Wells Charting Comeback as MBS Issuer

Wells Fargo is on the verge of issuing mortgage bonds for the first time in years. Sources describe plans for a securitization program that would routinely tap into a massive portfolio of non-agency mortgages on Wells’ books, possibly beginning during the second half of this year. The bank is seeking a high-level point person for the effort, focusing on candidates with more than 10 years of securitization and project-management experience.

The recruit would oversee the creation and maintenance of the issuing program, likely as part of the institution’s Wells Fargo Home Lending unit, and would work closely with underwriting personnel in New York to structure and distribute the resulting bond offerings. The job also entails interaction with in-house compliance specialists, attorneys and treasury officials on various regulatory matters, along with the development of loan representations and warranties.

Wells hopes to fill the position within the next few months.

The bank once was a frequent issuer of mortgage-related securities, but stopped

See WELLS on Page 6

Low-Cost Funding Ignites CLO Issuance

The collateralized loan obligation pipeline is suddenly filling. At least nine new offerings are on the near-term calendar in the U.S., including a transaction Barclays is leading for KKR and an issue J.P. Morgan is shopping for Ares Management. LCM Asset Management also is expected to hit the market soon with Bank of America running the books, as is BNY Mellon unit Alcentra Capital, via BNP Paribas.

The activity continues an issuance pickup that started at the beginning of this month, with CIFC, Octagon Credit, Sound Point Capital, THL Credit and MidCap Financial already having combined to complete $3 billion of offerings in the States in February. The surge contrasts with a sluggish January that produced a mere two deals totaling $981.5 million, according to Asset-Backed Alert’s ABS Database.

During the early-year downturn, investors turned their attention to a continued

See ISSUANCE on Page 4

FFELP Flurry in State Issuers’ Forecasts

State-sponsored education lenders are lining up to issue bonds underpinned by government-guaranteed student loans.

State Board of Utah got the ball rolling on Feb. 2, selling $420 million of bonds backed by college loans written under the U.S. Department of Education’s now-unwinding Federal Family Education Loan Program. Still in the queue are FFELP-loan deals from Kentucky Higher Education, Massachusetts Education Financing Authority, Michigan Finance Authority and Pennsylvania Higher Education Authority. All are expected to price deals in the next month or so.

The state lenders are anxious to take advantage of favorable funding costs. Consider that when Utah priced its deal via underwriter RBC Capital, a $402 million class of triple-A-rated notes with four-year lives went out the door at 87 bp over one-month Libor — compared to 95 bp for a similar class in Utah’s previous

See FLURRY on Page 4
Covered Bonds Back on the Table

Lawmakers are reviving discussions about creating a framework for covered mortgage-bond offerings in the U.S.

Such an effort could see Rep. Jeb Hensarling (R-Texas) act in his role as chairman of the House Financial Services Committee by reintroducing one of a few covered-bond bills that languished some years ago. Also involved in the talks is Rep. Bill Huizenga (R-Mich.), a Financial Services Committee member selected by Hensarling on Jan. 6 to lead the group's Capital Markets, Securities and Investment Subcommittee.

In fact, there are indications that Huizenga could be the one to introduce a bill — possibly by midyear.

The initiative comes amid a broad push in Congress to ease financial-market policies now that Republicans control the House, Senate and White House. In this case, the key players are eyeing the likelihood that President Trump will install a more-supportive FDIC chairman when the term of current head Martin Gruenberg ends in November.

They also are basing their actions on a belief that long-running efforts to withdraw government support of Fannie Mae and Freddie Mac may finally take hold, creating a greater need for alternative mortgage-funding mechanisms as banks scoop up some of the agencies’ business.

To that end, Hensarling or Huizenga could reintroduce any of a number of covered-bond bills that failed to advance in their earlier iterations. One possibility would be the Protecting American Taxpayers and Homeowners Act, a 2013 proposal from former Rep. Scott Garrett (R-N.J.) that would have created a legislative framework for covered-bond deals while calling for the unwinding of Fannie and Freddie over a five-year period.

That measure, like others dating back to 2008, was unable to gain the needed votes in part because Gruenberg and Democratic lawmakers insisted that the FDIC, and not covered-bond investors, have the first claim to “cover-pool” assets in the event of an issuing bank’s failure. Now, sources say support already is building within the FDIC for bondholders to be first in line — so long as the issuer limits its obligations to an amount equal to 4% of total assets.

That would match a threshold enforced in Canada by the Canada Mortgage and Housing Corporation.

J.P. Morgan and Goldman Sachs were among a number of banks that initially put their weight behind covered-bond proposals in the wake of the credit crisis, in part because investors were shunning traditional mortgage securitizations at the time.

Today, the banks are less eager to securitize. But a number of theories still are coming into play in the vision for a U.S. covered-bond market.

Consider that as interest rates rise, it could become more difficult for companies to fund themselves through unsecured bond issues. That would prompt those businesses to seek loans from banks that, in turn, might fund the debts with deposits that they currently are using to finance their mortgage inventories. The upshot: The banks would need new capital sources for their home loans.

A scaling back of Fannie and Freddie, meanwhile, would lead to a vast increase in private-label mortgage originations — which banks could fund through covered bonds, traditional mortgage securitizations, or both. “There would be a lot of benefits to having a regulated covered-bond program in the U.S., particularly if Fannie and Freddie were wound down,” said Jerry Marlatt, a securitization attorney at Morrison Foerster in New York. “There’s a specific investor base that wants this product, and it’s always nice to have funding diversity.”

Likely buyers of the securities in the U.S. would include banks and large asset managers. Those players already invest in covered bonds that Canadian banks sell in U.S. dollars from time to time, but face a shortage of such offerings due to prohibitive currency-swap costs for the issuers.

A regulated U.S. market also would enable banks in the States to sell their securities in Europe, where covered bonds are more common, Marlatt said.

Covered bonds are obligations of the issuing banks. Unlike traditional mortgage securitizations, the transactions allow the issuers to retain control of the underlying assets. Along with provisions for mortgage-linked deals, a new covered-bond bill could borrow from earlier versions that proposed offerings tied to auto loans, credit-cards receivables, student loans and small-business loans.

Deposits Cut Into Synchrony Output

Synchrony Financial intends to reduce its reliance on securitization this year.

With its deposits increasing to $52 billion from $46 billion in 2016, the Stamford, Conn., credit-card lender has signaled that it will tap that capital more frequently in 2017. As such, industry participants expect that its annual production of asset-backed bonds will drop to perhaps $1.5 billion or $2 billion.

Synchrony issued $2.2 billion of credit-card securities in 2016, according to Asset-Backed Alert’s ABS Database.

While Synchrony isn’t specifying its anticipated issuance volume in dollar terms, officials there said during a Jan. 20 earnings call that they expect securitization for about 15% of the company’s new funding in 2017, down from 17% in 2016 and 20% in 2015. Deposits are projected to account for 75% of Synchrony’s new funding, up from 72% in 2016 and 64% in 2015.

The outlook contrasts with expectations among industry participants just a month ago that Synchrony would be among a number of credit-card lenders to increase their securitization volumes this year, alongside Bank of America, Capital One, Citigroup and Discover.

Synchrony expects its portfolio of credit-card receivables to grow by up to 9% this year. In 2016, the book grew 12% to $76.3 billion from $68.3 billion. Some of the anticipated increase reflects a new business line in which the private-label card specialist is functioning as a bankcard lender.

Synchrony expects charge-offs across its credit-card portfolio to total between 4.75% and 5% in 2017. The company formed in 2014 via a spinoff of GE Capital’s private-label card business.
Angel Oak Offering Moves Ahead

Angel Oak Capital is at last poised to float a rated mortgage-bond transaction. The offering is slated to price by the end of the first quarter, likely with grades from Fitch and DBRS. It is expected to total less than $200 million.

Angel Oak has been talking to rating-agency analysts for about a year as it sought to launch an existing program that so far has seen it complete two unrated offerings. Like those deals, the upcoming one would be backed by accounts that don't meet the Consumer Financial Protection Bureau's “qualified-mortgage” standards.

The Atlanta investment firm apparently was able to move ahead, in part, because Fitch and DBRS added it to their lists of approved non-qualified mortgage originators on Feb. 6. “The fact that they are getting reviewed as a seller means they will finally get a rating,” one source said. “It took a while, but Angel Oak has been patient.”

The deal’s ratings remain to be seen. There have been three rated securitizations of non-qualified mortgages so far, all from Caliber Home Loans. The most recent, which priced Dec. 14, carried grades of triple-A down to single-B from Fitch and DBRS. It was preceded on Sept. 9 and June 13 by deals with marks of single-A down to double-B.

Angel Oak’s previous securitizations, both privately placed by Nomura, were a $132.6 million offering that priced Aug. 23 and a $150 million deal that priced in December 2015. The firm kept the entire bottom classes of both transactions, plus 5% vertical interests to comply with the Dodd-Frank Act’s risk-retention rule.

The upcoming transaction likely would be offered under Rule 144A. The plan is to return to market on a routine basis.

Deephaven Mortgage also has also been working on a rated offering with an anticipated pricing date during the first quarter.

CAN Finds Lifeline in Asset Sale

In a deal that has greatly improved its odds of survival, troubled small-business lender CAN Capital has found a buyer for a portion of its accounts.

Sources said CAN expects to close soon on a sale encompassing $25 million of its best-performing loans, at a price approaching par. The receivables had been part of a $100 million portfolio that the New York operation put out for bid last month, only to receive offers of about 50 cents on the dollar.

The plan now is to keep the other $75 million of loans. And with the switch, industry participants are reporting a greatly improved outlook for CAN.

The concern, in part, was that the $100 million offering might fail — deepening a liquidity shortage that already forced the company to stop writing new loans while considering an outright sale of its business. But the word is that the $25 million sale could be sufficient to get its business back on track.

For the time being, CAN appears to be emphasizing the rehabilitation of the $75 million of loans it kept, some of which are securitized. In fact, some already have returned to performing status.

Eventually, sources said the shop could position itself for a return to lending. “Don’t let anyone tell you these guys are going under,” one said. “That is not going to happen.”

The situation stems from a discovery in November that CAN mistakenly booked some delinquent loans as current. The error caused the over-collateralization cushions for the company’s only securitization to fall below required levels, prompting an early unwinding of the deal. It also left the company unable to issue new asset-backed bonds while locking it out of a $600 million warehouse line from a syndicate led by Wells Fargo.

CAN responded by laying off half of its staff, while placing chief executive Dan DeMeo and two lieutenants on indefinite leave. It also hired Realization Services to negotiate with creditors while engaging Jefferies to in an advisory role.

The booking misstep resulted from outdated technology that failed to differentiate between merchant cash advances whose payments are based on sales and loans with set installments. CAN had to write down $9 million of loans as a result, but already has brought $2 million of them back to current status.

The company remains in discussions with its warehouse lenders. The loans it sold had been in the warehouse facility.

As for its lone securitization, CAN made a balloon payment of $18 million in January — bringing the deal’s remaining principal balance to $86.5 million. The installment followed balloon payments of $20.3 million in December and $46.1 million in November, when the transaction began its early-unwinding process.

Sources said CAN likely has sufficient capital to make senior bondholders whole, but that it remains unclear if it can repay $20 million of subordinate securities from the deal. Under terms of the transaction, an early amortization halts cashflows to junior investors until senior obligations are paid in full. S&P and DBRS are reviewing the transaction for possible downgrades.

CAN has a total receivables portfolio in the neighborhood of $800 million.

Kabbage Offering In the Pipeline

Online small-business lender Kabbage has resumed preparations for its next securitization.

The offering is expected to hit the market in the next week or so with an estimated size of $500 million. Guggenheim is running the books, with Kroll weighing in with ratings.

The service-provider lineup looks a lot like the one Kabbage employed for its only previous securitization, a $185 million transaction that priced in September 2014. Guggenheim also led that deal, with Kroll assigning a “BBB+” grade to its top class.

Kabbage had planned to bring a follow-up offering by June 2016, but set the effort aside amid broad concerns about online lenders’ business practices and regulatory controls. In the run-up to that effort, representatives from the Atlanta company met with potential investors at the “LendIt USA 2016” conference in San Francisco — accompanied by bankers from Barclays.

It’s unclear when Kabbage switched back to Guggenheim.
INTL FCStone Expands Brokerage

Brokerage firm INTL FCStone Financial is setting up a group that would deal specifically in securitized products. The New York firm already has been trading asset- and mortgage-backed securities on the secondary market, but through a division dealing in a broader mix of products. Now, it sees enough opportunities in the market to justify the creation of a stand-alone unit.

INTL FCStone's structured-product trading efforts took hold with its 2015 purchase of G.X. Clarke & Co. Since then, it has built up a $1 billion inventory of triple-A-rated paper backed mostly by residential mortgages, commercial mortgages and equipment loans. As part of its expansion efforts, the firm plans to broaden its coverage to include subordinate tranches of those deals, as well as bonds backed by less-mainstream assets including time-share loans and online-originated personal loans.

"We've seen the success we've had with our business, and this is the gradual next step," said managing director Allan Brilliant, a strategist specializing in asset-backed securities.

As many as 20 existing staffers will be assigned to the new unit, and INTL FCStone plans to hire additional traders and salespeople. Leading the team are senior managing director Anthony Di Ciolo, who oversees trading of securitized products, and senior managing director Robert LaForte, who oversees sales.

INTL FCStone's core business is making markets in commodity and financial futures, with a client roster that includes some 600 commercial companies, banks, brokerages, asset managers and institutional investors. It added a fixed-income component via the acquisition of G.X. Clarke, a Jersey City, N.J., brokerage.

Issuance

flow of transactions intended to refinance earlier issues. Those offerings are still coming as well, with deals on the way from managers including Angelo, Gordon & Co. and York Capital.

This month's rush of supply reflects a desire among issuers to take advantage of particularly tight spreads on new deals. Take Octagon's $612 million CLO. That offering, led by Citi-group, included a class of 5.5-year senior securities with triple-A ratings that priced at 132 bp over three-month Libor, the narrowest level seen on such a transaction since early 2013.

Back then, a sharp tightening trend saw the best-regarded managers place the top classes of their deals at 110-115 bp over Libor. But prevailing spreads soon widened to more than 150 bp due to concerns about lessened economic support from the Federal Reserve, and stayed there through 2016.

Now, spreads are headed back in as growing numbers of investors seek leveraged-loan exposures amid weak supply in that market. Current spreads are about 5 bp tighter than they were a week ago. And should the pattern persist, as many are expecting, even more issuers likely would attempt to line up offerings.

With collateral loans in short supply, however, returns for issuers remain thin. Borrowers also are taking advantage of the situation by renegotiating for more favorable terms on their existing debt, just as they did in 2013.

As was the case then, issuers today are complaining that low loan yields are making it difficult for them to capture arbitrage gains by bundling the receivables into bonds with even smaller returns. But as long as spreads remain tight, most see the effort as worthwhile. "Tight liabilities are just the best asset you can have," one recent issuer said, conceding that it could take longer than usual to build up a collateral portfolio.

In fact, issuers point to 2013-vintage transactions as especially strong performers in terms of the returns produced for equity holders, so long as the asset pools were void of loans to energy companies that struggled after oil prices tanked the following year.

Some managers and equity investors have their doubts about today's outlook, however. They describe an environment in which rising loan prices are cutting into issuers' returns, to the point where some of their peers are forcing out deals that ultimately will prove uneconomical. "As far as I can tell, these are unnatural acts," one manager said. "The goal of some managers is to print deals and get as big as they can regardless of the current economics."

Another issuer suggested that some larger issuers are compelled to act because their current deals are running off, and they need to replace the fee income produced by those transactions. Yet others think it prudent to wait for loan-price volatility to produce more attractive arbitrage opportunities, either by pricing deals now and gathering their assets later or by holding off on new offerings altogether.

Still, a growing investor base is too appealing for many managers to ignore. Much of the recent increase in demand has come from institutions in Asia. "The investor base is deeper than it ever has been. In Japan there had really been three investors, and today there are 10-15 interested in buying triple-A paper," one issuer said. He also pointed to interest from Korea and China, along with U.S. banks and fund managers.

Flurry

offering on Oct. 20.

Just since the start of this year, spreads on FFELP bonds with three-year lives have come in by an average of 18-20 bp, while subordinate tranches have tightened by 55-60 bp.

"The bid for FFELP paper hasn't been this strong in years," said a consultant who advises lenders on their FFELP-loan portfolios.

Indeed, the expectation is that the state agencies could issue a combined $2 billion of bonds in the coming weeks. The last time there was a flurry of offerings from nonprofit lenders was between September and November of last year, when Utah and Pennsylvania printed $1.4 billion of FFELP paper.

Including securitizations of private student loans, lenders have issued a total of $2.7 billion of education-finance bonds so far this year, compared to $590 million during the same period last year, according to Asset-Backed Alert's ABS Database. FFELP has been unwinding since 2010, when the Department of Education stopped guaranteeing new accounts for private-sector originators in favor of a direct-lending format.
SFIG and co-host IMN are excited to once again present the largest capital markets conference in the world, SFIG Vegas 2017, February 26 - March 1, 2017, at the Aria Resort & Casino in Las Vegas. The three-and-a-half day program is developed by leaders within the structured finance industry representing the full spectrum of industry participants including investors, issuers, financial intermediaries, regulators, law firms, accounting firms, technology firms, rating agencies, servicers and trustees.

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Pace Issuer Funds Personal Loans

Renovate America is examining securitization as an eventual funding source for its growing personal-loan program.

The San Diego company, already known as an issuer of bonds backed by Property Assessed Clean Energy loans, likely will wait a year or more before deciding whether to move ahead with the new issuance effort. In the meantime, it would fund the accounts via loan sales.

The targeted buyers would include community banks and other depository institutions.

Should the company set up a securitization program for its personal loans, it likely would establish an issuing entity separate from its existing HERO Funding Trust. That vehicle has produced 12 PACE-loan deals totaling $2.2 billion since 2014, according to Asset-Backed Alert’s ABS Database.

Like its PACE-loan bonds, Renovate America’s personal-loan securities would carry ratings.

Under PACE, borrowers finance energy-saving items like solar panels while repaying the debts through their property-tax bills. Renovate America’s personal-loan program, called Benji, offers unsecured financing for a broader mix of home renovations. The borrowers typically are ineligible for PACE loans, often because the improvements don’t meet clean-energy standards. Others don’t want liens on their properties. In many cases, they own their homes outright or are close to paying off their mortgages.

Renovate America started Benji in 2015 and spent 2016 working on a pilot version of the program. The talk of potential securitizations reflects the establishment of a $100 million warehouse line from Credit Suisse last week that promises to facilitate an expansion of the initiative.

Under Benji, approved contractors direct prime-quality borrowers with average credit scores of 700 to Renovate America — which originates the loans online. Renovate America, meanwhile, controls how the money is spent and withholds payment to the contractors until the work is complete.

Renovate America currently writes Benji loans in Florida, California, Kansas and Missouri, but plans to offer the accounts nationwide.

Wells ... From Page 1

producing deals backed by new loans as the market cratered in 2008. It then pulled back completely in 2012, cutting off a re-Remic program it started around the time of the crash.

Including its re-Remics, Wells distributed $208.7 billion of bonds underpinned by jumbo, subprime and high loan-to-value mortgages from 2000 to 2012, according to Asset-Backed Alert’s ABS Database. In 2013, word circulated that the bank was ready to re-approach the market through a then-new jumbo-loan conduit.

But securitization proved uneconomical, in part because the loans’ interest rates were too low to support payments to bond investors. Instead, Wells funded the accounts through deposits and with client capital from its wealth-management division.

Still, capital-markets professionals at Wells Fargo Home Lending continued to work toward the resurrection of a bond-issuing program in the following three years. The talk now is that the search for a point person signifies a readiness to move ahead. “The fact that Wells is looking to bring in a top-level manager to run the new endeavor has industry players believing it will follow through with the plan,” a rival banker said.

As for an actual bond offering from Wells, talk was circulating this week that the bank already was preparing for a deal while engaging in discussions with rating agencies and other vendors. The bank has tremendous potential as an issuer, given its position as the largest mortgage originator and servicer in the U.S.

Indeed, Wells’ portfolio contained $165.7 billion of non-conforming home loans at yearend 2016. It remains to be seen whether the bank would securitize accounts that don’t meet the Consumer Financial Protection Bureau’s “qualified-mortgage” standards — a step that would require it to keep 5% interests in the deals under the Dodd-Frank Act’s risk-retention rule.

The expected return of Wells as an issuer comes at a time when most other banks still are holding off on mortgage securitizations. The bank might be acting now because it sees increasing interest rates as setting the stage for a more favorable securitization environment. The average fixed rate for a 30-year jumbo loan has risen to 4.4% from 4% since the November election.
**MARKET MONITOR**

### WORLDWIDE ABS ISSUANCE

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**Source:** Federal Reserve Board

### US NON-AGENCY MBS ISSUANCE

**Volume in past 15 months ($Bil.)**

### US CLO ISSUANCE

**Volume in past 15 months ($Bil.)**

### NON-US ABS ISSUANCE

**Volume in past 15 months ($Bil.)**

### 5-YEAR FIXED CARD SPREADS

**Last 15 months (basis points)**

### SPREADS ON TRIPLE-A ABS

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**Source:** Deutsche Bank

### ABS SECONDARY TRADING

**Weekly volume reported to FINRA ($Bil.)**

### MBS SECONDARY TRADING

**Weekly volume reported to FINRA ($Bil.)**

### ASSET-BACKED COMMERCIAL PAPER OUTSTANDING

**Since 1/1/10 ($Bil.)**

**Source:** Federal Reserve Board

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Data points for all charts on this page can be found in the Marketplace section of ABAalert.com
THE GRAPEVINE

... From Page 1

at Lehman Brothers and Fleet Bank. Also coming on board was CLO trader Robert McMullen, who was employed at Barclays since 2010. The additions come as part of an expansion of Amherst’s CLO-trading capabilities. That effort is led by former Jefferies CLO co-chief Erez Biala, who arrived in October as head of structured credit product trading.

Partner Keri Findley left New York hedge fund manager Third Point in January. Findley had been on board since 2009, overseeing a portfolio of investments in distressed structured products, including mortgage bonds and collateralized debt obligation securities. Before that, she worked at D.B. Zwirn & Co. Her duties at Third Point are being handled by Shalini Sriram, who arrived in January from Scoggin Capital.

Andrew Bellis recently started in Partners Group’s London office as a managing director, possibly with collateralized loan obligation marketing among his tasks. Bellis was employed since 2012 at 3i Debt Management, handling dealing for what has become a frequent CLO-issuing program. His exit comes just before 3i expects to complete a sale of its business to Investcorp. Bellis also has worked at Credit Suisse and Merrill Lynch. Partners of Zug, Switzerland, has completed only one CLO since the credit crisis — a $470 million deal in May 2015 — but is interested in issuing more.

Sentry Insurance is seeking someone to manage its $9 billion portfolio of fixed-income products, which includes an allotment for asset- and mortgage-backed bonds. The recruit would be stationed in the company’s Stevens Point, Wis., headquarters. Candidates can email resumes to Sentry human resources executive Karen Houdek at karen.houdek@sentry.com.

Vice president Marvin Kwan no longer is part of a six-person team at CIFC that manages some $500 million of investments in structured credit products, mainly collateralized loan obligation securities. Kwan joined CIFC’s New York office in 2013, following stints at Hudson Advisors, Deutsche Bank and PricewaterhouseCoopers. His exit coincided with staff cuts that followed CIFC’s November sale to F.A.B. Partners — reductions that appear complete. CIFC’s structured credit product unit is separate from its CLO-issuing division. That operation most recently priced an $816 million offering on Feb. 6 with Deutsche Bank running the books.

After interviewing at least a half-dozen applicants over the span of several weeks, S&P apparently is leaning toward an internal candidate to fill a key business-development position for its U.S. collateralized loan obligation-rating group. There's no word on the identities of the contenders. The post opened with the December departure of David Kreidler for Fitch. His replacement would work under Mary Beth Burnett, who oversees 14 sales specialist across a range of business.

Wells Fargo is looking for a credit officer in New York to aid in the structuring of securitizations and warehouse facilities involving consumer assets. The bank is focusing on candidates with at least 10 years of experience.