

## MONTHLY COMMENTARY

## July Consumer ABS Market Update

TONY LEE | AUGUST 7, 2017

### Primary

The start of a new quarter brought a diverse set of issuers to the new issue ABS market while secondary trading activity was limited. We saw transactions ranging from aircraft, fleet lease, railcar, and tax liens come to the market in July. Year to date, total new issue ABS stands at roughly \$131bn putting us well ahead of last year's pace of \$103bn at the same point. Auto related ABS issuance leads the way in 2017 at 41% despite all the negative headlines surrounding auto loan credit and the deterioration of used car values. Following auto ABS, credit cards stand at 23%, specialized ABS at 18%, and equipment and student loan ABS comprise 7% and 6%, respectively. Among the deals of note were:

- CPS Auto Receivables Trust (Consumer Portfolio Services) priced a \$225mm subprime auto loan transaction on July 18, 2017 at 42bps over swaps for the 0.7 year AAA rated bond to 400bps over swaps for the 4.01year BB- rated bonds. All tranches priced inside of guidance except the BB-rated notes which priced within guidance.
- TRIP Rail Master Funding (TRMF) priced a railcar lease transaction on July 21, 2017. The \$238mn transaction, serviced by Trinity Industries Leasing Company priced at 110bps over swaps for the single-A rated, 2.26 year notes and 175bps over swaps for the single-A rated 6.67 year notes. The deal was multiple times oversubscribed and priced tighter than initial guidance on strong demand.
- HERO Funding Trust (HERO) priced a \$195mm Property Assessed Clean Energy (PACE) transaction on July 26, 2017 at 130bps over swaps for the AA rated, 5.43 year bonds. The deal priced inside guidance and 45bps inside where its previous deal priced in April, 2017.

### Secondary

July was marked by very light secondary trading volume which nonetheless saw tighter spreads virtually across the board in ABS. Oversubscribed new issue ABS deals led to tighter spreads in the secondary. High quality, short duration consumer ABS were marginally tighter grinding in anywhere from 1-3 basis points while consumer ABS subordinate bonds and specialized ABS were anywhere from 5-10 basis points tighter during the course of the month. Two separate auctions totaling



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over a \$100mm in legacy private student loans ABS issued by National Collegiate Student Loan Trust (NCSLT) traded extremely well toward the end of the month despite negative headlines surrounding the underlying loans.

### Market News

**National Collegiate Student Loan Trusts** – On July 17, 2017, the New York Times reported a collection of private student loan ABS trusts issued by National Collegiate Student Loan Trusts (NCSLT) could not produce the necessary documents that they in fact had legal ownership of certain private student loans when they were challenged in court. These private student loans were created before the financial crisis and then securitized. The newspaper stated: “Judges have already dismissed dozens of lawsuits against former students, essentially wiping out their debt, because documents proving who owns the loans are missing.”

**Renovate America** – Renovate America, a leader in issuing and underwriting residential PACE loans (Property Assessed Clean Energy) recently received news that three federal lawsuits

regarding “violations under the federal Truth in Lending Act (TILA) and Home Ownership and Equity Protection Act (HOEPA)” were dismissed on July 18, 2017. Scott McKinlay, the company’s chief legal officer stated: “Renovate America takes its commitment to compliance with laws, rules and regulations, and to consumer protection, very seriously, and we strive to exceed all applicable requirements and best business practices. We worked to make the Consumer Financial Protection Bureau’s Know-Before-You-Owe disclosures for home mortgages the model for PACE financing, and get that enacted into law.”

**Credit Card Performance** – Bank of America Merrill Lynch’s credit card ABS index showed mixed results for June 2017 on both a year-over-year and month-over-month basis. Charge-offs continue to modestly increase. They were up 24 basis points, year over year, while payment rate and yield improved slightly year over year. Three-month excess spread fell to 13.15% which was lower on a year-over-year basis. ■

### Bank of America Merrill Lynch Global Research Bank Card Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Jun-17	YOY	Jun-17	YOY	Jun-17	YOY	Jun-17	YOY	Jun-17	YOY
AMXCA	1.30%	+27bp	0.87%	+15bp	32.60%	-494bp	21.44%	+26bp	16.13%	-21bp
BACCT	2.77%	+16bp	1.52%	+2bp	18.30%	+79bp	16.93%	+26bp	10.29%	-49bp
CCCIT	2.94%	+23bp	1.50%	-9bp	27.30%	+21bp	19.20%	-30bp	13.10%	-35bp
CHAIT	2.50%	+13bp	1.14%	+2bp	31.40%	+222bp	18.17%	+24bp	12.85%	-50bp
COMET	2.24%	+18bp	1.87%	+4bp	32.18%	+197bp	21.45%	+8bp	14.67%	-81bp
DCENT	2.20%	+50bp	1.58%	+22bp	22.48%	-71bp	18.93%	-4bp	12.95%	-103bp
SYNCT	5.18%	-51bp	2.76%	+9bp	14.32%	+1bp	23.36%	-113bp	14.93%	-49bp
<b>Index</b>	<b>2.42%</b>	<b>+24bp</b>	<b>1.41%</b>	<b>+4bp</b>	<b>27.23%</b>	<b>+18bp</b>	<b>19.15%</b>	<b>+6bp</b>	<b>13.15%</b>	<b>-55bp</b>

Source: Bank of America Merrill Lynch Research

### Spreads

#### FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF		7	27
2-yr	Swaps	10	12	40
3-yr	Swaps	14	18	60
5-yr	Swaps	33		
10-yr	Swaps	64		
b-piece (5-yr)	Swaps	57		
c-piece (5-yr)	Swaps	77		

Source: JP Morgan Research

#### FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor		
2-yr	Libor	14	
3-yr	Libor	19	45
5-yr	Libor	34	
7-yr	Libor		80
10-yr	Libor	66	
b-piece (5-yr)	Libor	63	
c-piece (5-yr)	Libor	68	

Source: JP Morgan Research

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