

## Hertz captures U.S. ABS deal of the year

*January 9, 2006* When it comes to Hertz Corp.'s \$4 billion in notes backed by rental car fleet leases - Hertz Vehicle Financing LLC, Series 2005-1 and 2005-2 - it is not only sheer size that sets the transaction apart from other deals. They also changed the way market participants view the role of securitization in leveraged buyout transactions. Also noteworthy is the sheer size of the two pieces - which combined make up the largest rental car transaction ever done. The volume brought enormous year-end liquidity to the ABS market and, from all accounts, the notes were well received by investors. For these reasons, ASR has chosen the Hertz transaction as the U.S. ABS Deal of the Year for 2005.

Richard D'Albert, managing director and co-head of the global securitized product group at Deutsche Bank Securities, said that a significant contribution of the Hertz deal is the broader acceptance of structured finance, particularly securitization, as a cost-effective means of financing the leverage buyout process and as a complementing to using traditional debt financing and accessing the high yield market. "Given the cost advantage of incorporating securitization into LBOs, I think the use of securitization is becoming and will become much more prevalent," said D'Albert.

In mid-December, with two separate \$2 billion deals from the Hertz Auto Financing Trust, Hertz completed the much-anticipated ABS portion of its leveraged buyout. Both deals were led by an impressive list of underwriters, including Lehman Brothers, Deutsche Bank, Merrill Lynch, Goldman Sachs and JPMorgan Securities.

It is significant that a deal of Hertz's size even came to fruition considering the obstacles that it had to overcome. In its presale report on the transactions, Fitch Ratings cited its concerns regarding these deals, including the fact that Hertz has been downgraded to BB'/B' by Fitch with a stable outlook. Fitch also mentioned that the pending ownership change from Ford Motor Company to CCMG Holding as creating "a level of uncertainty around Hertz's corporate strategy." The rating agency also noted the declining profits and demand for rental fleet operators in the wake of recent international events affecting retail and commercial travel worldwide.

One thing that helped Hertz is its position as an industry leader, specifically in the business travel segment, stated Fitch, adding that the company has demonstrated its ability to operate under all business cycles. Another advantage, noted Fitch, is that MBIA and Ambac guaranteed the deals' note interest and principal.

Deutsche's D'Albert said that what helped alleviate investors' concerns about the most recent Hertz ABS deals is that rating agencies still needed to rate for the benefit of the insurance providers. "By extension, the surety bond analysis immunized the transactions from the credit risk of the auto manufacturers," he added. By contrast, D'Albert said that in the past, transactions were linked with the auto manufacturers - in this case Ford's - buy-back programs. "While we have the benefit of the buy-back arrangement, the rating of the bond is not contingent upon the credit rating of the manufacturer," D'Albert said.

He added that it was particularly challenging to address changes in the perception of car manufacturers as their creditworthiness changed dramatically throughout the course of structuring the transactions. In this instance, the timing of the Hertz deals coincided with the downgrade to junk status of automobile manufacturers such as Ford and General Motors Corp. "There was that unique problem of car manufacturers suddenly becoming below investment grade," said D'Albert.

In the past, Hertz has financed its car rental fleet with unsecured and secured commercial paper programs, said Fitch, and unsecured medium-term and long-term debt. In 2002, Hertz created a securitization program to issue both ABCP and term securities. ABCP was issued late in 2002, and series 2004-1 was the first ABS note issuance. The Series 2005-1 and 2005-2 is the first asset-backed note issuances by the company since announcing the acquisition by CCMG Holdings. Hertz utilizes issuance proceeds to purchase or refinance vehicles used in its rental fleet operation, noted Fitch