

MONTHLY COMMENTARY

April Consumer ABS Market Update

TONY LEE | MAY 3, 2017

Primary

Headlines addressing the weakening of subprime auto loan credit and used vehicle valuations continued in April. Despite the headlines, auto related debt made up nearly 33% of the month's total new issue volume of \$20.0bn. Issuers were able to tap the market with a diverse mix of issuance illustrated by deals from Property Assessed Clean Energy (PACE), Solar, Fleet Lease and Insurance Premium Finance pricing during the month. Year to date, auto related ABS issuance stands at 42% followed by credit cards at 29%, specialized ABS at 13%, and equipment and student loan ABS each comprising 7%.

Among the deals of note were:

- Navient Student Loan Trust (NAVSL) priced a \$1.001bn Federal Family Education Loan Program (FFELP) transaction on April 10, 2017 at 30bps over one-month LIBOR for the 1.25yr AAA rated bonds to 105bps over one-month LIBOR for the 8.35yr AAA rated notes. The 1.25 year bonds and an issuance of 3.62 year bonds both priced inside initial guidance while the 8.35 year bonds were replaced.
- Global SC Finance II SRL (SEACO) priced its first marine container transaction in nearly three years on April 18, 2017. The \$294mn transaction priced at 205bps over swaps for the single-A rated 5.19 year notes. The deal was oversubscribed and upsized on strong demand.
- Exeter Automobiles Receivables Trust (EART) priced a \$450mm subprime auto loan transaction on April 19, 2017 at 80bps over swaps for the AA rated, 1.0 year bonds to 500bps over swaps on BB rated, 4.1 year bonds. Exeter's transaction priced 5bps wider on the AA tranche and 60bps wider on the BB tranche from their last transaction at the end of January of this year.
- Thunderbolt Aircraft Lease Limited (TBOLT) priced a \$345mm mid-life aircraft lease transaction on April 25, 2017 at 4.25% or roughly 226bps over swaps for the single-A rated, 5.2 year bonds. The TBOLT BB rated, 3.57 year bonds priced at 7.625% or roughly 581bps over swaps. Air Lease's second ABS transaction in the space is collateralized by a pool of 19 aircraft with a weighted average age of roughly 12 years. The deal priced inside of initial guidance and was well oversubscribed.



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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.

Secondary

Spreads for high quality consumer ABS such as prime auto and credit card ABS remained resilient in April despite the continued negative headlines surrounding deteriorating subprime auto loan credit and sinking used car values. Rental car ABS and subprime auto subordinate bonds are two auto related ABS sectors that could possibly be vulnerable to used car values. Both sectors felt the brunt of the negative auto sentiment and experienced softness in secondary trading with spreads widening anywhere from 10-30bps during the month. Short, FFELP Student loan ABS tightened in anywhere from 3-5bps tighter while specialized ABS subsectors such as container ABS have rallied on the heels of two new issue deals and improving fundamentals.

Market News

Navient Corp. – On April, 18, 2017, Navient announced the company was in agreement to buy JP Morgan’s student loan portfolio. The \$6.9bn portfolio is made up of \$3.7bn in FFELP loans, of which \$1.6bn is securitized, and \$3.2bn in private

student loans. Navient’s CEO and President, Jack Redmoni stated: “With the acquisition of nearly \$7 billion of education loans, we again demonstrate our capability to successfully execute large, complex transactions for the benefit of our customers and shareholders.”

Credit Card Performance – Bank of America Merrill Lynch’s credit card index showed a slight uptick in charge offs and delinquencies of 26bps and 9bps, respectively on a year over year basis. Payment rate and yield improved on a month over month and year over year basis although three-month excess spread fell to 13.4% which is to be expected as charge offs creep higher.

Capital One and Synchrony, issuer of co-branded retail cards with such brands like JC Penny’s and Lowe’s, reported they would increase their net charge off expectations for managed credit card portfolios. Capital One announced its net charge offs increased to 5.1% from 4.7% at the end of the fourth quarter while Synchrony is raising its net charge off expectation to 6.37% from 5.69% for the fourth quarter 2016 due to its recent vintage subprime portfolios. ■

Bank of America Merrill Lynch Global Research Bank Card Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Feb-17	YOY	Feb-17	YOY	Feb-17	YOY	Feb-17	YOY	Feb17	YOY
AMXCA	1.54%	+16bp	0.95%	+6bp	33.87%	-100bp	22.86%	+46bp	16.21%	-9bp
BACCT	2.40%	+27bp	1.63%	+1bp	16.43%	+120bp	15.25%	+22bp	10.23%	-31bp
CCCIT	2.65%	+23bp	1.62%	+8bp	24.16%	+162bp	18.06%	+51bp	12.70%	-20bp
CHAIT	2.28%	+3bp	1.23%	+4bp	28.56%	+244bp	18.63%	+25bp	12.93%	+1bp
COMET	2.07%	+38bp	2.15%	+3bp	28.35%	+191bp	19.99%	-13bp	14.51%	-72bp
DCENT	2.14%	+57bp	1.68%	+30bp	21.28%	+3bp	18.22%	-14bp	12.80%	-81bp
SYNCT	5.48%	-43bp	3.14%	-6bp	13.85%	+8bp	26.34%	-74bp	15.32%	-47bp
Index	2.24%	+26bp	1.54%	+9bp	25.11%	+119bp	18.59%	+21bp	13.03%	-33bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF		8	35
2-yr	Swaps	12	10	40
3-yr	Swaps	16	20	60
5-yr	Swaps	35		
10-yr	Swaps	65		
b-piece (5-yr)	Swaps	65		
c-piece (5-yr)	Swaps	85		

Source: JP Morgan Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor		
2-yr	Libor	19	
3-yr	Libor	26	55
5-yr	Libor	40	
7-yr	Libor		90
10-yr	Libor	70	
b-piece (5-yr)	Libor	75	
c-piece (5-yr)	Libor	80	

Source: JP Morgan Research

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