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CLUB DEAL

LendingClub's first self-sponsored ABS makes it less beholden to direct loan buyers.

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Asset Securitization Report

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EDITOR'S LETTER

The Big Deal

There's no mistaking the significance of the acronym for LendingClub's new securitization shelf, Consumer Loan Underlying Bond (CLUB) Credit Trust 2017-NP1. It's a true "club" deal, in the sense that a few, select investors in Lending Club's loans were invited to contribute collateral. Yet the term is more commonly associated with Wall Street than with Silicon Valley.

Previously, LendingClub acted purely as a matchmaker, connecting lenders and borrowers over its platform. Investors who funded these loans and wanted to turn around and resell them as collateral for bonds were left to their own devices. In the words of Todd Baker, it was the "poster child" for the idea that this pure sales model was workable.

Now the company recognizes that providing investors with programmatic access to the capital markets can broaden its investor base and reduce its long-term funding costs.

Plenty of other companies are taking advantage of demand for floating-rate assets to lower their funding costs in the unsecured debt markets; an article by Glen Fest looks at the problems this creates for CLO managers.

In a separate article, Glen checks in with Trinitas CEO Gibran Mahmud, who just completed a spinoff from Triumph Bancorp, landing at a firm with much deeper pockets, Pine Brook.

Glen also writes about the rise in demand for shipping containers, which is allowing leasing companies to return to the securitization market after a long dry spell. They're benefitting from both higher lease rates and stronger container prices.

One company that's likely to be driving by the securitization market less often is Volkswagen, which has made some strides since the emissions cheating scandal broke late in 2015 and finds itself back in favor with investors in unsecured debt.

In the commercial real estate market, it's becoming increasingly common to carve big loans up into pieces that can be used as collateral for multiple deals; it's a practice that may be unavoidable, given the smaller sizes of CMBS conduits but has some downsides.

And Brian Collins of sister publication National Mortgage News talks to key housing market groups about their objections to a provision of a flood insurance bill passed by the House Financial Services Committee.

—Allison Bisbey, Edito in Chief

Club Deal

LendingCLub's first self-sponsored ABS makes it less beholden to direct loan buyers.

By Allison Bisbey

LENDINGCLUB'S FIRST SECURITIZATION of its own consumer installment loans is an important step in rebuilding its business following a scandal last year over its corporate controls.

The company has been seeking to broaden its funding sources after concerns about the integrity of its data caused many investors to pause or scaled back their purchases. LendingClub originally acted purely as a matchmaker, connecting borrowers with lenders over its platform. It did not hold on to the loans. Investors who funded these loans and wanted to turn around and resell them as collateral for bonds were left to their own devices.

That meant the company had no control over how these deals were structured, or when they came to market — even though the transactions' performance could affect its reputation. Moreover, LendingClub's original model of relying exclusively on loan sales and not using the firm's balance sheet, while consistent with the asset-light approach of Silicon Valley darlings (Uber owns no cars), gave loan investors too much pricing power.

Now LendingClub is allowing multiple investors to sell their loans back to a securitization trust that it sponsors, a move that increases economies of scale and ensures some uniformity in the bond offerings. The inaugural $279 million deal, backed exclusively by subprime consumer loans, closed last week.

"By leading this securitization, we were able to show that we're committed, control the process and deliver an enhanced experience for new and existing investors that buy through our platform," said Valerie Kay, senior vice president and head of the institutional investor group at LendingClub. "We want to control our brand, promote liquidity and provide access to the capital markets to investors."

Kay is part of a new finance team brought in since CEO Scott Sanborn took the helm last June. She spent more than 25 years on Wall Street, with stints at Morgan Stanley and Prudential Securities.

By sponsoring its own securitizations, LendingClub is also taking skin in the game, in the form of the 5% economic risk it must hold in order to satisfy risk retention rules that took effect last December.

In the past, LendingClub played a supporting role in securitizations of its loans by buyers, talking to potential bond investors and rating agencies, even if it did not have any control over the deals, Kay said.

"After supporting a few securitizations, we understood that investors and rating agencies would value LendingClub having skin in the game," she said. "We believe in what we do here, and we want to broaden the base of investors that have access to our product. If you add all that together, securitizations make sense."

The company has started to retain a small portion of loans on balance sheet, according to research published by Kroll Bond Rating Agency, although it did not hold or contribute any of the collateral for the inaugural deal.

"We have this whole ecosystem to support: our investors, their warehouse providers ... some investors might be looking to do structured products," Kay said. "We hope to help promote liquidity with potential programmatic access to the capital markets."

The shift to what's known as a hybrid model of both selling whole loans and securitizing them is hardly revolutionary. Prosper Marketplace, another online lender that previously relied exclusively on whole loan sales, completed its first securitization in May. Upstart, a relative newcomer founded by several former Google employees, completed its inaugural securitization within days of LendingClub's.

Other marketplace lenders, including Avant and Social Finance, have completed multiple securitizations of loans made on their respective platforms and sold to investors.

Still, "LendingClub was the poster child for the idea that a pure [sales] model was workable," said Todd Baker, a senior fellow at Harvard's John F. Kennedy School of Government. "It's pretty much been proven not to work."

The problem with the marketplace model today is that the investors know the lender has to sell — it has no choice, Baker said. "The only leverage the lender has [in determining pricing] is what other investors are out there."

The shift to securitization creates a degree of freedom that LendingClub can use to bring down funding costs and get to a profit without a massive increase in origination, he said. By comparison, under the old model, it had to keep increasing originations to have any chance of being profitable.

However, a wholesale-based funding mix still leaves LendingClub vulnerable to market disruptions and to the credit performance of the loans underlying the asset-backed securities, Baker cautioned.

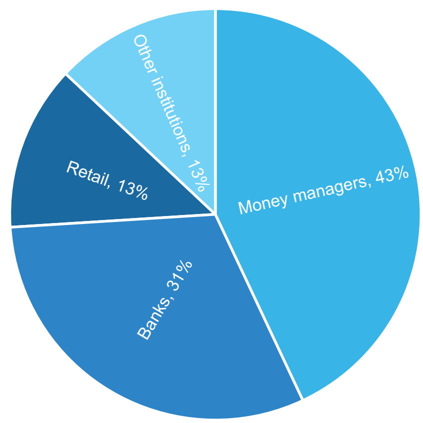
LendingClub, once the nation's leading online lender, is in a stronger position than some of its peers, having raised significant equity when times were good. It currently has $534.5 million in cash available for immediate liquidity, as well as $120 million of unused capacity on a revolving line of credit that expires in December 2020, according to Kroll.

The company trimmed its losses to $29.8 million in the first quarter, less than in each of the previous three quarters.

Other online lenders are in much worse shape. OnDeck Capital, an online small-business lender based in New York, is feeling the pinch as investors continue to demand better pricing for loans. It's now retaining the bulk of the loans it makes, at considerable cost.

Funding mix

LendingClub is broadening and diversifying its investor base; data as of fourth quarter 2016



Source: Kroll Bond Rating Agency

This lesson was not lost on others.

"In the early days of marketplace lending, some platforms had investors sponsoring their own securitization shelves," said Barry Rafferty, Upstart's head of capital markets. "Issues that arose included nonhomogeneous pools due to active selection and inconsistently structured deals. Some of those early examples have had performance issues."

By comparison, in Upstart's first securitization, "we controlled our own shelf. We know the underwriting and collateral, we're able to set triggers appropriately and control how the deal is marketed and structured," Rafferty said. "And we offer the benefit of liquidity and leverage to investors."

Kay said that standardization of deals is important to LendingClub. "We're talking to a bunch of investors and underwriters about what that means for them," she said. "There are a lot of options for investors to choose from on our platform. So, this securitization is the first step in establishing a potential program that we hope will be consistent, standardized and predictable."

Lending Club is looking at ways to securitize prime loans, and that this would likely be done from a separate shelf, Kay said.

When marketplace lenders sponsor their own securitizations, there are benefits to ABS investors as well: the consistency means that they don't have to do as much work analyzing every new deal.

"They know that deals structured from the same platform will have similar terms," said Rosemary Kelley, a senior managing director and co-head of ABS at Kroll. "That's what you see with deals from Avant, and SoFi; a deal from their platform is directly comparable to prior deals."

PAYING UP PAYS OFF

LendingClub and Upstart went face to face in the securitization market with competing offerings of bonds backed by unsecured consumer loans.

The deals earned identical credit ratings from Kroll Bond Rating Agency, despite the fact that the prime collateral for Upstart's deal was, by several metrics, less risky. LendingClub had to pay up for the A- on its senior notes by offering additional investor protections.

This appears to have paid off.

LendingClub was able to place the notes at a spread of 110 basis points over Libor, according to PeerIQ, which published a report on the transaction.

PeerIQ called this a "milestone," noting that it is competitive with rates offered by GS Bank on certificates of deposit.

By comparison, Upstart had to pay a spread of 125 basis points, though some of the additional spread undoubtedly compensated investors for the longer tenor.

How did it LendingClub get investors comfortable with the higher risk on its nonprime collateral? One answer is the mix of investor protections.

Bond investors in both deals benefit from the same kinds of credit enhancement, including over-collateralization (the value of the collateral exceeds the value of notes issue), subordination (senior noteholders are first in line to get repaid, reserve accounts, and excess spread (the difference between yield on the collateral and yield on the notes). The difference is one of degree: the senior tranche of LendingClub's deal benefits from a total of 52.25%, compared with 44.35% for Upstart.

This was necessary because Kroll expects cumulative losses to reach as high as 22% for the loans backing LendingClub's bonds, compared with just 15% for the Upstart collateral.

Besides credit support, investors in the senior tranches of the two deals also benefit from a feature that accelerates repayment of their principal should the collateral perform worse than expected. There's give-and-take between the amount of subordination for the senior notes of a deal and the trigger; in general, the higher the subordination, the more comfortable investors in this tranche will be with a less restrictive trigger.

That's what appears to have happened with CLUB 2017-NP1, which was led by Citigroup and JPMorgan. Holders of the equity are providing greater subordination to bond investors. Yet equity holders also benefit from a less restrictive CNL trigger. It starts at 7% and peaks at 29%, which PeerIQ says is the highest starting level of any recent transaction by its peer group of marketplace lenders.

By contrast, UPST 2017-1, structured and led by Goldman Sachs, has the lowest loss estimate amongst its peers, but also a tighter trigger that begins at 4% and peaks at 18%.

Barry Rafferty, Upstart's head of capital markets, said that, "controlling for maturity, our execution was terrific." He added that Upstart achieved higher structural leverage for the equity tranche, 85.5% vs 82.5%. —AB

Loan Refis Hitting CLOs Hard

Managers who accept lower interest payments on loans risk running afoul of deal covenants; but if they take their money back, there are few attractive places to put it to work.

By Glen Fest

Corporate America's refinancing boom is creating major headaches for some of its biggest lenders, collateralized loan obligations.

Leveraged loans are in high demand because they pay floating rates of interest and tend to perform well in a rising rate environment. Since few companies are taking out new loans, borrowers are able to demand lower interest rates from existing lenders.

This puts CLO managers in a bind: If they accept lower interest payments, there will be fewer funds available to service their own debt. They also risk running afoul of other portfolio metrics intended to protect investors.

Allowing borrowers to repay them early isn't a great option either, since there are few attractive places to put the money back to work.

CLOs investing in Regal Cinemas, for instance, have endured three refinancings of a $954 million loan that has been refinanced three times since May 2016. This has resulted in a cumulative reduction of 75 basis points in the spread that the loan pays over Libor to 200 basis points from 275 basis points originally.

"The loan market is refinancing at a significant pace that I haven't seen since 2006," said Eddy Piedra, vice president of leveraged loans for 40/86 Advisors, an affiliate of CNO Financial Group that both manages and invests in CLOs.

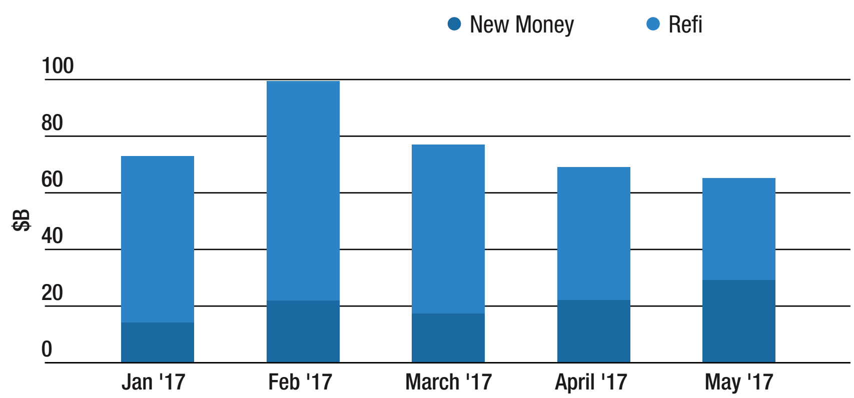
"It's definitely having pressure on excess interest," which is needed both for repayment of the principal of senior notes issued by CLOs and of distributions to holders of the most subordinate securities issued in these deals, known as the equity, Piedra added.

All told, some $300 million senior bank loans have been refinanced so far this year. As a result, the weighted average spread (WAS) on U.S. CLOs, or the difference between the yield on loans in a portfolio and the cost of debt issued to fund the purchase of the loans, has fallen substantially. It stood 3.75% in May, down nearly 50 basis points (from 4.72%) from the same period a year earlier, according to Fitch Ratings.

A significant number of CLOs are now falling short of minimum WAS levels stipulated in deal documents.

Slim pickings

Strong demand and the slow pace of new issuance is making it easy for corporate borrowers to reduce interest ratest



Source: Thomson Reuters LPC

As of May, 20 of 278 CLOs rated by Fitch and issued from 2014 to 2016 were failing their weighted average spread tests. Another 140 CLOs, representing 50% of the agency's rated universe, have a cushion of less than a 10 basis points left before breaching their deals' minimum spread compliance.

Compounding their stress, CLO managers are finding it difficult to take any action that would boost spreads. The supply of higher quality loans is so limited that they must trade down in credit to find additional yield. Yet buying riskier loans can jeopardize a portfolio's compliance with other covenant tests, including asset quality.

Mike Herzig, managing director at THL Credit Advisors, likens striving for balance between risk and spreads to squeezing a water balloon – containing one problem only manages to exacerbate another.

"You cannot do it all," he said. "You're going to have to sacrifice somewhere."

The problem is most acute for CLOs printed in the past couple of years. Managers of deals that have exited their non-callable periods (typically two years) can themselves refinance, forcing their own investors to accept lower interest payments.

However, some older CLOs grandfathered from risk retention requirements risk triggering compliance if the refinance. (It is possible, under certain circumstances, to refinance older deals without triggering compliance, but only once.)

The consequences for deals that flunk covenant tests are often "maintain and improve" trading restrictions, which limit managers to acquiring new collateral that remedies a failed (or nearly failed) test. In some cases, managers may be prohibited from acquiring additional loans until the test is satisfied, according to Wells Fargo.

Things can only get worse.

Wells Fargo estimates that another $191 billion of loans will exit their non-call periods and be refinanced by the end of August. That will not only place more lower-yielding assets into the market, but introduce declining credit quality into the mix as firms with shakier credit find easier access to capital.

Wells Fargo thinks the continued run of refinancings and repricings could shrink average WAS levels another 14 basis points with CLOs by the end of summer, putting CLO managers under additional pressure.

JPMorgan has a similar view. In June the investment bank boosted its forecast for full-year leveraged loan issuance to a record $800 million, an increase of $250 million from the level it was calling for in January. It expects just $300 million of this to be new issuance.

CLOs aren't the only ones looking for places to put their money to work. With interest rates headed higher, money is flowing into the loan market from other sources including retail mutual funds and exchange-traded funds. Loans are now changing hands in the secondary market at a premium to par, or face value. The percentage of leveraged loans trading above 100 cents on the dollar reached 74% in February, though it has retreated to a three-month low of 62.6% as of June 20, according to JPMorgan. But either compares unfavorably to the 2% of leveraged loans traded above par in February 2016.

CLOs that fail portfolio tests can apply one of two fixes: They can acquire new collateral, or commit future reinvestments to adjustments in a portfolio's asset quality "matrix" – a combined measurement of spreads, collateral diversity, combined average ratings and recovery ratings.

In this matrix, a manager wanting to boost spreads by acquiring riskier assets could make changes to the diversity or the average pool ratings factor, so long as the cushions in those areas protecting investors are not breached while gaining the higher average spread.

This is the choice many managers are making, said Piedra. "A lot of managers are pretty well diversified, so to move the needle on spreads takes a lot of trading in the portfolio."

According to Fitch, over 92% of managers of 2014-2016 vintage CLOs have chosen to adjust for spread tightening by tweaking the cushions on their diversity or average ratings factor scores that measure, respectively, their issuer and industry concentrations and the percentage of lower-rated assets in their portfolios.

"Managers face a tough decision," Herzig says. "Do I go down in quality to keep my spread high?"

"Managers face a tough decision: Do I go down in quality and keep my spread high?"

While THL is not prepared to make this tradeoff, THL's Herzig added, "we've seen a lot of managers choose the former, and we're in a benign credit environment, so maybe it's fine. They can junk up the portfolio a bit and buy stuff with a little more yield."

Loan refinancing is putting CLOs out of compliance with yet another covenant called weighted average life (WAL), which measured the average time that it takes a dollar of principal to be repaid on a deal. That's because refinancing typically involves extending the term of a loan, in addition to lowering the interest rate. Wells Fargo reckons that 55% of 2012-2013 vintage CLOs are failing. Another 12% of 2014 vintage CLOs are also failing, while another 34% of this vintage has a WAL cushion of less than 0.25%.

CLO managers respond to failing WAL tests by purchasing shorter-duration loans, but this, too, typically has a negative impact on asset quality.

SEC Still Unsympathetic to CLOs

Despite the Trump administration's anti-regulatory stance, the Securities and Exchange Commission remains opposed to relief from risk-retention rules.

By Glen Fest

The Trump administration's anti-regulatory agenda has yet to permeate the Securities and Exchange Commission, which remains opposed to relief for collateralized loan obligations.

Hoping for a more sympathetic ear, the Loan Syndications and Trading Association wants to reinstate a federal lawsuit that seeks to overturn, or at least modify, 'skin-in-the-game' rules for CLOs.

Federal regulators aren't buying it.

In a response brief filed June 7 the D.C. Circuit Court of Appeals, the Federal Reserve and the Securities and Exchange Commission jointly argued that the court should uphold a lower federal district's Dec. 22 dismissal of the 2016 lawsuit.

"LSTA makes two arguments in support of its effort to insulate open market CLO managers from Congress's risk retention mandate," reads an argument summary in the 100-page filing. "Both fail."

The brief comes after the LSTA filed to resurrect the suit at the appeals court level. The D.C. appeals court is the same body which had remanded the case to the district court level over a year ago, after the trade group made a long-shot effort at an early favorable ruling from the higher court.

Elliot Ganz, general counsel for the LSTA, said the trade group planned to file its answer to the SEC/Fed response, after which a three-judge panel would be selected for oral arguments.

The agencies' stance might seem puzzling, given the deregulatory stance of SEC Chairman Jay Clayton. But reversing Obama-era SEC or Fed positions is neither quick nor easy. Clayton has not been at his job long, and the Fed lost a forceful voice in regulatory policy after the resignation of Fed Gov. Daniel Tarullo in April.(In July, President Trump nominated former Bush administration Treasury undersecretary Randal Quarles to the top bank supervision post on the Fed board).

> **"The LSTA makes two arguments in support of its efforts to insulate CLO managers... Both fail."**

In addition, much of the staff that helped draft the rules at the SEC and elsewhere are still in place, and "running on inertia" from the previous administration's policies, according to Ganz. "They haven't gotten new orders, so they keep going," he said.

Since filing suit in early 2016, the LSTA has sought to either vacate the rules or modify their application to CLOs. The group has primarily sought, through regulatory rule-making or legislative proposals, a "qualified" exemption for CLOs similar to one available for residential mortgages.

In the brief, the SEC and the Fed argue that CLO managers were properly covered as "securitizers" under the risk-retention requirements, in contrast to the LSTA's argument that CLO managers fall outside the law's definition because they do not own or transfer assets.

"LSTA is able to reach the opposite conclusion only by divorcing the statutory language from its context and by adopting a highly restrictive reading of the term 'transfer,'" the brief states. "This strained reading of the statute's text is at odds with its purpose and would operate both as an unstated exemption from the risk retention requirement for open market CLOs and as a loophole to be exploited by other types of securitizers."

The agencies also rejected the LSTA's argument that risk-retention should only apply to the credit risk in a deal, rather than the fair-market notional value of an entire securitization,

"The agencies linked risk-retention to a percentage of the economic value of the securitization as a method to ensure sufficient exposure to credit risk," the brief states, "and that approach was entirely permissible, perfectly rational, and neither arbitrary nor capricious."

Risk Retention as Opportunity

Triumph Capital Advisors doubled its business by acquiring Doral Bank's CLO assets; skin-in-the-game rules also spurred its spinoff to deep-pocketed Pine Brook.

By Glen Fest

Four years ago, Gibran Mahmud took a chance on the little guy.

At the time, he was head of structured products and a senior portfolio manager at Dallas-based Highland Capital Management – then, as now, the largest U.S. CLO manager in terms of assets. But in March 2013, he moved to a much smaller Big D firm, Triumph Bancorp. With Mahmud's help, the community bank launched a CLO business, Triumph Capital Advisors, issuing three deals from its Trinitas shelf platform in 2014 and 2015. Then, in March 2015, the company more than doubled its assets under management by acquiring two existing CLOs in an FDIC auction from the failed Doral Bank of Puerto Rico.

But while risk retention created some opportunities, both Gibran and Triumph Chairman Aaron Graft also saw a problem with their original strategy to diversify the small commercial lender with a supplemental, fixed-income business. There was no practical means for a $2.6 billion-asset community bank to retain a 5% capital stake in any new TCA CLO, so in 2015 they established a separately run capitalized vehicle – Trinitas Capital Management – through which TCA management launched its fourth and fifth CLOs.

Even as an off-balance sheet business, running CLOs through a third-party entity outside the bank structure was "unpredictable at best and impractical at worst," Graft told analysts in a first-quarter earnings call in April. That's what drove TCA and bank company management to seek out a private-equity buyer, New York investment firm Pine Brook Partners.

The spin-off closed in June, with Mahmud moving over as chief executive and Pine Brook supplying a $250 million line of equity. Simultaneous to the acquisition was the launch of the $717 million Trinitas VI, the largest deal to date on the platform.

Mahmud sat down with ASR to share his views on regulation and how it is playing out in the CLO market.

What drove the spinoff?

We were a subsidiary of a bank holding company, which, given all of the regulation and capital requirements, is not great for an asset management company. There are a ton of banking rules that do not necessarily apply to an asset manager or a CLO manager, and that makes capital spending from the bank difficult.

Overlaying all of that are the risk retention rules. If we stayed underneath the bank holding company and used any bank or bank holding company capital, each CLO would have had to be consolidated on to the holding company's balance sheet. For example, in this last transaction [closed in June], we put on $700 million in assets and $630 million in liabilities, which would have thrown the bank holding company ratios all out of whack and make the balance sheet of the bank holding company worthless.

Gibran Mahmud

So a long story short, it didn't make sense to be underneath a bank holding company anymore.

The way we got in touch with Pine Brook is that they are a very well known, well-renowned private equity firm with a very specific focus on energy, oil and gas and financials, so as we were surveying potential partners out there, their stellar reputation along with the fact they are very focused on financials, understand our markets, and connections to potential investors to us and our L.P.'s, was extremely attractive.

Any new strategies?

Not really any changes that come to mind. The CLOs we put together are the standard cookie-cutter, down the middle of the fairway-type of CLOs where you have 12 years of locked-in financing and floating risk on both sides. The only way to mess them up is stretch for yield, which you don't need to do in a CLO because the structure is a 10-times levered vehicle. The return is built in it for you as long as you don't mess it up.

How is loan market volatility affecting deals?

The loan market has its ups and downs. But currently, what we're presuming is we are in a tightening environment. That's what we did in this last deal [Trinitas VI]. We priced it in May [closed in June] and assumed loans would tighten up.

We'll take that into account on a forecasting basis. The fact you're buying this loan today, it's a known issue, and it's a Libor plus 350 [basis points] coupon – but in six months it's going to drop to 325, that doesn't really change our credit decision.

What are the odds of repealing Volcker and risk retention?

For the CHOICE Act [which would repeal Volcker], the biggest benefit is probably indirect, in that it expands the buyer universe for CLOs and allows banks to go down further in the capital structure to invest in the mezz and potentially the equity.

Potentially, you'd be able to add things like securities, bond baskets, or structured product baskets within CLOs, but likely a very small portion given that you still have a rating agency construct on top of it. So maybe a 5% to 7.5% [securities] basket comes back into CLOs. I don't see that as a huge benefit or detriment; it will just be manager-by-manager who decides that this particular bond is a good value, or better than some loans out there. Likely, if it were us, we would like the flexibility of having the basket but wouldn't use it unless the market changed.

As it relates to risk retention rules, I foresee a repeal of the risk retention rules as unlikely. If they were to happen, they would not go all the way back to zero.

I think it just gets scaled back on perhaps the percentage that's required to be held, how you can finance it or where the recourse can go.

How would investors react to a repeal of risk retention?

From the mid-90s through the early 2000s, even through 2014, we lived without even the concept of any retention [for CLOs]. So I think the market has already accepted a non-retention environment. Going forward, newer, smaller managers could get somewhat of a benefit by saying "I have my skin in the game with you as well."

But if retention were to be repealed, I don't think that would be something CLO market investors would then force without the regulation on the market. Or at least I don't think it would be broad-based.

Will Trinitas maintain its dual compliant strategy?

The regulators in Europe said 5% [risk retention] is fine, but they left open also the ability to change that in the future. So it's not a ton of comfort. But if the U.S. rules get pulled back, if and when they do, we'll likely see Europe not pushing much beyond.

What we have seen in the market is a bunch of U.S. managers have decided they aren't necessarily going to try to do dual compliant deals. Because if the U.S. rules are pulled back, you don't need to have as much capital deployed as the rules currently stand today.

We on the other hand, like to take majority equity pieces of our CLOs – one, for the control, two, to have the retention as well.

It doesn't really affect us; we're going to be dual-compliant regardless because we are already taking the requisite amount of equity. We have the ability to do vertical, but we just like the horizontal better.

> **"[Pine Brook] understands our markets, and connections to investors was extremely attractive."**

What is your outlook for the rest of 2017?

We believe borrowers are still performing, the structures look good, and the checks from private equity sponsors are sizeable. The worse thing out there is that spreads are pretty tight.

Issuance-wise, I don't see any slowdown outside of the usual August/Labor Day slowdown period we usually have. Everybody's pipelines are full and the ratings agencies are pretty busy.

Now you're rolling into the time frame where the 2015 transactions are coming up, and those will require retention or some sort of capital outlay if you're trying to refinance or reset those. So I think from that perspective you'll see a little bit of a slowdown from the extreme amount of volume we saw in the first half of this year.

The biggest factor for new issue in my opinion will be the access to the underlying loans. I think liability spreads will be tight, and we'll see a healthy amount of issuance throughout the rest of the year.

Volkswagen Shifts Gears Again

The automaker stepped up issuance of asset-backeds last year in the wake of an emissions cheating scandal; now it's returning to the unsecured debt markets

By Allison Bisbey

Volkswagen was compelled to shift its funding strategy last year in the wake of an emissions cheating scandal. It stepped up issuance of asset-backeds, which were less impacted by the fallout than the company's stocks and unsecured debt.

Now that investor confidence has been restored, VW is returning to its traditional funding pattern. In June, it issued €3.5 billion of hybrid unsecured bonds for the first time in 18 months.

"The highly successful placement is evidence of our good standing on the capital market, despite a longer pause in our issuance," Frank Fiedler, CFO of Volkswagen Financial Services, said in a June 29 statement.

Photo Credit Bloomberg News

The company has no plans to pull back from the securitization market, however.

"The refinancing of Volkswagen Financial Services is carried out on the basis of strategic diversification," spokesman Marc Siedler said in an email. "In addition to Auto ABS transactions, deposits from the stable direct banking business and the money and capital markets are the most important elements in the refinancing mix."

Siedler said that during the fiscal year ended March 31, 2016, bonds backed by auto loans and leases accounted for 19% of Volkswagen's funding mix. This figure includes bonds backed by U.S. vehicle financing and European vehicle financing. That was up four percentage points from 15% for the fiscal year ended March 31, 2015.

While the cost of unsecured debt funding has now fallen, "it is the security of the funding that counts for us and not the last spread point," Siedler said. "Volkswagen Financial Services are a frequent ABS issuer; we do not plan change our frequent issuance pattern."

VW was able to continue accessing the securitization market at low cost because consumers kept making timely payments on their loans and leases as the manufacturer recalled thousands of diesel vehicles to bring them up to regulation. In a June 28 report, Moody's noted that the delinquency rate of VW deals it rates has remained "consistently low" in Germany, Spain, France and the U.K.

Moreover, VW diesel vehicles retained their relative value against other manufacturer diesel vehicles, despite the fallout from the emissions crisis. So even when consumers stopped making payments and the vehicles were repossessed, they fetched a good price at auction.

However, Moody's is concerned that values for used diesel cars of all brands could come under pressure as local governments across Europe take actions that make it less attractive to own and operate them. This did not have a measurable impact on sales in 2016, but the rating agency expects to see a larger decline in the proportion new diesel vehicles sold in 2017. This shift will likely be echoed in the used car market.

Surge in Container Demand

A shakeout in the shipping industry reduced capacity; now that business is picking back up, lessors are returning to the securitization market for financing

By Glen Fest

Photo Credit Adobe Stock

Container lessors are entering the recovery in a much stronger financial position than their clients, having curtailed inventory and shifted funding to revolvers.

Global trade is growing, but few shipping companies are in a position to add to their own fleets of containers, in part because of rising steel prices. This is pushing container leasing rates higher, making it feasible for lessors to access financing in the securitization market once again.

So far this year, four lessors, Triton, Textainer, SeaCo SRL, and Container Leasing International (d/b/a/ SeaCube) have issued a total of $1.84 billion in six deals.

That's a big increase from 2016, when a single, $140 million deal was issued.

For the past couple of years, both shipping companies and, by extension, container lessors, have struggled amid overcapacity. In August, South Korea's Hanjin Shipping Co., the world's seventh largest line, filed for bankruptcy, delaying hundreds of thousands of shipments around the world. Other players have joined forces.

The shakeout reduced capacity, and now that business is picking up, containers are back in demand. "The reason you've seen so many issuers is that the container leasing market has recovered a lot in terms of both higher container price and higher lease rates," said Jing Xie, an analyst and director in structured finance at S&P Global Ratings. Last year, the lease rate for ships had slipped to as low as 25 cents per diem for 20 feet dry containers, "but now we're seeing 70-80 cents," he said. (Per-diem rates are daily rates based on averages of five-year or longer lease terms).

In May, Moody's Investors Service issued a stable outlook for the global shipping industry, predicting a swing to profitability this year. Still, shipping companies are not yet in a position to add to their own fleets of containers. A new unit that sold for less than $1,500 per cost-equivalent unit (CEU) last year, is now commanding about $2,200 CEU, according to container industry officials. (A standard 20-foot dry container is considered one CEU, or a TEU – twenty-foot equivalent unit – meaning that larger containers such as 40-foot units cost roughly double).

Growth in trade (the World Trade Organization expects 2.7% this year) isn't the only thing driving up the cost of containers. The cost of Chinese-made cordon steel, the primary composite material used for new containers, has more than doubled since December 2016. "Steel is roughly 50% the cost of the components in a dry freight container," said Moody's senior analyst Benjamin Shih, a senior vice president on the structured finance team.

Another cost factor was the conversion of many Chinese container manufacturers to add eco-friendly waterborne paint systems to replace solvent-based operations – a process that has slowed down production because of employee training, new drying conditions and added quality control measures, Triton's president, Simon Vernon, explained in the company's May 11 first-quarter earnings call with equity analysts. "This is obviously impacting the flow of new containers coming to market at present and restricting supply," Vernon told analysts.

Container lessors, by comparison, are entering the recovery in much stronger financial positions. Prior to the rate recovery, most were able to manage their curtailed inventory and operational needs more cost effectively through bank warehouse and revolving lines, according to S&P's Xie. Triton, for instance, has $1.53 billion in term loan facilities along with a warehouse line ($666.2 million outstanding) and a standalone warehouse for asset-backed transactions ($660 million outstanding).

Several had extended five-year (and in Triton's case, seven-year) contracts with many of their clients prior to the trade fall-off, shielding them from further revenue strains. New and renewed leases now are at rates equal to peak 2014 levels, according to Moody's.

Moody's reckons that lease rates climbed about 60% on average in the first quarter from historical lows in 2016. "If container prices continue to increase," the rating agency said in a May report, "per diem lease rates for both new and used containers will also rise, which will help improve the ABS transactions' flows."

Going into the year, many expected the rates to remain flat at 2016 levels. S&P published lease assumption rates of 57 cents per diem for the standard 20-foot dry containers, narrowly down from the 2016 forecast of 60 cents. (The agency has not published any revised estimates for the remainder of the year.

For Textainer, that fact that 83% of its contracts are on long-term leases – and only 7% of those are maturing in 2017 – means the company is shielded from interest rate reductions and is supplied with enough lease receivables to have structured two securitizations so far in 2017 after two years of dormant asset-backed activity. Textainer's second transaction, the $500 million Textainer Marine Container V Ltd 2017-2 series that closed on June 28, was among the largest-ever asset-backed deals in the history of this intermodal class, said Hilliard C. Terry III, Textainer's executive vice president and chief financial officer, in a press release. "This is our second ABS offering in just two months and follows a significant recent improvement in the container leasing market, coupled with strong capital markets conditions," said Terry.

Textainer's first deal of the year was the $420 million Textainer Marine Containers V Ltd. Series 2017-1, which had been upsized from $300 million, and included a five-year expected maturity. The first transaction pooled 120,973 containers; the second-series in the master trust-like vehicle involved over 313,000 containers.

Triton has issued two deals, one for each of the legacy container firms from which it was created in a July 2016 merger with the former TAL International Group. The transactions were spurred from rising earnings ($35.4 million in adjusted net income, up from $19 million in the fourth quarter) and a bulked-up revenue-earning asset base of $7.6 billion.

Triton gave no indication of future securitization plans that would build on its outstanding asset-backed note obligations totaling $1.32 billion. But earlier this year in fourth-quarter earnings remarks, Triton chief executive Brian Sondey expressed optimism that container demand appears to be in the early stages of a significant revival.

> "The leasing market has recovered a lot in terms of both higher container prices and higher lease rates."

"These very large shipping lines, many of which now operate several million TEU containers in their fleet, they need very large suppliers," he told equity analysts. "The major shipping lines don't want to have to go to four of five leasing companies to put together any particular container requirement they might have.

"And I think that's one reason why, since our merger we've actually seen our deal share increase just because we can deliver very big solutions to these guys."

Triton is manager of the first ship container ABS deal in 2017, the $281 million TAL Advantage VI portfolio offering in March backed by 86,750 containers with a book value of $355 million. Most recently, the company sponsored the $318.9 million Triton Container Finance VI LLC (Series 2017-1) transaction featuring more than 97,000 containers valued at more than $376 million – with many of them new fleet additions with an average age of 1.7 years.

Store Closures Imperil Cards

Synchrony Financial and Alliance Data are particularly vulnerable to recent shifts in Americans' shopping habits, according to Moody's Investors Service.

By Kevin Wack

Amid strong growth in online shopping, the pain that many traditional retailers are feeling may soon be shared by their partners in the credit card industry.

A new report from Moody's Investors Service predicts that the woes now being felt at many retailers with large physical footprints will soon spread to the companies that issue plastic to their customers.

The near-term concern is that when particular store locations close, customers who live nearby will become less likely to pay off their existing debts, since they will no longer have a physical connection to the retail chain. In cases where a merchant liquidates its assets in bankruptcy, the losses for the card issuer will likely be larger, according to the report.

"Although consumers would damage their credit records, many will be more willing to default on a card from a retailer without local stores because they will not expect to make future purchases at its other locations or online," the Moody's report states.

Two large card issuers were flagged by Moody's as being particularly vulnerable: Synchrony Financial in Stamford, Conn., and Alliance Data Systems in Plano, Texas. Those two firms are far more focused on the store-branded card market than the other big credit card issuers are.

The store-branded card segment includes both cobranded credit cards, which can be used at a wide variety of merchants, and private-label cards, which are only accepted at one particular retail chain. The latter category is seen as likely to experience bigger losses as a result of rising store closures.

In the last two years, the percentage of private-label card loans that are at least 60 days past due has risen from around 3% to roughly 4%, according to Moody's.

Jody Shenn, a senior analyst at the New York-based ratings firm, said in an interview that it is difficult to determine how much of that rise in late payments is connected to the continuing retail shakeout and how much to other factors.

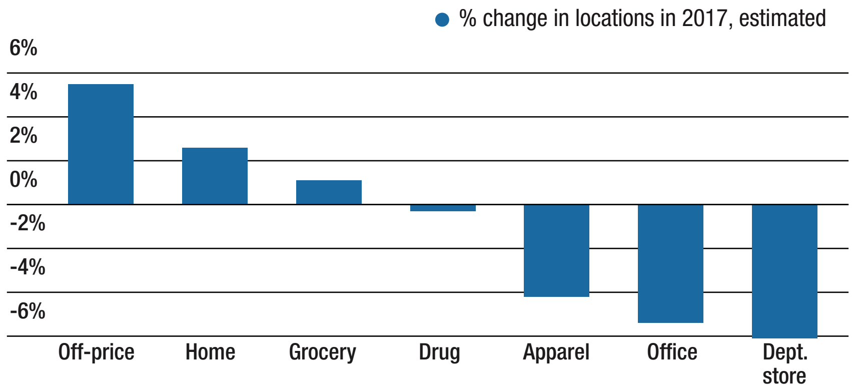
But with store closings now accelerating, he said, "We would expect the impact to be more meaningful and noticeable going forward."

Stores in shopping malls are seen by Moody's as most vulnerable to the growing consumer preference for e-commerce, though the firm also pointed out that some of the sales lost as a result of store closures will be offset by online purchases.

Synchrony's retail partners include JCPenney, which is expected to close more than 100 stores this year, according to Moody's. Alliance Data's partners include mall staples such as Lane Bryant, Ann Taylor and Victoria's Secret. Moody's estimates that footwear and apparel chains, office supply retailers and department stores will all shrink their footprints by at least 4% this year.

Retail shakeout

Off-price chains are aggressively adding stores, but department stores, clothing retailers and office supply outlets are substantially reducing their footprints



Source: Moody's

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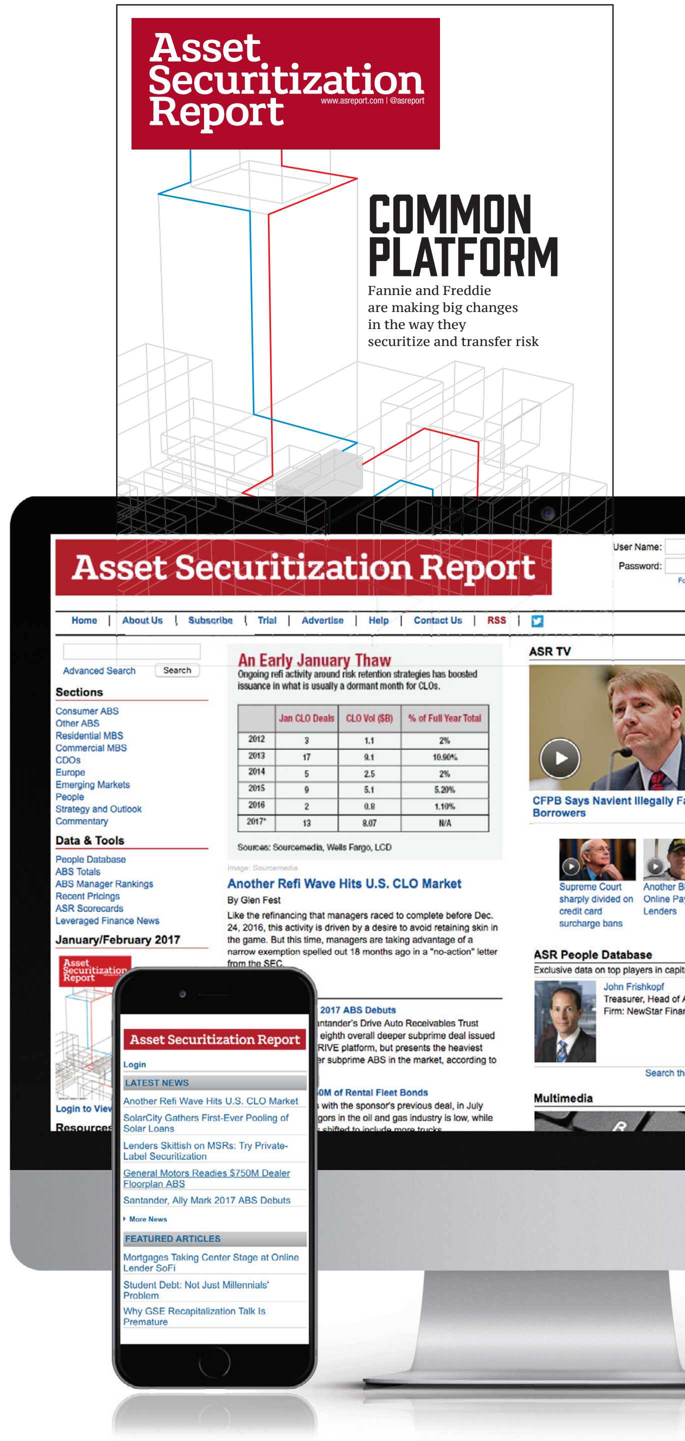

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Carving Up Large CMBS Loans

The trend of putting ever-smaller pieces of the same commercial mortgages into multiple deals requires investors to be extra careful, and will make workouts more complicated.

By Allison Bisbey

Risk-retention and other regulations under the Dodd-Frank Act have led to subtle but significant changes in the way commercial properties are financed in the securitization market.

Large trophy office buildings, shopping malls and hotels are typically funded in this market because the exposure would be too big for any one bank or insurance company. Their size dictates that these mortgages either serve as collateral for a single bond offering or be split into multiple notes collateralizing two or more transactions on a pari passu, or equal-footing, basis.

But the Dodd-Frank rules increased the cost of funding, resulting in lower overall issuance of commercial mortgage-backed securities, as well as a decline in the average size of CMBS deals backed by multiple loans, known as conduits.

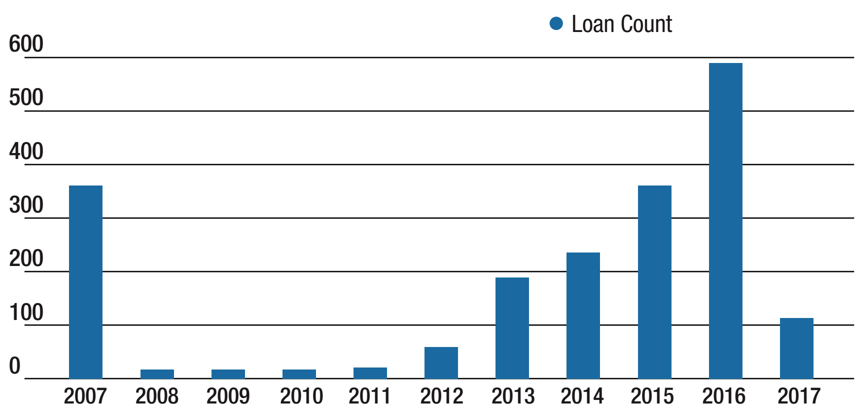
As a result, even some not-so-large loans are increasingly being carved up into smaller, bite-size pieces. Last year, $26 billion of loans tracked by the credit rating agency DBRS were split into close to 500 pieces and bundled into collateral for various mortgage bonds.

"It used to be there was no problem putting a $100 million loan into a conduit," said Erin Stafford, a managing director at DBRS. "But the average conduit transaction is now around $1 billion," limiting the size of loans that can be used as collateral without increasing concentration risk of a given pool.

One problem with the trend of pari passu issuance is that when these loans go bad, as some surely will, workouts will inevitably be more complicated than they would be for a whole loan.

Piece by piece

The number of commercial mortgages that are securitized in bits (rather than the whole loan going into one deal) is rising



Source: Trepp LLC (2017 figure is through May 16)

In the meantime, pari passu loans have become so endemic that investors putting money to work in more than one CMBS conduit need to pay close attention, lest they end up placing bigger bets than they want.

"When a large loan is spit into so many deals, you can easily end up with too much exposure to that property when you buy tranches of several conduits," said Teresa Walters, a vice president in portfolio management at Amundi Smith Breeden. "In some recent transactions, more than half of the top 10 loans are pari passu loans."

The problem is acute for investors buying a lot of CMBS in a short time.

"If there's a deal with a portion of a large loan, maybe the next five deals are going to have exposure to that loan as well. So you have to be particularly careful," Walters said. "But if you buy one deal now and then wait a few months to buy another, the likelihood is that the rest of the loan will already have been put into other deals."

In one example, a $325 million mortgage on the Fresno Fashion Fair Mall, in Fresno, Calif., was split into six notes, ranging in size from $39 million to $80 million, placed in as many conduits between October 2016 and March 2017, according to DBRS. The loan, which the property owner Macerich Co. obtained from JPMorgan Chase and Societe Generale, is backed by 536,093 square feet of the 957,944-square-foot shopping center.

Very large loans, those over $250 million, can still be securitized on their own. Goldman Sachs recently completed two of these transactions, which are known as single-asset, single-borrower CMBS: a $465 million mortgage backed a portfolio of 10 office properties in Houston (in April) and a $350 million mortgage on 485 Lexington Avenue, a 32-story office building in midtown Manhattan (in February).

In some cases, however, lenders are breaking off relatively small pieces of these large loans to be used as collateral in one or more conduits.

In November 2016, a $750 million portion of a $1.275 billion mortgage on the Hilton Hawaiian Village Waikiki Beach Resort, an iconic, 22-acre property on the island of Oahu, was used as collateral for a single-asset CMBS. The five banks that made the loan to Hilton Trust USA have since used smaller portions as collateral in six conduit transactions – so far.

While DBRS does not rate single-asset, single-borrower CMBS, Stafford said breaking off relatively small portions of very large loans may be a way to expand the potential investor base.

"Some investors may not be able to buy single-asset, single-borrower loans," Stafford said.

Concentration risk isn't the only potential downside to investing in pari passu loans, however.

Pari passu loans are ultimately controlled by one pooling and servicing agreement and therefore one special servicer. Any loss associated with these loans should theoretically be distributed pro rata among the various pari passu notes contributed to various CMBS transactions. In reality, however, servicers and trustees sometimes apply different loss expenses to different tranches of the same collateral in different CMBS transactions, according to DBRS.

In March, a $2.85 billion loan on a portfolio of 20 office buildings in Seattle and Washington, D.C., owned by Beacon Capital Partners, was disposed from six conduit transactions resulting in losses of over $100 million that were realized across four of the deals, according to a report published by Kroll Bond Rating Agency.

"When a large loan is split into so many deals, you can easily end up with too much exposure."

Stafford, the DBRS analyst, said that, in theory, all of the interests in a pari passu structure should be aligned.

"I think where complications come in to play is when there is a lot of subordinate debt" encumbering the property, she said. This financing, which ranks behind securitized loans in payment priority, is subject to intercreditor agreements that can tie up the resolution process.

"Subordinate debtholders interests' are not aligned, and that's where there are problems that can cause delays."

Insurers still refinancing loans out of CMBS

Insurance companies continued to boost their allocations to commercial real estate in 2016, albeit at a slower rate than in 2015.

A survey of 27 insurance companies conducted jointly by the Commercial Real Estate Finance Council and Trepp indicates that participants allocated 11.2% of total invested assets to commercial mortgages, on average, for a $227 billion in exposure.

That's an increase of 12 basis points from the end of 2015.

Holdings ranged from a high of 18.29% to a low of 2.88%; the low value of 2.88% was reported by one of the newer participating firms.

Survey participants added a combined $41 billion of new mortgages in 2016, a $3.5 billion decrease over the prior year.

Still, the vast majority (90%) of new originations were classified as "new business/financing," a category that includes refinancing of maturing loans from other lenders, including banks and commercial mortgage bond conduits. That's roughly the same percentage as in 2015.

The weighted average loan-to-value ratio reported for the new originations improved slightly in 2016, to 56%. However, the weighted average debt service coverage ratio dropped, to 2.12x.

Insurers continue to experience lower losses on commercial mortgages than banks or CMBS. Realized net losses in the general accounts and subsidiary entities of survey participants totaled 0.003% as of the fourth quarter, a slight drop from a year earlier, when losses totaled 0.01%. In contrast, CMBS and commercial banks experienced losses of 0.81% (almost unchanged from a year ago) and 0.01% (down 4 basis points) respectivley, as of year-end 2016.

Tricky Calculus of GSE Reform

The Senate has taken up housing finance again, but many are skeptical Congress will be able to succeed where it has failed in the past.

By Ian MacKendry

The Senate has taken up housing finance reform again, but many are skeptical that Congress will be able to succeed where it has failed in the past.

Despite moves toward a bipartisan solution, the political atmosphere remains hyperpartisan, with Republicans and Democrats agreeing on very little.

"There is a political chasm between the two parties and it is difficult to be optimistic about any significant legislation in this Congress," said Isaac Boltansky, a policy analyst at Compass Point Research & Trading.

It will soon be nine years since Fannie Mae and Freddie Mac were seized by the government and placed into conservatorship. Policymakers have been struggling to figure out what to do with them ever since.

The most politically promising effort is led by Sens. Bob Corker, R-Tenn., and Mark Warner, D-Va., who previously pushed a bill to wind down Fannie and Freddie and replace them with private entities with access to an insurance fund run by the government in case of catastrophic losses.

That bill was adopted by Sen. Mike Crapo, R-Idaho, who now heads the Banking Committee, and is expected to form the backbone of any new plan. Corker, Warner and Crapo have suggested the new effort will be simpler than the previous iteration and seek to address various criticisms.

"Corker and I decided that we would kind of put the band back together and recognize, again, that there is unfinished business to do here," Warner said at a recent event.

Photo Credit: Bloomberg News

"How do we deal with some forces in both parties that simply want the status quo?" said Sen. Mark Warner, D-Va.

But though Warner expressed optimism about the attempt, he acknowledged it will not be easy.

"How do we deal with some forces in both political parties that simply want the status quo?" he said.

Chief among the issues facing lawmakers is that currently Fannie and Freddie give all of their profits to the U.S. government. At a time when the Trump administration is pushing tax reform and policymakers are searching for new government revenue, the "profit sweep" is difficult to give up.

But even if lawmakers don't act, the situation is untenable. Fannie and Freddie have not been allowed to rebuild capital, making it certain that — sooner or later — they will require a draw on the Treasury Department to stay afloat. That could spark a panic in the market.

"They just have to wobble a little bit and it gets very ugly from a systemic perspective very fast," said Karen Shaw Petrou, co-founder and managing partner of Federal Financial Analytics.

Federal Housing Finance Agency Director Mel Watt has warned lawmakers he won't let it get to that point. Although the profit sweep rests on a joint move by the FHFA and Treasury several years ago, Watt has said he may unilaterally scrap it if Fannie and Freddie begin to run low on capital.

"The existing agreement gives us the authority to either declare or not declare a dividend," Watt told the banking panel during a May hearing.

Laurence Platt, a partner at Mayer Brown who advises clients on housing finance reform issues, said that withholding profits from Treasury is different than taking a draw.

"Not giving money to the Treasury is not as big a deal as taking money from the Treasury," Platt said.

The sweep was a mechanism designed to put pressure on Congress to come up with a legislative solution, but some stakeholders stand ready to throw their support behind Watt.

"This is a crisis we can avoid, it can be changed and FHFA and Treasury can do this and we strongly encourage them to do that," said Ron Haynie, senior vice president of mortgage finance policy for the Independent Community Bankers of America.

Crapo, Corker and Warner also have to deal with community bankers who are wary of their plan. Community banks are one of the few constituencies in the banking industry that continue to have clout, and their support or opposition could help sway moderate Democrats like Sens. Jon Tester of Montana and Heidi Heitkamp of North Dakota.

The ICBA opposed the Corker-Warner measure last time around because it felt it would essentially hand the mortgage market over to the biggest banks and leave community banks out in the cold.

They argue that a simpler solution is to recapitalize Fannie and Freddie with reforms to make them safer and sounder. "A lot of these plans seem to drive to this notion that you have got to tear up what works," Haynie said. "We don't understand the reasoning behind that because there is a lot that works with the GSEs and for community banks, small midsize lenders even regional banks."

They also say plans to break up Fannie and Freddie and sell off pieces of it to the private sector would likely benefit Wall Street bankers with deep pockets. "We don't think busting them up and selling off pieces of them solves a problem," Haynie said. "We think it creates an additional one."

But other stakeholders in the debate disagree. After the mortgage meltdown and the taxpayer bailout, they say, real reform with more private capital at stake is needed.

"I don't think that a plan that lets the GSEs simply rebuild their capital is the right way to go," said Jerry Howard, CEO of the National Association of Home Builders. "I think we need Fannie Mae and Freddie Mac to come out of conservatorship."

Another big unknown is whether Democrats continue to hold the line on new affordable housing requirements.

In 2013, the Corker-Warner bill was pushed by then Chairman Tim Johnson, D-S.D., and Crapo, and cleared the panel, but lacked sufficient support from Democrats to make it through the full chamber. The key issue then was whether the new system did enough to support affordable housing.

That remains a big concern for many Democrats. Warner has said the new effort will address this issue, but it's hard to see how he can balance Democratic demands on one hand with Republican skepticism of new affordable housing requirements. In many ways, that issue is a symbol of the larger debate.

"What is complicating is the disparate interests of the far right on the one hand and the far left on the other," Howard said. The far right's "notion of the government not being involved is simply impractical and the far left using the affordable housing element as a stalking horse for other interests is equally unachievable and inappropriate."

"There is a political chasm between the two parties, and it is difficult to be optimistic."

Democrats and the politically powerful National Association of Realtors are likely to insist on preserving the 30-year fixed-rate mortgage, a product that is easier to offer with government support. "It is more important than ever that Congress reform the secondary mortgage market in a way that preserves affordable access to credit for qualified buyers and maintains the availability of the 30-year fixed-rate mortgage," said the Realtor group's president, William E. Brown.

Even if an agreement could be struck in the Senate — which is by no means certain — House leaders appear set on a different path. House Financial Services Committee Chairman Jeb Hensarling recently recommitted to a bill he pushed in 2013 that would have eliminated Fannie and Freddie and largely removed the government from the mortgage market.

Builders Balk at Flood Insurance

The National Association of Home Builders is objecting to a measure that would impose a surcharge on National Flood Insurance Program policies for newly constructed homes

By Brian Collins

A key housing market group is objecting to a provision of a bill passed by the House Financial Services Committee that would impose a surcharge on National Flood Insurance Program policies for newly constructed homes if a state does not allow the sale of private flood insurance.

While the National Association of Home Builders supports the development of a private flood insurance market, it says that taking a punitive approach is a bad idea. Instead, it is seeking a bill that would spur private insurers to enter the new-construction market.

"Why don't we let that work?" said Jerry Howard, the trade group's CEO.

The group supported an amendment to strike the surcharge, which was backed by Democrats and Rep. Peter King, R-N.Y., but the measure failed. The panel approved the overall bill 30 to 26.

Under the bill, National Flood Insurance Program policies would not be available after Jan. 1, 2021, for buyers of newly built homes in high-risk flood areas, if private flood insurance is available. If private policies are not available, the homebuyer would have to pay a 10% surcharge above the premium rate.

The surcharge is designed to encourage the development of the private flood insurance market but also to discourage new construction in high-risk flood areas and reduce losses to the federal flood insurance program.

Photo Credit Bloomberg News

The overall bill, by Rep. Sean Duffy, R-Wis., would create a new bureaucracy to receive applications from buyers who want to purchase a home that is located in a 100-year flood plain. A new Flood Insurance Clearinghouse would be created to match homebuyers with private insurers. That is also raising objections from the homebuilder trade group.

"Our first take is that it is going to delay closings and it is going to complicate a process that doesn't need to be complicated," Howard said.

Congress is under pressure to reauthorize the National Flood Insurance Program, which is slated to expire at the end of September.

The 21st Century Flood Reform Act reauthorizes the NFIP for five years and provides $1 billion in funding for flood mitigation projects.

Homebuilders are not the only ones that have problems with the bill. While the National Association of Realtors supports the overall bill, it opposes a provision that would terminate the grandfathering of flood insurance premiums after four years; that means that even homeowners who built to code and elevated their homes will have to pay higher premiums if they suffer substantial flood damage or their property is remapped into a high-risk flood zone.

In a press release, the Realtor group's president, William Brown, said that element of the 21st Century Flood Reform Act could lead to "consumer confusion and market disruptions."

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