Green Street

# Asset-Backed Alert

THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

AUGUST 11, 2023



## Issuers, Buyers See Appeal in Private CLOs

Large investors seeking exposure to direct lending increasingly are turning to customized products with broad similarities to collateralized loan obligations.

The deals, often called private CLOs, are proving especially popular among insurers that want exposure to direct lenders' strategies, but that also find appeal in the lower regulatory capital requirements associated with bond holdings.

The transactions also offer benefits for their managers — often in the form of market access for those that lack the scale to float broadly syndicated CLOs or that can't obtain warehouse financing on attractive terms.

The result: Growing numbers of investors and loan managers are finding common ground in arrangements — typically involving a single buyer or a small group of buyers — that combine CLO structures with the customization of separate accounts that deploy capital alongside commingled funds. The trades first started appearing in 2021, sources said, with activity accelerating during the first quarter

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## Capital Rules To Boost Jumbo MBS Dealflow

Newly proposed capital-reserve rules for banks are expected to help fuel a long-anticipated surge of jumbo home-loan securitizations by nonbank institutions.

Many banks that originate jumbo mortgages face significantly higher capital requirements for mortgage holdings under the U.S. implementation plan for the final update to the **Bank for International Settlements'** Basel 3 standards released on July 27. Under the proposed rules, the mandated capital buffer would rise by 19% for the largest U.S. banks, by 10% for midsize institutions and by 5% for small banks. "This represents a fundamental shift in the way U.S. banks have been managing their mortgage assets since the global financial crisis," one lender said.

The upshot: Rather than raising and holding additional capital, many banks intend to sell their inventories of jumbo mortgages and other nonagency accounts, sources said. Those sales will provide ready-to-securitize assets to routine, nonbank jumbo-mortgage bond issuers including **Annaly Capital Management,**

**See RULES on Page 7**

## Pagaya, Upstart Drive Asset-Loss Upsurge

Continuing performance deterioration among personal loans originated by **Pagaya** and **Upstart Network** was largely to blame for a recent jump in losses among such accounts, with some approaching early-amortization triggers for the bonds they support.

The Pagaya and Upstart loans, securitized in 2021 and 2022, fall within a category of what **KBRA** identifies as Tier 2 credits offered mostly to individuals with credit scores of 660 to 710 — alongside receivables from **Freedom Financial Network, LendingClub Bank, LendingPoint, Prosper Funding, Theorem** and **Upgrade.**

The July installment of an index maintained by KBRA pegged annualized net losses among Tier 2 loans at a record 19.47% during the prior month's payment period. Now comes word that among freshly booked losses for the month, 67% were tied to Pagaya and Upstart receivables.

KBRA responded on Aug. 8 by cutting the ratings on two Pagaya deals that it

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## THE GRAPEVINE

Longtime **Mayer Brown** partner **Paul Forrester** retired at the end of June. Working from Chicago, Forrester focused on areas including collateralized loan obligations, fund formation, asset management, energy finance and project finance for Mayer, which he initially joined in 1980 from a law firm in Sydney. He made partner in 1985, then moved to **Bildakit Homes** in 1986, only to return to Mayer in 1987. He will remain as senior counsel for a brief period.

**Guggenheim** has installed a managing director on a team that underwrites securitizations of nontraditional cashflows. In his new role, **Emile Ernandez** is tasked with leading an expansion into asset classes including structured settlements, timeshare loans and residential Property Assessed Clean Energy loans. Ernandez most recently led the

**See GRAPEVINE on Back Page**

## Sky Prepares Aircraft Deal for Liftoff

**Sky Leasing** is considering issuing bonds backed by its aircraft leases in the first quarter of next year.

In recent weeks, bankers representing the San Francisco company have been contacting investors to gauge their interest in the transaction amid choppy conditions that have persisted since Russia's February 2022 invasion of Ukraine.

The transaction is expected to take place under Rule 144A, which allows noteholders to resell securities as if they were publicly registered.

The deal would be the first broadly distributed securitization of aircraft receivables since **Carlyle Group** priced a $522.5 million transaction in June 2022. That deal was run by **BNP Paribas, Goldman Sachs, Natixis, RBC, Societe Generale** and **Sumitomo Mitsui Banking Corp.**

The planned issue also will be Sky's first securitization since it priced a $663.2 million deal in May 2021, with **Bank of America, Citigroup, Deutsche Bank, Morgan Stanley, MUFG,** Natixis and Societe Generale running the books.

Sky's only other securitization was a $780.8 million offering in August 2017 led by BofA, **Credit Agricole** and Deutsche. The new deal will likely be smaller than Sky's previous transactions, a source said.

Market players will be closely monitoring the upcoming transaction. Aircraft-lease securitization activity ground to a halt last year due in part to skyrocketing costs. For example, the sole tranche of the Carlyle transaction — with a 4.6-year life and A3/A ratings from **Moody's** and **KBRA** — priced to yield 6.6%. A comparable senior tranche of the company's previous transaction priced to yield 2.8% in November 2021. Only two deals priced in 2022 totaling $1.1 billion, compared with 16 deals adding up to $9.2 billion in 2021, according to **Asset-Backed Alert's** ABS Database.

Sky has a strong reputation as an issuer that has previously securitized, giving sources confidence the company will get its deal across the finish line.

"If someone is capable of pulling it off and getting good execution, they certainly are," one buy-sider said. ❖

## IMN Planning Business as Usual

**Information Management Network's** parent is denying chatter that the company's structured-finance unit is up for sale.

Word of such a plan had been circulating in recent weeks, prompting market participants to question whether changes also might be in store for the company's main-event securitization conferences, ABS East and Global ABS.

The buzz resulted from the November sale of IMN parent **Euromoney Institutional Investor** to private-equity firms **Astorg** and **Epiris** and the subsequent splitting of the business into two components — **Fastmarkets,** owned by Astorg, and **Delinian,** controlled by Epiris. With IMN falling under the Delinian umbrella, in turn, the talk had been that a further restructuring could split off the company's structured-finance business.

But sources said Delinian officials have squelched that talk. Instead, conferences including the **Global Borrowers & Bond Investors Forum** and the **Covered Bond Congress** are moving under the structured-product unit.

To that end, ABS East remains on track for Oct. 23 to 25 at the Fontainebleau Miami Beach hotel. Global ABS is set for June 4 to 6, 2024, at the Barcelona International Convention Center. ❖

## Supply Ticks Up Amid Solid Demand

The flow of new asset- and mortgage-backed bonds perked up this week.

Issuers in the U.S. priced 16 such transactions totaling $9.8 billion from Aug. 7 to 11, up from 12 deals totaling $6.7 billion last week and eight offerings for $3.4 billion the week ended July 28.

Investors, meanwhile, easily absorbed the supply amid continuing efforts to deploy fresh allocations for the third quarter — in some cases demanding more.

Take **Toyota.** The automaker priced a $1.6 billion securitization of prime-quality auto loans on Aug. 8, having originally circulated the offering at $1.2 billion via bookrunners **BMO Capital, BNP Paribas, Societe Generale** and **TD Bank** (see Initial Pricings on Page 9).

A securitization of private student loans from **Sallie Mae Bank** also grew during marketing, to $568 million from $394 million. That deal priced on Aug. 8 as well, with **Bank of America, Barclays, Goldman Sachs** and **JPMorgan Chase** running the books.

The same day, **Redwood Trust** completed a $338.5 million jumbo-mortgage deal via JPMorgan. The issue — the Mill Valley, Calif., REIT's first since it priced a $324.7 million offering in March — comes as proposed increases in capital-reserve requirements for U.S. banks are expected to push more lending and securitization activity to nonbank mortgage companies such as Redwood (see article on Page 1).

Also pricing was an offering of bonds backed by data-center leases from **Aligned Energy. Deutsche Bank,** Goldman, **Guggenheim, MUFG,** TD and **Wells Fargo** ran the books on the deal, which grew to $540 million from $350 million during marketing.

Aligned's issue comes amid a strong flow of data-center lease securitizations, with eight such deals totaling $3.3 billion having priced so far this year. And supply in the asset class is expected to grow as the proliferation of artificial intelligence drives up the need for space at the facilities.

For next week, market participants are expecting $5 billion to $7 billion of deals to price. Several of the issuers already are shopping the offerings to investors. In the auto-loan sector, deals are in the market from **Credit Acceptance Corp., Exeter Finance, Fifth Third Bank, Honda, Lithia Motors** and **Santander Consumer USA.** Personal-loan originator **OneMain Financial** also has an issue lined up. ❖

## NAIC Signals Pause in Risk Reviews

The **National Association of Insurance Commissioners** is moving toward a holistic review of how insurers' investments are regulated that could put the brakes on several initiatives involving structured products.

Word of the potential pause came in the form of a memorandum from the NAIC's Financial Condition Committee questioning whether the initiatives are the best use of the association's regulatory resources. Though posted online last week with little fanfare — it is the last item on the agenda for an Aug. 15 meeting — the memo has industry participants buzzing.

The Financial Condition Committee is the parent of the NAIC's securities-valuation office, which is seeking broad authority to challenge ratings assigned to all kinds of structured products. Its recommendations carry particular weight because committee chair **Elizabeth Kelleher Dwyer** — who is also Rhode Island's insurance commissioner — is highly respected.

The Financial Condition Committee memo notes that the securities-valuation office lacks the tools to assess the effectiveness of credit ratings, which are used to set risk weights for many credit products, or to conduct its own analysis — arguments that also have been made by others.

It recommends establishing a "robust and effective governance structure" for due-diligence reviews of credit-rating agencies as a better way to reduce "blind reliance" on ratings. It also sets out a framework for modernizing the securities-valuation office, including assembling a team of expert investment professionals to oversee a coherent approach to evolving capital markets.

And while acknowledging that the securities-valuation office needs the ability to perform individual credit assessments, the memo suggests that such reviews should be a rarely used backstop.

The Financial Condition Committee memo also contains guidelines for the NAIC's risk-based capital working group's ongoing efforts to develop a methodology for evaluating the risks associated with collateralized loan obligations, suggesting that any changes consider market impacts and consistency across asset classes. The risk-based group and an ad hoc group working on CLO risks also are overseen by the Financial Condition Committee.

The memo comes as many market participants have commented on the disjointed nature of the NAIC's various initiatives to respond to changes in insurer investment strategies that favor private and structured assets.

"Regulators have an incredible opportunity to thoughtfully design a framework at a time when the industry is not in crisis," said **Amnon Levy,** chief executive of **Bridgeway Analytics.**

Many are wondering just how many initiatives the NAIC will pause, or even roll back.

A reevaluation of the securities-valuation office's role has potential implications for an initiative to assign higher risk weights to residual interests in asset-backed bonds.

It's also possible the Financial Conditions Committee's guidance for the CLO methodology under development could lead to revisions in similar methodologies that have been used for the past decade to evaluate residential and commercial mortgage bonds.

In addition, the memo's guidance could affect ongoing discussions about the treatment of feeder funds, a popular vehicle for channeling insurance-company capital to private-equity and private-debt funds.

"The industry welcomed this call for holistic review, and we're all eager to see how it plays out," said **Lawrence Hamilton,** who leads **Mayer Brown's** U.S. insurance regulatory and enforcement group.

The securities-valuation office is slated to discuss a proposal giving itself broad authority to challenge credit ratings at an Aug. 14 meeting — one day before the Financial Condition Committee meets. However, it's now considered unlikely that any action will take place in advance of the parent committee's meeting.

The **Structured Finance Association** and other parties have raised concerns about the lack of oversight for this proposed authority and the potential for market disruption. A comment letter the SFA submitted to the securities-valuation office at the end of June details an alternative process that some think could be a path toward a compromise. ❖

## Auto Lender To Ramp Up Issuance

With a new chief financial officer on board, **Southern Auto Finance Co.** is planning to become a routine asset-backed bond issuer.

The subprime auto lender has completed one such offering so far, a $75.1 million issue that priced on Nov. 9, 2022, with **Capital One** as bookrunner.

Now, newly installed CFO **Jason Person** is saying SAFCO is planning a programmatic issuing presence. Person declined, however, to elaborate on how often the Pompano Beach, Fla., company might tap the market.

"As the company grows, that issuance from a size and frequency standpoint will increase," Person said. "That's the plan. That was the reason I was hired."

Person, a longtime securitization professional, arrived last week. He previously spent seven years as treasurer at **Regional Management** unit Regional Finance, a routine issuer of bonds backed by personal loans. He also has led treasury and capital-markets activities at **Global Lending Services,** with additional stops at **Exeter Finance, General Motors Financial** and **JPMorgan Chase.**

Person replaces **Gary Stein,** who is retiring after almost 23 years at SAFCO. The company is led by chief executive **George Fussell.**

SAFCO specializes in financing vehicle purchases for first-time buyers without established credit histories, those attempting to rebuild their credit and borrowers with spotty or unverified income, including the self-employed. ❖

## SoFi Eyes Deal as Loan Holdings Swell

**Social Finance** is considering issuing bonds backed by personal loans for the second time this year as the San Francisco lender's portfolio rapidly grows.

Company treasury officials have been reaching out to investors to gauge demand for a transaction of some $400 million that could hit the market in the coming months. SoFi, which also has issued bonds backed by its student loans and mortgages, last completed a $340 million securitization of personal loans in February with **Mizuho** serving as structuring agent.

A second transaction this year would be an uptick from SoFi's recent annual pace. The lender last issued multiple personal-loan transactions in 2019, according to **Asset-Backed Alert's** ABS Database.

The deal chatter comes amid a robust first half of lending that resulted in SoFi's personal-loan portfolio growing 51% year over year to $3.7 billion. The lender, which also operates a bank, has been funding its loans primarily with deposits, which hit $2.7 billion at the end of June, up 26% during the second quarter. The growth in deposits and loans was better than equity analysts had expected, helping to fuel an increase in SoFi shares — which were trading at $9 to $9.50 this week, up from $4.50 at the beginning of the year.

Word is, SoFi is looking to seize on the earnings momentum to help generate interest in a new securitization. "They want to strike while the iron is hot," said one buy-sider. SoFi's personal-loan securitizations have a history of attracting deep pools of investors in large part because of its borrowers' strong credit profiles. During its July 31 earnings call, a SoFi official said its borrowers had an average income of $164,000 and a credit score of 745.

In recent months, issuance costs have skyrocketed for personal-loan bond issuers. Triple-A-rated bonds with eight-month lives are currently pricing to yield around 7.2%. Similar bonds from SoFi's February deal priced to yield 5.9%.

SoFi also has issued bonds backed by student loans, though it hasn't done so in nearly two years. The company securitized prime-quality residential mortgages once, in 2016. All told, SoFi has issued $28.9 billion of asset- and mortgage-backed bonds via 57 deals since 2013. ❖

## Subprime Mortgage DQs Rise

Delinquencies rose among pools of securitized subprime mortgages in last month's remittance reports, while delinquencies among prime-quality loans ticked slightly lower.

According to the July installment of an index maintained by **KBRA,** delinquencies of 30 to 59 days among subprime loans rose 11 bp to 1.75%. Among prime-quality loans, delinquencies fell 1 bp to 0.32%.

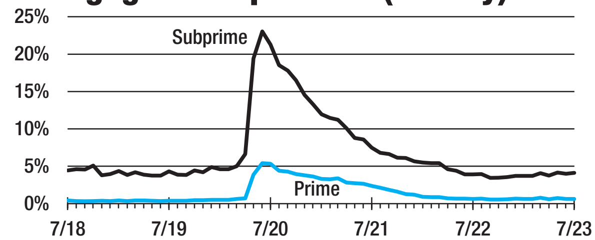
Annualized losses fell among both mortgage categories, remaining well below 1%.

Constant prepayment rates fell among both types of mortgages, with prime-quality loan prepayments dropping 3 bp to 4.71% while the rate for subprime accounts fell 55 bp to 8.64%.

For risk-transfer deals, delinquencies of 30 to 59 days remained well below 1% for reference pools containing low loan-to-value mortgages, and fell 7 bp to 0.89% among high loan-to-value pools.

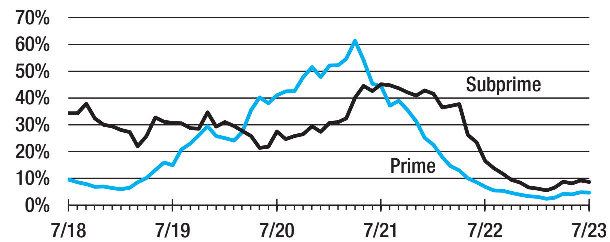
Annualized losses for both categories of risk-transfer reference pools remain near zero. ❖

**Mortgage Delinquencies (30-Day)**




Source: KBRA

**Mortgage Prepayment Speed**




Source: KBRA

## Wilmington Expanding Trust Team

**Wilmington Trust** is seeking to hire at least seven people for its asset- and mortgage-backed securities trust business.

The new positions reflect an increase in business from clients such as managers of hedge funds and private-equity funds that have been securitizing aggregated assets, typically in private transactions. Many of the offerings are tied to out-of-the-mainstream receivables, with others underpinned by rental-home or master-servicing cashflows.

The openings include:

- At least two senior-level cashflow-modeling positions, requiring at least five years of experience.
- At least one asset-backed securities unit manager post, requiring 10 years of experience.
- At least two senior relationship-manager slots, requiring seven years of experience.
- Two junior client-service positions, requiring two years of experience.

All of the positions are partially remote and are based in Buffalo, Chicago or Wilmington, Del., though the company will consider fully remote hires in other locations. ❖

## Solar Loans Proving Resilient

Losses among securitized pools of solar-power equipment loans dipped during the June collection period, while delinquencies barely changed.

According to the July installment of an index maintained by **KBRA,** annualized net losses in the sector fell 38 bp for the month to 1.64%, after two months of recent highs that topped 2%.

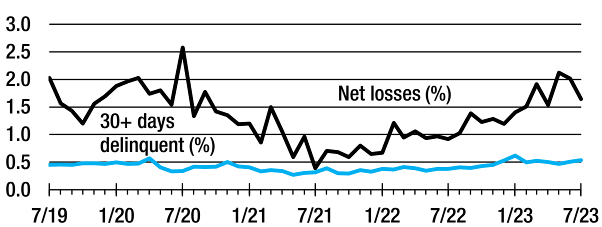
Meanwhile, the proportion of loans 30 to 59 days past due inched up 3 bp to 0.54% — consistent with recent readings. Delinquencies of 60 to 119 days were unchanged at 0.49%, the same level recorded for the previous two months.

That said, both delinquency figures are higher than they were a year ago, by 16 bp and 15 bp, respectively.

KBRA expects softening credit performance in the coming months, due in part to fundamental pressures including the October resumption of payments on federal student loans. Still, the agency believes solar-power equipment loans will continue to outperform other consumer debt products.

At the same time, prepayment rates remain near historic lows. At 5.56% during the June collection period, that figure represents a 107-bp decline from a month earlier and a 362-bp reduction from a year earlier.

### Solar-Equipment Loan Performance




Source: KBRA

## Upsurge ... From Page 1

already had placed on watch for downgrades in May.

The Class-C notes from an $810 million **issue** that the New York company priced in March 2021 now carry a BB- designation, down from an initial BB+. Cumulative net losses within that deal's asset pool stand at 17.27%, exceeding a base-case projection of 12.37% for the current period — and approaching a 20% trigger at which the transaction would enter rapid amortization.

KBRA's rating for the same class of a $675 million **deal** that Pagaya priced in September 2021 has dropped to B from its original BB-. Cumulative net losses for its collateral portfolio are at 17.10%, versus a base-case projection of 10.94% for the current period. That issue also has a 20% amortization trigger, which it is on track to breach around yearend.

A batch of the transaction's Class-C bonds traded at 83.5 cents on the dollar on Aug. 2 — before the downgrade — up from 83 cents on July 28 but down from 85.6 cents in August 2022. In late 2021, the same securities were trading at 98.7 cents to 99.7 cents.

Concurrently with the downgrades, KBRA affirmed its ratings on 16 classes of deals Pagaya issued in 2021 and 2022, while removing four classes from watch, leaving one under review and upgrading seven.

On Aug. 4, meanwhile, **Moody's** downgraded the Class-C notes from a $179 million **issue** that Upstart completed in August 2022. Those securities now are rated B1, having previously been cut in October to Ba3 from their original Ba2.

At the same time, Moody's boosted its ratings for three classes of notes from separate deals Upstart completed in 2021. As KBRA did for the Pagaya deals it upgraded, Moody's cited increasing credit-enhancement levels as the rationale for that action.

In certain cases, credit enhancement can grow for mezzanine and senior classes of deals even as enhancement shrinks to critically low levels among the issues' junior classes.

Beginning in 2022, six other Upstart deals from 2021 and 2022 **entered** early amortization as their collateral losses breached preset limits. And this February, Moody's **cut** its ratings for the junior pieces of another set of 2022-vintage transactions from the San Mateo, Calif., company.

Pagaya and Upstart tout their reliance on artificial intelligence to automate loan underwriting and origination. The performance of their accounts entered an accelerated downturn last year as inflation and other forms of economic deterioration made it harder for borrowers to keep up with their bills. ❖

## Rules ... From Page 1

**Chimera Investment, Guaranteed Rate, Redwood Trust** and **Rocket Mortgage** — many of which are now positioning themselves to substantially increase their outputs of such securities.

Indeed, the resulting increase in securitization volume likely will be significant, with expectations that some $15 billion of new jumbo-loan securities will price by yearend as banks scramble to prepare for the new rules — which probably will be finalized next year. That would mark a major turnaround for the jumbo-mortgage asset class. To date this year, a mere 25 transactions totaling $6.8 billion have priced. At the same point last year, 61 deals totaling $31 billion had priced, according to **Asset-Backed Alert's** ABS Database.

A move by the **Federal Home Loan Bank** system to restrict borrowing capacity for some institutions is expected to further juice the flow of jumbo mortgages to nonbanks. The system is tasked with boosting the liquidity of community banks. But it provides financing to larger institutions as well, a fact that has become controversial and prompted the review by regulators.

Some $2.5 trillion of home loans are held on the balance sheets of institutions that have financed the credits with short-term debt borrowed from federal home-loan banks, according to **BTIG.** "We see the combination of these potential changes as strong ingredients helping expand the opportunity set for nonbank lenders," BTIG analyst **Eric Hagen** wrote in an Aug. 2 report.

The coming burst of bonds backed by jumbo mortgages won't be short-lived. Sources expect a long-term flow arrangement to develop between banks that originate the loans and the nonbanks that will securitize them.

The Basel 3 changes come amid expectations that jumbo-MBS deal volume would start increasing after turbulence in the banking sector early in the year prompted the **Biden Administration** to float a series of rule changes that would restrict banks from funding their mortgages with customer deposits. Following the March failures of **Silicon Valley Bank** and **Signature Bank,** the **Federal Reserve, FDIC** and **U.S. Treasury Department** began a push to impose the new rules, which include a requirement that midsize banks hold more assets that can be converted quickly to cash in the event of a run on deposits.

Redwood Trust already is boosting its output of bonds backed by jumbo mortgages. The Mill Valley, Calif., REIT priced a $338.5 million deal on Aug. 8 via sole bookrunner **JPMorgan Chase,** bringing its 2023 output to three such transactions totaling $995.8 million. Last year, Redwood issued only one securitization of $687.2 million. ❖

## Investor Pact Boosts Coinstar Bonds

The values of asset-backed bonds issued by **Coinstar** have rebounded since the company struck an agreement with two investors in June.

Class-A2 notes from an $840 million 2017 issue, currently rated BBB/BBB- by **DBRS Morningstar** and **KBRA,** have mostly traded at 83 to 84 cents on the dollar in recent weeks after plummeting to 75 cents in February, according to **Finra's** Trade Reporting and Compliance Engine.

The decline from trades of 96.5 to 97 cents a year ago came amid speculation that the Bellevue, Wash., company could struggle to make principal payments on bonds from its 2017 and 2018 securitizations. However, two investors in those deals later agreed to advance it $90 million.

The agreement included a manager advance, funded outside the securitizations and payable periodically to Coinstar, that is senior to the payment waterfall for the deals — which are in rapid amortization. The fee will continue to flow as long as the bonds' leverage ratio remains under prescribed levels.

Additionally, Coinstar announced that it is putting its coin-counting kiosks in 72 **Suncoast Credit Union** branches in Florida.

Coinstar is a portfolio company of **Apollo Global Management.** The company formerly was part of **Outerwall,** which Apollo bought in 2016 and split into its component businesses: Coinstar, **Redbox Entertainment** and **ecoATM.** ❖

## Appeal ... From Page 1

of this year.

The rise of such deals marks a continuing evolution in the interaction of direct lending and the CLO market, where there is an estimated $1 trillion of securities outstanding. It also reflects a shift that has seen banks pull back from corporate lending and thus opened the door for nonbank originators to serve more large corporations alongside their usual clientele of small and midsize companies

To be sure, direct lenders such as **AllianceBernstein, Apollo Global Management, Deerpath Capital Management** and **Ivy Hill Asset Management** have been securitizing their loans in CLOs that are both broadly syndicated and publicly rated. Still, even their ilk can be motivated to arrange private CLOs with investors that want large exposures to particular credit programs.

Insurance companies and their affiliates have been among the leading buyers of the products in large part because purchasing fund interests would require them to set aside more regulatory capital than stakes in CLOs. "Insurance companies that are focused on regulatory capital can take on a significant portfolio in the form of rated notes, as opposed to having an equity interest" in a fund, **Milbank** partner **Sean Solis** said.

In that way, private CLOs also are akin to feeder funds that channel capital to private investment managers via sales of both debt and equity — a structure that can give clients more favorable regulatory capital treatment. Unlike feeder funds, however, each private CLO is backed by a security interest in its collateral pool. Also unlike feeder funds, private CLOs are actively managed.

"Often clients come to us looking for a feeder fund, but this is what they really want," said **Chris Duerden,** a partner at **Dechert.**

Dechert refers to private CLOs as "private-loan securitizations," a term it prefers to distinguish them from more broadly distributed transactions that sometimes are marketed as private-credit CLOs or direct-lending CLOs. **John Timperio,** another partner at the firm, notes that the "private-credit" label is gaining appeal to describe the broader universe of nonbank lending as opposed to "direct" or "middle-market" lending.

While private CLOs can be arranged directly with investors, they often carry ratings — with **KBRA** and **DBRS Morningstar** serving as the most active agencies in the sector. One of the so-called Big Three rating agencies also is looking at the sector.

And while the grades typically are unpublished, KBRA circulated a report on a $347.9 million transaction with many attributes of a private CLO that **Jefferies Credit Partners,** an affiliate of Jefferies and **MassMutual,** closed on June 22 — presumably at the request of one or more of the investors.

The transaction is backed by loans to small and midsize companies. It encompasses eight tranches of rated notes with grades ranging from triple-A down to double-B-minus, plus a single tranche of unrated subordinate notes.

Typical of many private CLOs, the issue has a delayed-draw feature. That is, all but one class of notes is partially funded, leaving room for the manager to call on commitments over a 12-month period to fund asset purchases or originations.

In some cases, the managers of private CLOs sell all of the notes to investors, plus some equity. In others, the issuers retain the equity or sell it to another party.

"The goal is to take advantage of a very specific insurance bid," said a banker who advised on a private CLO this year. He said such a transaction may be structured to better finance a pool of collateral that would not be suitable to traditional private-credit CLOs, such as a high concentration of triple-C-rated loans or loans with wider spreads.

As with more widely distributed CLOs backed by direct loans, managers may be willing to offer wider spreads on private deals because they can pass the cost along to borrowers whose loans otherwise might be difficult to fund at prevailing yields. ❖

# INITIAL PRICINGS

## Westlake Automobile Receivables Trust, 2023-3

**Priced:** August 9
**Amount:** $1.562 billion
**Collateral:** Auto loans (subprime)
**Seller:** Westlake Financial Services
**Bookrunners:** Wells Fargo, Mizuho, Societe Generale, SMBC Nikko

| Class | S/D | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/R-1(H | 350.000 | 5.781 | 0.23 | +35 | I-Curve |
| A-2-A | AAA | 374.370 | 6.037 | 0.91 | +67 | I-Curve |
| A-2-B | AAA | 170.000 | | 0.91 | +67 | SOFR |
| A-3 | AAA | 198.230 | 5.900 | 1.68 | +95 | I-Curve |
| B | AA | 117.900 | 6.001 | 2.06 | +125 | I-Curve |
| C | A | 192.600 | 6.099 | 2.48 | +150 | I-Curve |
| D | BBB | 158.400 | 6.561 | 3.00 | +215 | I-Curve |

## Toyota Auto Receivables Owner Trust, 2023-C

**Priced:** August 8
**Amount:** $1.560 billion
**Collateral:** Auto loans (prime)
**Seller:** Toyota
**Bookrunners:** BNP Paribas, BMO Capital, Societe Generale, TD Securities

| Class | S/F | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/F1+ | 305.000 | 5.604 | 0.21 | +19 | I-Curve |
| A-2-A | AAA | 405.026 | 5.672 | 1.03 | +40 | I-Curve |
| A-2-B | AAA | 189.474 | | 1.03 | +40 | SOFR |
| A-3 | AAA | 527.500 | 5.226 | 2.42 | +62 | I-Curve |
| A-4 | AAA | 133.000 | 5.070 | 3.70 | +76 | I-Curve |

## World Omni Auto Receivables Trust, 2023-C

**Priced:** August 8
**Amount:** $1.039 billion
**Collateral:** Auto loans (prime)
**Seller:** World Omni Financial
**Bookrunners:** Bank of America, JPMorgan Chase, MUFG, Truist Securities

| Class | S/F | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/F1+ | 216.100 | 5.607 | 0.23 | +18 | I-Curve |
| A-2-A | AAA | 221.500 | 5.641 | 1.10 | +41 | I-Curve |
| A-2-B | AAA | 154.000 | | 1.10 | +41 | SOFR |
| A-3 | AAA | 316.300 | 5.211 | 2.58 | +67 | I-Curve |
| A-4 | AAA | 84.000 | 5.089 | 3.77 | +80 | I-Curve |
| B | AA+ | 31.200 | | 3.83 | | |
| C | AA/A | 15.650 | | 3.83 | | |

## GM Financial Automobile Leasing Trust, 2023-3

**Priced:** August 8
**Amount:** $999.2 million
**Collateral:** Auto leases
**Seller:** General Motors
**Bookrunners:** JPMorgan Chase, CIBC, Deutsche Bank, RBC

| Class | S/F | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/F1+ | 154.360 | 5.634 | 0.30 | +18 | I-Curve |
| A-2-A | AAA | 289.000 | 5.652 | 1.16 | +45 | I-Curve |
| A-2-B | AAA | 100.000 | | 1.16 | +45 | SOFR |
| A-3 | AAA | 339.000 | 5.447 | 2.02 | +70 | I-Curve |
| A-4 | AAA | 65.900 | 5.508 | 2.41 | +90 | I-Curve |
| B | AA+/AA | 50.900 | 5.962 | 2.54 | +140 | I-Curve |

## SMB Private Education Loan Trust, 2023-C

**Priced:** August 8
**Amount:** $568 million
**Collateral:** Student loans
**Seller:** Sallie Mae
**Bookrunners:** Barclays, Bank of America, Goldman Sachs, JPMorgan Chase

| Class | M/D | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1A | AAA | 425.000 | 5.744 | 4.45 | +155 | I-Curve |
| A-1B | AAA | 100.000 | | 4.45 | +155 | SOFR |
| B | NR/AA | 43.000 | 6.447 | 10.81 | +240 | I-Curve |

## M&T Equipment LLC, 2023-LEAF1

**Priced:** August 8
**Amount:** $550 million
**Collateral:** Equipment loans
**Seller:** M&T Bank
**Bookrunners:** Atlas SP Partners, Bank of America

| Class | M/D | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | P-1/R-1(H) | 115.620 | 5.742 | 0.28 | +30 | I-Curve |
| A-2 | AAA | 207.030 | 6.171 | 1.20 | +100 | I-Curve |
| A-3 | AAA | 175.790 | 5.811 | 2.52 | +125 | I-Curve |
| A-4 | AAA | 51.560 | 5.829 | 3.49 | +150 | I-Curve |

# INITIAL PRICINGS

## GLS Auto Receivables Trust, 2023-3

**Priced:** August 8
**Amount:** $451.9 million
**Collateral:** Auto loans (subprime)
**Seller:** Global Lending Services
**Bookrunners:** Wells Fargo, Goldman Sachs

| Class | S/K | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/K1+ | 58.000 | 5.715 | 0.20 | +30 | I-Curve |
| A-2 | AAA | 161.330 | 6.117 | 1.03 | +85 | I-Curve |
| B | AA | 66.350 | 5.972 | 2.08 | +125 | I-Curve |
| C | A | 59.360 | 6.089 | 2.74 | +160 | I-Curve |
| D | BBB-/BBB | 65.630 | 6.532 | 3.52 | +220 | I-Curve |
| E | BB-/BB | 41.260 | 9.454 | 4.37 | +525 | I-Curve |

## Flagship Credit Auto Trust, 2023-3

**Priced:** August 8
**Amount:** $350 million
**Collateral:** Auto loans (subprime)
**Seller:** Flagship Credit Acceptance
**Bookrunners:** Deutsche Bank, Citigroup

| Class | S/D/K | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/R-1(H | 35.800 | 5.642 | 0.16 | +25 | I-Curve |
| A-2 | AAA/AAA/A | 145.000 | 5.967 | 1.05 | +72 | I-Curve |
| A-3 | AAA/AAA/A | 46.260 | 5.505 | 2.26 | +85 | I-Curve |
| B | AA/AA(H)/A | 31.130 | 5.711 | 2.82 | +125 | I-Curve |
| C | A/A(H)/A+ | 41.330 | 6.093 | 3.42 | +175 | I-Curve |
| D | BBB/BBB(H | 31.480 | 6.681 | 4.12 | +245 | I-Curve |
| E | BB-/BB(H)/ | 19.000 | 9.947 | 4.64 | +580 | I-Curve |

## PFS Financing Corp., 2023-C

**Priced:** August 8
**Amount:** $350 million
**Collateral:** Insurance-premium loans
**Seller:** IPFS
**Bookrunners:** Citigroup, BNP Paribas, JPMorgan Chase

| Class | M/S | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A | AAA | 329.000 | 5.589 | 3.16 | +120 | I-Curve |
| B | NR/A | 21.000 | 5.989 | 3.16 | +160 | I-Curve |

## PFS Financing Corp., 2023-D

**Priced:** August 8
**Amount:** $350 million
**Collateral:** Insurance-premium loans
**Seller:** IPFS
**Bookrunners:** Citigroup, BNP Paribas, JPMorgan Chase

| Class | M/S | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A | AAA | 329.000 | | 1.99 | +115 | SOFR |
| B | NR/A | 21.000 | | 1.99 | +165 | SOFR |

## Carvana Auto Receivables Trust, 2023-P3

**Priced:** August 7
**Amount:** $317.3 million
**Collateral:** Auto loans (prime)
**Seller:** Carvana
**Bookrunners:** Wells Fargo, BNP Paribas, Citigroup, Deutsche Bank, Santander

| Class | S/K | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | A-1+/K1+ | 35.000 | 5.663 | 0.22 | +25 | I-Curve |
| A-2 | AAA | 96.200 | 6.176 | 1.04 | +90 | I-Curve |
| A-3 | AAA | 96.200 | 5.895 | 2.41 | +125 | I-Curve |
| A-4 | AAA | 61.200 | 5.786 | 3.88 | +145 | I-Curve |
| B | AA/AA+ | 8.530 | 6.049 | 4.83 | +185 | I-Curve |
| C | A+ | 8.530 | 6.173 | 5.20 | +200 | I-Curve |
| D | BBB+ | 4.650 | 6.920 | 5.40 | +275 | I-Curve |
| N | BB+/BBB | 7.000 | 8.195 | 0.29 | +275 | I-Curve |

## GECU Auto Receivables Trust, 2023-1

**Priced:** August 7
**Amount:** $300 million
**Collateral:** Auto loans (prime)
**Seller:** General Electric Credit Union
**Bookrunners:** Bank of America, Stifel Nicolaus

| Class | M/S | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A-1 | P-1/A-1+ | 33.400 | 5.678 | 0.22 | +27 | I-Curve |
| A-2 | AAA | 105.300 | 6.030 | 1.06 | +77 | I-Curve |
| A-3 | AAA | 70.000 | 5.704 | 2.30 | +105 | I-Curve |
| A-4 | AAA | 57.900 | 5.869 | 3.47 | +150 | I-Curve |
| B | Aa1/AA | 12.600 | 5.945 | 4.32 | +170 | I-Curve |
| C | A1/A | 11.000 | 6.419 | 4.50 | +220 | I-Curve |
| D | Baa2/BBB | 9.800 | 7.319 | 4.50 | +310 | I-Curve |

## Conn's Receivables Funding, 2023-A

**Priced:** August 7
**Amount:** $273.7 million
**Collateral:** Consumer loans, unsecured
**Seller:** Conn's
**Bookrunners:** JPMorgan Chase, Deutsche Bank, MUFG

| Class | Fitch | Amount | Yield | WAL | Spread | Bench |
|---|---|---|---|---|---|---|
| A | BBB | 160.690 | 8.150 | 0.30 | +270 | I-Curve |
| B | BB | 82.430 | 13.031 | 0.93 | +770 | I-Curve |
| C | B+ | 30.550 | | 1.45 | | |

# MARKET MONITOR

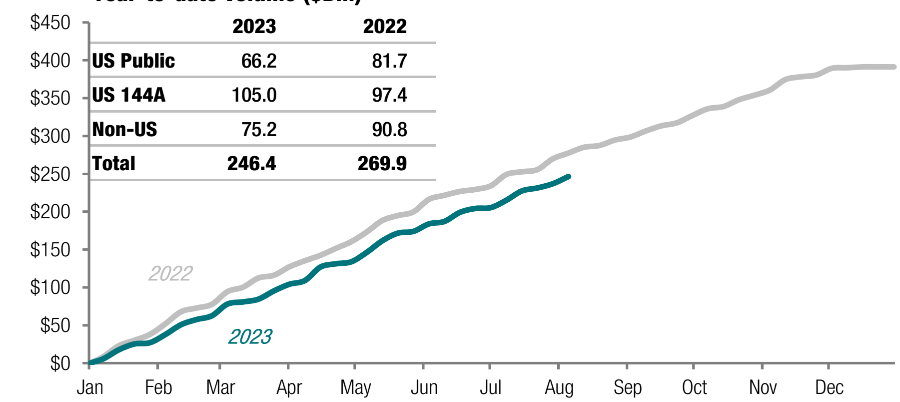
## SUMMARY

- U.S. asset-backed commercial paper outstanding has risen 7.0% year to date, to $308 billion.
- Spreads on triple-A-rated credit card ABS with 3-year lives have widened by 5 bp since the start of 2023, to 50 bp over the I-curve.
- Spreads on triple-A-rated auto-loan ABS with 3-year lives have narrowed by 12 bp since the start of 2023, to 60 bp over the I-curve.
- 30-year jumbo-mortgage rates have increased by about 450 bp to 7.4% since yearend 2020.

## WORLDWIDE ABS ISSUANCE

**Year-to-date volume ($Bil.)**

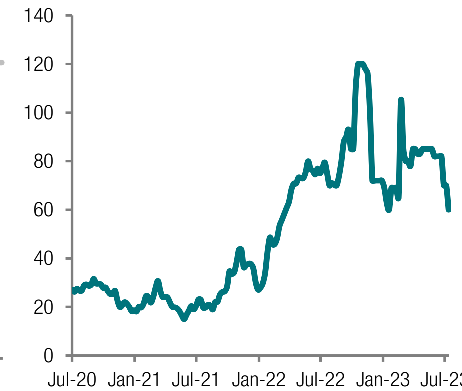
| | 2023 | 2022 |
|---|---|---|
| US Public | 66.2 | 81.7 |
| US 144A | 105.0 | 97.4 |
| Non-US | 75.2 | 90.8 |
| Total | 246.4 | 269.9 |




**Source: Green Street**

## 3-YR AUTO LOAN SPREADS

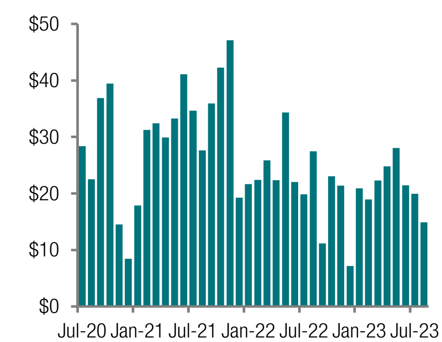
**Spread (bp)**




**Source: Deutsche Bank**

## US ABS ISSUANCE

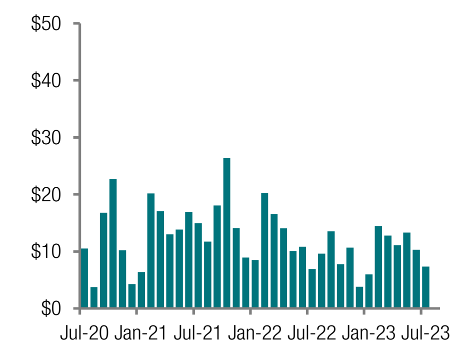
**Volume ($Bil.)**




**Source: Green Street**

## NON-US ABS ISSUANCE

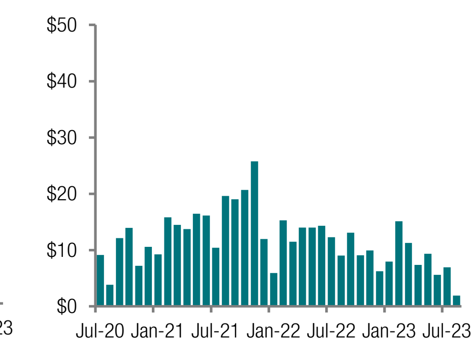
**Volume ($Bil.)**




**Source: Green Street**

## US CLO ISSUANCE

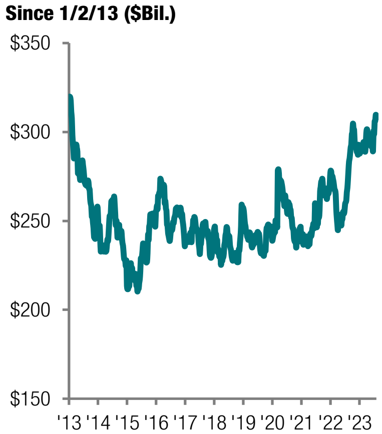
**Volume ($Bil.)**




**Source: Green Street**

## ASSET-BACKED COMMERCIAL PAPER OUTSTANDING

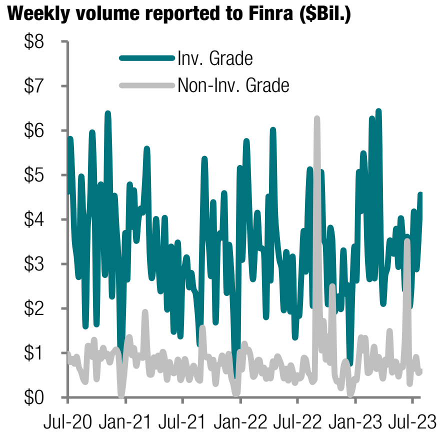
**Since 1/2/13 ($Bil.)**




**Source: Federal Reserve**

## ABS SECONDARY TRADING

**Weekly volume reported to Finra ($Bil.)**




**Source: Finra**

## SPREADS ON TRIPLE-A ABS

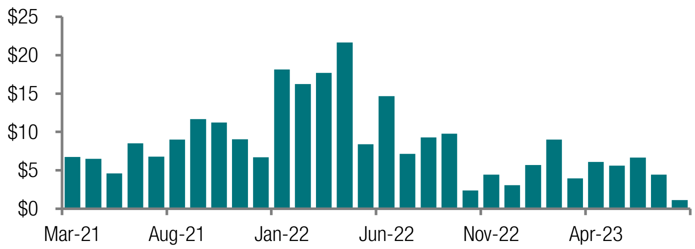
| | Avg. Life | Spreads 8/4 | Week Earlier | 52-wk Avg. |
|---|---|---|---|---|
| Credit Card | 2.0 | I+40 | I+47 | I+52 |
| *(Fixed)* | 3.0 | I+50 | I+55 | I+58 |
| Auto Loan | 2.0 | I+55 | I+60 | I+68 |
| *(Tranched)* | 3.0 | I+60 | I+70 | I+83 |
| Non-QM MBS | 2.0 | I+160 | I+160 | I+203 |
| *(Fixed)* | | | | |

**Source: Deutsche Bank**

# MARKET MONITOR

## US NONAGENCY MBS ISSUANCE

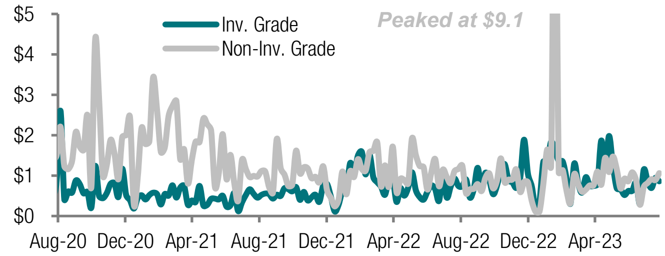
**Volume ($Bil.)**




**Source: Green Street**

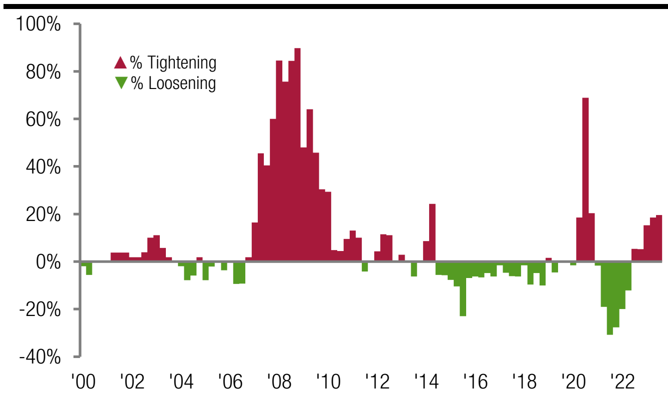
## MBS SECONDARY TRADING

**Weekly volume reported to Finra ($Bil.)**




**Source: Finra**

## LENDING STANDARDS




**Source: Federal Reserve**

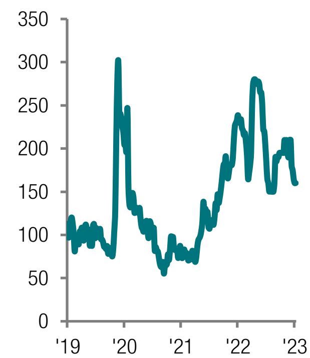
## MORTGAGE RATES

**30-yr Jumbo National Avg.**


**Sources: Bankrate.com, Bloomberg**

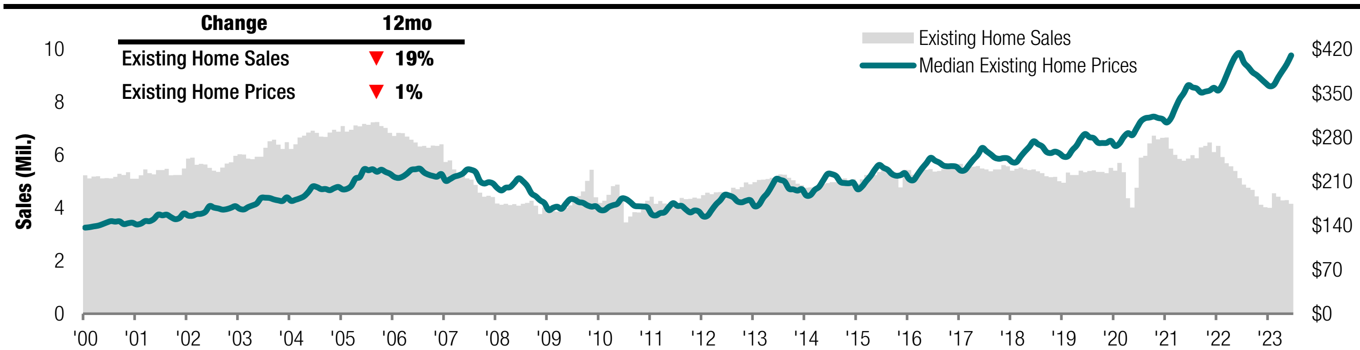
## MBS SPREADS

**Fixed 2-yr Non-QM**




**Source: Deutsche Bank**

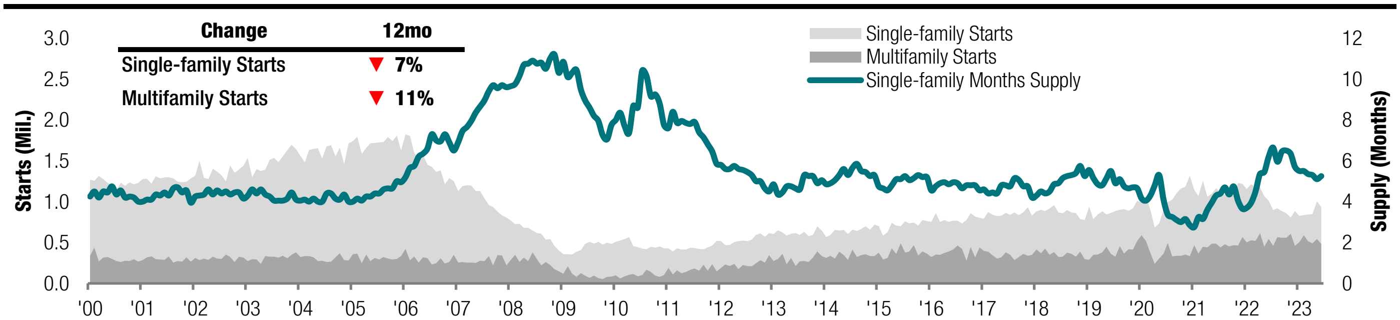
## HOME SALES AND PRICES




| Change | 12mo |
|---|---|
| Existing Home Sales | ▼ 19% |
| Existing Home Prices | ▼ 1% |

**Source: National Association of Realtors**

## HOUSING STARTS AND MONTHS SUPPLY




| Change | 12mo |
|---|---|
| Single-family Starts | ▼ 7% |
| Multifamily Starts | ▼ 11% |

**Source: U.S. Census Bureau**

**Visit the News Library to access the data in the Market Monitor charts.**

## THE GRAPEVINE

... From Page 1

asset-backed bond investment team at Hallandale, Fla., investment firm **Kawa Capital Management,** where he started in 2018. He also has worked at **Nearwater Capital, Barclays** and **Deutsche Bank.**

Market veteran **Lei Tie** parted ways with **First Plus Asset Management** this month to become a managing director focused on structured products at **Coventure,** a Miami-based firm that invests across the capital stack in startup technology companies. Tie also headed structured-credit product investments at First Plus, a hedge fund operator he co-founded in 2020. Before that, he logged six years overseeing asset-backed bond investments at **LibreMax Capital.** Tie worked on the banking side prior to that, with stops at **Barclays, Keefe Bruyette & Woods, Lehman Brothers** and **JPMorgan Chase.**

Structured-product sales specialist **John Harmonay** left **Barclays** this month to join **Bank of America's** New York office as a vice president. Harmonay logged nine years at Barclays and before that was at **JPMorgan Chase.**

**Tricia Hazelwood** started her new job at **UBS** this month. As head of global markets for North America and South America, she plays a leading role on a team whose functions include asset purchases and sales, fundraising and risk management across fixed-income products, equities, currencies and commodities. Hazelwood's assignment had remained uncertain since her April resignation from **MUFG,** where she was head of structured products since 2013. Before that, she spent 16 years at **Credit Suisse.**

Personal-loan originator **Upgrade** has brought in a business-development specialist. **James Branco** joined the San Francisco-based company this month as a director of financial-institution partnerships, working remotely. Branco had been a managing director at advisory shop **Bassett Capital** since 2019. He also has worked at **Citigroup** and at the former **Alliance Data,** now known as **Bread Financial.** Upgrade completed six securitizations totaling $724.7 million, all in 2018 and 2019.

**First Citizens Bank** is seeking two associates for the warehouse-lending team it absorbed through its takeover of **Silicon Valley Bank** in March. Both positions are in New York. One recruit would work on the lending side of the business, assisting in executing transactions, building cashflow models and conducting due-diligence reviews. The other would perform portfolio-management duties, working with the warehouse team and clients to close credit agreements. The warehouse-lending group, whose clients include companies that employ securitization as a funding strategy, is led by **Brian Foley.**

**East West Bank** has an opening for a senior securitization associate in New York. Responsibilities include structuring, underwriting and monitoring securitizations, secured loans and other structured-finance instruments. The position requires seven years of experience. East West has served as co-manager on four securitizations totaling $908.9 million this year.



### ASSET-BACKED ALERT

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