**ALLY FINANCIAL INC.**
**AMERICAN HONDA FINANCE CORPORATION**
**CARMAX BUSINESS SERVICES, LLC**
**CNH CAPITAL LLC**
**FORD MOTOR CREDIT COMPANY LLC**
**GENERAL MOTORS FINANCIAL COMPANY, INC.**
**HARLEY-DAVIDSON FINANCIAL SERVICES, INC.**
**HYUNDAI CAPITAL AMERICA**
**MERCEDES-BENZ FINANCIAL SERVICES USA LLC**
**MITSUBISHI MOTORS CREDIT OF AMERICA, INC.**
**NAVISTAR FINANCIAL CORPORATION**
**NISSAN MOTOR ACCEPTANCE CORPORATION**
**PORSCHE FINANCIAL SERVICES, INC.**
**SANTANDER CONSUMER USA INC.**
**TOYOTA MOTOR CREDIT CORPORATION**
**VW CREDIT, INC.**
**WORLD OMNI FINANCIAL CORP.**

March 29, 2013

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002, Basel
Switzerland

Ladies and Gentlemen:

We appreciate the opportunity to provide comments on the Basel Committee on Banking Supervision's (the "BCBS") consultative paper, "Revisions to the Basel Securitisation Framework" (the "Consultative Paper") released on December 18, 2012, which addresses proposed revisions to the securitization framework for regulatory capital requirements (the "Proposals").

The companies listed above include captive finance companies of many of the major automobile, truck, motorcycle, agricultural, construction and commercial equipment manufacturers and other major independent vehicle leasing and finance companies (collectively, "we" or the "Finance Companies"). We provide financing for automobiles, trucks and motorcycles (collectively, "vehicles") as well as tractors, farm and construction equipment and large commercial vehicles (collectively, "equipment"). Our financing supports (i) our respective parent manufacturing companies (collectively referred to as "Related Manufacturing Companies") or (ii) our respective affiliated and unaffiliated retailers, distributors and other unrelated manufacturing companies (collectively referred to herein as "Other Supported Companies") whose products we finance. We provide an important source of credit to the customers of our Related Manufacturing Companies and Other Supported Companies, which include vehicle and equipment dealers, and individual and business retail customers, farmers and other small, medium and large businesses. The financing we provide is critical to the health of all these companies and promotes job creation and economic growth and stability.

## **Overview**

Our primary focus in this letter will be on issues that are of particular interest to Finance Companies as active users of bank securitization facilities.[1]

Finance Companies rely on bank securitization facilities to provide an important source of funding diversity and backstop liquidity to support our business models. The Proposals call for banks to hold markedly higher levels of capital against these critical bank securitization facilities. While we appreciate that some securitization exposures may justify higher regulatory capital requirements, this is simply not the case for our bank securitization facilities.

While we support appropriate levels of regulatory capital for banks investing in securitization exposures, we believe these levels should reflect the risk profile of the underlying financial assets. The Proposals fall short of this essential objective. As a result, the Finance Companies believe it is imperative that the BCBS re-propose a framework that permits the capital requirements for bank securitization facilities to better reflect the risk profile of the underlying financial assets without the need for excessive capital floors, supervisory add-ons or unnecessary complexity.

The assets and structures in our bank securitization facilities and other public and private asset backed securities (ABS) have consistently performed well before, during and after the recent financial crisis, in fact so well that many investors have come to view our ABS bonds as a "Treasury surrogate."[2] Based on our strong track record and asset performance, we do not believe banks investing in our ABS require additional capital, and that material increases in such capital requirements will have detrimental effects on our businesses and, correspondingly, our customers and Related Manufacturing Companies and Other Supported Companies. Given the importance of bank securitization facilities to the Finance Company business model and, as a consequence, to the broader economy, we believe it is critical that the BCBS take the time to ensure the Proposals accurately balance the need for bank safety and soundness with the need for efficient delivery of financial services and economic growth.

If the cost of bank securitization facilities increases or the higher proposed regulatory capital reduces the availability of our bank securitization facilities, it will impact the cost and availability of credit we are able to provide to our financing and leasing customers, including individual consumers, farmers and small, medium and large businesses and vehicle and equipment dealers. This will negatively impact the broader economy by reducing sales of vehicles and equipment, especially during times of economic downturn when other financing sources may be unavailable. It will also negatively impact the ability of the many businesses we finance to grow and expand, and create jobs. As an example, vehicle dealers represent a

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[1] Bank securitization facilities are provided to the Finance Companies who structure ABS transactions for bank investment either directly or through asset-backed commercial paper (ABCP) conduits that are administered and whose funding is supported by the banks through liquidity and other facilities. Throughout this comment we include such ABCP facilities in our description of bank financing and refer to them collectively as "bank securitization facilities".

[2] Source: J.P. Morgan Securities LLC, Securitized Products Weekly, U.S. Fixed Income Strategy, September 21, 2012.

significant group of small businesses in the U.S. that stimulate the economy by creating more jobs.[3]

If our ability to provide financing to our customers is hampered, it will limit our ability to support our Related Manufacturing Companies and Other Supported Companies in the sale of their vehicle and equipment products, and, for the captive finance companies among us, through less financial support to our parent companies that help provide funds for the development of new products. As a result, these large, global manufacturing companies will be less able to maintain or expand their businesses and contribute to a healthy global economy. This will also have a direct negative impact on the Finance Companies, causing our businesses to shrink, forcing us to eliminate jobs, and making us more dependent on the sometimes unreliable public capital markets to fund our businesses.

## Principal Issues with Consultative Paper

As presently drafted, the Proposals raise three principal issues for us:

- The development of the Proposals is moving too quickly given the subject's complexity and the BCBS has not adequately assessed the Proposals' broader economic impacts.
- The Proposals result in capital requirements that are redundant, excessive and overly punitive for bank securitization facilities backed by our high quality assets.
- The Proposals do not adequately distinguish the quality or risk profile of the underlying assets in our bank securitization facilities from assets supporting other securitization exposures.

## Background of Finance Companies

### *Finance Company Business Model*

The Finance Companies, including our respective parent companies and their consolidated subsidiaries, represent the "real economy" and are some of the largest global manufacturing companies, doing business in over 170 countries, collectively employing more than 2.3 million people worldwide and generating revenues in excess of US$1.3 trillion as of the end of their most recent fiscal years.

The Finance Companies' central mission is to provide a consistent source of financing to dealers, wholesale sellers and retail customers, which facilitates the sale and lease of vehicles and equipment manufactured or distributed by the Related Manufacturing Companies and sold by them and the Other Supported Companies. We accomplish this by providing inventory (floorplan) financing, working capital, and real estate financing to dealers and other wholesale sellers of vehicles and equipment, and retail financing to consumer and business customers who purchase or lease vehicles or equipment. Our Related Manufacturing Companies and the Other

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[3] Auto dealerships employ over 800,000 people in the United States alone. Source: IBIS World, Inc. "Restructuring and Car Sales Drive Employment Growth", April 2012. It is well known that auto sales are also a large percentage of U.S. GDP.

Supported Companies rely on our financial services to support their businesses. Collectively, we finance the majority of retail customers and dealers that either purchase or support the sale of our Related Manufacturing Companies' and Other Supported Companies' products. This preserves existing jobs, spurs job creation and stimulates the broader economy. The contribution of the manufacturing sector to job growth and the broader economy is well documented and is one of the key pillars supporting global economic activity. In a 2010 study, the Center for Automotive Research found that one automotive job led to nine jobs in the broader labor market.[4]

It is important to note that the Finance Companies enjoy long-term relationships with their Related Manufacturing Companies and Other Supported Companies as well as their respective customers and have the incentive to provide financing throughout all economic cycles. During the height of the most recent financial crisis Finance Companies were the primary finance providers to vehicle and equipment dealers globally. While most banks tightened credit and significantly reduced lending to key sectors of the economy (including vehicles and equipment), the Finance Companies provided a consistent source of credit and support. This is particularly important when it relates to dealers, as they are critical to the marketing and distribution of our Related Manufacturing Companies' products globally.

***Captive Funding and Liquidity Model***

In light of our mission, our business model and funding strategies are inherently conservative and focus on maintaining strong liquidity and appropriate funding diversity by asset class, geographic market and investor type. We typically fund our businesses through a combination of unsecured commercial paper, public unsecured term debt and asset backed securitizations, both public and private. Because we typically have limited or no access to deposits, bank securitization facilities and other forms of committed bank capacity provide a vital source of backstop liquidity and funding which allow us to withstand periods of market disruption. The commitments under these bank securitization facilities were a critical source of liquidity during the recent credit crisis when public securitization markets were unavailable globally.

Funding diversity is an essential part of our business model. Bank securitization facilities provide us with greater flexibility to plan for future growth and a greater ability to withstand temporary disruptions in the capital markets. As financial intermediaries and facilitators of credit, banks are well positioned to provide this type of support. Their deposit base enables them to offer financing on committed terms with short notice. This allows us to effectively fund our seasonal business needs and manage other variable elements in our business or financing needs without holding unreasonably high cash balances. Overborrowing can be very expensive and is an inefficient means to manage our liquidity.

Given the importance of bank securitization facilities to our funding strategy, our interests are closely aligned with our lenders to ensure that these facilities perform over time. As discussed in more detail below, this alignment incentivizes us to have prudent underwriting, consistent collateral, sound servicing practices, and simple securitization structures. Our need to

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[4] Center for Automotive Research, *Contribution of the Automotive Industry to the Economies of All Fifty States and the United States*, April 2010

provide long-term support to our Related Manufacturing Companies and Other Supported Companies ensures that these interests will continue to be aligned over time.

The Proposals, if adopted, would increase the costs or decrease the availability of bank securitization facilities, which would have significant negative effects on our funding models, the Related Manufacturing Companies and Other Supported Companies we support and, by extension, the broader economy.

***Vehicle and Equipment ABS***

The Finance Companies have been active in securitization for decades. Some members of our group have been issuing vehicle and equipment ABS for over 20 years (including the first auto ABS issuances in the late 1980s). All public vehicle and equipment ABS transactions over that time have repaid all principal and interest in full. None of the transactions completed by the Finance Companies had an event of default or had a servicer replaced because of a servicer default.[5] Furthermore, the bank securitization facilities completed by the Finance Companies have consistently performed well, including during the recent credit crisis, and no bank has suffered a loss on such a transaction. Most of the losses associated with securitization transactions during the recent financial crisis were isolated to the RMBS sectors, especially those related to subprime and Alt-A assets. As described in more detail below, the concerns with RMBS do not exist in vehicle and equipment ABS. Appendix A contains detailed performance history of certain of our public ABS transactions.

The consistent strong performance exhibited by vehicle and equipment ABS reflects prudent risk management practices in the origination and servicing of our financial assets, the attributes of our financing products and vehicle and equipment collateral, long-established ABS programs with consistent structures, the alignment of interests between Finance Companies and investors (public and private) and our long-term commitment to support the Related Manufacturing Companies and Other Supported Companies by providing consistent financing for their products.

***Our Assets***

Unlike real estate, vehicles and equipment are not subject to speculation. Vehicles and equipment are depreciating assets whose values decline over time. The recognition of this fact distinguishes us from one of the primary issues that undermined the RMBS market, where real estate values were assumed to continually increase. In addition, in most cases, our assets are of relatively small value compared to real estate mortgage assets, and our transactions contain a far larger number of individual loans or leases than what is found in a typical RMBS transaction.[6] Our ABS asset pools are large, granular, and homogeneous. This reduces concentration, and

[5] From January 1, 2001 through the end of 2012 for ABS auto loan issuances, Standard & Poor's issued 917 upgrades of classes of retail auto loan ABS, compared to just 37 downgrades for credit-related reasons. For the same period, for commercial-equipment ABS issuances Standard & Poor's issued 93 upgrades and only two credit-related downgrades.

[6] It is common for a billion dollar RMBS transaction to include only a few thousand mortgage contracts, whereas a typical vehicle or equipment ABS transaction of that size would include tens of thousands of contracts.

allows our structures to enjoy the benefits of diversification of risk, which for vehicle and equipment assets reduces credit losses.

Furthermore, vehicle and equipment assets are more easily liquidated than mortgage assets. Relative to real estate, the process to repossess vehicles and equipment is simple, and typically does not require court action. Well established used vehicle and equipment markets ensure the efficient and swift liquidation of repossessed collateral in most countries.[7]

Recent data indicate that consumers in the United States prioritize vehicle loan and lease payments above other debt obligations.[8] Vehicles are an essential part of everyday life, and are often the only practical way for our customers to get to work. For this reason and many others, U.S. consumers will sacrifice their homes and other credit obligations in order to keep their vehicles. Similarly, in the case of equipment, customers around the globe typically are financing or leasing equipment or vehicles that are essential to the conduct of their ongoing businesses.

***Sound ABS Structures and Alignment of Interests***

As previously highlighted, bank securitization facilities are an important component of our long-term funding strategy and are critical to maintaining our liquidity and supporting our businesses long-term. As a result, we have a strong incentive to ensure our bank securitization facilities perform as expected through prudent origination and servicing of our assets and alignment of interests with our bank investors.

Most Finance Companies do not operate on an "originate to distribute" basis which was a prevalent issue in the residential mortgage market. We typically either do not securitize every asset we originate or we do so on a delayed basis (often many months or years after origination). Our servicing personnel typically do not know if an asset is securitized and apply the same standards and processes to all assets whether or not they are securitized. Additionally, many of our securitized assets remain on our balance sheets and, as a result, their performance is reflected in our financial performance.

In addition, we are usually the originator, sponsor and servicer of our ABS transactions and usually hold a residual interest in the transaction, typically the first loss position. This risk retention feature helps to ensure alignment between our interests and the interests of ABS investors and is the underpinning of risk retention legislation introduced around the globe in response to the financial crisis.

Vehicle and equipment ABS have performed exceptionally well before, during and after the recent financial crisis. The sector has fully recovered and vehicle and equipment ABS now dominate the ABS market in terms of issuance, low spreads and investor demand. The following graph depicts the volume of U.S. public auto and equipment U.S. ABS issuance as a percentage of the total U.S. public ABS market in the U.S. since 2005.

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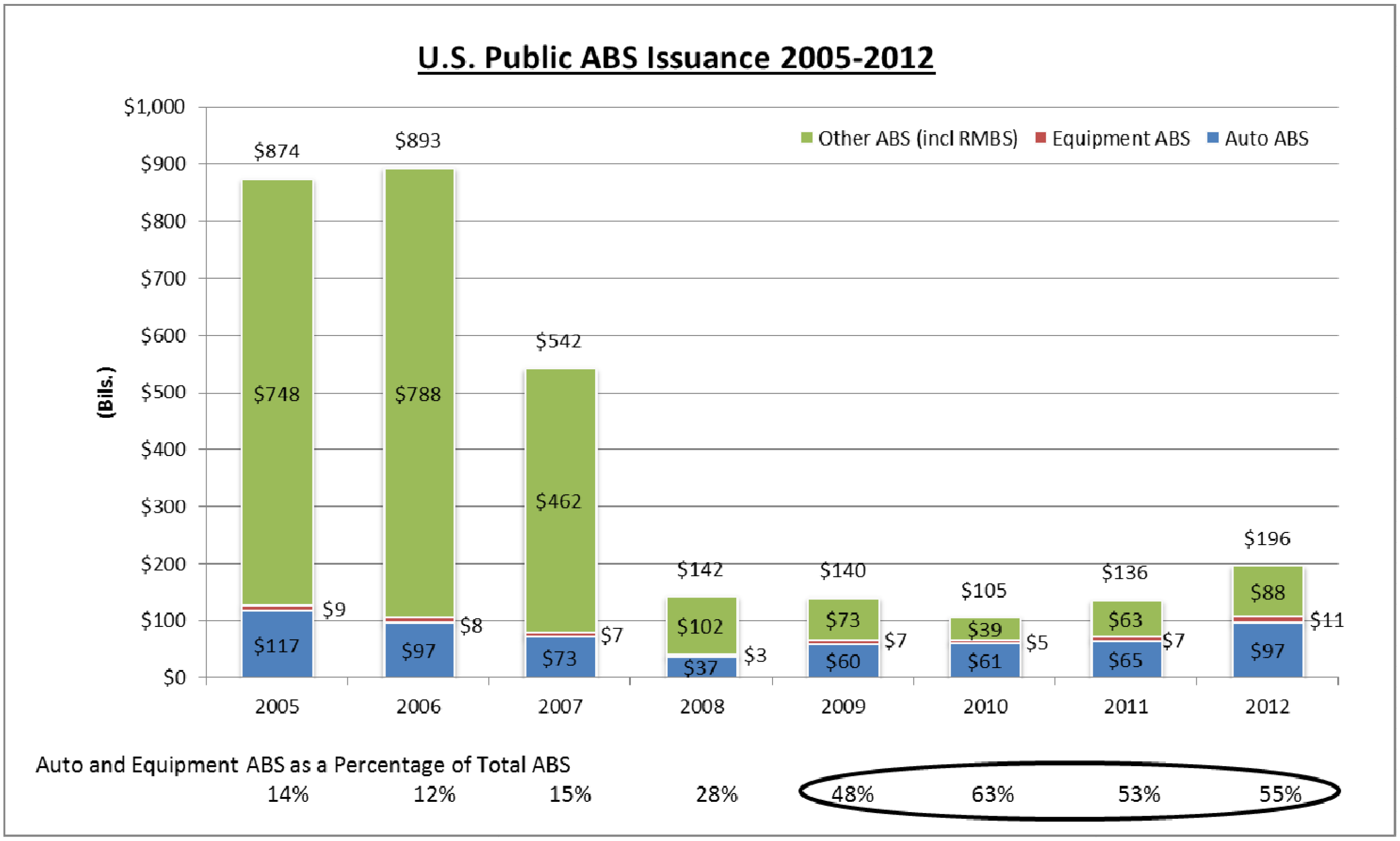
[7] According to Manheim, Inc. about 40 million used cars are sold annually in the United States, and most of these require remarketing. About 10 million of these units are sold at auction, with participants including dealers, banks and other businesses.

[8] Trans Union, *Payment Hierarchy Analysis: A Study of Changes in Consumer Payment Prioritization from 2007 through 2011*, 2012.




Although bank securitization facilities are not depicted in this graph, they benefit from the same assets and structures. As a result, our bank securitization facilities have performed at least as well as our public ABS transactions.

## **Issues with the Proposals**

### ***The Framework is Premature***

The Consultative Paper indicates that a key motivation of the BCBS was its perception that the regulatory capital requirements for securitization exposures under the existing framework were inadequate to sustain the poor performance of securitization during the recent financial crisis. While we note that certain securitization products (most notably sub-prime RMBS and certain other products that included RMBS) did perform poorly during the crisis, the overwhelming majority of securitizations, and in particular ABS and bank securitization facilities backed by our vehicle and equipment assets, performed extremely well. This demonstrates that securitization is not an inherently risky product. Rather, certain securitization market segments included assets that were originated, underwritten or sold in ways that made them risky. Other recently implemented and proposed regulatory and structural changes impacting the securitization markets are addressing the historical behavioral issues that plagued portions of the securitization markets, without the need for the increased capital requirements proposed in the Consultative Paper.



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As detailed above, the Finance Company business model has never shared the misaligned incentives or exhibited the negative behaviors seen in RMBS. As a result, no bank has suffered any losses in our securitization facilities. In hindsight, we can see that banks held more than adequate capital for our bank securitization facilities, even during the crisis. We are concerned that the narrow focus of the BCBS on the sub-prime RMBS sector is accelerating the development of the Proposals too quickly, without adequate assessment of the impact the Proposals will have on securitization markets generally or, more importantly, on the broader economy.

As Finance Companies, many with global manufacturing parents, we are well situated to assist the BCBS in determining the overall impact of the Proposals on the "real economy." We also are well positioned to highlight how the Proposals overlap with other recent regulatory reforms impacting behavior within the securitization markets, such as credit risk retention, rating agency reform, rules related to conflicts of interest, loan level disclosure requirements, derivatives regulations and transparency initiatives around the globe. The Proposals, as currently structured, will impact our ability to support the vehicle and equipment dealers, retail customers and other businesses we finance as well as our Related Manufacturing Companies and Other Supported Companies.

***<u>The Proposed Capital Levels are Excessive for High Quality Assets</u>***

The Proposals are overly conservative and unjustly penalize vehicle and equipment ABS structures, which banks and other investors trust given their strong performance throughout the crisis. We request that the BCBS develop and re-propose a framework that more meaningfully differentiates regulatory capital requirements for securitization exposures based on differences in the risk of the underlying securitized assets.

The Proposals generally result in significantly more capital for bank securitization facilities than under current capital rules. This will result in less available bank capacity and higher costs for our bank securitization facilities, which in turn will be passed on to our dealer and retail consumer and business customers and negatively impact our ability to support our Related Manufacturing Companies and Other Supported Companies. Although the recent credit crisis demonstrated that many banks did not have adequate capital levels for certain securitization exposures, this was not true for our vehicle and equipment bank securitization facilities. The new 20% floor, 1250% default position, additional maturity factor and new or increased add-ons through tau, omega and p, collectively result in capital charges which we believe will be many multiples (sometimes 10 or more) of what the current capital requirements are for our vehicle and equipment securitizations. Given the strong and consistent historical performance of our ABS and bank securitization facilities backed by the assets originated by the Finance Companies, we think such a level of conservatism is unwarranted and not reflective of the inherent risk in our assets. Therefore, we urge the BCBS to revisit the 20% floor and other multipliers that collectively result in far greater capital than appropriate, even in light of the BCBS's conservative target.

At the very least we request that the 20% floor be eliminated for the MSFA. Given that the MSFA requires risk sensitive inputs (i.e., probability of default (PD) and loss given default (LGD)) for each underlying exposure or group of exposures to be supported by extensive amounts of historical data, we think any risk weight floor for the MSFA is misplaced. We request that the BCBS rely instead on the floors already inherent in the PD and LGD parameters. Doing so will ensure appropriate treatment of our high quality vehicle and equipment assets, which have demonstrated consistent performance and low losses over time.

After the risk weight floor, the imposition of the maturity factor results in the greatest increase in capital requirements calculated under the MSFA for ABS and bank securitization facilities backed by our assets.[9] We disagree with the incorporation of the maturity factor in the MSFA and RRBA approaches and request that it be eliminated. The maturity factor is redundant and already incorporated in the risk assessment that forms the foundation of both the MSFA and RRBA approaches. As a result, we believe the effect of this maturity adjustment is significant and materially overestimates the level of capital required for bank securitization facilities backed by our vehicle and equipment ABS. Given the other elements of conservatism existing in the MSFA, we believe any amount of double-counting should be eliminated from this approach in the Proposals.

We also are highly concerned that the Proposals result in large scale differences in capital treatment across different types of exposures that are simply unexplainable. The Proposals require capital levels that are excessive relative to the credit risk of securitizations backed by our vehicle and equipment loans and leases and ignore the essential benefits of securitization structures, including isolation of assets in bankruptcy remote special purpose entities and credit enhancement. Our credit enhancement has always proven more than sufficient to absorb all losses in our ABS transactions.

The graph below and additional material attached in Appendix B illustrate the counterintuitive result obtained by application of the MSFA to a 5-year “AAA” rated ABS backed by prime auto loans compared to the application of the other approaches and other types of bank exposures.[10] The risk weight applicable to this security under Basel II would be 7% (resulting in a capital charge of 56 basis points). The 20% risk weight floor proposed by the U.S. banking regulators in June of 2012 would unnecessarily increase the risk weight for this security to 20% (resulting in a capital charge of 160 basis points). Due to the maturity factor in the MSFA, the risk weight obtained for this security under the Proposals jumps to 66.10% (resulting in a capital charge of 529 basis points). Given the strong performance of our assets and securitization structures historically, these results illustrate how the proposed floor is overly punitive.

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[9] If a maturity factor is required for the MSFA or RRBA approaches, at a minimum, the methodology to establish the resulting risk weights should not be determined by reference to the contractual maturity of the ABS. Rather, it should be determined solely by reference to the weighted average life as this is the market convention and a more accurate proxy of the actual length of the exposure.

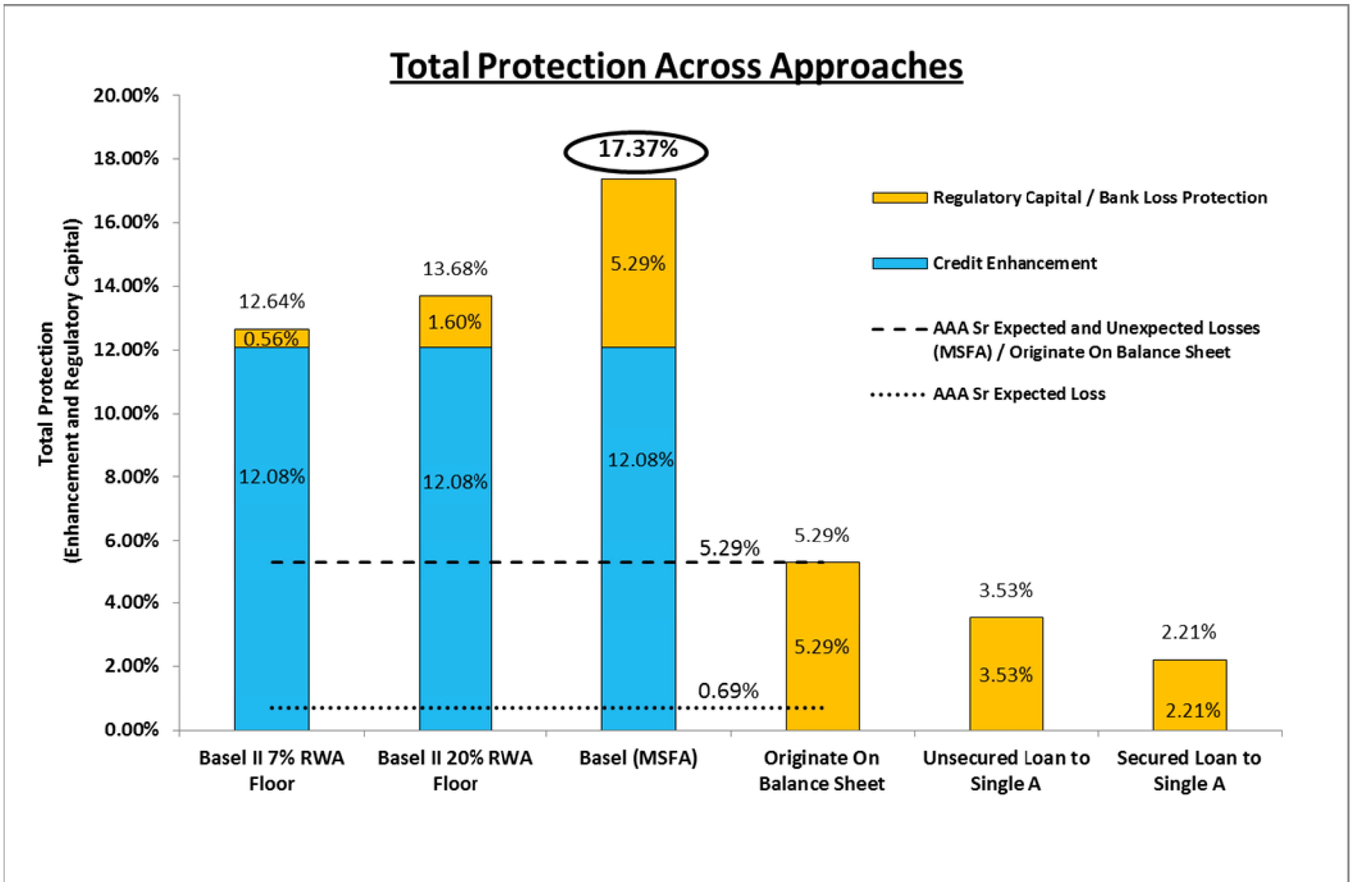
[10] The securitization exposure example in the graph and in Appendix B reflects 12.08% credit enhancement, which approximates the amount of necessary credit enhancement required by banks and credit rating agencies to achieve preferred pricing and ratings. A 12.08% credit enhancement was also used so the securitization exposure would yield a risk weight of 66.10% which is the identical risk weight for a similar exposure originated on balance sheet. By ensuring the RWAs of the two alternatives are equal, we create a like-for-like comparison that highlights the dramatic difference in protection across the two approaches and why additional capital for our vehicle and equipment securitizations is not warranted.

As evidenced below, the risk weight applicable to a bank that originates and holds the entire portfolio of prime auto loans without securitizing them is the same as the risk weight applicable to the “AAA” rated ABS under the MSFA. That seems at odds with the fact that the unsecuritized portfolio position does not benefit from any first loss credit enhancement at all, while the “AAA” rated ABS reaps substantial benefits from the bankruptcy-remoteness and the 12.08% enhancement built into this assumed structure which will absorb any losses on the underlying securitized loans or leases.[11]

Perhaps even more compelling is the contrast of the 66.10% risk weight for “AAA” rated ABS to the risk weights obtained for unsecured and secured loans to an “A” rated, non-financial corporate borrower. The unsecured loan carries a risk weight of 43.62% even though it benefits from no collateral whatsoever and has a 5-year average life, while the “AAA” rated ABS is fully collateralized, benefits from the structural features of securitization and the substantial additional credit enhancement that will absorb all losses and has a weighted average life of only 1.75 years. The secured loan’s risk weight of 27.26% is easier to justify given that it does benefit from substantial collateral. However, the secured loan does not benefit from any structural features of securitization and may not benefit from the same quality of credit enhancement or first loss protection and has an expected life of 5 years and only an “A” rating. Both of these results are obtained outside the securitization framework (using the wholesale approach) and demonstrate the punitive impact of the Proposals on our bank securitization facilities.

The comparisons across approaches and to other types of bank exposures, as shown below and in Appendix B, are troubling and out of balance. The Finance Companies do not agree with such adverse impact on our bank securitization facilities and, in fact, like our ABS investors, view the credit risk of our “AAA” rated ABS as more similar to U.S. Treasury securities, which have a risk weight of 0% irrespective of maturity, than to unsecured loans to “A” rated, non-financial corporate borrowers or to the holding of an entire unenhanced portfolio of prime auto loans with direct first loss exposure.

[11] As noted in Appendix A, credit enhancement far exceeds the average net cumulative losses of Moody’s prime auto loan index: 79 basis points. Additionally, many of our ABS structures, especially auto ABS, include “hard” and “soft” enhancement” including excess spread. Excess spread is the interest generated by the receivables in excess of the interest due on the notes.




***<u>Asset Quality Not Accounted For In Other Approaches</u>***

As discussed above, the MSFA results in excessive capital for securitizations of high quality assets, such as the vehicle and equipment loans and leases originated by the Finance Companies. The proposed capital increases under the MSFA combined with the BCBS's desire to calibrate across approaches will result in higher capital under the SSFA introduced in the United States. This will likely have a second order effect and reduce bank participation in our public ABS transactions as well. Banks purchase our public ABS for their trading book and also provide important secondary market support.

As you know, the SSFA capital requirements primarily reflect the amount of hard credit enhancement. It does not account for underlying asset quality, with the exception of certain U.S. residential mortgages and certain European externally rated wholesale exposures. These exceptions are reflected in the risk weights employed in the $K_{SA}$ parameter. We believe that the risk weights assigned to our vehicle and equipment loans and leases should be at least as low as those assigned to the lowest risk U.S. residential mortgages.

Further, in an attempt to calibrate the SSFA with the MSFA, the supervisory calibration parameter "p" (in the SSFA) was increased from 0.5 to 1.5. In the present SSFA the "p" factor 1.5 is applied only to resecuritizations; the quality of the Finance Companies' loans and leases does not warrant a threefold “p” factor increase. We strongly recommend retaining a “p” factor of 0.5 for all other securitization positions.

In summary, the flow through impact of higher capital under the MFSA and a desire for calibration across approaches will result in higher capital under the SSFA. The risk of this approach has a significant secondary impact through reduced bank participation in our public ABS transactions, particularly as it relates to secondary market support. To eliminate this risk we recommend making asset quality a feature of the SSFA for our assets. This can be accomplished by lowering the risk weight applicable to the loans and leases originated by the Finance Companies, and by retaining the present “p” factor of 0.5.

***Approaches are Too Burdensome for Bank Investors to Apply***

Notwithstanding the risk weight floor and calibration issues, it is clear that the MSFA is intended to be the most risk sensitive approach in the Consultative Paper. Therefore we urge the BCBS to continue to refine the MSFA to ensure that the methodology in this approach truly reflects the underlying quality of the assets (by addressing the concerns highlighted above) and consider ways to make the MSFA approach more accessible to all institutions, more user-friendly and less complex so that it can be utilized by all of our bank investors.

The BCBS proposes to restrict the use of the MSFA to securitization exposures for which a bank can develop internal ratings based (IRB) parameter estimates for each of the assets underlying the securitized pool. Bank securitization facilities collateralized by vehicle and equipment loans and leases may include assets whose risk weights are required to be determined under the retail framework, the wholesale framework or both.

A bank securitization facility backed by our dealer floorplan loans likely would fall under the wholesale framework and, as such, would require individual loan by loan inputs. Providing loan-level data for a typical revolving floorplan securitization trust sponsored by a Finance Company that may hold thousands of revolving dealer floorplan accounts with hundreds of thousands of individual vehicle loans outstanding at any given time would be an unreasonable requirement. We believe that the disclosure we provide in our dealer floorplan ABS prospectuses, which is provided on a segmented basis at the dealer account level (not the individual floorplan loan level) should be more than sufficient for our bank investors to determine the necessary inputs to the regulatory capital calculations for floorplan securitization exposures. Furthermore, the Finance Companies are unwilling to provide loan-level data for this asset class due to confidentiality obligations and dealer relationship concerns. It will also compromise our competitiveness if certain information is provided to banks who also participate in the dealer financing market. Many of Finance Companies expressed similar concerns about loan-level data for floorplan loans in response to U.S. regulatory proposals, and proposed (in consensus with floorplan ABS investors) a grouped data approach.[12]

Although the retail framework generally permits inputs on a segmented basis, rather than loan by loan, the Proposals suggest that the MSFA requires that a $K_{IRB}$ be calculated with respect to each underlying asset and does not clearly provide for the segmented approach. In addition,

[12] Please see August 2, 2010 and August 31, 2010 comment letters to the U.S. Securities Exchange Commission

the Proposals do not indicate the level of detail required to support a bank's PD and LGD estimates. The Finance Companies urge the BCBS to permit the use of segmented inputs for bank securitization facilities supported by our vehicle and equipment assets, regardless of whether they are in the retail or wholesale framework. We believe that segmented data, similar to the asset pool composition and stratification data we already provide in our public ABS transaction prospectuses, is robust and should be more than adequate detail to support such estimates in the calculation of bank regulatory capital for our bank securitization facilities. We urge the BCBS to review the public prospectus data disclosures for our various ABS programs for guidance in this area.

The Finance Companies are concerned about providing loan-level data for vehicle and equipment retail loans and leases for a number of reasons including the cost and burden of providing the data and that a bank receiving the data will be able to reverse engineer our proprietary scoring, pricing and residual value models. This latter concern is particularly troubling because many of the banks in our bank securitization facilities also engage in vehicle and equipment financing themselves. These concerns and others have been expressed by the Finance Companies in response to U.S. regulatory proposals to provide loan-level data in public ABS offerings.[13] Finally, it is important that the data requirements for our bank securitization facilities are consistent with and not more onerous than the data requirements for our public ABS offerings. We strongly encourage the BCBS to coordinate any data requirements with other regulators to avoid imposing additional costs and burdens on the Finance Companies.

The Finance Companies welcome the opportunity to work with the BCBS to develop guidelines for appropriate data inputs that are available without running afoul of the considerations discussed above.

## Economic Implications

The Proposals as they stand will have a significant economic impact on our businesses, the vehicle and equipment dealers, retail consumer and business customers, farmers and other small, medium and large businesses we finance, the Related Manufacturing Companies and Other Supported Companies and ultimately the broader global economy. Based on initial estimates, we believe the potential impact of the Proposals is significant and could increase the collective cost of our funding programs by many multiples of our current funding costs.

Increases in our funding costs will ultimately be passed through to our customers resulting in higher costs of credit to dealers, farmers, construction companies and retail consumers worldwide who lease or borrow to acquire essential equipment for personal and business use. If we are unable to provide consistent support to the Related Manufacturing Companies and Other Supported Companies, which are among the largest employers in the world, the ability of such companies to invest in new products and grow their business may be hampered. In addition, existing jobs at such companies may be cut and new jobs may not be created.

[13] Please see August 2, 2010 and November 8, 2010 comment letters to the U.S. Securities Exchange Commission

Bank securitization facilities are a critical source of liquidity and funding for Finance Companies. Increasing the costs or decreasing the availability of funding through bank securitization facilities will increase the dependence of Finance Companies on the public ABS markets as a source of funding. As recent history has shown, such markets are often turbulent and, in times of financial crisis often unavailable and completely unreliable. Consequently, the liquidity of Finance Companies will be more vulnerable to economic disruptions.

**Our Request**

The task undertaken by the BCBS to amend the regulatory capital rules is extraordinarily complex, and its potential impact on the global economy is immense. Despite the care taken in developing the Consultative Paper, the results and its recommendations are, in our opinion, flawed and will have serious negative implications on our Related Manufacturing Companies and Other Supported Companies and on the global economy. Foremost is the failure to have concluded a quantitative impact study prior to developing the framework. We anticipate significant negative impacts to our businesses, our Related Manufacturing Companies and Other Supported Companies, our customers, and to the economy at large if the Proposals are implemented. Moreover, the Proposals do not sufficiently recognize the differences in the risk profiles associated with various securitization exposures, particularly vehicle and equipment ABS. Instead, the Proposals require a layer of unnecessary capital on a proven asset class. No enhancement to the safety and soundness of the banking system will result from these additional capital requirements, but rather, such requirements will have serious consequences for our financing customers and on the Related Manufacturing Companies and Other Supported Companies and the growth of the global economy. Left unaddressed, the Proposals as written will have a counterintuitive effect in that the historically best performing ABS, including vehicle or equipment ABS, will suffer the most harm and will prospectively attract materially higher levels of capital for bank investors.

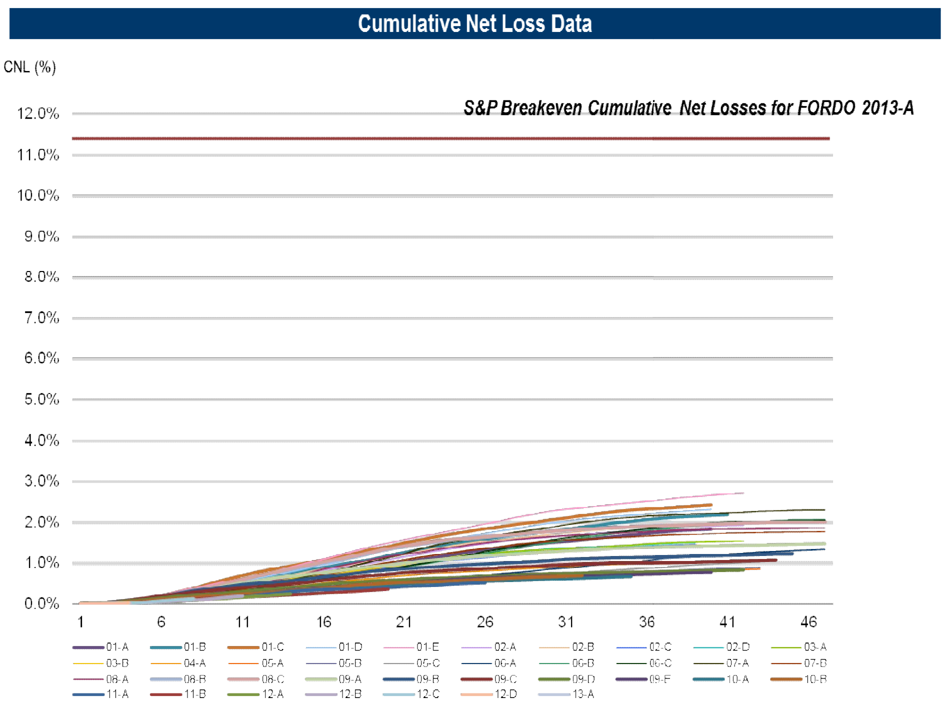
We request that the BCBS issue a new proposal with a framework that reflects the risk of the underlying financial assets and allocates an appropriate risk weight to vehicle and equipment ABS exposures. We would be happy to work with the BCBS to construct such a framework. However, if the BCBS is determined to create a uniform approach that is insensitive to the risk profile of the underlying financial assets, we strongly believe that vehicle and equipment ABS exposures should not be subject to increased capital requirements resulting from the Proposals. Consequently, we request that bank securitization facilities for vehicle and equipment assets in no event require capital in excess of what would be required under the Basel II rules as adopted by each relevant jurisdiction.

We appreciate the opportunity to comment on the Consultative Paper and express our views on the Proposals. We would be happy to discuss any of our comments in further detail or provide any other assistance to help with your analysis of the Proposals.

## Appendix A
## Detailed Historical Performance – Auto

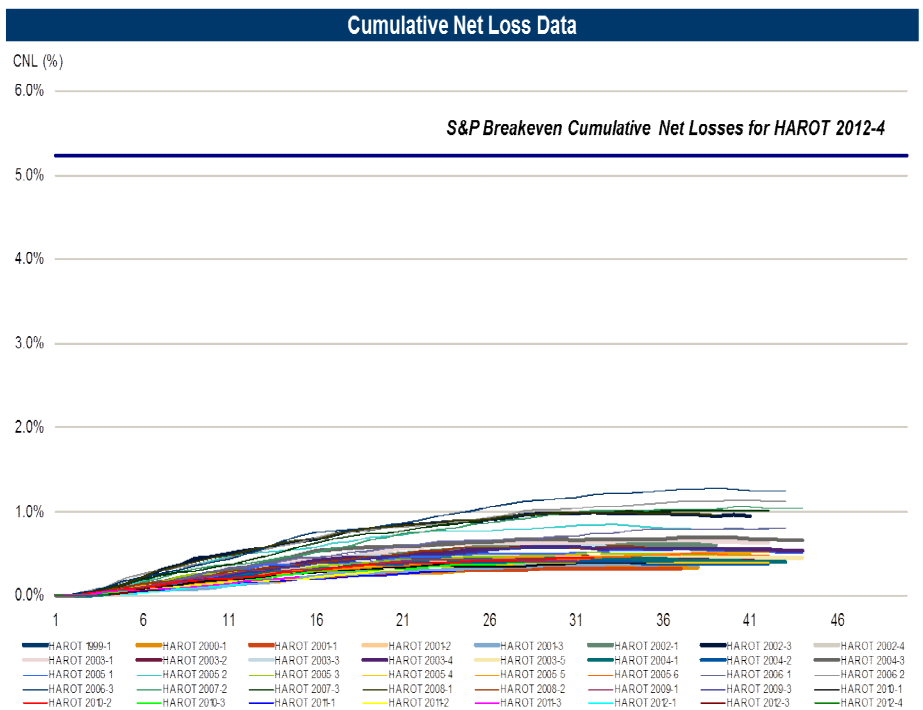
**The three graphs below show historical loss data for a representative sample of the Finance Companies. All losses are well below the rating agencies' "breakeven" levels, the level at which an investor in a "AAA" rated security would experience a first dollar of loss. Note that these "breakeven" levels are typically set at ~5x expected loss for a "AAA" rated securitiza tion.**

### Ford Credit Auto Owner Trust




Source: S&P 2013-A Pre-Sale Report

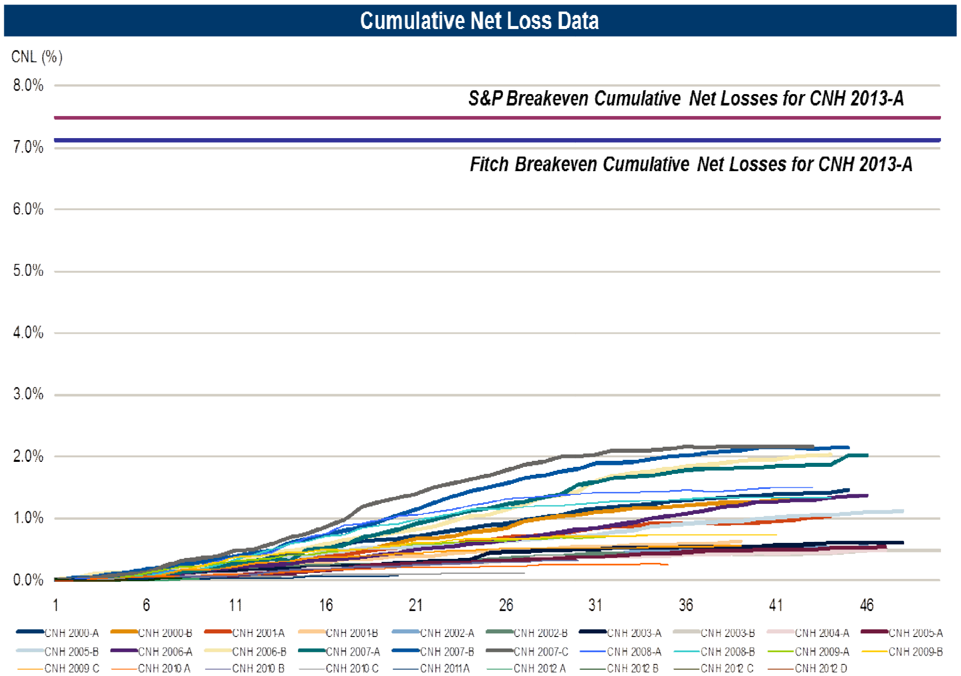
### Honda Auto Receivables Owner Trust




Source: Moody's Performance Data Services

## Detailed Historical Performance – Equipment

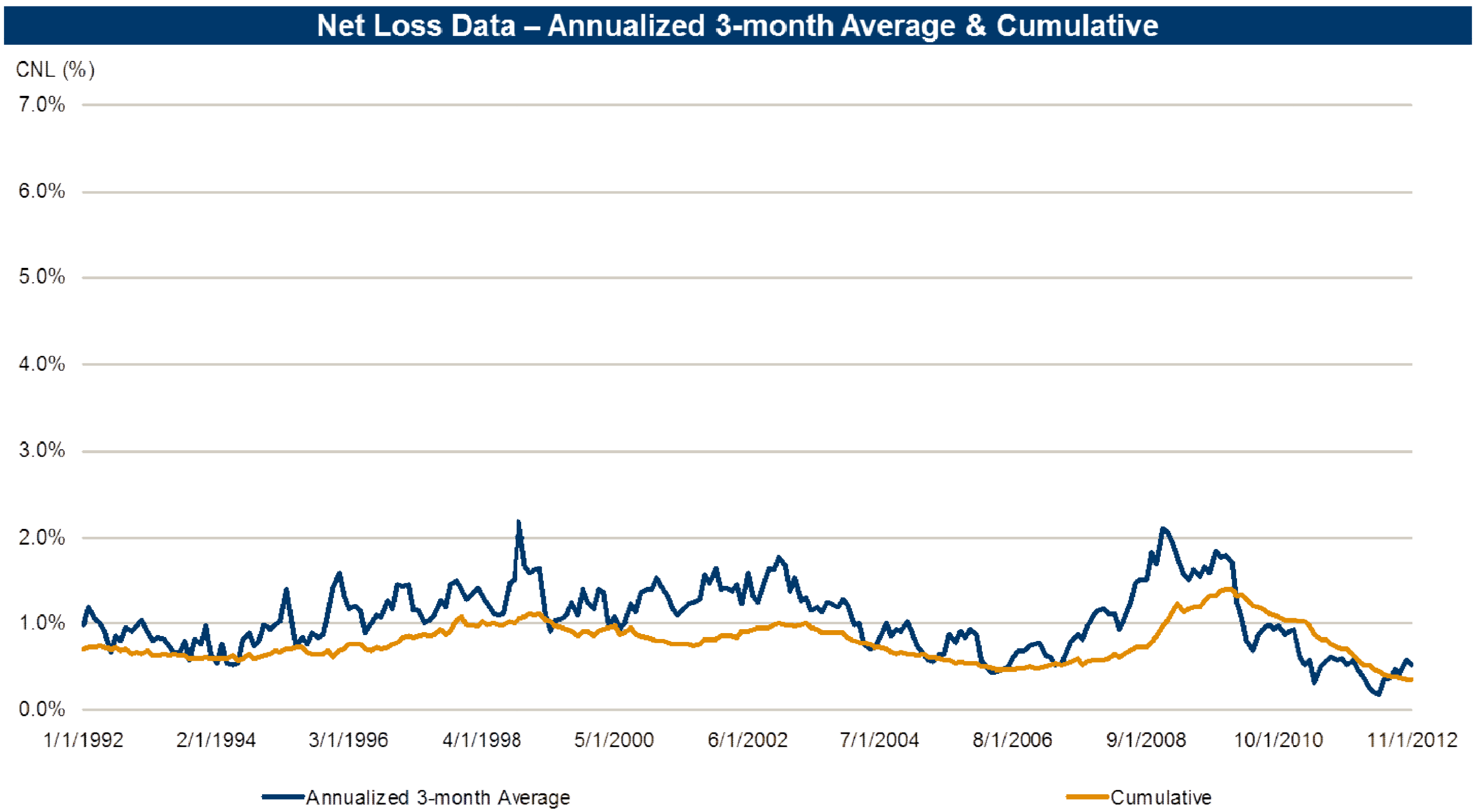
# CNH Equipment Trust




Source: Moody's Performance Data Services

**The graph below shows the consistent cumulative net loss performance for an index of prime auto loans over the last 20 years. As demonstrated in the graph, loss performance has been strong and stable over time.**

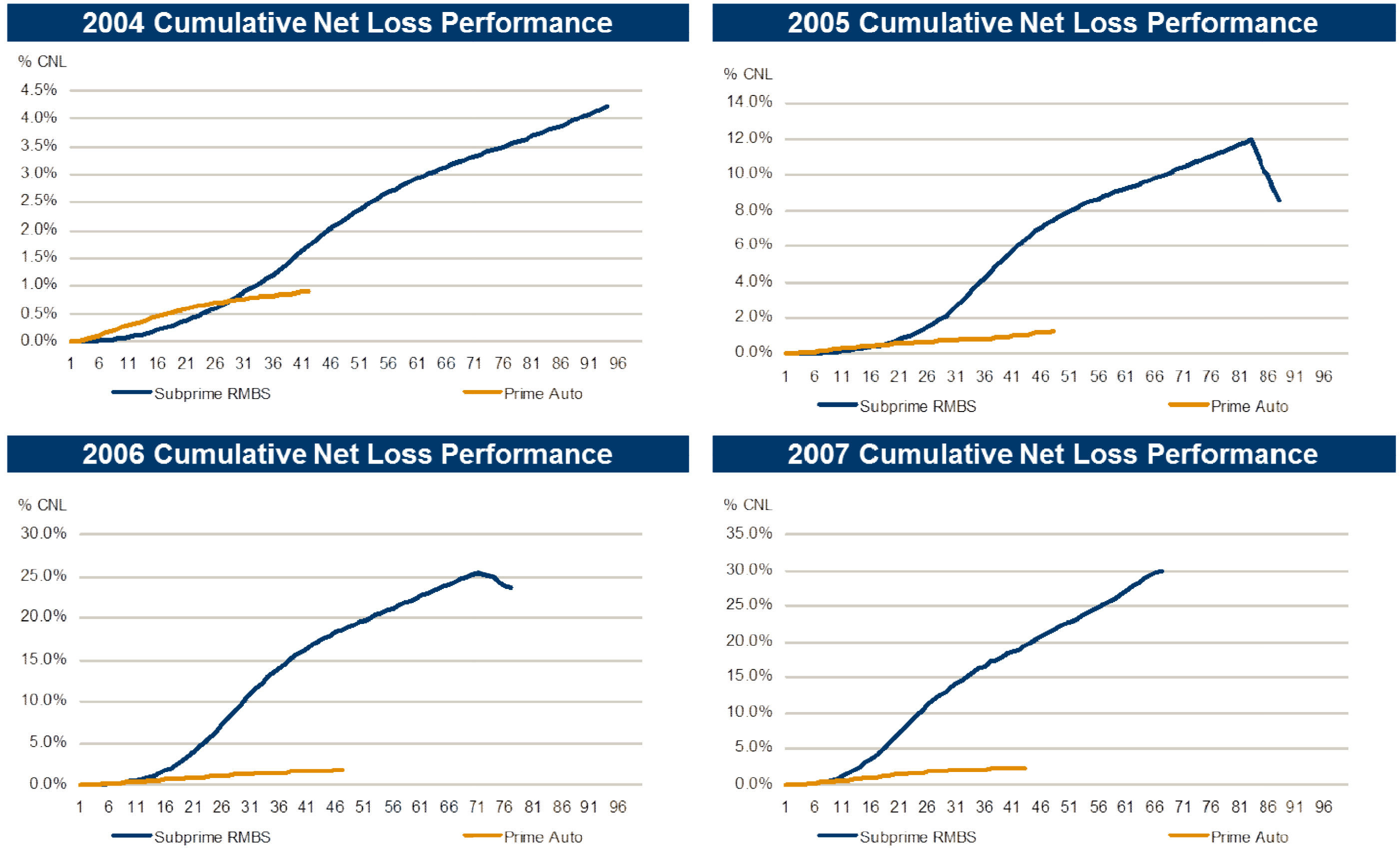
# Moody's US Prime Auto Loan Index




Source: Moody's Performance Data Services

**The graphs below highlight the significant disparity in loss performance between subprime RMBS and prime auto loans from 2004-2007.**

# Prime Auto Loan vs. Subprime RMBS

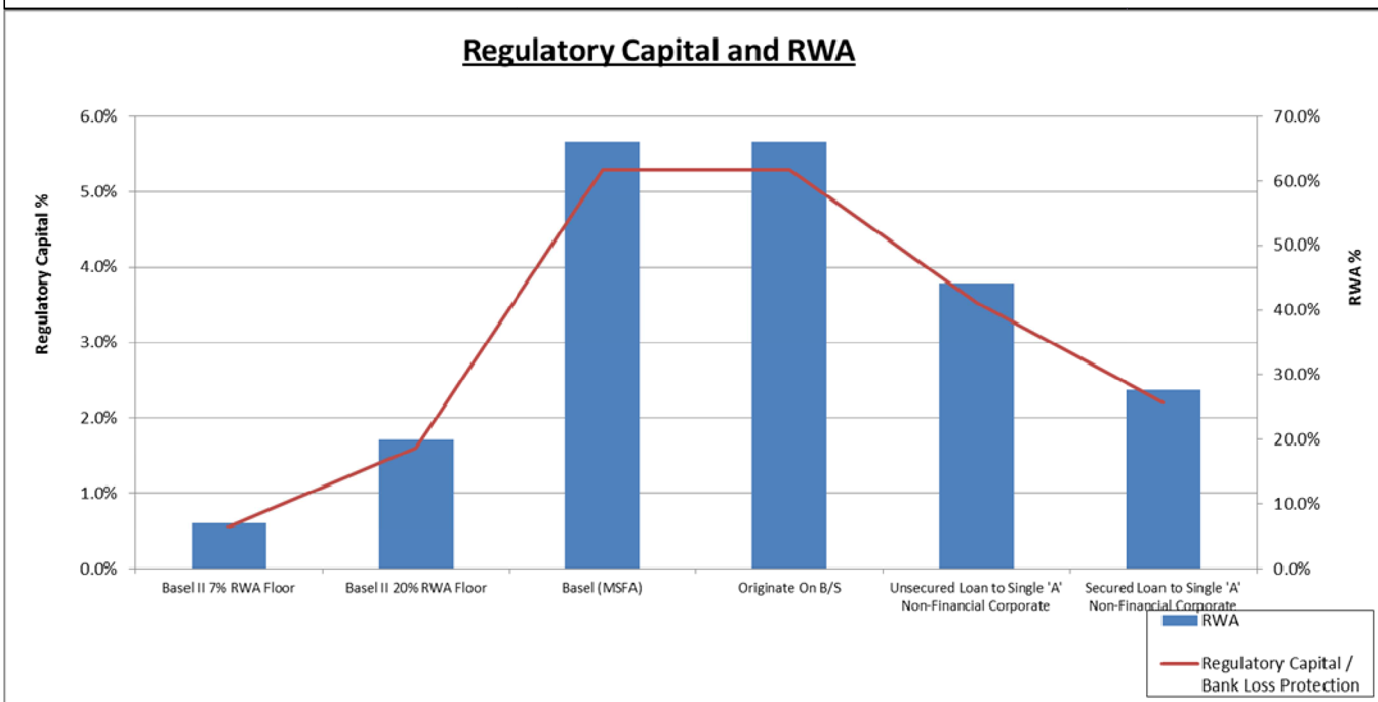


**Regulatory Capital Treatment**

| | Basel II 7% RWA Floor | Basel II 20% RWA Floor | Basel (MSFA) | Originate On Balance Sheet | Unsecured Loan to Single 'A' Non-Financial Corporate | Secured Loan to Single 'A' Non-Financial Corporate |
|---|---|---|---|---|---|---|
| | Capital Treatment Scenarios | | | | | |
| | 5yr AAA Senior Tranche | | | | | |
| Risk Weighted Asset (RWA) | 7.00 % | 20.00 % | 66.10 % | 66.10 % | 44.12 % | 27.57 % |
| Regulatory Capital / Bank Loss Protection | 0.56 | 1.60 | 5.29 | 5.29 | 3.53 | 2.21 |
| Credit Enhancement | 12.08 % | 12.08 % | 12.08 % | - % | - % | - % |
| Regulatory Capital / Bank Loss Protection | 0.56 | 1.60 | 5.29 | 5.29 | 3.53 | 2.21 |
| Combined Bank Protection | 12.64 % | 13.68 % | 17.37 % | 5.29 % | 3.53 % | 2.21 % |
| Expected 12 Month Loss | (0.69) | (0.69) | (0.69) | (0.69) | (0.04) | (0.03) |
| Protection for Unexpected Loss | 11.96 % | 13.00 % | 16.69 % | 4.60 % | 3.49 % | 2.18 % |
| Unexpected 12 Month Loss* | (4.60) | (4.60) | (4.60) | (4.60) | (3.49) | (2.18) |
| Remaining Bank Protection | 7.36 % | 8.40 % | 12.08 % | 0.00 % | - % | - % |
| **ABS Assumptions:** | | | | | | |
| Credit Enhancement (%) | 12.08 | 12.08 | 12.08 | - | - | - |
| Cumulative Expected losses (%): | 1.20 | 1.20 | 1.20 | 1.20 | - | - |
| PD (%): | 1.37 | 1.37 | 1.37 | 1.37 | 0.10 | 0.10 |
| LGD (%): | 50.00 | 50.00 | 50.00 | 50.00 | 40.00 | 25.00 |
| Average Life (years): | 1.75 | 1.75 | 1.75 | 1.75 | 5.00 | 5.00 |

- - - - -

*Implied protection for unexpected losses under originate on balance sheet approaches.



Respectfully Submitted,

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Name: Bradley Brown
Title: Structured Funding Executive

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By: Jan Zimmerman
Name: JAN ZIMMERMAN
Title: SENIOR DIRECTOR OF FINANCE

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Title: Senior Vice President, Treasurer and Chief Financial Officer

**CNH CAPITAL LLC**

By:______________________________________

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**FORD MOTOR CREDIT COMPANY LLC**

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Name: Susan B. Sheffield
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Name: J. DARRELL THOMAS

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**HYUNDAI CAPITAL AMERICA**

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NAVISTAR FINANCIAL CORPORATION

By:____________________________
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Title:

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**V.P. & Assistant Treasurer**

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Title: Treasurer

**WORLD OMNI FINANCIAL CORP.**

By:______________________________

Name: Eric Gebhard

Title: VP + Treasurer