TCW

INSIGHT

MONTHLY COMMENTARY

March 2017 Consumer ABS Update

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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.

Primary

- Over $25B in deals priced in March, bringing YTD volume to $59B. While monthly volume was higher than average, demand for ABS deals remained strong leading to spread levels that were firm or tighter across all deals.
- Roughly $20B of credit card and auto ABS were issued, while over $3B of nontraditional ABS priced during the month. A few of them include:
  - Verizon priced its third deal after initially coming to the market in the summer of 2016. The $1.3B deal was backed by device payment plans. The 2.6yr AAA priced at 30/n while the 3.4yr subordinate priced at 75/n
  - JG Wentworth, an issuer of structured settlements, launched a $130mm deal with the 12yr senior bond pricing at 140/n
  - Marlette, a marketplace lender, issued a $300mm deal backed by unsecured consumer loans. The 1yr A-rated senior bond priced at 145/e, while the BB-rated subordinate priced at 490/n
  - FOCUS Brands brought to market a $600mm deal with the 4yr senior pricing at 185/n and the 10yr senior pricing at 280/n. The deal is securitized with franchise rights to a portfolio of restaurants including Cinnabon, Auntie Anne's, Carvel and a few others

Secondary

- Secondary volume was approximately $7B. Spreads for short credit cards, prime autos, and FFELP tightened a few basis points, despite the heavy new issue calendar
- Activity in private student loans picked up in March as TRACE data showed over $1B trading. Most were 4-5yr bonds trading with spreads generally between 80-90 bps

Consumer News

- S&P reported that loss rates for prime and subprime autos continued to increase. The monthly annualized net loss rates, 0.88% and 9.12% for prime and subprime respectively, are the highest since the credit crisis. Despite the continued deterioration in collateral performance, the rating agency noted that ratings are generally expected to remain stable
- Fitch continued its downgrade of FFELP ABS that it had originally put on downgrade watch back in the summer of 2015. The rating agency has stated that it expects to be done by April 2017 ■

Spreads

FIXED

AAA	BENCHMARK	CREDIT CARDS	AUTO-PRIME	SUBPRIME AUTO
1 yr	EDSF	5	5	20
2 yr	Swaps	9	9	28
3 yr	Swaps	13	21	38
5 yr	Swaps	34	–	–

FLOATING

AAA	BENCHMARK	CREDIT CARDS	STUDENT LOANS FFELP	STUDENT LOANS PRIVATE
1 yr	Libor	8	20	–
2 yr	Libor	16	35	–
3 yr	Libor	26	40	60
5 yr	Libor	47	65	75
7 yr	Libor	63	82	107
10 yr	Libor	93	92	125

Source: BofA Merrill Lynch Global Research

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