

MONTHLY COMMENTARY

July Consumer ABS Market Update

TONY LEE | AUGUST 7, 2018

Primary

Coming out of the shortened week for the Fourth of July holiday, the ABS primary market brought a deluge of new issue deals ending with over \$22.0bn across more than 30 new ABS priced in July^[1]. Auto and credit card-related debt comprised over 70% of the month's volume with specialized ABS sponsors ranging from aircraft lease, whole business, marketplace unsecured consumer loans, and timeshare loans making up roughly 14% of the total. Year to date, total ABS issuance stands at \$148.7bn, which is ahead of the \$131.1bn logged at the same point in 2017. Auto-related issuance continues to lead the way with 44% followed by credit card at 22%, student loans at 8% and specialized ABS making up 14% for the year. The \$30bn in specialized ABS this year is quickly approaching 2017's entirety of \$42bn. Among the deals of note were:

- Thunderbolt Aircraft Lease Limited (TBOLT) priced a \$450mn aircraft lease transaction on July 19 at 130bps over swaps for the 5.30 year single-A rated bond and 5.125% yield or roughly 240bps over swaps for the 5.30 year BBB rated bonds. TBOLT 2018-A marked the second aircraft ABS deal issued off Air Lease's Thunderbolt shelf and the deal was unique in that equity shares were sold and syndicated to the market.
- Drive Automobile Receivable Trust (DRIVE) priced a \$1.357bn subprime auto loan transaction on July 18 at 30bps over swaps for the AAA rated; 0.71 year to 145bps over swaps for the BBB rated 3.25 year notes.
- SoFi Consumer Loan Program (SCLP) priced a \$519mn marketplace consumer unsecured loan transaction on July 31 at 55bps over swaps for the 0.99 year AA rated notes to 175bps over swaps for the BBB rated subordinate bonds. This is SoFi's third marketplace consumer unsecured loan transaction of the year.

Secondary

Secondary ABS trading activity picked up toward the latter half of the month once most of the new issue deals had priced. Spreads across most ABS sectors held in fairly well given how much new issue ABS came to the market during the month. Senior, high quality consumer ABS spreads were mostly flat to marginally tighter over the month while subordinate and specialized ABS spreads were mixed. Subordinate private student loans and private label credit cards were 2-5bps wider. FFELP student loans ABS were flat to marginally tighter during the month. July also saw trading activity in aircraft ABS with a few blocks of senior aircraft bonds trading anywhere from the 120s and 130s basis points over swaps.



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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.

^[1]J.P. Morgan Research

Market News

Subprime Auto ABS downgrade. Rating agencies S&P and Kroll downgraded the class C notes from Honor Finance's 2016 securitization (HATS 2016-1A C) to CCC+ from BB+ in July. Kroll cited "further deterioration in transaction performance as a result of disruption associated with management turnover and uncertainty surrounding the future of Honor Finance, LLC" as reasons for their rating cut. Honor has also put into question who will service the loans as the rating agency noted a servicing transfer is expected "over the next few months following Honor's notice to resign as servicer on the portfolio." The company's only term securitization is a deep subprime auto loan transaction with over 70% of the pool having FICO's below 601 or no FICO at the time of issuance. It has the distinction of being the first downgrade for a subprime ABS bond since the great financial crisis per JP Morgan research.

Credit Card ABS Performance. Bank of America Merrill Lynch's credit card ABS index showed mixed results as charge-offs and delinquencies rose higher on a year over year basis but were lower on a month over month basis to 2.47% and 1.43%, respectively, in June. Payment rate, yield, and 3-month excess spread were higher on a year over year basis by 79bps, 65bps, and 22bps, respectively.

Synchrony announced its co-branded credit card relationship with Wal-Mart will end after 19 years in July of 2019. Capitol One will then take over issuing Wal-Mart's private label credit cards. Synchrony, which had originated both private label and co-branded general purpose credit cards for Wal-Mart, stated it will either sell the \$10bn portfolio or convert the existing card holders to Synchrony general purpose credit card accounts. Cards that aren't converted would remain Wal-Mart cards and could be used for another three years. ■

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	1.47%	+14bp	0.91%	+1bp	33.83%	+54bp	22.68%	+112bp	16.52%	+35bp
BACCT	2.98%	-4bp	1.55%	+4bp	19.00%	+69bp	17.35%	+55bp	10.44%	-1bp
CCCIT	2.78%	+20bp	1.49%	+10bp	28.07%	+36bp	19.30%	+61bp	13.47%	+19bp
CHAIT	2.56%	+3bp	1.10%	-3bp	34.01%	+143bp	19.31%	+40bp	13.18%	+33bp
COMET	2.30%	+18bp	1.81%	-10bp	34.56%	+206bp	22.47%	+101bp	15.51%	+61bp
DCENT	2.37%	+32bp	1.64%	+1bp	23.03%	-10bp	19.42%	+34bp	12.89%	-7bp
SYNCT	5.26%	+14bp	2.72%	-12bp	14.32%	+9bp	23.80%	-81bp	14.93%	-32bp
Index	2.47%	+14bp	1.43%	+1bp	28.45%	+79bp	19.91%	+65bp	13.52%	+22bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	12	9	25
2-yr	Swaps	12	15	30
3-yr	Swaps	16	20	35
5-yr	Swaps	28		
10-yr	Swaps	62		
b-piece (5-yr)	Swaps	48		
c-piece (5-yr)	Swaps	74		

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	10	19
2-yr	Libor	16	23
3-yr	Libor	21	31
5-yr	Libor	32	50
7-yr	Libor	60	70
10-yr	Libor	65	
b-piece (5-yr)	Libor	61	
c-piece (5-yr)	Libor	86	

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