PERFORMING 2ND LIENS

Pricing: Pricing for seasoned performing 2nd liens is higher today than it has been in the last eight years. The market has witnessed a steady price increase year over year. As of Q2 2018, prices for very clean pay, solid credit (mid-600+ FICO scores), 6%+ coupons and combined loan-to-value (CLTV) ratios less than 100% ranged from the mid-80s of unpaid principal balance (UPB) to levels approaching par (100) and above.

Supply: Q2 supply has increased significantly. As predicted in our Q1 update, a greater number of large banks and owners of 2nd lien legacy bonds have been bringing large-size whole loan pools to the market. As an example, there have been several trades of performing 2nd lien pools ranging in UPB from $50 million to $500 million. And as of this update, there were two more $100 million 2nd lien performing, re-performing and non-performing loan pools bidding in July and August.

A continued increase in supply for the remainder of 2018 is very likely. The combination of the charged-off non-performing loans coupled with the aggressive pricing being paid for the performing loans creates a favorable all-in execution. Banks and specialty funds continue to be the most active participants in this space. Increased pricing over the past 12 months has created more activity, as sellers look to monetize their legacy assets and trade their portfolios at low/mid-single-digit yield prices.

Demand: Demand remains extremely strong. A handful of new buyers have entered the space and deals of all sizes are getting the attention of most market participants. It is not uncommon to receive more than five bids in an auction. Tightening in the 1st lien re-performing loan and non-performing loan markets has also contributed to investors taking a more positive view of the entire 2nd lien asset class.

RE-PERFORMING 2ND LIENS

Supply and Demand: This is very similar to the supply and demand for performing 2nds.

Pricing: Pricing continues to improve here as well. As recently as last year, we have witnessed an increase in pricing from the mid-teens to high-20s of UPB range to the mid-40s to high-60s range, depending on individual pool characteristics. The key components that drive pricing for any given portfolio are coupon, updated CLTVs, FICOs, and clean borrower pay histories over the past 12 months.

SECURED NON-PERFORMING 2ND LIENS

Supply: Supply increased in 2017, especially in the small to mid-size pools ($10-50 million). This is a result of significant increases in pricing (see below). The specialty funds that participate in this space are opportunistically buying and selling secured non-performers.

Demand: Demand has increased. Several new buyers have entered the space as aggressive bidders and we have seen approximately 7-10 bids on recently auctioned pools. We estimate there to be around 20+ market participants actively looking for loans. There is the potential for further demand due to the Consumer Debt Relief Act settlements negotiated with several banks and the Department of Justice.

Pricing: Current pricing ranges from the mid-teens to high-20s of UPB. Several factors have increased demand and pricing, including continued success in the rehabilitation of the loans into cash flowing assets, increased property values that have allowed borrowers to build up equity in their homes and lower their CLTVs, and smaller buyers entering the space due to the relatively small amount of money needed to close a trade. Each buyer has its own niche on where they perceive value to be on each loan, and thus many times sellers are better off carving up each pool and selling to multiple buyers in order to optimize execution.

UNSECURED NON-PERFORMING 2ND LIENS

Pools of unsecured non-performing 2nds have dwindled over the past year. This is due to several key factors: (1) Pricing is in the 50 basis points of UPB range; (2) the statute of limitations for legal collection activity has expired on these assets; and (3) the proceeds generated are so small that it is not worth the risk associated with selling this asset type, especially if the seller is a bank that needs to conform to the OCC regulations regarding consumer debt sale arrangements with unqualified third-party debt buyers. The bidder audience for these pools is extremely limited, and we rarely see more than five active bidders in this sector.

©2018 MountainView Financial Solutions, a Situs Company