TCW

INSIGHT

MONTHLY COMMENTARY

May 2017
Consumer ABS Update

PALAK S. PATHAK | JUNE 5, 2017

New Issue

- A total of $23.5bn Consumer ABS priced in May, bringing YTD total issuance to over $100bn (30% greater than YTD 2016).
- Over half of May issuance was from the Auto and Credit Card subsectors.
- Deals of note that priced over the month include:
  - Three student loan deals:
    - Nelnet priced a $535mm FFELP deal with the 6.28 year Aaa/AA+ class pricing at 78 dm
    - Sofi priced a $560mm deal collateralized by refinanced student loans with the 4.9 year AAA class pricing at 2.65% (80/n). This is SOFI's third private student loan deal this year.
    - Earnest priced a $175mm refi deal with the 3.4 year A/AA rated class pricing at 2.672% (100/n)
  - One Aircraft ABS deal:
    - Apollo Aviation issued a $600mm deal with the 4.3 year A rated tranche pricing at 4% (~218/n). The deal is backed by 32 aircraft with an average age of 12.2 years.
  - Two whole business deals from first time issuers:
    - Coinstar issued a $900mm deal with the 5.8 year BBB tranche pricing at 5.25% (~320/n)
    - Five Guys priced a $440mm deal with the 6.8 year BBB-/BBB rated tranche pricing inside of guidance at 4.625% (~ 262/n)
  - Two Container ABS deals:
    - Textainer issued an upsized $420mm deal with the 4.65 year A rated class pricing at 3.75% (~180/n)
    - SeaCube priced a $248mm deal with the 5 year A rated tranche pricing inside guidance at 3.65% (~178/n)
  - Two Consumer Loan deals:
    - Sofi issued a $530mm deal collateralized by unsecured consumer loans (avg FICO 733) with the 1.87 year AA rated notes pricing at 2.786% (120/e). This is Sofi's ninth consumer loan securitization.
    - Prosper priced a $500mm deal, also collateralized by unsecured consumer loans (avg FICO 706), with the 0.81 year A-/A rated class pricing at 2.576% (125/e). This is Prosper's sixth securitization.

Palak S. Pathak, CFA
Senior Vice President
U.S. Fixed Income

Ms. Pathak is an Analyst in the U.S. Fixed Income group, specializing in asset-backed securities. Prior to joining TCW in 2007, Ms. Pathak was an investment specialist at Merrill Lynch in their Private Banking and Investments group where she helped manage $4 billion in High Net Worth assets and co-managed a proprietary Equity Derivatives portfolio. Ms. Pathak was previously an Assistant Vice President at the Bank of New York in their Strategic Consulting group. Ms. Pathak graduated cum laude from Barnard College/Columbia University with a BA in Economics and she also holds an MBA in Finance from Columbia Business School. She is a CFA charterholder.

Secondary

- Spreads remained firm to tighter over the month with the exception of rental car ABS. Hertz and Avis ABS spreads widened 20-30 bps on the As and 50+bps on the Bs. Weakness in rental car bonds stems from poor Q1 earnings combined with a continued decrease in used car prices and increased competition from car sharing services.
- Container ABS spreads tightened 20 bps over the month on the back of strong new issue prints from SeaCube and Textainer.
- Subprime auto spreads remained stable over the month despite continued negative headlines, as structures continue to build credit enhancement through delevering.

Consumer News

- Hertz announced disappointing Q1 results driven by lower daily rental pricing and weak residual values.
  - Q1 revenue totaled $1.92bn vs. an estimate of $1.95bn
  - Q1 adjusted loss / share came in at $1.61 vs. an estimated loss / share of $0.84
- Propser Marketplace Inc., an online consumer-finance company, has cut its workforce by 44% since March 2016. Reductions had been due to lower loan originations and higher delinquencies. ■

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Subprime Auto
1-yr	Swaps	6	6	23
2-yr	Swaps	11	11	33
3-yr	Swaps	15	23	45
5-yr	Swaps	36		
10-yr	Swaps	77		
b-piece (5-yr)	Swaps	89	70	
c-piece (5-yr)	Swaps	114	135	

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
2-yr	Libor	18	30	
3-yr	Libor	28	35	60
5-yr	Libor	49	60	75
7-yr	Libor	65	77	107
10-yr	Libor	95	87	125
b-piece (5-yr)	Libor	91	155	150
c-piece (5-yr)	Libor	111		205

Source: BofA Merrill Lynch Global Research

This material is for general information purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, any security. TCW, its officers, directors, employees or clients may have positions in securities or investments mentioned in this publication, which positions may change at any time, without notice. While the information and statistical data contained herein are based on sources believed to be reliable, we do not represent that it is accurate and should not be relied on as such or be the basis for an investment decision. The information contained herein may include preliminary information and/or "forward-looking statements." Due to numerous factors, actual events may differ substantially from those presented. TCW assumes no duty to update any forward-looking statements or opinions in this document. Any opinions expressed herein are current only as of the time made and are subject to change without notice. Past performance is no guarantee of future results. © 2017 TCW

865 South Figueroa Street | Los Angeles, California 90017 | 213 244 0000 | @TCWGroup