

MONTHLY COMMENTARY

July Consumer ABS Update

TONY LEE, CFA | 8 AUGUST 2019

Primary

Summer doldrums were in full effect to start the month with the 4th of July holiday malaise spilling into the first couple of weeks. With virtually no new issuance during the first half of July, issuers began bringing deals in earnest at mid-month, eventually pricing \$15.3bn across 24 transactions according to JP Morgan. Auto related ABS dominated the new issue volume year to date, representing nearly half of all ABS at 45%, followed by credit card, 10%; student loans, 6%; and specialized ABS, 14%. The largest specialized ABS sectors in 2019 year to date have been whole business ABS with \$5.8bn, followed by Aircraft ABS, \$4.3bn; and Cellphone/device payment ABS, \$2.2bn. Among the deals of note were:

- **CPS Auto Receivables Trust (CPS)** priced a \$244mn subprime auto loan ABS transaction on July 16 at 43bps over swaps for the 0.67 year, AAA rated bonds to 520bps over swaps for the 4.14 year single B rated bonds. The initial loan pool had a weighted average APR of approximately 19.45%, a weighted average FICO score of 561, and a weighted average remaining term of 68 months. The deal was well oversubscribed and priced anywhere from 2bps to 15bps inside initial price guidance.
- **Exeter Automobile Receivables Trust (EART)** Exeter Automobile Receivables Trust (EART) priced an \$850mn subprime auto loan ABS transaction on July 16 at 44bps over swaps for the 0.59 year, AAA rated bonds to 220bps over swaps for the 4.06 year BB rated bonds. The initial loan pool had a weighted average APR of approximately 21.96%, a weighted average FICO score of 556, and a weighted average original remaining term of 69 months. Exeter upsized the deal on strong demand and priced 6bps to 30bps inside initial price guidance.
- **Sierra Receivables Funding Company/Wyndham (SRFC)** priced a \$400mn timeshare loan ABS transaction on July 15 at 77bps over swaps for the 3.24 year, AAA rated bonds to 275bps over swaps for the 3.24 year BB rated bonds. The initial loan pool had a weighted average coupon rate of 14.36%, a weighted average FICO score of 721, and a weighted average original remaining term of 110 months. Wyndham priced the investment grade rated tranches anywhere from 6bps to 20bps inside initial price guidance while the BB rated bonds priced at the wide end of initial guidance.



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Mr. Lee joined TCW in 2010 as an analyst in the 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

Market activity was light the first half of the month but picked up in a meaningful way in the latter half. The spread rally for short, high quality, liquid consumer ABS continued unabated throughout July. Most of the large auction activity focused on very short, high quality ABS presumably to make way for purchases in the new issue market. Short credit card ABS from money center banks and prime auto loan ABS currently trades in the high single-digit spread context. Benchmark FFELP student loan ABS traded relatively flat over the month with the 4 year part of the curve trading at 75dm while senior, single A rated aircraft ABS traded between 175bps to 190bps over swaps. Demand remains high for seasoned originally BBB rated, subprime auto ABS as 2 year bonds are trading between +70bps to +75bps over swaps.

Market News

S&P Warns of Auto Loan Losses. In the paper “U.S. Prime Auto Loan ABS Are Seeing More Back-Loaded Losses as Loan Terms Lengthen,” researchers for the rating agency note that higher new car prices have resulted in longer loan terms, larger loans and higher losses for Auto-related ABS. The report states: “Over the past decade, S&P Global Ratings has observed an increase in longer-term loans in rated U.S. prime retail auto loan asset-backed securities (ABS). The percentage of loans with original terms greater than 60 months increased to 59% through first-quarter 2019, from 42% in 2009.” As a result of the lengthening of loan terms, S&P noted: “Longer-term loans cause securitization losses to become more back-loaded.”

Credit Card ABS Performance. Bank of America Merrill Lynch’s credit card ABS index exhibited stable performance with regard to charge-offs and delinquencies rising 3bps and 1bp, respectively on a year-over-year basis. Payment rate, yield, and 3-month excess spread all improved on a year-over-year basis. ■

Bank of America Merrill Lynch Global Research Credit Card ABS Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Jun-19	YOY	Jun-19	YOY	Jun-19	YOY	Jun-19	YOY	Jun-19	YOY
AMXCA	1.61%	+11bp	0.90%	+1bp	36.43%	+144bp	24.32%	+101bp	17.46%	+105bp
BACCT	2.80%	+4bp	1.56%	+1bp	20.26%	+13bp	18.44%	+3bp	11.33%	+84bp
CCCIT	2.74%	-4bp	1.57%	+3bp	29.82%	-144bp	19.05%	+209bp	13.95%	+67bp
CHAIT	2.46%	+3bp	1.14%	+2bp	35.79%	+154bp	20.25%	+86bp	14.03%	+70bp
COMET	2.35%	+32bp	1.84%	+6bp	36.73%	+66bp	23.62%	+86bp	16.31%	+81bp
DCENT	2.12%	-18bp	1.54%	-7bp	23.46%	+29bp	19.62%	+29bp	13.25%	+35bp
SYNCT	4.91%	-68bp	2.24%	-40bp	16.89%	+103bp	24.61%	+70bp	15.66%	+121bp
Index	2.35%	+3bp	1.42%	+1bp	30.28%	+34bp	20.77%	+92bp	14.37%	+73bp

Source: Bank of America Merrill Lynch Research

Spreads**FIXED**

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	7	9	29
2-yr	Swaps	16	23	38
3-yr	Swaps	26	33	47
5-yr	Swaps	45		
10-yr	Swaps	79		

Source: Bank of America Merrill Lynch Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	8	32
2-yr	Libor	22	38
3-yr	Libor	27	47
5-yr	Libor	50	62
7-yr	Libor	75	74
10-yr	Libor	95	

Source: Bank of America Merrill Lynch Research

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