



Why Asset-Backed Securities Are NOT the Next Financial Crisis

From Global Fixed Income

The resilience of securitized ABS amid negative headlines



“US Justice Department Probes Fraud Allegations at Subprime Car Lender Tricolor”

—*Financial Times*,
September 10, 2025



“First Brands Collapse Blindsides Wall Street, Exposing Cracks in a Hot Corner of Finance”

—*Bloomberg*,
September 10, 2025



“Are Murky Financial Instruments Spreading the Risk of the A.I. Spending Frenzy?”

—*NY Times, Dealbook*,
November 10, 2025

Executive summary

Recent headlines within parts of the securitization market including subprime autos, niche consumer lending and digital infrastructure have prompted renewed scrutiny of credit risk across the broader structured finance landscape, both public and private. The collapse of Tricolor Holdings in September 2025—a subprime auto lender—and the bankruptcy filing of First Brands Group, an automotive aftermarket parts manufacturer, have understandably raised questions among investors about the underwriting standards and integrity of the asset-backed securities (ABS) markets.

Some of these concerns have impacted pricing on the growing public ABS market, while others have related to the private asset-based financing (ABF) market. However, in many of these instances, we believe the issues reflect idiosyncratic business models, allegations of fraud, concentrated borrower profiles or simply fear of overinvestment in the case of artificial intelligence related data center development. We do not view these as systemic weakness embedded, or developing in the broader securitized ABS market. Well-structured ABS transactions—particularly those backed by diverse collateral and seasoned issuers—remain insulated from many of the challenges facing private credit and specialized consumer lenders.

As investor confidence naturally becomes shaken by these headlines, indiscriminate selling pressure emerges, and spreads widen. In many cases, higher quality deals with strong structural protections and reputable sponsorship also sell-off. Yet, given a stable economic backdrop and resilient consumer profile, this market cleansing creates opportunities for alpha generation.

Current market context

Year-to-date 2025 ABS issuance has reached \$319 billion across 456 transactions, up 4.7% year-over-year, demonstrating continued robust market demand. Auto ABS represents 54% of total volume. Importantly, despite the Tricolor bankruptcy in September, subsequent issuance in both prime and subprime auto segments remained resilient, with approximately \$9.7 billion and \$1.2 billion issued respectively in the following months.¹

While spreads for subprime auto ABS BBB-rated tranches widened by approximately 50 basis points in the month following the Tricolor collapse, this widening created attractive entry points for discerning investors.¹ The spread basis between subprime auto ABS and unsecured personal loan ABS has shifted from historical norms, presenting tactical opportunities as the market differentiates between idiosyncratic fraud risk and fundamental credit trends.

Key differentiators in the ABS market

Issuer and collateral quality

Some originators employ nontraditional lending models—for example, programs resembling “buy-here-pay-here” structures targeting thin-file or underserved borrowers. These approaches can introduce higher credit volatility and limited data transparency. Tricolor’s model exemplified these challenges: serving customers with low or no FICO scores (over two-thirds without credit scores), through an integrated dealer-finance structure that concentrated control and limited external oversight.

By contrast, established issuers with consistent underwriting, long performance histories, and robust reporting frameworks have demonstrated stable results through multiple credit cycles. Recent third-quarter 2025 earnings from major auto and credit card lenders confirm this differentiation—with Capital One, Ford Credit, GM Financial, and others reporting stable to improving credit metrics despite the noise surrounding Tricolor. ABS structures enable investors to differentiate between collateral and originator quality, allowing for risk-appropriate pricing and positioning within the asset class.

Moreover, many reputable originators have proactively tightened underwriting standards over the past two years in

response to affordability pressures. This credit discipline has resulted in pools with stronger credit distributions and better positioning for 2025 and possibly beyond.

Structural protections and evolution

Securitized ABS transactions are designed with multiple layers of credit protection, including subordination, overcollateralization, and excess spread. These features absorb stress before senior investors are impacted. The ABS market has evolved significantly since the Global Financial Crisis. Using auto ABS as a benchmark, attachment points have increased substantially across all tranches compared to pre-crisis levels. For investment-grade rated tranches, subordination levels are particularly robust.

While cumulative losses on prime auto ABS averaged 1.7% pre-crisis, losses on vintages originated between 2012 and 2019 recorded cumulative loss rates under 1%, a testament to strengthened underwriting standards. Even in today’s environment, where subprime auto delinquencies have climbed to elevated levels (16% as of September 2025), cumulative losses remain well below the enhanced attachment points for investment-grade tranches.² The deleveraging nature of sequential-pay structures means credit enhancement continues to build throughout the life of the transaction, providing increasing protection over time.

Transparency and market mechanisms

Unlike the opaque financing structures that characterized First Brands’ downfall—where collateral was allegedly transferred between entities and double-pledged—public ABS markets benefit from robust reporting infrastructure, independent trustees, and regular rating agency surveillance. Monthly remittance reports provide granular detail on collateral performance, allowing investors to monitor delinquencies, losses, prepayments, and credit enhancement levels in real time.

Furthermore, market-based price discovery provides continuous feedback on credit quality. The rating-for-rating spread pickup that ABS offers relative to corporate bonds (approximately 90 basis points on average for A-rated tranches in 2025) reflects both structural protection and the market’s differentiation between consumer and corporate credit risk.³

While certain segments of consumer finance have faced headlines about rising delinquencies or loan performance variability, the ABS market’s structural and informational transparency provides a critical distinction. Isolated credit weakness in niche originators does not reflect systemic deterioration in the securitized market; rather, it

1. Source: BofA Global Research

2. Source: Goldman Sachs

3. Source: Goldman Sachs, BofA Global Research

underscores the importance of issuer selection, data discipline, and structure.

Sector Specific Performance

Credit card ABS

Performance remains stable and continues to outperform bank portfolios. The cost of credit for ABS pools runs approximately 200 basis points lower than banks' overall credit card portfolios, reflecting the higher quality borrowers in securitized pools, a deliberate structuring choice to maintain investor confidence. Credit card charge-offs are performing better than pre-COVID (2019) levels, and AAA-rated credit card ABS spreads have remained stable at 32 basis points.⁴

Prime auto ABS

Collateral performance has been stable, with 30-day delinquencies holding steady at 1.9% in September 2025.⁴ Major captive finance companies report robust portfolio quality, with Ford Credit noting 60-day delinquencies declined year-over-year despite modest increases in net charge-offs. Importantly, many ABS transactions have already been repriced due to downgrades on 2022-2023 vintages, and issuers in the auto sector have tightened underwriting standards over the last two years.

Subprime auto ABS

While delinquencies have risen to 16% (up approximately 164 basis points year-over-year), this must be contextualized.⁴ First, these levels remain well within the stress scenarios contemplated by rating agencies when assigning investment-grade ratings. Second, the increased subordination levels in post-crisis deals provide substantial cushions. Third, current subordinated spreads of 180 basis points for BBB tranches (versus 110 basis points at 24-month minimums) offer compelling value for investors comfortable with credit risk.⁴

Digital infrastructure ABS (data centers)

While traditional ABS sectors continue to demonstrate resilience, emerging sectors present new opportunities for diversification. Data centers—emerging as an ABS asset class with approximately \$30 billion of potential issuance as portfolios transition from construction to stabilization—illustrate how securitization adapts to new collateral while maintaining core structural disciplines.

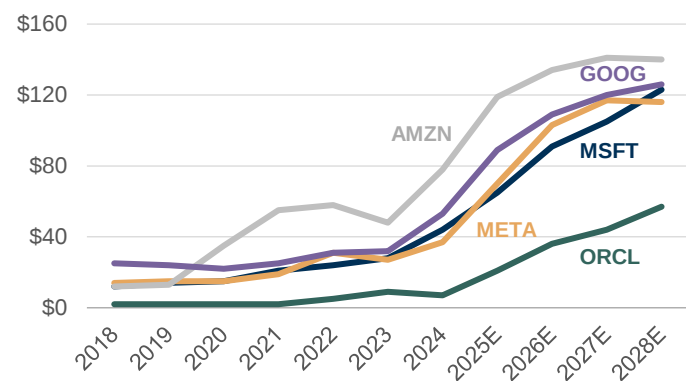
Data center ABS transactions increasingly incorporate covenant-driven milestones that address the sector's operational complexities. Since power generation/PPAs often dominate schedules and costs, funding step-ups should be tied to verified MW milestones, with liquidated damages or step-in rights for power delays and scenarios that price rising power costs.

Active positioning emphasizes stabilized, cash-flowing assets or development deals with signed interconnection agreements or contracted generation, clear power-milestone covenants, robust termination-penalty/guarantee mechanics, conservative ramp cases, and limited balloon risk. Parallels to the late 1990s telecom buildout are instructive—capacity can run ahead of monetization—but today's stack is more anchored in contracted corporate cash flows, public IG bonds, and term securitizations, rather than bank-centric conduits, supporting optimism while reinforcing disciplined tenant, structure, and power diligence.

The data center ABS trajectory underscores the ABS market's ability to evolve while maintaining structural discipline, transparency, credit enhancement, and independent oversight that are intended to help protect investors throughout varying credit cycles. Early-stage discipline and issuer selection will determine whether this segment becomes a core, repeatable asset class.

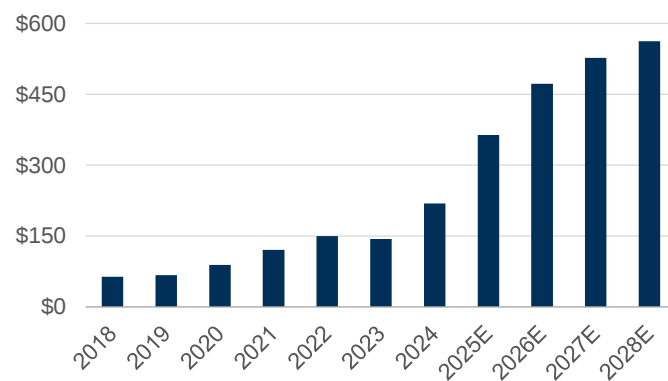
Figure 1: Digital infrastructure and data center ABS represents a high-growth segment with structural resilience

Hyper scalers CAPEX trend | \$bn



Source: Bank of America

CAPEX spend total | \$bn



4. Source: IMF, BofA Global Research

Historical resilience through economic cycles

The ABS market's track record through economic cycles provides essential context. During previous periods of elevated consumer stress—including the 2001 recession, the 2008-2009 financial crisis, and the 2020 pandemic shock—investment-grade ABS structures demonstrated remarkable resilience:

- Cumulative loss rates on IG-rated ABS tranches have historically remained meaningfully below attachment points, even during severe stress scenarios.
- The structural features of sequential pay, credit enhancement build, and excess spread have consistently functioned as designed.
- Rating transitions for AAA-rated ABS have been minimal, with downgrades typically limited to lower-rated tranches.

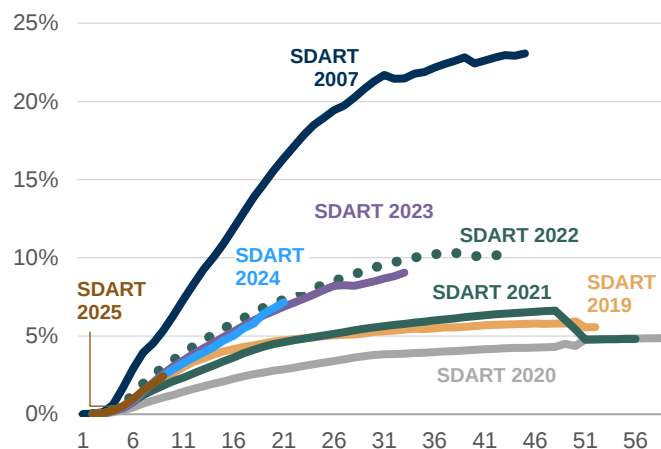
Importantly, in cases where originators have failed (as with several subprime auto lenders in recent years), the ABS structures themselves have continued to perform, with collateral transferred to backup services and cash flows maintained according to structural priorities. This “bankruptcy remote” feature—while tested in cases like First Brands and Tricolor—remains a fundamental strength of properly structured securitizations.

Current investment opportunities

Subprime auto losses remain well below GFC levels

Santander Consumer USA (SDART) subprime auto ABS loss curves by vintage demonstrate that even recent vintages experiencing elevated delinquencies have

Figure 2: SDART CNL by vintage



SDART is Santander subprime auto ABS loss curves by vintage. Y Axis denotes cumulative net loss; X Axis denotes number of months since loan originated
Source: JPMorgan.

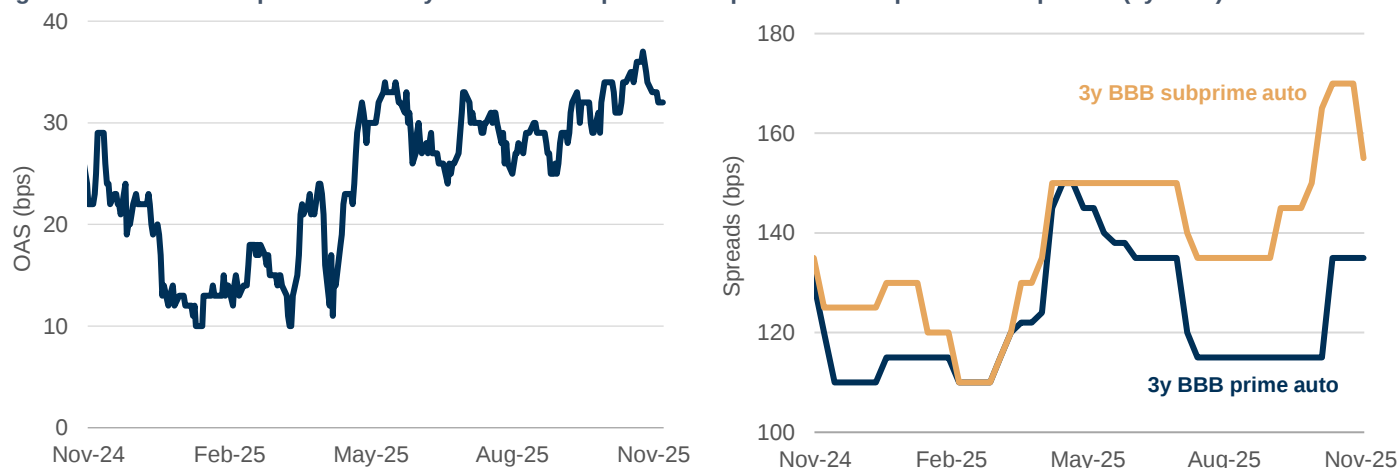
cumulative net losses (CNL) well below levels observed during the Global Financial Crisis.

This historical perspective is important. While current delinquency rates have risen, actual loss severity remains manageable due to improved underwriting, stronger collateral values, and enhanced structural protections in modern transactions.

Spread dislocations

The basis between 1-year AAA-A rated ABS and 1-5 year AAA-A rated corporate bonds currently stands at 47 basis points, near 2-year maximum levels of 50 basis points. This reflects indiscriminate widening rather than fundamental deterioration in quality ABS collateral.

Figure 3: AAA-A ABS spreads vs. 1-5 year AAA-A corporate and prime and subprime auto spreads (3y BBB)



Source: ICE Data, J.P. Morgan

Sector-specific value

Several ABS sectors trade at or near multi-year wides despite stable fundamentals: - BBB-rated subprime auto ABS at 180bp (versus 110bp 24-month minimum) - A-rated subprime auto ABS at 120bp (versus 75bp 24-month minimum) - Solar ABS at 225bp (versus 180bp 24-month minimum) - Container ABS at 130bp (versus 110bp 24-month minimum) - Fiber ABS presenting emerging opportunities with infrastructure-like characteristics

Supporting fundamentals

- Recent bank earnings demonstrate that aggregate consumer credit performance remains manageable. Major auto lenders reported stable to improving metrics, credit card lenders showed declining charge-offs year-over-year, and consumer balance sheets remain supported by low debt service ratios and accumulated home equity.

Debt Service Ratio is all household interest payments as a percent of disposable income. Shading indicates NBER recessions. Debt Service Ratio and Delinquent Loan Balances as of Q2 2025.

Source: Board of Governors of the Federal Reserve System, Bloomberg, MacKay Shields

Risk management framework

Effective risk control in ABS today centers on independent verification, disciplined issuer selection, and structures calibrated to withstand stress and operational shocks. These practices directly address vulnerabilities highlighted by Tricolor and First Brands without conflating idiosyncratic fraud with systemic securitization risk.

Independent verification

- Mandate third-party collateral custody and file testing
- Lockbox payment flows
- UCC lien checks to prevent double-pledging
- Backup or dual servicing
- Independent AUPs/audits to validate data integrity

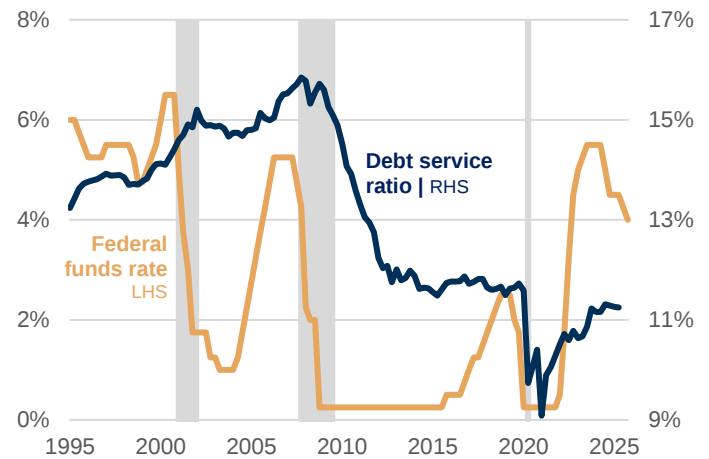
Issuer selection criteria

- Prioritize long operating histories
- Transparent reporting and third-party partnerships
- Diversified funding beyond securitization
- Robust governance/oversight through full cycles

Structural protection requirements

- Favor higher initial credit enhancement
- Conservative attachment points versus stressed loss scenarios

Figure 4: Household debt service ratio and the policy rate



Debt Service Ratio is all household interest payments as a percent of disposable income. Shading indicates NBER recessions. Debt Service Ratio and Delinquent Loan Balances as of Q2 2025. Source: Board of Governors of the Federal Reserve System, Bloomberg, MacKay Shields.

- Hard performance triggers that accelerate deleveraging
- Non-declining reserves
- Strong servicer oversight with live backup arrangements

Together, these measures may reduce fraud and structural-leakage risks while helping to preserve cash-flow continuity in the event an originator fails.

Conclusion

The securitized ABS market continues to demonstrate resilience amid evolving credit conditions. While recent headlines have created short-term volatility, they have also created opportunities for informed investors to add high-quality ABS at attractive spread levels. The fundamental strength of the securitization framework—multiple layers of protection, transparent reporting, regulatory oversight, and time-tested structural mechanics—differentiates public ABS from less transparent private arrangements.

Our process emphasizes thorough evaluation of issuers and sponsors, with continued focus on reputable, well-established market participants. Securitized credit remains one of the most data-driven, structurally sound ways to access real-economy credit exposure. As markets digest the implications of recent idiosyncratic events, the opportunity for discerning ABS investors has meaningfully improved. For investors who can look beyond headlines to underlying collateral performance and structural resilience, the ABS market may offer compelling relative value along with structural features that can provide downside mitigation, which have been tested through multiple credit cycles.

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