

MONTHLY COMMENTARY

November 2016 Consumer ABS Update

PALAK S. PATHAK | DECEMBER 6, 2016

New Issue

- \$10bn of Consumer ABS priced in the month of November, bringing year-to-date issuance to \$182bn.
- Deals that priced over the month included:
 - Two student loan deals brought by SOFI and PHEAA:
 - SOFI priced its fifth student loan deal of the year with the 3-year AAA tranche pricing at 85 dm
 - PHEAA priced its second FFELP deal of the year with the 5.5-year AAA/AA+ tranche pricing at 95 dm
 - Verizon priced its second device payment plan securitization. The \$1.4bn deal priced its 2.5-year AAA rated note at S + 35, 20 bps tighter than their first deal which priced four months earlier.
 - Two small business ABS deals backed by the unguaranteed portion of SBA loans:
 - HANA priced a \$46mm deal with the 3.5-year A- note pricing at a coupon of L + 310
 - NewTek priced a \$52mm deal with the 2.6 year A rated noted pricing at 300dm
 - Blackbird Capital, a JV between Napier Park and Air Lease Corp, priced an \$800mm aircraft ABS deal. The securitization is backed by 19 aircraft with a weighted average age of 3.4 years. The deal was split into three tranches: a 4.2-year AA note and a 6.1-year single A and BBB note. The AA, A and BBB notes priced at yields of 2.5% (S + 129), 4.25% (S + 288) and 5.75% (S+438) respectively.
 - Citibank priced its first credit card ABS issue since 2014. The \$2bn 3-year A1 tranche and the \$500mm 5-year A2 tranche priced at S + 28 and S + 44 respectively.

Secondary

- Secondary market activity increased over the month as new issue activity declined.
- FFELP student loans tightened 5-10 bps as Moody's continues to take action on its downgrade-watch bonds, reducing uncertainty within the sector.



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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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Consumer News

- US Auto SAAR for November came in at 17.9mm units, exceeding expectations and in line with October's SAAR of 18mm units. Year-over-year sales declined 4.5%
- Moody's has taken action on almost all of the FFELP student loan bonds it had put on review for downgrade. Of the originally rated Aaa bonds they had put on review for downgrade, ~40% were affirmed at Aaa and the rest downgraded to below Aaa with only 7% downgraded to below investment grade
- The remainder of Reg AB II went into effect on Nov 23. Loan-level disclosures and reporting are now required for public auto loan and lease ABS transactions as a result of the regulation. ■

Spreads

FIXED

	Benchmark	Credit Cards	Auto – Prime	Subprime Auto
1-yr	Swaps	13	9	38
2-yr	Swaps	20	15	45
3-yr	Swaps	27	25	55
5-yr	Swaps	44		
10-yr	Swaps	83		
b-piece (5-yr)	Swaps	95	90	
c-piece (5-yr)	Swaps	120	150	

FLOATING

	Benchmark	Credit Cards	Student Loans FFELP	Student Private Loans
2-yr	Libor	20	50	
3-yr	Libor	30	65	70
5-yr	Libor	51	80	85
7-yr	Libor	67	100	115
10-yr	Libor	95	105	135
b-piece (5-yr)	Libor	95		
c-piece (5-yr)	Libor	115		

Source: BofA Merrill Lynch Research

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