

MONTHLY COMMENTARY

November 2018

Consumer ABS Update

PALAK S. PATHAK | 4 DECEMBER 2018

New Issue

- A total of \$16bn priced in the primary market during November, bringing YTD ABS issuance to \$237bn, a 4% increase year-over-year.
- Auto issuance accounted for almost half of the November primary market with \$7.6bn pricing.
- Other issues of note include:
 - **Three aircraft deals:**
 - **Apollo Aviation** priced a \$610mm deal backed by 35 aircraft with a weighted average age of 13.9 years. The 3.8 year single A rated class (66.5% LTV) priced at 4.5% (~140/n).
 - **BBAM** priced a \$757mm deal backed by 29 aircraft with a weighted average age of 9.8 years. The 4.9 year single A rated class (64.5% LTV) priced at 4.5% (~147/n).
 - **Vx Capital** priced a \$189mm deal backed by 35 freighter aircraft with a weighted average age of 23 years. The 3.5 year single A rated class (55% LTV) priced at 5.5% (~250/n).
 - **Two whole business deals:**
 - **Wingstop** priced a \$320mm deal backed primarily by existing and future franchise fees. The 4.95 year BBB rated note priced at 5% (~180 /n).
 - **Taco Bell** priced a \$1.45bn deal backed by its domestic revenue generating assets. The 4.9 year and 9.5 year BBB rated notes priced at 125/n and 180/n respectively.
 - **Four consumer loan deals:**
 - **SoFi** priced a \$550mm unsecured loan deal with the 1.3 year AAA rated note pricing at e + 55.
 - **Marlette** priced a \$336mm unsecured loan deal with the 1.15 year AA rated tranche pricing at e + 75.
 - **Mariner** priced a \$222mm deal backed by 35% hard secured loans (perfected assets), 45% secured (untitled goods) and 24% unsecured loans. The 2.5 year A/AA- rated noted priced at 110/n.
 - **Oportun** priced a \$175mm unsecured loan deal with the 3 year A+ rated tranche pricing at 120/n.



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Ms. Pathak is an Analyst in the 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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- **One student loan deal:**
 - **Navient** priced a \$688mm deal backed by refinanced private student loans. The 5.5 year AAA rated class priced at 85/n.
- **One solar deal:**
 - **SunStrong Capital** priced a \$400mm solar lease deal with the 8.2 year single A rated note pricing at 265/n.
- **One drug royalty deal:**
 - **DRI Capital's** priced a \$100mm drug royalty securitization with the 2.67 year BBB rated floating note pricing at 160dm.

Secondary

- Spreads widened across all ABS asset classes with most sectors spreads reaching 52 week highs. Heavy supply (number of deals) in the first half of the month coupled with broader market volatility contributed to the spread widening.
- Within flow ABS, short cards and autos widened 10-12 bps and longer duration 10-15 bps. 3 year AAA card and auto spreads are at now at 2016 levels.
- Subprime auto spreads widened 10-30 bps over the month and 7 year FFELP spreads are about 15 bps wider.

Consumer News

- Moody's upgraded 11 tranches (\$1.25bn) from Santander's subprime auto deals issued between 2015 and 2018. Upgrades were attributed to a decline of cumulative net loss assumptions and the build up of credit enhancement.
- S&P issued a request for comment on proposed updates to its FFELP rating methodology for new and existing bonds. Part of the proposal would move the evaluation of principal paydowns from five years before the legal final maturity date to seven years prior. If the new methodology is approved, it is estimated that less than 5% of current FFELP bonds outstanding would be negatively impacted. ■

Spreads**FIXED**

	Benchmark	Credit Cards	Auto – Prime	Auto – Subprime
1yr	Swaps	13	14	27
2yr	Swaps	20	22	33
3yr	Swaps	27	30	43
5yr	Swaps	40		
10yr	Swaps	75		
b-piece - 5yr	Swaps	58		
c-piece - 5yr	Swaps	83		

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
2yr	Libor	20	40	
3yr	Libor	34	50	55
5yr	Libor	50	60	70
7yr	Libor	78	70	90
10yr	Libor	85	75	100
b-piece - 5yr	Libor	68		
c-piece - 5yr	Libor	93		

Source: JPM Research

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