

MONTHLY COMMENTARY

January Consumer ABS Market Update

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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.

Primary

It took a few weeks for the 2019 new issue ABS market to find its legs coming out of the volatility at the end of December. Only three issuers brought new deals in the first half of the month but a deluge of issuance followed. Investors drove numerous deals to become multiple times oversubscribed in January, driving prices tighter than initial guidance. The \$17bn in new issue volume during the month was less than the \$22.8bn of new issuance at the same point in 2018. Auto related issuance represented nearly half of all ABS at 48% followed by credit card and specialized ABS at 16% each and student loans at 9%. Among the deals of note were:

- **Ford Credit Auto Owner Trust Revolving (FORDR)** priced a \$1.299bn revolving, prime auto loan ABS transaction on January 15 at 95bps over swaps for the 4.99-year AAA rated bonds to 125bps over swaps for the 4.99-year AA rated bonds. The deal was upsized and priced anywhere from 5-10bps wide of initial guidance.
- **Mercedes-Benz Auto Lease Trust (MBALT)** priced a \$1.317bn prime auto lease ABS transaction on January 23 at 28bps over swaps for the 0.85-year AAA rated bonds to 55bps over swaps for the 2.20-year AAA rated bonds. The deal was multiple times oversubscribed and upsized on very strong demand.
- **Hertz Vehicle Financings LLC (HERTZ)** priced a \$745mn fleet rental car ABS transaction on January 30 at 110bps over swaps for the 3.14-year AAA rated notes to 240bps over swaps for the BBB rated subordinate bonds. Hertz was able to upsize and priced inside guidance on strong demand, particularly the subordinate BBB bonds.

Secondary

While the new issue market took time to find its footing to start the year, secondary trading volume was heavy. Spreads started the year wider in sympathy with the broader markets but rallied back in what was a roller coaster of a month. Short, high quality, liquid consumer ABS led the spread tightening in January alongside

new issue. The market also saw elevated secondary activity in both senior and subordinate FFELP student loan ABS as well as certain other specialized ABS sectors. Higher rated FFELP subordinate bonds were 10-15bps tighter while senior FFELP student loan ABS spreads ended the month modestly tighter after staying flat during the first half. Aircraft ABS saw significantly higher trading volume to start the year but levels remain wide to where the sector was trading in 2018.

Market News

Synchrony keeps Sam's Club and Amazon Relationships.

On January 23, Synchrony announced it would continue its strategic partnerships with Sam's Club and Amazon. The

Synchrony and Sam's Club partnership began in 1993 and currently offers Sam's Club co-branded and private-label credit card programs. Synchrony also announced Walmart would drop its lawsuit against the retail card lender. The retailer had been seeking more than \$800mn in damages over a dispute regarding Synchrony's underwriting standards.

Credit Card ABS Performance. Bank of America Merrill Lynch's credit card ABS index showed positive performance on nearly every metric on a year-over-year basis. The payment rate improved 137bps to 28.03% while yield was 80bps higher on a year-over-year basis. Defaults and three-month excess spread increased 12bps and 8bps, respectively month over month. ■

Bank of America Merrill Lynch Global Research Credit Card ABS Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Dec-18	YOY	Dec-18	YOY	Dec-18	YOY	Dec-18	YOY	Dec-18	YOY
AMXCA	1.11%	-33bp	0.80%	-14bp	35.86%	+240bp	24.84%	+117bp	16.94%	+65bp
BACCT	2.68%	+2bp	1.69%	+2bp	18.22%	+77bp	17.28%	+21bp	10.56%	+43bp
CCCIT	2.70%	-3bp	1.60%	+3bp	26.57%	+123bp	17.90%	+121bp	13.34%	+16bp
CHAIT	2.26%	-8bp	1.19%	-3bp	32.96%	+158bp	20.49%	+75bp	13.62%	+43bp
COMET	2.33%	+4bp	2.11%	+5bp	33.53%	+257bp	22.31%	+108bp	15.76%	+58bp
DCENT	1.86%	+5bp	1.58%	-14bp	21.96%	-8bp	19.13%	+28bp	13.54%	-2bp
SYNCT	4.64%	-8bp	2.91%	-14bp	14.63%	+72bp	24.18%	+66bp	15.29%	-8bp
Index	2.16%	-6bp	1.48%	-4bp	28.03%	+137bp	20.20%	+80bp	13.93%	+35bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	8	12	33
2-yr	Swaps	15	21	38
3-yr	Swaps	25	30	48
5-yr	Swaps	39		
10-yr	Swaps	73		
b-piece (5-yr)	Swaps	65		
c-piece (5-yr)	Swaps	90		

Source: Bank of America Merrill Lynch Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	16	34
2-yr	Libor	24	43
3-yr	Libor	30	54
5-yr	Libor	51	68
7-yr	Libor	85	79
10-yr	Libor	102	
b-piece (5-yr)	Libor	76	
c-piece (5-yr)	Libor	101	

Source: Bank of America Merrill Lynch Research

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