



Research Corner
June 1, 2020

Research Corner - Market Signals

Is the securitization market breaking through to the other side?

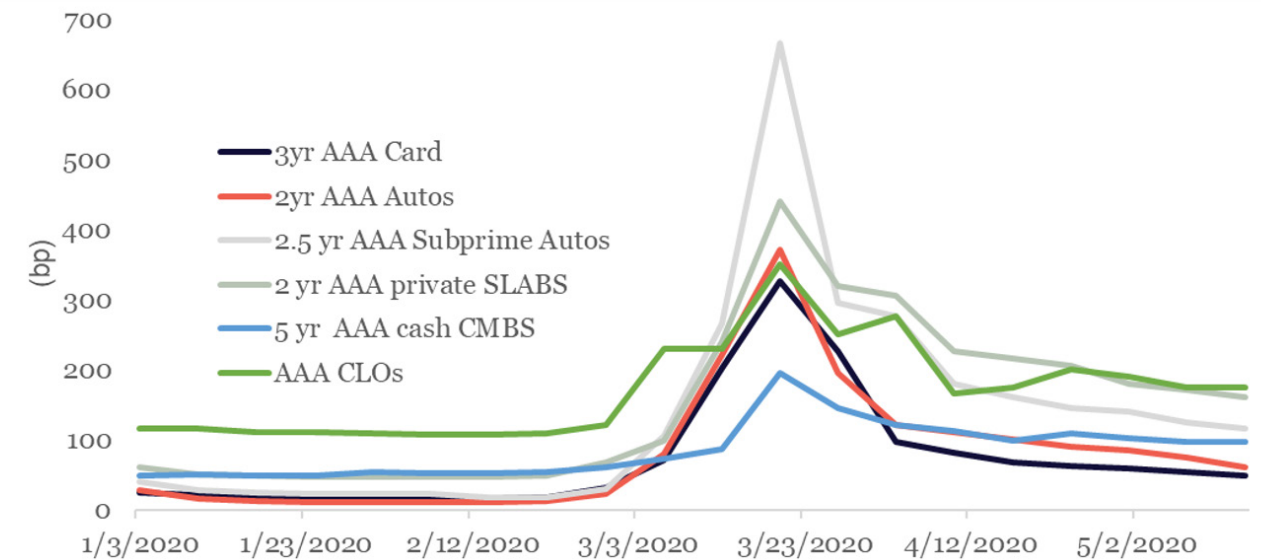
Eight weeks after announcing the re-establishment of the TALF, and to the market's relief, the Fed set the first subscription date for June 17, 2020. The Fed also provided much needed clarification around program operations in two sets of subsequent FAQs. (SFA's Head of Policy Jen Earyes discusses the TALF in detail with Morgan Lewis Partner Charlie Sweet in this [webinar](#).) Secondary market spreads for TALF-eligible ABS, which have already shown steady improvement since the original TALF announcement, rallied another 5-15 bp on the week. As the sentiment in the broader market takes on a more positive tone, helped by economic discussions that focus on re-opening rather than locking down, non-TALF asset classes also saw a meaningful improvement. A sign that the broader market is indeed thawing was the successful offering of the \$234 million CoreVest American Finance (CAFL) 2020-2. The transaction, brought to market by Deutsche Bank, met strong investor interest and marked the first single-family rental RMBS transaction since the beginning of March. Other deals in May reflected the diversity of ABS and included two prime auto ABS, two student loan ABS, a cell tower offering and a personal installment loan transaction. Two CMBS Conduit deals, two CMBS SASB deals, and eight CLO deals rounded out new issue activity in May. The total for issuance had reached \$12 billion, as of May 19.

What we're watching.

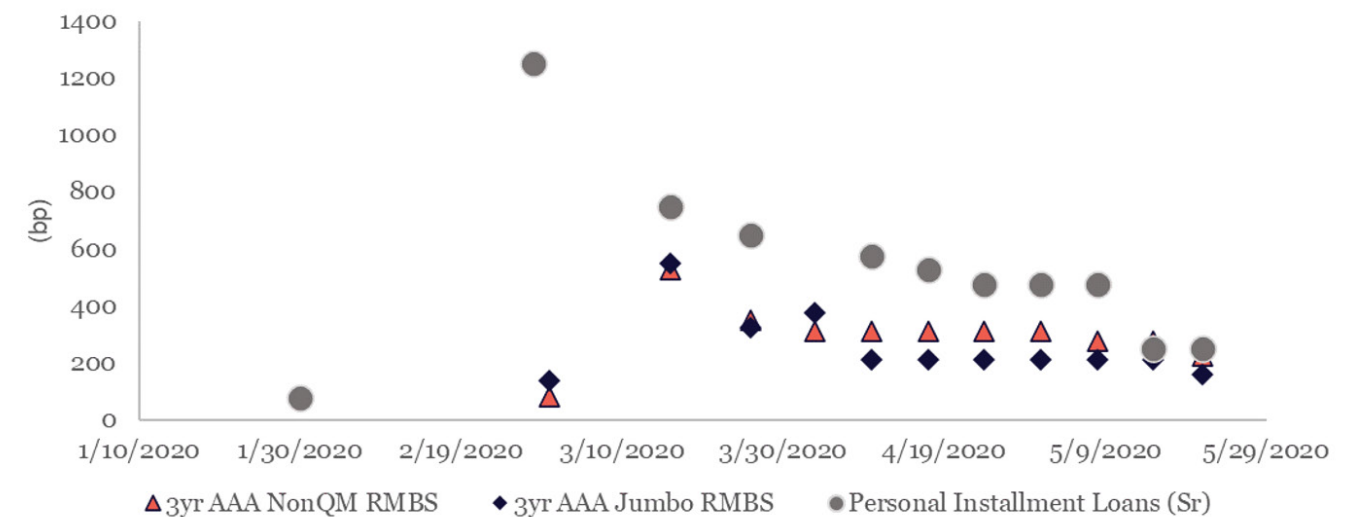
We focus our attention this week on the housing market. Freddie Mac reported on May 28 that the 30-year mortgage rate has reached a new all-time low of 3.15%, breaking the previous low set on April 30. While existing homeowners explore refi options, social-distancing protocols for both real estate agents and potential buyers, have kept a tight grip on home sales. April's existing home sales, as reported by the National Association of Realtors (NAR) and includes single-family housing, condos and coops, fell for the second consecutive month to 4.3 million units, a 17.8% decline from March. The drop was led by a 25% slowdown in sales in the West and an 18% pullback in the South. NAR's pending home sales index, which is based on signed contracts and thus a forward-looking indicator of activity, plummeted nearly 22% for the month, the largest month over month decline for the index, led by a near 53% drop in North-East activity. New home sales in April defied expectation by eking out a 0.6% increase from March, as reported by the U.S. Census Bureau and Department of Housing and Urban Development. The increase was led by an 8.7% month-over-month increase in sales from the North-East and a 2.4% increase in the Mid-West and the South.

Despite the broader lag in sales activity, existing home prices in April rose 7% year over year, supported by record low levels of housing inventory. The dearth in housing stock, which was "[choking](#)" the market back pre-pandemic, is now providing much needed support to prices in the face of the unprecedented COVID-19 demand shock. As states gradually move into phases of re-open, many have called the April sales numbers to be the nadir in housing data. However, we suspect this will be contingent upon the success of re-openings and the return of jobs. Looking at existing mortgages, new data shows that April delinquency and forbearance rates have reached new heights. Given the correlation between unemployment and credit performance, the improvement in continuing unemployment claims, the first improvement since the pandemic outbreak, may be the first glimpse of the light at the end of the tunnel.

Secondary Market Spreads

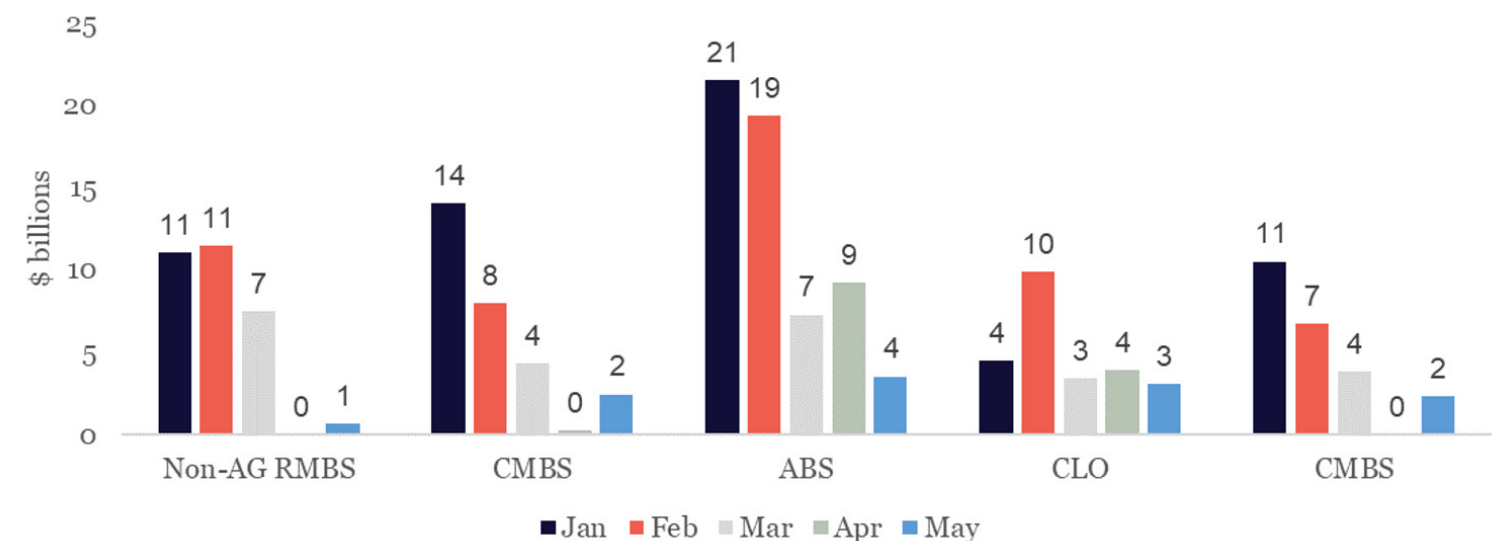


Source: Deutsche Bank Research



Source: Market Compilation

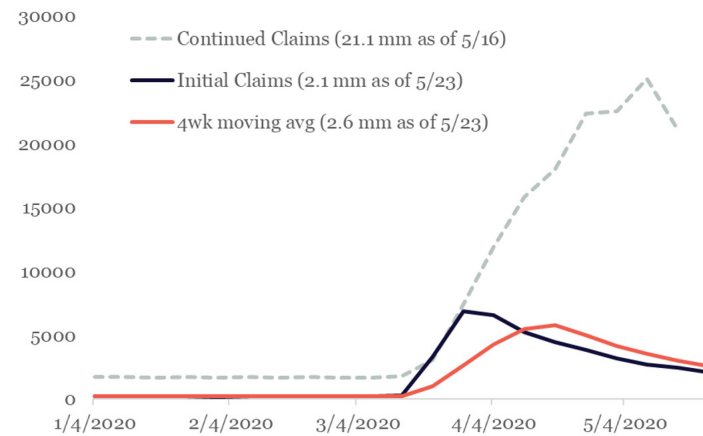
New Issue Activity



Source: Deutsche Bank Research, as of May 19

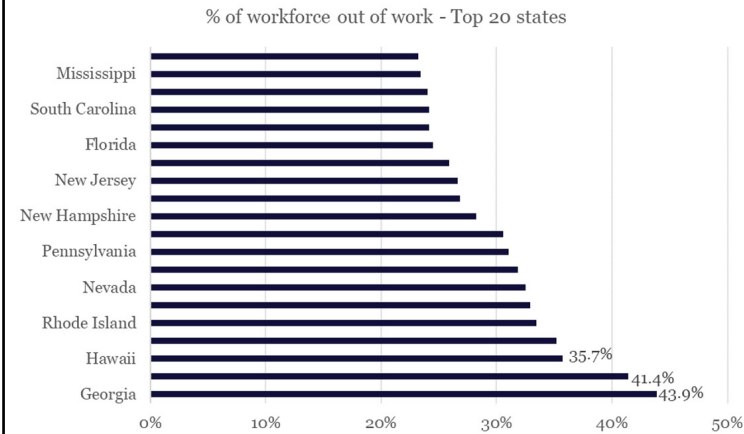
What We're Watching

Continued claims post first improvement since March;
Initial jobless claims continue to slow



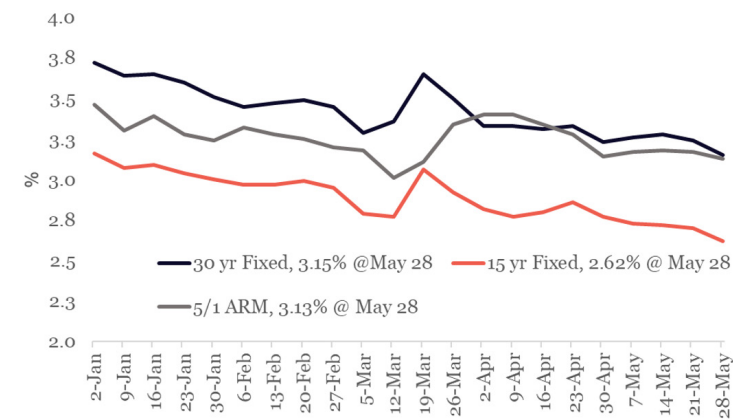
Source: [U.S. Employment and Training Administration, retrieved from FRED](#)

For 20 states, more than 23% of local workforce have filed for unemployment benefits. All 50 states have seen at least 10% of their workforce file unemployment claims.



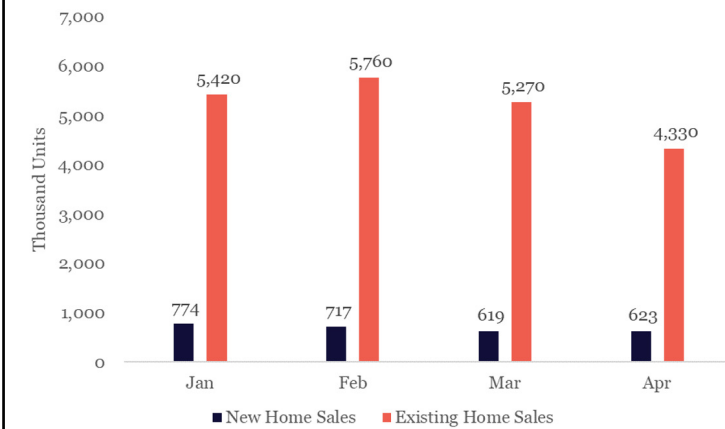
Source: [US Chamber of Commerce](#)

Freddie Mac: Mortgage rates fall to 2020 lows;
30-yr Fixed rate at lowest level in 50 years



Source: [Freddie Mac](#)

U.S. housing sales rose 0.6% from March to April led by North-East, Mid-West and South regions; Existing home sales drop for second consecutive month



Source: [U.S. Census Bureau and Department of Housing and Urban Development, National Association of Realtors](#)

Will older Gen Y buyers lead a housing recovery?
Will younger Gen Y follow?

Homebuying by Generation	
Younger Gen Y (Age 22-29)	13%
Older Gen Y (Age 30-39)	25%
Gen X (Age 40-45)	23%
Younger Boomers (Age 55-64)	18%
Older Boomers (Age 65-73)	15%
Silent Generation (Age 74-94)	6%
Unemployment by Age	
Total Unemployment Rate	14.7%
20-24 years	25.7%
25-34 years	14.5%
35-44 years	11.5%
45-54 years	12.3%
55 years and over	13.6%

Source: [National Association of Realtors, U.S. Census Bureau and U.S. Department of Housing and Urban Development](#)

Black Knight: U.S. 30+ days delinquency rate reached 6.45% in April up 90% from March and is the largest monthly increase recorded

April U.S. 30+ delinquency rate: 6.45%	
YOY Change: +85.82%	
MOM Change: +90.22%	
Forbearance volume = 4.76 million as of May 29	
Represents 9% of all active mortgages	
Represents more than \$1 trillion in unpaid principal	
Top 5 states by non-current % (30+ delinquencies and foreclosure)	
Mississippi	11.90%
Louisiana	10.91%
New York	9.79%
New Jersey	9.36%
Connecticut	8.94%

Source: [Black Knight Inc.](#)

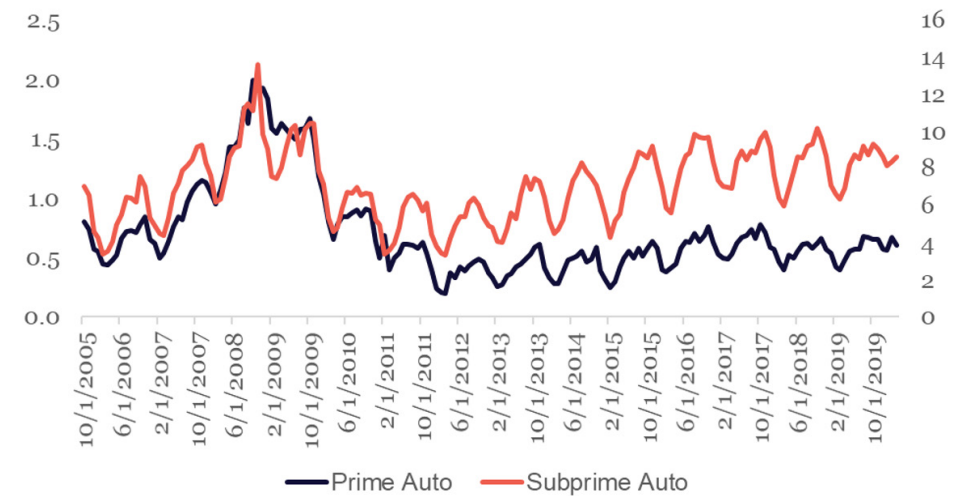
ABS Performance - Monthly Indices

Prime Credit Card Chargeoffs (%)



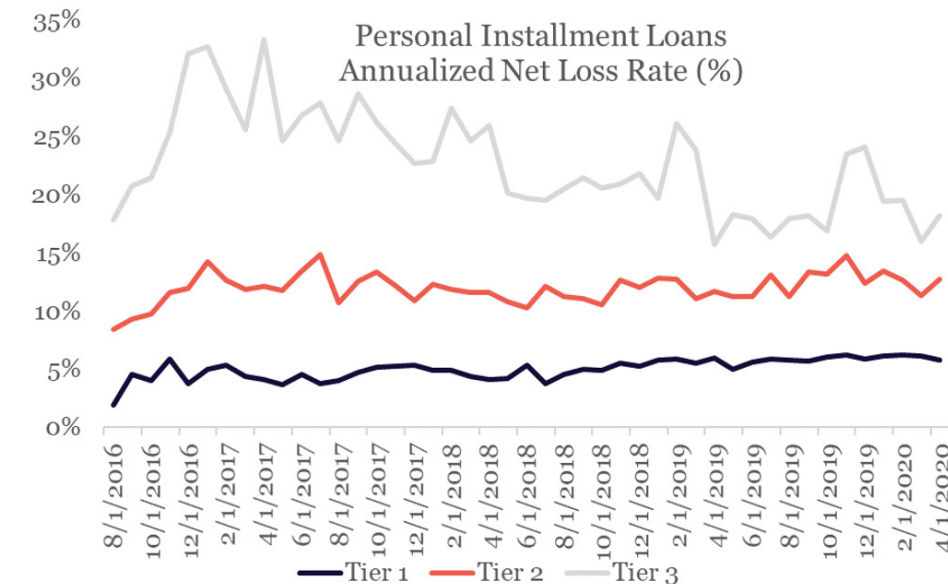
Source: [Fitch Ratings](#)

Auto ABS Net Loss Rate (%)



Source: [S&P Global](#)

Personal Installment Loans
Annualized Net Loss Rate (%)



Source: [KBRA](#)