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THE WALL STREET JOURNAL.

Business News: Santander Settles Predatory-Loan Cases

By Ben Eisen and AnnaMaria Andriotis
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Santander Consumer USA Inc. has reached a $550 million deal with nearly three dozen states to settle charges of predatory auto lending to low-income and subprime borrowers.

The settlement, announced Tuesday, resolves charges that one of the largest subprime auto lenders in the U.S. made loans borrowers couldn't afford to repay.

The states also claim that Santander failed to monitor dealers that falsified borrowers' incomes and other information when submitting loan applications.

"Over the last several years, we have strengthened our risk management across the board -- improving our policies and procedures to identify and prevent dealer misconduct, and tightening standards to ensure affordability," Santander said in a written statement.

Thirty-three states and the District of Columbia accused Santander of extending loans that were too big relative to borrowers' incomes, charging excessive fees and failing to monitor dealership loan-approval practices.

California Attorney General Xavier Becerra said Santander profited by extending high-interest loans to buyers "who were doomed from the start" to default.

The settlement includes $65 million of restitution for consumers.

It also involves $433 million in loan forgiveness, including for customers who have had cars repossessed but still owe money to Santander.

The lender also agreed to waive balances for customers who have very low credit scores and who had stopped paying their loans as of the end of last year.

In addition to the penalty, Santander agreed to factor its borrowers' ability to repay its loans into its underwriting.

It agreed not to fund loans that, when combined with other debt payments and monthly costs, would eat up a borrower's entire income.

Most auto-loan financing is arranged through dealerships, and lenders that fund the loans are supposed to carefully review borrowers' applications.

Lenders have been approving consumers for auto loans that they can't afford, including loans with larger monthly payments than borrowers' incomes, The Wall Street Journal reported last year.

More consumers are signing up for loans that are larger than their car's purchase price, the Journal reported, increasing their chances of default.

Consumer lawyers say the practices often result in repossessed cars and damaged credit scores that make it harder for people to qualify for affordable financing.

Santander didn't verify several numbers in consumers' auto-loan applications that would have determined whether they could afford the financing, the states said in their complaints.

It accepted stated-income loans without requiring documentation from dealers or consumers that would prove the income listed on the application, the states said.

Loan applicants' housing costs were also rarely verified, and Santander didn't have measures in place to catch falsified figures, the states alleged.

When a loan application didn't include housing costs, Santander would assume a lower figure than what was reasonable for the area, according to the complaints.

The settlement highlights lenders' reliance on dealerships to boost loan sales.

There was internal tension at Santander over how to handle dealerships that were found to have falsified applications, according to the states' complaints.

The lender, the states said, tracked problematic dealers but often failed to cut ties with them if they were delivering enough profitable loans.

Santander's loans, which often come with double-digit interest rates, are typically packaged into bonds and sold to investors.

Last year, Santander issued $8.3 billion worth of these bonds, more than twice the amount of the next largest subprime auto lender, according to data from Finsight.

Santander in 2017 settled claims stemming from its subprime auto-lending practices with the attorneys general of Delaware and Massachusetts.

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Esoteric Securities Shake Off Worries About a Recession

By Gunjan Banerji and Julia-Ambra Verlaine
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Investors are snapping up complex securities linked to some of the markets deemed most vulnerable to the coronavirus-driven economic slump, a sign that the yearslong reach for yield has survived the market shock.

Faced with withering share prices and falling yields on safe government bonds, portfolio managers are seeking out returns in an array of strategies that in some instances take them into esoteric corners of the financial markets. One popular spot is the market for asset-backed securities, typically bonds whose payments to investors are generated by the cash flows collected from a large pool of car loans, property leases or other agreements.

Despite worries about a recession, demand for bonds backed by U.S. auto loans has outstripped supply in recent days, bankers and investors said. A $1 billion bond marketed this month by Santander Consumer USA was sold at yields lower than initially expected, people familiar with the deal said.

In another closely watched deal, Dell Technologies Inc. last week sold approximately $1.1 billion in debt backed by leases on equipment to big and small companies, including computers and servers. Meanwhile, sales of structured products geared toward individuals -- including bets on stocks packaged into bonds -- hit a decade high in March.

The data show that individual and institutional investors remain willing to put money to work, even as uncertainty around the economic impact of the coronavirus pandemic lingers. Many analysts and traders said they have been struck by the extent to which some of these markets appear on the road to recovering their full health, just weeks after trading was frozen with the news that many jurisdictions across the U.S. had imposed stay-at-home orders and similar measures.

"I'm so shocked that we're here so fast," said Paul Norris, head of structured products at Conning, who oversees $20 billion in securitized debt. He attributed the rapid bounceback to the Federal Reserve's expansive support for markets, saying he bought asset-backed securities recently because the Fed-inspired rally "created an opportunity for a lot of investors."

The current market environment is confounding for many investors, with share prices rebounding even as bond yields remain near record lows and oil prices this month briefly fell below zero. Accordingly, investments that promise higher and steadier returns remain popular.

"That's a constant question from not just individual clients but institutional clients: Where do we go for yield?" said Mark Grant, chief global strategist of fixed income at B. Riley FBR Inc. "People want yield, they want income, they want money coming in."

Issuance year to date in asset-backed securities stands at $55 billion, according to JPMorgan Chase & Co. research analysts. That is down from $77 billion over the same period last year, but the pipeline for more deals is filling up.

The market for asset-backed securities was shut down for nearly four weeks, beginning in mid-March. That was a shorter period compared with the depths of the financial crisis, when investors stopped buying securitizations for months.

About $8 billion of subprime auto debt has been issued so far this year, according to JPMorgan, compared with $10.1 billion during the same period last year. A total of about $30 billion was issued in 2019, near a decade high.

When Santander and GM Financial issued bonds backed by auto loans this month, demand for the debt outstripped supply, according to bankers at Barclays who led the deals. They were the first to hit since the pandemic rattled some of the safest corners of debt markets, including Treasurys and high-grade corporate bonds.

The nation's largest used-car retailer, CarMax Inc., successfully priced bonds a week later. Enrique Mayor-Mora, chief financial officer of CarMax, said the company was "pleased with investor demand," which allowed it to sell more debt than it had originally planned.

The heavy interest comes even though the market has grown riskier in light of the coronavirus pandemic. Subprime auto debt including some of Santander's is backed by some of the riskiest borrowers with typically lower credit scores.

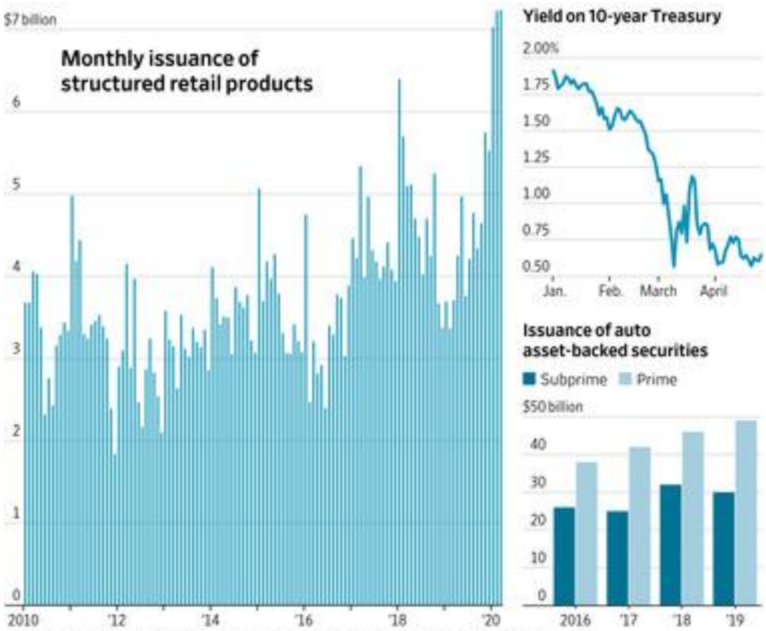
Santander recently disclosed that there was a sharp uptick in the number of people seeking payment extensions on their auto loans. About 7.5% of the loans backing its debt had received a payment extension in March, up from roughly 1% in February, according to JPMorgan. Fitch Ratings recently said that its outlook on the auto-loan sector has worsened in light of the coronavirus pandemic.

Investors have also piled into exchange-traded products offering steady income and dividends, FactSet data show, ranging from funds promising consistent stock returns to risky exchange-traded notes offering payouts tied to commodities.

Issuance of structured products geared toward individual investors hit a decade high in March, the most volatile month in the stock market's history, according to industry publication Prospect News.

These types of products are built by banks using derivatives and often end up in the hands of individual investors who receive a future payout based on the performance of such assets as stocks or commodities.

In a corner of this market, so-called auto-callable notes have been popular this year, with issuance topping $13 billion, according to data from mtn-i. A rise in share prices can trigger redemption of the notes.



Sources: Prospect News (monthly issuance); Tullett Prebon (yield); JPMorgan research (auto asset-backed securities)

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Search Summary

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Date	04/01/2020 to 06/30/2020
Source	The New York Times Or The Wall Street Journal Or The Economist Or Forbes
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Subject	All Subjects

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Language	English
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