

MONTHLY COMMENTARY

April Consumer ABS Market Update

TONY LEE | MAY 4, 2018

Primary

New issue Consumer ABS volume dropped considerably in April, falling nearly \$9.5bn from March to \$16.5bn. Auto ABS and specialized ABS dominated the volume as investors continue to look outside traditional ABS sectors for yield. Issuers from timeshare, PACE, solar, aircraft lease, unsecured consumer loans, and whole business tapped the ABS market during the month. A total of \$81.8bn in new issuance has priced year to date, putting us ahead of where we were at this point last year, according to data compiled by JP Morgan research. Auto-related ABS accounted for 47% of total volume followed by 14% in credit card ABS, 8% in student loans, and 15% in specialized ABS in 2018. Among the deals of note were:

- Santander Automobile Trust (SDART) priced a \$1.095bn subprime auto loan transaction on April 10 at 25bps over swaps for the 0.68 year AAA rated bond to 120bps over swaps for the 3.72 year BBB bonds. The notes priced 11bps to 25bps wider than Santander's first subprime auto ABS in January.
- SoFi Consumer Loan Program (SCLP) priced a \$680mn consumer unsecured loan transaction on April 10 at 55bps over swaps for the AA rated, 0.99 year to 160bps over swaps for the BBB rated 4.76 year notes. SoFi's second consumer unsecured ABS deal of 2018 was upsized on strong demand but priced anywhere from 5bps to 15bps wider than their first deal in January of this year.
- Merx Aviation Finance (MAPS) priced a \$506mn aircraft lease transaction on April 26 at a 4.25% yield, or roughly 135 bps over swaps, for the 4.7 year single-A notes to a 5.25% yield, or roughly 235 bps over swaps, for the BBB rated subordinate bonds. The deal is comprised 100% of in-production, narrow-body aircraft and marks the debut of Merx as a servicer for an aircraft ABS transaction.

Secondary

Along with a slower primary ABS market, secondary trading volumes were lower overall during the month. High quality, benchmark consumer ABS spreads tightened 2-5 basis points while spreads in the majority of the specialized ABS sectors held in fairly well given the volatility in broader markets. Subprime auto subordinate bonds continue to trade well although spreads are still wide from where we were at the beginning of the year. Container ABS is trading in the low 100s basis points over swaps while senior aircraft ABS spreads are holding in as well in the 110-150 basis points over swaps range.



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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.

Market News

FTC files a lawsuit against LendingClub. – On April 25, 2018, The Federal Trade Commission (FTC) filed a lawsuit accusing the online marketplace lender of deceiving customers with hidden upfront fees while marketing loans as having “no hidden fees.” The FTC also charged the lender with making erroneous withdrawals from borrower banks accounts and misleading prospective borrowers that they were close to being approved, only later to be denied. Reilly Dolan, acting Director the FTC’s Bureau of Consumer Protection stated “This case demonstrates the importance to consumers of having truthful information from lenders, including online marketplace lenders. Stopping this kind of conduct will help consumers make informed decisions about their loan offers.” LendingClub responded to the lawsuit in a blog post stating, “LendingClub is committed to delivering a superior customer experience and appreciates and supports the important role the FTC plays in encouraging

appropriate standards and best practices. However, we believe that the allegations in the FTC’s complaint are legally and factually unwarranted.”

Credit Card ABS Performance – Bank of America Merrill Lynch’s credit card ABS index showed annualized charge-offs rose on a month-over-month and year-over-year basis by 15 basis points and 6 basis points, respectively to 2.34% in March. The payment rate rose 102 basis points to 26.25% on a year-over-year basis while yield on the index also increased to 19.36%, increasing 84 basis points on a year-over-year basis.

Department store chain, Bon Ton, which filed for Chapter 11 bankruptcy protection in February, announced on April 18 that it would liquidate more than 200 stores. The Bon Ton Retail group makes up roughly 11% of the World Financial Network Credit Card Master Trust (WFNMT) issued by Comenity Bank. ■

Bank of America Merrill Lynch Global Research Bank Card Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Mar-18	YOY	Mar-18	YOY	Mar-18	YOY	Mar-18	YOY	Mar-18	YOY
AMXCA	1.82%	+23bp	1.05%	+9bp	34.67%	+85bp	24.45%	+130bp	16.59%	+50bp
BACCT	2.78%	-25bp	1.72%	+8bp	17.17%	+79bp	15.82%	+74bp	10.20%	+31bp
CCCIT	2.57%	-10bp	1.58%	-2bp	24.35%	+66bp	18.02%	+78bp	13.29%	+56bp
CHAIT	2.28%	+18bp	1.24%	+1bp	31.32%	+159bp	19.43%	+45bp	12.87%	-19bp
COMET	2.26%	-2bp	2.08%	-1bp	30.22%	+257bp	20.90%	+140bp	14.83%	+75bp
DCENT	2.19%	+37bp	1.84%	+15bp	21.49%	-10bp	18.59%	+49bp	12.87%	+7bp
SYNCT	4.90%	+11bp	3.13%	+8bp	13.12%	+83bp	24.40%	+12bp	14.84%	-52bp
Index	2.34%	+6bp	1.58%	+5bp	26.25%	+102bp	19.36%	+84bp	13.36%	+34bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	6	7	22
2-yr	Swaps	10	11	27
3-yr	Swaps	14	17	34
5-yr	Swaps	26		
10-yr	Swaps	60		
b-piece (5-yr)	Swaps	48		
c-piece (5-yr)	Swaps	74		

Source: Bank of America Merrill Lynch Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	10	23
2-yr	Libor	16	27
3-yr	Libor	21	35
5-yr	Libor	31	50
7-yr	Libor	48	63
10-yr	Libor	63	
b-piece (5-yr)	Libor	61	
c-piece (5-yr)	Libor	86	

Source: Bank of America Merrill Lynch Research

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