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Asset-Backed ALERT
THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

APRIL 12, 2019

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Risk-Transfer Pros Wary of Asset Erosion

A jump in the number of low-income borrowers represented in agency risk-transfer pools is drawing a skeptical eye from market participants.

At issue are the recent expansions of a **Fannie Mae** program called HomeReady and a **Freddie Mac** initiative dubbed Home Possible — both of which offer low-down-payment financing with reduced fees and relaxed mortgage-insurance requirements. As more of those accounts make their ways into the reference pools for the agencies' risk-transfer bonds, concerns are growing that the risk to bondholders could be rising as well.

But there's no consensus on the severity of that risk or how to measure it.

Home Possible loans made up 26.1% of the loans backing a $640 million transaction that Freddie priced through its Structured Agency Credit Risk Notes program on Feb. 20. That was up from 4.7% in a comparable offering in 2017. Fannie, meanwhile, devoted almost 20% of the portfolio for a $920.3 million deal on Feb. 5 to

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Barclays Readies Rare CP Conduit Launch

Barclays is launching a commercial-paper conduit.

The vehicle, Sunderland Receivables, should start selling securities to U.S. investors any day now. It would be the first conduit to launch in the States since **Guggenheim** began operating its Great Bridge Capital in July 2014. Before that, the last conduit to form was **Cantor Fitzgerald's** Institutional Secured Funding in May 2012.

Sunderland is expected to function much like Barclays' other conduits in the U.S., Salisbury Receivables and Sheffield Receivables. Those vehicles finance a range of assets, including mortgages, dealer-floorplan loans, auto loans and leases, equipment leases and trade receivables.

However, there is some chatter that Barclays is positioning Sunderland to fund longer-term collateral than Salisbury or Sheffield. Salisbury had $66.7 million of its securities in the hands of investors at yearend 2018, with Sheffield weighing in at

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IMN Quietly Swaps Out Buy-Side Leader

Information Management Network has suddenly replaced the head of its new investor group.

Jim Muller had been overseeing the Fixed Income Investment Network since its launch in July 2018. He was dismissed without warning on March 15, with IMN bringing over **David Blide** from a publishing post at affiliate **Euromoney Institutional Investor** to take his place.

Sources said the switch took place without the knowledge of FIIN's board, which encompasses 18 investment professionals. Among them are **Tom Denkler** of **AIG, Alessandro Pagani** of **Loomis Sayles & Co., Scott Seewald** of **New York Life** and **Jeffrey Smith** of **Charles Schwab** — each the head of his employer's structured-finance investment team.

One board member said he only learned about the leadership switch when

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Due to the annual break in our spring production schedule, the next issue of **Asset-Backed Alert** will be dated April 26.

THE GRAPEVINE

Moody's managing director **Linda Stesney** retired on March 29. Stesney had been on board since 1992, and since 2017 was working on a New York team that aims to improve the agency's operational efficiency. She also spent time in a range of senior securitization roles, including the head positions for mortgage-bond ratings and servicer assessments, mortgage-bond surveillance, ratings of bonds backed by student loans and rental-car cashflows, and ratings for Canada and Latin America deals. Stesney's earlier employers include **FGIC** and **Shearman & Sterling.**

Deutsche Bank added market veteran **John Polito** to its corporate-trust sales group in New York a few weeks ago. Polito had been working at **BNY Mellon** since 1999, most recently as an executive relationship manager focused on

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Auto-Lease Plan Switches Gears

Auto-leasing company **Fair** is moving ahead with a planned asset-backed bond program, but with a different pool of receivables than initially expected.

When the Santa Monica, Calif., company began talking to industry participants in 2018, indications were that its bonds would be backed exclusively by a pool of leases it had agreed to buy from **Uber** — with follow-up issues underpinned by accounts it continues to offer to the ride-sharing service's drivers.

But the upcoming transaction instead would be backed partly or entirely by leases Fair originates through a mobile app. It has penciled in the deal for late in the third quarter or early in the fourth quarter. A routine program would follow.

Sources said **Credit Suisse** or **Goldman Sachs** likely would serve as bookrunner, since the banks separately have been supplying $500 million warehouse lines to Fair.

When it appeared that Fair's securitizations would fund its Uber leases, the expectation was that the company would launch the program in the second half of 2018. But a source said Fair's own origination volume is growing much faster, perhaps five times as quickly.

Speaking at **LendIt's** annual conference in San Francisco on April 9, founder **Scott Painter** said Fair is generating a combined 300 leases per day through both programs and that the figure could top 2,000 in the next six months. Painter added that the business needs about $4 billion of debt financing this year to fund the growth.

Painter's appearance was formatted as an interview by **Larry Chiavaro** of **First Associates,** which services Fair's receivables. In addition to the warehouse lines from Credit Suisse and Goldman, Fair lined up $50 million debt from **Silicon Valley Bank** in January. It also has raised about $500 million of equity financing over the past year.

Fair's core leasing program allows borrowers to shop for used cars in the inventories of some 3,000 dealers. Customers pay hefty initiation fees, but can opt out or upgrade at any time.

Painter, who launched Fair in 2017, is a technology entrepreneur whose earlier initiatives include car-shopping service **TrueCar.** Helping oversee the securitization program is treasurer **Justin Tisler,** whose past employers include **Aladdin Capital,** Credit Suisse, **CRT Capital** and **UBS.** ❖

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HomeReady receivables.

Both agencies parse their risk-transfer offerings into several series with varying asset characteristics, with the low-income borrowers confined mainly to their highest-risk pools. One trader said investors have expressed nervousness about the trend in part because it is difficult to predict how the loans will perform.

To that end, rating agencies have insisted on higher credit-enhancement levels for deals containing the accounts — with **Fitch** identifying the added exposures as "credit negative" in a presale report for Freddie's Feb. 20 transaction.

That issue saw Freddie supply credit enhancement by retaining a subordinate class equal to 3.6% of the overall issue. That was up from 3.2% for a March 2018 deal in which Home Possible loans made up 18.2% of the collateral.

But increasing the retained piece hasn't been enough to erase all buysiders' jitters. "It's becoming a real concern," the trader said.

A rating agency analyst, meanwhile, said she has been tracking the rising exposures but so far has noticed only slightly higher delinquencies among the targeted borrowers. "We are confident our models are accounting for the characteristics of the pool, and we don't have a particular issue with those borrowers being in the pool," she said. "But it's definitely something we are keeping an eye on."

Among those sounding alarms is **Li Chang,** founder of data-analytics firm **Recursion.** She pointed to a correlation between growth in the HomeReady and Home Possible programs and increases in debt-to-income and loan-to-value ratios in risk-transfer pools.

Mortgages with loan-to-value ratios of more than 97% represented 20.2% of the underlying assets for the Feb. 5 deal from Fannie, up from 10% in previous offerings. "While there is data made available to the public that allows sophisticated investors to perform the types of calculations we present here, it is not clear that such techniques are widely applied, raising the specter of the possibility of mispriced credit risk in this market," Chang and colleague **Richard Koss** wrote in a November 2018 report.

Still, some investors see the concerns as presenting buying opportunities, as securities with higher exposures to low-income borrowers have begun trading at slightly lower prices on the secondary market. For example, the average discount margin offered by investors for the Class-B1 notes from Freddie's Feb. 20 deal was 433 bp this week, versus 400 bp for a comparable class of a March 2018 deal with less exposure to Home Possible loans, according to **Empirasign.** "We definitely like the product," one buysider said. "It's just something people have to price in and be careful about when they think about the risk."

Fannie and Freddie have been pushing hard to expand the HomeReady and Home Possible Programs, which aim to foster home affordability for low-income borrowers. While the agencies concede that lower mortgage-insurance requirements will lead to higher losses on loans that default, they insist the risk for bondholders isn't increasing

Neither agency appears to have set a limit on how many of the credits flow into their risk-transfer pools. At the same time, they have been informing investors and rating analysts of the changes. "HomeReady gets underwritten to the same performance expectations [as other loans]," one source said. "We're not cutting any slack or expanding the credit box."

A Freddie employee, meanwhile, suggested that investors may be highlighting the presence of the loans as a negotiating tactic when it comes to pushing for higher returns.

Fannie and Freddie began alerting originators of their applicants' eligibilities for the programs in late 2015. The growth of the initiatives is expected to be a hot topic at **Information Management Network's** "Credit Risk Transfer Symposium" at the Conrad hotel in New York on April 25. ❖