Green Street

Asset-Backed Alert

THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

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Non-QM Market Turning Increasingly Ugly

In yet another indication of the mortgage-finance market's rapid deterioration, investors gave a cool reception to a fresh crop of home-loan securitizations that began making the rounds late this month.

In a few cases, the offerings — each backed by loans that don't meet the **Consumer Financial Protection Bureau's** qualified-mortgage standards — priced at some of the highest yields ever seen in the asset class. In others, the issuers called off marketing efforts.

The outcomes follow a pattern that has persisted through much of this year: As interest rates have risen, the funding landscape for nonqualified mortgages has become increasingly treacherous. Indeed, industry participants are pointing to a Sept. 21 interest-rate hike by the **Federal Reserve** as the primary source of bedevilment for the latest batch of deals.

Take a $397.5 million securitization from **Onslow Bay Financial,** an **Annaly Capital Management** subsidiary that market professionals hold in high regard. The Sept. 27

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Mortgage Shops Scramble Amid CS Shakeup

Amid growing speculation that **Credit Suisse** might downsize or restructure its investment-banking arm, mortgage-bond issuers are growing nervous about the institution's status as a warehouse lender.

The concern is that as Credit Suisse moves to right its money-losing banking operation, such clients might lose access to funding lines they maintain with the Zurich-based bank — primarily for loans that don't meet the **Consumer Financial Protection Bureau's** qualified-mortgage standards and for reverse mortgages. With that possibility in mind, some are exploring whether it would make sense to replace those facilities now.

Others are focusing more on establishing backup plans. In both cases, the result has been a fresh round of discussions with Credit Suisse's rivals. "You don't know what's going to happen in a sale," one issuer said, adding that some fear a breakup of

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Loans Move To SOFR, CLOs Not Far Behind

Corporate borrowers finally are starting to switch benchmarks on their loans, an effort that could help advance the timeline for collateralized loan obligations to ditch Libor as well.

Riverside Risk Advisors, a New York-based consultancy, is working with more than 10 below-investment-grade corporations on amendments to move loans and their hedges to SOFR pegs from Libor.

The timing reflects a desire to avoid a rush when Libor publishing ceases at midyear 2023. In some cases, fallback language in the credit agreements already has allowed borrowers, each in cooperation with an administrative agent, to choose a replacement index since March 5, when the **U.K. Financial Conduct Authority** declared Libor to be nonrepresentative. In other cases, borrowers gained the ability to switch when syndicated loans started trading against SOFR early this year.

By acting now, the borrowers can avoid the administrative backlog likely to

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THE GRAPEVINE

Charles Weilamann this month left **DBRS Morningstar,** where as chief credit officer he managed credit standards worldwide. He'd been at the rating agency since 2010 in a variety of roles overseeing asset-backed securities ratings. Weilamann is now a partner at structured-finance consulting firm **Gotham Advisors.** Earlier in his career, he was a partner at **Wood-Lake Advisors** and a vice president at **Credit Suisse.**

It looks like there's a new leader among bookrunners of asset-backed bond deals in the U.S. After barely missing out on the top league-table standing at midyear, **Barclays** headed into the final days of the third quarter with a slight lead — pushing past **Citigroup** with a year-to-date tally of some $30 billion,

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Axonic Exec Splits Amid Promotions

One of **Axonic Capital's** highest-ranking executives is departing from the fund-management shop, which promoted several of his colleagues.

Jamshed Engineer is exiting his post as co-head of the New York-based firm's credit-product business today.

Meanwhile, Axonic promoted the group's other co-head, **Matthew Weinstein,** to head of credit. The firm also elevated several other members of the credit team, bumping up **Benjamin Bernstein** and **Michael Constas** to portfolio manager from director while moving up **Stephane Durand** to director from associate.

Sources described the promotions of Bernstein, Constas and Durand as a way for Axonic to boost morale amid Engineer's exit and the departures earlier this year of **Frank Garcia** and **Simon Sominsky.** But Axonic said that wasn't its motivation, with chief investment officer **Clayton DeGiancinto** additionally praising Weinstein for his "leadership and appreciation for risk in the current market environment."

Axonic's investments are heavy on asset-backed securities, residential mortgage bonds and commercial mortgage bonds. While the firm's performance isn't known, the Eurekahedge Structured Credit Hedge Fund Index is down 2.9% this year following a 9.8% gain in 2021 and a 2.5% decline in 2020.

Engineer joined Axonic as a partner in 2011 from **Tower Research Capital.** Weinstein, also a partner, arrived the following year from **Macquarie.**

Garcia and Sominsky, meanwhile, have started a private equity firm called **GLC Capital Management** that aims to invest in early-stage companies meeting environmental, social and governance standards. As a director at Axonic, Garcia oversaw $600 million of investments with an emphasis on residential mortgage bonds. Sominsky, a portfolio manager at Axonic, ran $750 million with a focus on bonds backed by aircraft receivables. ❖

Fintech Builds Consumer ABS Program

Edge Focus, an asset manager and financial-technology company, is building a routine securitization program.

The New York firm is eyeing early 2023 to float a debut bond offering backed by personal loans originated by other financial-technology companies. The deal is likely to be a rated, Rule 144A transaction, sources said.

The securitization program will build on Edge Focus' experience underwriting personal loans and forecasting credit risk for lender partners — mostly fintechs — using artificial intelligence and machine learning. It will use that technology to buy loan portfolios from those partners, which will underpin its bond offerings. It does not plan to become a lender.

The company also is planning to expand into auto loans. To that end, it has hired **Sean Mills** and **Federico Gonzalez,** who will spearhead the auto-loan push.

In April, Edge Focus brought on **Alex Bisson,** previously an associate director of financial strategy at **Ford,** as head of capital markets. He's tasked with building out the securitization program.

Founded in 2017, Edge Focus is led by co-founder and chief executive **Elliott Lorenz.** He previously was a trader at hedge fund operator **Tower Research Capital.** ❖

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Issuers Mull Early SOFR Switches

Managers of collateralized loan obligations with Libor benchmarks increasingly are weighing whether to switch to SOFR ahead of schedule.

The objective would be to avoid bottlenecks that could occur when Libor reporting ceases at midyear 2023. The timing of the moves can involve some uncomfortable decisions, however.

That's because divergences in the two indexes' rates can pit the interests of CLO equity holders against those of debtholders. The wider the differential is when a CLO switches to SOFR from the typically higher Libor, the more it benefits equity holders at the expense of more-senior noteholders — whose interest payments would shrink.

The terms of most CLOs call for that transition to take place automatically when 50% of their collateral loans move to SOFR.

So why not wait until then, thus avoiding the ire of any investors that feel shortchanged? CLOs have been accumulating exposures to SOFR loans slower than anticipated, even as corporate borrowers have accelerated efforts to switch benchmarks (see article on Page 1). Indeed, the median exposure to SOFR loans among U.S. CLOs was just 15.4% as of Sept. 27, according to **Deutsche Bank.**

As time has passed without large numbers of CLOs hitting the 50% threshold, meanwhile, more managers have gained discretion to time the switch. Some have been able to pull the trigger since March, when the **U.K. Financial Conduct Authority** declared that Libor no longer was a representative rate. An even larger proportion can change benchmarks when they are a certain number of quarterly interest-accrual periods away from Libor's retirement — something that could occur en masse in October.

Lawrence Berkovich, a partner in **Allen & Overy's** structured-finance practice, has been fielding calls from CLO managers who are asking about their rights and obligations.

The relevant language varies from deal to deal, with some saying only that a CLO "may" move to SOFR when Libor's sunset is a predetermined time in the future, while others specify that the benchmark "must" move. "Just like risk retention or issuing in SOFR, once someone goes first, the rest will follow," Berkovich said. ❖