www.ABAlert.com
Asset-Backed ALERT
THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

JULY 20, 2018

2 Spotify Shuffles Funding Options
2 Credit Suisse Steps In for LoanDepot
2 CLO Pioneer Plans Next Act
3 Essent Eyes More PMI Offerings
3 Softer Loan Market Buoys CLO Pros
3 Fraud Sentencing Pushed Back
4 Ellington Pitches Advisory Service
5 Moody's Retools CLO Data Feed
9 INITIAL PRICINGS
11 MARKET MONITOR

SEC Demands Change in Asset Valuations

In a directive that could lead to widespread markdowns, the **SEC** is telling certain investors to change how they assign values to their structured-product holdings.

The effort is aimed mostly at fund operators that have been using historical data to determine projected collateral losses — and then factoring those calculations into the values of their bond positions. Instead, the SEC is pushing for a discounted-cashflow approach in which present collateral values are determined by factoring capital costs into estimated future cashflows.

The regulator also wants the investors to hire outside vendors to verify the values reported in regulatory documents, and is keeping an eye on how assets are treated as they move through the stages of delinquency.

Arcadia Partners, Colchis Capital and **LendingClub** affiliate LendingClub Asset Management are among a number of buy-side shops that have heard from the

See CHANGE on Page 4

Agencies Downplay Collateral Deterioration

Buyers of agency risk-transfer bonds are taking a closer look at the quality of the securities' underlying mortgages.

The scrutiny comes in response to a recent phenomenon in which rising interest rates have suppressed origination volume, prompting lenders to make up for some of the lost business by accommodating weaker borrowers. However, both **Fannie Mae** and **Freddie Mac** insist their risk-transfer pools remain unsullied.

According to the **Mortgage Bankers Association,** combined agency and non-agency mortgage originations totaled $346 billion during the January-March period, down from $415 billion in the preceding three months. That marked the first quarterly decline in home-loan production since the same stretch in 2014.

Data collected by **Recursion Co.,** meanwhile, shows weakening among the credit scores for borrowers represented in risk-transfer portfolios. Consider the 743 average for a March 6 offering referencing Fannie mortgages with low loan-to-value

See DOWNPLAY on Page 5

RBC Recruits Pair of CP Pros From BofA

RBC's commercial-paper unit has picked up two high-profile professionals from **Bank of America.**

Ralph Esposito had been a managing director handling commercial-paper origination, sales and trading at BofA, with **John Widmeier** serving as his deputy on the trading side. Now, Esposito is playing a key role involving sales and trading of both secured and unsecured short-term securities in RBC's New York office — with Widmeier helping to oversee trading of those instruments.

They join an already-established team that includes commercial-paper origination and investor-development head **Mark Hernandez.**

Sources describe the additions as some of the biggest seen in the sector in recent years, with the potential to instantly raise RBC's profile.

Indeed, RBC especially has been pushing to expand its footprint in the asset-backed commercial-paper market, both as a dealer and conduit operator. That effort

See RECRUITS on Page 7

THE GRAPEVINE

Broker-dealer **Incenter Securities** has a new head of structured-product sales. **Charles "Mac" Macintosh** arrived in the firm's New York office this week from **Lima One Capital,** where he worked in a similar capacity since April. Macintosh also has worked at **Orchard Platform, FirstKey Mortgage, Sterne Agee, Morgan Keegan, Thornburg Mortgage, Merrill Lynch** and **Lehman Brothers.** At Incenter, he reports to senior managing director **Jeremy Prahm.**

Former **Credit Suisse** banker **Matthew Brand** started this week in a leading role on **ITE Management's** investment and structured-finance team in New York. Brand previously served two stints at **Credit Suisse** dating back to 2007, with a year at **Barclays** in between. He most recently held the title of director in the bank's asset-backed bond unit, which he left in June. ITE specializes in industrial and transportation-related investments. As

See GRAPEVINE on Back Page

Downplay ... From Page 1

ratios. That was down from 766 for similar deals completed in 2013. Among the weakest 2.5% of borrowers in those pools, the average score fell to 647 from 694.

At the same time, loan-to-value ratios have been rising in deals with baskets for higher-LTV accounts. A May 1 deal from Fannie contained an 18.9% exposure to mortgages written with the maximum 97% LTV allowed under the program. That was up from 4% in 2013.

Officials at Fannie and Freddie acknowledge that they have seen evidence of looser underwriting standards. Freddie vice president **Mike Reynolds,** who oversees the agency's risk-transfer program, also said bond buyers have been asking more questions about collateral quality.

But buysiders haven't significantly altered their performance expectations for the deals, he added. So far, principal losses across all Class-B and Class-B2 risk-transfer securities issued by Fannie and Freddie have totaled about 67 bp, according to consulting firm **Andrew Davidson & Co.**

To that end, the agencies are pledging to uphold their credit-quality standards. "We take a very serious and disciplined approach to which loans we are allowing to come into the portfolio," said **Gina Healey,** who oversees purchases of reinsurance against Freddie's exposures.

It remains to be seen how weakening origination volume will affect the supply of new risk-transfer bonds from Fannie and Freddie. According to **Asset-Backed Alert's** ABS Database, Freddie has completed eight such deals totaling $7.6 billion this year, up from six offerings for $5.4 billion a year ago. Fannie's tally stands at four deals for $4.5 billion, matching its year-ago count.

That said, Freddie's activity has been buoyed by a 3-year-old effort in which it has issued risk-transfer securities referencing credit-crisis-era loans, to the tune of $3.4 billion in 2018 alone. And Fannie doesn't intend to start a similar program, which suggests its flat issuance volume could be a sign of things to come.

Fannie's decision to refrain from issuing risk-transfer bonds backed by older loans reflects efforts in which it already has been eliminating exposures to those accounts through a mix of methods, including reperforming-loan sales, and thus has reduced its need to shed the risk associated with them. Instead, the agency remains focused on new loans.

In addition to their risk-transfer bond sales, Fannie and Freddie have been buying reinsurance. Together, they have gained protection on $2.5 trillion of mortgages through those programs — representing roughly half of their combined portfolios.

Along the way, the Fannie and Freddie bond programs have built a following of some 200 investors. While many of them initially took interest in the offerings due to a lack of supply in the market for more-conventional private-label mortgage securities, they are expected to stick around even as the flow of those offerings strengthens. "I think [risk-transfer deals] should be fine," one researcher said.

Both Fannie and Freddie have been touting risk-transfer deals as a way for their employees and outsiders to gain insight into the state of the housing market. "The investors benefit from the strong underwriting, and it's a great market-feedback mechanism for us," Fannie risk-transfer executive **Laurel Davis** said. "Understanding how the market views (mortgage credit) is important to us as we continue to acquire loans." ❖

Moody's Retools CLO Data Feed

Moody's has changed the way it reports performance indicators for collateralized loan obligations via its monthly "Market Pulse" data feed.

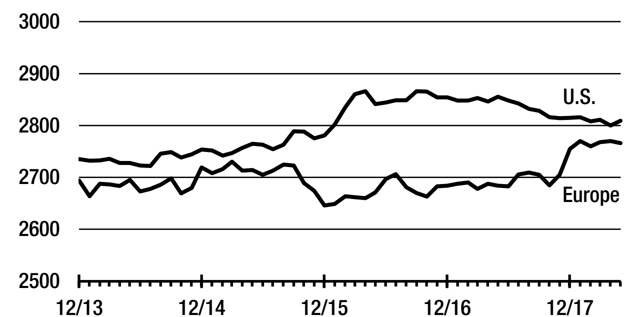
Starting this month, the reports no longer include data about CLOs issued before the 2007-2008 financial crisis. Because the number of outstanding "CLO 1.0" deals is now miniscule, the data was presenting a skewed picture of their performance.

The new format also breaks out amortizing CLOs from deals that are still in their reinvestment periods. And it offers a quick comparison of performance among five recent vintages.

One other change: The data is released one week later in the month than investors are used to. That will allow Moody's to provide fresher performance figures, analyst **Aniket Deshpande** said. Going forward, the data will reflect trustee reports issued two months prior, rather than three months before.

This month's report shows asset quality for U.S. deals deteriorated in May. The weighted average rating factor — a key indicator of borrower health — worsened by 9 points to 2809, remaining consistent with a "B2" rating. The median exposure to collateral loans rated "Caa1" or lower ticked up 13 bp to 3.53% — with 2013-vintage CLOs experiencing an increase of 62 bp to 5%. In Europe, holdings in triple-C buckets rose by 13 bp to a median of 1.74%, largely due to a downgrade of food manufacturer **Boparan.** Weighted average rating factors improved slightly overall, but worsened for 2013-2015 deals.

CLO Weighted Average Rating Factor



Source: Moody's