



Auto leasing has become the bad boy of the financial world. Some lessors can't exit fast enough. Others are wary, wondering if they have missed seeing leasing's problems.

But before jumping on the bailout bandwagon, we should understand what has occurred and what the future holds for savvy lessors.

It quickly becomes apparent that residual losses are at the root of the leasing problems that have emerged of late. Sometimes the residual guidebook sets a residual too high; sometimes a bank wants to increase their share of the lease market and increases residuals; or a manufacturer's finance division offers enhanced residuals to increase sales or clear inventory.

And in addition, published residuals and credit scoring programs didn't factor in sufficiently the macroeconomic downturn we are in now. Adding to these was some lessors' lack of methods to periodically assess potential residual losses and provide correct loss reserves and capital. Scenarios like these create the need for robust analysis to understand precisely what the risks and rewards will be, and properly plan for the outcomes.

To succeed in auto leasing today, it is vital to take a long-term view. This requires understanding the rationale for setting residuals at lease origin, and building the long-term business plan around that rationale. But success also means periodically assessing a lease portfolio's prospective losses—and to adjust both reserves and capital as necessary.

This does not mean simply getting updated residuals halfway through a lease portfolio's term. Rather, a best practice approach includes periodically determining the distribution of losses and the computation of mathematical confidence intervals. Basel II, the new international standard for bank risk management, embeds this approach. *We believe the Basel II methods will permanently change the landscape for banks in the auto finance and leasing business and, therefore, for all other participants as well.*

With its proprietary models DECISIVE provides this sophisticated analysis for auto leasing. Each Decisive team member has more than twenty years of experience in banking and auto finance, both leasing and retail. Their experience covers the gamut—from operations management to software development to CFO/M&A.

Success in auto leasing requires a wide range of decisions. Our products will help you make informed decisions on questions like:

- Buy third-party residual value insurance? Self-insure?
- Enhance residuals? If so, for which makes and models? How much?
- Where to get best residual forecasts?
- Sell or securitize auto leases?
- Pricing leases--optimal mix of residuals, terms, fees and lease money factors?
- Diversify by make/model?
- How to remarket vehicles—during the lease term and at termination?
- How much to provision for credit and residual losses?
- How to show capital allocated to leasing is correct?

Our modeling techniques have been used in physics, securities analysis, other fields—increasingly as computers have become more powerful. Typical residual estimates essentially provide a single trial and a point estimate of future auto value—not a more robust confidence interval necessary for setting reserves and capital allocations for residual risk. *Our modeling contemplates the entire life cycle of a lease portfolio from origination to termination with every variation in outcome considered, so that our clients receive the best analysis of their business.*