

## MONTHLY COMMENTARY

## Consumer ABS Market Update

TONY LEE | JUNE 7, 2016

## Primary

- The ABS market was open for business in May after the dearth of new issuance the previous two months following the volatility at the beginning of the year. ABS sponsors brought a total of \$22.8bn in new issue easily surpassing any of the previous months' volume year to date. Auto-related ABS continues to comprise the largest portion at nearly 56% of total new issuance followed by 13% in credit cards, 6% in student loans, and 12% in specialized ABS.
  - Taco Bell Funding (Bell) priced a \$2.3bn whole business transaction on May 4, 2016 at 275bps over swaps for the 4.0 yr, single-A rated bonds to 336bps over swaps for the 9.6 year, BBB rated bonds. Whole business securitizations are typically collateralized by virtually all its assets including but not limited to franchise fees, intellectual property, and sometimes real estate. Taco Bell's transaction was upsized on strong demand and promptly tightened in roughly 10bps across all three tranches in the secondary market.
  - Social Professional Loan Program (SOFI) priced a \$380mn private student loan refinancing transaction on May 20, 2016 at 80bps over swaps for the AAA rated 1.1 year notes to 225bps over swaps for the single-A rated 8.3 year notes. This marked the first time SOFI was able to receive AAA ratings on its transaction.
  - HERO Funding Trust (HERO) priced a \$305mm Property-Assessed Clean Energy (PACE) transaction on May 25, 2016 at 225bps over swaps for the AA rated, 6.84 year bonds. HERO's 2016-2 marked the seventh transaction and largest deal to date.

## Secondary

- Liquid, high quality credit card, and prime auto loan ABS spreads ratcheted in another 3-8bps during the month driven by a lack of supply and currently stand at levels not seen in quite some time. Non-downgrade watch Federal Family Education Loan (FFELP) student loan ABS and private student loan ABS rallied anywhere from 10-15bps in May, while container bonds are 30-50bps tighter from the widest prints last seen in February.



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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

- Negative headlines surrounding Lending Club and the consumer unsecured marketplace lending sector grabbed a great deal of attention in May. By the end of the month, Lending Club's CEO, Renaud Laplanche had resigned due to events stemming from a \$22 million loan sale where Lending Club knew the loans did not meet the investor's specific criteria and Laplanche's lack of disclosure of a personal investment in a fund the company was evaluating. The company also announced the Department of Justice (DOJ) served a criminal subpoena.
- The New York Fed released its quarterly report on household debt and credit for the first quarter 2016. The Fed reported Non-household debt increased \$20bn from \$3.38tn to \$3.40tn with student loan, auto loan and credit cards making up

\$1.3tn, \$1.1tn, and \$0.7tn, respectively. Following the release of the Fed's quarterly report on household debt, Wilber van der Klaauw, Senior Vice President at the NY Fed debt stated, "Delinquency rates and the overall quality of outstanding debt continue to improve. The proportion of overall debt that becomes newly delinquent has been on a steady downward trend and is at its lowest level since our series began in 1999. This improvement is in large part driven by mortgages."

- The Bank of America Merrill Lynch Global Research Bank Card Index showed mostly positive movement on a year over year basis. Charge-offs and delinquencies fell 11bps and 9bps while payment rate and yield increased 33bps and 42bps 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	
	Apr-16	YOY	Apr-16	YOY	Apr-16	YOY	Apr-16	YOY	Apr16	YOY
AMXCA	1.22%	-6bp	0.87%	-4bp	33.64%	+74bp	20.50%	+227bp	16.13%	+1bp
BACCT	2.79%	-19bp	1.60%	-18bp	17.52%	+47bp	16.86%	+23bp	10.34%	+3bp
CCCIT	2.65%	-42bp	1.55%	-5bp	27.15%	-57bp	17.90%	+13bp	12.95%	-48bp
CHAIT	2.44%	+16bp	1.17%	-3bp	29.41%	+44bp	18.80%	-45bp	13.02%	-24bp
COMET	2.00%	-2bp	1.99%	-23bp	29.79%	+143bp	21.44%	+38bp	15.02%	+6bp
DCENT	1.56%	-5bp	1.35%	-6bp	22.72%	-7bp	19.21%	+67bp	13.55%	+34bp
SYNCT	5.13%	-76bp	3.02%	-13bp	12.90%	+2bp	24.73%	-185bp	13.75%	-52bp
<b>Index</b>	<b>2.21%</b>	<b>-11bp</b>	<b>1.43%</b>	<b>-10bp</b>	<b>26.50%</b>	<b>+33bp</b>	<b>18.91%</b>	<b>+42bp</b>	<b>13.29%</b>	<b>-9bp</b>

Source: Bank of America Merrill Lynch Research

### Spreads

#### FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF		23	60
2-yr	Swaps	21	30	65
3-yr	Swaps	32	35	105
5-yr	Swaps	55		
10-yr	Swaps	75		
b-piece (5-yr)	Swaps	76		
c-piece (5-yr)	Swaps	96		

Source: JP Morgan Research

#### FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor		
2-yr	Libor	23	
3-yr	Libor	35	90
5-yr	Libor	48	
7-yr	Libor		130
10-yr	Libor	76	
b-piece (5-yr)	Libor	79	
c-piece (5-yr)	Libor	99	

Source: JP Morgan Research

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