

MONTHLY COMMENTARY

Consumer ABS Market Update

TONY LEE | MARCH 4, 2016

Primary

- Heavy new issuance and wider pricing levels characterized the primary ABS market in February. Also, a few sponsors decided to retain tranches as Onemain (consumer marketplace lending) and Ford Credit Master Owner Trust (Auto Floorplan) were two issuers deciding to retain certain subordinate tranches of their deals. ABS sponsors brought a total of \$16.7bn in new issue mostly concentrated around both prime and subprime auto and equipment ABS in February. Auto loan related ABS has dominated 2016 representing nearly 70% of total new issuance followed by 6% in credit cards, 3% in student loans, and 7% in specialized ABS.
 - Onemain Financial Issuance Trust (OMFIT) priced a \$500mn unsecured consumer marketplace lending transaction on February 3, 2016 at 270bps over swaps for the 3.5yr single-A rated bonds to 350bps over swaps for the 4.36yr BBB rated bonds. The BBB tranche priced slightly wider than guidance while the company decided to retain the BB and single-B+ rated tranches due to market conditions.
 - Seacube Containers (CLIF) priced a \$140mn marine container leasing transaction on February 4, 2016 at 4.25% yield or approximately 310bps over swaps for the 4.0yr single-A rated bonds. This was the first container leasing deal since February of 2015.
 - Citi Held for Asset Issuance (CHAI) priced a \$141mn unsecured consumer marketplace lending transaction on February 26, 2016 at 400bps over swaps for the single-A rated 1.0yr notes to 990bps over swaps for the BB rated 3.36yr notes. The collateral from CHAI was originated by Marlette Funding and the deal priced anywhere from 50-190bps wider than guidance.

Secondary

- High quality, short duration, consumer ABS spreads held up relatively well when compared to other securitized credit sectors in a flight to quality during the month. Most of the spread widening came near the middle and end of the month driven mainly by a handful of money managers selling large blocks of mostly top tier, short duration credit cards and prime auto ABS. Some notable trades in the secondary market during February included \$299mn and \$372mn blocks of Chase credit cards and a \$480mn block of an American Express credit card ABS. The rest of the ABS market in specialized, longer duration or subordinate bonds did not fare as well and widened in sympathy with other securitized sectors. FFELP Student loans was softer anywhere from 10-20bps while FFELP student loan subordinate were wider 25-50bps in February. Container bonds were 50bps wider while subprime auto subordinate bonds were 50-100bps wider.



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Mr. Lee joined TCW in 2010 as an analyst in the U.S. 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.

Market News

- Over 6,600 registered market participants made their annual pilgrimage to Las Vegas for Structured Finance Industry Group's (SFIG) ABS conference on February 28, 2016. Among the many themes to come out of the conference, market liquidity or lack thereof and the effect of regulation to securitization market seemed to be the most prevalent.
- Moody's placed three class C notes from three Citi Held for Asset Issuance (CHAI) transactions on downgrade watch on February 11, 2016. The Ba3 rated notes from the 2015-PM1, 2015-PM2, and 2015-PM3 transactions are collateralized by unsecured consumer marketplace loans originated by Prosper Lending. The rating agency stated losses and delinquencies have been ramping up faster than expected and increased its net loss expectation to 13.6%, 13.1%, and 12.4% from 8.0% to 8.5%.
- S&P affirmed its single-A rating on five container ABS deals issued in 2012 and 2013. The rating agency stated they had "analyzed and stressed the outstanding securitization to ensure it continues to pay timely interest and ultimate principal under the current 'A' rating level stresses."
- The Bank of America Merrill Lynch Global Research bank card index showed improvements on a year-over-year basis. Charge-offs, delinquencies, payment rate, and yield improved on a year-over-year basis and Bank of America reported eight of the 18 trusts in the bank card index had higher receivables balance 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	
	Jan-16	YOY	Jan-16	YOY	Jan-16	YOY	Jan-16	YOY	Jan-16	YOY
AMXCA	1.06%	-26bp	0.85%	-10bp	35.40%	+11bp	20.62%	+24bp	16.18%	+25bp
BACCT	2.63%	-29bp	1.68%	-15bp	17.93%	-73bp	17.01%	-4bp	10.85%	+74bp
CCCIT	2.53%	+17bp	1.53%	-5bp	27.63%	-64bp	18.80%	+146bp	13.77%	+52bp
CHAIT	2.37%	-17bp	1.19%	-14bp	29.87%	+112bp	19.15%	+42bp	13.48%	+50bp
COMET	1.98%	-13bp	2.29%	-28bp	30.65%	+17bp	21.72%	-29bp	15.88%	-17bp
DCENT	1.62%	-11bp	1.38%	-13bp	23.98%	+34bp	19.23%	+21bp	14.03%	+15bp
SYNCT	5.13%	-38bp	3.16%	-29bp	14.11%	+37bp	25.35%	-70bp	14.10%	-2bp
Index	2.14%	-12bp	1.49%	-14bp	27.23%	+4bp	19.24%	+41bp	13.81%	+38bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF		35	70
2-yr	Swaps	40	45	80
3-yr	Swaps	50	50	155
5-yr	Swaps	70		
10-yr	Swaps	90		
b-piece (5-yr)	Swaps	91		
c-piece (5-yr)	Swaps	111		

Source: JP Morgan Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor		
2-yr	Libor	35	
3-yr	Libor	43	105
5-yr	Libor	60	
7-yr	Libor		140
10-yr	Libor	88	
b-piece (5-yr)	Libor	91	
c-piece (5-yr)	Libor	111	

Source: JP Morgan Research

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