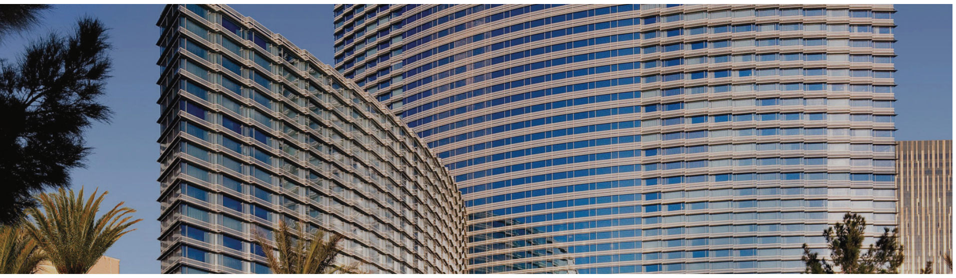
C A D W A L A D E R



Structured Finance Association SFVegas 2024

Key Takeaways:

SFVegas 2024 Panel Discussions

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There was plenty to discuss at the Structured Finance Association's largest capital markets conference, SFVegas 2024, in Las Vegas from February 25–28, 2024. SFVegas represents the largest annual gathering of securitization professionals worldwide — a destination for the full spectrum of market participants, including investors, issuers, financial intermediaries, regulators, law firms, accounting firms, technology firms, rating agencies, servicers and trustees.

Here's what we heard:

Unsecured Consumer ABS

- **Consumer Performance and Risk Factors:** Economists are calling for a soft landing in the market, with a tightening of market conditions. There are concerns about factors such as increasing unemployment and the expiration of the Biden administration's 12-month grace period for student loans. Consumer credit is impacted by inflation, disposable income, and the rising costs of essentials like gas, rent, and insurance.

- **FICO Scores and Access to Liquidity:** FICO scores are on the rise, and there are differing views on access to liquidity in the market. Maintaining liquidity is important, especially in volatile markets with changing rates.

- **Market Conditions and New Entrants:** Current market conditions may be conducive to new players, but there are infrastructure requirements and the need for equity on the balance sheet. ABS is suitable for large pools of homogeneous assets, and there is interest in structured products to diversify spreads.

- **Banking Industry Changes:** The banking industry has seen changes post the banking crisis, with banks making adjustments to manage risk-weighted assets. Some banks have exited certain businesses, creating opportunities for new market entrants. Basel III and other regulatory changes have impacted the capital market landscape.

- **Hedging Strategies and ESG Considerations:** Issuers are rethinking hedging strategies to cover unforeseen events. ESG considerations are becoming important, focusing on fair lending practices and consumer understanding of products.

- **Predictions and Future Scenarios:** A soft landing with weak inflation is seen as a likely scenario, with potential cuts in interest rates over the year. Economic indicators such as wage growth, unemployment rates, and FICO scores will play a role in determining future scenarios.

Rule 4(a)(2) Offerings Will Continue to Be a Trend

Private offerings via Rule 4(a)(2) will continue to appeal to certain subsets of investors and issuers:

- **Benefits of a Rule 4(a)(2) offering for investors:**
  - Investors can tailor an offering to meet their specific risk requirements.
  - Investors are able to capture the liquidity risk premium for holding less liquid 4(a)(2) securities. Insurance companies and similar investors who may not prioritize liquidity as much as other investors benefit from the additional return on 4(a)(2) securities.
  - Investors have access to additional due diligence information from the sponsor that they often do not have access to in a Rule 144A/Reg S offering, including information that is tailored to the investor's due diligence process.
  - The costs associated with a 4(a)(2) offering can be lower than those associated with a Rule 144A/Reg S offering because the investor can agree to forgo the preparation of an offering document. The investor can also negotiate for specific disclosure requirements that are pertinent to its review of the transaction.
- **Benefits of a Rule 4(a)(2) offering for sponsors and issuers:**
  - A Rule 4(a)(2) offering exposes the sponsor to different pockets of investors that may not be active in the Rule 144A/Reg S offerings for the sponsor, increasing the investor pool for the sponsor's issuance platforms.
  - A Rule 4(a)(2) offering allows a sponsor to test new transaction structures and solicit investor feedback before marketing in the Rule 144A/Reg S market.
  - A sponsor can bring smaller pools of assets to the Rule 4(a)(2) market and the transaction remains profitable due to the lower costs associated with Rule 4(a)(2) offerings.

Credit Unions Will Remain a Growing Player in the Auto ABS Market

- Credit unions nearly tripled 2022's volume for auto loan ABS.
- Five first-time credit union ABS issuers came to market in 2023, and two credit unions issued their second securitizations. It is expected that several of these issuers will securitize auto loans in 2024.
- Securitization provides an additional means of financing auto loans, in addition to financing channels traditionally used by credit unions, such as deposits and whole loan sales and participations.
- Securitization allows credit unions to access a larger and more diverse investor base, and in many instances, an investor base that has not been previously accessed by the credit union.
- Credit unions can look to use ABS to expand the geographical reach of their auto-lending platforms and increase loan volume.