

MONTHLY COMMENTARY

September 2017 Consumer ABS Update

DAVID DOAN | OCTOBER 4, 2017

Primary

- New issuance slowed down in September to \$13.5B. Nearly 65% of issuance was in autos and 10% in cards. With YTD volume at \$175B, 2017 is currently on track to surpass 2016's total volume of \$196B.
- A few highlights include:
 - Hertz returned to the market for the first time in over a year and issued \$820mm across two deals. The 5yr AAA tranche priced at 145/n.
 - LendingClub priced its second deal of the year. The \$323mm deal consisted of one senior and two subordinate classes. The 0.8yr Class A priced at 97/e, while the 2.1yr and 2.9yr subordinate classes priced at 195/n and 335/n, respectively. The deal is backed by unsecured consumer loans.
 - Sofi launched a \$527mm deal, collateralized by unsecured consumer loans. The 1yr AA tranche priced at 65/e, yielding 2.2% and the 3.2yr priced at 105/n, yielding 2.8%.
 - Dunkin' Brands issued a \$1.55B deal with the 7yr BBB bond pricing at 165/n. A portion of the proceeds will be used to pay down an existing tranche.

Secondary

- Secondary trading volume totaled over \$5B. Cards and autos accounted for over 50% and student loans contributed to over 30%. Spreads were generally a couple of basis points tighter for high quality cards and prime autos.
- Hertz rental car ABS continued to be actively traded with 3-4yr senior bonds tightening in about 20 basis points during the month.



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Mr. Doan joined TCW in 2010 and is currently an Analyst specializing in asset-backed securities. Prior to attending business school, he was a CDO Analyst at Metropolitan West Asset Management where he was responsible for modeling and analyzing CDO transactions. Mr. Doan holds a BA in Business Administration from California State University, Fullerton, and an MBA in Finance and Economics from Columbia Business School.

- National Collegiate Student Loan Trust bonds were weaker this month with some of the last cash flow bonds trading down 8 points (see related news below).

Market News

- The U.S. Department of Education released data on the 3-year cohort default rate on federal student loans. The rate edged up from 11.3% to 11.5%.
- The Consumer Financial Protection Bureau announced a preliminary settlement with the National Collegiate Student Loan Trusts in which the trusts will pay over \$19mm and audit all of the 800,000+ private student loans in the trusts. The settlement stemmed from allegations that the trusts used illegal debt collection lawsuits on defaulted borrowers.

Spreads

FIXED

| | Benchmark | Credit Cards | Auto – Prime | Subprime Auto |
|----------|-----------|--------------|--------------|---------------|
| 1-yr AAA | EDSF | 4 | 4 | 21 |
| 2-yr AAA | Swaps | 9 | 9 | 26 |
| 3-yr AAA | Swaps | 14 | 16 | 38 |

FLOATING

| | Benchmark | Credit Cards | Student Loans FFELP | Student Private Loans |
|----------|-----------|--------------|---------------------|-----------------------|
| 1-yr AAA | Libor | 5 | 15 | |
| 2-yr AAA | Libor | 13 | 27 | |
| 3-yr AAA | Libor | 20 | 32 | 59 |
| 5-yr AAA | Libor | 37 | 56 | 73 |
| 7-yr AAA | Libor | 47 | 73 | 104 |

Source: BofA Merrill Lynch Global Research

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