

# Research



## The Asset-Backed Market in 1999 and the Outlook for 2000

March 2000

Issuance in the public asset-backed securities (ABS) market increased marginally in 1999, with volume totaling \$196.8 billion, a 0.6% rise over the \$195.7 billion issued in 1998. ABS issuance through the first half of 1999 was relatively flat, but strong third-quarter volume helped propel overall issuance gains despite a lackluster fourth quarter showing. Fourth-quarter issuance totals were off year-earlier levels due to concerns about Y2K and possible interest rate hikes.

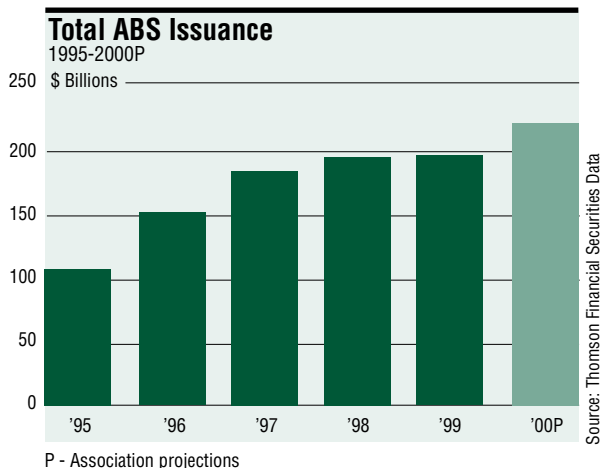
years. This growth has been driven in large part by strong investor demand and the variety of structures available to meet issuers' financing needs. The ABS market is expected to continue to grow, with issuance projected to total an estimated \$222.5 billion in 2000, a 13.1% increase over the \$196.8 billion reported in 1999. However, the growth has not been limited to just the domestic market, but has also spread to the international arena as well. Changing market structures and regulation have spurred securitization in foreign markets. International ABS issuance totaled \$47.3 billion in 1999, up 71.2% from the \$27.7 billion issued in 1998.

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### Outstanding Supply Reaches \$744 Billion

According to Association estimates, the outstanding supply of ABS continued to increase in 1999, with the outstanding level reaching \$743.5 billion at the end of last year, a 17.5% jump over the \$632.6 billion outstanding at the end of 1998. Outstanding credit card debt represented the bulk of ABS supply, accounting for 43.1% of the total. Credit

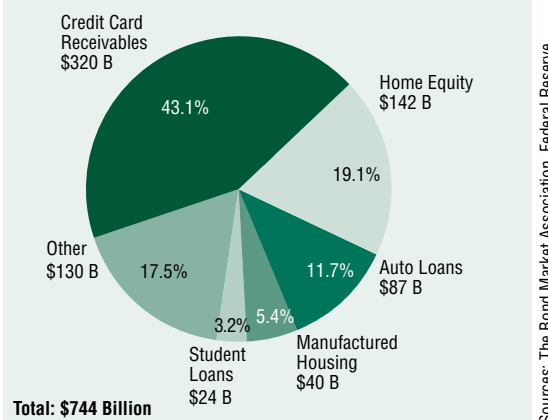
Strength in the auto loan, credit card and manufactured housing sectors helped contribute to the increase in issuance, even though the home equity and student loan sectors posted issuance declines of 15.9% and 7.1% over year-earlier totals, respectively. Auto loan issuance was robust last year, rising 23.9%, to \$43.3 billion. The credit card and manufactured housing sectors also posted issuance gains, with volume totaling \$38.0 billion and \$12.0 billion, respectively, in 1999. And although the home equity sector recorded a decline in issuance last year, it still accounted for over one-third of the total issuance, representing \$68.6 billion. The student loan sector also reported a decline in issuance, totaling \$8.8 billion in 1999.

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New issue volume in the ABS market has continued to increase over the past several

### ABS Outstanding by Major Types of Credit

As of December 31, 1999\*



\*The Bond Market Association estimates

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## Credit Card Volume Up Slightly

Credit card issuance was up marginally in 1999, with volume totaling \$38.0

billion, as compared to the \$36.9 billion issued in 1998. Issuance has been relatively flat over the past three years, as concerns over consumer credit have plagued the market. However, credit card issuance is expected to bounce back this year as sentiment about consumer credit issues improves and investors and issuers alike return to the market. Credit card ABS issuance is projected to total \$47.5 billion in 2000, a 25.0% jump over 1999's total.

**Credit Card Receivable ABS Issuance**  
1995-2000P



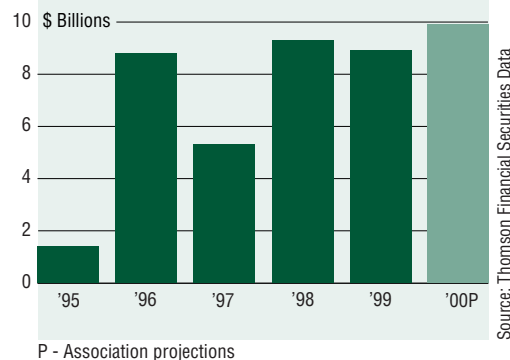
## Equipment Lease Volume Remains Strong

Equipment lease issuance remained strong in 1999, totaling \$9.0 billion, off

just 4.2% from the \$9.3 billion issued in 1998. Last year's issuance was down slightly from 1998's record level, which included the refinancing of a multibillion-dollar deal issued by the GPA Group, an Irish aircraft leasing company.

Helping to contribute to last year's gains were the mainstays of the sector, Newport Equipment and Case Equipment, both of which came to market with billion-dollar deals. Equipment lease issuance is expected to increase 11.0% in 2000, totaling an estimated \$9.9 billion.

**Equipment Lease ABS Issuance**  
1995-2000P

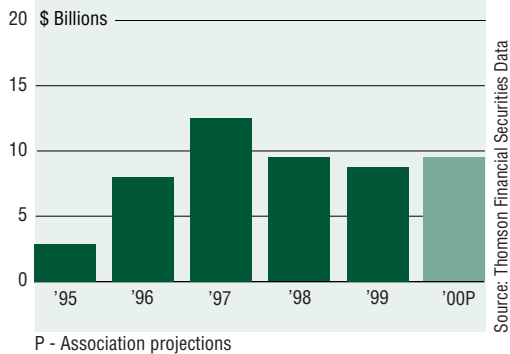


## Student Loan Issuance Declines 7.1%

The student loan sector continued to decline in 1999, with issuance falling by

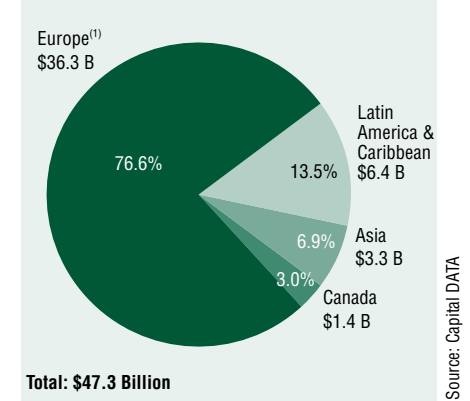
7.1%, to \$8.8 billion, as compared to the \$9.5 billion sold in 1998. Following its absence in the second half of 1998, Sallie Mae also refrained from issuing a single ABS transaction during the first five months of 1999. In the summer of last year, Sallie Mae finally returned to the market. However, the deal sizes were smaller than those done in the past, which typically averaged from two to three billion. The student loan sector is expected to bounce back in 2000, with volume projected to total \$9.5 billion, an 8.5% jump over 1999's total.

**Student Loan ABS Issuance**  
1995-2000P



## International ABS Market Driven by European Securitizations

**International ABS Issuance**  
1999



(1) Excludes German Pfandbriefe deals

The international ABS market has experienced dramatic growth rates in recent years as market structures have become more standardized and market regulation has become more accommodating to securitization as a financing tool. This growth has been primarily in Europe, with securitizations in this region dominating international ABS activity and accounting for over three-quarters of the total volume. European ABS issuance, which excludes the German Pfandbriefe transactions, totaled \$36.3 billion in 1999, a 165.0% increase over the \$13.7 billion issued in 1998.

In contrast, ABS issuance in Asia actually declined last year, totaling \$3.3 billion, down from \$4.6 billion in 1998. Activity in the Latin American and Caribbean region also declined, with issuance totaling \$6.4 billion in 1999, a 28.7% drop from the \$9.0 billion issued in the previous year. However, issuance in Canada increased more than threefold, totaling \$1.4 billion in 1999, as compared to the \$400.0 million sold in 1998.

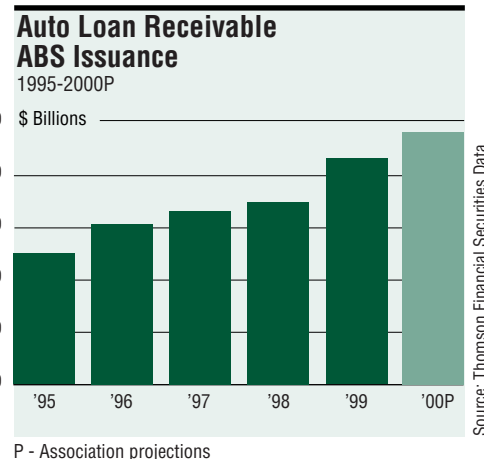
## Auto Loan Sector Revs Up

The auto loan sector rebounded in 1999, with issuance totaling \$43.3 billion, representing a 23.9% increase over the \$34.9 billion reported in 1998. Robust auto sales resulted in more loan product being available for securitization.

In particular, originators associated with the Big Three auto manufacturers continued to dominate the market, representing over 41.3% of the total volume. Ford Motor Company and Chrysler Corporation both came to market with over \$7.0 billion each in securitizations last year, while General Motors Company issued \$3.1 billion in the period.

A number of securities backed by auto leases came to fruition this year, totaling \$4.2 billion, following only a handful of issues coming to market over the past several years. American Honda Motor Company accounted for nearly three-quarters of the total auto lease issuance in 1999, with volume reaching \$3.1 billion.

The auto lease sector is poised to become a major asset class, as consumers are increasingly using leases to acquire vehicles and as issuers become more comfortable securitizing these cash flows. The auto sector is expected to post strong issuance gains this year,



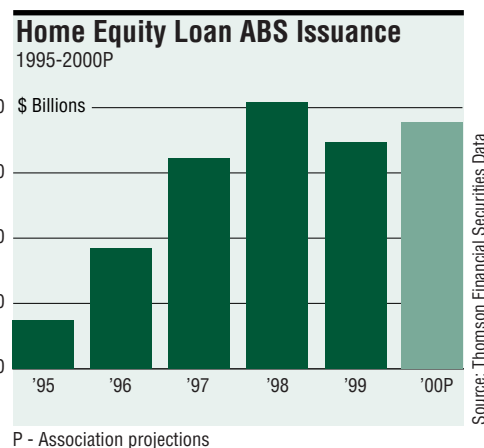
with volume totaling an estimated \$48.3 billion, an 11.6% increase over 1999's level.

## Home Equity Sector Dominance Loosens

Issuance in the home equity sector declined 15.9%, to \$68.6 billion, in 1999, down from the \$81.6 billion sold in 1998. The decline was not unexpected, however, in view of the record volume that had been reported in recent years. In addition, several major issuers exited the marketplace as consolidation continued and companies utilized other financing tools.

Home equity issuance had dominated the ABS market over the last couple of years, with \$81.6 billion and

\$64.4 billion issued in 1998 and 1997, respectively. Despite the decline in volume, the home equity sector still accounted for the majority of total issuance last year, representing 34.9% market share, although down significantly from the 41.7% proportion reported in 1998. Home equity issuance is expected to bounce back in 2000 as credits improve, with volume estimated to total \$75.5 billion this year, a 10.0% increase over last year's total.



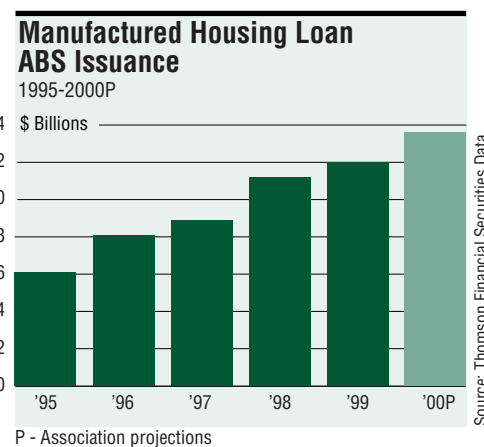
## Manufactured Housing Issuance Jumps 6.6%

ABS issuance in the manufactured housing sector rose by 6.6% in 1999, with volume totaling \$12.0 billion, up from the \$11.2 billion issued in 1998.

Despite credit-related issues and industry consolidation pressures that plagued the market in 1999, the sector still posted robust gains, driven by strong demand for manufactured

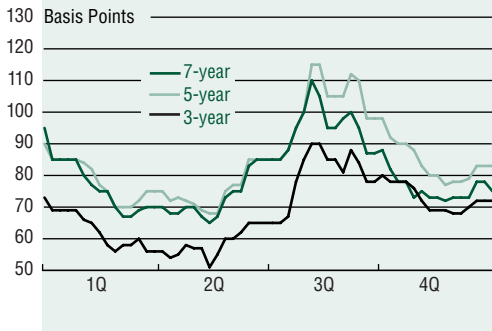
homes, which are prefabricated single-family houses.

The strong housing market combined with attractive financing terms resulted in an increase in manufactured housing loans available for securitization. This growth is expected to continue into 2000, with issuance totaling \$13.6 billion, a 14.0% increase over the previous year's total.



## Roller-Coaster Ride for Spreads in 1999

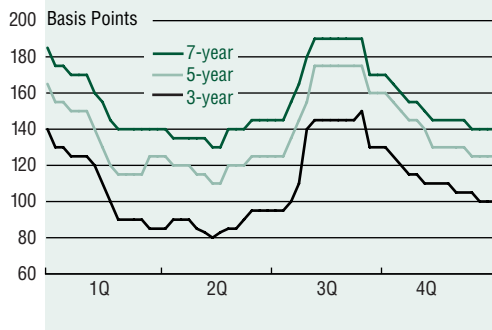
**Fixed Rate Credit Card ABS Spreads<sup>(1)</sup>**  
1999



<sup>(1)</sup>Spreads based on off-the-run Treasuries of comparable maturities

Source: Chase Securities Inc.

**Home Equity Loan ABS Spreads<sup>(1)</sup>**  
1999



<sup>(1)</sup>Spreads based on off-the-run Treasuries of comparable maturities

Source: Chase Securities Inc.

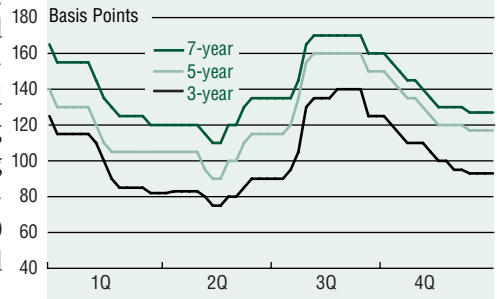
**Auto Loan Pass-Thru ABS Spreads<sup>(1)</sup>**  
1999



<sup>(1)</sup>Spreads based on off-the-run Treasuries of comparable maturities

Source: Chase Securities Inc.

**Manufactured Housing Loan ABS Spreads<sup>(1)</sup>**  
1999



<sup>(1)</sup>Spreads based on off-the-run Treasuries of comparable maturities

Source: Chase Securities Inc.

During the first half of 1999, ABS-to-Treasury spreads tightened as a result of easing liquidity concerns and reduced new issue supply in the market. Spreads were just coming off their highs in the latter part of 1998, so the tightening of spreads in the beginning of 1999 was not unexpected. The most dramatic tightening occurred in the home equity and manufactured housing sectors, with spreads on 7-year home equity loan and 7-year manufactured housing loan transactions bottoming out at 130 basis points and 110 basis points, respectively, in the middle of May. However, spreads began to widen around the third quarter of last year, as new issue supply was heavy during the period, with spread levels surpassing those witnessed at the beginning of 1999. Spreads on 7-year home equity loan and 7-year manufactured housing loan transactions topped out at 190 basis points and 170 basis points, respectively, during August of last year. Subsequently, during the fourth quarter, spreads began to tighten considerably, with declines of 40 to 50 basis points across the home equity and manufactured housing sectors.

## Stranded Cost Sector Falls Short of Breaking Double-Digits

Issuance of securities backed by revenues derived from stranded costs, otherwise known as utility receivables, totaled \$7.7 billion in 1999, nearly double the \$4.3 billion reported in the prior year. While only a few deals actually came to market last year, the total dollar volume illustrates how the presence of just one or two issuers can dramatically affect issuance in the

sector. For example, four issuers, PECO Energy, Boston Edison, Pennsylvania Power & Light and West-Penn Power, sold stranded cost ABS in 1999, with volume totaling \$7.7 billion. However, the passage of legislation aimed at deregulating the electric utility markets in many states still remains uncertain. And even with the legislation in place,

some states have decided to remain on the sidelines. For this year, utility receivable securitizations are expected to be issued by New Jersey, Texas and possibly Illinois. Stranded cost ABS issuance is expected to total \$10.1 billion in 2000, a 30.0% increase over last year's total.

## Outstanding Supply

continued from page 1

card ABS supply totaled an estimated \$320.4 billion at year-end 1999, up from the \$272.3 billion reported at year-end 1998. The home equity sector continued to grow, representing an estimated \$141.9 billion of the

outstanding supply at the end of last year, a 17.6% increase over the \$120.7 billion year-earlier level. The outstanding level of auto loan ABS totaled an estimated \$87.0 billion at the end of last year, a 19.2% jump over

1998's year-end level of \$73.0 billion. Manufactured housing debt represented an estimated \$40.2 billion of the total supply at year-end 1999, a 16.9% increase over the \$34.4 billion level outstanding at the end of 1998.