

MONTHLY COMMENTARY

May 2018

Consumer ABS Update

PALAK S. PATHAK | JUNE 5, 2018

New Issue

- ABS market saw \$26bn in deals price over the month, bringing YTD issuance to \$112bn
- Six subprime auto deals priced with heavy demand for subordinate tranches:
 - Subprime auto issuer Westlake priced its tightest single B yet at S+325.
 - GM's subprime auto shelf, AMCAR, priced its BBBs at S+90, the tightest subprime BBB print post crisis and 20 bps tighter than their previous deal which priced in November 2017
- Two whole business ABS deals priced:
 - CKE restaurants priced a \$1bn whole business deal backed by their Hardee's and Carl's Jr restaurants. The 3.9 yr BBB rated class priced at S + 135
 - Harley Marine priced a \$455mm deal backed by its fleet of tugboats and barges. The BBB rated 3.8 yr notes priced at ~S+280
- ITE Management issued a \$250mm railcar deal serviced by Trinity Industries. The 9.96 yr single A rated notes priced at S+165
- Renovate America priced its 13th HERO deal backed by payments from its Property Assessed Clean Energy (PACE) bonds. The 5 yr AAA/AA tranche priced at S+110
- Two student loan deals priced:
 - Navient priced a \$520mm private student loan deal with the 1.2 yr AAA tranche pricing at L+35 and the 5.3 yr AAA rated tranche pricing at L+72 on the floating rate and S+65 on the fixed rate
 - FirstKey priced its inaugural ABS deal backed by a portfolio of seasoned private student loans (avg FICO 754). The 2.8 yr AAA notes priced at 75dm
- Seaco priced a \$200mm container lease deal with the 5.1 yr single A rated notes (80% LTV) pricing at S+130
- Three unsecured consumer loan deals priced:
 - Avant priced a \$284mm deal backed by unsecured consumer loans with an average FICO score of 646. The 0.57 yr A- rated noted priced at E+70
 - Lendmark priced its fifth unsecured consumer loan transaction. The \$300mm deal was upsized and priced inside guidance. The 3.6 yr AA/A notes priced at S+95
 - Marlette priced a \$310mm personal loan deal with a weighted average FICO score of 705. The 0.93 yr AA rated note priced at E+55



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Ms. Pathak is an Analyst in the Fixed Income group, specializing in asset-backed securities. Prior to joining TCW in 2007, Ms. Pathak was an Investment Specialist at Merrill Lynch in their Private Banking and Investments group where she helped manage \$4 billion in High Net Worth assets and Co-Managed a proprietary equity derivatives portfolio. Ms. Pathak was previously an Assistant Vice President at the Bank of New York in their Strategic Consulting group. Ms. Pathak graduated cum laude from Barnard College/Columbia University with a BA in Economics and she also holds an MBA in Finance from Columbia Business School. She is a CFA charterholder.

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Secondary

- AAA flow names underperformed over the month vs. subordinated bonds. Senior benchmark spreads widened 3-5 bps over the month, while sub spreads tightened 5 bps
- Increased demand for higher yielding bonds, reduced the basis between senior and subordinate spreads and between different issuers
- Transport-related ABS (Railcar, Aircraft and Container Lease) tightened 10-20 bps over the month

Consumer News

- Fiat Chrysler is considering plans to establish a captive U.S. auto finance unit. Currently Fiat partners with Santander for vehicle finance
- Online lenders are tightening lending standards as defaults have been increasing. Unsecured consumer loan lenders, such as SoFi, Avant and Prosper, are increasing the quality of the loans they are putting into their ABS trusts (higher credit scores, shorter maturity terms, etc.) ■

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Subprime Auto
1yr	Swaps	8	23	25
2yr	Swaps	12	28	30
3yr	Swaps	16	35	37
5yr	Swaps	28		
10yr	Swaps	47		
b-piece - 5yr	Swaps	48		
c-piece - 5yr	Swaps	74		

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
2yr	Libor	15	22	
3yr	Libor	22	30	41
5yr	Libor	33	50	56
7yr	Libor	51	63	81
10yr	Libor	66	68	91
b-piece - 5yr	Libor	55		
c-piece - 5yr	Libor	86		

Source: BofA Merrill Lynch Global Research

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