

MONTHLY COMMENTARY

September Consumer ABS Market Update

TONY LEE | OCTOBER 7, 2016

Primary

ABS sponsors aggressively pursued securitization following the unofficial end of summer to tap the ABS market in weeks leading up to the annual ABS East Conference held in Miami, Florida from September 18-20. Some themes coming out of the conference include how upcoming new regulation would affect the ABS new issue market, primarily risk retention and Regulation AB II, the ongoing search for yield, and liquidity, or lack thereof in the TRACE era. Although Regulation AB II became effective two years ago, compliance of the new rules goes into effect at the end of November. The main aspects of regulation include requirements for loan level information, certification by the depositor's CEO, and a completed preliminary prospectus at least three days prior to sales of any securities. Leading up to the conference, 21 deals priced totaling approximately \$13.0bn, which were easily absorbed by the market. Although credit cards and auto related debt made up nearly 70% of the month's total volume of \$18.3bn, approximately \$3.4bn in specialized ABS came to the market as well. Year to date, auto related ABS continues to comprise the largest portion at nearly 49% of total new issuance followed by 20% in credit cards, 7% in student loans, and 13% in specialized ABS.

Among the deals of note were:

- Pennsylvania Higher Education Assistance Agency (PHEAA) priced a \$545mn Federal Family Education Loan Program (FFELP) ABS transaction on September 8, 2016 at 115bps over one-month LIBOR for the 5.9yr AAA rated bonds and 300bps over one-month LIBOR for the 13.2yr single-A rated subordinate bonds. The collateral consisted of 74% consolidation, 26% non-consolidation FFELP student loans with a portion in rehabilitated FFELP loans.
- Social Professional Loan Program (SOFI) priced a \$436mn private student loan refinancing transaction on September 13, 2016 at 95bps over swaps for the AAA rated 1.2 year notes to 175bps over swaps for the subordinate, single-A rated 8.8 year notes. The floating rate, 3.3 year A-1 notes priced 15bps tighter than SOFI's last transaction in July of this year while the subordinate bonds priced 25bps tighter.



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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.

- HERO Funding Trust (HERO) priced a \$377mm Property-Assessed Clean Energy (PACE) transaction on September 15, 2016 at 180bps over swaps for the AA rated, 6.16 year bonds. HERO's 2016-3 marked its ninth transaction and the deal is collateralized by PACE assessments from three California counties (San Bernardino, Riverside, and Los Angeles). In July, the U.S. Department of Housing and Urban Development (HUD) issued guidance under which it would allow the Federal Housing Administration (FHA) to insure mortgages on properties with a PACE lien.

Secondary

Secondary trading volume was heavy leading up to the conference in the face of heavy new issue volume. The increased supply was well absorbed and mostly came in the form of high quality, shorter duration, consumer ABS from investors trying to make room for their new issue allocations. Prime auto loan ABS and credit card ABS currently reside at their year-to-date tightness in terms of spread. Non-downgrade watch and affirmed or extended legal final maturity FFELP Student loan ABS traded anywhere from 5-25bps tighter in September versus the previous month and container ABS spreads were flat to 10bps tighter as the market shrugged off the news of Hanjin Shipping's bankruptcy.

Market News

FFELP ABS – Moody's and Fitch continued to trickle out ratings actions on FFELP ABS during the month. Of the \$84bn on watch, Moody's has taken rating action on nearly one-quarter of the total, mainly from deals sponsored by Navient, Nelnet, KeyCorp, and JP Morgan according to Deutsche Bank research. Fitch has taken action on \$13.6bn, affirming \$11.5bn and downgrading \$2.0bn thus far per Bank of America research.

ITT Technical Institute shuttered its doors on September 6, 2016 after the Department of Education cut off the private, for-profit college's access to new students who receive federal student loans and grants in August. The nearly 40,000 students across 130 campuses have two choices: They can either have their federal loans discharged if they're current students or have withdrawn in the past 120 days or they can transfer to another school.

Wells Fargo Bank, N.A – On September 8, 2016, the Consumer Financial Protection Bureau (CFPB) took action against Wells Fargo for "the widespread illegal practice of secretly opening unauthorized deposit and credit card accounts" according to the press release. The consumer protection agency levied its largest fine to date on the third largest U.S. bank by assets (\$1.9 trillion). Along with the \$100mn fine, the bank also agreed to pay \$50mn to the City and County of Los Angeles and \$35mn to the Office of the Comptroller bringing the total penalties to \$185mn. CEO of Wells, John Stumpf ultimately was forced to forfeit unvested equity worth approximately \$41mn. ■

Bank of America Merrill Lynch Global Research Bank Card Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Sep-16	YOY	Sep-16	YOY	Sep-16	YOY	Sep-16	YOY	Sep16	YOY
AMXCA	0.99%	-8bp	0.67%	-7bp	32.47%	-107bp	21.70%	+12bp	17.00%	+77bp
BACCT	2.45%	-10bp	1.48%	-10bp	17.26%	+90bp	16.08%	+25bp	10.82%	-3bp
CCCIT	2.31%	+5bp	1.45%	+10bp	24.95%	+256bp	17.86%	+11bp	13.18%	-57bp
CHAIT	2.26%	-30bp	1.13%	-3bp	29.78%	+184bp	18.02%	+6bp	13.35%	-13bp
COMET	1.71%	+7bp	1.91%	-17bp	29.38%	+182bp	20.62%	-21bp	15.62%	-50bp
DCENT	1.50%	+21bp	1.39%	+12bp	22.71%	-52bp	18.43%	-13bp	13.78%	-39bp
SYNCT	4.49%	-6bp	2.79%	-15bp	13.71%	+34bp	24.16%	-53bp	13.66%	-22bp
Index	1.95%	-4bp	1.35%	-2bp	25.81%	+112bp	18.53%	+4bp	13.71%	-19bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF		16	40
2-yr	Swaps	18	23	50
3-yr	Swaps	25	32	80
5-yr	Swaps	43		
10-yr	Swaps	65		
b-piece (5-yr)	Swaps	80		
c-piece (5-yr)	Swaps	91		

Source: JP Morgan Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor		
2-yr	Libor	24	
3-yr	Libor	32	80
5-yr	Libor	47	
7-yr	Libor		110
10-yr	Libor	72	
b-piece (5-yr)	Libor	87	
c-piece (5-yr)	Libor	99	

Source: JP Morgan Research

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