



# Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

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## About Fort Washington Investment Advisors:

- Founded in 1990 as the primary investment arm of its parent, Western & Southern Financial Group
- Expertise across fixed income, public equity, and private equity<sup>1</sup>
- \$50.6 billion in total assets under management<sup>2</sup>
- 128 full-time employees, 83 of which are investment professionals

## Waves of Impact from Harvey and Irma

The tragedy that lies in the wake of natural disasters like hurricanes Harvey and Irma is devastating for many. As communities begin the arduous task of assessing losses and rebuilding, we can begin to sift through the numbers to get a sense of the damage and potential impact on select financial markets.

According to Moody's Analytics, the combined total economic losses of Harvey and Irma could reach \$150 to \$200 billion, rivaling the estimate for Hurricane Katrina at \$175 billion. Even so, the damage estimates for Hurricane Irma have come down considerably, and the impact on financial markets appears manageable with few sectors experiencing significant dislocation. A review of the impact on select markets with more substantial exposure follows.

### Commercial Mortgage Backed Securities (CMBS): Moderate Impact

- Key properties securing several large loans in Houston escaped damage and were open within days, including the two Houston properties securitized in single asset securitizations—the Houston Galleria Mall and Greenway Plaza.
- Within diversified CMBS trusts, average Houston exposure is 3.5%, but exposures vary widely with a maximum of 19%. While losses are not yet known, there is potential for significant losses on subordinate classes in certain deals.
- In Florida's FEMA disaster zones, the three largest loans are regional malls in the Miami area, and all have resumed normal operating hours. While most hotels along Miami Beach are still closed, they appear to have escaped significant damage.
- Some Freddie Mac non-guaranteed classes face risks, as several deals have more than 10% exposure to properties in areas affected by Harvey.

### Asset-Backed Securities (ABS): Low Impact

- Texas and Florida auto loans represent 26% of the Auto ABS market.
- According to Cox Automotive and Black Book estimates, 500,000 to 1 million vehicles will need to be scrapped in Houston, which is more than the 250,000 resulting from Hurricane Sandy. There are no estimates on Florida scrappage yet.
- Protection levels on below-investment-grade Auto ABS merit close watch on a deal-by-deal basis. A spike in delinquencies could cause wider spreads.
- Demand for replacement vehicles should provide support for used car prices and a short-term boost for manufacturers and dealerships.
- Florida is a popular state for timeshare properties. Damage to these properties could be significant, but these are typically insured. Our experience shows that timeshare operators are very effective at retaining customers, even in the face of disasters.



### Residential Mortgage-Backed Securities (RMBS): Moderate Impact

- Much of the RMBS market is guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae, but parts of the Non-Agency RMBS market and the growing Credit Risk Transfer (CRT) market, which was created to shed risk from Fannie and Freddie, are at risk.
- East Texas exposure in RMBS ranges from 1% to 5%, and Florida exposure ranges from 3% to 7%. These exposures exceed the protection levels on most below-investment-grade Non-Agency RMBS and CRT securities.
- The Single Family Rental (SFR) sector has large exposure to both Texas and Florida. Over one-third of SFR deals have more than 8% exposure to Houston, while over half have more than 25% exposure to Florida. Loss mitigation features such as home-level or portfolio-level flood insurance limit the downside.
- The Non-Performing Loan (NPL) sector has 10 to 20% exposure to Florida, but several deals are above 60%. While NPL deals tend to have high levels of protection, those with high Florida exposures are at risk.
- Experience in prior hurricanes has shown delinquencies spike in hard hit areas—up to 40% of mortgage loans went delinquent. But, loan liquidations were far lower at less than 6%.

### Credit and Equities: Low Impact

- Recent hurricanes should have a very limited impact on the IG Corporate market and the broader equity market.
- The Property and Casualty insurance sector will be most affected, but this only represents 1.4% of the Barclays IG Credit index. Most of the major issuers—such as Allstate, Chubb, and Progressive—are well capitalized.
- Refining, chemicals, and midstream energy have significant operations in the Gulf region but most outages should only result in a short term earnings hit.
- Building materials and autos could benefit as damaged property is repaired and replaced.

### Summary

It is still very early in the recovery process in both Texas and Florida. It will take some time before we know the extent of damages and the associated impact on financial markets. Fort Washington will provide updates as warranted. Coincidentally, ABS East, one of the largest annual structured products conferences, was held in Miami from September 17-19, and the investment banks sponsoring the event turned much of their attention toward helping the victims in South Florida.

1. Fort Washington is a registered investment advisor with expertise in fixed income, public equity, and private equity. Clients include institutions and high-net-worth individuals throughout the country. Private equity is managed by FW Capital, a division of Fort Washington.
2. Fort Washington Investment Advisors, Inc. Assets as of 6/30/17. Includes assets under management by Fort Washington Investment Advisors, Inc. (Fort Washington) of \$47.1 billion, and \$3.5 billion in commitments managed by Fort Washington Capital Partners Group (FW Capital), a division, and Peppertree Partners LLC, a subsidiary.

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