

SFA Research Corner

How Securitization Helps Connect Communities Through a “Series of Tubes”

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On August 9, Frontier Communications Parent, Inc. sold \$1.6 billion of Asset-Backed Securities (ABS) backed by specific Frontier fiber assets and customer contracts in the Dallas metropolitan area. In conjunction with a \$500 million Variable Funding Note facility, proceeds from the ABS, which was upsized from \$1 billion and represents the largest Fiber ABS transaction to date, “[provides a path](#)” to fully finance the company's fiber infrastructure expansion, according to Scott Beasley, Frontier’s CFO. For Frontier Communications, securitization proved to be a means to access capital, lower financing expenses, and boost financial flexibility, all of which are essential to expanding their fiber networks to meet rising high-speed internet demands.

Fiber, in this context, pertains to fiber optic lines responsible for delivering internet connectivity to residences, businesses, and communities. Fiber technology uses light pulses to transmit data through glass or plastic optical fibers, making it significantly faster and more reliable than alternative wired connection methods. Unlike copper coaxial cables and phone lines used in cable and DSL connections, fiber offers greater bandwidth capacity and symmetrical data transmission. This translates to upload speeds matching the download speeds, which is a benefit for around 41% of full-time employees who work remotely for at least part of their workweek.

Key Benefit of Fiber Optic Broadband—Data Transmission Speeds

	Approximate file size	1,000 Mbps fiber connection	100 Mbps cable connection	25 Mbps DSL connection
4-minute song	4 MB	0.03 sec.	0.03 sec.	1 sec.
9-hour audiobook	110 MB	0.9 sec.	9 sec.	36 sec.
45-minute TV show	200 MB	1 sec.	16 sec.	1 min. 7 sec.
2-hour movie	1.5 GB	12 sec.	2 min. 8 sec.	8 min. 35 sec.
2-hour HD movie	4.5 GB	38 sec.	6 min. 26 sec.	25 min. 46 sec.

Source: [Reviews.org](#)

Fiber ABS Key Considerations

Unlike other ABS structures where the most senior class is rated triple-A, the highest credit rating achievable, the senior class of Fiber ABS so far have not achieved credit ratings higher than single-A. In their Rating Action Commentary for the Frontier 2023-1 transaction, [FitchRatings](#) notes that this limitation is due to “to the specialized nature of the collateral and potential for changes in technology to affect long-term demand for digital infrastructure.”

Other key credit considerations for FIBER ABS include industry health and the competitive landscape, manager experience and expertise, particular characteristics of the collateral pool that may impact deal cash flow, and structural protections. In its New Issue Report for Allo 2023-1, Kroll Bond Rating Agency (KBRA) states that transaction benefits from credit support that is comprised of subordination of the junior note classes and certain reserve accounts, including a cash trap reserve account that must be maintained at a pre-determined level and a cash sweep mechanism that funnels excess cash flow into the reserve account.

Driven by the need for faster, more reliable, and higher-capacity internet connections to support the evolving digital landscape, demand for fiber networks is steadily growing. This demand is expected to continue growing as technology and online services become increasingly integrated into daily life (Internet of Things). Expansion, however, is capital-intensive.

Funding is needed to, among other things, lay down fiber optic cables (which average \$60-80,000 per mile but can vary significantly depending on location), install network equipment, and connect new areas to their infrastructure.

Typically, telecom companies with fiber networks have raised funds through corporate debt, but for a company with a low credit rating or no rating at all, this can be costly. ABS provides a more cost-effective financing option. As an illustration, let's consider the \$1.6 billion Frontier ABS 2023-1 transaction mentioned earlier. The highest rated class, which achieved an 'A' by FitchRatings, raised \$1.1 billion and carries a 6.6% coupon. In contrast, Frontier's high-yield corporate bond issuance in March, which raised \$750 million, had a coupon of 8.63%. Notably, the high-yield corporate bond was tied to Frontier's corporate credit rating of B3/B/BB+ as rated by Moody's, S&P, and Fitch, respectively.

At present, there are six companies in the fiber ABS market with existing ABS issuances. These include Allo Communications, Blue Stream (GI Partners), Summit Infrastructure Group, Frontier Communications, Hotwire Communications, and MetroNet Holdings. The inaugural deal was initiated in December 2020 with Summit's \$175 million FIBER 2020-1 transaction. In the year 2023 alone, six additional deals have been introduced, bringing the total outstanding ABS in this sector to \$6.3 billion.

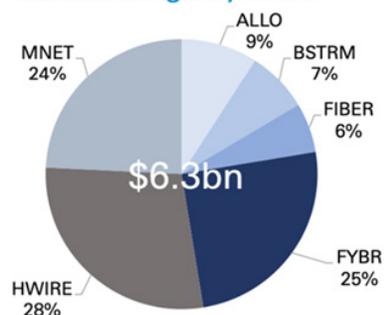
Fiber ABS Issuance—2020 to 2023

Transaction	Amt (M)	Issuer	Date	Collateral
FYBR 2023-1	1586	Frontier Communications Corp	8/1/2023	FTTP Customer Contracts and Assets
ALLO 2023-1	576	Allo Communications LLC	6/16/2023	FTTP Customer Contracts and Assets
HWIRE 2023-1	454	Hotwire Communications Ltd	5/16/2023	FTTP Customer Contracts and Assets
BSTRM 2023-1	465	GI Partners LP, Blue Stream Fiber	4/25/2023	FTTP Customer Contracts and Assets
MNET 2023-1	690	MetroNet Holdings LLC	3/24/2023	FTTP Customer Contracts and Assets
FIBER 2023-1	201	Summit Infrastructure Group Inc.	2/17/2023	Dark Fiber IRU Contracts
MNET 2022-1	1219	MetroNet Holdings LLC	10/26/2022	FTTP Customer Contracts and Assets
HWIRE 2021-1	1340	Hotwire Communications Ltd	11/9/2021	FTTP Customer Contracts and Assets
FIBER 2020-1	175	Summit Infrastructure Group Inc.	12/10/2020	Dark Fiber IRU Contracts

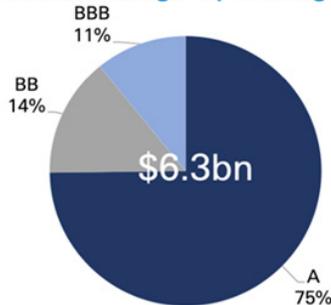
Notes: FTTP service is an existing, shared pure fiber-optic cable network running from a service provider directly to a user's home or business (Fiber To The Premises). Dark Fiber Indefeasible rights of use (IRU) agreement refers to contracts that allow for the use of an existing but unused fiber network; the network is managed privately by a high-quality end user.

Source: Finsight

Outstandings by Shelf



Outstandings by Rating



Source: Deutsche Bank, Intex, Bloomberg Finance LP.

Government initiatives, in response to the impact of the COVID-19 pandemic, are playing a significant role in encouraging the expansion of fiber internet networks, and high-speed broadband as an "[absolute necessity](#)," particularly into un-served and rural areas. Access to fiber internet, however, remains somewhat restricted. As per the US Federal Communications Commission (FCC), only 42% of the US population has access to fiber internet, while roughly 89% can connect to cable or DSL internet services. Additionally, [all 50 states](#) are actively engaged in broadband programs and are set to receive \$42 billion from the Broadband Equity, Access, and Deployment (BEAD) program, a component of the 2021 Infrastructure Investment and Jobs Act. For telecom companies, securitization offers an efficient way to secure capital, reduce financing costs, and enhance financial flexibility—crucial for expanding fiber networks to meet the surging demand for high-speed internet services.