



Research Corner  
June 15, 2020

## Research Corner - Market Signals

**The rally continues.** The secondary market bid-ask spreads on triple-A cards and prime auto ABS tightened another 10 bp last week and are now within 1 to 2 bp of the tightest levels of the year. At 17 bp for 3year triple-A cards and 15 bp for 2year triple-A autos, today's levels represent half of the average levels in 2019 for each product. Spreads on subprime autos and private student loan ABS improved 15 bp on the week. Spreads on personal installment loan ABS, at 150 bp, have retraced back to January levels and non-agency RMBS have returned to early March pre-COVID levels. The first week of June saw \$6 billion of new ABS, non-agency RMBS, CMBS and CLOs. The ABS market financed a myriad of consumer and business loans including equipment, PACE, personal installment, non-prime autos, student and timeshares.

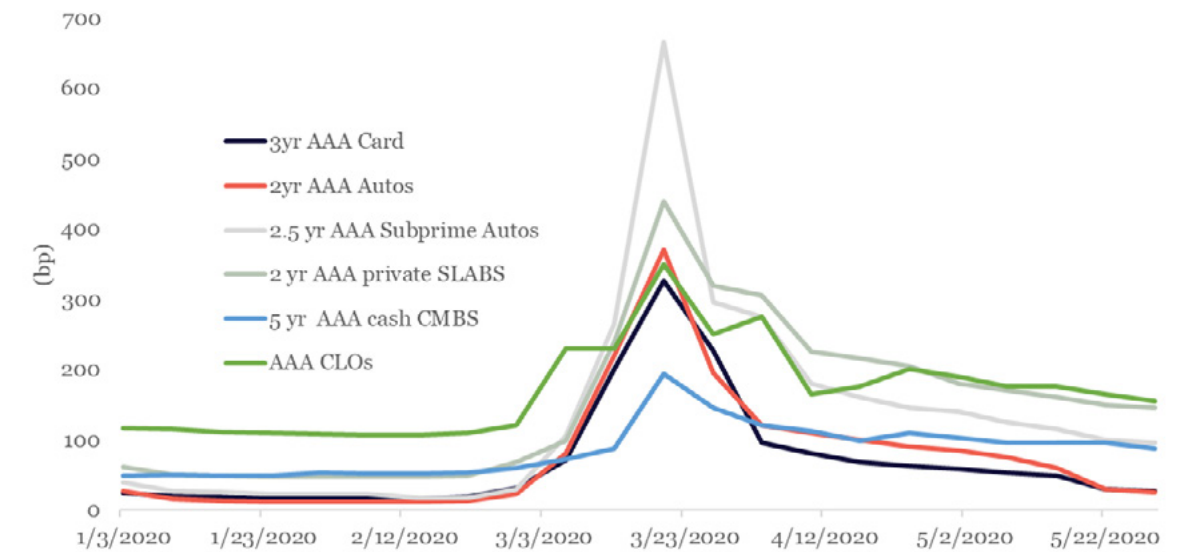
### What we're watching – Dreary, but improving, job outlook and ABS credit performance

Weekly initial jobless claims show that another 1.5 million Americans became unemployed in the week ending June 6. On net, nearly 20 million jobs have been lost since February, according to Fed Chair Powell. While the Fed expects the unemployment rate to fall to 9.3% by year end, from today's rate of 13.3%, or 16.1% if [misclassified](#) individuals are included in the calculation, the Fed Chair acknowledged that "[it's a long road](#)". Bloomberg posits that job losses due to "[reallocation shock](#)" may result in 5.5 million jobs not returning any time soon as workers retrain or relocate.

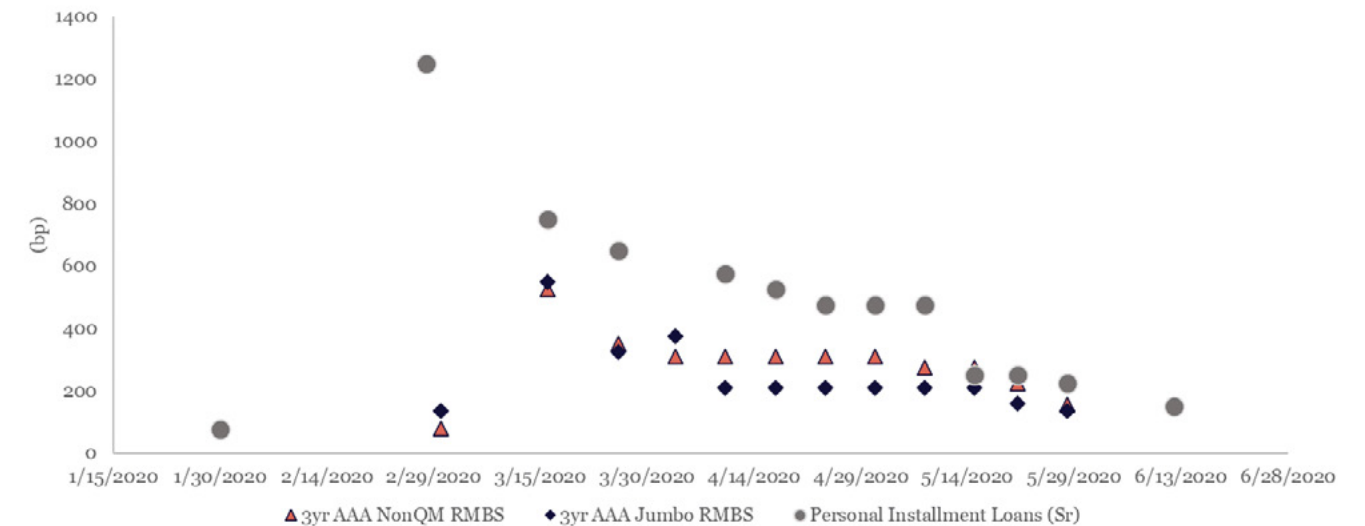
Last week [we took a look](#) at the programs offered by non-mortgage lenders to help consumers bridge this period of financial hardship. A [TransUnion](#) study shows that, in April, lenders provided consumer relief on nearly 15 million credit cards, 3 million auto and 837,000 unsecured personal loans. Early signs show that these programs, along with the stimulus payments and unemployment benefits, are providing consumers with much needed support to get back on their feet. For example, Discover, the credit card issuer, recently announced that enrollment in their Skip a Pay program was down 94% in the last week of May from the first week of April. Additionally, of the customers that are no longer enrolled in this Discover program, more than 80% are making payments in the second cycle.

These consumer relief programs have kept ABS delinquency rates stable, interrupting, at least for now, the historically strong relationship between joblessness and ABS delinquency. The impact has been visible in other metrics though. For credit cards, an increase in the relief uptake has resulted in an almost 10% reduction in monthly payment rate, which is the rate that a borrower pays back the outstanding balance, as reported by [Fitch Ratings](#). For auto ABS, loan deferral or extension rates on subprime pools more than doubled in April from March, as shown in [S&P's Auto Loan ABS tracker](#). For prime pools, the increase was 1.5 times. S&P cautions that the rise in extension rates today may result in a spike in losses in the summer particularly if jobs do not return and additional unemployment benefits expire.

## Secondary Market Spreads

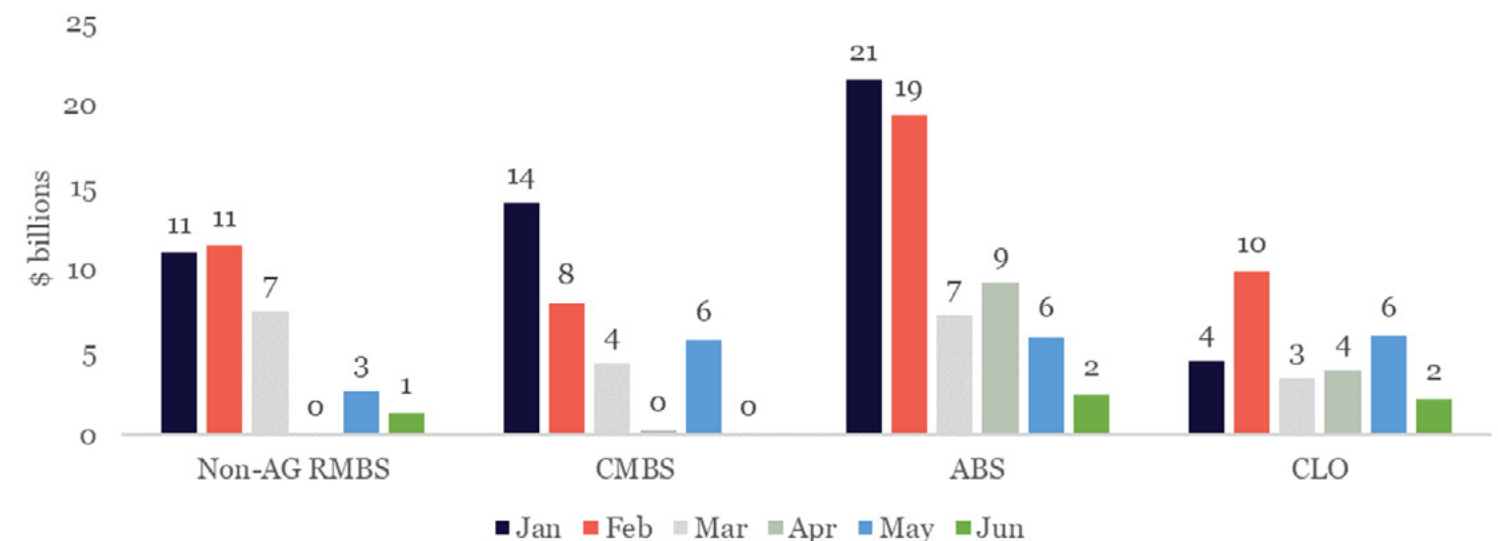


Source: Deutsche Bank Research



Source: Market Compilation

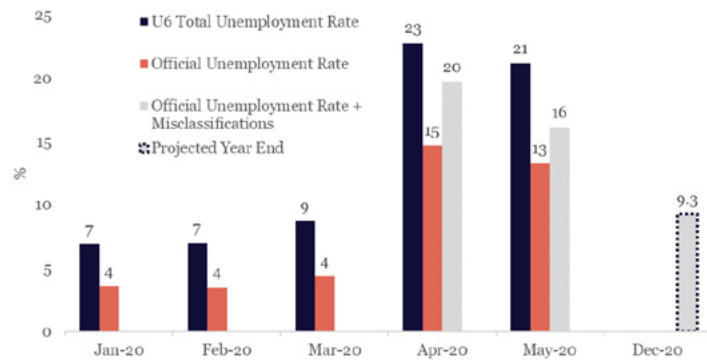
## New Issue Activity



Source: Deutsche Bank Research, as of May 19

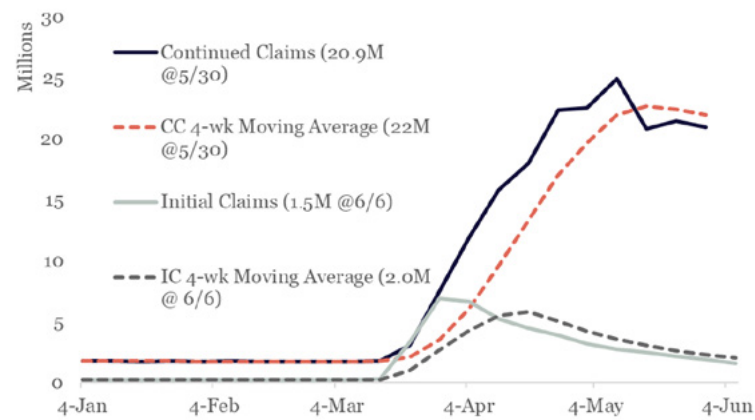
# What We're Watching

Unemployment rate + misclassifications puts metric in mid-teens; Fed expects rate to end 2020 @ 9.3%. Bloomberg expects 5.5M jobs may not return



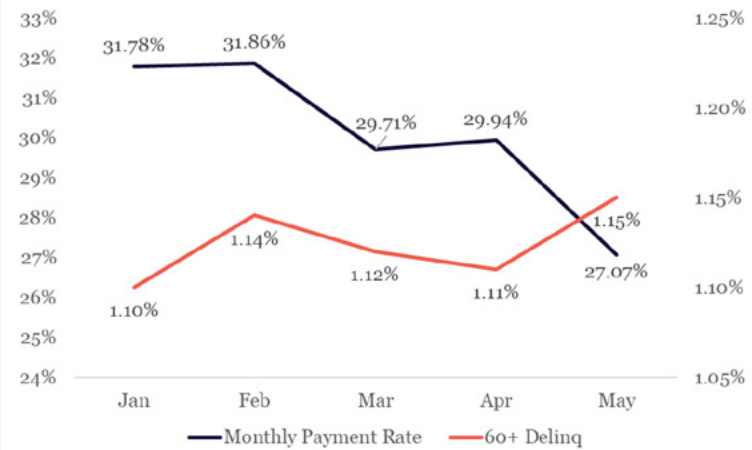
Source: U.S. Bureau of Labor and Statistics

Continued claims improved on the week; Initial jobless claims continue to slow but remain more than 2x more than 2009 high



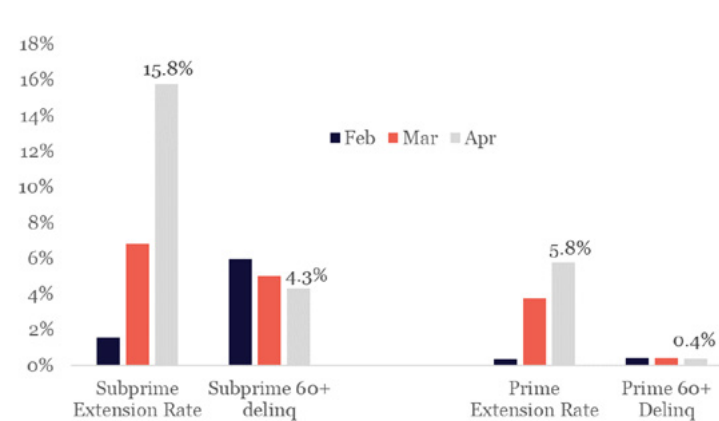
Source: U.S. Employment and Training Administration, retrieved from FRED

60+ delinquencies for Prime Card ABS hold steady; Deferral payment programs push monthly payment rate lower



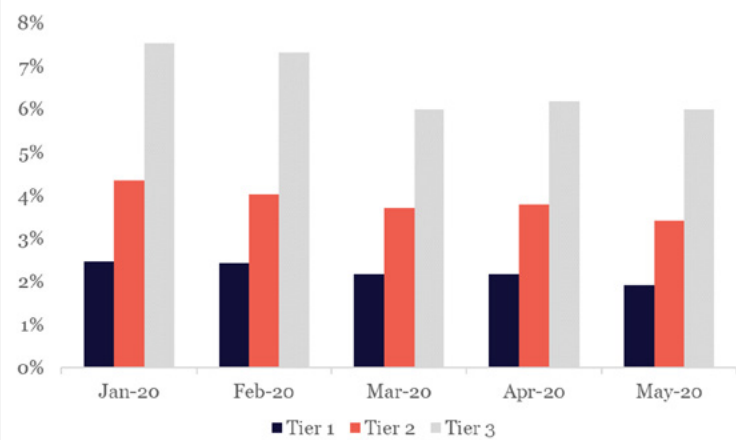
Source: Fitch Ratings

60+ delinquencies holds steady for prime and subprime auto ABS; Extension rates surge on consumer relief plans



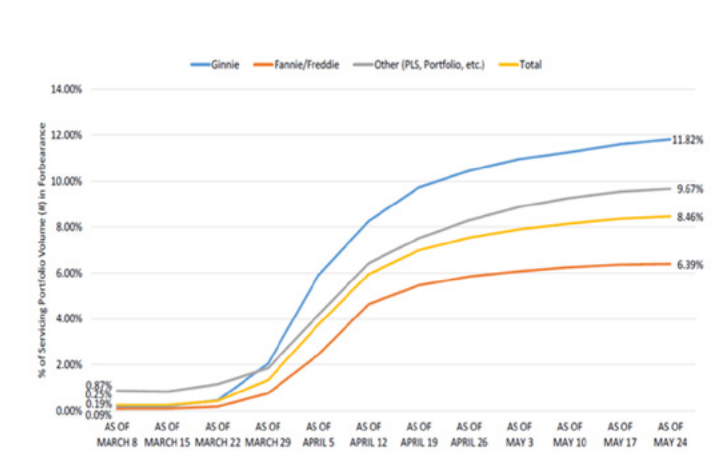
Source: S&P Global

30+ delinquency rates improve for personal installment loan ABS in May as modification rates hover around 12.50% vs. ~2% in January



Source: KBRA, dv01

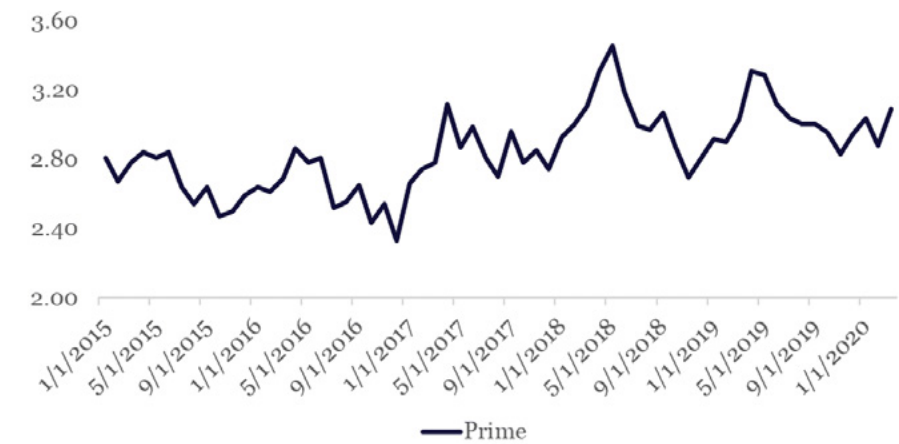
% of servicing portfolio volume in forbearance by investor type over time; "Enterprise forbearance rates remain manageable"



Source: Mortgage Bankers Association

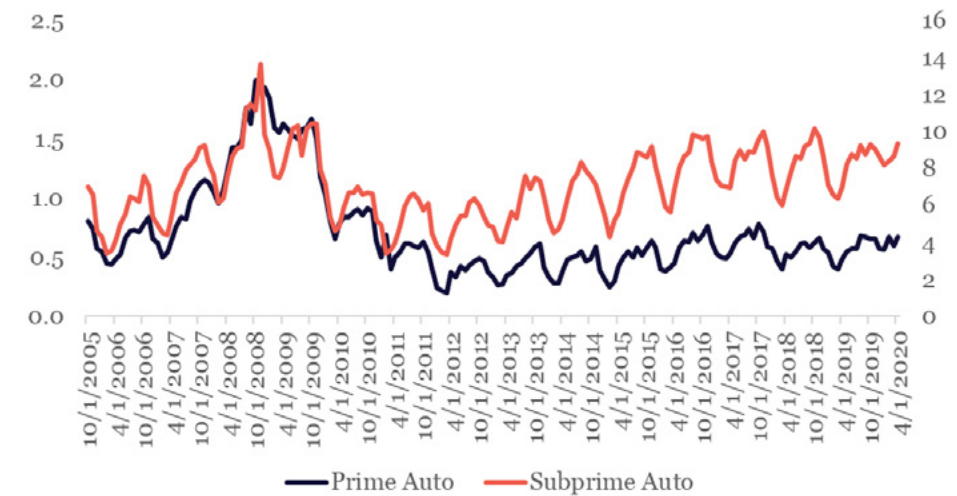
# ABS Performance - Monthly Indices

Prime Credit Card Chargeoffs (%)



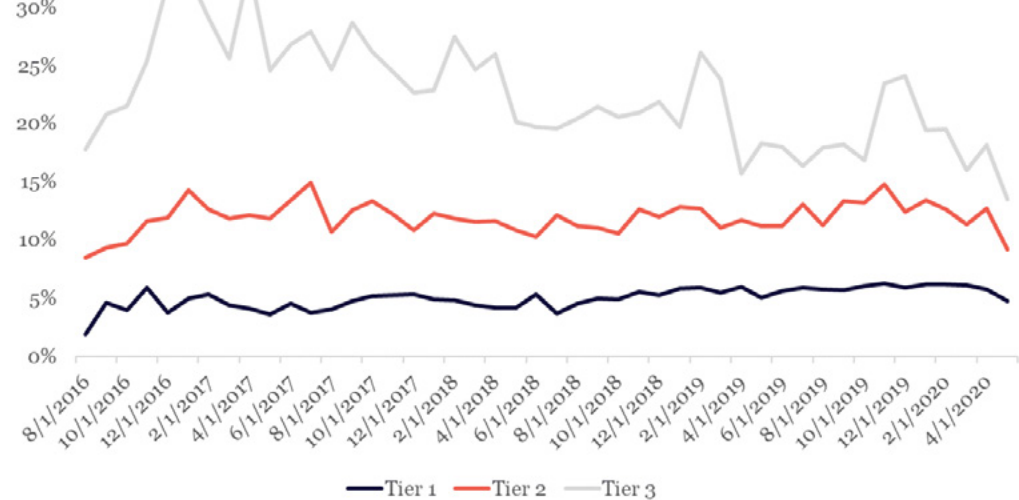
Source: Fitch Ratings

Auto ABS Net Loss Rate (%)



Source: S&P Global

Personal Installment Loans Annualized Net Loss Rate (%)



Source: KBRA