

MONTHLY COMMENTARY

December 2018 Consumer ABS Update

DAVID DOAN | 8 JANUARY 2019

Primary

- Primary issuance in December slowed down as issuers closed their books early in anticipation of the holidays. Over \$6 billion was issued and, while deals were generally well subscribed, spreads were wider, reflective of the weakness in the broader markets.
- The total issued in 2018 was \$244 billion, a slight increase from the \$239 billion issued in 2017. Issuance was led by autos, accounting for nearly half of the total, followed by credit cards with 17%, and student loans with 8%. In more esoteric sectors, consumer loans accounted for 7%, aircrafts for 3%, and whole business for 3%.
- Over 60% of the issuance in December was auto related, while student loans accounted for 15%. Some highlights include:
 - **Tesla** launched an \$837 million prime auto lease deal. The transaction consisted of five tranches with the AAA tranche pricing at 85/e, while the BB tranche cleared at 515/n after struggling to find interest inside of +400.
 - **Ford Credit** issued a \$700 million auto floorplan transaction with the 10-year AAA bond pricing at 125/n.
 - **Insite Wireless**, an operator of cell towers, priced a \$298 million deal with the 7-year A rated tranche pricing at +130 to Treasury and the BBB and BB pricing at +205 and +335, respectively.
 - **Commonbond** issued a \$366 million transaction consisting of mostly fixed rate bonds. The 3.7-year AAA fixed rate tranche priced at 100/n, while the floating rate tranche priced at 95dm. The AA and A rated subordinate pieces priced at 140/n and 145/e respectively. The deal is backed by private refinanced student loans.
 - **LendingClub**, the company that originates consumer marketplace loans, priced their fourth deal of the year. The \$259 million deal consisted of a 1-year A rated tranche that priced at 100/e and a 2.6-year BBB subordinate piece pricing at 150/n.
 - **Sunrun** launched a \$379 million deal with the 10-year A rated tranche pricing at 265/n. The collateral in the deal consists of solar assets.



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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 (MetWest) 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.

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Secondary

- Volatility in broader markets contributed to increased volume and weakness in ABS as accounts actively sold to meet redemptions. This, combined with the time period of the year when dealers are more selective in balance sheet usage, caused spreads to widen across the subsectors within ABS. TRACE reported over \$19 billion in volume and spreads were wider by 5-10 basis points (bps) in short cards and prime autos, 10-15 bps in subprime autos, and 15-25 bps in longer FFELP.

Market News

- The Department of Education (DOE) will forgive about \$150 million in student loans after losing a court battle with attorneys general from 18 states. The DOE had sought to block a rule known as the borrower defense to repayment, which allows borrowers to have their debts forgiven should a school be found defrauding students. About half of the debt forgiven will be from students who attended the now defunct Corinthian Colleges. ■

Spreads**FIXED**

	Benchmark	Credit Cards	Auto Prime	Auto Subprime
1-yr AAA	EDSF	17	20	41
2-yr AAA	Swaps	24	29	46
3-yr AAA	Swaps	33	38	56

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Loans Private
1-yr AAA	Libor	23	37	–
2-yr AAA	Libor	34	46	–
3-yr AAA	Libor	42	57	65
5-yr AAA	Libor	58	71	80
7-yr AAA	Libor	84	83	100

Source: BofA Merrill Lynch Global Research

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