INVESTORS' RISK PERCEPTION OF AUTOMOBILE ABS AFTER IMPLEMENTATION OF MAJOR ACCOUNTING DISCLOSURE REQUIREMENTS

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ABSTRACT

The purpose of this research paper is to analyze risk perceptions related to newly issued ABS (Asset Backed Securities) specifically Automobile loans after adoptions of accounting disclosures regulations. We focused to examine the impact of SFAS (Statement of Financial Accounting Standard) 140 on newly issued ABS Auto loan to assess whether the spreads were lower after SFAS 140 adoption. In this study we regressed the Auto loan ABS spread before and after implementation of SFAS 140 against disclosure variables (Weighted average life and projected loss disclosures) and several control variables. The results suggest that the required disclosures provide useful information to investors in evaluating risks associated with ABS automobile loan as reflected in lower spreads after SFAS 140 adoption. The results further suggest that investors ascribe more importance to the disclosure of weighted average life as compared to projected losses.

INTRODUCTION

At the end of 2018, there was $1.69 trillion ABS outstanding. Of the $1.69 trillion ABS outstanding, automobile loan ABS comprise $222.8 billion. (Securities Industry and Financial Markets Association) This asset class is one of the largest distinct segments of the non-mortgage related ABS markets. They comprise approximately 27 percent of the non-mortgage related non-collateralized debt obligation (CDO) ABS market. These securities are primarily highly-rated instruments with approximately 78 percent of automobile loan ABS issued with AAA credit ratings. From the forgoing, it can be ascertained that these market segments are important components of the US bond market.

SFAS 140 became effective for all securitizations transactions as of April 1, 2001. The requirements it mandated were intended to provide information useful to investors in assessing the value of the servicing assets and liabilities associated with a securitization as well as the value of the retained interest of the securitization sponsors and information about the pool of assets that underlie the securitization transaction. Academic research that has looked at SFAS 140 has primarily focused on firm-level considerations such as comparing and contrasting accounting for securitizations under US GAAP (SFAS 140) versus IFRS (IAS 39) Adjikari and Betancourt (2008), examining accounting for securitizations from a standard-setting perspective Schipper and Yohn (2007) and entering the debate on securitization accounting issues focusing

on the two standard-setting approaches namely: control and components (IFRS) versus the risks and rewards (FASB), Niu and Richardson (2006).

This study extends the findings of Wharton et al (2018) by examining the effect of SFAS 140 on the spreads of newly issued automobile loan asset-backed securities (ABS). These are one of the largest distinct non-mortgage related asset classes within the securitizations market. The findings of Vink and Thibeault (2008) has suggested that MBS and ABS are different financial instruments, so it should not be taken for granted that the spreads of both MBS and ABS will respond similarly to the adoption of SFAS 140. Additionally, this study examines the effectiveness of disclosures required by SFAS 140 in better informing investors of some of the risks associated with investing in automobile loan ABS issues. While the SFAS 140 disclosures are specifically targeted at providing information to assess the value of servicing assets and liabilities as well as retained interests of the securitization sponsors, these disclosures also provide information that is potentially value relevant in assessing the value of the securitization issue.

The results of this study demonstrate that the mean spreads of automobile loan ABS issues decreased after the adoption of SFAS 140 while mean spreads for non-securitization bonds increased. Additionally, the results suggest that the SFAS 140 disclosures show a very strong statistical association with the spreads of newly issued ABS and provide relevant information to investors in assessing risk. The rest of the paper proceeds as follows. Section 2 reviews prior literature, explains data/sample selection and develops the research hypotheses. Section 3 presents the methodology. Section 4 provides the empirical results and Section 5 presents the conclusion.

LITERATURE REVIEW

Vink and Thibeault (2008) examines the common pricing factors for European ABS, MBS and CDOs to determine whether the behavior of these pricing factors is different in the determination of the spread in primary markets. The study concluded that the ABS, MBS and CDOs are different financial instruments. Vink and Fabozzi (2009) investigates the factors that affect the spread of non-US asset-backed securities in a primary market setting. In addition, they test the notion whether asset-backed securities investors rely solely on credit ratings for their assessment of risk of an issue. The study reveals using testing the over-reliance theory that while investors rely very heavily on credit ratings, they also consider other additional factors that rating agencies consider for assigning credit ratings. The study concluded the notion of investors' reliance solely on credit ratings may be overstated. Mahlmann (2011) tests the ratings overdependence hypothesis, ("the ratings of structured products are a sufficient statistic in terms of predicting of future credit performance") using a US sample of ABS-CDOs, (Collateralized Debt Obligations backed by tranches of Asset-Backed Securities). The results suggest (i) investors do not rely solely on credit ratings when pricing CDO tranches at origination; (ii) yield spreads at issuance have some predictive ability of future performance even after taking into account credit ratings, but this is primarily for non-AAA rated tranches; (iii) the information content of spreads decreases over time and for lower rated tranches in complex CDO deals; and (iv) the correlation between credit ratings and spread increases over time. These findings conclude that rethinking the overdependence hypothesis may be warranted.

Puskar and Gottesman (2009) examine the relationship of underwriting fees charged to ABS issuers with (i) underwriter prestige; and (ii) underwriter loyalty, using a proprietary

database of US ABS. The results suggest a positive relationship existed in both cases, namely, issuers pay higher underwriting fees to have their issues brought to market by more prestigious underwriters measured by percentage of total market share. He, Quian and Strahan (2012) examines whether issuer size affects the pricing of MBS issues, thereby calling into question the objectivity of the credit ratings process. The study examined the spreads of similarly rated MBS issues from large and small issuers. The study finds that yields were higher for large issuer tranches than similarly rated small issuer tranches. These findings also suggest that the market realizes and adjusts in the pricing of similarly rated tranches of small versus large MBS issuers. The study further suggests that ratings-based regulation and regulatory arbitrage distort the ratings process.

Gurtler and Hibbeln (2013) examine whether investors consider lack of screening and monitoring incentives in the pricing of securitization issues as measured by spread. Using a European sample of ABS and MBS partitioned as being information sensitive (lower rated) or information insensitive (higher rated) results suggests that the type of retention employed by the issuer plays a role in the pricing of securitization tranches. Investors demanded higher spreads for vertical slice retention than equity tranche retention for information sensitive lower rated tranches. Investors of information insensitive (AAA-rated) tranches demanded lower spreads for vertical slice retention than equity tranche retention. The results suggest investors of higher rated tranches consider information asymmetry when pricing securitizations.

Jackson (2010) examines the notion of mandated securitization disclosures as part of the debate on how to reform the securitization market. The study focuses on loan-level disclosures as part of the Dodd-Frank mandated securitization disclosures with the intent to increase transparency. The study makes a case for loan-level disclosures because there would be other public policy benefits as well. However, the additional public policy benefits of policing the Equal Credit Opportunity Act, facilitating renegotiation of troubled mortgages and regulating financial institutional solvency would make the mandated disclosures worthwhile.

Wharton et al (2018) examines the effect of the disclosures required by SFAS 140 on the spreads of mortgage-backed securities (MBS) in a primary market setting. SFAS 140 required disclosures, weighted-average life and project losses are the SFAS 140 disclosures applicable to newly issued securitization issues. The results suggest that the disclosures contributed to reducing MBS spreads required by investors. The results also suggest investors attribute more importance to weighted-average life than project losses in pricing newly issued MBS.

RESEARH METHODOLOGY

3.1 Data and Sample Selection

The sample is drawn from automobile loan asset-backed securities issued between 1999 and 2003 listed in the Thomson SDC new issue database. This asset class, auto loans, were during the sample period of this study the largest non-mortgage related ABS (nearly 43 percent of the non-mortgage related ABS) in terms of dollar amount issued. The principal value of the sample totals $115.8 billion, which comprises nearly 1/3 (~ 31%) of the newly issued auto loan ABS ($379.2 billion) brought to market during the years 1999 through 2003. The sample was divided into two subsamples— (i) pre- SFAS 140 and (ii) post- SFAS 140.

The relevant data such as disclosure variables and control variables were collected from prospectuses filed by ABS issuers with the SEC and reported in the SEC Edgar Central Index Key

Table 1: Rating Distribution and Transactions					
Securities Rating Distribution					Number of Transactions
Before SFAS 140	AAA	AA	A	BBB	
Security Tranches	114	4	23	7	32
After SFAS 140					
Security Tranches	207	5	64	10	31

(CIK) Lookup website. The sample includes a total of 484 individual tranches from 63 ABS transactions (32-pre and 31-post) from 1999 to 2003. The pre- SFAS 140 data contains 148 tranches. The post- SFAS 140 data contains 286 tranches. The timeframe for the sample period coincides with a window of roughly 2 years before and after the SFAS 140 effective date, April 1, 2001.

The characteristics of the sample are given in Table 2. Fixed coupon issues were the predominant coupon type for both pre- and post- datasets.

Table 2: Sample Characteristics						
	Before SFAS 140		Total	After SFAS 140		Total
	Year	Number		Year	Number	
Fixed Rate Coupon	1999	82		2001A	41	
	2000	46		2002	49	
	4/1/2001	13	141	2003	145	235
Floating Rate Coupon	1999	0		4/1/2001	6	
	2000	2		2002	20	
	4/1/2001	5	7	2003	25	51
Total			148			286

3.2 Hypothesis Development

The Securities Act of 1933 requires that issuers provide potential investors information relevant to weighing the risks of a given securities issue in an offering document known as a prospectus. Securitizations have more potential layers of asymmetric information than traditional fixed income securities including originators and offerors where both can be the same or different entities. The offeror, typically an investment bank, designs the ABS by determining the structure, i.e. how many tranches and the levels and sizes of the tranches, the nature and extent of credit enhancement, etc. and possesses an information advantage over the eventual investors of an ABS issue. As potential ABS investors are provided more information about the projected performance of the automobile loans which make up the ABS pool, the information asymmetry is reduced and investors are exposed to less risk. We hypothesize that the information disclosures required by SFAS 140 about the projected performance of the underlying assets of an ABS issue will reduce the information asymmetry that exists between the issuer and investors. This reduction in information asymmetry should be reflected in the narrower launch spreads after the implementation date of SFAS 140, March 31, 2001.

H1: The yield spreads of post- SFAS 140 automobile loan ABS will be narrower than the yield spreads of pre- SFAS 140 automobile loan ABS.

The ability of a given ABS issues to make timely principal and interest payments to investors is directly linked to the performance of the underlying assets, automobile loans. Providing information on the projected losses expected on the underlying assets of a securitization issue will be valued by the marketplace in assessing the risk of an ABS. The projected losses disclosure is a measure of the total losses the asset pool is projected to experience over the life of the ABS issue at the time the ABS is issued. Projected losses is measured as a percentage of the total asset pool that serves as the underlying collateral of the ABS issue.

> **H2:** The projected losses (*ProjLoss*) disclosure required by SFAS 140 will exhibit a positive association to the automobile loan ABS yield spreads.

Prepayments can dramatically alter the return profile of an investment. Information disclosed about the proposed prepayment behavior under various scenarios will provide the marketplace with important and valuable information about the risk(s) associated with an investment. Weighted average life (WAL) is the expected amount of time between issuance of the security and the final settlement. This amount of time will be influenced by individual loans within the pool being paid-off early.

> **H3:** The prepayment stress test weighted-average life (*WAL*) disclosure required by SFAS 140 will exhibit a positive association to the launch spreads of automobile loan securitizations.

3.3. Model Development and Methodology

We will use a difference of means t-test methodology to test the hypothesis H1. We will then test hypotheses H2 and H3 using OLS regressions to determine whether and to what extent the SFAS 140 disclosures affect the spreads of the securitizations issues.

Model 1: $SPREAD = \beta_0 + \beta_1 ProjLoss + \beta_2 WAL + \beta_3 YldSlope + \beta_4 Princpl + \beta_5 FxFlt + \beta_6 Maturity + \beta_7 Rating + \beta_8 BSpread + \beta_9 Period + \varepsilon$

Table 3A reports the descriptive statistics of pre and post subsamples for the sample.

Table 3A: Descriptive Statistics						
	Before SFAS 140 (n=148)			After SFAS 140 (n=286)		
Variable	Mean	Median	Std. Dev	Mean	Median	Std. Dev
Coupon	6.1835	6.0250	0.8028	2.4754	2.1600	1.1538
Maturity	4.0818	4.0569	2.1563	4.1238	4.0194	2.0979
Principal	270.0718	169.5000	292.2650	270.4103	225.0000	219.0889
Launch Yield	6.1849	6.0475	0.8031	2.4756	2.1604	1.1540
Relative Spread	0.1288	0.1321	0.0827	-0.0324	-0.0779	0.3150
Spread	0.6959	0.7453	0.4366	-0.0847	-0.1649	0.7884
Relative Spread**	0.1259	0.1315	0.0828	0.0110	-0.0043	0.3250
Spread**	0.6834	0.7400	0.4417	0.03010	-0.0099	0.7986
Yld Slope	0.7597	1.0000	0.4764	3.4333	3.5100	0.4746
Proj Loss	1.9183	1.1300	1.5714	2.5027	1.5400	2.2060
Weighted Ave Life	0.4952	0.4974	0.1498	0.4708	0.4717	0.1272
Bspread	1.5537	1.4800	0.2205	1.8217	1.6800	0.3501
** Floating rate coupon issues removed from sample.						

SPREAD = the difference between the securitization's yield and the yield of the Treasury security of comparable maturity.
ProjLoss = the losses projected to occur on the assets underlying a securitization issue.
WAL = weighted average life, which is the expected time to maturity of the securitization issue.
YldSlope = *slope of the Treasury yield curve on a given date.*
Princpl = original principal amount borrowed
FxFlt = coupon type which is either fixed or floating rate.
Maturity = stated time to maturity of the securitization issue
Rating = credit rating, assigned to the issue by Standard & Poors.
BSpread = AAA bond spread for 10-year Treasury Bonds
Period = Time period, period before or after the SFAS 140 effective date (April 1, 2001).

We will use a Chow test to determine if SFAS 140 implementation resulted in a structural change in the relationship between automobile loan ABS yields and other variables in the model

RESULTS

Performing the Chow test for a structural break between the two time periods, pre-and post- SFAS 140, demonstrated that there was a structural break between the pre- and post- time periods. The test yielded an F value of 12.78 and a p-value = <<0.001. These results suggest that the relationship between spread and the model variables changes as a result of the adoption of SFAS 140 and its related disclosures. The univariate results (See Table 3B) provide strong support for H1.

Table 3B: Difference of Mean Tests (Spread)				
	Before	After	T-Statistic	P-Value
Mean Launch Spread	0.6959	-0.0847	13.2696	<< 0.0001
Mean Launch Spread (Without Floating)	0.6834	0.0301	10.2057	<< 0.0001
AAA Corporate Bond Spread	1.5537	1.8217	-9.7412	<< 0.0001

The mean spread of the automobile loan ABS for the pre- subsample is 0.6959 and the mean spread for the post- subsample is -0.0847. When the floating rate issues were removed, the mean spread for the pre- subsample is 0.6834 and the mean spread for the post- subsample is 0.0301. The differences of means t-test results were very strong with a t-statistic and p-value of 13.2696 and <<0.0001 respectively for the partitioned automobile loan ABS subsamples. When the floating rate issues were removed, the differences of means t-test results were comparable. To test whether the lower yield spreads for ABS were just due to declining spreads overall in the market during the sample period, we collected the spreads of AAA-rated traditional bonds issued on the same days as the sample automobile loan ABS issues for the entire sample period, before and after SFAS 140 implementation. For the traditional AAA-rated corporate bond yield spreads matched with the automobile loan ABS, the spreads for the before and after are 1.5537 and 1.8217 respectively. For traditional AAA corporate bonds, the spreads actually increase.

Taken together, these univariate findings provide strong support to suggest that the disclosures required by SFAS 140 have contributed to the reduction of information asymmetry as proxied by the mean yield spreads for automobile loan securitizations. These findings are strengthened by the data showing that the mean yield spreads on AAA-rated corporate bonds actually *increased* by statistically significant margins in the time period after the effective date of SFAS 140. We used an OLS regression model to examine the multivariate relationship between the dependent variable, spread, and the independent variables SFAS 140 disclosures, WAL and ProjLoss, as well as several control variables. For the automobile loan ABS full sample (See Table 4) the simple model, with only the SFAS 140 disclosure variables, WAL and ProjLoss, reveals that only the WAL disclosure has a strong statistically significant association with spread. The projected losses variable is neither statistically significant nor has the expected sign. This model's adjusted R square is 13.78 percent.

Table 4: Analysis of Results for Combined Period					
(N=434)	Basic Model 1	Basic Model 1+ Enhance*Projloss Interaction	Full Model w/ Controls	Basic Model + Period + Interaction	Basic Model + Period + Interactions
Intercept	-0.78856***	-.27598**	-0.18995	-0.44419*	-0.43541*
	(-5.54)	(-2.07)	(-1.31)	(-1.94)	(-1.91)
ProjLoss	-0.01745	0.00415	-0.04101	0.02127**	0.0219**
	(-1.00)	(0.27)	(-1.22))	(2.18)	(2.26)
WAL	2.10839***	1.94664***	1.94784***	1.20075***	1.21324***
	(8.07)	(8.45)	(8.47)	(8.57)	(8.71)
Period		-0.73571***	-0.85192***	-0.33718**	-0.26247**
		(-11.25)	(-8.46)	(-2.58)	(-1.97)
YldSlope				-0.1541***	-0.17308***
				(-3.52)	(-3.92)
Princpl				-0.0001*	-0.00014*
				(-1.76)	(-1.76)
FxFloat				0.641***	0.66485***
				(11.24)	(11.58)
Maturity				0.15648***	0.15521***
				(15.49)	(15.45)
Rating				-0.19972***	-0.20344***
				(-8.59)	(-8.79)
Enhance				0.00167	0.53223**
				(0.02)	(2.42)
Bspread				0.3566***	0.35087***
				(5.43)	(5.37)
Enhance*Period					-0.59563**
					(-2.57)
ProjLoss*Period			0.05699		
			(1.52)		
Adj R-Sq	0.138	0.332	0.334	0.776	0.7789

The sample consists of 434 separate ABS issues, 148 (before) and 286 (after). The dependent variable is Spread. ProjLoss is projected losses. WAL is weighted-average-life. YldSlope is yield slope. Princpl is principle amount of the issue. FxFlt is a dichotomous variable 1=fixed coupon, 0=floating coupon. Maturity is the maturity of the issue. Ratings is a categorical variable credit ratings 1=BBB, 2=A, 3=AA, 4=AAA, . Enhance is credit enhancement a dichotomous variable 1=internal, 0=external. Period is dichotomous variable 1=Pre, 0=Post. Bspread is the spread to treasuries of non-securitization bonds. ***, **, * represent significance at the 1%, 5% and 10% levels respectively.

When the period variable is added to the basic model, it has the expected negative (-) sign and has a strong statistically significant association with spread. These results suggest that, all else being equal, investors demand lower yields (narrower spreads) in the period after the implementation of SFAS 140 and its required disclosures. The results also suggest that investors attribute much more significance to the projected prepayments stress test disclosure, WAL, of automobile loan ABS in the spreads they demand of issuers. The relative insignificance of the projected losses disclosure is likely due to the vast majority of the issues in the sample (98 percent in the before subsample and 88 percent in the after subsample) employing external credit enhancement methods. With these external credit enhancement methods, investors very likely assume that the external credit enhancement methods will be used to ensure the timely payment of principal and interest and hence the projected losses disclosure does not figure prominently in their determination of the yield spreads demanded of automobile loan ABS issuers.

When the full sample model adds all of the control variables, both of the main variables, projloss and WAL have the expected sign and are statistically significant. Projloss at the 5% level and WAL <0.0001. The full model's adjusted R-Square is 0.776 which suggests the model is strong at capturing the variation in yield spread. As stated earlier, the Chow test indicated a structural break within the automobile loan ABS full sample based on the implementation date of SFAS 140. Accordingly, we separated the full automobile loan ABS sample into before and after subsamples and used the same OLS regression model as above for each subsample. The results for the before subsample (See Table 5) are similar with those outlined above with some notable exceptions. The simple main variable only model has the projloss variable is statistically significant but not the expected sign. The projected prepayment stress test variable, WAL, possesses the expected sign and is strongly statistically significant with a p-value <0.0001. However, with the full model including controls, the projloss variable has the expected sign but does not demonstrate a statistically significant association. The projected prepayments stress test variable, WAL, possesses the expected sign and has a p-value <0.0001.

The post subsample results (See Table 5) with the simple main variables only model have both variables with the expected signs. However, projloss is still not statistically significant. WAL has a very strong statistical association with spread as seen throughout the analysis. With the full model, including control variables, both projloss and WAL have strong statistical associations with projloss and WAL having p-values of 0.013 and <0.0001 respectively. The parameter estimate of WAL suggests that WAL is associated with 153 basis points for a given change in spread. The parameter estimate of Projloss suggests that projloss is associated with a 2 basis point change in spread. The adjusted R-square for the "after" full model's increases to 0.811. These results taken as a whole suggest that after the implementation of SFAS 140 and its related disclosures, investors while still attributing more weight (153 basis points) to the WAL disclosure also use the projloss disclosure (2 basis points) in their determination of the yield spreads they demand of automobile loan ABS. This occurs even while the percentage of externally credit enhanced issues decreases.

We posited earlier that for automobile loan ABS the projloss variable did not appear to play as prominent a role in the determination of yield spreads as prepayments stress test, WAL, because of the presence of external credit enhancement mechanisms that were assumed to ensure the timely payment of principal and interest to investors. Before exploring the relationship further, we will provide some background information on credit enhancement.

Table 5: Results of Pre and Post SFAS 140 Dependent variable-Spread						
Variables	**Pre SFAS 140 (N=148)**			**Post SFAS 140 (N= 286)**		
Intercept	0.02963	0.01801	0.41418	-1.19805***	-1.21977	-0.58678*
	(0.26)	(0.16)	(1.32)	(-6.40)	(-6.56)	(-1.74)
ProjLoss	-0.04563**	-0.04321**	0.00622	0.0195	0.02514	0.02595**
	(-2.38)	(-2.23)	(0.42)	(0.97)	(1.24)	(2.51)
WAL	1.52230***	1.52857***	0.84026***	2.26056***	2.20596	1.53981***
	(7.57)	(7.60)	(6.09)	(6.44)	(6.32)	(8.97)
YldSlope			-0.12808***			-0.19262***
			(-2.88)			(-3.52)
Princpl			-0.000073			-0.00028**
			(-1.02)			(-2.54)
FxFloat			-0.08192			0.76322***
			(-0.78)			(13.11)
Maturity			0.06674***			0.18879***
			(6.56)			(15.41)
Rating			-0.15455***			-0.26726***
			(-7.08)			(-8.93)
Enhance			0.01781			-0.10830
			(0.12)			(-1.33)
Bspread			0.42514***			0.34583***
			(3.63)			(5.14)
Enhance*ProjLoss		0.44428			0.22620**	
		(0.89)			(2.4)	
Adj R-Sq	0.3100	0.3090	0.7229	0.1220	0.1364	0.8111

The dependent variable is Spread. ProjLoss is projected losses. WAL is weighted-average-life. YldSlope is yield slope. Princpl is principle amount of the issue. FxFlt is a dichotomous variable 1=fixed coupon, 0=floating coupon. Maturity is the maturity of the issue. Ratings is a categorical variable credit ratings 1=BBB, 2=A, 3=AA, 4=AAA, . Enhance is credit enhancement a dichotomous variable 1=internal, 0=external. Bspread is the spread to treasuries of nonsecuritization bonds. ***, **, * represent significance at the 1%, 5% and 10% levels respectively.

Internal credit enhancement performs the enhancement function using sources internal or within the underlying asset pool. Examples of internal credit enhancement mechanisms are senior-subordination, overcollateralization, and excess spread accounts. External credit enhancement is when the enhancement is provided or performed by sources that are external to the underlying asset pool. Examples of external credit enhancement include surety bonds, letters of credit and cash collateral accounts.

The choice of which credit enhancement mechanism is employed in a given ABS issue will be driven by the perceived strength of the underlying asset pool. For asset pools with strong underlying assets, internal credit enhancement mechanisms will suffice. However, if the underlying asset pool is viewed as not being as strong, ie. there is some question of the ability of the cash flows generated by the underlying assets to provide timely payment of principal and interest payments to ABS investors, investors may demand that external credit enhancement mechanisms be employed for that ABS issue. When partitioning the sample, automobile loans and further separating into before and after subsamples, the distribution of enhancement types is instructive. As observed earlier, the before subsample was comprised of 98 percent external

enhancement and 2 percent internal enhancement. The after subsample was made up of 88 percent external enhancement and 12 percent internal enhancement. To examine how and if enhancement affects spread, we add an dichotomous enhancement variable, enhance, to the OLS regression model (See Table 5), with a value of 1 indicating internal credit enhancement and a value of 0 indicating external credit enhancement. We also interacted the enhance variable with the projloss variable. In the before subsample, neither the enhance variable or its interaction with projloss is statistically significant (See Table 5). In the after subsample, the results were mixed with the interaction with projloss being statistically significant at the 5 percent level, but the enhance variable alone is not statistically significant (see Table 5). Taking into account that on average, spreads declined in the after subsample while the percentage of internally enhanced issues increased, this suggests that with the provision of SFAS 140 disclosures, investors had more information about the underlying asset pool and were more confident in their ability to assess the risk of issues. As a result, issuers were able to successfully bring a larger proportion of internally enhanced issues to market.

CONCLUSION

The purpose of a disclosure in a securities underwriting is to provide sufficient information for investors to evaluate the investment value of a given transaction. In paragraph 17 of SFAS 140, the Financial Accounting Standards Board (FASB) required that for all securitization transactions occurring after April 1, 2001, issuers of securitizations must provide disclosures that include information about the pool of assets that underlie securitization transactions. The findings of this research support the proposition that the required SFAS 140 disclosures have contributed to a statistically significant reduction in the mean launch spread of automobile loan ABS transactions. The univariate and multivariate results provide strong support for the hypotheses. H1 is supported with the observed yield spreads being smaller in automobile loan ABS by a statistically significant margin in the period after the implementation of SFAS 140. Support for H1 is further strengthen by the yield spreads of traditional AAA-rated bonds increasing by statistically significant margins during the sample period. There is mixed support for H2 for a positive association between projected losses disclosure and ABS yield spread. Disclosure of the weighted average life (WAL) is documented to be positively associated with yield spread in automobile loan ABS which supports H3. Taken together the strong support for H1 and H3, with mixed support for H2, suggests that the disclosures required by SFAS 140 are "value relevant" to investors making decisions about the yields they demand of issuers in automobile loan ABS transactions.

Of the two SFAS disclosures applicable to new automobile loan ABS issues, the results suggest that investors attribute more importance to the disclosure of the prepayments stress test or the weighted-average life (153 bps) compared to the projected losses disclosure (2 bps). While the results were mixed with regard to the relationship of the type credit enhancement's interaction with the projected losses disclosure and spread, the results do lend additional credence to the notion that suggests that by providing additional information about the underlying asset pool of automobile loan ABS with SFAS 140 disclosures, investors are better able to evaluate risk and accordingly demand lower yields in automobile loan ABS transactions.

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