

MONTHLY COMMENTARY

October Consumer ABS Market Update

TONY LEE, CFA | 8 NOVEMBER 2018

Primary

The first month of the final quarter of 2018 brought a deluge of new issue ABS. Over 50 deals totaling nearly \$30 bn priced during the month. October and November have historically been heavier months as ABS sponsors assess their financing needs and start winding down the year. \$207 bn in new issue volume year to date is currently outpacing last year's post financial crisis record of \$195 bn at the same point. Auto related issuance continues to lead the way with 44% market share followed by credit card, 22%; student loans, 8%; and specialized ABS, 14% for the year. Specialized ABS remains in demand as the market saw deals from solar lease, structured settlements, venture debt, and marketplace consumer unsecured loans during the month. Among the deals of note were:

- **PFS Financing Corp. (PFSFC)** priced a \$400 mn insurance premium finance transaction on October 11. The transaction was split between two series with tenors of roughly two years and three years. The 1.99 year AAA rated floating rate note priced at 45 bps over one-month LIBOR and the 1.99 year single-A rated note priced 68 bps over one-month LIBOR while the 2.99 year AAA rated fixed rate notes priced at 45 bps over swaps and 70 bps over swaps for the single-A subordinate notes. The deal was multiple times oversubscribed and priced inside initial guidance on strong demand.
- **AESOP Funding II LLC (AESOP)** priced a \$550 mn rental car ABS transaction on October 17 at 88 bps over swaps for the 5.19 year AAA rated bond to 185 bps over swaps for the 5.19 year BBB rated bonds. The deal was upsized and priced anywhere from 2 to 10 bps inside price guidance but the AAA and single-A notes priced 8 bps and 5 bps wider, respectively from Avis' previous deal in April.
- **Upgrade Receivables Trust (UPGR)** priced a \$282 mn marketplace consumer unsecured loan transaction on October 25 at 95 bps over swaps for the 0.81 year single-A rated notes to 350 bps over swaps for the single-B rated subordinate bonds. The deal marked the inaugural entrance into the ABS market for Upgrade whose CEO is formerly from Lending Club.



Tony Lee, CFA
Vice President
Fixed Income

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

Secondary ABS spreads held in fairly well but were not immune to the volatility in equity markets and the substantial supply coming from the primary market. Spreads leaked 2-5 bps wider in high quality, senior, consumer ABS in October on heavier trading volume. Despite elevated supply of FFELP student loans ABS in the secondary market at the beginning of the month, spreads were only marginally wider in October. Demand for higher yielding subordinate ABS and specialized ABS remained strong throughout the month. The aircraft ABS sector has seen a significant increase in new issuance this year and has largely continued to trade well in secondary.

Market News

Moody's Downgrades Kenmore and Diehard Royalty

Securitization. On October 23, Moody's downgraded, to Caa3 from Caa2, KCD IP, LLC, a securitization of royalty payments from

Kenmore and Diehard, two brands associated with Sears Holding Corp. In announcing the action, Moody's cited Sears' October 15 bankruptcy filing, stating "KCD has licensing agreements with Sears' subsidiaries, Sears, Roebuck and Co. and Kmart, to receive royalties as a percentage of all domestic net sales of Kenmore and DieHard products. Sears announced they will close 142 stores through the bankruptcy process by year-end 2018 -- in addition to 46 previously announced closures it will complete by November. With fewer than 500 stores remaining after the closures, the royalty revenue for the KCD notes will likely be decreased."

Credit Card ABS Performance. Bank of America Merrill Lynch's credit card ABS index showed improvements in delinquencies, payment rate, yield and three month yield, year over year. Defaults and payment rate increased 7 bps and 49 bps, respectively month over month while yield and three-month excess spread dropped 5 bps and 7 bps on a month over month. ■

Bank of America Merrill Lynch Global Research Bank Card Index

Trust	Default		Total Delinquency		Payment Rate		Yield		3m Excess	
	Sep-18	YOY	Sep-18	YOY	Sep-18	YOY	Sep-18	YOY	Sep-18	YOY
AMXCA	1.49%	-6bp	0.88%	-3bp	34.13%	+19bp	23.65%	+79bp	17.11%	+43bp
BACCT	2.75%	+24bp	1.56%	+5bp	19.36%	+15bp	17.43%	-5bp	10.75%	-7bp
CCCIT	2.56%	-2bp	1.49%	-2bp	29.21%	+61bp	18.33%	+103bp	13.07%	+18bp
CHAIT	2.36%	-10bp	1.10%	-8bp	34.78%	+216bp	19.62%	+118bp	13.41%	+87bp
COMET	2.77%	+12bp	1.87%	-8bp	34.94%	+112bp	22.20%	+68bp	15.45%	+16bp
DCENT	1.97%	+12bp	1.46%	-14bp	23.53%	+52bp	18.83%	+58bp	13.07%	+21bp
SYNCT	4.81%	+35bp	2.74%	-31bp	14.97%	+73bp	24.71%	+16bp	15.37%	+7bp
Index	2.35%	+5bp	1.41%	-5bp	28.97%	+79bp	19.73%	+72bp	13.61%	+29bp

Source: Bank of America Merrill Lynch Research

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1-yr	EDSF	8	9	23
2-yr	Swaps	15	15	29
3-yr	Swaps	20	21	36
5-yr	Swaps	32		
10-yr	Swaps	66		
b-piece (5-yr)	Swaps	55		
c-piece (5-yr)	Swaps	80		

Source: Bank of America Merrill Lynch Research

FLOATING

	Benchmark	Credit Cards	FFELP Student Loans
1-yr	Libor	11	21
2-yr	Libor	18	25
3-yr	Libor	26	34
5-yr	Libor	41	51
7-yr	Libor	58	60
10-yr	Libor	76	
b-piece (5-yr)	Libor	65	
c-piece (5-yr)	Libor	90	

Source: Bank of America Merrill Lynch Research

This material is for general information purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, any security. TCW, its officers, directors, employees or clients may have positions in securities or investments mentioned in this publication, which positions may change at any time, without notice. While the information and statistical data contained herein are based on sources believed to be reliable, we do not represent that it is accurate and should not be relied on as such or be the basis for an investment decision. The information contained herein may include preliminary information and/or "forward-looking statements." Due to numerous factors, actual events may differ substantially from those presented. TCW assumes no duty to update any forward-looking statements or opinions in this document. Any opinions expressed herein are current only as of the time made and are subject to change without notice. Past performance is no guarantee of future results. © 2018 TCW