Compare and contrast

Santander's recent auto CRT echoed those previously issued by JPMorgan Chase. **Simon Boughey** examines the similarities and differences between the transactions.

Last December, Santander returned to the US capital relief trade market with its first synthetic securitisation of auto loans since 2019. The structure of the deal mimicked to a large extent similar CLNs previously brought by JPMorgan Chase.

The latter has been a prolific issuer in this arena. By September 2021, it had sold five auto loan CLNs in just over a year. Chase was the lead manager of Santander's deal in December, designated SBCLN 2021-1, with an offered amount of US$298m, so it is not perhaps surprising that the structure echoed those of Chase's own deals.

Santander's deal was also similar to the most recent Chase auto CLN brought in September, designated CACLN 2021-3, in that the residual (R) tranche was retained and not sold into the market. Previous Chase auto loan CLNs had sold the residual piece, thus bumping the yields to much more appetising levels.

Generally, R tranches sell to only one or two investors as the obligations on ownership are more onerous. Buyers must sign an NDA and are not allowed to trade the other classes, if they wish to see all the additional details that allow them to fully evaluate the value of the R tranche, say investors.

However, over the last 18 months or so, it seems that the investor base for the Chase deals has grown more eager and larger, so that it is now able to retain the residual as well as compressing the yield of the other tranches, consequently lowering costs.

"In the first two or three CLNs, they did place the first loss tranches. But demand has increased from one deal to the next, so they could tighten the levels at which they placed the risk," says one investor.

Santander chose the same policy, but was still able to place notes that were heavily oversubscribed and at levels between 20bp and 75bp inside guidance. The triple-B rated tranche priced at plus 130bp, which at the time was 40bp wide of indicative sub-prime auto loan ABS spreads.

"The December Santander bond was well received, and oversubscribed," says Amy Sze, head of ABS research at JPMorgan. The investors were similar or the same as those who regularly buy auto ABS deals.

But the lack of an R tranche and the tighter yields discouraged some traditional CRT buyers.

"There isn't a tranche in the SBCLN deal that has the sort of double-digit yields that would suit ▶

our investment profile because they retain the first loss. So there wasn't any tranche in that deal that would appeal to us," says a portfolio manager at an experienced synthetic securitisation investor.

It is an observed feature of the ABS market in the US that the investor base is increasing. In the recent Q4 earnings call, for example, the cfo of Navient, formerly Sallie Mae, Joe Fisher noted: "We continue to see increased demand from new investors in these transactions."

Others note that established US ABS buyers have also become more active in recent months. Navient has been unavailable for comment or amplification of these views.

Both triple-A prime auto ABS and triple-B subprime auto ABS continue to change hands at very healthy margins to comparable corporates. There is a 4bp/5bp differential in the triple-A world and as much as 20bp in triple-Bs.

While spreads are relatively enticing versus comparables, the fundamentals of the market remain strong.

The upswing in interest from buyers perhaps gave Santander the freedom to retain the R tranche, even though it is not a regular issuer in the market. The issuer has declined to comment on SBCLN 2021-1.

The cashflow structure of SBCLN 2021-1 is also highly similar to the CACLN 2021-3 deal. Payment to investors will be pro-rata between the A tranches (retained) and the subordinated tranches. However, if the first level cumulative net loss (CNL) threshold – which is based on 3% CNL over 36 months – is exceeded, then payment to investors becomes sequential in the B and C tranches.

If performance deteriorates even further and the CNL is higher than 4%, or the three-month average 60-day plus delinquencies exceed 8%, then all payments from A to R tranches become sequential.

But, notes JPMorgan in a research paper on the deal, recent Santander Consumer Auto Receivable (SCART) vintages have displayed cumulative losses and 60-day plus delinquencies well within these trigger levels.

Despite the similarities in structure, the CACLN 2021-3 priced at levels considerably within those of SBCLN 2021-1. The B tranche, for example, priced at Eurodollar Synthetic Forwards (EDSF) plus 55bp, while the SBCLN B tranche was priced to yield EDSF plus 130bp.

The Chase C tranche was priced to yield EDSF plus 65bp, while the C tranche for the SBCLN offering sold at EDSF plus 275bp – more than 2% wider. The D tranche for the Chase deal yielded plus 190bp, while the corresponding tranche for the Santander deal was plus 390bp.

These sizeable spread differences are not attributable to any structural differences, but to the respective credit rating of the issuers and the differences in the collateral pools. "The technology of CLNs across the two deals is very similar. But with regard to the issuer and reference pool credit risk, one is Santander Bank and the other JPMorgan Chase Bank," says Sze.

Santander is rated Baa1/BBB+ (Moody's/Fitch), while JPMorgan Chase is rated AA2/AA (Moody's/Fitch). The SBCLN reference pool consists of US$2.2bn prime auto loans, of which Fitch has a loss expectation of 1.8%. In contrast, Moody's loss expectation for the SBCLN is 0.4%.

However, according to the JPMorgan report, the SBCLN reference pool is of higher credit quality than the traditional SCART prime auto ABS deals. For example, the weighted average FICO score for SBCLN 2021-1 was 774 with a WA LTV of 94%, while for SCART 2021-A the WA FICO score was 768 and the WA LTV was 98%.

JPMorgan has not been seen in the auto synthetic securitisation market since September.

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Figure 1: CLN reference collateral versus ABS initial pool characteristics

		SBCLN 2021-1	SCART 2021-A	CACLN 2021-3
Reference Pool		Prime auto loans		Prime auto loans
ABS Collateral Pool			Prime auto loans	
Principal Balance ($m)		2,173	699	4,500
Number of Receivables		74,730	19,707	50,301
Average. Principal Balance		29,703	35,483	24,960
Weighted Average APR		2.7%	3.1%	2.9%
WA FICO		774	768	788
WA LTV		94%	98%	96%
WA Original Term		69	67	69
WA Remaining Term		57	63	57
New		97.2%	93.0%	68.2%
Used		2.8%	7.0%	31.8%
Make (Top 2)		Dodge 51%	Jeep 50%	Subaru 45%
		Jeep 39%	Dodge 41%	Ford 7%
Geographic Distribution				
	State 1	10.9% TX	11.9% CA	15.0% CA
	State 2	9.3% CA	11.7% TX	11.2% TX
	State 3	6.2% FL	7.9% IL	6.3% FL

Source: JPMorgan