because the car maker is named as owner on the title document.

The issue was thrown into the spotlight earlier this year when a Rhode Island jury stunned **Chase Automotive Finance**, a unit of **J.P.**

Continued on page 8

COMINGS & GOINGS

- **KeyCorp** taps **Michael Butler** for new financing post.
- **Michael DeGroote** resigns from **AutoNation**.
- **Rick Wagoner** to add chairman post to title at **GM**.

see page 15

GMAC, FORD FACING FUNDING QUAGMIRE, CREDIT ANALYSTS SAY

Automotive titans **General Motors Corp**. and **Ford Motor Co.** will continue to face an uphill battle to finance their businesses because of higher debt costs and pension investment slips, analysts at **Standard & Poor's Corp.**, and **Fitch Ratings Inc**. said.

Recently, the debt for each company was downgraded, making it more difficult to sell bonds and raise cash.

S&P, a division of the **McGraw Hill Companies**, last month cut its debt ratings for both automakers, and sliced the long-term debt ratings of their captive finance arms (**Ford Motor Credit Co.** and **General Motors Acceptance Corp.**), to BBB from BBB+. On the ratings scale from AAA to D, BBB is the second-lowest investment grade, and BBB+ is the third lowest.

The ratings downgrades had an immediate effect on Ford's corporate bonds, said **Juliet Jones**, an asset-backed analyst at **Barclays Capital**, an arm of **Barclays PLC**. She said the actions pushed Ford's 10-year-corporate-note yields (the amount Ford must pay its investors) to about 560 basis points above corresponding Treasuries to 505 basis points from 495 basis points, although that spread has narrowed in recent days to about 515 basis points.

"Ford's spreads are as much as six basis points to eight basis points wider across the curve relative to benchmark auto ABS,

Continued on page 10

Full Page Color Tri-Arc Advertisement

Rates

REGIONAL AND NATIONAL AUTO LOAN RATES

NEW AUTOMOBILE RATES

	A+	A	B	C	Nat'l Avg.
Northeast	4.39	4.51	5.45	7.68	5.51
Southeast	4.66	4.68	5.84	7.79	5.74
Central Midwest	4.67	4.70	5.84	8.04	5.82
TX & Southwest	4.88	5.10	6.63	9.71	6.58
Western	4.48	4.74	5.93	8.18	5.83
Northwest	4.98	5.44	6.53	9.27	6.55
Tier Avg. Rate	4.67	4.86	6.04	8.45	6.00

USED AUTOMOBILE RATES

	A+	A	B	C	Nat'l Avg.
Northeast	4.64	4.78	5.78	8.10	5.83
Southeast	4.91	4.98	6.13	8.12	6.04
Central Midwest	4.93	4.93	5.90	8.31	6.01
TX & Southwest	5.21	5.50	7.09	9.89	6.93
Western	4.65	4.92	6.20	8.28	6.01
Northwest	5.09	5.51	6.61	9.35	6.64
Tier Avg. Rate	4.90	5.10	6.29	8.68	6.24

Source: Informa Research Services Inc. *as of 11/27/02

Rates are for 60-month loans on 2002-2003 new autos and one-year-old used autos. For purposes of this survey, borrowers are considered to have A+ credit if their scores on auto-specific models of combined credit reporting bureaus exceeds 720; A if their scores fall between 680 and 719; B, 650 and 679; and C, 625 and 649. For lender-specific rate and fee information, contact Bob Johnston at Informa Research Services Inc. at 800-848-0218 x291.

MITSUBISHI (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
Eclipse	$1,250	0.0%	0.0%	0.0%
Eclipse Spyder	—	5.9%	5.9%	5.9%
Galant	—	0.0%	0.0%	0.0%
Lancer	—	0.0%	0.0%	0.0%
Montero Sport	—	0.0%	0.0%	0.0%

FORD (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
Windstar	$2,500	0.0%	0.0%	0.0%
F-150	$1,000	0.0%	2.9%	3.9%
F-250 Super Duty	$1,000	0.0%	3.9%	5.9%
F-350 Super Duty	$1,000	0.0%	3.9%	5.9%
E-Series	$2,000	0.0%	2.9%	3.9%
Explorer	$1,500	0.0%	2.9%	3.9%
Explorer (Sport)	$1,500	0.0%	2.9%	3.9%
Explorer (Sport Trac)	$1,000	0.0%	2.9%	3.9%
Escape	$500	—	—	—
Taurus	$2,000	0.0%	1.9%	2.9%
Ranger	$1,500	0.0%	2.9%	3.9%
Excursion	$2,000	0.0%	2.9%	3.9%
Crown Victoria	$2,000	0.0%	2.9%	3.9%
Focus	$1,000	0.0%	2.9%	3.9%
Mustang	$1,000	0.0%	2.9%	3.9%

VOLKSWAGEN (2003 MODEL INCENTIVES)

Model	24 Mo.	36 Mo.	48 Mo.	60 Mo.
Beetle	1.9%	2.9%	3.5%	3.9%
EuroVan	3.5%	4.25%	4.50%	4.75%
Golf	2.9%	3.9%	3.9%	4.5%
GTI	2.9%	3.9%	3.9%	4.5%
Jetta	1.9%	2.9%	3.5%	3.9%
Passat	2.9%	3.9%	3.9%	4.5%

CHRYSLER (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
300M	$1,500	0.0%	1.9%	2.9%
Concorde	$1,500	0.0%	1.9%	2.9%
PT Cruiser	$1,500	0.0%	1.9%	2.9%
Town & Country	$1,500	0.0%	1.9%	2.9%
Voyager	$2,500	0.0%	2.9%	3.9%

GENERAL MOTORS (2003 MODEL INCENTIVES)

Model	Cash Back	36 Mo.	48 Mo.	60 Mo.
CTS	—	0.0%	2.9%	3.9%
Deville	—	0.0%	2.9%	3.9%
Escalade	—	0.0%	2.9%	3.9%
Escalade EXT	—	0.0%	2.9%	3.9%
Seville	—	0.0%	2.9%	3.9%
Astro	$1,500	0.0%	2.9%	3.9%
Avalanche	$1,500	0.0%	2.9%	3.9%
Blazer	$1,500	0.0%	2.9%	3.9%
Cavalier	$1,500	0.0%	0.0%	0.0%
Corvette	—	0.0%	2.9%	3.9%
Express	$1,500	0.0%	2.9%	3.9%
Impala	$1,500	0.0%	0.0%	0.0%
Malibu	$2,000	0.0%	2.9%	3.9%
Monte Carlo	$1,500	0.0%	0.0%	0.0%
S-10	$1,500	0.0%	2.9%	3.9%
Silverado 1500	$1,500	0.0%	2.9%	3.9%
Silverado 2500	$1,500	0.0%	2.9%	3.9%
Silverado 3500	$1,500	0.0%	2.9%	3.9%
Suburban	$1,500	0.0%	2.9%	3.9%
Tahoe	$1,500	0.0%	2.9%	3.9%
Tracker	$2,000	0.0%	2.9%	3.9%
Trailblazer	$1,500	0.0%	2.9%	3.9%
Trailblazer EXT	$1,500	0.0%	2.9%	3.9%
Venture	$2,000	0.0%	0.0%	0.0%
Envoy	$1,500	0.0%	2.9%	3.9%
Envoy XL	$1,500	0.0%	2.9%	3.9%
Safari	$1,500	0.0%	2.9%	3.9%
Savana	$1,500	0.0%	2.9%	3.9%
Sierra 1500	$1,500	0.0%	2.9%	3.9%
Sierra 2500	$1,500	0.0%	2.9%	3.9%
Sierra 3500	$1,500	0.0%	2.9%	3.9%
Sierra Denali	$1,500	0.0%	2.9%	3.9%
Sonoma	$1,500	0.0%	2.9%	3.9%
Yukon	$1,500	0.0%	2.9%	3.9%
Yukon Denali	$1,500	0.0%	2.9%	3.9%
Yukon XL	$1,500	0.0%	2.9%	3.9%
Alero	$2,000	0.0%	2.9%	3.9%
Aurora	$1,500	0.0%	0.0%	0.0%
Bravada	$1,500	0.0%	2.9%	3.9%
Silhouette	$2,000	0.0%	0.0%	0.0%
Aztek	$1,500	0.0%	0.0%	0.0%
Bonneville	$1,500	0.0%	0.0%	0.0%
Grand Am	$2,000	0.0%	2.9%	3.9%
Grand Prix	$1,500	0.0%	0.0%	0.0%
Montana	$2,000	0.0%	0.0%	0.0%
Sunfire	$1,500	0.0%	0.0%	0.0%
Vibe	$1,500	0.0%	0.0%	0.0%

Source: N.A.D.A Appraisal Guides (www.nadaguides.com)

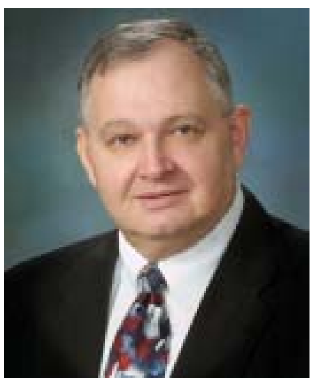
Courtside

DESPITE BANKRUPTCY, UAC LEANS ON STRENGTH OF SERVICING

After filing for bankruptcy protection and ceasing auto loan originations recently, **Union Acceptance Corp**. is relying on the strength of its servicing platform to pull it through reorganization.

UAC, an Indianapolis-based nonprime auto lender, filed for Chapter 11 bankruptcy protection on Oct. 31, in the U.S. Bankruptcy Court in the Southern District of Indiana. At presstime, the company had yet to submit a formal reorganization plan to the bankruptcy court. The company is required to do so within 128 days of its initial filing.

In the filing, UAC alleged that **MBIA Inc**., an Armonk, N.Y., credit-enhancement company, pulled its backing on a credit facility provided by **Bank of America Corp.**, Charlotte, N.C. The withdrawal effectively shut down UAC's primary source of capital, forcing the lender to cease originating auto loans.


Lee N. Ervin, Union Acceptance

Following the bankruptcy filing, UAC laid off 230 of its 530 employees. The bulk of those that remain, though, are servicing and collection staff.

"It's all we have left," a company spokeswoman said. "We expect no negative impact to the quality or level of servicing or collections as a result of the bankruptcy. We believe the efficient use of technology coupled with the appropriate realigning of staff will effectively offset any staff reductions these areas had."

Since last year, the company has been bolstering its servicing and collection platforms under the leadership of **Lee N. Ervin**, the company's president and chief executive. UAC purchased a system developed by **CenterForce Technologies Inc**., Bethesda, Md., to better gauge when customers will be home, thereby improving chances for collecting delinquent loan payments. Ervin also instituted Sunday hours for collection phone calls and modified the incentive program for the company's loan collectors. In addition, he shifted emphasis to collecting loans up to 60 days late from the 90-to-120-day-late credits — sometimes putting more experienced collectors in charge of less-delinquent accounts. The transition is meant to keep past-due borrowers from growing more delinquent.

Until last quarter, the collection-strategy changes appeared to be paying off. UAC's delinquency rate had been declining since December. By the end of June, 3.79% of the company's $2.7 billion portfolio was 30 or more days late, down from 3.91% of a $2.8 billion portfolio in March and 4.93% of a $3 billion portfolio at yearend 2001. Last quarter, though, delinquencies ticked up, reaching 4.22% of a $2.6 billion portfolio.

In addition, 4.5% of Union's portfolio was written off because of nonpayment, compared with 4.08% in the second quarter and 3.67% in the third quarter of 2001.

Still, UAC continues to implement "technology improvements to help increase efficiency in both collections and servicing, which will, in turn, help us reduce our operating expenses," the spokeswoman said.

And despite the bankruptcy filing, UAC officials hope to revive plans for becoming a third-party loan servicer.

"We hope that by proving ourselves over time to be a high-quality, low-cost servicing provider, we will be able to capture servicing market share when we feel we are able to accommodate third parties," the spokeswoman said.

UAC announced the third-party business in April. At the time, the company said that it expected to begin servicing for another lender in the third quarter.

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Credit Quality

DELINQUENCIES CLIMBING IN AMERICREDIT'S ABS PORTFOLIO

Analysts expect the number of auto loans delinquent in **AmeriCredit Corp**.'s asset-backed securitizations to continue climbing through the beginning of 2003 as the lender grapples with its client base of mainly nonprime borrowers who have been hard hit by the economic decline and rising unemployment.

Three analysts who track AmeriCredit said they expect that through the first quarter of 2003 the delinquency rate on the company's securitized loans will either match or outpace the 8.11% the company reported in October for 30-plus day delinquencies, and the 3.52% it posted for loans over 60 days late.

While part of the problem with AmeriCredit is the seasonality that all lenders face, the company's delinquency levels are being driven higher than at other companies because of its aggressive growth, which it has only recently slowed. Furthermore, some analysts said that a deal AmeriCredit struck with its insurer in October, to raise the delinquency triggers in its pool of securitized loans, has driven down loss rates, but at the expense of delinquencies.

DELINQUENCY DOLLARS HIGHER

At least one credit analyst, **Joel Houck**, **Wachovia Securities**, the investment bank of Charlotte, N.C.-based **Wachovia Corp**, said AmeriCredit's recent delinquency numbers, for October, — which dropped to 8.11% from 8.64% (30 day), and 3.52% from 3.54% (60 day) — show an apparent improvement that is far from that. While the actual number of delinquent loans may have declined, the total value of the assets in that pool of delinquent loans has risen.

AmeriCredit was criticized this year for increasing the loans it originated too fast, and for taking on some borrowers it should not have. That criticism has prompted the lender to launch a plan to slow origination growth to 15% by the end of this year, from 25% at the end of 2001, said an AmeriCredit spokesman.

In October, AmeriCredit engineered a deal with its bond insurer, **Financial Security Assurance**, that would allow it to hold a greater number of delinquent loans, thereby reducing the number of loans it would have to charge off. In exchange, FSA received options to buy AmeriCredit stock at a premium.

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AMERICREDIT

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As a result, delinquency rates have risen as the company attempts to drive down its loss rates, said Houck. In fact, Houck said delinquency figures are actually more dire than the company's recent reports would suggest. On an absolute dollar basis, he said, in October delinquent loans have increased about 6% or $42.5 million to $1.186 billion from $1.144 billion the month before. In other words, while the number of loans that are delinquent may have dropped, the actual value of those delinquent loans has risen. AmeriCredit confirmed Houck's numbers are accurate.

'TIS THE SEASONALITY

Other analysts, like **Moshe Orenbuch**, who tracks the lender for **Credit Suisse First Boston Corp**., are not as concerned. Orenbuch said the rise in delinquencies is not unusual in the fourth and first quarters — times when many consumers are strapped with holiday bills and the costs of sending children back to school.

"Delinquencies are always highest in December, January and February," said Orenbuch. "So, we can expect higher loss rates in AmeriCredit's [securitized loans], even if the economy is stable."

However, in AmeriCredit's overall portfolio, delinquencies have been rising quarter-over-quarter, and are much higher than the industry average. The **American Bankers Association**, a trade group in Washington, D.C., reported that delinquencies for all indirect auto loans, such as those AmeriCredit makes, rose to 2.06% from 1.98% during the second quarter. This figure encompasses all categories of borrowers, including prime and nonprime.

AmeriCredit's numbers will most likely always be higher than the ABA's industry average, mainly because the company lends mostly to nonprime borrowers.

TRAILING OTHER NONPRIMES

So, while lenders such as **WFS Financial Inc**. — an Irvine, Calif.-based indirect auto lender which provides loans to consumers with better credit — reported during the second quarter that the percentage of its loans 60 days or more late had dropped to 0.81%, from 0.86% the previous quarter; others like the auto finance unit at **Household International Inc**., Prospect Heights, Ill., a nonprime lender, reported that its loans 60 days or more late had increased to 2.99% in the second quarter from 2.04% during the first.

Fort Worth, Texas-based AmeriCredit reported that for the quarter ending Sept. 30, of all its auto loans, including securitized loans, 30-plus day delinquencies rose to 7.6% from 7% the previous quarter, but declined from 7.7% from the same time last year. Meanwhile, loans 60 days late rose to 3.5%, from the 3.3% during the previous quarter.

NONPRIME CLIENTS STRUGGLING

A good part of AmeriCredit's problems are the result of its client base, which is made up mainly of nonprimee borrowers. In an economic downturn, that is the segment of the population that will get hurt first, which is what has led to AmeriCredit's delinquency figures, said **Salil Mehta**, an analyst at **Second Curve Capital LLC**, a New York hedge fund.

The lender itself attributes the rise in its delinquency rate to the high levels of unemployment across the nation. And even though other lenders face this same problem, AmeriCredit has exacerbated its credit woes by signing up such a high volume of nonprime borrowers.

Unemployment, which rose throughout the year, leveled off in September and October to approximately 8.2 million, a rate of 5.7%. And, first-time unemployment insurance fell 17,000 in late November to 364,000, the lowest level seen since before the recession in early 2001, when unemployment stood at 3.9%. Though the unemployment picture is clearing, the AmeriCredit spokesman said it could take up to six months for the uptick to translate into lower delinquencies.

For its part, AmeriCredit is touting reducing losses in its portfolio to 5.66% from 7%. "Obviously, driving down delinquencies is very important, but the true acid test is always going to be losses," said the AmeriCredit spokesman. "That's the number that matters to the bottom-line number."

While the October statistics on AmeriCredit's securitizations appear to be an improvement, that loss rate is still higher than the loss rate the company reported on its entire portfolio, as third quarter losses had risen to 5.3% from 3.8% the previous quarter.

Despite the October news, Wachovia is still eyeing the $42 million increase in loan delinquencies, issuing an informal warning to investors that it expects to see further credit deterioration in the lender's portfolio.

"We believe [the higher dollar value of delinquencies] is attributable to AmeriCredit's agreement with FSA to allow delinquency levels to increase in order to take some of the pressure off of loss rates," stated a report issued by Wachovia.

Essentially, FSA allows AmeriCredit to hold loans longer as delinquent, and offer customers extensions, before declaring them losses. This means that AmeriCredit does not have to increase its bond insurance as early as it would have under the old trigger. AmeriCredit would not disclose what that trigger is.

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CALENDAR

Dec. 11
Deutsche Bank is holding an ABS Conference at the Four Seasons Hotel in New York City.
To register: 212.469.2883.

Feb. 1-4
National Automobile Dealers Association holds its Annual Convention & Exposition in San Francisco.
To register: www.nada.org/convention

Feb. 9-11
Debt Buyers' Association holds its 6th Annual Conference at Caesars Palace in Las Vegas.
To register: 562.903.7222 or www.debtbuyers.com.

Feb. 9-12
Strategic Research Institute holds its 10th Annual Asset Securitization 2003 Symposium at the Fairmont Scottsdale Princess in Scottsdale, Ariz.
To register: www.srinstitute.com or 212.967.0095.

FORD'S BALLOON NOTES

continued from page 1

Morgan Chase & Co., by awarding $28 million to a woman paralyzed in a Chase-leased car.

LIABILITY MAKING LENDERS NERVOUS

This case has generated much interest in balloon-note financing, as the news not only shook lenders in these states, but also the automakers themselves. While Ford initially warned its dealers in at least New York that it was considering pulling out of leasing in that state altogether, it has yet to make such a move. The Ford spokeswoman said the company has yet to make a final determination.

"The finance managers love the [balloon-notes] because they can mark up the rate."

Paul Neal, group vice president
SunTrust Banks

The use of so-called balloon-note financing is becoming increasingly popular with car buyers and lenders as an alternative financing program to leasing. Ford's program, like other balloon-note options, is structured like a lease, but, unlike a lease, it gives ownership to the consumer.

Balloon-note financing has been around for many years, but is now gaining momentum because it enables the lender to offer consumers a low monthly payment, while limiting "Vicarious Liability" exposure. More captive financiers, independent finance companies, banks and even credit unions, see balloon notes as another viable entree to offer car buyers.

Monthly payments with balloon financing, like those on a lease, can be 25% to 40% less than the monthly payments a consumer would be expected to make if he took out a loan to purchase a new vehicle.

Also similar to a lease, at the end of the balloon term, which could be 36, 48, or 60 months, the consumer has the option of either refinancing the loan, purchasing the car outright, or walking away.

Finance managers at dealerships like balloon financing, because they have more flexibility in setting terms with balloon notes, as opposed to the rates they are locked into with leasing.

But, it is the lenders themselves that are mainly driving the increase of balloon-note financing, primarily because of the inherent litigious risk leasing poses in certain states.

MORE LENDERS EYE BALLOONS

While they may not issue the high volume of balloon notes that Chase does, a number of other major non-captive auto lenders offer the financing alternative, including **SunTrust Banks Inc**. and **US Bancorp**.

"Aside from the 'Vicarious Liability' issue, we offer balloon financing, because many people want to own their cars, they want lower monthly payments, and they want lower insurance," said **Paul Neal**, group vice president at SunTrust Banks, Atlanta.

Of the approximately $400 million in originations SunTrust generates every month, Neal estimates up to $15 million comes from balloon-note financing.

"The finance managers at the dealerships also love them, because they are able to mark up the rate," said Neal. "Many consumers walk into a dealership intending to buy, not lease. Balloon notes allow the finance manager flexibility to lower their monthly payment, while book a higher rate than he would on a lease."

With the anxiety over "Vicarious Liability" building, more lenders are considering the financing alternative, like **National City Bank**, which indirectly lends to car buyers through 1,100 dealerships throughout Ohio, Pennsylvania, Indiana, Kentucky, Illinois, and Michigan.

NOT A SILVER BULLET

"The issue is that if you are ultra conservative

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FORD'S BALLOON NOTES

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with setting the balloon balances, you won't be competitive because the monthly payment will be too high, and this form of financing attracts a payment buyer," said **Todd Friesner**, senior vice president at National City. "If the balloon balance is set too high, while the payments will be lower, consumers will be buried. This could create potential customer service and brand issues."

At SunTrust, Neal said while there is a lot of interest being generated about balloon financing this year, he only expects moderate growth, mainly because of the negative buzz surrounding residual pricing risk. But, Neal pointed out that balloon notes are easier to manage for the lender, as the consumer pays the entire sales tax up front, as opposed to spreading it out over the life of a lease. Therefore, the lender does not have to remit the tax to the U.S. government every month.

"By offering alternatives, like balloon notes, the credit unions are captur-ing a larger share of the auto finance market."

Stephen Bentley, chief executive
Aimbridge Group

In the meantime, balloon-note financing is becoming an increasingly popular program within one of the fastest growing segments of the auto finance industry: credit unions.

Recently, the **Aimbridge Group Inc**., a financial services company, signed a deal with a group of 100 credit unions in seven markets (Denver and Colorado Springs in Colorado; St. Louis, Mo.; and Tampa, Orlando, Jacksonville and Miami in Florida) to offer balloon note financing services. The company offers the balloon notes to credit unions through direct or indirect methods.

"Consumers are always looking for a lower payment," said **Stephen Bentley**, chief executive of Aimbridge. "You add up all the financing the 10,000 credit unions in this country do, and it probably won't add up to the business they do at a Chase or a Bank of America. But by offering alternatives, like balloon notes, the credit unions are capturing a larger share of the auto finance market every year."

FORD, GMAC CHALLENGED

continued from page 1

as some investors have chosen to lighten their exposure to Ford," said Barclays' Jones.

"Depending on the maturity of the issue, the spread will vary," said **Christopher Wolfe**, credit analyst at Fitch Ratings, adding that for longer-term debt issues, the yield on a Ford Motor Credit note would usually be (as in, prior to the recent ratings actions in October which affected the yields into November) approximately 400 basis points above that of a Treasury security of a comparable maturity. The yield on a GMAC note would be typically about 300 basis points above Treasuries, he said.

However, the analyst said following the ratings actions, GM received a similar negative reaction, though to a lesser extent than Ford. He said during the same time Ford's yields were rising, spanning October into November, GM's 10-year-corporate-note yields escalated to the high 300-basis-point range, from the low-300 basis point range. He said the yield has since settled into the low-to-mid 300 basis-point range.

Not long after S&P downgraded both automakers, Fitch affirmed its A-minus senior unsecured debt ratings for GM and GMAC, the fourth-lowest grade; while also affirming its BBB+ senior unsecured debt ratings for Ford and Ford Credit.

"I would say Ford and GMAC continue to have most of their funding problems in the unsecured debt market, and not securitizations, " said Wolfe from Fitch.

Spokesmen for both Ford and GMAC declined to comment on their respective financing strategies.

NEGATIVE RATINGS OUTLOOKS

Wolfe and **Scott Sprinzen**, S&P's credit analyst, said their ratings outlooks for GM and Ford is negative, meaning a downgrade is still more likely than an upgrade.

Due to the massive scale of their operations, automakers have to rely on multiple sources of funding. So, while they may find success in the ABS market, they cannot solely rely on it as their only source of funding, analysts said.

PENSION PROBLEMS RECUR

S&P's Sprizen said his company downgraded GM primarily because poor pension investment portfolio returns have contributed to a huge increase in GM's already large unfunded pension liability.

General Motors, as well as most of the other major U.S. automakers, face rising pension bills for their unionized employees because the value of the investments used to fund their pension plans have sagged amid the stock market slump over the past few years.

For its part, GM already has contributed $2.2 billion to its $67 billion pension plan this year.

This year, GM's pension was hammered, because, like many retirement funds, it included significant stock holdings; over 70% in GM's case. Since January 2000, the Dow Jones Industrial Average has dropped more than 35%, and is off approximately 13% this year alone.

Since October, though, the stock market has rallied to around 8,862 at press time, from its low of 7,286 hit Oct 9. Ford Motor's treasurer, **Malcolm MacDonald**, said the growth has narrowed the underfunding of its U.S. pension program by $1 billion, but it is still underfunded by $5 billion.

MacDonald said Ford plans to contribute $500 million to its pension over each of the next two years, money generated using funding strategies such as selling debt and securitizing the auto loans its financing subsidiary issues to car buyers.

EXPENSIVE INCENTIVES

Last year, in an effort to boost sales, both Ford and GM launched aggressive incentives programs. The 0% financing and other low-interest programs propelled the industry to its second highest sales level ever — 17.1 million last year, behind 17.4 million in 2000.

However, these programs are no longer as effective in attracting customers. This slip comes at the same time U.S. automakers are watching Asian and European automakers chip away at their share of the market. In the U.S., Asian and European imports account for 51% of new car sales so far this year, compared with 48% last year. As recently as 1997, the Big Three — GM, Ford, and No. 3 automaker **DaimlerChrysler AG** — had a 60% share of the car market.

And, despite the waning popularity of the automakers' 0% financing, manufacturers like Ford and GMAC may have reduced their expenditures on incentives, but they are still spending heavily on incentives.

LOWER SALES EXPECTED

Most recently, Westlake Village, Calif.-based research group **J.D. Power & Associates** reported new vehicle sales through the second week of November were down 6% from the same period last month and down 20% compared

Continued on page 11

FORD, GMAC CHALLENGED

continued from page 10

with the same period last November. That puts the auto industry on a 15.7 million annualized pace, with 1.18 million vehicles sold last month, as compared with the 1.32 million units sold last November for a 17.6 million annual rate.

STILL SPENDING ON INCENTIVES

Despite rushing to pump cash into incentives programs to bolster flagging sales several times this year — such as when sales plummeted in May and June — automakers are pulling back on incentives spending now, even as many analysts predict lower sales ahead. The average cash-plus-interest subvention, now at almost $1,200 per car, continues well below the high in August when consumers saved an average of $1,480, according to J.D. Power.

"These programs are incredibly expensive, and it is questionable just how long they can keep them going, considering the costs," said **Thomas Wolfe**, president of **WFS Financial Inc**., an independent auto lending company based in Irvine, Calif.

In the first nine months of this year, Ford's auto operations lost $1.5 billion, according to Ford's latest 10-Q filing with the Securities and Exchange Commission. For the same period, Ford Credit reported net income of $993 million, down $201 million from the $1.19 billion it earned in the same period a year earlier. In the third quarter of 2002, its net income was $294 million, down from $376 million in the year-earlier quarter.

EARNING LESS PER VEHICLE

The lender attributed the drop to the lower margins it receives as a result of the aggresive incentives it offers. Ford Credit has a total of $140.8 billion in outstanding debt, which includes its corporate bonds and securitizations.

Meanwhile, GM's most recent SEC filing showed the automaker pulled in $716 million in net income through the first nine months of this year, compared to the $346 million for the same period last year. During the third quarter, the company posted an $804 million loss. As for GMAC, the financing arm earned $476 million in the third quarter, an increase of nearly 9% from the third quarter of last year.

Deals

BRAZIL BANK ITAU BUYS FIAT FINANCE ARM

Brazil's second-largest private bank, **Banco Itau SA**, announced recently that it had inked a deal with **Fiat Auto SpA** to buy its Brazilian auto financing unit for $243 million.

The purchase of 99.9% of Banco Fiat SA — the latest in a long line of buyouts by Itau this year — should boost the Brazilian bank's auto financing operations by 81.5%, Itau said in a statement.

CHASE, AMERICREDIT TAPPED TO FINANCE KIAS

Kia Motors America Corp. recently announced the formation of two new alliances, one with **J.P. Morgan Chase & Co.**, and the other with **AmeriCredit Financial Services Inc**.

The lenders will start providing a range of financial services to Kia's retail customers on Jan. 4, 2003, with Chase serving as Kia's exclusive prime retail financial service provider, and AmeriCredit acting as Kia's exclusive nonprime provider.

Kia Motors America is the U.S. sales, marketing and service arm of **Kia Motors Corp**., Seoul, South Korea. Kia Motors America currently markets the Rio sub-compact sedan, Rio Cinco five-door sedan, Spectra compact sedan and hatchback, Optima midsize sedan, Sportage small SUV, Sorento midsize SUV and Sedona minivan. The automaker reported a 10.7% increase in U.S. sales for November, with 18,741 vehicles sold, as opposed to the 16,936 it sold in November 2001. Sales have increased year-to-date to 222,720 vehicles, a 7.9% increase from this time period last year. The automaker sold 225,000 vehicles in the U.S. last year.

Chase Automotive Finance is the largest bank originator of automotive loans and leases in the U.S. With a network of more than 12,000 affiliated car dealers and 2 million customers nationwide, Chase Auto Finance has a portfolio in excess of $37 billion, according to Chase.

AmeriCredit makes auto loans to consumers who are typically unable to obtain financing from traditional sources. AmeriCredit has more than 1 million active loan customers throughout the U.S. and Canada and more than $15 billion in managed auto receivables, according to AmeriCredit.

Front Lines

FORD CREDIT BEEFS UP SECURITY AS IDENTITY THEFT RING IS BUSTED

Ford Motor Credit Co. has stepped up the monitoring of its credit application process to guard against identity theft in the months since information on more than 15,000 of its clients was stolen.

"We have mobilized a cross-functional team that includes our [information technology] group, that has been working diligently to prevent future fraud," said **Melinda Wilson**, a Ford Credit spokeswoman. "We know that we will have to work constantly to stay one step ahead of the criminals." Typically, companies use identity theft prevention services technology, a rapidly growing industry with a wide range of so-called firewall and sophisticated password-access-only offerings, to prevent hackers from gaining access to their systems and data.

Those alleged criminals were arrested in late November in what federal authorities called the biggest case of identity theft in American history. Federal investigators arrested three men whom they charged with stealing credit information from more than 30,000 people. To do so, these men had allegedly posed as Ford Credit to illegally access credit information electronically on thousands of consumers from credit bureaus.

Before the arrests, the men allegedly used information to loot bank accounts, take out false loans and run up charges on credit cards, among other crimes, totaling at least $2.7 million.

Investigators expect this number to climb. Of the total inquiries, perpetrators pretending to be Ford Credit employees netted 15,000 reports from credit bureau **Experian** between April 2001 and February 2002, the Ford spokeswoman said. While the majority of requests for credit information appeared to come from Ford Credit, the company was not the only one fraudulently used to access the data.

"This was a breach that was made falsely in our name, and was deeply disturbing," she added.

Prosecutors allege one of the three men arrested, **Philip Cummings**, used his position as a help desk employee at **Teledata Communications Inc.** in Bay Shore, N.Y., to gain access to the passwords and access codes used by companies like Ford Credit to download credit information on thousands of consumers. Teledata provides the systems banks and other lending sources use to access credit data electronically from the three credit agencies: **Equifax**, **Experian**, and **TransUnion Inc**.

> "We know we will have to work constantly to stay one step ahead of the criminals."
>
> Melinda Wilson, spokeswoman
> Ford Motor Credit

Citing security concerns, the spokeswoman would not specifically describe the steps Ford has taken. A Ford spokesman, **Daniel Jarvis**, said the hackers did not break into Ford's computer systems — contrary to some earlier published reports — but "broke into the credit bureau's system," referring to Experian.

"And it is not just one password that they got," said Jarvis. "If you are a bank and you are dealing with credit reports, you need a whole series of codes and passwords to get into [a credit bureau's] system. It would be virtually impossible to just use some passwords."

The U.S. Attorney for the Southern District of New York, **James B. Comey**, said in a statement that it was the unusually high number of inquiries originating from Ford Credit that triggered the initial suspicion at Experian and led to the federal investigation.

Prosecutors allege Cummings and accomplice **Linus Baptiste** sold the credit reports to criminals in the Bronx and Brooklyn in New York for up to $60 each — information that was then used to empty victims' bank accounts, order new bank checks, order merchandise that was shipped to various locations, and open lines of credit that were quickly used.

EQUITIES MONITOR

RECENT PERFORMANCE OF PUBLICLY TRADED AUTO FINANCE COMPANIES

Company	Ticker Symbol	Price 12/04	Price 11/18	% Ch.	P/E	52-Wk Hi	52-Wk Lo	Shrs.Out.*	Mkt.Cap.*	Avg Vol*
AmeriCredit Corp.	ACF	7.930	7.460	6.3	2.2	46.930	5.900	152,900	1,212,497	3,007
Asbury Automotive	ABG	8.820	8.330	5.9	8.1	22.450	7.110	33,800	825,692	84
AutoNation Inc.	AN	11.950	11.070	7.9	12.6	18.730	9.050	312,800	3,737,960.0	1,186
CarMax Group	**KMX**	**19.500**	**16.950**	**15.0**	**21.5**	**34.000**	**12.900**	**103,100**	**2,010,450.0**	**1,451**
Consumer Portfolio	CPSS	2.200	2.091	5.2	52.5	3.810	1.110	20,500	45,100	11
Credit Acceptance	CACC	7.500	8.000	-6.3	10.9	14.950	7.221	42,400	318,000	26
FirstCity Financial	FCFC	1.020	1.078	-5.4	n/a	1.520	0.400	8,380	8,547	2
First Investors	FIFS	3.000	2.900	3.4	n/a	3.950	2.000	5,030	15,090	1
Household Int.	HI	28.050	28.400	-1.2	7.3	63.250	20.001	454,800	12,757,140	8,829
Nicholas Financial	**NICK**	**4.040**	**4.340**	**-6.9**	**5.2**	**6.250**	**3.500**	**5,000**	**20,200**	**2**
Onyx Acceptance	ONYX	3.660	3.549	3.1	10.2	5.250	2.100	5,090	18,629	4
TFC Enterprises	TFCE	1.590	1.670	-4.8	5.7	1.850	0.700	11,500	18,285	8
United PanAm Fin.	UPFC	6.960	6.355	9.5	10.9	8.000	4.500	15,600	108,576	10
WFS Financial	WFSI	20.960	19.920	5.2	10.6	31.950	16.230	41,000	859,360	36

**in thousands. ** Greatest gainer and loser by percentage change since Nov. 18 in boldface.*

Comings & Goings

KEYCORP NAMES BUTLER FOR NEW CONSUMER FINANCE POST

Michael A. Butler has been named to the newly created position of president of the recently formed consumer finance unit at **KeyCorp.** In his new post, Butler will report directly to **Jack L. Kopnisky**, president of KeyCorp's Consumer Banking Group.

Butler had most recently headed the company's business banking unit, a post he was appointed to in 1999. Butler's duties will involve oversight of the company's consumer finance arm. This includes the auto finance, recreation lending, education lending and consumer real estate business units at KeyCorp.

An internal search has already been launched to find a successor to lead the company's business banking division, which serves small businesses across KeyCorp's banking franchise.

The new position was created this year after Cleveland-based KeyCorp reorganized its various consumer businesses into a single entity to create efficiencies, said Kopnisky.

Prior to heading business banking, Butler oversaw KeyCorp's credit management activities for the direct lending, business banking and special assets units.

ASBURY TAPS CEO FOR THOMASON

Asbury Automotive Group Inc., Stamford, Conn., has appointed **David K. Wegner** chief executive of **Thomason Auto Group**, based in Portland, Oregon. Wegner has been executive vice president and chief operating officer of the group for two years and will replace **Scott Thomason**, Thomason Auto Group's founder who will act as a consultant to the Asbury-owned company next year.

Thomason Auto Group is one of the largest dealership groups in the Northwest. With the recent acquisition of **John Link Pontiac/GMC**, Thomason now has nine new car franchises and four Thomason Select used car stores.

DEGROOTE RESIGNS FROM AUTONATION'S BOARD

Michael G. DeGroote has resigned from the board of directors at **AutoNation Inc**., Ft. Lauderdale, Fla., citing unspecified health reasons. DeGroote had served on the auto retailing giant's board since 1991.

GM CEO WAGONER NAMED CHAIR

Rick Wagoner, **General Motors Corp.**'s chief executive, will become chairman next year, succeeding **Jack Smith**, who is retiring, the company recently announced.

Wagoner, 49, will relinquish the title of president. At presstime, GM had yet to name a successor.

The move comes just weeks after **Eric Feldstein** was named as president of the No. 1 automaker's captive finance arm, **General Motors Acceptance Corp**. Both Wagoner and Feldstein are among the stellar alumni to come out of GM's treasury department.

REPRINTS

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Rumblings

To obtain a copy of the Auto Finance Big Wheels 2002 report, an annual ranking of the top U.S. vehicle financiers, produced by **Momentic Research Inc.**, a sister venture of *Auto Finance News*, call 800.320.4418, ext. 101.

CHRYSLER'S LATEST INCENTIVE PROGRAM: CROPS IN LIEU OF CASH

In what is certainly the most unusual auto financing deal to be offered this year, **DaimlerChrysler Argentina SA**, a subsidiary of German automaker **DaimlerChrysler AG**, recently debuted a program allowing cash-strapped consumers in Argentina to pay off their vehicles with harvested crops.

Reuters, recently reported that the so-called Grain Plan can be used to make payments in kind on loans for Chrysler, Dodge, Jeep, and Mercedes-Benz vehicles in Argentina.

Chrysler is not the only manufacturer with such a finance plan.

Both **General Motors Corp**. and **Toyota Motor Corp**. already have similar programs in effect.

Argentina has the second-largest economy in South America. It is an attractive market for automakers, despite its recent economic turmoil.

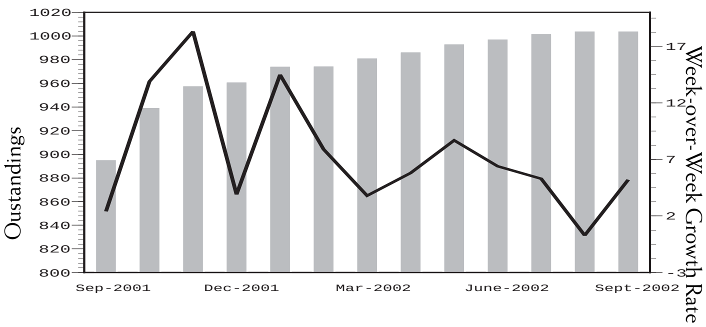
DaimlerChrysler plans to recoup its cash by selling the various crops it collects to farm-commodity exporter **Louis Dreyfus & Co**., a spokesman for the company said.

A five-year recession has sped the decline of vehicle production and sales in Argentina. Last month, the **Argentine Association of Automobile Manufacturers**, a trade group, reported auto sales dropped 12% in October, compared with a year earlier. At the same time, new-vehicle sales to domestic dealers slid 55% for the month.

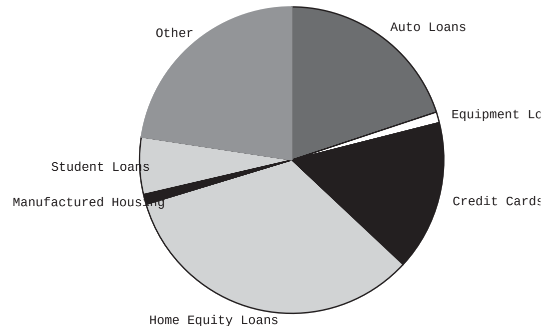
The anemic economy has prompted many farmers to horde crops to use as a proxy for cash, rather than rely on the depreciating peso to trade.

MARKET MONITOR

BANKS' NONREVOLVING LOAN OUT.*

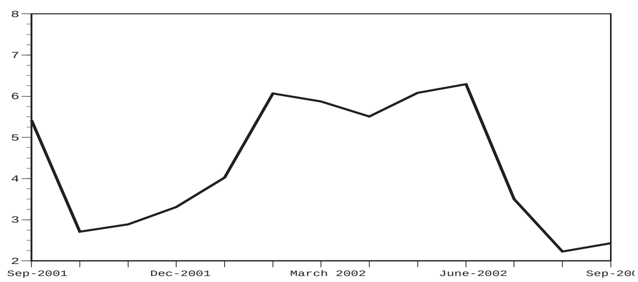


ASSET SECURITIZATION BY SECTOR

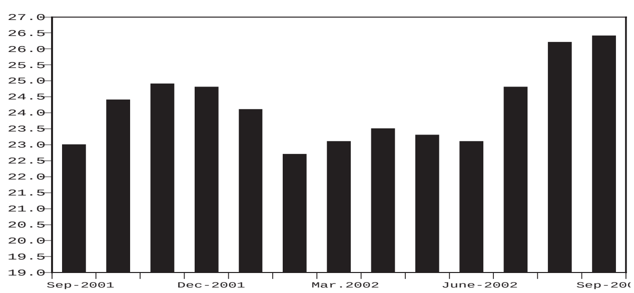


Type	'02 YTD (%)	'01 YTD (%)
Auto Loans	19.94	22.23
Equipment Loans	1.14	2.13
Credit Cards	15.86	18.81
Home Equity Loans	33.38	30.10
Manufactured Housing	1.08	1.90
Student Loans	5.99	3.03
Other	22.61	21.80

AVG. INTEREST RATE AT FINANCE COS.♦



LENDING VOL. AT AUTO FINANCE COS.♦



*In $billions
♦Includes data from Ford Motor Co., General Motors Corp., and DaimlerChrysler AG.

Source: Federal Reserve Board

NEW CAR LENDING AT FINANCE COS.♦

Average Maturity*

April	May	June	July	Aug.	Sept.
55.9	57	58.6	59.1	59.4	58.4

Average Loan-to-Value Ratio

April	May	June	July	Aug.	Sept.
93	92	92	95	96	96

* in months

Source: Federal Reserve Board

SECURITIZATION SCOREBOARD

Date	Seller/Servicer	Lead Manager	Amount ($M)	Enhancement
10/10	Mitsubishi Motors Credit of America	JP Morgan Securities	769	senior-sub
10/10	Onyx Acceptance Corp.	Salomon Smith Barney/CSFB	450	MBIA
10/15	DaimlerChrysler AG	CSFB/J.P. Morgan Securities	2,069	senior-sub
10/18	AmeriCredit Corp.	CSFB/Deutsche Bank Securities	1,700	MBIA
11/01	WFS Financial Inc.	Credit Suisse First Boston	1,350	FSA
11/01	American Honda Finance Corp.	JP Morgan/ BofA Securities	1,030	senior-sub
11/07	VW Credit Inc.	JP Morgan/Salomon Smith Barney	1,500	senior-sub

Credit Quality

AMERICREDIT

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While the FSA move may have given AmeriCredit some breathing room when delinquencies rise, and has enabled it to stem losses, Wachovia's Houck said it has not solved the lender's delinquency problems.

Houck questions how effective AmeriCredit actually is in driving down delinquencies and losses in its ABS pools. Wachovia has pointed out to investors that the amount of loans AmeriCredit has in its securitizations pools was increased in October to $14.87 billion from $13.51 billion in September, primarily due to the deposit of $1.86 billion in auto loans into the pool of loans it has securitized.

Because of the fact that AmeriCredit added this $1.86 billion of new loans into that pool, Wachovia's analysts said they believe that delinquency and extension ratios appear lower than they would have otherwise. As they are new loans, borrowers are much more likely to keep up with payments, and, therefore have a better credit performance than AmeriCredit's older loans.

"The newly funded [securitizations pools] consist primarily of recently originated auto loans that do not exhibit any negative impact from seasoning on the credit performance metrics," stated the report.

Stopping short of downgrading AmeriCredit's stock, Wachovia is maintaining its "hold" rating on ACF shares.

"We simply cannot make a case for the stock outperforming the balance of 2002," stated the report. "Not only do we expect to see further deterioration in credit quality due to issues surrounding the consumer, but we also expect continued weakness in used car prices."

However, the AmeriCredit spokesman said the lender has taken a number of significant measures this year to ensure it is insulated from drastic loan losses. These include slowing origination volume growth to 15% from 25% annually; a $500 million stock sale earlier this year to solve a liquidity crunch and shore up its capital reserves; the FSA deal; and a 10% reduction in operating expenses, which included slicing its 5,400 staff by 350 positions.

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