Auto Leases
UK
New Issue

Bumper 3 Finance Plc

Ratings

Class	Amount (m)	Final Maturity	Ratings	CE (%)
A	EUR733.8	Jun 2022	AAA, LS-2	25.8
B	GBP79.85	Jun 2022	A, LS-3	16.8
C	GBP141.95	Jun 2022	Not Rated	

Default Reserve: 0.80%
Outlook: Stable

Key Parties

LeasePlan UK Ltd:	Originator, servicer, Sub-Maintenance Coordinator and realisation agent
The Royal Bank of Scotland Plc ('AA-'/'F1+', Stable Outlook)	Interest rate swap counterparty
Citibank, N.A. ('A+'/'F1+', Stable Outlook)	Account bank, cash manager, paying agent
JPMorgan Chase N.A. (rated 'AA-'/'F1+' Stable Outlook)	Currency swap counterparty

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Related Research

- *"European Consumer ABS Rating Criteria", October 2006*
- *"Residual Values in European Auto ABS – Securitising Market Risk", April 2006*
- *"Counterparty Risk in Structured Finance: Qualified Investment Criteria", September 2007*
- *"Counterparty Risk in Structured Finance Transactions: Hedge Criteria", August 2007*
- *"Commingling Risk in Structured Finance Transactions", June 2004*
- *"Criteria for Structured Finance Loss Severity Ratings", February 2009*

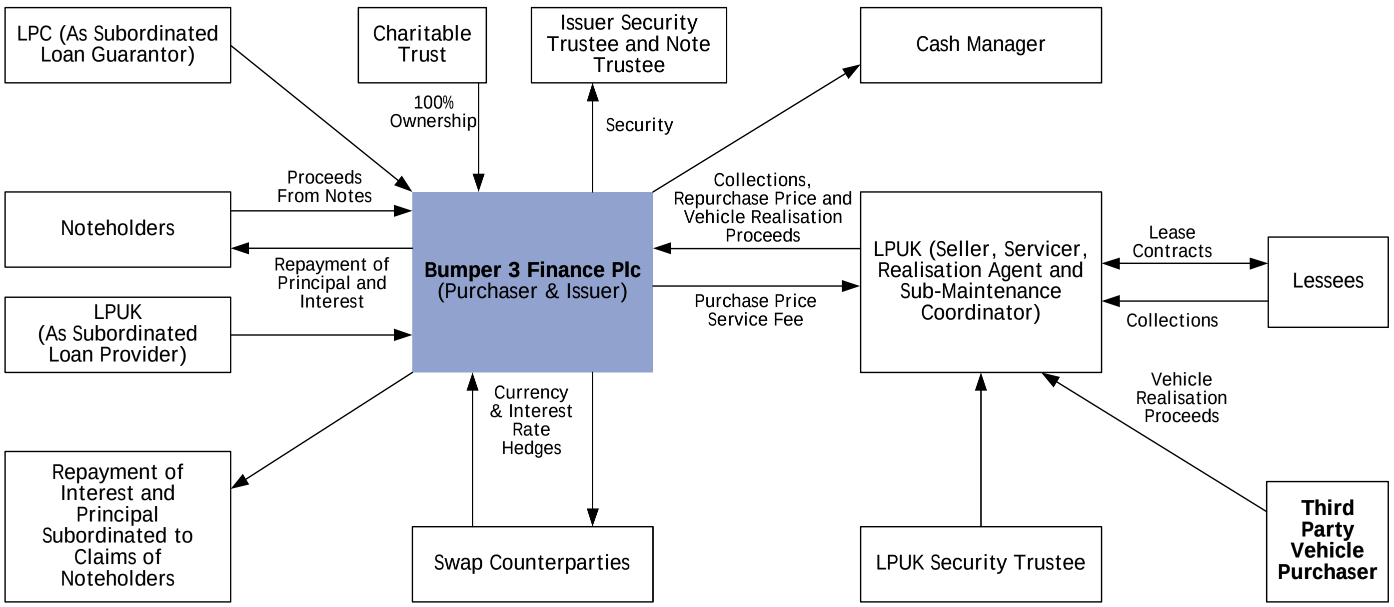
Transaction Summary

The notes are backed by a pool of lease receivables and residual value (RV) claims arising from auto leases originated in England and Wales by LeasePlan UK (LPUK), a wholly-owned subsidiary of LeasePlan Corporation (LPC) (rated 'A-'/'F2', Negative Outlook). The leases are extended to corporate, SME, retail and public sector obligors. A revolving pool of lease receivables and RV claims will be sold to Bumper 3 Finance Plc (the issuer). The issuer will finance the purchase price by issuing three classes of notes totalling GBP887m. The issuer is incorporated under the laws of England and Wales. The ratings assigned to the class A and class B notes address timely payment of interest and ultimate payment of principal on or prior to the final maturity date.

Key Rating Drivers

- **Lease Receivables Performance:** the performance of the notes will be affected by the default rate, recovery rate and prepayment rate on the lease receivables. These risks have been analysed by modelling the transaction cash flows under stressed scenarios.
- **Residual Value Performance:** during the revolving period, residual value claims may comprise up to 46% of the total asset balance. Following an insolvency of LPUK, the transaction will be exposed to the risk that sale proceeds at lease maturity are less than the outstanding lease balance. This risk has been analysed by stressing expected sale proceeds.
- **Transaction Legal Structure:** the receivables shall be assigned to the issuer; however, title to the lease vehicles shall be retained by LPUK. Resultant risks are mitigated by a floating charge over the vehicles provided from LPUK to the issuer and an insolvency administrator incentive fee structure.
- **Employee Car Ownership Scheme (ECOS):** the pool includes a minority of receivables generated under ECOS agreements where the title is transferred to the obligor at the outset of the contract. The asset analysis has been adjusted to reflect the unsecured nature of these receivables.
- **Commingling Risk:** as long as LPUK is servicer, lessees shall make payments to LPUK. LPC agrees to use all reasonable endeavours to ensure that its subsidiary, LPUK, complies with the terms of the servicing agreement. Collections are expected to be transferred to the issuer each month; however, this could change to bi-weekly transfers. The commingling risk is mitigated by a cash reserve held by the issuer – the size of the reserve depends on the frequency of transfer and the rating of LPC.
- **Maintenance Obligations:** certain lease agreements include an obligation to provide vehicle maintenance services, this obligation shall be assumed by the issuer. At closing, the servicing shall be delegated to LPUK. The structure provides a maintenance cost reserve and back-up servicing arrangements.
- **Asset Outlook:** Fitch Ratings expects the performance of auto leases to be sensitive to the broader economic environment. Given the current UK recession, Fitch expects to see some deterioration in the auto loan and lease sector over the medium term.

Structure Diagram



Source: Transaction documents

Transaction and Legal Structure

The issuer will purchase lease receivables and associated residual value (RV) claims on lease contracts originated by LPUK. The issuer is a bankruptcy-remote, limited liability special-purpose company incorporated under the laws of England and Wales for the sole purpose of issuing the notes and using the proceeds to purchase the lease receivables and RV claims, and other incidental activities.

The title to the underlying vehicles shall be retained by LPUK (except ECOS receivables, where the obligor holds the title). The retention of title by LPUK presents the following risks: (i) the cooperation of LPUK or its insolvency administrator shall be required to sell the vehicle at lease maturity or following repossession; and (ii) a third-party creditor of LPUK may seek to enforce debts due to it against the title to the vehicles held by LPUK. The first issue is mitigated by the insolvency administrator incentive fee structure. The second issue is mitigated by the provision of a floating charge over the title held by LPUK, which is granted to the issuer.

The purchase price will be equal to the present value of the future lease instalments (interest and principal) and the residual value claim. The maintenance component of the lease instalments shall not form part of the purchase price, but shall be transferred to the issuer along with the corresponding vehicle maintenance obligations.

The class B, and C notes shall be issued in GBP while the class A note shall be issued in EUR.

Key Eligibility Criteria and Concentration Limits

During the revolving period the issuer can use available funds to purchase new receivables meeting the eligibility criteria. Key eligibility criteria include:

- the lease receivable and RV claim are freely assignable;
- the leased vehicle is in good repair;
- the vehicle has third-party insurance;

- at least one lease instalment has been received and the lease is not in arrears;
- lessees are resident or incorporated in England or Wales;
- the lease agreement does not allow the lessee to terminate in the event of the insolvency of LPUK;
- the lease contracts comply with the credit and collections policy of LPUK.

Scottish lessees are excluded from the transaction (however, a small number of leased vehicles may be located in Scotland if the lessee is resident or incorporated in England and Wales). It should be noted that the eligibility criteria do not allow a lessee to terminate a contract upon the insolvency of LPUK; this is vital in ensuring the receivables survive the insolvency of the originator. In addition to the individual contract eligibility criteria, the portfolio must also remain within certain limits during the revolving period. These limits include:

- each of the top five obligors does not exceed 2.5% of the total;
- each of the next six to 20 largest obligors does not exceed 1.5% of the total;
- each of the next 21 to 30 largest obligors does not exceed 0.75% of the total;
- all other obligors do not exceed 0.50% of the total;
- the maximum amount of RV claims is 46% of the total pool;
- no more than 5% of the outstanding leases can have a remaining term exceeding 60 months (the maximum term of each lease agreement cannot exceed 90 months).

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Credit Enhancement

Credit enhancement is provided by the subordination of the junior notes and a cash reserve. The cash reserve is sized at 0.8% of the balance of the class A and B notes. The cash reserve is funded at closing via a subordinated loan, and can be replenished under the priority of payments. The cash reserve shall amortise in line with the note balance, subject to a floor amount equal to the lower of the outstanding balance of the class C notes and GBP3m.

Under the priority of payments the cash reserve is topped up in advance of the repayment of note principal; however, amounts amortised are available to repay note principal, thereby covering defaults and providing credit enhancement.

Priority of Payments

The following is a summary of the amortisation priority of payments:

1. tax;
2. pay maintenance collections to the Sub-Maintenance Coordinator;
3. senior fees and expenses;
4. interest rate swap;
5. currency swap (interest component);

6. interest class A notes;
7. interest class B notes;
8. replenish the default cash reserve;
9. currency swap (principal component);
10. principal on the class A notes;
11. principal on the class B notes;
12. interest class C notes;
13. principal class C notes;
14. swap termination payments if counterparty defaults;
15. subordinated loan;
16. any excess is paid back to the seller.

Interest Rate Swap

To mitigate the interest rate mismatch between: (i) the assets that will yield a fixed rate of interest equal to the discount rate; and (ii) the floating rate notes, the issuer shall enter into an interest rate swap.

Under the interest rate swap, the issuer shall pay a fixed interest rate equal to 2.39% of the balance of the class A and class B notes. In return, the issuer shall receive a floating amount equal to the current three-month Libor rate on the balance of the class A and B notes.

At closing, the interest rate swap counterparty shall be The Royal Bank of Scotland Plc. The transaction features standard replacement triggers in the event of a downgrade of the interest rate swap counterparty.

Currency Swap

The currency swap hedges exchange rate risk on the class A note by converting sterling for euros as the rate set at closing. The currency swap also converts the interest basis from three-month Libor (received under the interest rate swap) to Euribor at the prevailing three month rate.

At closing the currency swap counterparty shall be JPMorgan Chase NA (rated 'AA-'/ 'F1+', Stable Outlook). The transaction features remedies should the currency swap counterparty be downgraded.

It should be noted that both the interest rate and currency swap counterparties hold a right of veto over decisions made by the note trustee, in the event that LPC owns over 25% of the class A notes. In Fitch's view, disenfranchising the parent of the originator is beneficial to the transaction because it would prevent LPC taking actions that could be detrimental to the interests of the other senior creditors following an event of default (in the event LPC held a controlling share of notes). Additionally, the swap counterparties have the ability to appoint a back-up servicer, realisation agent, and/or sub-maintenance coordinator in the event that LPUK has failed to do so as required in the transaction documents.

Early Amortisation Events

Early amortisation events include:

- cumulative default ratio exceeding 3.0% within the first year;
- if the 61-90 day arrears ratio exceeds 0.40%;
- the aggregate discounted balance of the lease receivables and RV claims, plus any cash on hand to purchase new receivables, plus the balance of the default reserve is less than the outstanding balance of the notes on any interest

payment date (i.e. if assets are less than liabilities);

- the occurrence of a seller event of default, servicer termination event, realisation agent termination event, or an event of default under the swap or sub-maintenance coordination agreement;
- a failure by LPUK or LPC to replenish the reserves as required by the transaction documents, or any other LPC event of default.

In Fitch's opinion, the arrears trigger in particular provides protection by acting as an early warning of deteriorating portfolio performance. Fitch did not rely on the cumulative default trigger in its analysis (because, in Fitch's opinion, the trigger is set too high to provide adequate protection against declining performance during the first year).

Maintenance

Under certain leases the lessee elects to enter into an agreement whereby the vehicle will receive specific maintenance, repairs and servicing in return for the payment of an additional instalment amount. The obligation to provide such repairs, maintenance and servicing is transferred to the issuer. The corresponding component of the lease instalment shall be available to the issuer.

At closing, the issuer has engaged LPUK to coordinate and undertake the repair, maintenance and servicing obligations, acting as Sub-Maintenance Coordinator. The issuer shall pay an amount, equal to the corresponding amount of collected cash received, to LPUK at a senior level in the priory of payments. In the event of the termination of LPUK, the structure envisages the appointment of a replacement party to fulfil these obligations; this will be funded via the collection of the maintenance component of future instalments as well as a maintenance reserve.

In the event that a lessee is not provided with the contractual servicing then they would be entitled to terminate the lease agreement. The structure is designed to ensure that the services are funded and provided on a continuous basis.

Counterparty Risk

The primary counterparty exposure of the issuer is to LPUK. Exposure results from: (i) commingling; (ii) set-off; (iii) maintenance; (iv) servicing; (v) subordinated loan; and (vi) representations and warranties provided as the seller. Counterparty exposure also exists with respect to the account bank provider and the swap counterparty.

Commingling

The lessees will not be notified of the transfer of the leases to the purchaser until the insolvency of the seller-servicer, or upon a failure by LPC to replenish the commingling or maintenance reserves. Thus, lessees will continue to make payment directly to the originator. It is expected that on closing, collections will be swept into the issuer's account on a monthly basis; however, this could change to a bi-weekly transfer. Upon a servicer event of default (such as bankruptcy or insolvency) there can be a grace period of up to 5 days. It is then estimated that it would take a back-up servicer two weeks to notify all lessees of the new payment details.

Therefore, it is estimated that approximately three weeks of lease collections could become tied up in the bankruptcy estate of the originator (if collections are transferred bi-weekly). To mitigate this risk, a commingling reserve will cover 75% of the next month's lease collections (if collections are transferred bi-weekly) or 175% of the next month's lease collections (if collections are transferred monthly). There is also a risk that RV claims could be commingled if a vehicle was sold and the realisation proceeds were not passed over to the issuer before the insolvency of the originator. Again, there is a five day grace period on breaching a trigger; however, the notification period is estimated at one week due to the very low number of auction houses that would need to be notified of the new payment details (currently LPUK uses only two auction houses). Therefore, the commingling reserve will also cover 50% of the month that has the maximum expected RV claims (if collections are transferred bi-weekly) or 150% of the maximum month (if collections are swept monthly). As balloon payments are not evenly distributed through time, this component of the reserve looks to the maximum monthly exposure during the remaining life of the transaction.

It should be noted that no commingling reserve would be provided if LPC was upgraded to 'F1' or above (regardless of the transfer frequency). Investors should be aware that they remain exposed to commingling risk in such instances (for instance, during any notification period). However, in Fitch's opinion, the risk would be consistent with the ratings on the notes.

The commingling reserve will be fully funded on closing and the reserve size will initially be based on a monthly transfer of collections. If the required reserve increases, as a result of the transfer of new leases with a different payment schedule, then the reserve must be increased under the transaction documents.

The commingling reserve is increased by drawing under the subordinated loan provided by LPUK and guaranteed by LPC. It is an early amortisation event if the subordinated loan is not increased when required under the transaction documents. This mitigates counterparty risk on LPUK and LPC.

Set-Off Risk

Upon closing, lessees will not be notified of the transfer of the leases to the purchaser, therefore it is possible they may attempt to set-off amounts owed to them upon the bankruptcy or insolvency of LPUK. Under some 'open calculation' type lease contracts, LPUK may owe customers a refund at the end of each year. These amounts could give rise to set-off risk. To mitigate this risk, a set-off reserve will be funded on closing sized at GBP 3.2m. The size of the reserve reflects the expected risk exposure.

Maintenance

At closing, LPUK will act as the Sub-Maintenance Coordinator. If LPUK were to become bankrupt or insolvent there is a risk such maintenance collections could be lost. This risk is exacerbated by the fact that maintenance collections are received at a constant rate throughout a lease contract's life, whereas maintenance expenses tend to be concentrated towards the end of a contracts life (as the leased vehicle becomes older); the difference between the maintenance collections received and the expenses incurred to date are effectively a provision against future costs.

The maintenance reserve is designed to mitigate this risk. On a vehicle-by-vehicle basis, the maintenance reserve will fully collateralise the amount provisioned by the Sub-Maintenance Coordinator. Per the transaction documents, the reserve is dynamic and if necessary, will be increased on a monthly basis by drawing under the subordinated loan. If LPC fails in its obligations as guarantor under the subordinated loan, an early amortisation event will be triggered. Furthermore, if LPUK becomes insolvent the Sub-Maintenance Coordinator will be immediately replaced.

Servicing

Servicing is performed by LPUK. Although LPUK is not rated by Fitch, it is majority owned by LPC, which is rated. A back-up servicer will be appointed if the rating on LPC falls below 'BBB-' or if LPC fails to own at least 75% of the share capital of LPUK. Furthermore, LPC agrees to use all reasonable endeavours to ensure that LPUK complies with its various obligations under the servicing, maintenance coordination, and realisation agent agreements.

Subordinated Loan

Under the transaction structure, the cash reserves held by the issuer are funded by a subordinated loan advanced from LPUK. Such reserves include the default reserve, commingling reserve, set-off reserve and maintenance reserve. The default reserve is fully funded at closing and only topped up under the priority of payments.

Additional advances may be required to the commingling and maintenance reserve accounts. Fitch notes that the obligation of LPUK to make advances under the loan agreement to fund the reserves is guaranteed by LPC. However, Fitch derives comfort primarily from the fact that, in the event that such advances are not made, an early amortisation event shall be triggered. Additionally, failure to replenish the maintenance reserve will lead to a lessee notification event. Consequently, the underlying exposure shall be capped and the existing reserve levels will be adequate without the need for further advances.

Account Bank

Citibank, N.A. (rated 'A+'/'F1+', Stable Outlook) will act as the account bank and cash manager. A fall in the rating of the account bank could lead to a downgrade of the notes if no remedial action is taken.

Swap Counterparties

The Royal Bank of Scotland ('RBS', rated 'AA-'/'F1+', Stable Outlook) and JP Morgan Chase (rated 'AA-'/'F1+', Stable Outlook) will act as the senior interest rate and currency swap counterparties respectively. A fall in the rating of either swap counterparty could lead to a downgrade of the notes if no remedial action is taken.

Impact of Banking Act 2009

As a subsidiary of a non-UK bank, the originator, in addition to other transaction parties, may be subject to the provisions of the Banking Act 2009 (the Act). The Act confers wide-ranging powers on the UK financial authorities in the event that they may need to intervene in order to rescue a financial institution in distress. The greatest element of uncertainty stems from the provisions in the act which empower the authorities to potentially override the ongoing contractual obligations of a financial institution in a structured finance transaction. This could have potential implications for the enforceability of contractual or servicing arrangements within structured finance transactions.

In Fitch's opinion, the Act is not expected to impact ratings for structured finance transactions. This is based on a number of factors, including the government's commitment to reviving the mortgage-backed securities market (which is considered important in helping revive the capacity of lenders to provide funding in the economy.

Notwithstanding Fitch's view that it does not expect such ratings to be impacted, the agency will continue to monitor future developments with respect to the Act and will assess the specific nature and extent of reservations included in transaction legal opinions to determine whether there could be any rating impact to the transactions.

Further details as regards Fitch's opinion on the impact of the Banking Act 2009 on UK structured finance transactions can be found on its web site *(see report, "Impact of the UK Banking Act 2009 on Structured Finance and Covered Bond Ratings", published* 19 February 2009).

Model, Criteria and Data Adequacy

The transaction is backed by a pool of lease receivables and residual value claims. The lessees are a mix of corporate, private sector, SME and retail obligors. Given that obligor exposures are large relative to a typical consumer transaction, Fitch deemed it appropriate to model stressed default scenarios based on the obligor concentration limits. In all other respects the analysis applied Fitch's European Consumer ABS Criteria and the European Residual Value Criteria as the primary rating criteria.

To assess the ability of the transaction to make timely payments of interest and ultimate payment of principal in advance of final legal maturity, Fitch modelled the transaction using its proprietary ABS cash flow model, configured to replicate the structure of the transaction.

LPUK provided the following data:

- stratifications of LPUK's lease portfolio, as at 31 January 2009;
- historical data from November 2003 to September 2008 covering cumulative defaults, recoveries from defaults and arrears (split by portfolios);
- vehicle-level data showing the sale proceeds achieved versus the residual values from 2003 to 2008;
- LPUK's maintenance provisions on a vehicle-by-vehicle basis.

The historical default data for the granular retail and SME portfolios allowed Fitch to consider the application of a stressed base case default approach. Fitch observed that historic default levels have been higher for the granular pools relative to the non-granular pools. Under the transaction documents, the level of granular receivables is capped but there is no cap on the size of the non-granular receivables. However, in Fitch's opinion, the non-granular pools may feature higher defaults in a stress scenario. Fitch therefore applied an obligor multiple approach to the overall portfolio.

In Fitch's opinion, the quantity of data was adequate. The high level of detail with respect to the residual value performance allowed Fitch to capture the current market performance within it base case assumptions.

Asset Analysis

LPUK is the second largest player in the UK vehicle leasing market, operating under the brand names of LeasePlan, Automotive Leasing, Network and Fleet Line. LPUK currently manages around 127,000 vehicles and maintains a consolidated lease portfolio worth around GBP1.3bn. LPUK is a wholly-owned subsidiary of LPC, which is an entity regulated and supervised by Dutch Central Bank. LPC was founded in the Netherlands in 1963 but has since expanded to over thirty countries.

The following LPUK products are included in the lease portfolio:

1. **Contract Hire, Open Calculation:** this lease product is similar to a traditional operating lease, except that it provides the lessee with transparent pricing relating to the implied yield of the lease contract. At the maturity of the lease contract the lessee will return the vehicle, hence LPUK bears the RV risk. On an annual basis, if estimated costs have been higher than actual costs, the lessee may be entitled to a refund. Open calculation is LPUK's main product and is especially popular with corporate customers.
2. **Contract Hire, Closed Calculation:** this lease product is essentially a traditional operating lease contract. As such, LPUK retains the RV risk at the lease contract's maturity when the vehicle is returned. Under closed calculation agreements, the implied yield on the lease contract is not disclosed to the customer, and the lessee is not entitled to receive a refund if expected costs have exceeded actual costs.
3. **Contract Purchase:** this product is less popular than contract hire and is essentially a traditional hire purchase agreement. Under these contracts, the lessee has the option of purchasing the vehicle at the maturity of the contract by paying the final balloon. Alternatively, the customer can return the vehicle

to LPUK; hence LPUK retains the RV risk. Contract purchase agreements can be either open calculation- or closed calculation-type contracts.

4. **Finance Lease:** these agreements function in a similar fashion to traditional finance leases. At the end of the lease contract the lessee has the obligation to pay the final balloon; consequently, LPUK is not exposed to RV risk on this product. Finance leases make up a small part of the securitised portfolio.
5. **Employee Car Ownership Scheme (ECOS):** these are contracts with corporate customers which give the employees of such customers the option to either return the vehicle at the end of the lease contract or pay the final balloon instalment. The title to the vehicle is transferred to the lessee from day one, so Fitch treats such contracts as unsecured, with appropriate adjustments made to the recovery rate assumptions. LPUK remains exposed to the RV risk in the event that the lessee decides to return the vehicle. ECOS contracts are limited to 2.5% of the total portfolio.

Lease instalments, which are payable in advance of each monthly lease period, include:

1. an interest component;
2. a principal component; and
3. a servicing component. The lease servicing component is not part of the securitisation.

The servicing component can include, inter alia, the following: (a) management fee; (b) replacement car; (c) road tax; (d) roadside assistance; (e) fuel; (f) and servicing, maintenance and repair.

All lessees must take out third-party insurance and LPUK is required to ensure all vehicles are appropriately insured. A back-up servicer is expected to have the same obligation. Furthermore, the eligibility criteria also states that only vehicles covered by third-party liability insurance can form part of the eligible vehicle balance.

The characteristics of the closing portfolio are shown below.

Characteristics of Lease Portfolio

	January 2009
Current discounted lease balance (GBPm)	887.1
Number of leases	82,708
Number of unique lessees:	30,877
Average number of leases per lessee	2.7
Average lease balance per lessee (GBP)	28,731
WA interest rate per lease (%)	8.8
WA original term (months)	35
Average seasoning per lease (months)	16
Total expected RV at maturity of leases (GBPm)	381.4
Expected RV at maturity of leases as of current outstanding lease balance (%)	43%

Source: LeasePlan, Fitch

Origination and Underwriting

Fitch performed a review of the origination, underwriting and servicing capabilities of LPUK in October 2008. In the agency's view, both the policies and procedures of the company, and its implementation and control, are in line with industry norms.

The credit proposals are initiated either by the credit risk management department or the sales department, but all decisions as to whether to proceed with an application or renewal rest with the credit team. Sales for large corporate customers are originated by LPUK's own sales force, however for retail customers and smaller companies, LPUK uses brokers to originate most of its business.

Once the credit team has received a new application or renewal it will conduct a risk evaluation and subsequently issue a recommendation. As part of the internal approval process, the following factors, among others, are taken into account:

1. the exposure (number of cars, amount);
2. profitability of the lease contract for LeasePlan;
3. the key ratios of the corporate customer, or key personal or company data for retail and SME customers (using external providers such as Experian);
4. for corporate customers, the credit score and paydex score (both from Dunn & Bradstreet); for retail and SME customers, the Delphi score (from Experian), the internal LeasePlan score and the payment behaviour score (existing clients only); and
5. an internal score based on LeasePlan's proprietary credit scoring model.

If the requested exposure exceeds 250 cars or a book value of GBP5m, the proposal also has to be signed by LPC's credit committee.

Servicing and Recoveries

Most lease instalments are due one month in advance and most lessees pay via direct debit or e-invoicing (where invoices are uploaded in larger clients' back-offices, facilitating automatic payment).

The collection procedure for corporate and public sector and retail and SME is somewhat different: corporate and public sector collections are mostly managed in-house due to the bespoke nature of these contracts. However, retail and SME collections are mostly outsourced due to the standardised nature of these agreements. Nevertheless, the default processes for both types of customer will begin at 90 days, during which time the recovery processes will run in tandem.

The collections department, often in consultation with external legal advisers, will take direct action to collect the outstanding claim, including interest due and collection costs. If the lessee still fails to settle the outstanding balance, LPUK may decide to repossess the leased vehicle. Being the owner of the vehicle, LPUK is allowed to repossess the vehicle without delay.

Residual Value Setting

LPUK sets residual values with the objective of matching the expected future market value of the vehicle with the contractual mileage of the lease agreement. LPUK uses both internal data and information from external data providers, such as Cap Black and Eurotax Glass's Guide. LPUK does not rely on a single external provider like some other lease companies. This provides LPUK with a potential competitive advantage, but conversely presents a risk to the transaction if RV levels are set too high. The risk is mitigated by an established and well controlled RV setting and review process within LPUK. On average, LPUK has historically achieved sale proceeds in line with RVs, although RV performance in the second half of 2008 began to come under strain as the recession impacted secondhand car values.

LPUK is entitled to recalculate and adjust the payment schedule when:

- for contract hire open calculation-type contracts and the majority of contract hire closed calculation-type contracts, the mileage or other terms deviate from the contractual mileage or agreed terms (for instance, if the mileage exceeds +/-15% of the agreed amount); or
- an early termination of the lease occurs. When a contract is terminated more than one month prior to the end date it will be classified as an early termination. Following an early termination, any additional RV risk is taken by

the customer. An invoice will be sent for the difference between the market value and the book value at the termination date and a penalty charge, including a maintenance fee and interest, will be charged for the early termination.

For the majority of contracts, the RV is recalculated at least once during the contract life, which helps LPUK to mitigate RV risk (the lease term and instalments can be changed when the RV is recalculated).

Portfolio Credit Analysis

Defaults

The top 50 lessees account for nearly 32% of the lease balance and are all concentrated in the corporate and public sector book. Historical default data provided by LPUK shows very low defaults in the corporate and public sector segment. Fitch identified lessee concentration risk as the primary risk that could affect default rates in this book; consequently, Fitch used an obligor coverage approach to size default risk in this segment. Fitch also examined historic 'vintage' default data for the Corporate and Public Sector book and the SME/Retail book; however, given the portfolio's exposure to lessee concentration risk it was more conservative and more appropriate to use an obligor coverage approach.

Based on the above, Fitch determined gross default rates for the entire portfolio as follows:

Assumed Gross Default Rates

Rating level	Obligors to be covered	Rating default rate (%)
AAA	11	21.50
A	9	18.5

See eligibility criteria for obligor concentration limits
Source: Fitch

Recoveries

Fitch was provided with LPUK's historic recovery data. The data showed historic recovery rates were very high, typically around 100%. Consequently, Fitch assumed a base case recovery rate of 90% for both the corporate and public sector book and the retail and SME book. The base case recovery rate was then 'haircut' in Fitch's cash flow model - according to Fitch's European Consumer ABS criteria for secured assets - and was further reduced by 2.5% to allow for the insolvency administrator incentive fee (as explained above).

Recovery Rate Stress

(%)	Rating recovery rates	Haircut
AAA	53	40
A	70	20

Source: Fitch

Fitch treats ECOS contracts as unsecured and so assumes a lower recovery rate. This is achieved by increasing the haircut by an additional 10% for any ECOS contracts in the pool.

Residual Value Proceeds

The transaction is exposed to the RV risk of the vehicles. RV loss arises when there is a difference between the estimated residual value and the actual sales proceeds of the vehicle.

Fitch applied its Residual Value criteria to calculate expected RV losses and incorporated this, along with default expectations, into its cash flow modelling to assess the adequacy of the credit enhancement. RV losses were calculated as 12.7%

in a 'AAA' scenario and 10.0% in an 'A' scenario, as detailed in the table below:

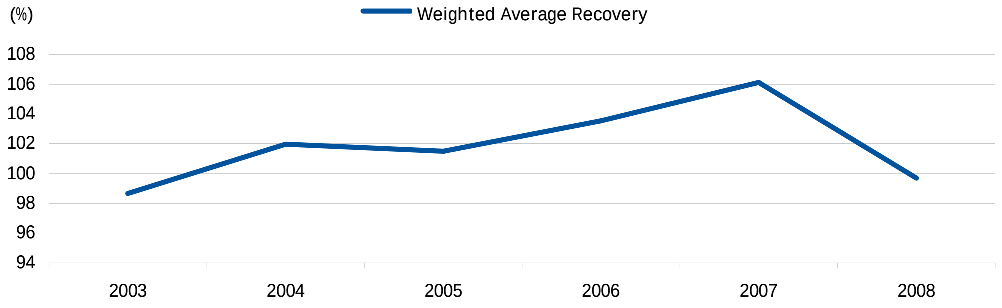
Residual Value Risk

(%)	AAA	A
Gross base case sale proceeds as of RV	87.0	87.0
Rating stress	20.0	10.0
Gross stressed sale proceeds as of RV	**69.6**	**78.3**
Selling costs	3.5	3.5
Net stressed sales proceeds as of RV	**67.2**	**75.6**
RV loss as % of RV	32.8	24.4
Maximum RV as of initial pool	46.0	46.0
RV loss as of initial pool	**15.1**	**11.2**
Gross defaults	22.0	17.0
Prepayments	1.3	1.4
Expected maturities	**76.7**	**81.4**
RV loss as of initial pool x expected maturities	**11.6**	**9.2**

Source: Fitch

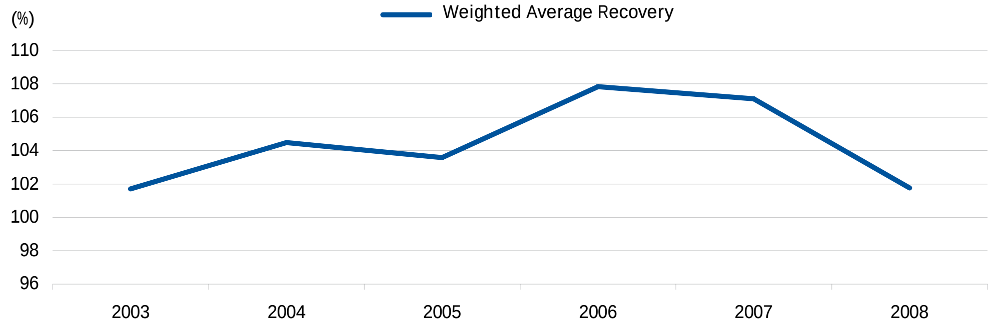
The sales proceeds assumption was derived based on an analysis of LPUK's sales proceeds over the past five years, with a particular emphasis on the RV recoveries during 2008 (due to the stress experienced in the UK car market that year). On a five year average basis, RV recoveries have been approximately 100% across the portfolio. However, taking 2008 in isolation, RV recoveries deteriorated to approximately 90%, and were in some months as low as 87%.

Corporate & Public Sector: RV Recoveries



Source: LPUK

Retail & SME: RV Recoveries



Source: LPUK

Selling costs were sized to cover for actual costs as well as an allowance to be paid as the insolvency administrator incentive fee.

Residual value risk is only applied against expected maturities. Expected maturities are calculated as 100% of the pool, less defaults and prepayments. The default risk is calculated and covered separately, so absence of this adjustment would lead to double counting. Prepayments in this context are beneficial to the transaction as they reduce the exposure to RV risk, therefore a low prepayment assumption is applied. The numbers shown are cumulative over the amortisation period rather than annual rates.

The underlying lease portfolio is highly diversified by manufacturer and brand. Volkswagen has the largest share, with approximately 16% of all vehicles, followed by Ford (with approximately 12% of the total pool), and BMW and Audi, each with some 11% of all vehicles. In Fitch's opinion this is a strength, as the transaction is less exposed to the market value decline of a particular brand or manufacturer.

Additionally, it should be noted that the transaction is only exposed to RV risk if LPUK becomes insolvent (before this, the transaction documents oblige LPUK to repurchase the RV claims when the underlying lease contracts mature).

Prepayment Rates

Fitch analysed historic data to derive a prepayment (early termination) base case assumption. Using the historic data, Fitch estimated a dynamic monthly prepayment rate of 4% for the entire portfolio, and a low prepayment rate assumption of 1%. Fitch then applied the prepayment rate assumptions to the cash flow model and RV calculation. The low prepayment scenario was most stressful overall, due to the impact on the RV calculation explained above.

Under the structure, the discount rate applied to the receivables is lower than the average interest rate on the underlying contracts. Consequently, on average, the receivables are purchased at an amount in excess of their current principal value. Over the full term of the lease this situation is automatically resoled. However, in the event of a prepayment on a lease, where the contract interest rate was in excess of the transaction discount rate, a principal shortfall would be incurred by the issuer.

By comparing the current average interest rate and discount rate variance, and projecting the portfolio amortisation and prepayment rate, Fitch has calculated the expected impact of prepayment risk. Assuming that prepayments are evenly distributed, losses are expected to be negligible.

Cash Flow Modelling (Liability Analysis)

Fitch used its ABS cash flow model to forecast the transaction cash flows during the amortisation period and verify that the credit enhancement levels for each class of note were sufficient to enable timely payment of interest and ultimate payment of principal by final maturity.

The capital structure was modelled as per the split at closing, and a fully funded default reserve account was assumed at the start of the amortisation period. The portfolio amortisation was forecast based upon the current remaining terms of the lease contracts within the pool. Defaults, recoveries and prepayments were applied as per the stressed assumptions. Interest income was generated on non-delinquent receivables at a rate equal to the transaction discount rate. Available cash was distributed in line with the transaction priority of payments.

The expected loss from residual value risks was also incorporated and compared to the available credit enhancement, as summarised in the table below:

Credit Enhancement

	AAA	A
Residual value risk (%)	11.6	9.2
Cash flows including net default risk	14.2	7.6
Total	**25.8**	**16.8**

Source: Fitch

Net losses are approximately 10% at 'AAA' and 5.5% at 'A'. The difference between the credit enhancement under the cash flow model and the net loss at each rating level reflects the impact of excess spread and negative carry, and also the default and recovery timing.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Fitch's performance analysis will focus on the following:

- delinquency and default performance will be monitored and compared to: (i) historical performance; (ii) Fitch's expectations; and (iii) the transaction trigger levels. If performance deviates from Fitch's expectations this may result in negative rating action;
- Fitch will monitor the RV recoveries as reported by the servicer each month. Performance below base case expectations may result in negative rating actions;
- Fitch will monitor the credit ratings of the transaction counterparties, particularly LPC, RBS, JPMorgan Chase and Citibank. In the event of a counterparty downgrade, Fitch will expect remedial action to be implemented, as outlined in the transaction documentation and summarised in the *Counterparty Risk* section of this report;
- Fitch will monitor the reported balance of the various reserve accounts and compare these to the amounts required under the documentation.

Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Appendix A: Transaction Overview

Capital Structure

Class	Expected ratings[a]	Size (%)	Size (m)	CE (%)	Interest rate (%)	PMT freq.	IPD	Final maturity	ISIN/CUSIP
A	AAA	75	EUR733.8	25.8	3m Euribor + 150	Quarterly	20th of each month	June 2022	XS20414225721
B	A	9	GBP79.85	16.8	3m Libor + 250	Quarterly	20th of each month	June 2022	XS0414226026
C	NR	16	GBP141.95	0.8	3m Libor + 350	Quarterly	20th of each month	June 2022	XS0414226372
Default reserve (cash)	NR	0.80		n.a.	-	-	-	-	-
Total			**GBP887.14**						

Cash reserve	GBP6m	**Credit enhancement**	Subordinated loan, cash collateral account and over-collateralisation
Scheduled revolving period	One year	**Swaps**	Interest and currency

[a] All rated classes have a Stable Outlook
Source: Fitch

Key Information

Details		Parties	
Closing date	April 2009	**Seller/originator**	LeasePlan UK
Country of assets and type	England and Wales - Auto leases	**Servicer**	LeasePlan UK
Country of SPV	UK	**Backup servicer**	Appointed on downgrade of LeasePlan Corp below 'BBB-'
Analyst	Peter Winning	**Issuer**	Bumper 3 Finance Plc
	peter.winning@fitchratings.com	**Issuer account bank provider**	Citibank
	+44 20 7682 7492	**Guarantor**	LeasePlan Corporation
Performance analyst	Miguel Barata	**Security trustee**	Citicorp Trustee Company
	miguel.barata@fitchratings.com	**Swap counterparties**	Royal Bank of Scotland, JPMorgan Chase
	+44 20 7070 5829	**Frequency**	Quarterly

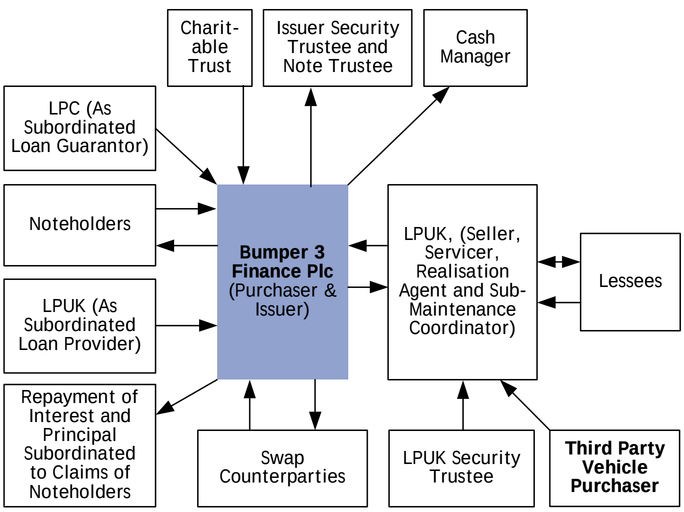
Source: Fitch

Key Rating Drivers

- **Lease Receivables Performance:** the performance of the notes will be affected by the default rate, recovery rate and prepayment rate on the lease receivables. These risks have been analysed by modelling the transaction cash flows under stressed scenarios.
- **Residual Value Performance:** during the revolving period, residual value claims may comprise up to 50% of the total asset balance. Following an insolvency of LPUK, the transaction will be exposed to the risk that sale proceeds at lease maturity are less than the outstanding lease balance. This risk has been analysed by stressing expected sale proceeds.
- **Transaction Legal Structure:** the receivables shall be assigned to the issuer, however title to the lease vehicles shall be retained by LPUK. Resultant risks are mitigated by a floating charge over the vehicles provided from LPUK to the issuer and an insolvency administrator incentive fee structure.
- **Commingling Risk:** as long as LPUK is servicer, lessees shall make payments to LPUK. LPC agrees to use all reasonable endeavours to ensure that LPUK complies with its obligations under the servicing, maintenance coordination, and realisation agent agreements. Collections shall be transferred to the issuer either monthly or two times each week. The commingling risk is mitigated by a cash reserve held by the issuer.
- **Maintenance Obligations:** certain lease agreements include an obligation to provide vehicle maintenance services; this obligation shall be assumed by the issuer. At closing, the servicing shall be delegated to LPUK. The structure provides a maintenance cost reserve and back-up servicing arrangements.
- **Asset Outlook:** Fitch expects the performance of auto leases to be sensitive to the broader economic environment. Given the current UK recession, Fitch expects to see some deterioration in the auto loan and lease sector over the medium term.

Source: Fitch

Simplified Structure Diagram



Source: Transaction documents