

MONTHLY COMMENTARY

March 2019

Consumer ABS Update

DAVID DOAN | 5 APRIL 2019

Primary

- Over \$20 billion in ABS deals priced in March, bringing the YTD total to \$61 billion. Demand was strong across most new issue transactions with deals oversubscribed and pricing through initial guidance.
- Auto related deals accounted for over 50% of issuance, followed by whole business at 10% and equipment at 9%. A few highlights include:
 - **Verizon** launched a \$1.1 billion deal backed by receivables on mobile devices. The transaction consisted of a 2.5yr senior fixed and floating rate tranche that priced at 33/n and 33dm, respectively and two 3.1yr subordinate tranches that priced at 45/n and 65/n.
 - **Kabbage**, a fintech company that specializes in marketplace small business loans, issued a \$700 million deal structured with a 3yr revolving period and 3yr anticipated repayment date. The senior AA rated tranche priced at 135/n while the subordinated tranches priced at 160/n, 210/n, 325/n, and 500/n.
 - **Sallie Mae** priced a \$453 million, four tranche private student loan deal. The 1yr AAA floater was priced at 35dm, while the 5.4yr floater was at 87dm and 5.4yr fixed at 87/n. The deal also included a 9.5yr subordinate bond that priced at 140/n.
 - **OneMain** priced a \$736 million subprime auto deal that was structured with a 5yr revolving period. The 5.6yr AAA was issued at 115/n and the 6.6yr subordinates at 145/n, 170/n, and 220/n.
 - **Dunkin**, the restaurant franchisor of Dunkin' Donuts and Baskin-Robbins, issued a \$1.85 billion transaction to refinance their 2015 deal. The transaction comprised of a revolving tranche and three BBB fixed rate tranches. The 4.7yr tranche priced at 135/n, the 6.8yr at 155/n, and the 9.6yr at 180/n.
 - **Avant** brought a \$283 million deal to market with a 0.7yr senior bond pricing at 85/e, while the 2yr and 2.4yr subordinate bonds priced at 125/e and 215/n, respectively. The deal is backed by marketplace loans made to consumers.



David Doan
Senior Vice President
Fixed Income

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

- Trading volume totaled \$30 billion according to TRACE data. Shorter duration products in cards and autos initially softened during the month as accounts rotated into new issue, but finished the month 2-6 basis points (bps) tighter when the yield curve flattened/inverted, making the short end relatively more attractive. Transportation assets in containers and aircrafts widened 10 bps as concerns in global growth and declining lease rates dampened the container space, while aircraft moved wider in sympathy following news of the 737 Max 8 groundings, though no ABS deals contains 737 Max 8s.

Market News

- The Department of Education plans to update its College Scorecard to help students make more informed decisions. The update will provide more transparency by including program-level data on earnings, debt levels, default rate, and repayment rate.
- Kroll downgraded Harley Marine's senior and subordinate bonds to BB- and B-, respectively, and left both on downgrade watch status. The rating agency cited concerns about the ongoing liquidity issues the company faces along with the high operating expense as reasons for their action. ■

Spreads

FIXED

	Benchmark	Credit Cards	Auto Prime	Auto Subprime
1-yr AAA	EDSF	5	8	29
2-yr AAA	Swaps	13	17	34
3-yr AAA	Swaps	24	26	44

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Loans Private
1-yr AAA	Libor	16	30	–
2-yr AAA	Libor	24	39	–
3-yr AAA	Libor	30	50	70
5-yr AAA	Libor	51	63	85
7-yr AAA	Libor	80	72	105

Source: BofA Merrill Lynch Global Research

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