

MONTHLY COMMENTARY

July 2016

Consumer ABS Update

PALAK S. PATHAK | AUGUST 16, 2016

New Issue

- July was a very busy month in new issue Consumer ABS with over \$22bn pricing across 30+ deals. Many deals were upsized, oversubscribed and priced tighter than initial guidance:
 - Verizon brought their inaugural ABS deal, VZOT 2016-1, secured by mobile device plan payments. The \$1.1bn deal priced its 2.5-year AAA notes at S + 55 (15 bps tight to guidance). The A class was multiple times oversubscribed and tightened another 15 bps on the break.
 - OneMain priced its inaugural auto deal securitized by used car loans. The deal was upsized and priced 30-75bps tight to guidance. The \$600mm A+/A2 notes priced at E + 130, 2-year BBB+ notes at S + 190 and the 2-year BB notes at S + 375.
 - Sallie Mae priced a \$600mm private student loan deal, SMB 2016-B, with the 1-year and 5-year AAA rated notes pricing at L + 65 and L + 145 respectively.
 - Wyndham priced a \$375mm timeshare deal with the 3.3-year single A notes and BBB notes pricing at N + 145 and N + 190 respectively.
 - City of New York priced a \$64mm tax lien deal with the 1.45-year AAA rated bond pricing at E + 55, 10 bps tight to guidance.
 - SOFI priced its second consumer loan deal, \$480mm SCLP 2016-2, with the 1.84-year single A notes and 4.87-year BBB notes pricing at E + 215 and S + 365 respectively.
 - Earnest priced a \$190mm private student loan transaction, EARN 2016-C. The \$190mm deal priced its 3.5-year AA rated fixed notes at S + 180 and 4-year BBB rated notes at S + 340.
 - Castllake priced a \$900mm aircraft deal with the 3.9-year single A, 4-year BBB and 2.3-year BB rated notes pricing at yields of 4.5%, 6.25% and 8.5% respectively. This deal is backed by 52 aircrafts with an average age of 12 years.
 - Navient priced a \$1bn student loan deal backed by rehabilitated FFELP loans. The 5-year AAA rated class priced at L + 125.
 - Marlette priced a \$185mm deal backed by unsecured personal loans with the 1-year single A rated class pricing at E + 225, 2.6-year BBB class at S + 385 and 3.12-year BB class at S + 825.



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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.

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Secondary

- Despite the increased supply in the primary market, ABS spreads remained stable to tighter over the month.
- Flow ABS tightened back to pre-Brexit levels while subordinate auto spreads tightened 5-10 bp and 2-25 bps in the prime and subprime sectors.
- AAA private student loans tightened 7-10 bps over the month while FFELP tightened 5-20 bps.
- Off the run sectors remained flat to 25 bps tighter over the month.

Consumer News

- The FHA came out with guidance on how it will insure mortgages on properties that have a PACE (Property Assessed Clean Energy) assessment. As per the press release on the HUD website, FHA will approve mortgage applications for purchase and refi on homes that have PACE obligations which are treated similar to property taxes; however, “lenders will be responsible for escrowing PACE payments as they would property taxes. In addition, purchasers of homes with existing PACE obligations will be responsible for any unpaid balance of the obligation.”
- Fitch Ratings published its revised rating criteria for FFELP ABS on July 26. Fitch makes changes to its assumptions in regards to modeling deferment, forbearance, IBR, defaults and prepayments for FFELP student loans. Based on the revised criteria, Fitch will re-evaluate all FFELP ABS deals that it rates and will take any rating actions as a result of its revised criteria in the coming months

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Subprime Auto
1-yr AAA	EDSF		23	50
2-yr AAA	Swaps	21	30	62
3-yr AAA	Swaps	32	35	
5-yr AAA	Swaps	55		
10-yr AAA	Swaps	75		
b-piece (5-yr)	Swaps	76		
c-piece (5-yr)	Swaps	96		

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
2-yr AAA	Libor	27		
3-yr AAA	Libor	35	80	110
5-yr AAA	Libor	50	90	
7-yr AAA	Libor	66	110	165
10-yr AAA	Libor	76	120	

Source: JPMorgan Research

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