TCW

INSIGHT

MONTHLY COMMENTARY

January Consumer ABS Market Update

TONY LEE | FEBRUARY 6, 2018

Primary

The New Year started right where we left off at the end of 2017 as ABS sponsors came out of the gate with heavy supply in the first month. Deals were quickly absorbed by the market as illustrated by numerous tranches being as much as 10 times oversubscribed and pricing well inside initial price guidance. Subprime auto particularly stood out as some deals priced near or at post financial crisis tight levels. A full $25.6 billion in new issuance has been priced in 2018 to date with auto-related ABS comprising 63%, 16% in credit card ABS, 8% in student loans, and 13% in specialized ABS. Among the deals of note were:

- Westlake Automobiles Receivables Trust (WLAKE) priced a $1.0 billion subprime auto loan transaction on January 17, 2018 at 25bps over swaps for the 0.88 year AAA rated bonds to 335bps over swaps for the 2.81 year single-B rated subordinate bonds. The BB rated notes priced at 225bps over swaps, which is 75bps tighter than their previous deal in August of last year. It also marked the first time the issuer brought a single-B rated note in its history, illustrating the market's appetite for higher yielding assets.
- Marlette Funding Trust (MFT) priced a $410 million consumer unsecured loan transaction on January 17, 2018 at 60bps over swaps for the AA rated, 0.97 year notes to 255bps over swaps for the BB rated 3.31 year notes. The deal was multiple times oversubscribed and the BB tranche priced 60bps tighter than their last deal in October of 2017.
- Santander Automobile Trust (SDART) priced a $1.223 billion subprime auto loan transaction on January 18, 2018 at 14bps over swaps for the 0.79 year AAA rated bond to 95bps over swaps for the 3.71 year BBB bonds. Santander's first ABS of 2018 was very well received by the market as all tranches priced inside of guidance and upsized on strong demand. The pricing level of the BBB notes was one of the tightest prints since the financial crisis and 50bps tighter than their previous deal in September of 2017.

Tony Lee, CFA
Vice President
Fixed Income

Mr. Lee joined TCW in 2010 as an analyst in the Fixed Income group. Prior to joining TCW, Mr. Lee was a Manager in the Structured Finance / Financial Risk Management Advisory practice at KPMG, where he focused on valuations and reverse engineering a broad variety of RMBS and ABS. Mr. Lee has also held positions as a Senior Analyst for Ameriquest Home Loans and Encore Credit Corp in their Capital Markets Group. He holds a BA in Economics with a minor in Management from the University of California, Irvine. He is a CFA charterholder.

Secondary

Secondary trading in January started out subdued but quickly ramped up following suit from the new issue market. Virtually all ABS subsectors saw spread tightening and it was very common to see newly priced ABS transactions trade tighter in the secondary market once they were free to trade. Investors in search for yield looked to specialized ABS sectors such as subprime auto ABS, consumer unsecured subordinate bonds, and whole business ABS and drove spreads tighter which were particularly strong to start the year. Subprime auto subordinate and consumer unsecured subordinate ABS rallied as much as 80bps in January while certain aircraft ABS and container ABS are trading at or near their tightest spread levels since the financial crisis.

Market News

Apollo and Varde Partners to buy OneMain Holdings – On January 4, Apollo Global Management and Varde Partners announced they would acquire 40.5% of OneMain Holdings for $1.4bn from Fortress Investment Group. The automobile and personal loan lender, which has over 1,600 branches across the United States, was previously acquired by Springleaf Holdings from Citigroup in 2015 for $4.25 billion. Matthew Michelini of Apollo stated, "As one of America's premier consumer finance companies, we believe OneMain is exceptionally well-positioned for continued growth and innovation." OneMain currently has approximately $7.9 billion in consumer unsecured ABS as well as one auto ABS outstanding.

Credit Card Performance – Bank of America Merrill Lynch's credit card ABS index showed charge-offs rose 3bps year over year while payment rate and yield fell 48bps on a year-over-year basis to 25.13% and 18.49%, respectively. ■

Bank of America Merrill Lynch Global Research Bank Card Index

	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
Trust	**Dec-17**	**YOY**	**Dec-17**	**YOY**	**Dec-17**	**YOY**	**Dec-17**	**YOY**	**Dec-17**	**YOY**
AMXCA	1.07%	+3bp	0.90%	+1bp	31.92%	-236bp	21.24%	-9bp	16.18%	-16bp
BACCT	2.41%	-10bp	1.58%	-12bp	16.50%	+25bp	15.58%	-18bp	10.41%	-15bp
CCCIT	2.92%	+0bp	1.62%	-3bp	24.98%	-118bp	18.27%	-78bp	12.81%	-71bp
CHAIT	2.12%	-12bp	1.17%	-2bp	28.53%	+66bp	18.24%	-69bp	13.15%	-33bp
COMET	2.09%	+14bp	2.15%	-18bp	28.62%	+70bp	20.46%	-26bp	15.14%	-56bp
DCENT	1.88%	+30bp	1.60%	+22bp	21.30%	-145bp	18.29%	-61bp	13.29%	-55bp
SYNCT	4.97%	-26bp	3.13%	-18bp	13.49%	-34bp	25.08%	-106bp	14.15%	-23bp
Index	**2.17%**	**+3bp**	**1.50%**	**-2bp**	**25.13%**	**-48bp**	**18.49%**	**-48bp**	**13.29%**	**-42bp**

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	2	3	13
2-yr	Swaps	6	7	18
3-yr	Swaps	10	13	25
5-yr	Swaps	22		
10-yr	Swaps	56		
b-piece (5-yr)	Swaps	44		
c-piece (5-yr)	Swaps	69		

Source: Bank of America Merrill Lynch Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	6	15
2-yr	Libor	12	22
3-yr	Libor	17	28
5-yr	Libor	27	40
7-yr	Libor	44	60
10-yr	Libor	59	
b-piece (5-yr)	Libor	59	
c-piece (5-yr)	Libor	84	

Source: Bank of America Merrill Lynch Research