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Asset-Backed ALERT
THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

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4 TOP CONDUIT ADMINISTRATORS
2 Willis Eyes Return to Market
2 Exxon Tapping ABS for Higher Yields
2 Rally Resumes for Student-Loan Bonds
3 Online Lender Focused on Vet Bills
3 Industry Pros Back Credit-Score Bill
3 Clayton Targeting Online Lenders
6 Avant Approaches Nervous Market
6 New Trustee Enters CLO Market
10 INITIAL PRICINGS
11 MARKET MONITOR

Mortgage-Bond Issuers Blitzing Market

The pipeline for private-label mortgage securitizations is suddenly gushing.

Bankers have been signaling for months that conditions were ripe for an increase in new-deal volume, pointing to plans by several issuers to tap the market more frequently. What they didn't foresee is that those offerings would materialize all at once — a situation that recently has seen supply leap above projected levels.

Indeed, some $2 billion of deals have entered the market in the past two weeks alone. They include issues backed by jumbo loans that meet the **Consumer Financial Protection Bureau's** "qualified-mortgage" standards, along with non-qualified loans and reperforming accounts.

Consider **Angel Oak Capital,** which just followed through with its first rated securitization of non-qualified mortgages. The $145 million offering, graded by **Fitch** and **DBRS,** priced on March 3 with **Nomura** running the books. And already, the

See BLITZING on Page 8

Investors Questioning Bull Run's Momentum

Buyers of asset-backed bonds and collateralized loan obligations are beginning to wonder if the market's recent spread-tightening trend has run its course.

The questions follow a period in which values have surged even amid a substantial increase in issuance volume — driven largely by demand from investors seeking higher-yielding alternatives to corporate bonds. The theory: Returns have reached a point where some of those players will push back, causing spreads to stall at current levels or perhaps widen.

Less-mainstream products appear especially vulnerable. One insurer said he and many other large buysiders already have backed away from securitizations of transportation cashflows, for example, while CLO professionals report resistance from subordinate investors.

Nonetheless, industry participants aren't anticipating a significant reduction in dealflow. They argue that demand from U.S. hedge fund operators and a mix of Asian investors should be sufficient to keep issues coming — even if their more-conservative

See MOMENTUM on Page 9

Securitization Pros Tackle Diamond Deal

Investment-banking firm **Castle Placement** is shopping a securitization of trade receivables tied to an unusual asset: diamonds.

Castle Placement began showing the deal to investors at the **Structured Finance Industry Group's** "SFIG Vegas 2017" conference, held Feb. 26-March 1 in Las Vegas. The privately placed transaction is expected to total about $220 million and carry a single-A rating from **Kroll.** It likely will price in May, with **Guggenheim** running the books.

The issuer is **Diambel,** a diamond wholesaler based in Antwerp, Belgium. Diambel acts as a middleman between mining companies including **De Beers** and jewelry retailers, with a specialty in smaller, lower-quality diamonds.

The planned bond offering presumably would be underpinned by payments Diambel is owed from retailers. Sources said the securitization would employ a revolving trust, similar to deals backed by credit-card receivables. The word is

See DIAMOND on Page 6

THE GRAPEVINE

Sharad Vohra, who left his job as head of collateralized loan obligation trading in Europe at **Goldman Sachs** in September, has landed a new job at **Astra Asset Management.** Vohra arrived in Astra's London headquarters last week, with a continued focus on CLO trading. He started at Goldman in 2002.

Vanessa Resnick left **Credit Suisse** last week to join a group at **Goldman Sachs** that trades pre-crisis mortgages. Resnick had been heading a similar unit in Credit Suisse's New York office, where she was employed since 2005. She also spent some time at the bank handling originations and trading of jumbo and subprime mortgage bonds.

BNP Paribas added a vice president to its structured-product sales staff in February. The recruit, **Brian Chao,** is

See GRAPEVINE on Back Page

Willis Eyes Return to Market

Willis Lease is contemplating the sale of bonds backed by leases on aircraft engines for the first time since 2012.

Willis dispatched treasurer **Joseph Howard** to the **Structured Finance Industry Group's** "SFIG Vegas 2017" conference, held Feb. 26-March 1 in Las Vegas, to reacquaint investors with the Novato, Calif., company.

There's no word yet on which bank Willis might tap to underwrite the offering. **Credit Agricole** and **Goldman Sachs** ran the books on the company's previous asset-backed bond issue, which totaled $390 million. Willis was in the market only once before that, selling $228.3 million of bonds in 2005 via **UBS.**

The 2012 deal, which garnered single-A ratings from **S&P** and **Fitch,** was restructured last year to give Willis more flexibility to manage the underlying assets. Fitch said the changes wouldn't affect its rating.

Willis' main business is leasing commercial-aircraft engines to manufacturers and airlines. As of Sept. 30, its assets included leases on 208 engines. Along with whole aircraft and related equipment the company owns, its assets had a total book value of $1.1 billion. ❖

Exxon Tapping ABS for Higher Yields

ExxonMobil's employee pension system is increasing its holdings of asset-backed bonds.

Such products so far have accounted for only a minimal amount of the Irving, Texas, oil giant's pension holdings, making up 0.03% of its U.S. assets and 0.56% of its non-U.S. portfolio at yearend 2016. Those figures both could grow to 1-2% over the next two years or so.

Exxon had a total of $12.7 billion in its defined-benefit plan in the U.S. at yearend, with another $19 billion set aside for non-U.S. workers. Officials from the company have been discussing the added investments with issuers and underwriters in recent weeks, expressing an interest in triple-A-rated securities underpinned by auto loans and credit-card accounts sold in the U.S.

The initial purchases would flow mainly from a $1.1 billion contribution Exxon is planning for its pension system this year. Of that amount, $560 million would go to the U.S. component and $492 million would go to the non-U.S. portfolio, according to a March 3 SEC filing.

A $1.8 billion contribution is slated for 2018, further augmenting the company's capacity to buy asset-backed bonds.

Like many other investors, Exxon is looking at securitized products as a higher-yielding alternative to corporate bonds, where returns remain unattractively low. The company's U.S. pension plan had 39% of its capital in corporate bonds at yearend. The non-U.S. plan had a 22% position.

The U.S. pension system's other holdings included equities, government debt and private equity products. The non-U.S. system's holdings fall into the same categories.

The pension plans' investments are overseen by **Colin Kerwin.** ❖

Rally Resumes for Student-Loan Bonds

Spreads on student-loan paper continued to narrow this week following a brief period during which values remained essentially flat.

The tightening trend was most pronounced among short-dated, triple-A-rated notes. Consider that one-year senior bonds backed by accounts written under the **U.S. Department of Education's** now-unwinding Federal Family Education Loan Program were changing hands on the secondary market in recent days at 15 bp over three-month Libor — in from 28 bp on March 6. Two-year notes were trading around 30 bp, compared to about 38 bp at the beginning of last week.

The values of bonds backed by private student loans also increased. Triple-A-rated paper with three-year maturities was changing hands at 60 bp over three-month Libor. That compares to about 65 bp on March 6.

Spreads had been holding steady the previous week. Asset-backed bond analysts said the more-recent rally demonstrates a continued ability among investors to absorb an increase in supply, at least for now. So far this year, education lenders have sold $3.6 billion of bonds, versus $2.4 billion during the same period last year, according to **Asset-Backed Alert's** ABS Database.

"We believe spreads for FFELP student-loan ABS still have room to tighten before reaching their terminal level — particularly spreads for senior tranches with longer [weighted average lives], along with lower investment-grade-rated tranches," **Bank of America** senior researcher **Theresa O'Neill** wrote in a March 10 report. ❖

Online Lender Focused on Vet Bills

A startup that offers online loans to pet owners is eyeing securitization as a long-term funding source.

Since November, **Vetary** has been writing unsecured personal loans of $600 to $10,000 to help borrowers pay for veterinary care. Vetary's parent, **Finrise** of Burlingame, Calif., is developing similar lending programs to help borrowers cover medical and dental expenses.

Vetary this month inked a deal with **FinWise Bank,** a subsidiary of **All West Bancorp** of Sandy, Utah, to serve as originator of record — giving Vetary license to lend nationwide. For now, the lender is drawing on $5.4 million of early-stage financing it received from **Funding Circle** co-founder **Sam Hodges, LendingHome** chief executive **Matt Humphrey** and several other angel investors.

The plan is to secure a bank warehouse line once its loan portfolio reaches critical mass. The timing of a debut securitization would depend largely on how quickly the business expands.

Chief executive **Garrett Smallwood** said Vetary is signing up hundreds of customers a week in a Utah region where the company has focused its early marketing efforts.

Vetary offers loans to borrowers with credit scores of at least 640, with an average score of 700 in its current portfolio. Interest rates on the loans range from 7% to 36%.

Smallwood believes pet owners represent a good credit risk, given their need for ongoing veterinary services. "With the average pet owner visiting the vet twice a year, it's easy to see what leads to a positive repayment behavior," he said. ❖

Industry Pros Back Credit-Score Bill

A bill that would permit **Fannie Mae** and **Freddie Mac** to rely on credit scores other than FICO has the support of securitization professionals who believe it also could have a positive effect on the private-label mortgage market.

The Credit Score Competition Act, introduced in the House on Feb. 7, would allow agency lenders to underwrite mortgages using alternative credit scores including VantageScore, developed jointly by **Experian, Equifax** and **Transunion.** Under current law, Fannie and Freddie only can work with lenders that rely exclusively on **Fair Isaac Corp.'s** FICO score.

The bill's sponsors — **Reps. Ed Royce** (R-Calif.), **Kyrsten Sinema** (D-Ariz.) and **Terri Sewell** (D-Ala.) — believe alternative credit scores would make mortgages available to more homeowners. Unlike FICO, for example, VantageScore gives borrowers credit for paying rent and utility bills on time.

The legislation, first introduced in 2015, is unrelated to broader efforts by Congressional Republicans and the **Trump Administration** to overhaul the mortgage agencies.

The Credit Score Competition Act has broad support from consumer and industry groups including the **Structured Finance Industry Group.** While the law would apply only to the mortgage agencies, private-label lenders likely would follow suit.

"We think the markets and consumers would ultimately benefit from such fair and open competition," said **Dan Goodwin,** SFIG's director of mortgage policy. "But there are significant practical considerations."

Chief among them is creating a scale for gauging alternative scores against FICO. Another big question is how the rating agencies would process the new scores. The agencies "would need to enhance their models to the extent alternative credit scores became more common," one source said. ❖

Clayton Targeting Online Lenders

Mortgage due-diligence specialist **Clayton Holdings** is turning its attention to online lending.

The Shelton, Conn., unit of **Radian** is now offering its data and analytics services to online originators of personal loans and student loans, in addition to home loans. Clayton kicked off the marketing push at the "Lendit USA 2017" conference, held March 13-14 in New York.

"A number of our existing mortgage-banking and lending clients are starting to migrate to online lending, and as our clients migrate, we migrate with them," Clayton's **Andy Pollock** said. "We are experts in lending, and we see [the online market] as a growth space."

Pollock, who works in the company's Los Gatos, Calif., office, has led efforts to identify new products and markets since joining the firm in 2015. In the online-lending sector, Clayton is pitching a suite of services including due-diligence reviews of loans underpinning securitizations and ongoing surveillance of the deals.

The marketing push comes as Clayton attempts to shore up its core business following a prolonged drought of private-label mortgage securitizations. Meanwhile, it has been gaining traction in the asset-backed bond market as an asset-representation reviewer, helping issuers fulfill an **SEC** requirement under Regulation AB that they hire outside vendors to examine defaulted collateral for adherence to representations and warranties. ❖

Big Conduit Operators Soak Up CP Growth

The largest commercial-paper conduit operators saw their businesses grow in 2016.

According to **Moody's,** there was an average of $314.2 billion of conduit securities outstanding worldwide during the fourth quarter, up 3.5% from $303.5 billion a year earlier. However, the 20 most-active administrators outpaced the market with a combined growth rate of 7.8% — with 15 of those institutions posting gains.

J.P. Morgan retained its usual standing as the world's most active administrator last year, boosting its average fourth-quarter outstandings to $40.9 billion from $38.3 billion. **MUFG** moved up a spot to second place, increasing its count to $29.4 billion from $27.3 billion.

Meanwhile, **Royal Bank of Canada** fell to third from second as its outstandings shrank to $26.4 billion from $29.2 billion. **Credit Agricole** and **Citibank** also switched places, with Credit Agricole moving up to fourth amid an increase in volume and Citi dipping to fifth as it continued an extended retreat.

Other notable changes: 16th-place **Lloyds Banking** saw its total fall to $6.5 billion from $10.8 billion, while **Credit Suisse** reappeared on the list in 20th place after starting a new version of a conduit called Alpine Securitization that it shuttered in 2015.

Meanwhile, 14 of the 20 largest issuing vehicles were bigger than a year earlier. Topping the list was J.P. Morgan's Chariot Funding, which moved up from sixth on the list as its average fourth-quarter outstandings grew to $16.7 billion from $10.6 billion a year earlier. The entity mainly finances auto loans and trade receivables.

Kells Funding, previously the largest conduit, fell to second even as its outstandings grew to $13.6 billion from $11.8 billion. The vehicle, run by **FMS Wertmanagement,** is designed to unwind assets assumed via the German government's credit-crisis bailout of **Hypo Real Estate.**

Credit Agricole's Liquidities de Marche, which mainly finances trade receivables and auto loans, remained in third place with $12.9 billion of outstandings. MUFG's Victory Receivables moved into fourth place from seventh with a $10.2 billion tally. RBC's Old Line Funding slipped to fifth, from second, at $9.8 billion.

Moody's statistics account for conduits worldwide. According to the **Federal Reserve,** which doesn't specifically parse out conduit issues, there was $249.5 billion of asset-backed commercial paper outstanding in the U.S. at yearend 2016 on a

See GROWTH on Page 5

Top Conduit Administrators

		Average Outstandings 4Q-16 ($Bil.)	4Q-15 ($Bil.)
1	J.P. Morgan	$40.9	$38.3
2	MUFG	29.4	27.3
3	Royal Bank of Canada	26.4	29.2
4	Credit Agricole	23.0	18.2
5	Citibank	19.8	23.2
6	FMS Wertmanagement	13.6	11.8
7	Societe Generale	12.1	11.5
8	TD Securities	10.6	7.7
9	BNP Paribas	10.5	8.2
10	Bank of Nova Scotia	9.9	7.6
11	Barclays	9.1	8.6
12	MetLife	8.5	7.9
13	Sumitomo Mitsui	7.7	6.7
14	BNY Mellon	7.2	5.6
15	QSR	7.0	6.2
16	Lloyds Banking	6.5	10.8
17	Banca IMI	4.8	3.1
18	Natixis	4.5	4.6
19	Rabobank	4.4	5.1
20	Credit Suisse	4.3	0.0
	Others	53.9	61.9
	TOTAL	**314.2**	**303.5**

Source: Moody's

Growth ... From Page 4

seasonally adjusted basis. That was up from $247.8 billion a year earlier.

But the Fed is showing a contraction so far this year, with a $239 billion total on March 15.

That fits into a pattern that emerged after the market hit an apparent bottom of about $210 billion in early 2015 — at which point issuance was projected to enter a gradual growth phase, but instead bounced around in a range of $230 million to $275 million amid several false starts.

Now, industry participants are pointing to the large administrators' gains as a possible precursor to a sustained growth trend. "Things are improving. A lot of guys who were on the sidelines are moving back into the market," said the administrator of a conduit specializing in repurchase agreements, noting an increase in the number and diversity of counterparties that deal with his firm.

Regulatory updates help to explain the outlook. For example, the **Commodities Trading Futures Commission, Comptroller of the Currency, FDIC, Federal Reserve** and **SEC** specified at year-end 2013 that bank-run conduits would be exempt from the Dodd-Frank Act's Volcker Rule, so long as the institutions supply 100% liquidity support for the vehicles. Operators also have largely adjusted to the SEC's October 2017 adjustments to Rule 2a-7 under the Investment Company Act of 1940. That measure includes disincentives for money-market funds to invest in securitized products whose assets contain exposures of more than 10% to a single obligor — as opposed to 10% of a single pool of receivables.

In the case of Credit Suisse's Alpine brand, meanwhile, the bank shifted liquidity backstops for the new vehicle to its Cayman Islands branch from New York. The idea was to lessen the impact of a Dodd-Frank requirement that large foreign banks place their U.S. subsidiaries under a so-called intermediate holding company subject to regulatory controls and oversight in the States.

"For the most part, the unknown variables of regulation are behind us. They are just constants now. We can start concentrating on originating again," another administrator said.

Still, a number of factors stand to keep growth in check. Securities-arbitrage vehicles, which were a staple of the market in its pre-crisis heyday, remain extinct. And many operators have seen their issuing powers diminished amid rating downgrades. Among them: **Norddeutsche Landesbank,** which Moody's cut to "P-2" (from "P-1") on Sept. 15.

Because the bank acts as the liquidity supplier for its sole commercial-paper conduit, Hannover Funding, that U.S.-focused vehicle's securities were downgraded the next day by a corresponding degree — a move that made them unattractive to many investors. ❖

Largest Commercial-Paper Conduits

Excludes medium-term note programs

	Conduit Name	Administrator	Primary Holdings	Outstandings 4Q-16 ($Bil.)	4Q-15 ($Bil.)
1	Chariot Funding	J.P. Morgan	Auto loans/leases, trade receivables	$16.7	$10.6
2	Kells Funding	FMS Wertmanagement	FMS Wertmanagement loans, securities	13.6	11.8
3	Liquidites de Marche (LMA)	Credit Agricole	Trade receivables, auto loans/leases	12.9	11.0
4	Victory Receivables	MUFG	Trade receivables, auto loans, equipment loans	10.2	9.4
5	Old Line Funding	Royal Bank of Canada	Auto loans/leases, student loans, credit cards	9.8	11.1
6	Sheffield Receivables	Barclays	Mortgages, auto floorplan/loans/leases, equipment finance	9.1	8.6
7	Gotham Funding	MUFG	Trade receivables, auto loans/leases, credit cards	8.8	7.4
8	Atlantic Asset Securitization	Credit Agricole	Trade receivables, commercial loans, equipment finance	8.7	7.2
9	MetLife Short Term Funding	Lord Securities	MetLife funding agreements	8.0	7.9
10	Collateralized Commercial Paper	J.P. Morgan	Repurchase agreements	7.8	6.2
11	Jupiter Securitization	J.P. Morgan	Auto loans/leases, student loans, credit cards	7.6	10.7
12	Bedford Row Funding	Royal Bank of Canada	Loans and debt securities	7.3	9.0
13	Liberty Street Funding	Bank of Nova Scotia	Trade receivables, auto loans/leases	6.8	5.8
14	Manhattan Asset Funding	Sumitomo Mitsui	Trade receivables, auto loans	6.5	6.6
15	Cancara Asset Securitisation	Lloyds Banking	Auto loans/leases, insurance premiums, trade receivables	6.5	10.8
16	Thunder Bay Funding	Royal Bank of Canada	Auto loans, credit cards, student loans	6.3	5.9
17	Barton Capital	Societe Generale	Auto loans, credit cards, student loans	6.3	5.6
18	Matchpoint Finance	BNP Paribas	Trade receivables	6.0	5.2
19	Antalis	Societe Generale	Trade receivables, auto loans	5.8	5.8
20	Ridgefield Funding	Liberty Hampshire	Repurchase agreements	5.5	5.4

Avant Approaches Nervous Market

Avant is preparing its next personal-loan securitization, at a time when investors again are expressing unease over the health of online originators.

The offering is expected to total $300 million, with **Credit Suisse** running the books. Marketing efforts are scheduled to begin in the coming weeks.

The transaction would follow the same playbook as Avant's first three deals, all completed last year. Those deals totaled $856.1 million, according to **Asset-Backed Alert's** ABS Database.

The new issue comes as Avant is testing an arrangement under which loan-review firm **Global Debt Registry** runs the Chicago company's receivables through its eValidationSM and eVerifySM programs. Because it has yet to be decided who would pay for the service, however, the resulting validations will remain inaccessible to bond investors for now.

Still, industry participants are pointing to the agreement as a sign that online lenders are working to strengthen relationships with bond and loan buyers who stepped away from the sector last year and continue to monitor new strains for the business.

The latest hit came when **Morgan Stanley** said in a March 10 report that losses among the accounts backing **Social Finance's** first personal-loan securitization, issued in 2015, had risen to the point where cashflows were diverted away from subordinate bondholders. While deals backed by personal loans and small-business loans from Avant, **CircleBack Lending, Garrison Capital, LoanDepot** and **OnDeck Capital** already have hit such "triggers" over the past year, SoFi's addition to the group has caused some nervousness among investors due to the company's reputation for dealing only with high-quality borrowers.

For SoFi's part, a spokeswoman said bondholders wouldn't suffer losses and that the trigger was at an unusually low 2.6% at the time it was hit.

Meanwhile, recent securitizations of online loans from SoFi and others have employed higher loss triggers than earlier ones. And SoFi lately has been buying its own subordinate notes, reducing the potential of losses for outside bondholders.

As for Avant, it was among a number of lenders to cut staff and reduce its origination volume last year — with its new-loan production falling by 50-65%. With the company seeking to resume its growth, a spokesman characterized the tie-up with Global Debt Registry as a demonstration of the company's willingness to be transparent with investors.

Indeed, services like those offered by Global Debt Registry, **DV01** and **PeerIQ** have resonated with bond buyers amid shaky loan performance across the industry and last year's data-tampering scandal at **Lending Club.** The Avant spokesman also said the shop's asset-performance troubles were a learning experience it doesn't expect to repeat.

But even after seeing several originators fail, some remain unconvinced that the shakeout is complete — especially for those employing marketplace formats. "When it comes to unsecured consumer loans, I'm not sure the broader questions have been answered," one loan buyer said. "There are still performance issues. There is still too much competition. If you have a model based on [origination] volume and you aren't holding much on balance sheet, not much has changed." ❖

New Trustee Enters CLO Market

Global Loan Agency Services, which advises both lenders and borrowers on corporate-debt restructurings, is throwing its hat in the ring as a trustee for collateralized loan obligations.

The London firm this month received a charter from the **New Hampshire Banking Commission** for a newly formed unit called **GLAS Trust Co.** — clearing the way for it to begin operating as an SEC-regulated trustee under the Trust Indenture Act of 1939. Heading the effort is **Daniel Fisher,** who joined Global Loan last year when it opened an office in New York. Fisher had been employed since 2007 at **Wilmington Trust,** and before that worked at **Law Debenture Trust** and **U.S. Bank.**

GLAS Trust initially plans to tap Global Loan's contacts in the leveraged-loan market to win trustee assignments from CLO issuers. Down the road, GLAS could offer similar services to issuers of other types of structured products.

In the CLO market, GLAS will be going up against long-established trustees including **BNY Mellon, Citibank, Deutsche Bank,** U.S. Bank and **Wells Fargo.** But its status as an outsider could appeal to issuers and investors who feel some of the biggest trustees failed to represent their interests during the financial crisis. Indeed, some trustees are still defending lawsuits investors filed in the wake of the 2008 market crash.

In addition to debt restructurings, Global Loan offers lenders, corporate borrowers and investors a range of administrative services including processing, cash management and reporting. ❖

Diamond ... From Page 1

that the issuer could be good for one or two deals per year.

Castle Placement has told investors that Diambel had been financing its business via a bank warehouse facility. But the bank recently withdrew the credit line as part of a broader pullback from financing commodity businesses in response to regulatory-capital changes under the **Bank for International Settlements'** Basel 3 rules.

Spearheading the marketing effort at Castle Placement is managing director **Ken Hackel,** who joined the New York firm in June following a stint at **CRT Capital** as head of securitized-product strategy.

Castle Placement is led by securitization veterans **Richard Luftig** and **Ken Margolis.** Margolis' resume includes a stint as co-head of collateralized debt obligation banking at **Merrill Lynch** and sime time as a structured-product trader on **Credit Suisse's** proprietary-trading desk. Luftig was a senior executive at **Bear Stearns,** where his duties included head of structured-product distribution in North America. ❖

Blitzing ... From Page 1

Atlanta investment firm is mapping a follow-up transaction.

Redwood Trust also is considering a quick turnaround after pricing a $342 million jumbo-loan securitization on March 13 via **Wells Fargo,** supporting earlier expectations that the Mill Valley, Calif., REIT's 2017 deal production would surpass its 2016 tally of $1 billion.

Likewise, **Shellpoint Mortgage** expects to return to market after pricing a $280 million transaction backed by jumbo and alternative-A mortgages this week via **Bank of America.** That issue follows a $353.7 million offering in November, the Greenville, S.C., operation's first in more than a year.

Among issuers of bonds backed by reperforming mortgages, **New Residential Investment** of New York priced its first rated offering on March 6 amid an apparent effort to ramp up its production of such securities. Its $773 million offering carried grades from **S&P** and DBRS, with BofA and **Credit Suisse** running the books.

There also are signs that **CarVal Investors** and **FirstKey Mortgage** will become more active issuers of bonds backed by reperforming mortgages. New York-based CarVal completed one such offering in 2016, placing $504.6 million of bonds. FirstKey, also of New York, completed five reperforming-loan transactions totaling $3.8 billion in 2016 and followed up with a $2.1 billion deal this February.

Other issuers that are on the near-term calendar after being singled out as likely to come to market more frequently in 2017:

- **Beach Point Capital,** whose first rated securitization of non-qualified loans was delayed late last year but is expected to price soon.
- **J.P. Morgan,** whose main jumbo-mortgage bond program produced a $1 billion deal in February after putting out $2.8 billion of supply in 2016.
- **Shelter Growth Capital,** with a follow-up to a $113.7 million November deal that marked its debut as an issuer of non-qualified mortgage bonds.
- **Social Finance,** building on a $158.6 million jumbo-loan deal it priced in December.

All told, an estimated $6.7 billion of rated and unrated bonds backed by qualified, non-qualified and reperforming mortgages have priced in the U.S. this year. Counting only rated deals underpinned by newly originated jumbo loans, the total stands at $2.6 billion — setting a pace that would easily surpass a full-year projection of $5 billion that BofA cited in a March 10 report.

At this point in 2016, only $1 billion of fresh jumbo-loan securities had priced.

Non-qualified mortgage offerings, however, are expected to be the biggest driver of growth this year. Because issuers of such securities have to keep 5% stakes in their deals under the Dodd-Frank Act's risk-retention rule, banks largely have shunned the sector — leaving it open to a group of some 100 specialty lenders whose portfolios increasingly are reaching critical mass.

Rating agency analysts confirm the outlook, adding that they have been reviewing deals from repeat clients while fielding calls from prospective issuers that want guidance on how to structure offerings in ways that would achieve optimal grades.

Most non-qualified loans fall into that category because the borrowers don't meet the rule's debt-to-income requirements or have opted for non-standard payment structures, including interest-only formats. But the mix has become more diverse, with **Sprout Mortgage,** for example, recently offering financing of up to $1.5 million for individuals with credit scores as low as 580 and debt-to-income ratios as high as 50%, so long as they have four months of payments in the bank. Sprout, of Irving, Texas, has been eyeing late 2017 for its first-ever mortgage securitization.

Meanwhile, investor demand for non-qualified mortgage bonds has been robust — with buyers including **MetLife** planning to increase their holdings of the paper this year.

On the jumbo-mortgage front, rising interest rates are lifting loan returns to the point where securitizations could produce enough arbitrage to represent a more viable alternative to whole-loan sales. The average jumbo-mortgage rate was at 4.9% this week, up from 4% at the beginning of the year, according to **The Wall Street Journal.**

Along with the issuers in the near-term pipeline, Wells has been taking steps to restart a jumbo-mortgage securitization program it paused in the wake of the credit crisis. ❖

Momentum ... From Page 1

institutional peers in the States pull back. "In my view, the market is overheated," one portfolio manager said, characterizing the current environment as a seller's market. "There is a lot of capital chasing any kind of assets, especially yieldy ones."

In what could prove an early sign of weakening, a four-year class of triple-A-rated securities from a $870 million equipment-lease deal that **CNH Global** priced on March 15 went at a spread of 42 bp over swaps — 2 bp wider than the level initially suggested by bookrunners **Citigroup, Rabo Securities** and **Societe Generale** (see Initial Pricings on Page 10).

Most recent offerings fared better. For example, equipment-lease securities with three-year lives and triple-B ratings were selling on the new-issue market last week at 140 bp over Treasurys, in from 142 bp a week before and 162 bp at the beginning of the year.

Spreads on auto-loan and credit-card securities also are well inside of their 52-week averages. For example, five-year senior card paper from mainstream issuers is selling for about 40 bp over Libor — in from about 45 bp at the beginning of this year and 55 bp a year ago.

Meanwhile, **Kabbage** priced a $525 million securitization of small-business loans on March 7 with **Guggenheim** running the books, increasing the deal's size from an initial $500 million to take advantage of spreads that sources characterized as unusually tight.

The notion that investors might find returns too small to justify is somewhat at odds with the fact that buysiders have plenty of capital to put to work, thanks to allocations that opened at the beginning of 2017. "People think it's frothy, but they need paper," another portfolio manager said. "You might start to see some pushback, but this time of year it's just easier to get things done."

Strong economic conditions also support continued demand, with investors encouraged by the **Federal Reserve's** March 15 decision to increase in its target overnight lending rate to 1% from 0.75%. A survey that **Capital One** took at the **Structured Finance Industry Group's** recent "SFIG Vegas 2017" conference also found that 81% of respondents expect buyside interest in asset-backed bonds to increase in the coming year, up from 42% the year before.

So far this year, asset-backed bond issuers in the U.S. have completed 73 deals totaling $50.9 billion, up from 71 transactions for $39.3 billion a year ago, according to **Asset-Backed Alert's** ABS Database. U.S. CLO production also has picked up, especially in the past few weeks. Not counting some $35 billion of offerings meant to refinance previous issues, that sector has seen 28 new deals totaling $14.8 billion this year, up from 16 for $6.5 billion.

The recent increase in CLO supply has been accelerated by issuers seeking to take advantage of tightening spreads across their deals' capital structures. For example, eight-year notes with triple-B-ratings were pricing at 335 bp over three-month Libor this week, in from 375 bp a month ago. But issuers acknowledge that there likely isn't much room for improvement, either on the mezzanine or senior levels. "We're starting to see some pushback on spreads . . . I wouldn't say anything dire is going on, but those undercurrents are out there," one manager said. ❖

INITIAL PRICINGS

Connecticut Avenue Securities, 2017-C02

Priced: March 15
Amount: $1.3 billion
Collateral: Risk transfer
Seller: Fannie Mae
Bookrunners: J.P. Morgan, BNP Paribas

Class	F/K	Amount	Yield	WAL	Spread	Benchmark
2M-1	BBB-/BBB	379.890		1.63	+115	1 mo. Libor
2M-2	B/B+	759.779		6.25	+365	1 mo. Libor
2B-1	NR	189.945		10.01	+550	1 mo. Libor

BMW Vehicle Lease Trust, 2017-1

Priced: March 15
Amount: $1 billion
Collateral: Auto leases
Seller: BMW
Bookrunners: Barclays, Citigroup, Credit Agricole

Class	M/F	Amount	Yield	WAL	Spread	Benchmark
A-1	F1+	175.000	1.000	0.30		
A-2	AAA	375.000	1.655	1.14	+16	EDSF
A-3	AAA	360.000	1.994	2.04	+27	Int. Swaps
A-4	AAA	90.000	2.190	2.46	+37	Int. Swaps

Navient Student Loan Trust, 2017-2

Priced: March 16
Amount: $921.4 million
Collateral: Student loans
Seller: Navient
Bookrunners: J.P. Morgan, Bank of America, Credit Suisse

Class	M/S/D	Amount	Yield	WAL	Spread	Benchmark
A	Aaa/AA+/AAA	921.400		4.87	+105	1 mo. Libor

CNH Equipment Trust, 2017-A

Priced: March 15
Amount: $850.3 million
Collateral: Equipment loans
Seller: CNH Global
Bookrunners: Citigroup, Rabobank, Societe Generale

Class	S/F	Amount	Yield	WAL	Spread	Benchmark
A-1	A1+	181.000	1.000	0.38		
A-2	AAA	310.000	1.649	1.16	+15	EDSF
A-3	AAA	272.000	2.080	2.64	+22	Int. Swaps
A-4	AAA	87.290	2.496	3.87	+42	Int. Swaps

Sierra Timeshare Receivables Funding LLC, 2017-1

Priced: March 13
Amount: $350 million
Collateral: Timeshare loans
Seller: Wyndham Worldwide
Bookrunners: Credit Suisse, Barclays, Bank of America

Class	S/F	Amount	Yield	WAL	Spread	Benchmark
A	A	276.100	2.930	3.22	+95	Int. Swaps
B	BBB	73.900	3.230	3.22	+125	Int. Swaps

Oscar U.S. Funding Trust, 2017-1

Priced: March 15
Amount: $312.9 million
Collateral: Auto loans (prime)
Seller: Orient Corp.
Bookrunners: Mizuho, BNP Paribas

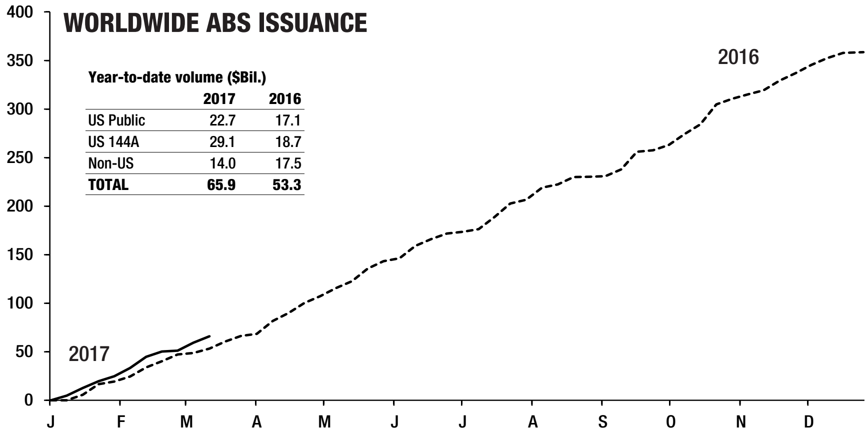
Class	M/F	Amount	Yield	WAL	Spread	Benchmark
A-1	F1+	52.300	1.180	0.24		
A-2A	AAA	90.600	2.318	1.21	+80	EDSF
A-2B	AAA	45.400		1.21	+80	1 mo. Libor
A-3	AAA	66.200	2.844	2.54	+100	Int. Swaps
A-4	AAA	58.400	3.329	3.83	+125	Int. Swaps

JGWPT XXXVIII LLC, 2017-1

Priced: March 15
Amount: $131.8 million
Collateral: Legal settlements
Seller: J.G. Wentworth & Co.
Bookrunner: Barclays

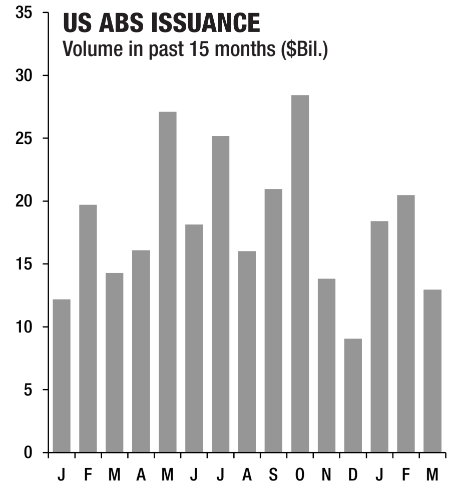
Class	M/D	Amount	Yield	WAL	Spread	Benchmark
A	AAA	118.184	4.032	12.22	+140	Int. Swaps
B	BBB	13.596	5.500	13.87		

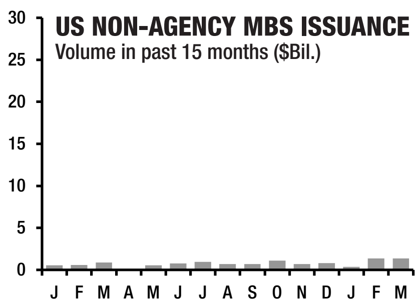
MARKET MONITOR

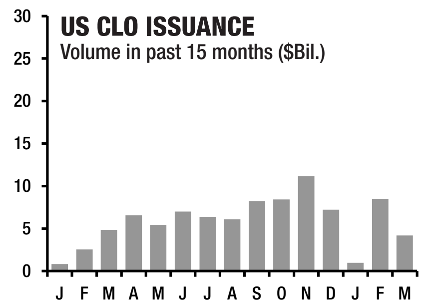


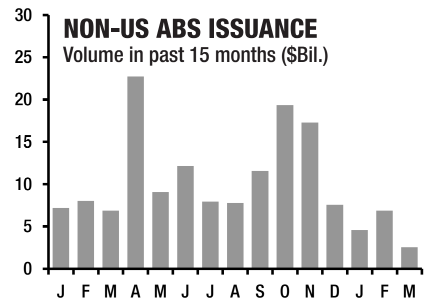
Year-to-date volume ($Bil.)

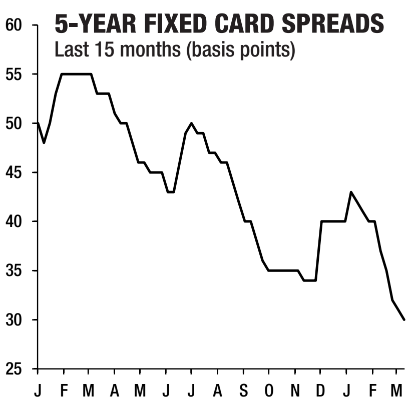
	2017	2016
US Public	22.7	17.1
US 144A	29.1	18.7
Non-US	14.0	17.5
TOTAL	**65.9**	**53.3**







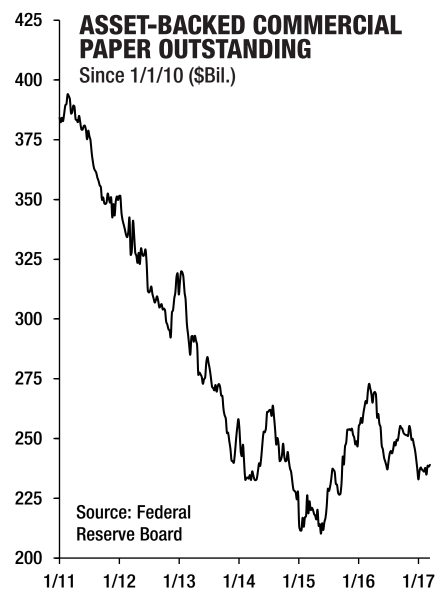


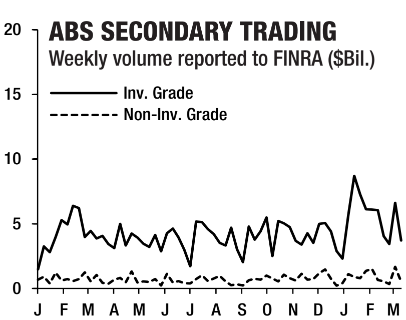


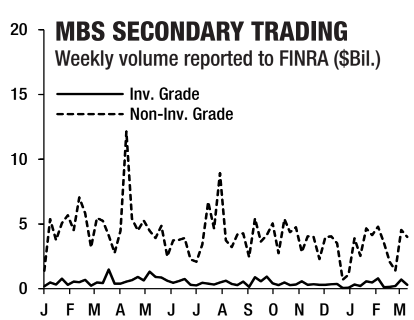
SPREADS ON TRIPLE-A ABS

	Avg. Life	Spread (bps) 3/10	Week Earlier	52-wk avg.
Credit card - Fixed rate (vs. Swap)	2.0	+13	+14	+20.1
	5.0	+30	+31	+41.9
Credit card - Floating rate (vs. 1 mo. Libor)	2.0	+15	+16	+21.2
	5.0	+38	+39	+43.1
Auto loan - Tranched (vs. Swap)	2.0	+9	+11	+22.3
	3.0	+21	+21	+32.6
Swap spreads (bid/offer midpoint)	2.0	+34	+34	+22.0
	5.0	+10	+12	+1.4
	10.0	-3	-2	-12.2

Source: Deutsche Bank







Data points for all charts on this page can be found in The Marketplace section of ABAlert.com

THE GRAPEVINE

... From Page 1

focusing in part on illiquid securities. He most recently held a similar role at **Deutsche Bank,** where he was employed from 2012 to last October.

New York fund-of-funds operator **Corbin Capital** has hired an analyst, presumably with the task of reviewing investments related to structured products. The recruit, **Himesh Lad,** had been working on the securitized-product origination desk at **Citigroup** since 2015 and was at **MetLife** before that. Corbin was founded by **Glenn Dubin** and **Henry Swieca,** and now is led by **Tracy McHale Stuart.** It has about $5 billion under management.

Demica, a London firm that helps clients fund their trade receivables through securitization, is seeking a head of originations. The recruit would oversee an eight-person staff that identifies assignments and structures the resulting bond offerings. Those responsibilities previously belonged to **Tim Davies,** who this week became head of a new unit that aims to offer long-term direct financing to the operation's customers. The hope is that the addition will result in "stickier" funding for those parties, while improving the efficiency of Demica's securitizations.

Sean Dougherty started this week as a counsel at **MJX Asset Management,** with a focus on aiding in the structuring and formation of collateralized loan obligations issued by the New York firm. Dougherty previously worked at **Silvermine Capital,** a CLO-issuing arm of **Man Group.** He also has spent time at **NewOak Capital** and **Point Capital.** MJX has issued 29 CLOs totaling $14.5 billion dating back to 2002, according to **Asset-Backed Alert's** ABS Database.

PineBridge Investments has added a collateralized obligation trader to its ranks. **Brett Neubeck** joined the New York investment firm as a senior associate in mid-February from **Ares Management,** where he was employed from 2014 to December 2016. Neubeck also has worked at **Citigroup.** PineBridge is both an investor in CLOs and an issuer of the transactions, having completed 16 deals totaling $7.3 billion since 2010.

New York-broker-dealer **Brownstone Investment** hired a salesman in February, assigning **John Glynn** to cover products including mortgage bonds, collateralized loan obligations and securities backed by rental-home cashflows. Glynn had been employed from 2009 until this January on the fixed-income sales-and-trading desk at **CapRok Capital.**

Kroll is seeking an analyst to rate securitizations of auto loans, auto leases, credit-card accounts, student loans and timeshare loans in its New York office. The recruit would take the title of associate director, reporting to managing director **Rosemary Kelley.** Kroll is focusing on candidates with at least seven years of experiences. Applicants can email resumes to careers@kbra.com.

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