

MONTHLY COMMENTARY

September 2019

Consumer ABS Update

DAVID DOAN | 7 OCTOBER 2019

Primary

- Over \$21B in ABS was issued in September with auto-related accounting for 39%, card at 21%, and equipment at 8%. Demand was robust across most deals and a number of issuers upsized their transactions to meet the demand
- A few highlights include:
 - **LendingClub** brought its second deal of the year, pricing a \$288mm transaction with the 1yr A rated at 73/e, the 2yr BBB at 145/n, and the 3yr BB at 315/n. The deal is backed by consumer marketplace loans
 - **Driven Brands**, the franchisor of auto related services with brands including Maaco, Carstar, and Meineke, issued a \$275mm whole business deal, pricing the 7yr BBB at roughly 250/n. The deal included a \$75mm pre-funding account to acquire future assets
 - **Servpro** launched its inaugural deal, a \$525mm whole business transaction with the 7yr BB coming in at 228/n. The company is a franchisor of property restoration services
 - **Aqua Finance**, a consumer finance company with specialty in water treatment and small home improvement projects, brought its first deal to the ABS market – a \$540mm transaction structured with four tranches. The 2yr senior priced at 140/e, while the 5yr subordinate pieces priced at 185/n, 240/n, and 450/n
 - **Hewlett-Packard** issued its first securitization deal in the market. The deal, collateralized by equipment items, priced a 1yr AAA at 35/e, 2yr AAA at 50/e, 2yr AA at 65/n, 3yr AA at 85/n, and a 3yr BBB at 110/n
 - **Onemain**, the branch-based originator of unsecured consumer loans, brought its second deal of the year, a \$900mm transaction with four tranches. The deal was structured with a 7yr revolving period allowing the deal to add collateral as the underlying loans amortize. The 8yr senior bond was issued at 150/n and the lower rated 9yr subordinate tranches were issued at 175/n, 200/n, and 240/n
 - **Wings Capital** launched a \$678mm aircraft deal, backed by 23 narrowbody planes. The 6yr A rated bond priced at 213/n, the BBB at 313/n, and the BB at 510/n



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Mr. Doan joined TCW in 2010 and is currently an Analyst specializing in asset-backed securities. Prior to attending business school, he was a CDO Analyst at Metropolitan West Asset Management (MetWest) where he was responsible for modeling and analyzing CDO transactions. Mr. Doan holds a BA in Business Administration from California State University, Fullerton, and an MBA in Finance and Economics from Columbia Business School.

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Secondary

Secondary trading volume totaled just under \$21B according to TRACE. Spreads in benchmark sectors in cards and prime autos were range bound for most of the month, but began to leak wider towards the end, finishing 2-4bps wider for the month. FFELP also traded wider by 5bps as heavy selling activity weighed on the space. Spreads were around 90-100dm for 3mL 7-9yr FFELP. Ford's corporate downgrade also had an impact on their ABS deals with bonds initially widening out 5bps on the news, but have stabilized since then

Market News

The 2016 three-year federal student loan cohort default rate (CDR) registered at 10.1%, an improvement from the 10.8% rate reported for the 2015 cohort group a year ago, according to a Department of Education report. The 2016 CDR represents borrowers who entered the repayment phase of their federal student loans between October 2015 and September 2016 and defaulted before October 2018. The 10.1% rate is the lowest reported since the rate was first published in 2012. Default rates were lowest for private institutions at 6.6%, followed by public institutions at 9.6%, with proprietary institutions trailing at 15.2%

Consumer borrowing increased at its fastest rate since November 2017, according to data released by the Federal Reserve. Consumer credit outstanding increased at a 6.8% annual rate, led by a jump in revolving credit which rose at a 11.2% rate ■

Spreads

FIXED

	Benchmark	Credit Cards	Auto Prime	Subprime
1-yr AAA	EDSF	11	15	34
2-yr AAA	Swaps	21	27	42
3-yr AAA	Swaps	32	37	49

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Loans Private
1-yr AAA	Libor	14	35	–
2-yr AAA	Libor	26	41	–
3-yr AAA	Libor	35	50	65
5-yr AAA	Libor	55	70	85
7-yr AAA	Libor	80	79	105

Source: BofA Merrill Lynch Global Research

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