Lead Left Interview – Mary Katherine DuBose (Part 2)

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This week we continue our conversation with Mary Katherine DuBose, Co-Head of Asset Backed Finance and Securitization, Asset-Backed Finance, Wells Fargo Securities. ABF provides direct structured lending as well as the underwriting and distribution of asset-backed securities for over 500 clients and a risk portfolio of approximately $120BN across consumer, commercial, residential and corporate debt sectors. ***Second of two parts – View part one.***

The Lead Left: And your warehouses stay in place, correct? Once the CLO is done.

Mary Katherine DuBose: Yes. It is important to note that the CLOs are not takeout vehicles. Our warehouse facility stays in place. It's drawn, paid down with the permanent vehicle, and then redrawn. Couple that with our research capabilities, which you know well, gives us an important independent view. All in all, Wells Fargo is fully invested in the asset class.

TLL: Do you have a view on liability spreads, where they're headed, particularly in the middle market?

MKD: It's hard to predict where liabilities will go. The premium between middle market and broadly syndicated loans will probably shrink. So maybe triple-As are somewhere between 150-160 basis points.

There will be moments in the market when spreads go to the wide end of the range. When broadly syndicated spreads get cheap, investors will head to the middle market. So the middle market premium won't go away. We do note that asset spreads have stabilized. We believe there will be more credit challenges, with some level of spread widening down the road, but not in the near term.

TLL: What type of new investors are you seeing coming into the asset class?

MKD: We see asset managers, banks, insurance companies and money managers playing in the investment grade end of the capital structures. As they get more comfortable with the loan managers, they tend to migrate towards the lower investment grade tranches.

TLL: You mentioned on the Milken panel that non-banks are gaining the attention of regulatory agencies.

MKD: The Fed and OCC are asking all the right questions. But they are asking questions and like how we monitor them. When we lend to non-banks on mortgages for example, we evaluate the mortgages themselves. Same is true of corporate debt; we evaluate the loans. We're trying to get directly to the assets.

We remind the regulators that we're sitting at very attractive attachment points. We're sitting with 20-40% capital below us. So we are positioned, from a leverage vantage point, below Leverage Lending Guidance levels, versus the overall leveraged loan market which is often above those levels. The regulators are very aware of that.

TLL: So what keeps you up at night?

MKD: I suppose it’s the worry about market saturation. It feels like a significant amount of capital has been raised from retail channels versus institutional investors. With retail money it’s easier to walk away. The BDCs, as an example, have seen a few players tainting the sector. The concern would be that the business becomes marginalized by bringing in the tier two or tier three players. But regardless we are long-term players who have appetite for this product.

TLL: Finally, Mary Katherine, what’s been your biggest surprise this year?

MKD: Probably how many competitors are patterning after our model. I didn’t expect it at this point in the cycle. We’re feeling the competition. That’s simply a fact of life with the CLO market being more open.

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